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March 1, 1945
11:35 a.m.

PRE-PRESS

Present:
Mr. B. W. Bell
Mr. O'Connell
Mr. White
Mr. Gaston
Mr. Blough
Mr. Sheffer
Mr. Russell
Mrs. Klots
Miss Chauncey

Mr. J. Jr.: Have you decided whether you are going up?
Mr. Bell: I don't know.

Mr. J. Jr.: I have one for you and Herbert.
Mr. Bell: I'll go. Thank you.

Mr. J. Jr.: Is there anything special?
Mr. Sheffer: There is the price of gold, Bretton Woods, and speculative taxes. That's all I know of.

Mr. O'Connell: No, the answer is no.

Mr. J. Jr.: I am not going to get into the price of gold. We stand ready to buy gold at thirty-five dollars an ounce until hell freezes, or the Republicans get in.

Mr. Gaston: I don't know whether we have in mind any proposal to change—which of course we don't know.

Mr. J. Jr.: Shall I say that about the Republicans?
Mr. Bell: There is no change in our policy.

Mr. Gaston: Why don't you say no comment?

Mr. Blough: On speculative tax, it is still under study, and there is nothing to report.

Mr. J. Jr.: You're helpful.

Mr. Bell: They may ask you about the Seventh War Loan, or whether you are going to announce the basket over the week end, and you can say that you hope to.

Mr. J. Jr.: Sylvia Porter was in. She knew everything that happened up until yesterday.

Mr. Bell: She wants all of the dope today, if she can get it. The understanding is if she writes it, it is to be withdrawn if it isn't announced.

Mr. J. Jr.: I didn't tell you.

Mr. Bell: I am going to ask you if I can give it to her.

Mr. J. Jr.: I don't know what the answer is.

Mr. Bell: If we tentatively make up our minds, she wants it, and shall she is going to stay here and write it, and then she will withdraw it from the printer if you don't release it.

Mr. J. Jr.: Well, she's coming in this afternoon.

Mr. Bell: Oh.

Mr. White: You have competition, Dan.

Mr. Bell: He sees them more often than I do.

Mrs. Klots: You're losing out slowly.
Notes on Meeting Held with Life Insurance Company Representatives in the Chart Room, 11:00 to 11:55 a.m., Thursday, March 1, 1945

Present:

For the Life Insurance Companies:

Gladden W. Baker, Vice President and Treasurer, Travelers Insurance Company, Hartford, Connecticut

W. Howard Cox, President, Union Central Life Insurance Company, Cincinnati, Ohio

Franklin D'Olier, President, Prudential Insurance Company of America, Newark, New Jersey

Lewis W. Douglas, President, Mutual Life Insurance Company of New York, New York

Frederic W. Baker, Financial Vice President, Metropolitan Life Insurance Company, New York, New York

Laurence F. Lee, President, American Life Convention, Raleigh, North Carolina

F. A. Natner, Vice President, Equitable Life Assurance Society of the United States, New York, New York

John S. Sinclair, Executive Vice President, New York Life Insurance Company, New York, New York

George Willard Smith, President, New England Mutual Life Insurance Company, Boston, Massachusetts

F. W. Walker, Vice President, Northwestern Mutual Life Insurance Company, Milwaukee, Wisconsin

Cecil Wood, President, Volunteer State Life Insurance Company, Chattanooga, Tennessee

For the Treasury Department:

Secretary Morgenthau
Under Secretary Ball
Mr. Gamble
Mr. Hens
Mr. Murphy

The Secretary opened the meeting by saying that he was interested in the problems of the life insurance companies, and wanted to take these problems into consideration in planning the Seventh War Loan. He said that he wanted to throw the meeting open to the representatives of the companies to discuss any ideas that they had with respect to the Loan.

Mr. D'Olier, President of the Prudential Insurance Company, said that the most important thing to the life insurance companies was that a 2-1/2 percent bond be offered in the Loan. There was general agreement with this statement on the part of all the life insurance representatives present.

The Secretary said that he would give full consideration to the desires of the life insurance companies for a 2-1/2 percent bond. In answer to a question with respect to the permanence of the 2-1/2 percent rate, the Secretary said, that the statement of the monetary authorities that the war would be financed at not in excess of 2-1/2 percent should be construed as placing a ceiling over this rate, but not necessarily placing a floor under it.

The Secretary said that he understood that many of the life insurance companies had bought substantially more securities in the previous drives than they had needed for real investment, and had sold out many of these securities before the beginning of the next drive. The companies thereby made short-run profits on the securities; but the securities finally turned up in the hands of commercial banks, thereby defeating the objectives of a nonbank drive.

Quite a number of the representatives of the life insurance companies spoke on this point. All of them denied that they operated for short-term profits of the character...
alleged, although several stated that they sold securities
as they approached maturity and their yield went below a
certain level. One of the representatives said that his
company sold securities whenever their yield went below
1 percent, while another representative indicated a dead-
line of 1-1/2 percent for his company.

Mr. Douglas, President of the Mutual Life Insurance
Company of New York, said, however, that his company "rode
the curve", and that they had checked this matter with the
Federal Reserve Bank of New York and had been told by the
Bank that such action was not contrary to Treasury policy.

The Secretary said that riding the curve was contrary
to Treasury policy, and that the Federal Reserve Bank of
New York had been advised not telling Mr. Douglas of this.

The Secretary said that there had been considerable
discussion, both inside the Treasury and out, of the possi-
bility of a formula to prevent excessive subscriptions to
Government securities by life insurance companies during
War Loans. He said, however, that he would much prefer
self-policing within the industry if it could be arranged.

The life insurance company representatives all agreed
that self-policing would be much preferable to a formula.
The Secretary asked that the representatives present see
that the word was passed around through the appropriate
channels to all companies, that they would be placed on
their honor, and expected to subscribe in future driven
only for the amount of securities they needed for permanent
investment.

A number of the representatives made the point that
there was a certain amount of legitimate switching which
they believed should be permitted. Among the types of
switching mentioned, which they considered legitimate were
the sale of tax-exempt securities, the sale of securities
approaching maturity, and the sale of short-term securities
purchased in anticipation of the War Loan.

Mr. Gamble said that he believed it was generally
understood that the insurance companies were agreeing merely
that they would not purchase Government securities for pur-
puses of switching or free-riding. He said that the
Treasury Department recognized that changing circumstances

often made portfolio changes of one kind or another neces-
sary, and that the Department did not ask the companies
to agree to freeze their portfolios of Government securi-
ties. The Secretary agreed to this statement of the case.

Mr. Smith, President of the New England Mutual Life
Insurance Company, made the point that it would be helpful
if a 30-day, rather than a 60-day deferred payment plan,
were permitted in connection with the Seventh War Loan.

Mr. Gamble said that a 75-day (rather than a 60-day
one) had, in fact, been allowed in the Sixth Loan.
March 1, 1945
2:51 p.m.

JM: Hello.

Operator: I have Mr. Johnson on the line. He says that their men is over at Newport today that they had a call there last night but he was going to get out to the farm today to talk to his in time to get his son's conscripted. He said they hadn't gotten anything since Sunday, that they can use some more small boys and some more large ones, too.

JM: Well, I'll try and talk to Bailey tonight.

Operator: Right.

JM: It's waiting for Frank Isley.

Operator: Yes, I'm trying to get him.

March 1, 1945
2:54 p.m.

M: Hello.

HMJr: Hello.

M: We're getting the heat out on us on this exchange as it affects the soldiers in France.

HMJr: Yes.

M: You remember we talked about that at one meeting in connection with French Land-Lease.

HMJr: Yes.

M: I wonder whether you have taken any steps with the French people to urge them to take one of those alleviating steps that we talked about.

HMJr: I did nothing but what was done here in the room when you and Hilldring were here.

M: Yeah.

HMJr: And then I thought that the rest was up to you.

M: Well, what we did was to -- we communicated with the State Department....

HMJr: Yeah.

M: .... and cut something formally over to them.

HMJr: Yeah.

M: And I suppose I'd better clear it with them before you do anything, but if you would be pleased....

HMJr: We'll be glad to help.

M: You'd be glad to help?

HMJr: Yes.

M: Okay. Well, I'll talk to State Department, and then I'll talk to you again.
HMJr: Did you have a good French dinner last night?
M: Last night?
HMJr: Were you ....
M: Oh, yes, with Monnet. Yeah, I was with Monnet last night.
HMJr: Well, the dinner couldn't have been so good if you don't remember it.
M: Well, I was with another French dinner the night before. It got me confused. He brought out his finest brandy.
HMJr: Yeah.
M: His finest cigars.
HMJr: Yeah.
M: And his finest dinner. He was in a pretty gay mood.
HMJr: We were invited and we couldn't come. I'm sorry.
M: Yeah, well, he was -- he was very pleased, of course, with everything. The -- the State Department people called me up today and said they thought there was going to be some nuisance on the Hill.
HMJr: Oh, really?
M: Well, the -- there was some indication that the thing was being picked up.
HMJr: Oh.
M: And -- in connection with the extension of Lend-Lease. It looked as if they were going to go into it.
HMJr: Did you hear -- this is very, very confidential -- that Mr. Stimson tried to hold up the thing yesterday?
M: Oh, no.
MEETING IN SECRETARY MORGENTHAU'S OFFICE WITH MR. ECOLES AND MR. SPRAGUE REPRESENTING THE EXECUTIVE COMMITTEE OF THE FEDERAL OPEN MARKET COMMITTEE

Thursday, March 1, 1945
3:15 P.M.

Others present: Mr. Bell, Mr. Haas

Mr. Eccles told the Secretary that he had a memorandum report to the Secretary from the Federal Open Market Committee with regard to War financing. The Secretary asked Mr. Eccles to read the memorandum, a copy of which is attached.

When Mr. Eccles reached point 1 in the memorandum, which recommends that no announcement be made at the present time of the maturities of any of the issues included in the Drive but to state the coupon rates carried by the various issues, the Secretary indicated his approval of that procedure, stating that he had made a similar suggestion to his staff. Mr. Eccles continued his reading of point 1 which also recommends that the Treasury consider lengthening the period during which these securities are ineligible for bank purchase. The Secretary said that he thought these restricted securities should be made eligible for bank purchase at the time they have only 10 years to run to maturity.

When Mr. Eccles read point 2 of the memorandum, which recommends a direct offering to banks, the Secretary indicated his interest and said he wanted to hear the matter over carefully and would start discussions with his staff at 9:30 the next morning.

The Secretary said that he would like to work out something that would favor the smaller banks who have less favorable earning position than the larger banks. Mr. Spragule said that recently the smaller banks were also showing good earning reports, particularly when the earnings are expressed as a percentage of their capital funds. Mr. Spragule went on to add that some of the banks are so small that the percentage may look favorable and yet the total amount of earnings remains small. The Secretary made the suggestion that the little banks would be favored if they were allowed to buy up to the $100,000 limit of F and S Savings Bonds. The Secretary also said that he was inclined to think that if a direct bank offering were made it might be better to put it before rather than after the Drive, that the psychological effect may be more favorable if handled in this way. Mr. Eccles indicated that such an arrangement would be satisfactory to him.

The Secretary then asked Mr. Eccles and Mr. Sprague to consider the question of the direct bank offering of $1 billion, consisting only of the 7/6% certificate. Mr. Sprague said that he did not think that type of offering would serve the purpose intended, i.e., to take the steam off of switching securities into the banks. He felt that in order to do this the banks would have to be offered some of the 1 1/2's included in the Drive. The Secretary closed the discussion with regard to the direct bank offering by repeating again that he wanted to consider the matter very carefully with his staff the next morning, and that he would keep in touch with Mr. Eccles during the day.

The Secretary told Mr. Sprague and Mr. Eccles that in his meeting with the insurance company representatives only "Lee" Douglas admitted that his company had played the "roll down the curve of interest pattern" and that Mr. Douglas said he had gone over this whole matter with the Federal Reserve people in New York and it had their approval.

At the Secretary's suggestion, the group retired to Mr. Bell's office and continued the discussion. (Mr. House joined the group in Mr. Bell's office.) The matter of whether or not the announcement should include the maturity terms of the issues in the Drive was again discussed. Mr. Bell felt that if the maturities were announced, some of the bloom on the market might be saved, and suggested for the 2 1/2's a 10 year call period or a $7 or 5 year call period, the 10 year call period being something approximating 1967-77, for example.

The possible terms for the 1 1/2's issue were also discussed and Mr. House said that on the basis of the present market that would be a 5 year note. Mr. Haas expressed the opinion that he thought it was very important that the 1 1/2's issue should be called a bond rather than a note, and indicated that the issue instead of being of fixed maturity could have an option period such as a 4 1/2 - 6 1/2 year obligation.
March 1, 1945

STRICTLY CONFIDENTIAL

MEMORANDUM TO THE SECRETARY OF THE TREASURY
FROM THE FEDERAL OPEN MARKET COMMITTEE

In the light of the joint objectives of the Treasury and the Federal Reserve System with regard to war financing, the following program is recommended:

1. The Seventh War Loan Drive be divided into two distinct parts, the first for individuals and the second for other nonbank investors, and that the goal for the second part be placed at 5 billion dollars. The suggested dates, May 14 - June 16 and June 16-30, are entirely satisfactory.

2. That the Treasury announce at the present time that the offerings in the individual drive, in addition to savings bonds and savings notes, will consist of 3/4 per cent certificates, 1 1/2 per cent securities, and 2 1/4 and 2 1/2 per cent restricted bonds and that the offerings in the second part of the drive will consist of the same securities, except for the exclusion of Series E savings bonds and the 1 1/2 per cent securities.

3. That no announcement be made at the present time of the maturities of any of the issues included in the drive. The announcement should, however, state that the maturities in the 2 1/4 and 2 1/2 per cent bonds will correspond approximately with the last previous issuance of such securities, with allowance for the lapse of time. It is suggested that the Treasury consider lengthening the period during which these securities are ineligible for bank purchases. The maturity of the 1 1/2 per cent securities would be determined in relation to the level of the market after the announcement and at the time of the offering.

4. That the Treasury also announce at the present time that, after the end of the corporate drive, it will make a direct offering of 1 1/2 billion dollars of certificates and 1 1/2 billion of 1 1/2 per cent securities to commercial banks. Subscriptions would be limited to a proportion of capital and surplus or a proportion of deposit, with the objective of limiting total subscriptions to not far in excess of 3 billion dollars. All subscriptions for 300,000 or less for each issue would be accepted in full. This would make it unnecessary to continue offerings to commercial banks on the basis of their time deposits.

5. That the Treasury limit the amount of war loan deposits held by any one bank to 30 per cent of its deposits, other than war loan deposits, and that the collateral pledged to secure such deposits be confined to U. S. Government securities.

6. That the Treasury continue to increase the outstanding amount of Treasury bills by 50 million dollars a week until the completion of the full cycle and that the question of continuing this increase be reexamined at that time.

The separation of the drive into two distinct parts, one for individuals, partnerships, and trust accounts, and the other for other nonbank investors is in line with our earlier recommendations and is our full endorsement. We feel that the increase in the quota for the individual drive will place individuals and the selling organization under substantial, but not impossible, pressure. It is recommended that the quota for the other nonbank investors be decreased to 5 billion dollars, which would make it unnecessary for these investors to sell any of their existing holdings. The selling organization should be instructed to discourage the making of quotas by selling from existing holdings. It would be expected that between 3,000 and 3,500 million dollars of this total would be obtained from insurance companies, mutual savings banks, and similar institutions, this amount representing their accumulation of funds. The remainder would come principally from corporations.

A maximum rate of 1 1/2 per cent for the 1 1/2 per cent unrestricted securities would have a number of advantages. The lower rate would reduce the interest cost of the debt and retard the growth in bank earnings. It would also reduce the temptation for commercial banks to arrange for indirect purchases and reduce the amount of free-riding and speculation. At the same time, it would not be likely to reduce materially the demand from individuals.

An extension of the maturities of the 2 1/4 and 2 1/2 per cent bonds would not reduce the interest cost to the Treasury, and it might create a bad market situation in the event of large sales by nonbank investors. It is expected that the prices of the existing issues of 2 1/4 and 2 1/2 per cent bonds would decline on an announcement that new issues bearing these coupon rates will be offered in the drive.

It is especially important to include 2 1/2 per cent bonds in the drive. Otherwise, the prices of the existing 2 1/2 per cent bonds would increase further, with the result that the long-term rate would decline. The 2 1/2 per cent rate has been the most important rate in the entire war financing program. Even at the 2 1/2 per cent rate, however, it has been difficult to encourage purchase of Government securities. A reduction in that rate would increase the difficulty by reducing the incentive to save. These securities are in an entirely different category from untaxed and by investors, because they can be held only by individual savers and by institutions that hold surplus of the public and therefore cannot involve an unnecessary expansion in bank credit. Finally, if the long-term rates were reduced, it might be impossible to restore the 2 1/2 per cent rates if that course should be desirable, because it would involve permitting newly-issued 2 1/4 per cent bonds to decline below par.

Regarded Unclassified
Direct bank financing would have an adverse public reaction, because those who realize that indirect bank participation has been an important part of recent drives would recognize the advantages of the change, whereas those who do not know this fact would be unlikely to realize that any change had been made. Commercial banks have found that many nonbank investors are willing to subscribe for securities for the purpose of reselling the securities to commercial banks at little or no premium. Banks that have followed the Treasury's request, however, have been able to purchase securities only by parting with substantial premiums to speculators. In effect, therefore, the Treasury, by not making direct offerings to commercial banks, makes it disadvantageous for banks not to follow the Treasury's own request. In addition to putting bank purchases on a more straight-forward basis, a direct offering to banks would permit banks to purchase new securities at par rather than to pay premiums to speculators or to make special arrangements with nonbank investors. It also would reduce free-riding and would reduce undesirable shifting of securities in the market.

The Committee also discussed a suggestion that the Treasury requires that some proportion of war loan deposits be secured by Government securities maturing in not more than rather than six months or one year, but came to no conclusion on this matter. If, however, the Treasury decides to adopt this suggestion, the Committee recommends that such deposits be exempted from the requirement to the extent of $500,000 or 25 per cent of their war loan deposits, whichever is larger.

HJ: Hello.
Henry A. Wallace: Yes, Henry.

HJ: Hello, Mr. Secretary. I want to congratulate you.
Henry: Well, you had a lot to do with it.

HJ: I'm delighted.
Henry: Well, it's so new. It was better than I expected.

HJ: I think you did fine.
Henry: Thank you.

HJ: Are you going to see you soon?
Henry: Are you -- when are you leaving, Henry?

Henry: Leaving.

HJ: I don't see you going.

Henry: Yes, I want to make sure that on account of the situation.

Henry: I see.

HJ: Oh, I'll be here for a while.

Henry: Oh, yes.

HJ: And if you're not feeling better to do early next week, I'll let in touch with you and we'll talk then.

Henry: That will be swell. I'll be looking forward to it.

HJ: Fine. I'm delighted, Henry.

Henry: Well, the President called me up. You're the third one -- the President just a short time ago.

Henry: He called you yet?
Operator: All right?
WM: Yeah.
Operator: Go ahead.
WM: Yeah.
Frank: Hello.
WM: Frank?
I: Yes, sir.
WM: How are you?
I: All right. How are you, Mr. Secretary?
WM: All right.
I: That's good.
WM: Frank.
I: Yeah. 
WM: After getting back -- say I first again thank you for all you did.
I: Oh, well, I'm honored to have you come.
WM: Well, it's wonderful. Now ....
I: "Thanks to you! Mrs. Iskey said, "for the roses," she will write you a note. They were beautiful.
WM: Well, I'm sorry that I took you away on her birthday.
I: Oh, no, that was fine.
WM: Frank.
I: Yeah.
WM: They feel here that -- I don't want to push too hard with the Labor Union.
I: Yes.

MMJr: I mean, anything they want to do under their own steam locally....

I: I get it.

MMJr: But they feel if we -- if, for instance, they start a flood of C.I.O. here, it will bring the Wallace thing right back up fresh in their minds.

I: Good judgment.

MMJr: And they'd kind of like to forget it for a while.

I: Yeah.

MMJr: Now, they've confirmed Wallace.

I: Yeah.

MMJr: They haven't yet confirmed Alfred Williams, and God forbid -- they're not going to.

I: I see.

MMJr: But I gather that the C.I.O. kind of momentarily here has sort of worn out its welcome.

I: Yeah.

MMJr: And if a little later on we need them, then I think we'd call on them. Now I wouldn't say anything -- anything they do under their own steam that we've started, all right.

I: Yeah. I get you.

MMJr: But we're not going to start a national drive. See?

I: Yeah.

MMJr: You see?

I: That's right.

MMJr: But if they decided, they or A.F. of L., locally they want to do something, that's all right.

I: Yeah.

MMJr: But the thing that they don't like is to get from all over the United States practically the same telegram. You see?

I: Right. Right.

MMJr: I just thought I'd put that....

I: Now, I'm glad you gave me that because I was here in Grand Rapids last night with three of them -- the C.I.O. fellow, and A.F. of L. men, all good friends of mine, and the -- and with these men, the head of the Railway Brotherhood, you know.

MMJr: Well, it's just....

I: This is in our friend's home town. You see?

MMJr: Well, it's just the C.I.O. right now; an account of the Wallace thing, it's got them all kind of up in the air.

I: Yes.

MMJr: Now....

I: Now, I think that's excellent judgment; and let's as it just locally here in Michigan because here is where it really counts on these two parties.

MMJr: And the American Farm Bureau Federation -- they listen to them.

I: Yes. All right.

MMJr: But I just thought I'd -- I'd tell you that.

I: It's glad to get that.

MMJr: Right.

I: And we -- we had no easy -- I want you to know this because I really have. Jeez, when I came home, she -- you know your address was rebroadcast. I wish we'd have known it. She said, "That's the matter with code. The Secretary could have listened to it again at four-thirty."
March 1, 1945

Fellow Employees:

I have recently talked with personnel officers here in Washington at their regular monthly meeting. Employees of this Department might be interested in knowing some of the points I emphasized in my remarks.

Work under war conditions has imposed new burdens on Treasury employees. Long hours, crowded transportation to and from work, housing and health problems have all made work difficult for everyone. To meet these situations I hope that working conditions can be constantly improved so that our employees can be as comfortable as possible during working hours. Emergency rooms adequately staffed with nurses are desirable wherever possible where there are large numbers of employees. Eating facilities at hand make for efficiency on the job and improvement in these facilities is constantly before us.

Supervisors know the personal problems of employees — young children to care for, illness in the home, and financial worries. I hope that due consideration will be given to such problems and whenever possible help provided to assist employees. Through constant realization by everyone that all Treasury employees are human beings, the efficiency of our work will be improved.

Sincerely,

[Signature] H. Morgenthau, Jr.

Copy: A. C. Blake

Regraded Unclassified
The Civil Service Commission has just recommended several changes in pay laws. If they become law, you stand to benefit.

One recommendation concerns overtime. The present law expires in June. A new law will undoubtedly be passed before then. The Commission recommends that the new law be permanent. Further, it proposes that it pay more overtime than the present law. At present, your overtime pay for work over 40 hours a week increases your paycheck by about 21.4%. This figures out to about time and one-half. The new proposal is that you be paid true time and one-half overtime. For working a 40-hour week, you would get 105% more pay instead of 21.4%.

This formula would apply to regular salaries of $3500 or less. Above $3500, overtime pay would taper off gradually until at $6500 the overtime paid is only slightly higher than that paid under present law.

Also proposed is a 10% differential for night work. If your regular hours, all or part, are between 6:00 p.m. and 6:00 a.m., 10% is added to your basic pay for work performed between these hours.

The Commission also recommends that employees who have to wait 18 months for a within-grade salary advance, wait only 18 months. These would be personnel in grade CAP-10 ($800) or lower. For those who now wait 20 months, the time would be shortened to 18 months. These would be personnel in CAP-11 and higher. Also, the advance would be effective at the beginning of the month after completion of the waiting period rather than the next quarter.

It is also proposed to set up a more liberal standard for within-grade advances made for unusually fine service. At present, these can be made only for "especially meritorious service." This would be changed to "superior accomplishment."

A bill containing these recommendations was introduced in Congress, immediately after their receipt. Senator Dewey, in introducing the bill in the Senate, added a provision to it. His bill proposes, in addition to the above benefits, a flat 10% increase in employees’ base pay.

Everyone should bear in mind that all the above is only proposed. Before a bill is passed, and becomes law, much can happen to it. However, we feel that there is reason for some optimism, especially as to certain of the provisions.
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

TO
Mr. White

FROM
R. Felton

Date
February 27, 1945

For your information I am jotting down these notes of my day in New York yesterday.

1. I arranged with the Blue Network tentatively, for a special fifteen-minute program on the evening that hearings in the House open. Because of the graph, it is necessary that both sides be presented on such a program. However, I think it is a good idea to expose the bankers' position to the light of day.

2. I arranged with the World-wide Broadcasting Company to make a special fifteen-minute transcription program on Brayan Woods for release in mid-March. These transmissions are carried on a hundred smaller stations through the country. I arranged for professional radio writers and editors to produce this program. We will check the script for technical accuracy and policy.

3. I made tentative arrangements for a meeting in New York within the next week of radio writers, directors and producers, magazine writers and editors, syndicated writers and columnists, commentators and others. This group would be addressed informally by you and others in the Treasury, with a view to educating them on Brayan Woods. The group will be hand-picked and only friendly persons will be there. The result will be a wide variety of comments on Brayan Woods in various media.

4. I made arrangements for top-flight writers to come to Washington on special assignments from time to time. These individuals would come without compensation, but we would guarantee expenses. McDonald tells me this can be done.

5. I made tentative arrangements for the fifteen minute motion picture discussion of Brayan Woods which I mentioned in a previous memorandum. This is not definite at either end, but I am confident that we can close the deal if we can furnish top-flight participants. You will remember that I suggested Secretary Morgenthau, Will Clayton and Walter Lippmann.

6. I made tentative arrangements for five minute spots on WJR-School every week until Brayan Woods is disposed of. This would be part of a news-cast. This is not yet definite.

7. I spoke over the telephone to several of the top commentators, who promised to watch for the news broadcasts on Brayan Woods and to comment favorably. Some of them have contacted editors and they told me they had already broadcast at the time of the President's message on the day the bill was introduced. Among these were: Quincy Howe, Shuler, Malcom, Vanbrock, George Kline.

8. I talked to Mr. Harris, President of the United States Lines and made a date to see him next Monday in New York. He was tied up yesterday, but seemed interested in discussing the matter. I did not tell him specifically what I wanted, but left that for a personal interview. I found that Robert McDonald would not probably give active support to the proposal. He is now in Florida, but his secretary wrote him yesterday explaining what I wanted and asking him to telephone me from Florida. I was unable to get through to J. A. Moorer, President of McRae-Hill, but will try him via long distance. These three men are good prospects for a business men's group.

9. I discussed strategy and timing with various editors and others at FAO. They agreed to come in strongly at the proper strategic time. They are writing on a pamphlet and their women's division is pushing the matter quietly among women's groups and organizations throughout the country. I had previously sent some letters to them and had discussed the matter with Freda Bennett, Head of their Women's Division.
Dear Mr. Shaw:

The substance of your recent broadcast in which you mentioned the Bretton Woods plan has been called to my attention and I am happy to note that you favor the plan.

I believe that we must do everything possible at this time to call to the attention of the public the fact that currency disorders are one of the severest handicaps to expanded world trade. You have performed a real public service in bringing this out in your broadcast.

If any of the members of the Treasury staff can be of assistance to you in the preparation of future programs, please feel free to call upon us.

Sincerely yours,

(Drusted) H. Morgenthau, Jr.

Secretary of the Treasury

Mr. Bruno Shaw
News Room
Blue Network
30 Rockefeller Plaza
New York City, New York

Mr. William Callmer
C/o Radio Station WJ
30 Rockefeller Plaza
New York City, New York

Re: sec 2/27/45

Dear Mr. Callmer:

Your recent broadcast on isolationism interested me very much. I was particularly pleased with your statement indicating that opponents of the Bretton Woods program are somewhat tarred with the isolationist brush.

It was refreshing to hear on the radio such a clear statement of the close connection between international political cooperation and international economic cooperation. It is my earnest hope that this point will soon be clearly understood by every man and woman in America.

Sincerely yours,

(Drusted) H. Morgenthau, Jr.

Secretary of the Treasury
Dear Mr. Hale:

In your recent broadcast on Bretton Woods you indicated that the monetary proposals were too complicated for the average man. Unfortunately, the agreements are long and complex, but I really believe that every American can understand their fundamental principles.

It has always seemed to me that the average American has a facility for reducing difficult problems to simple terms. As you know, everyone has much to gain from a large and profitable foreign trade and it will be extremely difficult if not impossible to build up a large American export trade after the war if we have the kind of currency disorder that existed in the 1930s. The International Monetary Fund is designed to prevent that kind of disorder, and I am firmly convinced that it will have a tangible effect on the well being of every segment of the population.

You may be interested in examining further the part that the United States would play under the proposed International Bank for Reconstruction and Development, in reconstructing areas devastated by the enemy. The Bank will relieve the United States of a considerable portion of the burden it might otherwise bear. The other nations of the world will join with the United States in guaranteeing the repayment of loans by private American investors. Thus, instead of our investors taking the entire risk, nearly two-thirds of it will rest on the shoulders of the other countries.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Mr. Arthur Hale
C/O Radio Station WOR
1440 Broadway
New York, New York

Re: sec 2/23/45
EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF EMERGENCY MANAGEMENT
COORDINATOR OF INTER-AMERICAN AFFAIRS

March 1, 1945

Mr. Henry Morgenthau, Jr.
Secretary of the Treasury
Treasury Department
Washington 25, D. C.

Dear Mr. Secretary:

I thought you might be interested in seeing the enclosed proofs of a mat story which our Feature Division sent to all the Spanish speaking countries in the Hemisphere.

Since they are matted, these stories usually get a very good run in the newspapers of these countries.

Very sincerely,

David Loth
Chief of Publications
Press and Publications Dept.

Enclosure

El Presidente Roosevelt esboza un programa de economía extranjera

WASHINGTON—El Presidente Roosevelt esbozó el programa de la Administración del Fondo Monetario Internacional y de los Bancos Internacionales para la Reconstrucción y el Fomento. El concepto del mismo consiste en que el Fondo Monetario Internacional y los Bancos Internacionales deberán financiar parte de las necesidades de los países en vías de reconstrucción. Los recursos que se requieran para esta operación se tomarán de las reservas de oro de los Estados Unidos y de los Bancos Internacionales.

El Presidente expresó su deseo de que el programa fuera aprobado por el Congreso y que se pusiera en marcha lo antes posible. También indicó que el programa debía ser ampliable y que se debían tomar medidas para que el programa fuera eficaz.

El secretario del Tesoro de Estados Unidos, Henry Morgenthau, dirigiéndose a la Conferencia Monetaria Internacional, en Bruselas, en el papel de secretario, reconoció que el programa era crucial para la reconstrucción y el desarrollo de los países en vías de reconstrucción. También indicó que el programa debía ser ampliable y que se debían tomar medidas para que el programa fuera eficaz.

El Presidente Roosevelt también expresó su deseo de que el programa fuera aprobado por el Congreso y que se pusiera en marcha lo antes posible. También indicó que el programa debía ser ampliable y que se debían tomar medidas para que el programa fuera eficaz.

Negociaciones

De acuerdo con el secretario del Tesoro de Estados Unidos, Henry Morgenthau, los países en vías de reconstrucción deben estar en condiciones de financiar parte de las necesidades de los países en vías de reconstrucción. Los recursos que se requieran para esta operación se tomarán de las reservas de oro de los Estados Unidos y de los Bancos Internacionales.

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SECRET

TO: Secretary Morgenthau
FROM: Mr. Laxford

DATE: March 1, 1945

For your information

In view of Jesse Velocit's position at Bretton Woods and the fact that raised around the mere fact that Wallace would be on the Board of Directors of the export-import Bank, I am troubled about the possible bad effects which might flow from releasing at this time the President's executive order establishing a Foreign Economic Policy Board.

As many of the 'Wallace haters' in Congress, this could be used as a rallying point to say that Wallace was going to "run" the Bretton Woods institutions for the United States.

Co: Mr. White
Mr. O'Connell

TO: Secretary Morgenthau
FROM: Mr. White

Governor Stassen was at Harvard and spoke to Jean Landis and professors Harris and Hansen about the Bretton Woods Agreements. Stassen was tremendously interested and spent three hours on the discussion. They convinced Stassen that the success of the Bretton Woods program in Congress is essential to the success of the San Francisco Conference.

Stassen is coming to Washington and is going to see what he can do to push the Bretton Woods program along.
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE March 1, 1945

TO
Secretary Morgenthau

FROM
Mr. Lomard

For your information

Henry Edstrom called me this morning and said that Chester Davis wanted you to know that he had spoken to
Peyton, Hilbert, and Nixson, presidents of the Minneapolis,
Dallas, and Atlanta Federal Reserve Banks, respectively,
and thought all were prepared to cooperate fully in
organizing meetings in those areas.

Get: Mr. White
Mr. Jelks
Mr. M. Bernstein

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE March 1, 1945

TO Mrs. Klets

FROM Mr. Atcom

At the meeting in the Secretary's office yesterday he
asked that his records show the various stages in the Paarl
Debates telegrams. There is attached for the Secretary's
record a confirmed copy of the telegram as it was issued today.
The way in which we had originally intended to draft the
telegram was to provide that on transfers would be made out of
the Swiss franc account except pursuant to specific Foreign
Monetary Credit license. Although that was our intention, the
license actually never got into the stage of being drafted that
way in view of the Secretary's direction that it be made
subject to the specific prior authorization of the War Refugee
Board.

Irene
In reply please refer to S6530-A  License No. Y-2126

Dear Sirs:

You are hereby authorized, as far as Executive Order No. 8829, as amended, is concerned, and notwithstanding General Ruling No. 11, to credit the Swiss franc equivalent of $1,000 to a bank account in Switzerland for credit to a joint account in the name of Isaac Sternbach, representative in Switzerland of the Vaad Hakesala Emergency Committee of the Union of Orthodox Rabbis of the United States and Canada, and Roswell R. McClelland, representative of the War Refugees Board in Switzerland, provided the following terms and conditions shall be complied with:

(1) No part of the above sum shall be expended or committed for expenditure except as authorized by specific action of the War Refugees Board, Washington, D.C.

(2) Any withdrawal, transfer, or payment order against the above joint account shall be signed jointly by Isaac Sternbach, representative in Switzerland of the Vaad Hakesala Emergency Committee of the Union of Orthodox Rabbis of the United States and Canada, and Roswell R. McClelland, representative of the War Refugees Board in Switzerland.

You, or your bank of account, are authorized to deposit the sum herein by (a) transfer of the dollar amount involved to the Federal Reserve Bank of New York for credit to the Banque Nationale Suisse, Zurich, for credit to the joint account referred to above, or (b) purchase of the Swiss francs involved from the Federal Reserve Bank of New York as fiscal agent of the United States, as shall be prescribed by the Federal Reserve Bank of New York.

Sincerely yours,

[Signatures]

Vaad Hakesala Emergency Committee,
Union of Orthodox Rabbis of the United States and Canada,
132 Nassau Street,
New York, New York.

[Date]
The Secretary requested that the attached cable to McClelland be cleared with him today. You will note that it has been approved by General O'Dwyer.

F. Model

From:

3/1/65

3000

(3000)
CABLE TO HARRISON AND MCCLELLAND, PARS, FROM DEPARTMENT AND WAR
REFUGEE BOARD

Reference your Nos. 221 of February 8, 1069 of February 17,
and 1178 of February 26, 1945, and Department’s No. 708 of
February 14, 1945.

The members of the War Refugee Board met on February 26th to
consider the application of the Yedda Mahatsala Emergency Committee
for a license to remit the Swazi franc equivalent of 259,000 to
Issac Sternbach. The board disapproved the issuance of a license
permitting such remittance to Sternbach. However, after careful
consideration, the board unanimously approved the issuance by the
Treasury of a license permitting the Yedda Mahatsala to make the
desired remittance to a joint account in a Swiss bank in the name of
Issac Sternbach, representative in Switzerland of the Yedda
Mahatsala Emergency Committee of the Union of Chipchob donde of
the United States and Canada, and Rosewell D. McClelland, representa-
tive of the war Refugee Board, provided that the license clearly
stated that no part of the sum could be expended or committed for
expenditure except as authorized by specific action of the war
Refugee Board.

It was the further unanimous decision of the board that under
no (repeat no) circumstances could any part of this money be used
for the payment of ransom.

However, it is the understanding of the board that legitimate
expenses may be involved in the release of detainees from enemy
territory and the board is prepared to consider requests for its
approval of any such payments in the present case upon presentation
to the Board of full details concerning the purposes for which such
expenditures are to be made.

Please advise Sternbach of the foregoing. Text of Treasury
license under issued to Yedda Mahatsala will be sent to you in
separate cable.
PARAPHRASE OF TELEGRAM RECEIVED
FROM: American Legation, Bern
TO: Secretary of State, Washington
DATED: February 22, 1945
NUMBER: 1175

CONFIDENTIAL
FROM MCCLELLAND FOR WRB.

On February twenty-first the question of five million francs guarantee needed for Kusy affair was again discussed with Sternbach (S). (See No. 1059 dated February seventeen from the Legation and WRB's NO, No. 703 dated February fourteen from the Department.)

So that he may replace present fictitious credit with Fides Frenlund, S thinks it is necessary that equivalent of dollars 937 thousand be remitted at earliest possible date.

S. hopes that, since he has led Kusy to believe that he, S., actually holds five million francs, transfer can be brought about in a way which will still permit him to show credit to this amount, even if at another bank such as Swiss National, in his name. It is thought by S that a joint account, upon which my name figured openly, would possibly arouse Kusy's suspicions, and this would not be acceptable to Kusy. However, S, who is quite willing that account be tied up, feels if it would not be practicable to have it set up in his name only, having confidential provision that the American Legation at Bern should have prior authorization over any disbursements.

It is also feared by S that open discussion with Swiss officials regarding conversion of such a sum into francs, in which it would probably be unavoidable not to disclose Kusy's financial demands, would be likely to prejudice seriously any other efforts on Kusy's part to bring about release of Jews from Germany as the Swiss might take exception, on the grounds of the very questionable nature of Kusy's motives, to the whole affair. Request is therefore made by S that remittance be made in a manner to
regraded unclassified

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Bern
TO: Secretary of State, Washington
DATED: February 17, 1945 (Received February 18)
NUMBER: 1069
SECRET
US URGENT

The following message from McClelland for Wb and the Department is transmitted:

Reference is made to message of February 6 from the Legation, number 801, and to Department's message of February 14, Number 704 - WRB's 403.

On the 14th of February I was told by Sternbuch (8) that he had been successful in securing a paper credit of 2,000,000 Swiss francs issued in his name by a reputable concern in Zurich, the Fides Treuhand-Vereinigung. With the help of an international real estate manipulator, a certain Daniel Olshan, who is on our Proclaimed List and who is doing this in the hope of being removed from that List, it is certain, the forgery was made possible. He had managed to secure 2,000,000 and Olshan had guaranteed the missing three million francs, S stated.

Explanation was made by S that Mayy appeared to be satisfied with this paper credit that he (S) was holding the 5,000,000 necessary, and Mayy did not insist that this money be deposited in his name, at least for the moment. I am unable to recommend that, as a member of the staff of the Legation, go on a joint account with Mayy which would become known to Swiss authorities without doubt, in view of the highly unsavory and suspicious nature of Mayy's own doubtful reputation and his negotiations with the Nazis. A joint account between Sternbuch and me might be an alternative plan. Should our Treasury issue a license allowing Veal Haberzal to remit to Switzerland $37,000, in view of the fact that 20,000,000 francs are already being held by Sally Mayer and as to back up negotiations on this type, I anticipate a considerable amount of difficulty from Swiss authorities in obtaining conversion of this amount of money into Swiss francs. Sternbuch would prefer to die in his tracks rather than ask Mayer for funds, on the other hand.

It is certain that any discussion with the Swiss with regard to conversion of the $37,000 for Sternbuch would react unfavorably on the entire rescue plan and would make it necessary to disclose the fact that hard cash is being demanded by Mayy for actions which have been publicized widely in Switzerland during the past week as being humanitarian.

However, Mayy, who was to have returned on the 16th of February to Germany to pursue negotiations with a view to releasing additional convicts, at the last minute refused to go for the reason that Berlin (with which he was in telephone communication, he claimed) reported that in the United States of America there had not been any favorable comment in the press regarding the praiseworthy humanitarianism of Nazis having released Jews --- in fact no discernable press reaction at all. Sternbuch was reproached by Mayy to the effect that the government of the United States manifestly did not care whether Himmler released 200 Jews or did not release them. Accordingly, Mayy insists that before he will go back, convincing evidence must be received by him to show in Berlin that the press of the United States is connecting favorably along the lines that the Nazis, as evidence of their change of heart, having at last seen the error of their ways, have not only stopped the extermination of Jews, but are releasing them. However, Mayy is not insistent that his role in this be mentioned personally.

Being afraid that the future success of the entire rescue program may be endangered by no press comment in the United States, Sternbuch and his colleagues are very much upset.

The above anxiety of Berlin for a favorable press reinforces my view that there is a great deal more behind this whole matter than release of Jews, and is highly suspicious.

HANCOCK

DC/LIC/19-45
February 14, 1945
11 p.m.

AMLEGATION

BERN

THE following is from McLeod from Department and War
Refugee Board is WRB 403.

Vasili Makatsala has requested Board to recommend to
Treasuries the issuance of a license permitting the remit-
tance of Swiss francs equivalent of $25,000 to Starnbuck.
In view of the information contained in your 561 of
February 6 indicating the use which may be made of these
funds, please send from Starnbuck immediately whether
Mak will agree to the deposit of the funds in a joint
account in your name and you as War Refugee Board
representative, no part of the fund to be expended or com-
mitted for expenditure without the express prior approval
of this Government.

Please report urgently to Department and Board.

(Omig)

WRB: M totaled K 2/14/45

MEM

PARAPHRASE OF TELEGRAM RECEIVED

F RM: American Legation, Bern

TO: Secretary of State, Washington

DATE: February 8, 1945

URGENT

THE following message is from McLeod for WRB.

Reference Department's 385, January 23; WRB's 377;
Department's circular cable June 14, 1944; Department's 1168,
April 6, 1944, and Legation's 605, January 26, 1945.

Legation's 605 previously reported the entire matter of
the Swiss negotiations which have come into considerabily sharper
focus since the third of February when Starnbuck told me that
Mak had come back on the first of February from Germany and
had reported that his endeavors to induce Himmler to release
Swiss had been successful and that, on or around February 8,
a first convoy of some 1000 individuals would arrive at the
Swiss frontier. On February 8 this convoy was to depart from
the Dresden area. When Starnbuck requested that I bring up
the question of Swiss permission for their entrance into
Switzerland, I did this personally with the Chief of Federal
Police, Dr. Rothmund, on the third of February, reaffir-
ing the interest of our Government in such rescue work and
recommending that the Swiss make preliminary preparations for
the reception and housing of this group if it should actually
reach the Swiss border. The Police Chief stated he would
take the necessary measures and brought up the problem of
whether our Government's assurances concerning the evacuation
from Swiss territory of Jewish refugees from Hungary to allied
regions would hold good for a group from Germany such as this.
To this I replied that while I had no specific instructions to
this effect, I thought our Government would extend its
guarantees to include such groups from Germany. (One
assurances given in Department's circular June 14, 1944, and
reported on basis of President's statement of March 24, 1944
in Department's 1168, April 6, 1944). Since Mak himself
later stated to me that this was to be the first of a series

Regraded Unclassified
clear as to the reason for this deposit. Although there are a number of possible explanations, none of them is satisfactory and it is most unclear to me. Husy's accepting money for himself, above and beyond rather stiff travel expenses, is not in harmony with his evident intention of playing the role of an heroic rescuer and thus rehabilitating himself in Switzerland in a political way.

My advice to Sternbuch was to endeavor to stall as tactfully as he could on this money issue until we at least found out whether the first convoy reached the Swiss frontier.

Information that a convoy of 1200 individuals was at Konstanz was given the Federal Police by the German Legation at Bern on February 6, at 6 p.m. They arrived February 7 about noon, in Switzerland. This convoy is made up of 1200 individuals, including some 58 children under twelve, but it is composed mostly of adults about equally divided between men and women.

At present this convoy is in St. Gall under Swiss Army control and seems to be in fairly satisfactory physical condition in contrast to exchanges from Bergen Belsen, according to preliminary reports.

It is stated in an unconfirmed report that they come from Theresienstadt and as the convoy was to leave from Dresden which is only a short distance from Theresienstadt, this is geographically possible. As yet there are no exact details available regarding composition of the group with respect to nationality, documentation, etc.

With regard to the broader phase of Husy's negotiations with SS, and in particular Husy's reference to having received support from Schellenberg throughout, I believe it of interest to advise the Board that the Chief of the Swiss Army Intelligence, Wesson, informed me on February 6, quite independently of Husy, that Schellenberg had recently indicated to Wesson through an intermediary that he, Schellenberg, was interested in doing something regarding release of Jewish refugees.

Sternbuch and I cannot get away from the impression that Husy's negotiations with Himmler have not been confined to the Jewish problem which after all cannot be of major importance to Himmler, in view of Germany's present-military situation. It is possible that the release of the Jews may be the forerunner of proposals of much greater importance to the Germans.
You will find it interesting to note that Husy also has been in touch with the French Embassy in Bern and in addition to effecting the release of the Jewish group of 1672, has also effected the release of some 240 French men and women, presumably political prisoners. On the night of February 7, this French group arrived at the Swiss border and they will be rerouted through to France by the Swiss.

Husy was also successful in liberating a group of nine Swiss nationals which the Germans imprisoned on espionage charges, from German prisons. For over a year the Swiss Government has been attempting in vain to secure release through conventional diplomatic channels of these people. Of this group, four have arrived in Switzerland up to now.

Of course, Embassy will keep you posted with respect to any additional interesting developments in this entire Husy question, and in the meantime, would be grateful for your advice concerning evacuation of this convey of 1670 individuals, and later groups which may arrive, to Allied territory.

As yet Embassy has heard nothing from SNAEF in Paris relating to evacuation of 1672 Hungarian Jews.

HUBBLE

(*) Apparent omission.

To: Mr. Collado
From: Mr. Gus

Will you please send the following cable to the
American Embassy, Chungking, China:

TO: Mr. Gus from the SECRETARY OF THE TREASURY:

Your 92, January 20. We are informed that the New York
Office of the U.S.A., on February 15, 1945 dispatched following
telegram to Moscow:

"After consultation with Arnold M. Lorman Committee here
willing permit sale checks provided they are stamped requiring
presentation payment at time one year or if necessary and at
your discretion up to within three years also if stamped
limiting endorsement to payee or if necessary to one other party."

Please cable your comments thereon with particular reference
to question whether Treasury should permit U.S.A. to sell
negotiable checks in China.
ASSISTANT SECRETARY OF THE TREASURY
March 1, 1945

Secretary Burgentham:

The first nine pages deal with monetary matters; subsequent pages with broader questions and some gossip.

H.R.M.

---

COB

STRICTLY CONFIDENTIAL
Letter III

c/o American Embassy,
Chungking,
February 3, 1945

Dear Mr. White,

I hope to get off a cable on Army expenditures in the last quarter of 1944 in the next day or two. Here are several conferences with the responsible Army people here, and while all the details are not available, the broad picture is fairly clear. The best Army figure for expenditures for October to December is $1,050,000,000. This figure is uncorrected and not net. After taking certain deductions, which are discussed below, the net figure is approximately $1,075,000,000, which is smaller than the sum spent in the third quarter of 1944, when of course prices were lower. On the basis of the attached price data as well as on the basis of corroborative data from the Army, it would appear that the goods and services received from the Chinese were not as great in the last quarter of 1944 as they were in the third quarter and were certainly smaller than in the second quarter. Thus, there was practically no airfield construction in October and November, and while there was a spurt in construction in December as a result of the losses in East China, it was not enough to compensate for the decline in previous months. As for direct expenditures by our own Army disbursing officers, it will be noted that they were not greater than in the previous quarter in magnitude, while prices were rising all the time.

Unfortunately, the breakdown of expenditures by area is not available yet, so that it is impossible to weight the local price increases for the time being. Allowing for the price increases and the reduction in airfield construction, a good first guess is that the goods received and services rendered in the last quarter of 1944 were from 1/4 to 3/4 of the goods received and services rendered in the previous quarter. This estimate errs on the side of generosity to the
Chinese. On the assumption that we paid $31660 million for the third quarter of 1944 (i.e., the Secretary's Bretton Woods offer for July, August, and September without any allowance for the sweetness of $1285 million for the whole 9 months) we should be justified in offering the Chinese $6120 million per month for October, November, and December, with a sweetness of $2110 million for the whole quarter in reserve to close the deal. It could be pointed out that with the payment of $31660 million for the last quarter of 1944, the Chinese could have received a quarter of a billion for the year 1944, a very handsome addition to their foreign exchange balances. China is one major belligerent country whose foreign exchange position is improving during the course of the war. It must also be remembered that the prices are rising sharply all the time, so that with the continuance of the present arrangements China's foreign exchange position is going to be further improved as a result of U.S. Army activities in China. Therefore it is essential to allow for the increase in prices and the reduction in goods received and services rendered unless we are going to pay the Chinese some altogether too large in relation to what we are getting. (As a sidelight, it is worth mentioning that the Communists indicated their willingness to build us airfields etc. from this greatly interested the financial people in the Pentagon.) Finally, the Chinese included in the expenditure for February - September items, the responsibility for which is highly arguable, while there is no point in raising an ancient history, we should not allow them to go on doing this in view of the probability of an increase in our activities in this theater. Naturally, the above suggestion is to an officer is tentative and is made in ignorance of the circumstances in Washington, which may override other considerations.

Rong will undoubtedly continue to ignore the facts in arguing for a higher sum. The Secretary's response to such arguments is unquestionably the wisest. There is no point in rebutting the arguments in detail, as this procedure would only lead to unnecessary acrimony. The best thing to do is to ignore them, as the Secretary did. It is unnecessary to add that there is no earthly reason why we should hasten a settlement for the last quarter, as our bargaining position improves with delay and as all data become available.

The following are the relevant considerations with respect to the reduction of the gross total of CSH.1 to CSH.8 billion.

1. TARIFFS. There is no reason why we should pay hard U.S. for taxes levied by the Chinese Government which fall on U.S. Army operations in China. Such taxes total about CSH.000 million for the 4th quarter of 1944. They are made up roughly as follows:

(a) 119, or about CSH.300 million, of the CSH.1 billion expended by the Engineer Corps for us.

(b) Over CSH.600 million for taxes on liquid fuels, mainly alcohol. In the case of alcohol, where 90% of current production goes to the U.S. Army, the tax is definitely discriminatory in character. The actual tax on alcohol is small and has recently been reduced. But the tax on raw spirits, which is used chiefly for the manufacture of alcohol, is high and has been increased co-terminously with the reduction in the tax on alcohol. The tax on liquid fuel of which alcohol is by far the main item, averages 22%. A recent attempt to increase it sharply was thwarted by the Army. In the last quarter of 1944 the tax amounted to over CSH.600 million, a very sizeable sum and an entirely unjustifiable tribute on the American war effort in China. (See attached memorandum on "Promotion of Liquid Fuels.")
For your information, the price of alcohol in October was C$1.100 per gallon, and in November and December C$1.200 per gallon. The average mileage is 5 miles per gallon, which works out at C$1.100 - 340 per mile. (At a hypothetical conversion rate of C$1.200 per US$, this amounts to over US$1 per mile.) Expenditures on liquid fuel, i.e., mainly alcohol, amounted to almost 1/3 of total C. S. Army expenditures in China in the 4th quarter of 1944. Expenditures on liquid fuel are going to go up in 1945 both because of an increase in the amount consumed and an increase in price. It is therefore all the more important to get a clarification of the tax situation. When I took up the question with the Minister of Finance, he was somewhat ambiguous.

He said that he had issued, an order about a month ago that the Army should not be charged taxes. But then pressed, he admitted that it would be administratively cumbersome not to collect taxes on a commodity uniformly and ended by claiming that his order amounted to an instruction that our payments of taxes should be credited to lend-lease. This of course is no help at all, as we should be still paying US$ for C$S we were devoting to the payment of taxes. Much more sensible would be the deduction of tax payments from our C$S obligations as they accrue.

Note: A contract is being negotiated with the Chinese Government transporting agencies whereby tax payments and other items would be deducted from their transportation bills for the Army. The amount involved is small and does not significantly affect the total of C$860 million givens.ow.

(c) There are many other items on which we pay taxes. But the amounts involved are not large and in some cases the difficulty of computing the tax burden is not a simple problem.

2. There are a number of instances of goods we deliver and services we render to the Chinese Army from our Army's C$S funds, for which we should not be charged.

(a) A substantial amount of the liquid fuel we buy has been used for transporting Chinese Army forces. The amount for the last half of 1944 for this item alone will probably amount to over a billion dollars. We took care of transportation for the 7th Force in Yunnan throughout the British campaign.

(b) It is all the more essential to have the Chinese Army on US$ for which we must purchase the Chinese Government in US$ dollars. The reason for this anomalous procedure is that Chinese Government organizations are reluctant to sell to the Chinese Army, because they are not certain of being paid and because they cannot continue to function without such payment.

(c) We have made certain payments for the Chinese Army, but they are made on US$, for which we must purchase the Chinese Government in US$ dollars. The reason for this anomalous procedure is that Chinese Government organizations are reluctant to sell to the Chinese Army, because they are not certain of being paid and because they cannot continue to function without such payment.

(d) We have made certain payments for the Chinese American Composite Wing, which is not Chinese, and for which the Chinese Government is responsible. [Strictly for your own information, the Army is also standing ready to buy rice for a number of Chinese divisions, should this be the only way of ensuring an adequate food supply for these divisions. But the Army does not wish this fact to be known or to be made use of. Incidentally, the Army is insisting that the two divisions flown in from Burma be maintained at the same level of efficiency as in Burma, and in order to do so it tops the rice for them itself with funds furnished]
by the Chinese government and delivered it to the American liaison officers to make sure that the soldiers get it. In addition, we are flying supplementary rations for them over the Hump. The differences between them and the ordinary Chinese soldiers is tremendous. Their morals are high and they carry themselves like men, so much so that the local populace cannot believe its eyes when it sees them. The presence and operations of the American Army in China are already producing certain repercussions. Thus it is reported that Chinese soldiers in Kunyang are already asking for food and clothing such as the Americans receive.

3. We have paid and are paying extremely high prices for goods produced in China, but amounts of which we have supplied the Chinese on Lend-Lease. Copper wire is one instance. Thus we are paying large sums for goods similar types of which we have given the Chinese gratis. There are also examples of our paying exorbitant prices for goods essential components of which we are supplying on Lend-Lease, e.g., transformers. The problem would not arise if there were a reverse Lend-Lease arrangement which was comprehensive in effect. But there is no reason why we should be penalized still further.

4. There are also cases on record where we have paid for goods in connection with the housing and feeding of troops, which we are supposed to receive on reverse Lend-Lease. This ties up with 2(e) above. Eliminating all duplication, item 2 - 4 above on a conservative estimate amount to not less than US$400 million, which together with the US$900 million paid in taxes totals US$1.3 billion.

Last week, the Executive Yuan announced the following financial reforms:

(a) The abolition of the monopolies on salt, tobacco, and matches.
(b) The abolition of the wartime consumption taxes and the consolidated tax on tea, bamboo, skins and furs, etc.
(c) The abolition of numerous overlapping agencies undertaking the inspection of goods and the prevention of smuggling and of a number of organs which, in the official language, have outlived their usefulness.

The reasons given were that the cost of collection in the case of the monopolies was too high, that the wartime consumption and consolidated taxes were exorbitant, and that there was a need to reduce and simplify the tax collection agencies.

These are undeniably steps in the right direction and were partly in response to popular demand. Nevertheless, it remains to be seen how these reforms are carried out; there are already reports that the reduction in staff is not taking place in a genuine way. Moreover, in the short run they entail a reduction in revenue and a widening of the gap between expenditures and revenue which according to some reports the government intends to make up by an increase in other taxes. It is therefore necessary to wait before any final evaluation of these reforms is made.

There is another matter worth reporting in some detail, as it may well come up before the Treasury. The Chinese government is asking for US$100 million of cotton textiles on Lend-Lease and has indicated a willingness to pay itself if it cannot get them on Lend-Lease. The goods are intended for civilian use. The reason that the Chinese are advancing the request is that the goods are needed for combating inflation. The FIA which has already approved a Chinese request for 10,000 tons of textiles for the Chinese Army will, therefore, in all likelihood refer the question to the Treasury. There is no case for granting
I hope we are now ready to discuss the following list of the arguments for reducing it.

(a) Transportation difficulties. These are much more serious than the reopening of the Burma Road might induce one to expect. The Chinese Government has 3,000 tons of cotton yarn in India and is experiencing great difficulty in arranging for their transportation. Even assuming that the goods are available in the U.S., according to the transportation experts it will be impossible to move them before the end of the year. And there are so many other goods which the American Army and the Chinese Army will want to move before then that even that is doubtful, so that by the time the goods could get here, their relevancy to the inflation situation may have changed very considerably.

(b) The fact that the Chinese Government has very large dollar balances in the U.S., which it can use for purchasing civilian goods. This argument does not apply to the Chinese purchasing the goods themselves.

(c) The fact that large amounts of cotton are being exported to occupied China in spite of the acute shortage of cotton goods in Free China. (See enclosed memorandum by a member of the FIA staff.)

(d) The fact that the economic policies of the Chinese Government are such as to discourage the cultivation of cotton and the production of cotton goods in Free China. (See enclosed copy of clipping.)

With reference to (a) and (d), it should be added that:

1. The Chinese Government is about to eliminate one of the grosser annoyances, it is about to raise the official price of rice cotton and to permit Tai Li's organization to include in its price rise the production of cotton at the points of departure of goods for occupied China.

(e) In the light of previous experience as well as of (a) and (c), it is doubtful whether the Chinese Government will make the most effective use of such supplies. During the retreat last December, U.S. Army authorities came across large amounts of goods which were bound over and of the existence of which they had not previously known. (One excuse advanced for the Chinese is that they themselves did not know of the existence of these goods, which may or may not be true, but which is not very reassuring.) Thus, over 40,000 tons of cotton goods which we had not known about before had to be destroyed in order to prevent them from falling into enemy hands, and 800 tons of certain types of medicine were unclaimed, for which the Chinese had put in a request on Lend-Lease.

(f) It is not known whether the American economy can replace such large amounts of textiles at this time.

(g) Agreement could constitute a precedent for further Chinese requests for other civilian goods on Lend-Lease.

Prices have been rising very sharply of late. The first estimates show an increase of 30-40% in Chungking during January and even more in February. The price of rice rose over 50% in Chungking. It is expected that this rate of increase will continue in February.

With respect to political developments there is nothing much to report. Shou Po-Lai is in Chungking again, and both T. V. and Hurley are relatively optimistic. But the best informed Americans continue not to expect too much.
The big stumbling block is the question of a one-party Government. The Communists won't move into a one-party Government and the Kuomintang doesn't seem to be willing to agree to any other kind of Government. Sun Yat-sen has suggested a badge to avoid this dilemma, namely the inclusion of the Communists in the Supreme National Defense Council. The only snag is that the Supreme National Defense Council derives such authority and power as it possesses from the Kuomintang. The issue remains: Is the Kuomintang willing to broaden its base? If it isn't, very little progress will be made. Hurley says that February 20 is the deadline and that if negotiations have not succeeded by then, nothing much can be expected.

Hurley's reputation continues to decline. He is very thick with T.V., for he has no bitches; he even showed one of Service's names advocating firm policy vis-a-vis the Generalissimo to T.V. He is also very angry with the State Department for commending Service for his excellent work in Yemen. Incidentally, all American officials returning from Yemen continue to be enthusiastic.

Unfortunately our first impression of Hurley at Cairo is being confirmed. Brooks Atkinson's opinion that he is at least 20% bull looks too conservative. There are various nicknames for him such as the Paper Tiger, Little Oklahomas, etc., none of them very complimentary. The rift between him and Underwood is deepening.

The latter complained that T.V. was about to tear down their jointly shared establishment at such a rate that there was no privacy.

You will be amused by the following example of the level of current official propaganda. The new Chinese Ambassador to Paris told Henry Luce that Sino-American relations are going to improve now that Stimson's American Communists advisors have been removed. (Presumably he is referring to John Davies.) It was the wife of this very man who sent up large amounts of paper currency by Chinese diplomatic pouch to sell in the black market for $100 with which to

buy IBS-backed savings certificates at the official rate, when her husband was Consul General in Colombo. She told an American officer that this was a common practice among Chinese officials in India. He said it would be surprising if it had been a common practice among Chinese officials in the U.S. In fact it might explain the substantial holdings of savings certificates by a prominent Chinese diplomat stationed in Washington.

On the military front the Japanese have already initiated their campaign to map up the rest of the Canton-Hankow railroads. For some time of late they have been concentrating forces in northern Intern China, which created some concern among American military circles, as it seemed to be a preparation for an offensive against Hankow. But lately this concentration has eased and the whole question of a campaign against Hankow, discussed in detail in my previous letter, remains in the same state as before. Berdovoy is an excellent administrator and his all appearances are doing a good job.

The inflation has had a very demoralizing effect not only on Chinese but also, it must be admitted, on a number of Americans. The Colonel who until a few months ago was chief of the Service of Supply for the whole theater was arrested on his arrival in the States and was found to have $80,000 in U. S. currency in his possession. In addition his bank account had increased by $300,000 during his tenure of office. Not to relate, exchange speculation and other dubious activities have been widely practiced by officers pretty high up in the IAF. This is not too surprising, as many of them were recruited from the AAF, a considerable number of whom were soldiers of fortune in the literal sense. These officers protected each other and refused to serve on courts with the result that only the small fry were brought
to justice and that all the efforts of the old Regular Army officers to do something about it were defeated. Recently, 12 out of 13 planes were discovered to be loaded with the items with a total of $6,200,000 of sulfide drugs. All except the lead plane, which was empty, were owned by Chinese. The lead plane was owned by the same man in the employ of the Chinese air force; he was undoubtedly the ring-leader, as he has large amounts of sulfide base in his possession.

This letter is already too long, but it was necessary to include a fairly detailed analysis of matters of immediate interest to the Treasury. As reserving a discussion of some of the implications of the present situation in China for the Treasury policy for my next letter.

With kindest regards to your wife and daughter.

Yours sincerely,

(Signed) Col. Adler
November
Alcohol 720,000 gals 1200.00 864,000.00
Meeal oil 20 tons 343953.00 687906.00
Kerosene gas 30,000 gals 980.00 29400.00

December
Alcohol 650,000 gals 1200.00 780,000.00
Veg oil 1,000 gals 1500.00 1500.00
Meeal oil 50 tons 343953.00 1719765.00
Kerosene gas 32,000 gals 980.00 31360.00

Total for 4th quarter 1944
2,842,079.00

Total for 3rd & 4th quarter 1944
4,916,386.00

Taxes represent 20.25%

Thus for 3rd quarter taxes
4th * 1,538,310.00 307,662.00
Taxes for last half 1944 1,906,354.14 381,270.86

(signed) Paul J. H. Murphy

Dr. Gallenw af the
General Purchasing and Procurement Authority

A OFFICER IN CHARGE OF THE COMMENDATORY
SITUATION IN CHINA EAST, JANUARY 1944

I. COTTON CONSUMPTION, 1944:
A. Army pacing and quilting
B. Silk consumption
C. Handcraft spinning and people's pacing and quilting
Total

200,000 shik picaks 200,000
150,000 * *
250,000 * *

Total
1,260,000 shik picaks

II. POTENTIAL SUPPLIES OF COTTON:
A. Stocks of cotton
B. Cotton crop of 1944

1,643,000
1,459,000 * *
2,102,000

Total
1,590,000 shik picaks

III. COTTON PRICES:
A. Official price in Shanghai: 0810,000 / 10,000 = 81.00
B. Local market price in Shanghai
C. Market price in the border of Shanghai

81.00
82.00

Total
81.00

IV. COTTON SHIPPED TO COMERTIAL SHIPS:
A. From Sept. 15, 1944 to Dec. 14, 1944
Shipped out from Shanghai
150,000 shik picaks

150,000

Total
150,000

V. CONTRACT PURCHASES OF NEW & OLD:
A. Originally planned to buy
B. On Dec. 9, 1944, the plan reduced to
C. As of June 9, 1945 only bought
D. Potential quantity to be purchased

900,000 shik picaks
700,000 * *
165,000
300,000 * *

Regraded Unclassified
VI. Cotton Industry: Suspended Operations
(1) As of Jan. 1, 1943, 30% of the cotton spindles in Chungking suspended operations due to lack of raw cotton.
(2) Government plans to ask railway to send cotton and cloth to China.

VII. Proposed Plans of Solution
(1) Increase the price of cotton in order to compete with the Indian and Egyptian cotton.
(2) Strengthen both central and local cotton marketing organs.
(3) If these two things can be done immediately, about 300,000 bales of cotton can be bought from Free China and 150,000 bales from Occupied China.

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IX. Required Quantity of Cotton Consumption in 1944
According to the per capita consumption of 1.4 pounds of raw cotton in 1943, as estimated by post cotton authorities, the total consumption of raw cotton in 1944 will be about 95,000,000 pounds, or 3,000,000 bales. Of this total, the army purchasing and fighting require 300,000 bales; the civil population requires 500,000 bales and household spinning and weaving together with producing and weaving of the general public requires 10,000,000 bales of cotton.

X. Potential Supply of Cotton in 1944
At the beginning of 1944, the stock of raw cotton crop was only about 25,000 bales, of which 15,000 bales were government stock and 10,000 bales belonged to merchants. The cotton crop of 1943 was 1,500,000 bales according to the information obtained from a number of reliable sources. The potential supply of cotton for 1944 is therefore 1,500,000 bales of cotton.

XI. Cotton Prices
There are now three different kinds of cotton prices prevailing in Free China, namely the official price, the open market price, and the army price. The official price is far below the market price. The army price is higher than the market price but very close to it. (Table 1.)

Table 1. Cotton Prices in Free China.

<table>
<thead>
<tr>
<th>Location</th>
<th>Official (Gm)</th>
<th>Market (Gm)</th>
<th>Army (Gm)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shanghai</td>
<td>20,000</td>
<td>25,000</td>
<td>20,000</td>
</tr>
<tr>
<td>North China</td>
<td>30,000</td>
<td>35,000</td>
<td>30,000</td>
</tr>
<tr>
<td>South China</td>
<td>40,000</td>
<td>45,000</td>
<td>40,000</td>
</tr>
</tbody>
</table>

Sources: Official — Office of Cotton, Xero and Cloth Administration. Market and Army — Cotton Merchants.

On Dec. 5, 1944, a price of 150,000 was added to the official price for each piece of cotton. That is to say, the official cotton price has been increased by 50,000 since Dec. 5, 1944.
V. Government Purchasing of Raw Cotton

In the season of 1944-45, the government planned to buy 200,000 piculs of raw cotton. Because the production of the season was low and the official price was so low that such an amount could hardly be purchased, the government raised the amount to 300,000 piculs, of which 40,000 piculs were to be bought from Hainan, 200,000 piculs from Hupah and 50,000 piculs from Vietnam. As of January 10, altogether only 100,000 piculs had been purchased, of which 110,000 piculs were bought from Hainan, 50,000 piculs from Hupah and 5,000 piculs from Vietnam.

Since Dec. 2, 1944, the government of Hainan has started a cotton contribution campaign. The farmers in Hainan were ordered to sell 450,000 piculs of raw cotton to the cotton farm and cloth administration before Feb. 20, 1945. According to the Chinese proverb, "To kill the chicken to eat it later," the farmers are forced to sell their cotton at the low official price and they will not grow cotton again next year.

It is estimated that no matter how much political force is used, the government, before Feb. 20, can hardly buy 300,000 piculs of cotton including the 160,000 piculs which have already been bought, of the 200,000 piculs, 200,000 piculs may be bought from Hainan and 100,000 piculs from Hupah and Vietnam.

VI. The following translation from the Chinese press reveals the attitude of the cotton textile industry.

DEPARTMENT OF COTTON ADMINISTRATION

February 15, 1945

The cotton textile industry has submitted a petition to the Executive Yuan for relief from current difficulties in the way of production. The important points of the petition are reproduced below:

1. Shortage of Cotton — The cotton mills in Free China depend on the cotton supply from the northeast. This year such supply faces serious shortage both on account of reduced production and extensive smuggling. As a result, cotton is not available in the interiorMarketing. The administration has accordingly increased the official price of cotton to such an extent as to make the work of spinning more difficult. Although the administration has severely curbed smuggling, the reduction of the quality of cotton not only cuts down the efficiency of production.
but understanding the social revolution of Chinese cotton industry. It is imperative to raise the price of cotton according to market conditions whenever necessary in order to eradicate smuggling and encourage cotton cultivation. Also the cotton farmers should be given loans at planting time, and the central administration should exercise strict care in grading and stamping out adulteration.

7. **Worker Protection** — The cotton mills in Free China have done their best, but their equipment is obsolete and out of repair after the war will not be of much use. The government should recognize their contribution and sacrifices in wartime and adopt proper measures for their protection not only for the sake of the cotton mills but also for the purpose of keeping the peace (conciliation) for industrial reconstruction.

8. **Cotton Industry** — The government should maintain the cotton industry on a stable, efficient, and economic basis. The Cotton, Yarn, and Cloth Control Administration controls the Changshu and Soochow factories of Yuhang mill; the Yuhang and Hsiang factories of Hsin-iang mill; the Hsin-iang and Hsiang factories of Hsiao Hsin-iang mill. The Soochow and Taicang mills are under the control of the Cotton, Yarn, and Cloth Control Administration. The administration now employs a staff of over 500 to do this work with an enormous outlay in salary and administrative expenses.

9. **Conclusion** — The central administration should understand the business it controls and therefore be able to handle it without difficulty. The present administration is ignorant of the running of the spinning and weaving mill and cannot be expected to alleviate its difficulties. If the government makes good use of the textile mills and makes wise decisions, the central administration and the mills may be made to compete on a level basis. As it is, the central mills' main goal is to supply cotton to the mills, and they never do anything beyond supplying cotton to the mills, and they never do anything beyond supplying cotton to the mills.
In accordance with your instructions, I submit herewith a report prepared upon my return from France. This report covers the following main questions which are important in the current French situation and which I believe will be of special interest to you:

1. The franc is obviously overvalued at the present rate of 40.500 to the dollar, but in the present state of affairs it is impossible to say what the rate ought to be. No responsible official in the Ministry of Finance believes that the rate can be maintained at less than 75 and it may go to 100 or even higher. So far no hint that the rate will change is being given out. The French will try to hold the present rate as long as our troop pay provides substantial amounts of dollars and as long as France is not in a position to do so exporting.

2. The American soldiers feel that they are being squeezed by the present rate of exchange. This is the number one complaint of nearly every American soldier in France. I have talked with hundreds of soldiers and in my opinion this complaint is due largely to the knowledge of the soldiers that there is a high black market price for dollar currency and to the fact that no real attempt has been made to explain to the soldiers what the real situation is. In fact, insofar as there is a real basis for complaint about prices, changing the exchange rate would not materially help this situation.

3. The French are making a strong effort to mobilize their foreign exchange assets and to get an end to evasion by Frenchmen of their fiscal responsibilities. You will recall that prior to the war the evasion of taxes and the flight of capital from France were among the most important causes of economic weakness and demoralization in France. The only really progressive thing about the Ministry of Finance is the determination of a. Eleven to put an end to evasion and fraud in this field. Eleven got the co-operation of the British Treasury to cooperate by providing them with information on private French assets in Britain. They have again requested your agreement to do the same thing. They will make an exchange of such information a condition to the conclusion of commercial treaties with other European countries. They intend particularly to break the Swiss hot money industry which has long been a source of trouble to France. I feel that on this point they deserve our cooperation.

4. French views on Germany are gradually crystallizing. Primarily, the French want territorial security and do not intend to trade this for any international assurance. They want raw materials and equipment from Germany, but have not thought through the question of Germany's industrial position. In general, nothing which will tend to keep Germany down can be too strong for the French public, though there is, of course, an element which is still receptive to the argument that Germany is needed as a barrier against Russia.

The French regard America's ability to sustain interest in controlling Germany after the war. They expect Russia to play a dominant role in the settlement of the German problem and the government seems to feel that it has Russian support for some of its views. It was my clear impression that the French are aware that the Russians are highly suspicious of Anglo-American unity in front on the German question and that the Russians have not been dealing with Clemenceau's headquarters for this reason. The French are trying to exchange views directly with the Russians to avoid giving grounds for similar Russian suspicions of France. In my opinion, they will follow the Russian lead on all German questions which will vitally affect French security in return for which they hope for Russian support on these latter questions.

5. Questions of lend-lease and credits under the Lend-Lease Act have attracted less attention in France than questions of immediate supply possibilities, on the one hand, and long-term re-establishment of France's current balance of payments and credit standing, on the other hand.

6. The supply situation in France is bad and is deteriorating. At best, the French economy will not be working even at minimum levels for some time. Nothing can be accomplished until the internal transport system is able to work for the civilian economy. Lack of transport equipment is the key to all other economic problems.
7. De Gaulle is following a policy of placing political and military prestige above economic reconstruction as objectives of his government. He is meeting more and more opposition to this, even from some of his own ministers, but so far his successes have carried the people along. Many people are worried about his super-nationalistic position in dealing with the Allies and feel that his inability to get along with President Roosevelt will eventually lead to his downfall. He continues to reflect to an exaggerated degree French sensitivity to being treated as a second rate power.

8. Basically, Franco-American relations are friendly, in spite of the absence of any encouragement from de Gaulle, but we are being criticized in some quarters for nonproliferating French railroad equipment and for the failure of supplies to arrive. The French are just beginning to examine the extent to which they are being treated less favorably than British. They are just finding out about the British stockpiles and about the British shipping allocation. There is danger that the British will get the credit for what help is given to France, while we take the blame for the inadequacy.

9. France is making a big bid for Russian support and regards Russia as the world power with which friendship and close working relations are most essential.

10. Political groupings are crystallizing in France along traditional lines. The Left and Center parties are in the strongest positions because of their Resistance records. The French right is strong in de Gaulle's immediate official circle and is trying to stage a public comeback. The Communists are supporting the government and are not pressuring a revolutionary program now. Although all parties are represented in the National Assembly, therefore, de Gaulle has an essentially right-wing government, with Communist support, a situation which cannot last. No major changes are likely, however, prior to the local elections this spring.

REPORT ON FRANCE

I. Rate of Exchange - General.
II. Rate of Exchange - Attitude of U.S. Soldiers.
III. Domestic Economic Policy.
IV. International Financial Policy.
V. French View on Treatment of Germany.
VI. Land-Lease.
VII. Supply Situation.
VIII. Responsibility for Supply Situation.
IX. De Gaulle's General Policy.
X. Relations with the United States.
XI. Relations with Russia.
XII. Internal Political Developments.
XIII. French Economic Influence in France.
1. RATE OF EXCHANGE - GENERAL

In view of the failure of the French to follow a real policy of deflation and price stabilization, it is obvious that the present rate of exchange for the franc cannot be maintained except through the most stringent type of exchange control and at the expense of French export industries. In the Ministry of Finance there is today no one who believes that the 50 franc rate can be maintained after the war. There are some who think it should be changed at the time of the currency conversion but the general opinion seems to be that it should be maintained until developments make a resumption of exports practically possible and until after the period of large-scale American troop expenditures in France has passed.

At present it would be unrealistic to attempt to estimate what the franc rate of exchange ought to be. An essential characteristic of the present economic situation in France is that no such thing as price levels exist. Until there is some return to approximately normal movement of goods, no one can tell what prices will be. For instance, the price of butter in Paris is approximately 360 francs (27.60 per pound); the price in Normandy is approximately 50 francs (205 per pound). It is impossible to tell what will be the price of butter in Paris when it can again move from Normandy through regular legal channels. No one would contend that either the present Paris price or the present Normandy price has a good basis for estimating what should be the new exchange rate. This is the situation with respect to every essential commodity. With respect to export products such as brandy and perfumes, while the price of existing stocks could conceivably be fixed at any level, producers cannot tell at present whether a given price is or is not adequate because the cost of practically everything used in the production of future stocks is unknown. It is for this reason that most of the economists who have expressed views on the problem feel that a fixation of a new franc rate should be postponed as long as possible.

2. RATE OF EXCHANGE - ATTITUDE OF U.S. SOLDIERS

As we have reported from time to time, the American soldier in Paris feels that he is being "ripped" by the present rate of exchange for the franc. This feeling is very strong and widespread. It is likely to be a continued cause of complaint for those troops who remain in France.

The fact is that the American soldier really has very little reason for complaint. The Army is doing a good job of providing the soldiers with everything they need and many forms of recreation and entertainment. Furthermore, ordinary types of entertainment available in Paris are not expensive for the soldier even at the 60 franc rate. I have talked with large numbers of soldiers of all grades in an attempt to find out in what respects they really feel they are being "ripped". I am convinced that there are three reasons for this feeling:

(a) By far, the most important reason is the knowledge on the part of the soldiers that dollar currency in the black market is worth three to four times the amount in France which they receive for their dollars. They naturally conclude that this rate is correct and that the rate that they receive is a discrimination. So real effort has been made to tell the soldiers anything different.

(b) The one thing which the soldiers buy and which is expensive in beverages of all kinds. With one or two exceptions I have never found a soldier able to cite anything except drinks which prices down as to what he could not afford in France. In a few cases I have had complaints of laundry expenses and charges made by horse-drawn taxicabs. Drinks are expensive. Food is, of course, even more expensive but the soldiers generally realize that they have no business to be buying food in France.

(c) The soldiers, although they do not buy clothes, women's hats, dishes, etc., see the prices posted on these items in the Paris stores and are impressed when they convert these prices into dollars with the fact that "everything is outrageously expensive in Paris."
As far as prices actually paid by the troops are concerned, a change in the rate of exchange would make little difference anyway as long as supplies remain as tight as at present. Such prices would be enormous in dollars at any rate that would be at all realistic from the point of view of the French economy in general, and many prices would simply rise further following a change in the rate.

This feeling on the part of the soldiers that they are getting shorted is a serious problem and in my opinion a careful program of education should be instituted in Paris in cooperation with appropriate army authorities.

III. DOMESTIC FISCAL POLICY

There has been an enormous amount of discussion, both in France and elsewhere, of the fiscal policy which should be followed in trying to reestablish stable monetary and price conditions in France. This discussion is still going on. It is well known by now that there have been throughout the general views as to the methods of tackling the monetary problem in France. One stresses the need for drastic measures to eliminate a substantial part of the monetary circulation and debt created during the occupation. The other view favors stabilizing the debt of monetary circulation at its present level and trying to prevent any further expansion of debt and circulation. There are, of course, numerous ramifications and variations to each of these points of view which we have reported from time to time. The French regard the Belgian experiment as typifying the first approach while their own policy is an application of the second.

The Ministry of Finance takes the position that drastic measures to reduce the circulation by a heavy capital levy, a blocking program, or otherwise, would merely aggravate the essential difficulties in the supply and employment situation. With few exceptions both government circles and the press regard the Belgian program as having failed and an having contributed to the unrest in that country. It is argued while France's monetary and debt position is bad, it can be supported if it is prevented from becoming worse by permitting moderate upward adjustment of legal prices and by working hard to re-estore transportation and the movement of goods within the country. Without the restoration of transportation and movement of goods, it is held, no financial measures will succeed in eliminating the black market or in removing the pressure for higher prices and wages. The corner stones of the Ministry of Finance's policy, therefore, are flotation of public loans, encouragement of the regular flow of savings through savings banks and other savings institutions, taxation of war profits, and a high level of regular tax collections. In the proposed budget for the coming year the French plan to raise about thirty to thirty-five per cent of their expenditures by current taxes.

As soon as possible they plan to carry out their program of currency conversion which will be accompanied by a census of liquid wealth. On the basis of such a census they plan to impose a moderate capital levy which will not, however, have very much effect on the inflation picture inasmuch as it will probably allow for a payment over a substantial period. The currency conversion is being delayed by the practical difficulties of distributing the currency and by the fact that, due to the ease of counterfeiting, the higher denomination currency notes prepared for the United States will not be used and the French are therefore awaiting completion of printing of additional notes in the United Kingdom. The 100-franc notes printed in the United States will be used and are already in France. The problem of distributing the currency within the country is something over 60,000 different local exchange centers in, however, difficult of solution at a time when using transport for currency means taking it away from carrying food. An effort has been made to work out a system of having trucks carry currency out from Paris and carry food back. On this basis the Ministry of Finance has been able to get certain trucks allocated to the program. It is now anticipated that the currency may be distributed by the first of April.

IV. INTERNATIONAL FINANCIAL POLICY

The dominant trend in France's international financial policy is to obtain control of all French foreign assets in
order that they may be mobilized by the government. In this connection the French are making a drive to obtain the cooperation of other governments. In an exchange of financial information which will result in the respective governments having the details as to the holdings of their nationals in foreign countries, the French have obtained the agreement of the British government to turn over the information held by the British Property Custodian concerning France's private assets in the United Kingdom. Since all known French assets in the United Kingdom are under control of the Enemy Property Custodian, this amounts to turning over to the French full information of French holdings in the United Kingdom. The French are making correspending data available to the British.

The Ministry of Finance is taking the position in the French government that no international, commercial, or financial agreement should be concluded with other European countries without the inclusion of the provisions of such agreements or information. The French appear to be particularly determined to force the Allies to reveal the names of the owners of the very substantial amount of French money which is in Switzerland. They hope that the United States government will agree to make information available concerning French holdings in the United States.

It is well known that in the past wealthy people in France escaped taxation on an enormous scale by hiding their money abroad. The government is requiring all persons having assets abroad to fill new declarations on the scale of which they may, by payment of a flat 20 percent penalty, be forgiven all back taxes. If they do not file and settle with the French Treasury, all their property, including property in France, will be confiscated if their evasion is later discovered and they will be tried as deserters in time of war. It remains to be seen how effective the French will be in carrying out this policy if evasions are on a large scale. The announcement of the British agreement to furnish data on French holdings in the United Kingdom has, of course, been of great assistance in bringing about compliance with the orders requiring declarations of foreign holdings.

V. FRENCH VIEW OF THE TREATMENT OF GERMANY

There has recently been a great increase in public discussion of the treatment to be applied to Germany after the war. French governmental views are still not completely crystallized but it is becoming possible to define a more or less generally accepted French position.

The French position is a natural development of the traditional French views on the treatment of Germany as formulated, for example, by Clemenceau. The French are still very much impressed with what they regard as the betrayal of France following the war of 1870-1871 by the British and by those Germans who were willing to trade concrete measures of security for the Locarno Pact and dependence on the League. All statements of France's position start with the assertions that this time they will not rely on promises and will insist on concrete security measures.

Although there is no one view on what should be done with Germany, there is a strong feeling that whatever is done France must be consulted as an equal partner. De Gaulle has gone so far as to say that France will accept no settlement of boundaries or any other German question in which France has not been consulted.

More concretely, France's thinking about the treatment of Germany tends, as always, to emphasize primarily territorial security. The French do not want to annex any territory except possibly the Saar, because they do not want territory with strong German population. They do want military occupation of both banks of the Rhine and have recently taken the position that this occupation should be by French troops.

There is also a general agreement on the internationalization of the Rhine, although just what this means concretely is by no means clear. There is a great deal of sympathy for the view that Germany should be deprived of all heavy industries and all industries capable of being converted into war purposes but so far it is my impression that the French have not thought through this question. They are more inclined to think in terms of how much industrial and transport equipment
they can move out of Germany. Generally speaking, French thinking seems to be less concerned about the possible commercial disadvantages of having a semihardened Germany than British thinking, although there are, of course, many people who will be receptive to the argument that Germany must be maintained as a barrier against Soviet Russia. I am inclined to think that the French have taken Russia's preponderance on the continent so far granted that this argument will not be so potent as in England or in certain quarters in the United States, but it will likely be influential behind the scenes in the present Government. In the present political climate I can hardly imagine anyone publicly expressing or even hinting at such a view. The attitude of the French Socialists is somewhat discouraging, as they seem to be unable to forget the doctrinaire Socialists internationalism of the prewar period sufficiently to enable them to seriously consider strong measures to avert the German war potential.

The French seem to feel confident that the Russians are sympathetic toward their demands for territorial security and occupation of the Rhineland as well as their potential demand for coal, other raw materials, and industrial equipment from Germany. I have no way of telling to what extent this is true. It is significant that the French have made a strong effort to exchange views with the Russians on these matters. They have not tried to coordinate with us or the British first, and present a united front to the Russians. It is well known that the Russians have so far refused to deal with the Anglo-American Supreme Military Headquarters (SHAP) on German matters except on one minor matter involving displaced persons. Consequently, our military people know nothing about what the Russians want or what the Russians are doing in that part of Germany under their control. The French probably know little more but they are evidently trying to deal with the Russians directly and to avoid the difficulties which we have run into because of our continued joint action with the British.

VI. LAND-LEASE

Outside of limited governmental circles the Land-Lease Agreement which has just been signed has attracted relatively little attention. The press has carried quite a number of releases concerning the Lend Lease program, but both in the Government and among Frenchmen outside the Government I have found very little concern with or knowledge about the size of the program or its financial aspects. The French know that their supplies have been getting a lot of military supplies and assume that these supplies are being provided on Land-Lease. With respect to civilian supplies, it is generally known that they are getting some kind of a credit but up to the time I left there was only the vaguest notion of the size of the credit and no real understanding of the terms.

Among the many official and unofficial expressions of French views on the problem of supplies and collateral financial problems, I found very little concern with the duration or terms of the credits which the French were to get in the Land-Lease agreement. For the short run, they are primarily concerned with how many tons of goods will arrive next week or next month, and not with the question of whether they will pay for these goods in cash or get them on credit or what the terms of settlement will be. In informal circles it is well known that the French have substantial foreign assets and there is no great reluctance to utilize them for reconstruction purposes as long as they last.

I talked with Madame France, the Minister of National Economy, about a week before I left Paris and while he talked at length about supply difficulties, the gravity of the unemployment situation, and the need for allied supplies, he never mentioned Land-Lease or indicated any concern about financial settlements. When discussing the longer term, the people I spoke with did not think in terms of Land-Lease at all, but in terms of long-term credits for reconstruction which would be granted on a strictly business basis, which they feel they can justify. Much more important than questions of credit, Land-Lease or otherwise, is the concern of the French with how to re-establish a flow of current payments which will enable them to buy what they need in the United States. The size of the French reconstruction problem is such that no amount of credit can by itself solve the situation. Frenchmen who think in terms of the next five, ten, or twenty years realize that the problem of credit will solve itself if they can solve the problem of restoring the healthy
flow of current payments. They regard this as being primarily the problem of restoring exports to the United States and, consequently, regard as of primary importance United States policy concerning the amount of imports we will accept.

In my opinion, the recently signed Lend-Lease Agreement will tend to have an unhealthy effect on French thinking on these problems because they will be astonished at the apparent ease of obtaining credit. Above all, it will give the de Gaulle group another excuse for failing to tackle supply problems realistically in France.

VII. SUPPLY SITUATION

The supply situation has deteriorated considerably since the liberation of France and it is expected to deteriorate further before any substantial improvement sets in. Practically no supplies apart from those included in Plan A (consisting mostly of food and items for immediate direct consumption) have arrived in France from the United Nations sources. Stocks of raw material on hand at the time of liberation are running out rapidly and factories are closing at an increasing rate. The situation is worse than it was under German occupation from an industrial point of view.

An effort is being made to alleviate the situation by bringing in United States owned raw material for processing in French plants and a large program for tires has recently been inaugurated which will provide employment for several thousand workers and produce tires for American and French armies as well as spare for rehabilitation of trucks for use in civilian economy. Programs such as this, however, are no substitute for the restoration of imports of industrial raw materials which could start flowing through the regular channels of the French industrial system.

No real improvement can be expected until transportation equipment is made available to the civilian economy. Every analysis of the supply program comes back to this same point. The French have ordered locomotives in the United States but understand that they will not be ready until the end of 1946.

They would like to borrow locomotives from the United Kingdom but have so far not been able to get British agreement to such a transfer. Unless the war ends very soon, thus releasing the French locomotives now tied up by the military, nobody sees how any real improvement in industrial production or in the distribution of agricultural products can take place. On the other hand, if the French can get, say, 2000 additional locomotives in working order within the next three months and use them for the purposes of civilian economy, a great many of the other problems which appear to be pressing now would disappear. The supplies which they have and those which will be coming in could be put into useful channels and the effects would be cumulative on the whole system.

VIII. RESPONSIBILITY FOR SUPPLY SITUATION

From a broad point of view it can already be foreseen that the United States is going to take the blame for the failure of France to receive needed supplies, while the British are going to get the credit for alleviating the situation. The French have concentrated on getting supplies from the United States and the French public, having been told nothing to the contrary, naturally assumes that this is where they can get what they need more quickly. They do not even know about the enormous stocks of food and materials in the United Kingdom nor do they know the facts about the envisaged allocations to the United Kingdom or the reasons therefor. Even with respect to immediately available rail equipment, the United Kingdom is probably a much better source than the United States. Furthermore, the French public does not know how badly the French Supply Mission in the United States has handled its problem or how much responsibility the French Government bears for delays to date.

The Ministry of National Economy is just beginning to get some facts on the situation in the United Kingdom and is beginning to try to get at some of the British stockpiles. My understanding is that the Department of State is also beginning to press the British to release some of their stocks and that Prime Minister Churchill was approached at Malta on the question but refused to discuss it. In the British Parliament a
Government representative recently stated flatly that the British government would not take any steps that would endanger existing British rationing.

At the same time the British have been free with their services as spokesmen for the liberated areas in trying to get larger allocations of supplies and shipping from the United States. All the attention has been directed to us and away from their own stocks. If there is a real airing of the facts, it is almost certain the British will have to release some of their stocks and possibly some of their transportation equipment. Because of the way in which the situation has been handled, however, they will be able to take the credit for a magnificent gesture undertaken by them as a result of the failure of the United States to live up to its promises to supply the liberated areas.

II. DU GUILLLE'S GENERAL POLICY

In general, de Gaulle's policy since the liberation has consistently been to work for the restoration of French military strength and the French political position in international affairs at the expense, if necessary, of economic reconstruction and reform. Not all members of the government and certainly not all sections of the population agree with de Gaulle's emphasis on strictly political objectives at the expense of improving the conditions of life in France. But this disagreement does not go to the point of being unwilling to follow de Gaulle's leadership. There is a definite feeling, however, that a good many of the groups who are active concerned with the French economic situation that there is much more to be done than economic reconstruction is given first priority.

It has been very surprising to witness the development of this situation. A country that has undergone severe psychological and material suffering suddenly finds the enemy gone from most of the territory, immediately begins to hope for improvement in the conditions of life, but finds, on the contrary, that it is faced with a deterioration of living conditions, the hardest winter in history from a material point of view, and a government which tells the people that tnings are bad and will be worse but that they must make further sacrifices in order to have a strong army and a position of power in world councils.

De Gaulle's policy can be illustrated by the story of his visit to the Paris suburbs during the extreme cold of late January. There had been no coal in Paris except for gas and a little electricity for several weeks. Electricity was off all day long and consumption was severely limited at night. Food rations had reached a low point and suffering in both rich and poor districts of Paris was intense, being particularly severe in the poor sections. De Gaulle visited various local government centers where he met with the mayors of the communes, the local committees of liberation, and other community leaders. In each place he would get out of his car, go into the building, shake hands with all the group, and then ask a spokesman that were the problems of the community. Invariably he was told that the people were cold and hungry, that the old people were dying, that there was no coal for the schools, that the children were underfed, that factories were closing, etc. In each case de Gaulle would listen patiently and sympathetically and then would make a short speech which started with a summary of the miserable state of the people and a statement of how much France had suffered and ended with the statement that France was going to continue to suffer and that times would continue to be hard and get worse but that France would be great and that France would stand on her own feet. Equally invariable this gloomy prediction, followed by de Gaulle's confident assertion that France would be great in spite of all obstacles, was greeted with fervent cheers.

X. RELATIONS WITH THE UNITED STATES

Next to Russia, all shades of French opinion agree that relations with the United States are the most important for France. The French press is very sensitive to fluctuations in Franco-American relations and while differences are frankly discussed and recognized, criticism of the United States are quite open, there is great concern at any sign of friction with the United States. The sad relations between de Gaulle
and the President are a source of constant worry to all except the few adventurers in the Government who have made a career out of profiting from the situation. Many individuals to whom I have talked say that they feel that de Gaulle’s bad relations with President Roosevelt will ultimately lead to his failure to retain leadership in France.

There are a number of specific points at which, from the French point of view, Franco-American relations are weak. The most important underlying problem is the lack of confidence on the part of the French in the willingness and ability of the United States government to accept a share of responsibility after the war for the maintenance of peace and world economic reconstruction. They are afraid to rely on continued American participation in European affairs and they tend to preface all their reactions to United States views or actions with reflections along these lines. This fear of the revival of American isolationism is quite general in France.

There is an increasing tendency to blame the Allies for the continued distress of the French population. The de Gaulle government does very little to discourage this tendency. Inasmuch as the Americans are predominant in France, we are the main target of these complaints. This feeling is frequently summed up in the statement that France is bearing the brunt of the effects of maladministration on the part of the Allied High Command of the duration of the war. Churchill’s recent statement to the effect that the Allied High Command had misjudged the situation will certainly encourage this opinion. In government circles it is argued that if the American and British armies had been more willing to utilize France’s industrial capacity for war production, there could have been both economies in buying space-permitting increased shipment of civilian supplies, and prevention of the mass unemployment which is now threatening. They are grateful for our Army’s policy of not trying to live off the country for food and other supplies but point out that we have in effect done the same thing by monopolizing the transportation to the point that the food and materials which the country has produced cannot be moved to the heavily populated areas.

Closely allied to the above source of dissatisfaction with United States policy is the complaint that we have constantly treated the French supply problem as a relief problem rather than one which, if properly solved, could produce a substantial improvement in living conditions. France needs not relief but replacement of basic transportation equipment and raw material supplies which were either taken by the Germans, dispersed in the fighting, or are currently being used by the Allied armies. They feel that strictly from the point of view of war production, France’s marginal contribution could be greatly increased over that of the United Kingdom and that they therefore deserve better treatment in the allocation of supplies. They cite figures to show that France could do with one more locomotive in the way of steel production, aluminum, tires, and other products. Most American observers of the French industrial situation agree with the French claim that their marginal contribution would be greater than that of the United Kingdom.

American representatives are constantly addressing to the French the shortage of shipping as the reason for inability to deliver needed supplies. The French, however, know that the United Kingdom gets about 2,000,000 tons of shipping per month while France was allocated less than 100,000 tons per month for the next few months. While recognizing the importance of the United Kingdom as a base of military operations and from the point of view of war production, they feel that the importance of France in both of these respects is greater than is indicated by this 20 to 1 ratio. They see no reason why British food rations should continue to be adequate while France’s rations are very much understated within the country. France is dependent primarily on the use of allied cargo ships, to which pool the French have contributed about a million tons.

22. RELATIONS WITH RUSSIA

It is no exaggeration to say that de Gaulle’s ability to maintain his position in the face of the government’s failure to press vigorously an internal program of economic reconstruction and reform and in face of the failure of living conditions to improve since the liberation is the direct consequence of the conclusion of the Franco-Soviet Alliance, although the full story of the negotiation of this alliance and of the various formal and informal agreements
made at Moscow is not known to me, it is generally believed that de Gaulle was willing to make almost any sacrifice in order to come back with a treaty and that he gave in on practically every Soviet request. The conclusion of the Franco-Soviet Alliance not only improved France's position in dealing with her other allies but definitely removed the possibility of serious organized internal trouble in France for the time being. The French Communists were not in conflict with de Gaulle prior to the visit to Moscow but their position had not been defined and it is quite possible that it would have become one of opposition. At any rate, the de Gaulle Government was quite obviously afraid of the Communists. In Moscow de Gaulle succeeded in getting Stalin's agreement to discourage any tendency on the part of the French Communists to make trouble or to utilize their very considerable potential military and financial strength against the de Gaulle Government. As a consequence of this, the Communists became not only non-revolutionary but, in a real sense, the only party supporting de Gaulle. Maurice Thorez returned to France with the Soviet "party line" and within three weeks had reversed the Party's position on every important point of conflict with the Government. The decisive effect of the Russian Alliance on the French internal situation is the most spectacular but not the only indication of the fact that the French of all shades of political opinion regard their relations with the Soviet Union as the most important aspect of French foreign relations. There is a strong feeling that cool relations with Russia are the essential cornerstone of postwar French policy. This is just as true of the Left, where the feeling is based on fear, as of the Right, where it is based on genuine hope of greater Russian influence in France. Consequently Russian influence in France today is far greater than that of the United States or the British as far as concrete policy decisions are concerned.

XIII. INTERNAL POLITICAL DEVELOPMENTS

Within the past month there has been an increasing crystallization of the French internal political situation. Although this process is only beginning, certain interesting developments may already be noted. It must be kept in mind, however, that for the great bulk of the population, participation in organized political activity continues to be kept to a minimum by the pressure of the material difficulties of life, including plain lack of sufficient energy in many sections of the population. At the time I left Paris it was agreed on all sides that the de Gaulle Government was not going to carry out the political objectives of the Resistance movement which had been so widely proclaimed during the earlier period of the liberation. The Resistance Press has taken on a tone of disillusionment to an increasing extent. Even if the Government desired to carry through the political, structural, and economic reforms which are generally regarded as being the aims of the major Resistance groups, it would have been faced with major practical difficulties. The fact that the basic economic situation has been bad and getting worse during the winter months would have made it difficult to carry out changes, the short-run effect of which would have been further to impede the carrying on of ordinary business and administrative functions. Even in ministries in which there has been no question of desire to put through a thorough reform in administration, such as the Finance Ministry and the Ministry of National Economy, it has been impossible to do so under conditions in which the capacity of the administrative machinery has been strained to the utmost.

However, the departure of the Government from the Resistance program is not simply a question of lack of opportunity to carry out reforms. It is also a question of the Government to the making of fundamental changes at the present time. This opposition is partly in good faith and partly not in good faith. There are some groups who admit the need for fundamental social, economic, and administrative reforms in France but who feel that such reforms under present conditions would risk creating a situation in which the reforms would be discredited because of the impossibility of carrying them out effectively. The Communist Party's position represents the most thoroughly adoption of this view. While their program commits them to social and economic changes of the most drastic
and fundamental type, the Communist Party is not at present taking the lead in advocating the adoption of basic reform measures by the Government, and is stressing unity, winning the war, and support of de Gaulle. The Communists do, however, press for changes in personnel and the application of sanctions against certain individuals and groups who are regarded by them as being remnants of Vichy or of collaborationist interests. There is another group which does not want reforms now because it doesn’t want reforms at all. This group is the French Right and it is becoming increasingly vocal. The Right-wing point of view has always been strongly represented among persons influential with de Gaulle. It has now, however, also acquired a press and a small following in the consultative assembly.

The breach between the government and the Resistance has been brought about not only by the government deranging the heels on carrying out the Resistance program but, perhaps even more fundamentally, by the tendency by the political parties to carve out their own influence at the expense of the unity of all Resistance Groups. This is particularly notable in the Socialist and Communist Parties, both of whom provide important elements in the membership and leadership of the Resistance Movement. These parties, and to a lesser extent the Catholic Labor Party, and the Radical Socialists are showing an increasing concern for party prestige and influence. This tendency to disintegrate is not surprising of course, and its importance should not be over-estimated.

The de Gaulle Government’s position in the face of these developments is fundamentally strong at the moment because whatever disagreements there are on policy, all groups are anxious to maintain the fiction of unity, which the de Gaulle Government has represented from the beginning, pending the carrying out of elections. Elections will provide the only possible indication of the relative strength of the various groups which are now either reviving or in the process of formation. Of course, it is somewhat embarrassing to the Resistance to have pointed out by the Resistance Press that whereas the Government and the Right Press now say that the Resistance does not represent all France, de Gaulle always took the position prior to the liberation that the Resistance did speak for allFrenchmen and that the Resistance

support of de Gaulle meant support of de Gaulle by all French. It is true, of course, that the Resistance does not represent all Frenchmen on matters of social, political, and economic reforms although it might be said to have represented all Frenchmen in fighting the Germans.

XIII. GENERAL ECONOMIC INFLUENCE IN FRANCE

The French are confiscating all enemy property which can be discovered in France. They have been slow, however, to recognize the need for a vigorous program of uncovering hidden German interests and for investigating the intricacies of corporate take-overs which may cloak enemy economic penetration. Nothing like a full picture of the situation will be available for some time.

We have been pressing the French to pay more attention to this problem. In this connection the use of cases arising under our freezing control to force the French to take the responsibility for looking into certain of their companies has been very helpful. Largely through the careful use of this technique we have been able to get a number of investigations started and a number of supervisors appointed in French banks. This matter, of course, is extremely delicate because of the strong movement in France for nationalization of the banks which is being resisted by the Ministry of Finance. The Ministry is reluctant to uncover anything which will provide ammunition to those pressing for nationalization but is also anxious to avoid the charge that it is shielding collaborationist elements.

One have the French have made toward uncovering hidden enemy assets is to seek assets near a billion francs worth of assets located in Monaco, with whom the Finance Ministry has an agreement permitting the French to act directly in the Principality. It is in this way that the tank Charles case was uncovered, involving a clear case of “safe haven” for German, French, and American money fleeing France to escape possible taxation or confiscation. The revelation of the Vichy Government’s policy to cooperate with the French in any cases involving United States citizens found to be involved
in such collaborationist activities, it has had an extremely healthy effect in Paris and puts us in a very strong position to use cases of this type to strengthen generally the French policy on similar positions.

The decision to invite the French to participate in the safe haven mission to Switzerland, in which the German delegation is headed by Lautschin Berche, has also had a very good effect. It gives the French a feeling of responsibility for the common program. Following the departure of the joint mission, meetings were held with the French to try to stiffen them to greater activity in France itself on all matters relating to the rooting out of Fascist economic influence. In the course of a subsequent conversation with de Plane, the Minister of Finance, I was able to put before him very frankly my concern about the incapacity of the staff in the Ministry which had principal responsibility on these matters - the Direction of the Caisse. Mr. Plane agreed, and is now looking for men to head up this work who will be better prepared to do the job. This is a good result of the recent meetings in which we have tried to create the atmosphere of a joint effort in dealing with such problems.

Michael L. Forrest

March 1, 1945

TO Secretary Morgenthau (For information)

FROM Mr. White (For information)

SUBJECT: Lend-Lease Exports to Russia

1. In November, 1944, United States lend-lease exports to Russia totalled approximately $200 million as compared with about $255 million in October, 1944.

2. Among the principal non-military items were:
   - Motor trucks (all sizes) ($20 million)
   - Dried eggs (21 million)
   - Wool cloth and dress goods (all million)
   - Large ($7 million)
   - Canned sausages (40 million)
   - Lard (65 million)
   - Butter (94 million)

3. Among the munitions sent were:
   - 1,785 railway freight cars (over 10 tons)
   - 150 universal carriers
   - 400 motorcycles
   - 16 60 caliber Thompson sub-machine guns
   - 266 medium tanks
   - 133 ordnance combat vehicles
   - 30 anti-aircraft medium bombers
   - 3 anti-aircraft light bombers
   - 38 P-38F17R1 pursuit fighters
   - 2497 B-17E medium transports
   - 18 44mm AA guns
   - 4 30mm AA guns

4. Shipment to Eastern Russia, presumably on Russian boats via Vladivostok or some other Siberian port, accounted for about $65 million of the total of approximately $200 million exported during the month under review.
CONFIDENTIAL

Received this date from the Federal Reserve Bank of New York, for the confidential information of the Secretary of the Treasury, compilation for the week ended (see incoming letter), showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York and the means by which these expenditures were financed.

[Signature]

TREASURY DEPARTMENT
OFFICE OF THE SECRETARY

March 1, 1945

FEDERAL RESERVE BANK
OF NEW YORK

February 28, 1945

CONFIDENTIAL

Dear Mr. Secretary: Attention: Mr. W. D. White

I am enclosing our compilation for the week ended February 21, 1945, analyzing dollar payments and receipts in official British, French, Canadian, and Australian accounts at the Federal Reserve Bank of New York.

Very truly yours,

(Signed) H. L. Sanford

H. L. Sanford,
Assistant Vice President.

The Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington 25, D. C.

Enclosures 2
## Analysis of Canadian and Australian Accounts

**Week Ended February 21, 1945**

### (In Millions of Dollars)

<table>
<thead>
<tr>
<th>Period</th>
<th>Official British Cr.</th>
<th>Official British Debit</th>
<th>Other Cr.</th>
<th>Other Debit</th>
<th>Total Cr.</th>
<th>Total Debit</th>
<th>Net Incr. or Decr. of Credits</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Quarter</td>
<td>355.1</td>
<td>355.1</td>
<td>750.2</td>
<td>750.2</td>
<td>1,105.3</td>
<td>1,105.3</td>
<td>+10.0</td>
</tr>
<tr>
<td>Second Quarter</td>
<td>375.8</td>
<td>375.8</td>
<td>775.6</td>
<td>775.6</td>
<td>1,151.4</td>
<td>1,151.4</td>
<td>+16.0</td>
</tr>
<tr>
<td>Third Quarter</td>
<td>395.5</td>
<td>395.5</td>
<td>806.0</td>
<td>806.0</td>
<td>1,201.5</td>
<td>1,201.5</td>
<td>+20.0</td>
</tr>
<tr>
<td>Fourth Quarter</td>
<td>415.2</td>
<td>415.2</td>
<td>836.2</td>
<td>836.2</td>
<td>1,251.4</td>
<td>1,251.4</td>
<td>+20.0</td>
</tr>
<tr>
<td>Fifth Quarter</td>
<td>435.0</td>
<td>435.0</td>
<td>866.4</td>
<td>866.4</td>
<td>1,301.4</td>
<td>1,301.4</td>
<td>+50.0</td>
</tr>
<tr>
<td>Sixth Quarter</td>
<td>455.0</td>
<td>455.0</td>
<td>896.6</td>
<td>896.6</td>
<td>1,352.6</td>
<td>1,352.6</td>
<td>+50.0</td>
</tr>
</tbody>
</table>

### Analysis

- **Provisional Total**: 1,201.5
- **Provisional Proportion**: Total Cr. to Debit: 1,201.5
- **Provisional Net Incr. or Decr.**: +20.0

### Notes:

- The table includes data for the period from January 1 to February 21, 1945.
- Figures are rounded to the nearest million.
- The net increase or decrease is calculated as the difference between provision totals.

### Additional Information:

- The data includes an analysis of official and non-official transfers, along with the net increase or decrease in credits.
- The figures represent a comparison of transactions in the official and private sectors.
- The data is subject to revision and may be updated as more information becomes available.

---

*Note: The document is marked as 'Regraded Unclassified' and contains official financial data.*
(a) Includes payments for accounts of British Ministry of Supply, Ministry of War Supplies, Ministry of Defence, Ministry of Supply, and Ministry of Air Supply.

(b) Deteriorated figures based on lack of information from New York agency of the government, which, according to report, are proceedings of official British sales of American securities, including the government through direct purchase. In addition, to the official selling, substantial liquidation of securities in private market was observed in early months of the war, although the group of the price was not made before the expiration of the contract, according to data supplied by the British Treasury and a letter by Secretary Morgenthau, which was not available in a market of our securities through December, 1939, amounting to $700 million.

(c) Includes about $85 million received during October, 1940, from the banks of the United Kingdom, which is not included, presumably reflecting only the relinquishments of private dollar balances. For three months. See table for current basis. 1939 apparently represents current settlement of proceeds of exports from the United States and other similar dollar receipts. See (i) below.

(d) Reflected in change in all dollar holdings possible on trend or otherwise in the year.

(e) For breakdown by types of debt and credits, see table below in the December issue.

(f) Attributed to eliminate the effect of $10 million paid out in June, 1940, on account of France, 1939.

(g) For monthly breakdown see table below prior to April 30, 1941; October 29, 1940, December 31, 1939.

(h) Transactions for account of France Central go to France. Undercrop reserved for first 1939, underconsumption 1940, 1939.

(i) Includes $75.8 million approximate representing current and accumulated dollar balances of United States and other similar dollar receipts, and $17.0 million in connection with the expenses of our armed forces abroad.
### Table: Total Receipts and Expenditures

<table>
<thead>
<tr>
<th>Period</th>
<th>Total Disbursements</th>
<th>Receipts (Million of Dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>First</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Second</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>Third</td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Fourth</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fifth</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Receipts

- **March 1, 1945**: 4,300
- **March 2, 1945**: 4,400
- **March 3, 1945**: 4,500
- **March 4, 1945**: 4,600
- **March 5, 1945**: 4,700
- **March 6, 1945**: 4,800
- **March 7, 1945**: 4,900
- **March 8, 1945**: 5,000
- **March 9, 1945**: 5,100
- **March 10, 1945**: 5,200
- **March 11, 1945**: 5,300
- **March 12, 1945**: 5,400
- **March 13, 1945**: 5,500
- **March 14, 1945**: 5,600
- **March 15, 1945**: 5,700
- **March 16, 1945**: 5,800
- **March 17, 1945**: 5,900
- **March 18, 1945**: 6,000
- **March 19, 1945**: 6,100
- **March 20, 1945**: 6,200
- **March 21, 1945**: 6,300
- **March 22, 1945**: 6,400
- **March 23, 1945**: 6,500
- **March 24, 1945**: 6,600
- **March 25, 1945**: 6,700
- **March 26, 1945**: 6,800
- **March 27, 1945**: 6,900
- **March 28, 1945**: 7,000
- **March 29, 1945**: 7,100
- **March 30, 1945**: 7,200
- **March 31, 1945**: 7,300

**Note**: Figures are revised as of March 31, 1945.
My dear Mr. Secretary:

I am pleased to send you herewith a copy of the report of the War Refugee Board for the week of February 12 to 17, 1945.

Very truly yours,

[Signature]

Executive Director

The Honorable,

The Secretary of the Treasury.

Enclouure.
EVACUATION FROM THEHERNSTATT AND BENSICH BELSEN

In order that appropriate arrangements might be made for their transportation and for their reception and maintenance at Philippseive or other suitable places, we notified the War Department and the United Nations Relief and Rehabilitation Administration of the arrival in Switzerland of the group of 1,710 refugees from Theresienstadt and of the urgency for their removal from Swiss territory. Representative McClelland was advised of this action. According to information from a private source, the Dutch Jews in this group are receiving assistance from their government and the Belgian, French, and Polish refugees are being cared for temporarily by Swiss authorities.

Concerning the group of 1,672 refugees from Bergen-Belsen, we were informed that military authorities are in communication with Representative McClelland with regard to the details of arrangements for their evacuation from Switzerland.

A report from a private source indicated that of the stateless persons and individuals holding Latin-American documents from Bergen-Belsen who were included in the exchange recently effected in Switzerland, 141 are being sent to Philippseive and 11 are hospitalized in Switzerland.

COOPERATION OF SWITZERLAND WITH INTERCROSS

As indicated in their replies to our suggestions that frequent and extended visits of consular officials to places where Jews are concentrated be made as a part of intensified search in behalf of Jews and other internees surviving in German territory, it is apparently the impression of the Swiss and Swedish Governments that we were requesting renewed interrogations, the positive effect of which they regard as extremely questionable. Accordingly, we cabled our Legations in Bern and Stockholm and Representative McClelland and clan asking that it be explained that our request was made to secure the indirect influence which might be exercised by the presence of Swiss and Swedish consular officials near localities where Jews are concentrated and by such informal conversations which they could hold in those places rather than official acts of interrogation.

CONDITIONS IN GERMAN CONCENTRATION CAMPS—DISTRIBUTION OF RELIEF PARCELS

There is evidence that large numbers of Schutzhaftlinge (a term apparently applied to designated persons detailed for security reasons) are being transferred by the Germans from the east and the north, and it is believed that a large part of them are being taken to a point near Munich which seems to be a distribution center from which prisoners are routed to labor camps. While central German authorities have hitherto categorically refused permission for the International Red Cross to distribute relief parcels and the reception of Intercross parcels by internes has been tolerated only in a small number of camps, present indications are that the Swiss officials will permit the distribution of relief parcels to certain categories of Schutzhaftlinge in concentration camps. Although the activation of the more liberal attitude is not clear, it is felt that it offers an excellent opportunity for sending into Germany additional Intercross personnel whose presence might serve as an invaluable protection for the lives of thousands of men and women in the Nazi system. In order that full advantage may be taken of the promise suggested in this situation, Representative McClelland is exploring with Intercross the possibilities which may be thus afforded.

Our Embassy in Moscow relayed to us information obtained by an American news correspondent concerning the recently liberated Osviecim (Auschwitz) death camp. It was reported that approximately 4,000 prisoners, exhausted from suffering, overwork, and hunger, were freed from the camp and that there were Czech, Yugoslav, Dutch, French, and Belgian nationalities among them. Arrangements were immediately undertaken by the Polish Previsional Government for shipments of urgently needed medical and food supplies to alleviate their condition.
The Italian Legation at Berlin reported that, according to information supplied by persons who had witnessed the fate of Jews interned in camps in Upper Allenstein, an attempt was made to evacuate the internes from Auschwitz on foot under deplorable conditions. Representatives of Switzerland advised us that he had received from other sources confirmation of the fact that the greater part of the internes remaining in Auschwitz were evacuated on foot before the Soviet advance. Unconfirmed reports in Switzerland indicated that only 2,000 to 3,000 persons were found in Auschwitz at the time of the Russian occupation.

A cable was received from our Embassy in London advising that the Ministry of Economic Affairs had approved a proposed program for shipments of clothing parcels through the International Red Cross to Bergen Belsen, provided that reasonable assurances can be given that parcels will reach addressees and that results of food parcel shipments to Bergen Belsen were satisfactory.

JEWISH REFUGEES IN SWEDEN

According to statistics sent to us by Chancellor Johnson, there are 11,556 "German refugees" registered with the Swedish Department of Social Welfare. Of these may be assumed to be stateless persons, and it is estimated that about 2,500 of these are Jewish. Of the estimated total of 11,556 Jewish refugees in Sweden, the others include 115 Greeks, 70 Poles, 750 Norwegians, 6,000 Danes, 3 Finns, and 673 stateless persons, of whom 390 are from Norway, 200 from Denmark, and 143 from Finland. Of the total, 506 live in and around Stockholm; the location of the others was not indicated.

EVACUATIONS THROUGH TURKEY

A report received from Turkey brought the information that six Jewish refugees, three of Italian nationality and three of Turkish, had succeeded in escaping from the German-occupied Island of Rhodes and in landing at Hernandia, Turkey. Palestine certificates for Jews have been requested. These refugees reported that, of the 3,000 Jews who formerly lived on Rhodes, only 12 remained besides themselves, all of the others having been deported, presumably to Poland. That the 20 survivors escaped deportation was attributed to their Turkish or Italian nationality.

REPORTS FROM TURKEY

From Istanbul, it was learned that a Jewish refugee who recently reached Sofia from Albania reported that there are in Albania at present 300 Jews, most of whom are Yugoslavs, Greeks, and Italians. Jewish refugees arriving in Bucharest from Transylvania stated that Transylvanian Jews were deported to Transylvania, Jews were deported to Craiova and Wienerneustadt as well as to Auschwitz, with most of the Jews of Transylvania confined at Wienerneustadt. Absence of communications with these deportees makes it impossible to determine their present situation, and the only facts known are that they were divided into three groups: (a) men between 15 and 50, (b) women between 15 and 50, and (c) children, elderly people, the physically disabled, and mothers who refused to be separated from their children. It was reported that the first two groups were sent to labor camps, while the third group was gassed.

William O'Dwyer
Executive Director
CABLE TO AMERICAN EMIGRANT, LONDON, FROM S. M. FROM JEWISH EMIGRATION COUNCIL

Please deliver following message to Joseph Schwartz from H. A.

Jewish Joint Distribution Committee;

QUOTED INHERITANCE PASSPORT OFFICE, DECEMBER 20, 1944

Today received application for entry VISA.

Would be helpful if in addition your introduction Leonard Schwartz as son of Mrs. Fonda immediately approaches passport office. In our letter accompanying application we stated visa requested for temporary stay three to six months that application will be submitted to United States valid to January 1946. Has first American papers issued 1944.

LEW FONDA, JDC, HAS BEEN DENIED FOR EXPIRED STATUS.

IMPORTANT: INDICATE HIS FAMILY REMAINING UNITED STATES STOP YOUR REPLY REGARDING INCLUDING REMAINING UNITED STATES ENTIRELY DENIED, UNITS

2:15 p.m.
March 1, 1945
March 1, 1945

AMERICAN

LONDON

1954

For instant from Department, FIA and WII as WII 50.

Reference Department's 6033, July 25, 9/20, November 10,

and your 6279, August 5, 10022 of November 10.

In view of the urgent urgency of extending additional aid to unamnestièd persons in enemy-controlled concentration camps and in view of recently received reports from Informs that more widespread distribution can be effectuated under terms of Berlin-Was agreement, the Department, FIA and WII recommend the shipment from this country by the War Refugee Board of an additional 300,000 packages of three kilos each of foodstuffs for distribution by the International Red Cross. It is requested that this matter be referred urgently to the Relief Sub-Committee for Immediate authorization to proceed with this program at the earliest possible date.

[Signature]

[Deputy] [FIA]

[Redacted Unclassified]
Message begins. Have made formal applications. Inter-governmental Committee for additional grants $200,000 each: Romania and Hungary for first quarter 1945. Message ends.

Regraded Unclassified

Regraded Unclassified

Message begins. Have made formal applications. Inter-governmental Committee for additional grants $200,000 each: Romania and Hungary for first quarter 1945. Message ends.

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Regraded Unclassified

Regraded Unclassified

Message begins. Have made formal applications. Inter-governmental Committee for additional grants $200,000 each: Romania and Hungary for first quarter 1945. Message ends.
SECRET

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

Secretary of State
Washington

709, March 1, 10 a.m.

For Sale Repatriation Board,

Enclosed February 5, noon.

101 foreign refugees formerly at Toplina arrived at Haifa yesterday where they are now being screened by British before being turned over to intergovernmental refugee authorities in Italy. A few who were not evacuated from Yugoslavia were obliged to remain there due to illness, pregnancies, etc. and are in the Split area where they are receiving proper attention. KERK

LC-460
Plain
Rome

Dated March 1, 1945
Received 10:17 a.m.

Secretary of State,
Washington

368, March 1, Noon.

For Zones Enquiry from CRS,

Number four. Your letter February 21 concerning latest distribution received. Our distribution facilities are completely organized and working in close cooperation with Israel and others. Still awaiting shipments. For your information we are supplying the former additional packages for 900 refugees leaving for Palestine during Passover holidays.

Have secured through American relief for Italy clothing for 1000 children distribution taking place February 27 in Rome. Other supplies promised for other areas including some from UNRRA. Regards. JERK

Reg
This telegram must be paraphrased before being transmitted to anyone other than a government agency.

SECRET

Secretary of State,
Washington,

April 3, 1945

Following message is from Jacob Griffl who requests paraphrase be sent through our Releasable Advisory Committee, 128 Madison Ave.,
New York:

Agency representative Lithuania denying cables which released JWS released previously from similar source by German official and originally to the Releasable Advisory Committee in official condition but suddenly released 100,000 prisoners of war civilian internees. In order to have number prisoners of war living elsewhere and who may exist in the unoccupied areas, it is necessary to obtain large scale release of those now present in the area. This is presently discussed with official quarters here. Report from Jewish Government present and inside areas all under German rule and part thereof, this report confirmed new message yesterday. This last possibility now seems do go in greatest danger immediate extermination unless evacuated to safety. Next not, make every human effort utilizing historic opportunity. See chief cable cable quoting all sections local committee this letter do likewise.

SECRET

105-1102
Jerusalem
Dated April 3, 1945
CABLE TO AMERICAN EMBASSY, LISBON, FROM W. H. REYNOLDS:

Please deliver the following message to Harold Troeb from R. A. Leavitt of American Jewish Joint Distribution Committee:

"Your request requesting assistance in behalf of the Jews of Thessaloniki has been received. Due to the widespread evacuation of Jews from Thessaloniki, assistance to these Jews must be made directly by your Committee.

This is a cable regarding cable no. 150.

1970-1977

PLAIN

Lisbon

Dated March 1, 1945

Read 12:48 p.m.

Secretary of State,
Washington.

W. H. REYNOLDS

Worthwhile also informing British and American Embassies and Governor of Greece that Greece approves remittances $175,000 each January-February. Bank of Greece selected Guaranty Trust Company in New York and Bank of England to receive sterling or dollar deposits for payment equivalent our Greek representative.

Resnik has ready prepared Greece. Advised Schwartz.

CROCKETT

1115 hours
March 1, 1945
Regraded Unclassified

G-777

PLAIN

Lisbon

Dated March 1, 1945

Sec'd 3:51 p.m.

Secretary of State,
Washington,

460, First.

HUB 364. FOR HIAS 425 LAFAYETTE STREET, NEW YORK,
FROM DAVID SCHABBACH HICCN.

Received following cable from Bulgaria transmitted by Harry Saltzmann of Istanbul, "We of liberated Bulgaria hereby send our heartfelt greetings to annual meeting HIAS and entire American Jewry for help already extended and for more which we hope is on its way.

We particularly thank you to HIAS for having undertaken through HICCN the bridging together of hundreds Jewish families Bulgaria with relatives throughout world from whom been separated during war. We hope HIAS will find way make possible for impoverished masses Bulgarian Jews receive individual money remittances, clothing, parcels from relatives overseas consilatior general des Juifs en Bulgaria".

STOCKER

HIJ-1225

PLAIN

Bern

Dated March 1, 1945

Sec'd 7:45 a.m., 3rd.

Secretary of State
Washington

STOCKER

1231, me

F R M H I J S C H A R F F R O M H O C E L L A N D

Please deliver following message to World Jewish Congress from Leon Hovevsky: "Jesse and Arnold Rechberg are not among group which recently arrived in Switzerland from Theresienstadt".

HAYSENBURG
CABLES TO AMERICAN AMBASSADORS, AFRICA, FROM THE WAR REFUGEES BOARD

Please deliver the following message to Charles Passman from:

H. A. Leavitt of American Jewish Joint Distribution Committee:

QUOTE THIS WILL CONSTITUTE YOUR APPOINTMENT AS DIRECTOR OF THE JOINT DISTRIBUTION COMMITTEE'S ACTIVITIES IN MIDDLE EAST AND BALKANS. WE VERY ASK YOU PROCEED IMMEDIATELY TO BALKAN COUNTRIES, PARTICULARLY YUGOSLAVIA AND BULGARIA TO ORGANIZE REFUGEE CAMP AND REHABILITATION PROGRAMS. PLEASE KEEP US ADVISED. UNQUOTE

THIS IS WIRE AGENCY CASE NO. 144

11:15 a.m.
March 1, 1945
PL-1032
This telegram must be
censored before being
communicated to anyone
other than a Government
Agency. (secret)  

Istanbul
Dated March 1, 1945
Received 8:40 p.m.

Secretary of State
Washington

31, March 1, 2 p.m.

For W. H. BEUXFORD,

Please deliver to Moses Leavitt Joint Distribution
Committee, from Passum.

1. With regard to Leavitt's projected emigration scheme
from Greece your cable was relayed by Passum to Schwartz.

2. Prior to my departure from Jerusalem, Harold DRE (1)
telephoned to me the contents of Leavitt's cable. I thereupon
telephoned immediately to Schwartz to the effect that the Jewish
Agency has no knowledge this project and that the cost thereof
is extremely excessive. I suggested to Schwartz also to advise
Leavitt by telegram not to be concerned with Balkan emigration
projects.

3. For your information I have a cost of less than
$100 per negotiated various transportation projects from
Greece to Palestine in conjunction with Jewish Agency representa-
tives in Palestine and at Istanbul.

4. Although certificates are at present unavailable,
transportation at reasonable rates will be arranged as soon
as certificates are granted.

TIKOTAR
NAVAL

1. **TONG HATAS:** Last night E-boats probably mine laying, active on convoy route to Antwerp and engaged by our patrols when one of H.M. Frigates sunk one E-boat and took 26 prisoners.

2. **MEDITERRANEAN:** Under cover fire from gun landing craft and air attack coastal craft assisted evacuation of Partisans from Pag (N.W. Zara) which necessitated by strong enemy counter attack.

3. **SHOVEL ATTACKS ON SHIPING:** 26th. A 1926 and 646 ton ships sunk by U-boat St. George’s Channel. A 517 ton ship damaged by mine or torpedo off the N. 726 ton ship damaged by enemy aircraft Antwerp. 26th (night). A 1409 Panamanian ship in convoy damaged by mine or torpedo off Reykjavik.

MILITARY

4. **SOUTHERN FRONT:** South Central Sector: In bridgehead east of Batavia further advance three miles made. Further northeast of River From advance continues on wide front with forward troops reaching line River Nambucca while house to house fighting continues Bitburg. North Central Sector: U.S. or German U.S. forces reached Erft Canal where two bridgeheads established, while further north troops of 9th Army reach eastern and western outskirts Eupen. Northern sector: U.S. and Canadian troops meeting strong resistance Hochwald Forest made limited advances.

5. **EASTERN FRONT:** Northern Sector: Further advance S.V. Konigsberg taken. Central Sector: In Fomenka on right flank this sector base of thrust towards Baltic widened by capture of important rail and road junctions Freibau and Wustettin. Further south progress continues reduction Breslau.

6. **BALKANS:** Central Sector: Village in Nymius bridgehead finally cleared of enemy after fierce fighting lasting 76 hours and 906 enemy dead have been counted. Bridgehead to east of being enlarged and strengthened. Northern Sector: Chinese troops continue advance down east coast Laos against stiff opposition.

AIR

7. **SOUTHERN FRONT:** 26th. 114 escorted Bomber Command Lancasters dropped 879 tons through cloud on benzol plant Nordern with unobserved results. 1772 escorted U.S. heavy bombers (3 bombers and 8 fighters outstanding) attacked through 10/10 cloud five railway centres in R. Germany (2719 tons), two railway viaducts Bielefeld (523 tons) and Frankfort (126 tons) and 3080 tons and 1876 tons. Enemy opposition very small but 16 enemy aircraft destroyed and 10 damaged on ground.

8. **SHAEF (AIR):** 121 bombers attacked Gelder and Rheinberg and 346 (2 missing others dropped 532 tons communication targets in North Central Sector while 2000 fighters (16 missing) supported 4500 bombers and attacked communications scoring 9,4,12 in combat and 2,0,4 on ground and destroying or damaging 43 locomotives, 175 railway waggons and 261 R.T.

9. **RAF:** 69 Fighter Command Spitfires attacked rocket sites Holland with good results. 26th/last (night). 262 aircraft despatched (1 missing, 1 crashed). Berlin 74, bomber support 72, sea mining 5 and other missions 111.

10. **MEDITERRANEAN:** 27th. 597 escorted heavy bombers (15 missing) attacked railway centres Augsburg (979 tons), Salzburg (178 tons) and Ligny (43 tons), while incomplete reports show tactical aircraft 589 tons and damaging two railway bridges.

11. **SOUTH EAST ASIA:** 24th. 105 Super Fortresses (1 missing) dropped 231 tons Empire Beech area Singapore with good to excellent results.

12. **ROCKETS:** Five incidents reported morning last.
March 2, 1946
9:30 a.m.

FINANCING

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

H.W.: Hello boys. Why don't you take a comfortable chair, Henry. There are a couple of new ones in reserve back there.

MR. HAAS: I've sat in these so long, I think--

MRS. KLOTZ: There is a difference, though, isn't there?

MR. HAAS: Surely.

H.W.: Mr. Tickton, is there anything you have that these people are so thrilled about that I ought to know that I don't know?

MR. HAAS: Yes, sir, I can answer that.

H.W.: I mean Lindow. All right.

MR. HAAS: I think we should go through that--

H.W.: Is there anything I ought to know to help me make up my mind that I don't know? I have talked to you fellows now for three weeks. Nobody asked me to see Lindow's stuff.

MR. BELL: Didn't you submit a memo?

H.W.: Was there anything in there?
MR. GAMBLE: Or the approach itself--

MR. BELL: I don't think we are too far apart, and you can make the decision as you go down the line.

H.W.JR: (Reading from Memorandum to the Secretary of the Treasury from the Federal Open Market Committee, attached.) "In the light of the joint objectives of the Treasury and the Federal Reserve System with regard to war financing, the following program is recommended:

"That the Seventh War Loan Drive be divided into two distinct parts, the first for individuals, and the second for other non-bank investors, and that the goal for the second part be placed at 5 billion dollars. There are two things. They continue to go down the line, don't they? Not much.

MR. KENNEDY: Just keep turning.

MR. BELL: One went for eight thirty-seconds.

MR. KENNEDY: They all went over eight thirty-seconds for three consecutive days. Piser told me over the phone that they had fixed it up so that eight thirty-seconds is the day's quote.

H.W.JR: Who said that?

MR. KENNEDY: Piser. I remarked to him that it was going down--the long bonds each have been going down eight thirty-seconds for three consecutive days. He said that could be prearranged.

H.W.JR: Can I make up my mind in time to tell Sylvia Porter? She is in a great hurry. I said something to her about when the things go to press. She said, "That's all right, Mr. Bell agreed to take care of me."

MR. BELL: I almost had to do that for you to get her down here.
never done this before, and the way it is worded, it sounds like that is what we are doing, but we are not. We have individual sales from May 16 to June 30, and corporate open on the 10th of June. Corporates overlap; they need that extra time. Many States have opposed the Treasury's saying in the middle of the drive, "The sale for individuals is closed, and the corporate drive opens tomorrow," in effect.

MR. BELL: It only overlaps the E bonds.

MR. GABLE: That is true. That is the one they have trouble with at that time.

Another valid argument, Mr. Secretary, that they offer is that in all these previous drives we have appeared to ask businesses and corporations to do more than individuals. It is not important to us, but they think it is important to them. In some counties lots of factories and corporations are being asked to do at least as much as individuals. I don't always agree with them, but that is what they think.

(Mr. Bell leaves the conference temporarily.)

MR. GABLE: They wanted seven billion and seven billion, and that is what they voted on. I tried to sell them seven and six.

H.W.JR: Before I do that I have to have a little more information.

MR. GABLE: I think I can answer those questions.

H.W.JR: You don't know what I am going to ask.

MR. GABLE: What the corporate sales possibilities are out there.

H.W.JR: No, guess again.

MR. GABLE: Six--
MR. HELL: Before I write that down, will that mean that you won't have any money from June?

MR. HELL: Oh, no. We have estimated that we will get five billion dollars from the Drive, and these estimates were made up before the dates were decided. You will probably get more than five billion dollars from the Drive, but that would give you about nine billion dollars going into June.

MR. JR: During the Drive or whatever you have in mind?

MR. HELL: Yes, whatever—if you start say 14, you ought to get at least five billion dollars.

MR. JR: So you will have about nine billion dollars for the last of June?

MR. HELL: On the last of June, assuming you get sixteen billion dollars from the Drive, you would have between fifteen and sixteen billion dollars.

MR. JR: When?


MR. JR: How much?

MR. HELL: Fifteen and one-half billion dollars.

MR. JR: I will say between fifteen and sixteen.

MR. HELL: Yes.

MR. JR: The reason I wanted to get this thing straight first is that I want to talk about the bank financing. Let's get that thing settled.

Now, with that much money on hand, to do a bank financing before the Drive starts would be rather foolish.

MR. HELL: Well, your balance on May 1 would be down to around nine billion dollars; and if you had a bank financing of three billion dollars, that would raise your balance in that period of May up to around twelve billion dollars.

MR. JR: Let me just talk to Gamble a minute.

Look, I don't know what—you weren't invited yesterday when the meeting got started because I thought it was a mistake to pull you out of your meeting with your State Chairman, but we had this meeting when they presented this report.

MR. GAMBLE: Yes.

MR. JR: And this is my own thinking, not theirs. Let me just give it to you for whatever it is worth. Let me tell you fellows what I am trying to do here, see? Without giving away my shirt, I am trying to do along—I am going to try to—you know, Mrs. Klots, if Mr. Fussell is around, he would be a very good idea to have him sit in here, don't you think?

MRS. KLOTS: Yes.

MR. JR: You haven't taken on Fussell?

MR. GAMBLE: No.

MR. JR: He used to be here a great many years ago. He is a great friend of Gaston's. He was formerly Senator Schwellenbach's secretary and a first-class newspaperman, and knows the Hill. He is coming here to look after only me; if he gets into anything else, he gets his wings clipped. He is to do my mail and that sort of thing, but just devote himself exclusively to me. I think you will all like him. He is very easy going. Do you know him?

MR. HELL: Yes.

MR. JR: And he will supervise our press room, because the job is just a—you know, to sit here all day long—he is just what we have been looking for. He will write speeches and that sort of thing.
Then I began to talk and say, "Well, should we do it before the drive, or after the drive? I was inclined to do it before the drive because of the theory that if the banks know they have this security, part of their appetite is satisfied.

Mr. Gambl.: Yes.

H.J.: And then they won't try to devise plans for other companies to sell out the Sixth War Loan securities and then invest in the Seventh--sell their Sixth War Loan securities to the banks. But if Mr. Bell is going to have nine billion dollars on hand in June, the only possible suggestion from the standpoint of sales is, I think, it is bad to have it at the end because it looks as though it is sort of a prop. If we don't make it, we have that on the end. If we have it first, we burn off our braces and say we need that money. That is behind us, and--sail, Phil tramontane said last night, "Everything works for the bankers." It doesn't. We don't do it, anyway, just through the Federal Reserve. How long would it be open, two or three days?

Mr. Bell: Three days.

H.J.: No publicity. If we did it, it would be like that, and nobody but professionals would know about it. Now, I am--

Mr. Bell: It would be over by the time you got into your main drive, but they wouldn't have forgotten it.

H.J.: I would be over in two days.

Now, let's give Mr. Gambl a chance for rebuttal. If, let's see, we did this financing thing, for argument's sake, around the 1st of July, you couldn't do it and then cate all of the securities the 1st of July.

Mr. Bell: The 1st of June.

H.J.: No, the 1st of July. That would be a long time; you would have your individual drive to June 10,
and you might not get some of that money if you let it go that long.

H.W.JR: You don't need it.

MR. BELL: The people who subscribe don't have to pay until July 1. You might lose a lot.

H.W.JR: Let them put down ten percent.

MR. BELL: Any date can be fixed. It seems to me to be a little long. We had planned to, since we have been discussing bank financing and we are going to do it before the Drive, make it May 7. That is a Monday. It would be over by May 9, and then date the securities June 1, and the banks would pay for them on June 1 along with everybody else.

H.W.JR: I see.

MR. BELL: If you delay it another month--

H.W.JR: Well, I just wanted to tell you what I had on my mind. I would like Mr. Gamble to answer that.

MR. GAMBLE: Well, we have proceeded on the theory, Mr. Secretary, that there are probably half a dozen good reasons for doing something with the banks in this Drive, but we certainly haven't given any thought to it being anything more than a concurrent offering expanding the operation that we had in the last Drive; instead of confining it to type of deposits, confine it to all deposits.

H.W.JR: You had not thought--

MR. GAMBLE: We had thought of that. It would take care of the intermediate bond requirements of banks in proportion to any figure that has been recommended, anyway. The one billion, eight hundred million dollars in the formula that Murphy has recommended would give the banks within two hundred million dollars on a distribution basis of all intermediate securities, and so far, that is all anybody has recommended up to now.

H.W.JR: I don't follow.

MR. GAMBLE: The banks, under Murphy's formula, would get one billion eight hundred million dollars of one and one-half's, just as they got one billion dollars in the last drive concurrently, and it doesn't need to change our operation and doesn't need to make it a direct bank offering; it is going to give the banks a little more than they got before, anyway, or as many one and one-half's as were recommended earlier when you recommended one billion one and one-half's and two billion seven-eighths. I think if you made a direct offering to the banks as such prior to the drive you could be bitterly criticized for offering anything more than a certificate, and I think you will be, and I think that the banks--Fred Gehle came down here yesterday with a letter from Burgess that said, "Dear Fred: there are only two decisions to be made in Washington, me, whether we are going to get two and one-half percent bonds, and the other is whether we are going to get a direct bank financing. I would appreciate your lobbying for both of these."

H.W.JR: Is he still on a dollar a year basis?

MR. GAMBLE: Burgess is not.

H.W.JR: He is not?

MR. GAMBLE: But he took this liberty with Gehle. We spent two hours yesterday on direct bank financing versus indirect, and we think indirect bank financing is better for the Treasury. We can make some adjustments to take care of the patient you have presented here by making a concurrent offering and expanding without appearing to be departing from our indirect bank plan, and I am a little skeptical of the outcome. I am not sure it will defeat the thing you are trying to achieve if you give the banks direct offerings and place yourself in a position of having a lot of folks throw it back in your teeth, and they could do it.

H.W.JR: Well, let me just go a step further. Before we do this, supposing the Drive--Mr. Gamble is not counting on the banks, I take it.
MR. GAMBLE: Yes.

H.W. JR: You say seventeen billion dollars?

MR. GAMBLE: Between seventeen and eighteen billion.

H.W. JR: Let's say seventeen, Dan, and figuring bills the way you do it and not figuring any bank financing, where would we be? Let's go right down, August 1 and September 1.

MR. WILLY: Where we would be with seventeen billion?

H.W. JR: Yes.

MR. WILLY: Well, going out of July and on August 1 you would have about eleven and one-half billion.

H.W. JR: Eleven and one-half?

MR. WILLY: Yes, and on September 1 you would have just under nine billion.

H.W. JR: How much?

MR. WILLY: About eight, eight-one, wait a minute. I am sorry; you would have about seven, eight or seven, five; somewhere in that neighborhood.

H.W. JR: About eight.

MR. WILLY: Eight would be all right, sir.

H.W. JR: When are we going to have another drive?

MR. GAMBLE: In October.

MR. WILLY: You would have to have another drive in October because the balance at that time would be down to below six billion dollars.

H.W. JR: What?
MR. HASS: We did that once before.

H.M. JR: Just let them pay time deposits up to one hundred thousand.

MR. HELL: One hundred thousand F and G's?

H.M. JR: F and G.

MR. GAMBLE: Concerning your problem I would recommend to you that the offering of one billion eight wouldn't hurt us a particle.

H.M. JR: Wait a minute. I would like to let somebody make an estimate of how much we would get from time deposits. We didn't even say ten percent of the deposits or whichever is lower, just straight; they can have one hundred thousand.

MR. HELL: Yesterday we discussed giving only those banks that had savings accounts one hundred thousand dollars, not time deposits, just savings accounts.

H.M. JR: Savings accounts.

MR. HELL: That was instead of the formula we had in the last Drive, ten percent of their savings accounts or five hundred thousand, whichever is lower. He would merely give one hundred thousand of F and G's if they had savings accounts.

(Mrs. Kiots leaves the conference)

H.M. JR: I meant savings.

MR. HELL: And we wouldn't base it on any percentage, but let any bank that had savings accounts buy to the limit of F and G.

H.M. JR: Any bank that had savings.

MR. GAMBLE: That doesn't do what you want to do.

H.M. JR: This is the first--no--well, yes, it does.

MR. GAMBLE: It really doesn't.

H.M. JR: It takes care of the little banks.

MR. GAMBLE: Well, I am arguing two things here. I don't want to appear to be inconsistent, because I appreciate what you say, and I think we can stand what we did in the last Drive without hurting anything. It doesn't involve a direct bank offering, it--

H.M. JR: How much do you think we would raise if we let every bank that had savings accounts take either F or G up to one hundred thousand dollars?

MR. HELL: I suppose the potential is around one billion dollars, isn't it? If every bank with savings accounts bought it would be something over one billion dollars.

MR. GAMBLE: They all couldn't buy one hundred thousand. They haven't money to buy one hundred. I would say one half to three quarters of the buying--

MR. HELL: That is what it was last time, five hundred and fifty million based on ten percent of their savings, or one hundred thousand dollars.

MR. MURPHY: There was a restrictive provision, ten percent.

H.M. JR: We weren't going to do that.

MR. HELL: It should be somewhere, I should say, between one half a billion and maybe eight or nine hundred million, some place in there.

H.M. JR: I am not sure. Is this the thing you are talking about?

MR. MURPHY: It looks like it from a distance.

H.M. JR: Let me just read this thing. (Indicates "Criteria for an Offering of Securities to Banks Concurrently with the Seventh War Loan, attached.") You say, 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 $300,000 for each bank, the total potential subscription would be about $1.6 billions. You don't say what the securities would be.

MR. MURPHY: If the securities are attractive, the potential would be the same. This particular memo didn't pass on that matter. It was a recommendation.

MR. BELL: It would probably be the one and one-half.

H.W.JR.: Just offer them one, their choice of the two or the seven-eighths?

MR. MURPHY: It was in a subsidiary memo that I wrote, but we didn't get beyond the discussion stage in our differences. It was stated there that there would be a choice of the seven-eighths or the one and one-half.

MR. HAAS: I would think this was favoring the small banks. They don't want seven-eighths. You might give them one and one-half. You would also include in this proposition the F and G.

H.W.JR.: I don't like this as well today as the suggestion I made.

MR. GAMBLE: About savings deposits?

H.W.JR.: Yes.

MR. HAAS: You can tell he has copied that right in this thing.

MR. GAMBLE: During the last drive we sold about one billion dollars' worth of securities on that formula of allowing them to buy against time deposits. I had in mind the thought that we were interpreting your suggestion correctly when we were trying to reach for something that would do a little more so that in this particular drive the banks would have occasion to feel friendlier toward the Treasury than any previous drive.

H.W.JR.: What did we do last time? We got about one billion one, didn't we?

MR. BELL: A little over a billion dollars from the formula.

H.W.JR.: What was the formula?

MR. BELL: Ten percent of the savings deposits or five hundred dollars, whichever was smaller.

H.W.JR.: Of savings deposits?

MR. BELL: And we called them time deposits, savings certificates, and savings deposits.

H.W.JR.: You are making a distinction on the F and G's.

MR. BELL: Did we?

H.W.JR.: No. You said just savings.

MR. BELL: Yesterday I asked the question whether you would give it to all the banks or whether just to those that had savings accounts like you did before, and I understand you to say we ought to confine it to savings accounts.

H.W.JR.: What is the difference?

MR. BELL: No difference between savings and time, except savings are demand accounts.

H.W.JR.: I don't mean savings. Some of these banks you put money in and can't draw it out for six months.

MR. BELL: Thirty days.

H.W.JR.: The Board of Governors has a regulation defining savings accounts and passbook accounts, and in the last drive everything was savings accounts, so
defined, plus time certificates of deposit in the names of individuals and non-profit corporations, but excluded time certificates of deposit in the names of corporations organized for profit.

MR. MURPHY: Last time, Mr. Secretary, the F and G's were in that. They were offered, too.

MR. HELL: As a matter of fact, the banks having savings accounts could subscribe for the entire fiscal year, calendar year of '44, too, of F and G bonds. We started that in one drive, I believe, and carried it through the calendar year. Now, they haven't been able to subscribe since January 1 to those securities.

MR. MURPHY: Here is what they bought, Mr. Secretary, by classification.

H.M.: When?

MR. MURPHY: In the last drive, concurrent in the last drive.

H.M.: Two percent?

MR. MURPHY: Practically all two percent.

H.M.: We don't want that.

MR. TUCKER: They were loaded up on F and G's because they had gotten them earlier in the year.

MR. HELL: The only thing you sold were two hundred million F and G's during the whole year.

H.M.: How does this formula differ from the one in the Sixth War Loan for the banks? Have you a copy?

MR. HELL: Where is it?
H.W.JR: What do you think, Dan?

MR. BELL: I don't like it; I think it is obvious what you are trying to do, penalize the larger banks, and the larger banks are the ones that cause you all the trouble in the market. They are the ones that are going out and buying these securities and taking these misfits from corporations, and so forth. I think if we are going to have any bank financing we ought to have it open and above board, and I favor the Board's recommendation, and save all along, that we have a direct bank financing, and I like your suggestion that we have it first and get it out of the way.

I think if we are not going to have direct bank financing we ought to go back to the other formula. I wouldn't care if you reduced it to five hundred thousand dollars or some low figure.

H.W.JR: The last formula was for five hundred thousand.

MR. BELL: You suggested one hundred. I think that is a little low, about two or three hundred thousand.

MR. TILTON: There are always these little banks that say they had to buy things at a premium, but you don't get that story from the big banks.

MR. BELL: There are fairly good sized banks throughout the country, and they wouldn't get what they want in your rural sections where you get the complaint from, Kansas City, Dallas, and Atlanta.

MR. HAAS: You can't satisfy their appetite if you give them twenty-five billion for each of three years, Dan.

MR. BELL: You don't--

MR. GARNER: You sold them fifty billion, and they bought another twenty-five. After you sold them fifty billion they still wanted another twenty-five, and if you sell them more, they still want twenty-five.

MR. LINCOLN: Last year when we had direct and indirect offerings that didn't seem to stop them a bit—the indirect didn't seem to stop them a bit; they just went out and got that much more. We offered them three billion dollars in October after the Third War Loan in '45, and I didn't see that it made any difference whatever as to what they went out in the market for.

H.W.JR: Say that again.

MR. LINCOLN: We had direct bank financing following the Third War Loan. The Loan was in September. And when you look at the figures in the Third War Loan, the banks were out there, and they got indirect purchases notwithstanding the fact that there was three billion coming to them after the Drive. I think they will go out for just as much whether you give it to them this way or don't, ninety percent as much anyway.

MR. BELL: They will.

MR. LINCOLN: You have increased your bank financing.

MR. BELL: Have you? If you don't get any more, you haven't increased it.

MR. GARNER: You build up your money and have to spread your drives out further.

MR. LINCOLN: You had your next drive in January and lost some individual money for--

MR. BELL: You may not get more money, or you may get a little.

MR. GARNER: Everybody reverses that thing. Start out by saying direct bank financing is good, and probably you won't get any more money.

MR. BELL: It is anybody's guess; I certainly don't know.

MR. GARNER: I think that is the strongest argument in the world for indirect bank financing, because they say you won't get any less than direct, and you may get more.
MR. BELL: I agreed because of Ted's arguments, but my first recommendation early in January was that we have some direct bank financing and have this thing open and above board. Having this nine million dollars covered up worries me. It comes up every time, and if you got some of it direct and it is deliberately done by the Secretary, they can't criticize it so much.

MR. GABLE: We adopted the practical solution. It is the only solution we could make if we wanted—if we were honest about the thing and wanted to improve it. I don't think—the fact we are going to give the banks fifty million dollars won't improve it at all, and nobody could make a case for it, Dan, except to write something on paper and say, 'If banks have something before the drive, they probably will buy less in the drive.'

MR. LINKON: If you deduct the corporate quota, Ted's seven billion quota is a drop of two billions in the corporate quota. You are also talking about the insurance company allotment. It seems you are taking three steps there; at least you are taking some steps to cut down indirect. One is, you are cutting down any long-term issue. That ought to have some kind of effect on indirect.

Another issue cutting the corporate quota from nine billion to seven and cutting down some of the quote pressure which has been a significant factor—the insurance companies, whether or not you put an allotment on them, will do less switching around under this basket, and after having come down and found out—everybody knew how much funny business they were doing—they will do less next time.

When we estimate the drive will bring seventeen or eighteen billion against twenty-one, that whole drop will mean that much in direct bank participation.

MR. BELL: That was our estimate in the Sixth.

MR. HAAS: If you estimate both, Dan, you will have the bank on top of the wrong estimate.

MR. BELL: If you got both—

MR. BELL: And they believe you get less.

MR. HAAS: There is no proof of it.

MR. GABLE: We have followed a certain pattern, and I would be violently opposed to direct bank financing. I have talked about it for six months. I am violently opposed to direct bank offerings, and I am prepared to talk for two days about it.

MR. J.J: I am not prepared to listen.

MR. GABLE: I can filibuster on it.

MR. J.J: Let me ask you something before you get violent, because I am a very gentle soul. The thing that interests me is the impression that the war finance organization—if you can be unprejudiced in your remarks, which I know you can, what effect would this have on the war finance organization if we did direct financing.

MR. GABLE: Direct?

MR. J.J: Supposing we needed money?

MR. GABLE: Then it would be an entirely different matter, but they are as familiar with the picture as we are. They would accept it with very bad grace, I think, because they would think it was a lack of some kind, looking at the Treasury picture.

MR. J.J: Just a son of a gun. Nobody thinks he is dumb. Berenson's letter—he knows damn well the effect on you and me.

MR. BELL: Nothing on me. I still recommend bank financing.

MR. HAAS: I thought you changed. (Bell). I thought you agreed to it without the bank financing when we went on the plane trip.
MR. GRAYNE: Well, let me ask you a question. Do you think it is any danger of getting nine million dollars of indirect bank financing?

MR. HELL: No, because the insurance companies, as we said, would run that along. They said yesterday they would cooperate with the Secretary, and I think that was one factor. Now, if we can get the savings banks to do the same thing--

MR. JN.: We can. I can have a similar meeting with savings banks.

MR. HELL: Bob House has already talked to--

MR. JN.: Lew Douglas didn't want me to say anything to the Federal Reserve, but I heard him say he was worried. He said, "I laid my whole plan before the Federal Reserve, and they approved it." Then he said, "But let me talk to the Federal Reserve." Last, but you heard him say, "It laid the whole thing before them, and I believe Lew Douglas. He wouldn't lie to me.

MR. HELL: I think he has laid his whole plan before the Federal Reserve, and not that he has done it quite often, because we found sort of a mess, you know, in his company, and he has been clearing it up for a period of three years, railroad securities and other securities that he didn't want, and he has no doubt gone over and talked to Bob about it, and Bob thought it was a good thing to let it be. Bob called in Thiesfeld and the next man there and told them what they have done and asked if there would be any improvement on that line in the next drive, and they said yes. They thought they went too far in the last one. (Laughter)

They started out deliberately, and Bob is especially responsible for it because we had a quote of seven hundred million, and he put in his literature that they set a quota for themselves of seven billion, four, and they knew they couldn't make it, unless they did this very thing they are talking about.

MR. TICKE: They knew they would have to go over the quote; it was too low.

MR. JN.: Between people here in the room we will get hold of some mutual life people and some other people and have a similar meeting to what we had yesterday, that would be much more effective.

MR. GAUBLE: I think you need to do it, and it should come directly from you.

MR. JN.: That has got nothing to do--I'll tell you this: I am not going to rough edge my remark by saying I have been consistent. I said I wouldn't make up my mind until five minutes of one tomorrow. That gives me every prerogative to change continuously up to that time. The thing that is troubling me is, how much money do we need? And I don't see any justification for a three or four billion dollar direct financing to the banks. I just don't see it.

MR. GAUBLE: You have less reason to do it today as a regulatory matter than you have had in the last two years. We are in that much better shape, it seems to me. What happened? What do you mean you did one?

MR. LINDB: After the Third War Loan there was direct bank participation in the Third War Loan. In the Second, but I don't have the figures. It ran about five billion dollars, which is the same figure we had in the Fourth. We had approximately as much indirect participation.

MR. JN.: It didn't make any difference?

MR. TICKET: A little, but you can't measure small amounts. It has been going up all the time.

MR. HELL: Every time the indirect bank position has gone up.

MR. LINDB: They were getting three billion dollars, and they went out and got five billion, anyway.
MR. GAMBLE: It proves the Treasury can make—they didn't get that at all, and you cut the corporation quote.

MR. TICKER: There is another answer to the question you asked Ted before as to what his people would say about bank financing which came out clearly when he first sprung seven million dollars on his Chairmen and they weren't anxious to postpone the Drive. A lot of them argued that starting the Drive activity in April was too late; they wanted to have it earlier. If you said, "we have to have three billion dollars from banks," their answer would be, "Let's start the Drive earlier," because a lot of them didn't like the idea of postponing it. The push was coming closer, rather than pushing away from the last Drive.

MR. LINGO: The same thing will happen in the fall, if you could get them three million more on there. It will push the Drive out farther in the fall, push it into December when they don't want it, and it will be that much harder to get individual money.

MR. GAMBLE: We might be embarrassed to start the Eighth Loan Drive earlier in order to get it out of the way before the year ends.

H.W.: You mean starting in October, just for a month. It still isn't decided. Let's say we won't have a direct bank financing, say? Let's say that for the minute and then say what we will do for the banks if we don't do that. Let's say for the minute we won't do it direct.

Then we still want to do something for the banks. We want to do it the way we did last time. Let's argue about that for a minute. What is the next best thing. Because before anything says anything I would like to-I believe the fever changes we keep making on him between the better, say? You heard me so, that?

MR. HELL: It is simpler.

H.W.: I mean if—what was the matter with the thing we did last time for the banks?

MR. GAMBLE: Nothing. That gave them securities in many instances at a little higher premium than they ought to have—higher coupon than they ought to have, which is all right, and we are not against that.

H.W.JR: What would be the matter if we used the same formulas as we did last time, cut it down from five hundred thousand to two hundred thousand.

MR. GAMBLE: I would let them win—give them a—

H.W.JR: Keep the five hundred thousand?

MR. GAMBLE: No, I would cut it down to two hundred thousand on a ten percent basis and use this formula Henry has set up, because I think that you make some gains in the direction which you told us you wanted to make them.

H.W.JR: If we have a seven-eighths and one and one-half and limit them to that, I wouldn't limit the two and one-quarter.

MR. GAMBLE: Aldrich said he wouldn't change the five million dollars of securities one iota.

H.W.JR: Whatever the quota is I would let them subscribe to F and G's up to one hundred thousand, and also seven-eighths and the one and one-half. But my inclination is to confine it to those banks with savings accounts.

MR. HELL: Therefore we have given them the higher coupon, not the lower. We have given them the two and two and one-half's for their savings accounts.

H.W.JR: The two and what?

MR. HELL: The two and one-half's. That is what they need, the higher coupon.

MR. TICKER: They will get F and G's this time, brand new.

MR. HELL: They have had those before.
H.R. Jr.: Not this year.

Mr. Lindon: They didn't take many of the two and one-half's.

Mr. Bell: There is a question here as to whether you want to give them the F's and G's. It seems to me that if one and one-half and the two and one-quarter if you are doing it for savings accounts, on Henry's formula I wouldn't give them two and one-quarter and two and one-half; that takes in all commercial banks.

Mr. Mass: It doesn't make much difference.

H.R. Jr.: Who was eligible last time to subscribe?

Mr. Gamble: All banks with savings accounts.

H.R. Jr.: All banks?

Mr. Bell: Any commercial bank with savings accounts in the type Henry--

Mr. Murphy: Either passbook accounts or time certificates of deposit in the name of individuals and non-profit corporations up to ten percent of such savings accounts in time certificates, but not more than five hundred thousand for the bank.

H.R. Jr.: Is this the formula as laid down by the Federal Reserve?

Mr. Murphy: We laid it down. The thing that's been laid down by the Federal Reserve, Mr. Secretary--

H.R. Jr.: Just a minute. That is the formula we used in the Sixth War Loan, not the amount, but who could qualify?

Mr. Murphy: Every bank could subscribe to the amount equal to ten percent of its aggregate of savings accounts, pass book accounts plus time certificates of deposit, other than those of private banking corporations, but not more than five hundred thousand dollars per bank. Is that clear?
MR. H.M. JR: Leave it alone?

MR. HELL: Yes, I would.

MR. H.M. JR: Is that agreeable to you?

MR. GAMBLE: Yes, I have no objection to leaving the formula alone, but if you have—and I see some merit in this idea of doing a little more for them, I think a

changed formula is a good compromise, and I think it clears a little of the banks’ argument for a direct selling, and it would further disarm them if you made it seven-eighths or one and one-half percent securities.

MR. H.M. JR: If we are going to use the same formula, do we want the five hundred incursions? That is awfully big, isn’t it?

MR. HELL: It probably wouldn’t give you more than

one billion dollars, one billion and a quarter, I think.

MR. GAMBLE: About the maximum—

MR. HELL: That is, you might get a little more

this time because it brings in for the first time this

year the P and B limitation, so you might get a little more, but I should think about a billion to a billion

and one-quarter.

MR. H.M. JR: Say we had exactly the same formula as we

had in the Sixth. The question is, what kind of securities

should we let them have, see? We all agree on P’s and B’s.

Is that right?

MR. HELL: That is right.

MR. H.M. JR: shall we let them subscribe to the seven-

eighths?

MR. HELL: That is not a problem; they can get those

in the market volume there and don’t have to pay much

premium for them.

MR. GAMBLE: There would be no harm in that.

MR. SMITH: No.

MR. H.M. JR: Just for a minute let’s run—is there going to be a one and one-half? will we let them have a one and

one-half?

MR. SMITH: Yes.

MR. H.M. JR: And let them have two and one-quarter if

there is a two and one-quarter.

MR. HELL: I would.

MR. H.M. JR: How about letting them have a two and one-

quarter?

MR. HELL: I would cut that out this time.

MR. RAW: Make a special job of that.

MR. HELL: They didn’t take the two and one-half,

and they can take the B bond, which is a two and one-

half bond.

MR. GAMBLE: It is inconsistent with your ten-year

program.

MR. HELL: The type of banks that will take the two

and one-half are the ones that shouldn’t have it.

MR. SMITH: Doesn’t the same thing apply to the two

and one-quarter?

MR. HELL: Yes, it does.

MR. SMITH: Very few banks pay out more than one and

one-half on time deposits, anyway. And those that do are

ill-advised. I feel it would be a cleaner deal if the

two and one-quarter were cut.

MR. H.M. JR: How long would that run?
MR. MURPHY: Two and one-quarter to 1960.
MR. TICKTON: Fifteen-twenty.
MR. BELL: It would be '58-'61.
H.M.JR: Roughly?
MR. MURPHY: Either '61-'64 or '60-'65.
H.M.JR: It shouldn't be in.
MR. GAMBLE: That is the way I feel.
MR. BELL: The two and one-half was in last time, which was even a longer bond.
MR. TICKTON: They didn't take it.
H.M.JR: F and G, seven-eights, and one and one-half's— I would be inclined to say cut it down from five hundred thousand to two hundred thousand.
MR. GAMBLE: I was going to suggest the same formula; I wouldn't change it.
H.M.JR: It means more explanation.
MR. RASS: It looks like you are chiselling them and won't—
MR. GAMBLE: It won't mean anything, and psychologically you are going in the other direction from which you want to move.
H.M.JR: Which way?
MR. GAMBLE: It will seem like you are chiselling on them or stiffening them.
H.M.JR: I would say seven-eights, one and one-half, F's and G's, and the same formula you had last time.

MR. BELL: That is all right with me.
H.M.JR: Murphy's looks good to me; it looks good for about one billion dollars. When you said seventeen or eighteen--
MR. GAMBLE: I wasn't counting this.
H.M.JR: You didn't count it last time.
MR. BELL: Not as part of the Drive.
H.M.JR: Why don't we do this just to save time, tell this to House, or House could tell it to Eccles, and they could be thinking about it?
MR. BELL: No bank financing except the same formula they had the last time.
H.M.JR: That is right, and it would have—we have decided it would be a one and one-half?
MR. BELL: I think we are all agreed on the one and one-half.
MR. RASS: You haven't discussed it, but we have.
MR. GAMBLE: It is the one thing everybody agreed on, only for individuals.
H.M.JR: What did you say?
MR. GAMBLE: Only to individuals. That is out of the corporate basket.
MR. MURPHY: And the bank concurrent offering, but not the regular corporation.
H.M.JR: That won't—I am telling them now what would be for the banks.
MR. GAMBLE: Yes, that wouldn't apply to that.
H.W. JR: No, that is the next thing in the mint. But I mean, I just thought that—well, I told Eccles we would keep him posted.

MR. BELL: You said you might want to see him sometime this morning.

H.W. JR: He can be thinking about it if he wants to see me on that, you see? It's a wonderful job I have got. I get a lot of fun out of it.

MR. BELL: Out of what?

H.W. JR: Wonderful job I have got here as Secretary of the Treasury.

MR. BELL: Rest after you go home.

H.W. JR: Under the sod. (Laughter)

If that is right, you get another billion out of that seventeen. Your total was six and one-half billion.

MR. HAAS: You may get more than a billion out of that.

MR. GAMES: Then the two come out of the corporate basket you might get everybody to make sure they get full quotes.

MR. HAAS: You get F and G's.

MR. GASTON: It could run a billion three.

MR. BELL: I think the potential is one billion five. And you couldn't get more than the potential.

MR. LINCOLN: The reserve problem would be the same as it has been, and if we do have some, that would be that much more money.

(Mr. House enters the conference.)

H.W. JR: Hello Bob. How are you?

MR. HOUSE: Good morning, sir.

H.W. JR: We are making a little headway, and I thought you might get hold of Mr. Eccles and Mr. Spruol and be thinking about it in order to save time; and if they want to see me, at least they will know as I move, you see? They said they would come out of their meeting, but the thought is on bank financing that we have all come to an agreement here that we don't want any bank financing. Not counting anything from any banks, we figure we will get seventeen in this, according to figure. And we would start the list of October with five and one-half billion on hand.

MR. HOUSE: The list of October?

H.W. JR: The list of October. And then we figure we would like to start another drive similar to this one in October, covering October, November, and December. What we are thinking of is using exactly the same bank formula as we had in the Sixth.

MR. HOUSE: Five hundred thousand dollars?

H.W. JR: Just the same, offer them F and G's, seven-eighths, and one and one-half.

MR. HOUSE: Offer them the two shorter issues in addition to the long.

MR. BELL: Out the two and one-half.

H.W. JR: Seven-eighths and one and one-half. They would have the choice of buying F and G up to one hundred thousand dollars, which they have not had yet this year. That has not been open to them. Or they could buy seven-eighths and one and one-half's. We would have the same formula with two changes, possibly. What do you think?
MR. HOUSE: I think it is a mistake to omit bank financing myself.

H.M. Jr.: But if we stick by, then what?

MR. HOUSE: Well, it would, of course, result in a good deal, I think, of an increase in indirect purchases by banks. It wouldn't be much of a problem in the New York District; we wouldn't have that problem up there.

H.M. Jr.: Let's say that that puts us across. What do you say about opening the same as last time? I have had all the arguments.

MR. BELL: I have included the old formula.

MR. HOUSE: I think the old formula worked very well.

H.M. Jr.: Any suggestions for modification of the old formula?

MR. HOUSE: I have none; it worked well, Mr. Secretary.

H.M. Jr.: It worked well? No criticisms your way.

MR. HOUSE: I like the F and 0's; that is going to solve the problem of our small banks, and it will help from a supervisory angle.

H.M. Jr.: F and 0's, one and one-half's, and seven-eighths--would you give them that message?

MR. HOUSE: I will.

H.M. Jr.: And then we are going to go on to the next thing now.

MR. HOUSE: I will go ahead.

H.M. Jr.: Don't tell them the formula this way, but that I am still sticking to the position. The thing is still open, but the group here feels that that is a good move, and I am largely influenced by the fact that we don't need the money.

MR. GAUL: Don't you want to mention--I don't think we have ever told them, but they know what we have been discussing--I don't know whether we changed from that about one and one-half's being out of the corporation basket, because it would affect their reaction to that.

MR. BELL: They recommended that.

MR. HOUSE: We recommended that. If you omit the bank financing, of course, that puts the corporation figures at seven million dollars?

MR. BELL: We haven't crossed that yet. We haven't figured a quota for the corporate end.

MR. HOUSE: It takes that much off.

MR. BELL: If it is higher--

H.M. Jr.: But just say this, that as we come to an agreement here I want to keep them posted so they have a chance to think about it.

MR. HOUSE: I will call them.

H.M. Jr.: Then they will know, and they can be thinking about it, but I can't see any excuse for offering the banks three billion dollars. We don't need the money.

Other than doing it the way we did it in the sixth War Loan--and you say in your district there were no complaints about the formula.

MR. HOUSE: So as far as the formula is concerned, just the way, you get it from the banks. That was our reason--

H.M. Jr.: Well, anyway, I am going to drop downstairs for a minute.

(Mr. House leaves the conference.)

H.M. Jr.: They are working right here below here on posters. Do you want to drop down a minute or stay here?
MR. GAMBLE: I want to stay here. I don't want to lose any ground. (Laughter)

(Secretary leaves the conference temporarily.)

H.M.JR.: Now, we have momentarily settled that, haven't we, which was pretty important?

Now, are you all right, Henry on that?

MR. MURPHY: Yes, yes, I am all right on it.

H.M.JR.: You did the other thing that pleased me?

MR. MURPHY: I was just amused because the strongest argument on it occurred after it was settled.

H.M.JR.: What was that?

MR. MURPHY: While you were out.

MR. BELL: Bank financing.

MR. MURPHY: They spoke of an aftermath of the war, which they say would classify expenses.

MR. GAMBLE: We tried to understand each other's position. I understand Dan's position; he is the most honest guy. I think he has a good point.

MR. BELL: Ted wanted to sit down for two days, and I wondered what we would accomplish.

MR. GAMBLE: It is a tremendous problem and involves a lot of fundamentals.

H.M.JR.: You are satisfied?

MR. BELL: Yes.

H.M.JR.: House is satisfied with the other.

MR. BELL: He is satisfied with your decision giving banks the old formula. He thinks bank financing would be better. I have no doubt he will accept that.

H.M.JR.: Well, we will see.

Let's take the Seventh War Loan. The goal for the second part will be placed at five billion. Let's get the time schedule straightened out first. We are going to start this Drive when?

MR. GAMBLE: April 9.

H.M.JR.: April 9?

MR. BELL: For S bonds.

H.M.JR.: I thought it was the 7th.

MR. GAMBLE: April 9 to July 7.

H.M.JR.: April 9 is any argument about that?

MR. BELL: No.

H.M.JR.: That is settled.

H.M.JR.: They suggested May 14 to June 16 for what?

MR. BELL: The individual drive part of the other than S, but, of course, including S.

H.M.JR.: Are there any arguments on that?

MR. GAMBLE: Only in the way it is worded; it amounts to the same thing.

H.M.JR.: Excuse me.

MR. GAMBLE: The way we wanted the press release phrased for the Drive is, The formal period of the Seventh War Loan is May 14 to June 30, with the corporation end of it starting June 16. Instead of making a distinction...
between the drives to make it appear as though we are going to have individual drives, close one and go out of business and have the corporation drive and open it.

H.M.JR: All right?
MR. HILL: Sure.
H.M.JR: Well, that takes care of that part. Now, we have got to talk about how much the individual drive is going to be for.
MR. GAMBLE: Seven.
H.M.JR: Four and three. Is there any question on that?
MR. HILL: No, we all agree, four and seven.
H.M.JR: And other than individuals is how much?
MR. GAMBLE: The Chairman recommended seven.
H.M.JR: Yesterday you said six.
MR. GAMBLE: I tried to sell six, but I was not successful. New York, Ohio, Pennsylvania—we spent a couple of hours on it, and they persuaded me at least that their position was one that should win the consideration psychologically, and they want seven and seven.

MR. TICKTAR: For the Seventh.
H.M.JR: I don't play crap; seven is good when you play crap.
MR. HILL: When you get them. (Laughter)
H.M.JR: What is a shell in a crap game?
MR. GAMBLE: There is a shell game.
MR. TICKTAR: A shell in an auction sale is a come-on person.

H.M.JR: A shell?
MR. GAMBLE: Not a shell—a finger man.
MR. HILL: I didn't have any strong feelings on it yesterday; I hoped it would be six, because I thought it would look good for the corporation drive, not only the reduction, but it would be below—the corporation goal would be below the goal for individuals. I like that.

MR. GAMBLE: Let me give you just one specific argument. Genie said, "After all, we have had a certain national interest built up for high quotes for the State of New York, and you are giving us a higher individual quote than they have ever had before, over one billion one hundred million dollars. If our corporation goal is pulled down so low that we talk in terms of three billion or four billion dollars against five and one-half billion dollars, psychologically we couldn't look so good. It is difficult to sell to county chairman who had a single goal. They think the E is too important not to give way to it on the 14th.

H.M.JR: I don't care. Do you?
MR. HILL: I think it means you have got to get some money from the banks indirectly in the corporate drive, because—

MR. GAMBLE: Which we know we are going to get, anyway. Insurance savings, three billion, nine, corporations four billion two.
H.M.JR: How much was it last time?
MR. GAMBLE: Twenty-one billion.
H.M.JR: What had we asked for?
MR. GAMBLE: Nine and five, fourteen.
H.M.JR: The war is costing just as much. It is a mistake to ask for less, and it is a month longer.
MR. HAIN: That is another argument for it.

MR. HELL: I thought we would explain in press that we need that much money and will try to get it from the right sources.

H.M.JR.: You want just as much and it is a month longer. If it was fourteen last time, it should be fourteen this time.

MR. HELL: All right. Seven?

H.M.JR.: "That the Treasury announce at the present time that the offerings in the individual drive, in addition to savings bonds and savings notes, will consist of 7/8 per cent certificates, 1 1/8 per cent notes, and 2 1/2 and 2 1/3 percent restricted bonds, and that the offerings in the second part of the drive will consist of the same securities, except for the exclusion of Series E savings bonds and the 1 1/4 per cent securities."

Any question about one and one-half's?

MR. HELL: No.

H.M.JR.: Any on two and one-quarter?

MR. HELL: I haven't heard any.

H.M.JR.: Any on two and one-half?

MR. HAIN: There used to be, but it's all over.

(Laughter)

H.M.JR.: Now, they said to restrict bonds, and in the offering of the second part of the drive exempt series B, well, we straightened that out ourselves, I mean, as to the basket.

MR. HELL: We have agreed to this. That was the original recommendation that the one and one-half percent security be eliminated from the corporate basket.
MR. MURPHY: You mean to maturity?

H.M.Jr.: Yes, to maturity.

MR. HELL: How about the two and one-quarters? If you--

H.M.Jr.: The same.

MR. HELL: If you have, say, 1960 just for argument's sake, the banks could buy them in 1960, five years from now; couldn't it be a good thing to turn it around the other way and say they can't buy them until ten years from issue date so that would be 1960, and then you would have five or six years to run from there on, the banks could run them?

H.M.Jr.: I would rather have the formula say that when securities have ten years to run they would be eligible to buy them. That is the simplest way, and anybody can figure when a security has ten years to go to maturity. Then it becomes eligible for a bank. It makes it much simpler, and I think it is good, sound financing.

MR. HELL: I do, too. That fits our formula.

MR. MURPHY: That is correct. I would just like to say for your information, Mr. Secretary--

H.M.Jr.: Yes, Mr. Murphy.

MR. MURPHY: Flaherty asked us to give regulations to restrict them to five years from maturity. I think your formula is sufficiently drastic, but I promised him I would pass that word along.

H.M.Jr.: You have done it. They had a complex thing, and now they can lock on the sheets and tell when they have ten years to run and when it becomes eligible for banks.

MR. HELL: Harriner would like to have them never eligible.

H.M.Jr.: He was satisfied yesterday on the ten and one-quarters.

MR. HELL: I think that is right.

H.M.Jr.: "That no announcement be made at the present time of the maturities of any of the issues included in the drive." Now, I am for that. I want to leave the maturities open for another few days.

MR. HELL: You do?

MR. TICKTER: How long?

H.M.Jr.: I am not going to say.

MR. HELL: I think that is smart.

H.M.Jr.: I want to leave it open for a few days. I am not going to say.

MR. HELL: You could decide maybe a week from today.

H.M.Jr.: Or I might decide on Tuesday. I am not going to say--just leave it open.

MR. HELL: It will only take a couple of days to settle down.

MR. MURPHY: The punch is in the next sentence that they have, the one you are about to read.

H.M.Jr.: "The announcement should, however, state that the maturities on the 2 1/4 and 2 1/2 cent bonds will correspond approximately with the last previous issues of such securities, with allowance for the lapse of time. It is suggested that the Treasury consider lengthening the period during which such securities are ineligible for bank purchase. The maturity of the 1 1/2 per cent securities would be determined in relation to the level of the market after the announcement and at the time of the offering."
Oh, that doesn’t— they are advising me. I am not going to say that at all in the announcement; we will simply say it verbally; it won’t be in the form of writing. Within a few days we will decide what the maturities will be.

Mr. Haas: But that next sentence does take the bloom all off.

H.M. Jr: Oh, no, just within a few days.

Mr. Ticker: In this memo?

H.M. Jr: Yes, but I am not paying any attention to it.

Mr. Linton: Good.

Mr. Ticker: We all agree. (Laughter)

H.M. Jr: I mean that sentence.

Mr. Bell: I don’t think you have to say it when you announce it; without a maturity date the bloom is gone.

Mr. Murphy: I think most people will read that sentence into it.

Mr. Bell: You don’t have to announce it, but I hope it doesn’t go further. I don’t think it will.

Mr. Murphy: Then flowers droop, they droop fast.

H.M. Jr: Then I get through I have a suggestion I want to make.

The next thing is out; number four; we have settled that.

Number five, that war loan—I don’t understand it, anyway.

Mr. Bell: I don’t think we have to do that with all this. If this is going to do any good at all—we are only going to get seventeen billion dollars, and it isn’t going to be a problem.

H.M. Jr: Some morning when we walk down you can explain it to me.

Mr. Bell: O.K. I like fixing the maturity date. I don’t like to go back, but I think it puts a peg on—

H.M. Jr: I don’t want a peg.

Mr. Bell: I would like to have a seven-year cell date.

H.M. Jr: I am different from you. I am afraid the market settled a little too low. It will bob right back with all this money. The worst thing that could happen is they will move it down to the floor if the price is too good. I am not worried about the thing not going. That I will take the sole responsibility for.

Mr. Bell: But I don’t think—

H.M. Jr: Within two weeks the market will be in shape from the time we announce the maturities—within two weeks, with all the pressure.

Mr. Bell: I don’t think there is any doubt about that in the next forty-eight hours.

H.M. Jr: The boys put the thing down a little too much so that the thing will be a little richer.

Mr. Bell: The present securities probably by Monday night will have dropped down to about one hundred and three-quarters.

H.M. Jr: I would rather have the price a little too sweet than a little too sour.

Mr. Bell: I think if you fixed the maturity date—you would have to take the bloom off by fixing it anyway.
H.M.JR: Then I will be secured by moving it down.
Look, Jim--

MR. BELL: No, you put out a little different security
and keep some of the bloom.

H.M.JR: This is the first time my elbow is doing
the whole conference.

MR. GAMBLE: Everybody is entitled to one; I am
saving mine.

H.M.JR: You are saving yours? It must have been
the elbow.

H.M.JR: It wasn't his elbow; it was the midgeon; he
scared us all by saying he was going to get violent, and
like the poor Alice we bolted.

Well, we passed five. I don't understand it, and
Bell hasn't time to explain it. I think I know about it,
anyway. But six, the bill thing--

MR. BELL: That is the program we are on now. He
said, really, when we started it we would keep the one
hundred million dollars a week until this program is
announced, and a few days after it had it's effect on the
market we would sit down and discuss the question of
whether we needed two hundred million dollars a week.
Now they put it off to the seventh issue, which would be
April 5 or 6, somewhere along there, before you discuss it
if you discuss it--if you agree with this. I think
you can let it go.

MR. HAAS: I don't mind discussing it, but I would
continue it after discussing it.

H.M.JR: It is all right as of today?

MR. BELL: Yes, and if we want it next week, we can
call them and say we want to increase it and discuss it
earlier than what they propose. There will be a lot of
discussion.
MR. JR: Now, I have got a suggestion to make. If we are so near agreement, I think that we could just verbally tell this to the press this afternoon for tomorrow morning's papers after the market closed and gain a day and stop--I mean, everybody has talked about so many rumors.

MR. GAMBLE: It would be wonderful.

MR. JR: Without having a formal announcement, just tell the boys--I can tell it to them verbally that this is what we are proposing to do.

MR. GAMBLE: I want you to urge to do one thing. I was going to ask you to do. I don't want to appear to be Pollyannaish about this, but there is a very important decision to be made in connection with the Seventh Bank Loan. There are seven billion dollars in this, and I think you ought to dramatize it.

MR. JR: Well, the three of us--

MR. GAMBLE: It is better if you do it personally; they will never get it in a press release.

MR. JR: This won't be a press release. I won't have any press release. Some people know about this, and some people have the advantage.

MR. GAMBLE: I suppose you are going to run a story on it, anyway, and you had better get the story out.

MR. JR: We will get the story out.

MR. JR: I would like to have a formal press release if you want to have a press conference at four o'clock. That would make it rather simple, and--

MR. JR: If you can have it, so much the better.

MR. JR: I have one partially drafted with the blanks to fill in and change whichever way we decide.

MR. GAMBLE: I would support it with that.

MR. JR: Why don't I do this?

MR. HELL: I would also like to send it to the Fed so they can have it when it hits the papers.

MR. JR: You can do that, too, and instead of having it at four, give me a little time. I would rather have it at five o'clock.

MR. HELL: That is all right.

MR. JR: That will give you another hour.

MR. HELL: I think we could have something. Ted, that would be a better thing to send out to everybody as well as to the State Chairman.

MR. GAMBLE: You would have to have that in any event.

MR. JR: With all these people here, what's the sense of holding this thing until Monday?

MR. GAMBLE: You want coverage for Monday, anyway.

MR. HELL: It is better than what I was going to suggest, that we give this to Bob House tomorrow and let him, after the market closes, call in all the dealers and tell it to them so they won't get it an hour before the market opens Monday; they can think about it over the week-end.

MR. JR: You can do that at nine o'clock tomorrow morning.

MR. HELL: We could do that, but it isn't so bad now.

MR. GAMBLE: Three o'clock today?

MR. JR: I have Cabinet, you see.

MR. GAMBLE: He said after the market closes.

MR. HELL: You could have Harriner do it.

MR. HELL: It is a good idea.

H.J.: The quicker this thing is decided, the quicker we can get it out. Take some small bank out there; they won't know why the one and one-half's are going down, and all the rest of that stuff.

MR. GAMBLE: It is a very good thing to do. I am heartily in favor of it.

H.J.: That is what I was thinking; you just gain that much; then they talk about the uncertainty and they are that much less uncertain.

Which way can I shut them off quicker.

MR. HELL: I think you can shut them off quicker by going over there and giving them a half hour. He is awfully hard to get off the phone once he gets on.

H.J.: I will ask just for Mr. Eccles.

MR. GAMBLE: We are more closely together than than we have ever been.

MR. HELL: Yes, closer than we have ever been.

MR. GAMBLE: Yes.

H.J.: Do they know the one and one-half is not available to the corporations?

MR. GAMBLE: They recommended that.

(Mr. House enters the conference.)

H.J.: Sit down, Bob. Have you had a chance to speak to anybody over there?

MR. ROUSE: I talked to Mr. Sproul.
HMJr: We're here with our group. You're on the loud speaker, and House is here.

Ecoles: Yes.

HMJr: I don't know whether you want to come over or whether you'd like for me to tell it to you on the phone, whichever you would prefer. The only difference is in the question of direct financing for the banks. Everything else I think we're in agreement.

E: Um, well, of course, that's -- that's pretty basic because if you only expect to get twelve billion... ...

HMJr: No, we're going to ask for fourteen, seven and seven.

E: Oh, yes. Well, of course, it means the banks are going to have to take indirectly, and our point was that it would be a little bit more -- it seemed to us a little bit more honest and a little more -- better policy, if we recognize what the situation is that has developed.

HMJr: Well, there are two things. The first, we wanted to ask for as much money as we did last time, which is fourteen... ...

E: Yes.

HMJr: ... because with the Government spending as much for the war, it would be difficult to explain if we asked less, so we thought we'd ask for the same amount, seven and seven. And then if we add that, and not counting on anything from the banks -- I mean, if we do this proposal the way we did last time -- and figuring we'd get a minimum of seventeen, we'd go into the first of October with five and a half billion dollars.

E: Well, that's getting, of course, about four billion less than you got last time... ...

HMJr: Yeah.

E: ... in the drive.

HMJr: Yeah.

E: My -- my point is you -- you get the seven billion from the individuals. They've got the money.

HMJr: Yeah.

E: And the seven that you propose to get from the corporations -- they haven't got the money without repaying what they've got to the banks, so that what will happen is, the banks will get at least two billion of the seven and then any oversubscription you get -- if you get instead of seventeen -- instead of fourteen billion, you get seventeen billion, which is your oversubscription... ...

HMJr: Yes.

E: ... I think you'll find the banks will get at least three of that, and it would be my judgment if seventeen billion is raised.... ...

HMJr: Yeah.

E: ... that you'll end up with at least five billion of that in the banks.

HMJr: Well, that would be four billion less than last time.

E: Well, that's right, but that will be four billion less than you will have also raised -- four billion less than you did last time.

HMJr: That's correct.

E: So that it was our thought that to the extent you could reduce the indirect financing by giving the banks the three billion direct, we could insist that the bank play ball and not try to come in through the back door by getting the corporations to put in heavy subscriptions for the certificates, which they will do to get the seven billion. You will find there will possibly be two billion more subscriptions on the corporations to the certificates which they will immediately sell out certificates they now own at a premium.

Regraded Unclassified
In order to take two billion -- the two extra billion up to the seven billion in.

Well, you know we've taken your suggestion which is a very important one, about the 1-1/2s -- not making them available to corporations.

I think this is a big improvement. Now, there isn't any decision that the 1-1/2s, as compared with the 2 last time is going to be a big improvement and will help put out the free riding.

And -- the boys just gave me a note -- they say that the corporations have about four billion dollars new money on hand, and the insurance -- savings banks and insurance ....

We figured three.

They say about another four.

They really think they can get two out of the corporations.

They think so, yes. They say there's four billion there and there's another four billion in the insurance and savings banks, so there's right there.

Well, I -- I -- I hope we can get two out of the corporations and they won't sell to the banks. It would be just my judgment that this is what you'd get ....

We would make this -- that you would get from the individuals instead of seven billion -- you'd get more than seven and possibly get eight billion.

You'd get at least a billion to two billion more in 1-1/2s, that will go into the banks through the individuals. You'll get from the corporations instead of seven billion, you'll get eight or nine billion, and you'll get at least a couple of billion to three billion more in certificates that would go into the corporations. I think really what this does as against direct here offering, it just means, of course, that the individual and the corporation

Will take more and the banks will get them indirectly. Now, that -- that's why we made this recommendation. I do say this, that the program is a big improvement over the others. It hasn't got quite as far as we'd like to see it.

Well, now, did Siroqul tell you about the thought -- how we would handle the banks?

In what way?

Well, the formula will be just the same as last time.

Well, except ....

Except that we would offer them the F and Gs, the 7/8s and the 1-1/2s, but nothing else.

Well, you -- you mean -- you mean the System to take up the 10% or 500,000 ....

Yes.

.... with a limit -- with a limit of 100,000 in the -- in the F and Gs, which would mean that the banks that took more than 100,000 would -- would have to come in on the 7/8s or the 1-1/2s.

That's right.

Well, that helps -- I mean, that would help the small -- that will help the banks up to 500,000.

That's right.

And if the big banks will not be running -- here's one thing that -- if you're going to do it this way, this is -- this is -- it seems to me that this is going to make a very strong market in the 1-1/2s, and I would suggest that you don't price them -- I mean that you don't announce them -- the maturity with the announcement in the basket.

So, we're -- we're following that suggestion, and we both had that idea. I had it and you people had it, and we're going to announce, and then -- not announce how long it will mature until we get a chance to see.
E: For a week at least.

HJ: What we're going to do is say we're going to take a number of days. We're not going to say how many days.

E: Now, on the....

HJ: We'll leave it open to see how the market reacts.

E: We felt a little different on the 8-1/8s and the 8-1/4s.

HJ: Yeah.

E: We suggested yesterday to Dan and George after we went in their office, and I think we all agreed that there was no desire to move out the 8-1/8s and the 8-1/4s, and that it might be well to announce at this time that the maturity of those would be approximately in line with what it had been before.

HJ: Yes.

E: Leaving a little leeway, but approximately. Did you expect to defer....

HJ: On the whole thing -- we -- we'll -- what we're going to do if we're in agreement -- if you and I can get to an agreement -- we hope to do it at five o'clock tonight. For tomorrow morning's papers -- we'd like to stop the gossip as quickly as possible.

E: I think that's desirable.

HJ: But we'll tell them about the coupons but not how long they run. We'll keep that open.

E: Yes.

HJ: And then we'll watch the market.

E: Well, don't you think on the 8-1/8s and the 8-1/4s that it might be well to indicate that -- that your desire is to maintain that -- that pattern approximately where it's been?

HJ: Well, I know what's in your memorandum. I've been studying it all morning, but what the boys here...
E: No, this was in the -- we went out and discussed this thing for a half hour, you remember, in Ben's office.

HMrj: Well ....

E: But I was wondering -- they were going to discuss that this morning and we seemed to -- we agreed with him that the 2-1/2, it might not be bad to -- to -- widen the period between the maturity and the call date.

HMrj: Well, I -- I've been trying to do that, I've always been trying to do that, alerting when I was in Farm Credit, you know, I think we and twenty years spread there at one time.

E: Well, it's five now, and we thought ten was pushing it a little too far for the first time, but we agreed that seven would -- must be a good idea to start.

HMrj: Right. House gets a little pale when I said a twenty-year spread.

E: Well -- (laughs) -- he's afraid that would ....

HMrj: No, he says I misinterpreted. I was just being -- I didn't want to be too serious, I misinterpreted.

E: Well, we -- I think it's worth thinking about.

HMrj: I'd be interested in that, and we could discuss that next week when we see what the market does. But I've always been for a longer spread. I'd like to have a ten-year spread on those long bonds.

E: Oh huh. That would be part of the maturity terms, of course. Wouldn't it?

HMrj: Yes, and then we wouldn't say anything about that tonight.

E: Yes.

HMrj: Next? We'd leave ....

E: Well, I don't know that there's anything further for -- I'll talk to Alan and see if he wants to talk to you. I'll have him call you back if he does.

HMrj: Would you do that?

E: So far as I'm concerned -- of course, I'm disappointed in that -- that the -- that the bank three billion didn't come from them, and we'd get that much less indirectly from the banks. Now ....

HMrj: My sales organization is violent on that subject.

E: I know. Of course, they've got an ace in the hole on this other because they'll get -- they'll get a lot of secondary market, and a certain amount of free riding, and of course, it becomes -- it becomes easier to get fourteen billion if the banks don't come in, or it becomes easier to get twelve. It -- it follows -- it's following the old pattern of a lot of indirect bank financing.

HMrj: Well ....

E: And it makes the sales -- it makes the quote, of course, easier to reach, and our whole basis is reduce the quote to the individual and the corporation and be more honest about it and get it from the banks instead of -- instead of giving the impression we're getting it by non-bank financing. Now, as a matter of fact, we're not. I mean, now, that's the basic difference. However, I've stated my case and we've stated our recommendations in a memorandum.

HMrj: Yeah.

E: And -- and, of course, it's your responsibility to make the decision.

HMrj: Well, the other thing is this, we looked at the Third War Loan, and in the Third War Loan we had a direct bank financing, and we couldn't see that it made an awful lot of difference.

E: Well, I think in the Third War Loan you -- the pattern hadn't been developed or set like it -- like it has now. I mean, there was so -- there was a lot of difference at that time on the part, I think, of the general -- of the corporations and the individuals, and the banks. I think at the present time the amount of free riding in the Fourth got a little worse. The amount in the Fifth got still worse, and last year, as you know, it was terrible.
HMJr: Yeah.
E: And it -- it became that the banks -- all of them then, or more of them at least, were unwilling to follow the instructions, and those that did were sore because the fellow that broke the rules got the benefit and the fellow that played according to the game didn't.
HMJr: I know.
E: And -- and it created, I think, a bad psychology on the part of a lot of the banks, and it still is -- it still is there in the picture, but not to the extent that it would be if you had a two percent bond. I think we've improved it, as I say, by putting the 1-1/2 in, and by cutting out -- by not permitting your corporations to take the 1-1/2s.
HMJr: Right.
E: Now, I do think you've made a big improvement on it. Now, maybe next time we can -- we can cross the other bridge.
HMJr: Well, if we made all the improvements this time, we'd have nothing left.
E: Well, that's right. (laughs)
HMJr: So we ....
E: Well, I'll tell you what I'll do -- I'll have Alan call you back, but so far as I'm concerned I don't know that -- it wouldn't be necessary for me to -- to meet because I've had my say, and I don't know that I could say any more if I ....
HMJr: Well, if Alan is going to call us back, I'd like for him to do it between now and twelve.
E: I'll -- I'll -- he's in this meeting with the group and I'll call him right out.
HMJr: Well, I want to thank you very much for all your help and advice.
E: Well, we have the same interest you do.
H.M. JR: He is very reasonable.

MR. MURPHY: When I am in a boat I prefer neither to sink nor swim. (Laughter)

H.M. JR: When I get into a boat I just want to float, period. I think you can start your boys, and will you tell Snaeffel we will have a press? Will you take care of that?

MR. BELL: Yes, I will have Snaeffel in right after lunch on the press statement.

H.M. JR: I would like Mr. Gamble to be here. Would you like to bring in anybody from your organization?

MR. GAMBLE: Nobody other than Coyne if I can bring him. I think not. I think Snaeffel--

MR. BELL: Five o'clock. Do you want to see us before just to read over the statement? We had better go ahead and have it mimeographed.

H.M. JR: I don't want to see it, because I am not getting confused. And if you could see the dealers before the market opens tomorrow morning--

MR. ROUSE: I will have Marliners see them late this afternoon.

MR. BELL: Four o'clock this evening, or something like that.

H.M. JR: See them at four.

MR. ROUSE: About half past four.

MR. BELL: After the market closes.

H.M. JR: San Francisco is closed, isn't it?

MR. ROUSE: San Francisco is still open.
MEMORANDUM TO THE SECRETARY OF THE TREASURY
FROM THE FEDERAL OPEN MARKET COMMITTEE

March 1, 1945

In the light of the joint objectives of the Treasury and the Federal Reserve System with regard to war financing, the following program is recommended:

1. That the Seventh War Loan Drive be divided into two distinct parts, the first for individuals and the second for other nonbank investors, and that the goal for the second part be placed at $5 billion dollars. The suggested dates, May 14 - June 16 and June 18-30, are entirely satisfactory.

2. That the Treasury announce at the present time that the offerings in the individual drive, in addition to savings bonds and savings notes, will consist of 7/8 per cent certificates, 1 1/2 per cent securities, and 2 1/2 and 3 1/2 per cent restricted bonds and that the offerings in the second part of the drive will consist of the same securities, except for the exclusion of Series E savings bonds and the 1 1/2 per cent securities.

3. That no announcement be made at the present time of the maturities of any of the issues included in the drive. The announcement should, however, state that the maturities on the 2 1/4 and 2 1/2 per cent bonds will correspond approximately with the last previous issues, with allowance for the lapses of time. It is suggested that the Treasury consider lengthening the period during which these securities are ineligible for bond purchase. The maturity of the 1 1/2 per cent securities would be determined in relation to the level of the market after the announcement and at the time of the offering.

4. That the Treasury also announce at the present time that, after the end of the corporate drive, it will make a direct offering of 1.5 billion dollars of certificates and 1.5 billion of 1 1/2 per cent securities to commercial banks. Subscriptions would be limited to a proportion of capital and surplus or a proportion of deposits, with the objective of a limit of 1 1/2 per cent subscriptions as far as possible, but not less than 3 1/2 billion dollars. All subscriptions for $50,000 or less for each issue would be accepted in full. This would make it unnecessary to continue offerings to commercial banks on the basis of their time deposits.

5. That the Treasury limit the amount of war loan deposits held by any one bank to 50 per cent of its deposits, other than war loan deposits, and that the collateral pledged to secure such deposits be confined to U. S. Government securities.

6. That the Treasury continue to increase the outstanding amount of Treasury bills by 50 million dollars a week until the completion of the

full cycle and that the question of continuing this increase be reexamined at that time.

The separation of the drive into two distinct parts, one for individuals, partnerships, and trust accounts, and the other for other nonbank investors is in line with our earlier recommendations and has our full endorsement. We feel also that the increase in the quota for the individual drive will place individuals and the selling organization under substantial, but not insurmountable, pressure. It is recommended that the quota for other nonbank investors be decreased to 8 billion dollars, which would make it unnecessary for these investors to sell any of their existing holdings. The selling organization should be instructed to discourage the making of quotes by selling from existing holdings. It would be expected that between 3.0 and 3.5 billion dollars of this total would be obtained from insurance companies, mutual savings banks, and similar institutions, this amount representing their accumulation of funds. The remainder would come principally from corporations.

A maximum rate of 1 1/2 rather than 1 1/4 per cent on unrestricted securities would have a number of advantages. The lower rate would reduce the interest cost of the drive and retard the growth in bank savings. It also would reduce the temptation for commercial banks to arrange for indirect purchases and would reduce the amount of free-riding and speculation. At the same time, it would not be likely to reduce materially the demand from individuals.

An extension of the maturities of the 3 1/4 and 3 1/2 per cent bonds would not reduce the interest cost to the Treasury, and it might create a bad market situation in the event of large sales by nonbank investors. It is suggested that the prices of the existing issues of 3 1/4 and 3 1/2 per cent bonds would decline on an announcement that new issues bearing these coupon rates will be offered in the drive.

It is especially important to include 2 1/2 per cent bonds in the drive. Otherwise, the prices of the existing 2 1/2 per cent bonds would increase further, with the result that the long-term rate would decline. The 2 1/2 per cent rate has been the most important rate in the entire war financing program. Even at the 2 1/2 per cent rate, however, it has been difficult to assure purchases of Government securities. A reduction in that rate would increase the difficulty by reducing the incentive to save. These securities are in an entirely different category from unrestricted securities, because they can be held only by individual savers and by institutions that hold savings of the public and therefore cannot involve an unnecessary expansion in bank credit. Finally, if the long-term rate were reduced, it might be impossible later to restore the 2 1/2 per cent rate if that course seemed to be desirable, because it would involve permitting newly-issued 3 1/4 per cent bonds to decline below par.
Direct bank financing should have no adverse public reaction, because those who realize that indirect bank participation has been an important part of recent drives would recognize the advantages of the change, whereas those who do not know this fact would be unlikely to realize that any change had been made. Commercial banks have found that many nonbank investors are willing to subscribe for securities for the purpose of recalling the securities to commercial banks at little or no premium. Banks that have followed the Treasury’s request, however, have been able to purchase securities only by paying substantial premiums to speculators. In effect, therefore, the Treasury, by not making direct offerings to commercial banks, makes it advantageous for banks not to follow the Treasury’s own request.

In addition to putting bank purchases on a more straightforward basis, a direct offering to banks would permit banks to purchase new securities at par rather than to pay premiums to speculators or to make special arrangements with nonbank investors. It also would reduce free-riding and would reduce undesirable shifting of securities in the market.

The Committee also discussed a suggestion that the Treasury require that some proportion of war loan deposits be secured by Government securities maturing in not more than either six months or one year, but came to no conclusion on this matter. If, however, the Treasury decides to adopt this suggestion, the Committee recommends that such deposits be exempted from the requirement to the extent of $500,000 or 25 per cent of their war loan deposits, whichever is larger.
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 $1.6 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 $1.6 billions
permitted by the formula just described, only about $200 mil-
lion 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 criticisms.

(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
March 6, 1945
11:07 A.M.

Operator: Go ahead.

Alan: Hello.

HNJr: Hello, Alan.

S: Good morning.

HNJr: How are you?

S: Fine. Harriner has been talking with me and telling me of his conversation with you earlier.

HNJr: Yeah.

S: And I agree with what he said to you, and thought I might emphasize one or two points.

HNJr: Please.

S: First, we see the desirability of your standpoint and from the standpoint of the sales organization of perhaps having a fourteen billion quote. . . .

HNJr: Yeah.

S: But we also see that you expect to get at least seventeen billion, and that any way you figure it, it looks to us as if there's going to be three billion of bank money in the financing and that therefore, we still think it would be better to get at least that three billion by a direct offering to the banks.

HNJr: Yeah.

S: And in that way you'd be likely to have less bank money in the whole financing, rather than more bank money. Second, we had understood that one of the slogans of the Drive, or one of the underlying bases of the Drive was "Don't sell to buy." Even though we don't sell to what?

HNJr: Don't sell to what?

S: Don't sell securities in order to buy securities in the Drive. In other words, to reduce shifting and switching.

HNJr: Yes.

S: But if you're going to have three billion of indirect bank financing of the Drive as we think you can't avoid with a seventeen billion Drive, then it will be impossible to have that sort of a program because to the extent of three billion, at least, you're going to have switching, and you can't say, "Well, switch up to the three billion, but don't switch beyond that." You'll probably have switching of four, or five, or six billion because it's impossible to say, "Don't switch to buy." "Don't sell to buy," so that we still think it would be better to have the fourteen billion quota, and go out after it with all the pressure we can, and to get it without selling to buy, and to get the other three which is going to have to come from the banks in any case, directly from the banks.

HNJr: Well, it's very glad to get your opinion.

S: Right.

HNJr: I hope you don't -- won't be angry if I don't follow it.

S: Well, I never have been.

HNJr: All right, but I gave Harriner all the reasons. I don't know whether he rejected them.

S: Yes, he did.

HNJr: And our bank balance is so we don't need it -- our cash balance.

S: So, I know you don't need the money, but you're going to get it in any case. You're going to get seventeen billion, approximately. That -- all the estimates agree, and whether you ....

HNJr: Well ....

S: .... you get it directly or indirectly, you're going to get three of the seventeen, at least, from the banks.

HNJr: Well, Harriner thinks the whole program is a big improvement. I hope you do, too, even though we don't offer the banks anything direct.
S: I do think it’s an improvement. I think if you don’t come to a direct offering this time, you’ll come to it next time.

HWJr: Well, thank you very much for calling.

S: All right.

HWJr: I’ll be seeing you.

S: Rights.

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HWJr: .... around four o’clock this afternoon with my remarks for the House -- Ways and Means.

Herbert: Deaton: He was in to see me yesterday with an outline which we discussed, and he discussed with Harry and others, and said he would be in today with a draft.

HWJr: Well, would you ask DuBois -- Loth -- I mean Fussell -- I don’t mean Fussell -- Lunsford.

S: Yes.

HWJr: He’s supposed to have been in here at four.

S: Yes.

HWJr: I’d like very much to have you see him and Fussell see the thing.

S: Yes.

HWJr: I’ve been planning to start in tomorrow morning at nine-thirty on it.

S: Yes. Yes. You’d like us to see it today, and then you’ll talk to us about it tomorrow?

HWJr: At nine-thirty.

S: Yes. All right.

HWJr: Tell that to Loth.

S: I’ll do that. Yeah.

HWJr: But I just -- I want to be sure that if he’s around the office, that you get hold of him now and you and Fussell familiarize yourselves with it.

S: Correct.

HWJr: Thank you.

S: Yeah.
March 5, 1946
4:38 p.m.

PRE-PRESS

Present: Mr. D. w. Bell
Mr. Gaston
Mr. Gamble
Mr. Sheaffer
Mr. Coyne
Mr. Russell
Mrs. Klots
Miss Chauncey

H.M.Jr.: Now, where is Mr. Bell?

Mr. GASTON: This is the whole thing here.

MR. SCHAEFER: Everything but maturities.

H.M.Jr.: Are the boys here?

MR. SCHAEFER: Yes.

(Mr. D. W. Bell, Mr. Gamble and Mr. Coyne enter the conference.)

H.M.Jr.: Hello. Do you want to sit on that side?

MR. BELL: There's the basket, and these lines show what is left out of the corporations, and on bank investors, and this is sort of different from any other drive that we have had.

H.M.Jr.: All right, that's very good.

All right, Bell, do you think it is necessary to call his attention to the little mixup?

MR. BELL: There is a little that I might show to you. This phrase here, "To obtain maximum funds necessary to prosecute the war from non-bank investors," that ought to be up after "attained." It can't be misread.
The Treasury announces today the type of securities to be sold in the Current War Loan Drive and the periods during which intensive campaigns will be conducted to sell these securities to the various classes of investors.

The goal for the Seventh War Loan has been set at $14,000,000,000, of which $7,000,000,000 is to come from sales to individuals and $7,000,000,000 from other non-bank investors. Again the major emphasis throughout the entire Drive will be placed on the styles of individuals, which is the highest established in any of the war loan drives. Of that quota, $4,000,000,000 has been established as the goal for Series E War Savings Bonds, which is also the highest quota established in any drive for that security.

The goal and the securities to be offered were determined by the Treasury after full discussion with various groups, including chairman of the State War Finance Committees, officials of the Federal Reserve System, members of the American Bankers Association, representatives of insurance companies, and other investment authorities.

The Secretary stated that there is evidence that Federal expenditures are going to remain at a high level for some time to come, and that the Seventh War Loan program was designed to obtain maximum funds necessary to prosecute the war front non-bank investors.

The securities, which will be sold under the direction of the State War Finance Committees, are as follows:

- Series E, F and G Savings Bonds
- Series C Savings Notes
- 2-1/2% Bonds
- 3-1/2% Bonds
- 4-1/2% Bonds
- 1/2% Certificate of Indebtedness

(The 1-1/2% Bonds will not be offered in the Drive to corporations)

The Drive for individuals will extend from May 14 to June 30. However, an intensification of activities in the

Life insurance companies, savings institutions, and States, municipalities, political subdivisions and similar public corporations, and agencies thereof, will be permitted to make deferred payment, at par and accrued interest, for the 2-1/2% and 2-1/8% marketable bonds allotted to them, up to August 31, 1945.

During the period from June 18 through June 30 commercial banks, which are defined for this purpose as banks accepting deposits, will be afforded an opportunity to subscribe for Series F and Series G savings bonds, and for the 1-1/2% bonds and the 7/8% certificates offered in the Drive, in aggregate amounts not exceeding $800,000 or 10 percent of the time deposits (of which, not more than $100,000 may be Series E and Series G savings bonds) under the same formula as was used during the first Drive. Securities so acquired by the banks will not be included in the Drive nor will they be counted toward any quota.

Commercial banks will not be permitted to own the 2-1/2% or the 2-1/8% marketable bonds offered in the Drive until within ten years of their respective maturity dates.
sale of Series E bonds will begin April 9, when millions of persons on pay-roll savings plans throughout the country will be asked to enlarge their participation as a part of the
Seventh War Loan. All Series E, F and G Savings Bonds and
Series G Savings Notes processed through the Federal Reserve
Banks between April 9 and July 7 will be credited to the Drive.

During the final phase of the Drive which will cover the
period from June 18 through June 30, subscriptions will be
received from all other non-bank investors for the 1/16th and
1/8th marketable bonds and the certificates of indebtedness.

The Treasury will request that there be no trading in the
marketable securities and no purchases of such securities other
than on direct subscription until after the closing of the Drive
on June 30.

To avoid unnecessary transfers of funds from one locality
to another, the Treasury again urges that all subscriptions
by corporations and firms be entered and paid for through the
banking institutions where funds are located. This request is
made to prevent disturbance to the money market and the banking
situation. The Treasury will undertake, as in the Sixth War
Loan Drive, to see that statistical credit is given to any
locality for such subscriptions as the purchaser may request,
except that subscriptions from insurance companies will be
credited to the State of the home office as in the past. The
Treasury appreciates the substantial cooperation it has received
in this respect.

In order to help in achieving its objective of selling as
many securities as possible outside of the banking system, the
Treasury will request the cooperation of all banking institu-
tions in declining to make speculative loans for the purchase
of government securities, and in declining to accept subscrip-
tions from customers which appear to be entered for speculative
purposes. The acquisition of outstanding securities by banks
will be regarded as an improper practice by the Treasury. The Secretary
will request banking institutions not to make such purchases,
and not to make loans for the purpose of acquiring the Drive
securities either for their own account. The Treasury is in
favor of the banks making loans to facilitate permanent invest-
ment in Government securities provided such loans are made in
accordance with the joint statement issued by the National and
State Bank Supervisory Authorities on November 20, 1942.
(Attached)

The Controller of the Currency, the Federal Deposit
Insurance Corporation, the Board of Governors of the Federal
Reserve System, and the Executive Committee of the National
Association of State Banks made the following statement of their examination and supervisory policy with
special reference to investments in and loans upon Government
securities.

1. There will be no deterrents in examination or
supervisory policy to investments by banks in
Government securities of all types, except
those securities made specifically ineligible
for bank investment by the terms of their issue.

2. In connection with Government financing,
individual subscribers relying upon anticipated
income may wish to augment their subscriptions
by temporary borrowings from banks. Such loans
will not be subject to criticism but should be
on a short term or amortization basis fully re-
payable within periods not exceeding six months.

3. Banks will not be criticized for utilizing their
idle funds as far as possible in making such
investments and loans and availing themselves of
the privilege of temporarily borrowing from or
selling Treasury bills to the Federal Reserve
Banks when necessary to restore their required
reserve positions.
March 2, 1945

MEMORANDUM TO BE USED AS A BASIS FOR DISCUSSION WITH THE PRESIDENT

In Reorganization Plan III which the President submitted to Congress in the spring of 1940 and which was approved by an act of Congress dated June 4, 1940, he set up in the Treasury a Fiscal Service which would embody the functions of

(1) the financing and fiscal activities;
(2) the Office of the Treasurer of the United States;
(3) the Bureau of Accounts; and
(4) the Bureau of the Public Debt.

He stated in his report to Congress that in order to assure continued effective management of this important phase of the Treasury functions, he was placing the Fiscal Service under the supervision of a career official.

This position has not been filled since it was created on July 1, 1940 as it was created in the first instance with the understanding that D. W. Bell would fill it. Mr. Bell has, since January 1, 1940, occupied the position of Under Secretary and at the same time has administered the functions of the office of Fiscal Assistant with his other duties. The duties of Under Secretary have become so burdensome that it is deemed advisable to fill the position of Fiscal Assistant Secretary at this time. It is recommended, therefore, that Mr. F. F. Bartelt, Commissioner of Accounts, be appointed to the position of Fiscal Assistant Secretary with the understanding that whenever Mr. Bell leaves the position of Under Secretary he can be appointed to the position of Fiscal Assistant Secretary and Mr. Bartelt will likewise return to his position as Commissioner of Accounts.

DWB:MLE

Since this is a position to be filled by appointment from the career service, it is subject only to the approval of the Secretary of the Treasury, but in view of the fact that the political position of Assistant Secretary of the Treasury was abolished to make a place for the Fiscal Assistant Secretary, it is only courteous that the matter be discussed with the President before the position is filled.
Excerpt from Message of the President of the United States transmitting Reorganization Plan No. III
April 2, 1940

The functions brought together in the Fiscal Service are all closely interrelated and are essential parts of the general functions of financing and fiscal control. The internal organization of the Fiscal Service conforms to accepted principles of financial management and provides the framework for adequate internal controls. At the same time, under the proposed plan, these functions can be coordinated more effectively, duplications eliminated, and a more efficient service provided. To assure continued effective management of this highly important and technical phase of the Treasury functions, I am placing the Fiscal Service under the supervision of a career official. The plan, therefore, provides that the Fiscal Assistant Secretary will be appointed by the Secretary of the Treasury in accordance with civil-service laws and will perform his duties under the general direction of the Secretary. This is in accord with the policy of this administration of bringing higher administrative positions within the career service. The creation of the office of Fiscal Assistant Secretary will not increase the number of Assistant Secretaries in the Treasury Department since the plan expressly provides for the abolition of one of the three existing offices of Assistant Secretary.
In reply to your memorandum on the Song Writers Luncheon tomorrow (Saturday) at 1:00 P.M., attached are an agenda and notes on the eleven song writers who will attend.

The purpose of the meeting is to enlist their aid for a Seventh War Loan transcribed series of fifteen-minute radio programs and to get their ideas for other ways in which they can be useful to the War Finance Program.

The attached agenda, on which Mrs. Morgenthau has been consulted, outlines the four principle topics which you may wish to mention in an informal talk.

1. Mrs. Morgenthau - Welcomes guests and introduces Secretary Morgenthau.
2. Mr. Morgenthau -
   A. Thanks the composers of popular music for what they have done for the War Bond Campaign.
   B. Explains that the War Bond campaign is more than a selling program. It is an outstanding evidence of the unity of the American people.
   C. Asks song writers present if they will not help the Seventh War Loan and suggests they cooperate with Treasury in forming a similar song writers' committee in Hollywood.
   D. Points out need for new war effort songs and desire, if possible, for a new War Bond song.
   PLAN: Top name singer to interview top name composer. Orchestra to play medley of his best known songs; one to be sung by vocalist. Program to wind up with new war song related to theme of patriotism or sacrifice. Transcribed programs to beorable locally. Will be produced by outstanding radio writers and directors under Lt. Levy's direction.
5. Mrs. Morgenthau - Introduces Mr. Gamble.
6. Mr. Gamble - Explains importance of Seventh War Loan and contribution song writers can make - mentions War Bond songs written by Loesser (Road to Victory), Kasaf (That War Bond Man) and Johnson (That's Why I Buy Bonds).
7. Mrs. Morgenthau - Thanks Mr. Loesser for his help in organizing meeting.
8. **Mr. Lessner** - Replies for song writers.
9. **Mrs. Morgenstern** - Adjourns meeting to Projection Room at 2 P.M.

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**SONG WRITERS LUNCHEON - SATURDAY, MARCH 3, 1945**

Date and Guests

(Note: Most of the song writers present are lyricists rather than composers.)

- **DOROTHY FIELD** - (Daughter of Lew Fields of Weber & Fields, author of libretto for many musical shows including the current hit Up in Central Park, first libretto Lew Leslie's Blackbirds.)
  Has written lyrics for following songs:
  - "I Can't Give You Anything but Love" (Blackbirds)
  - "I Must Have That Man" (Blackbirds)
  - "Exactly Like You" (International Revue)
  - "On the Sunny Side of the Street"
  - "Lovely to Look At" (film Roberta with Jerome Kern)
  - "I Won't Dance" (film Roberta)
  - "I'm in the Mood for Love"
  - "The Way You Look Tonight"

- **JOAN WHITE** - (Used to be popular singer. Sang at Mayflower Hotel in 1936. Has teamed up as lyric writer with ALEX KRAMER, composer, who is also guest at luncheon)
  Has written lyrics for:
  - "My Sister and I"
  - "High on a Windy Hill"
  - "It's Love, Love, Love"
  - "Candy"

- **ALEX KRAMER** - (Composer)
  Wrote music to songs listed above.

- **LIL BROWN** - (Lyric writer with enormous list of hits to his credit. Wrote words for songs in Scandals, Flying High, Good News; Motion Pictures "Sunny Boy", "Sunny Side Up").
  Wrote words for:
  - "Last Night on the Back Porch"
  - "Oh, By Jingo"
  - "Incubus"
  - "Who Is He?"

* Seated beside Secretary Morgenstern
** Seated beside Mrs. Morgenstern
- 2 -

"I'd Climb The Highest Mountain"
"Don't Bring Lulu"
"Just a Memory"
"Sunny Boy" (Sunny Boy)
"You're the Cream in My Coffee" (Hold Everything)
"I'm on the Great Wave" (Scandals)
"My Song" (Scandals)
"Life is Just a Bowl of Cherries" (Scandals)
"Button Up Your Overcoat" (Follow Through)
"If I Had a Talking Picture of You" (Sunnyside Up)
"I Want to Go Where You Go" (Good News)
"Thank Your Father" (Flying High)

**FRANK LOEWEN - (Writer and Composer)**

"Small Fry"
"Two Sleepy People"
"Singles, Jingles, Jingles"
"I Get the Neck of the Chicken"
"Praise the Lord"
"Private First Class Mary Brown" (This is the Army)
"Let's Get Lost"
"In My Arms"
"What Do You Do in the Infantry"
"Rodger Young"

Note: **Loesser** also wrote "Road to Victory" for the War Finance *Scandals*.

**J. ROYALD JOHNSON - (Negro Composer and Lyric Writer)**

"Underneath the Bamboo Tree"
"My Castle on the Hill"

Note: **Johnson** wrote special 6th War Loan song "That's Why I Buy Bonds."

**ANDY BALLY - (Negro Lyric Writer and Composer)**

"Spillin"
"Honeysuckle Rose"
"Ain't Misbehavin"
"Stompin' at the Savoy"

Note: **Bally** wrote words and music for 6th War Loan song "The War Bond Waltz."

**Seated beside Mrs. Morgenthau**

- 3 -

**JOE MEYER - (Composer)**

Songs:

"California, Here I Come"
"Clap Hands, Here Comes Charlie"
"Crazy Rhythm"
"I Wish I Were Twins"

**HERMAN HUFFIELD - (Writer and Composer)**

Songs:

"As Time Goes By"
"When Tuba Plays the Rhumba on His Tuba"
"Let's Put Out the Lights and Go To Sleep"
"Sing Something Simple"

**Sgt. HAROLD HUME - (Writer and Composer — Fins and Needles)**

Livetime Follies, Stars and Gispens

Songs:

"Franklin D. Roosevelt Jones"
"My Heart Sings"

**ROBERT SOOR - (Writer and Composer)**

"Body and Soul"
"Practice Makes Perfect"
"Walking By the River"

###
Boeing Aircraft Company
Seattle, Washington
March 2, 1945

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

Dear Mr. Morgenthau:

Thank you very much for your kind letter of February 28th. I deeply appreciate having had the opportunity to participate in the February 18th program with you.

Thanks again, and best wishes for the continued success of your endeavors.

Sincerely,

E. C. Wells

My dear Mr. Grafton:

It has been encouraging to see the constructive way in which you have handled the Bretton Woods proposals. As usual, you have cut through the irrelevancies to the core of the subject, and you have made a rather complex subject understandable to the average reader. That is so very important, for the public must be brought to a full understanding of the vital issues which confront the world if we are to have real democracy in America.

We shall be glad to supply you with any available information on the subject which may be of use to you. If you should wish to talk with some of the experts on the subject in the Treasury or in the Department of State and other government agencies, I am sure that could be arranged either in Washington or in New York. Please call on us for any assistance that we can render to you and to The Post.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Mr. Samuel Grafton
The New York Post
New York, New York

Revealed: 1945
2/22/45

Regraded Unclassified
MEMORANDUM FOR THE SECRETARY.

Mail Report

March 2, 1946.

The stepped-up pace of last week's mail continued through this week, with several current matters bringing in interesting comment. Reactions to the Treasury's support of the proposal by the Federal Reserve Bank to control inflation by taxing stock profits, etc., are given in a separate section of the attached abstract -- obviously, the score is against the Treasury. Correspondence about the Bretton Woods plans was pretty well limited to requests for further information or for simplified explanations, with only now and then an expression of approval or disapproval.

Further comments on the radio program "We, the People" were for the most part friendly, but only half of those regarding the address before the Council of American-Soviet Friendship were favorable. Four additional copies of the editorial "An Insult" by Benjamin de Casseres were forwarded, three endorsed by the senders and the fourth protesting it. The midnight curfew imposed by Mr. Byrnes provoked a few of the usual "no-more-bonds" refrain. The very recent picture of the four Marines planting the flag on Mt. Suribachi caught the attention of a number of persons who asked that it be used as a bond poster for the coming Drive.

Other mail, about both taxes and bonds, was of average volume and quite routine. There were but 8 demands for tax refunds, 8 bonds for redemption, and

14 reports of delays in receiving bonds purchased by service men. Two donations were addressed directly to this office and 4 rather large ones were transmitted by the Navy.

The short month of February was also a low one in mail receipts forwarded from the White House. In all, 214 pieces of mail were received, 140 of which were rerouted within the Treasury, and 69 handled in the Correspondence Division.

[Signature]

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Favorable Comments on Approval of Federal Reserve Statement

N. M. Klein, Raskelstein Incorporated, New York City. 
I am in favor of your suggestion to freeze all real estate values and stock exchange securities until after the war. I am engaged in real estate work and see the evils of permitting runaway prices to prevail, with the real danger of inflation. * * *

If we are to hold labor to a pegged price, then it is only fair to hold capital to a pegged profit; otherwise, one or the other will tear away from its safe mooring. Inflation would be a major victory for our enemies, and we are getting closer and closer to it. As someone remarked, "Broadway is New Year's every night, with spending at all-time high". If I, in my small way, can help, I would be most willing.

Unfavorable Comments on Approval of Federal Reserve Statement

A. Frank Greenhall, Rumson, New Jersey. You have indicated your approval of the proposal of the Chairman of the Federal Reserve Board to levy a prohibitive tax upon depreciation on farms, homes, and securities. This is most interesting to me, as a home and security owner. There would be little or no incentive for me to attempt to improve the value of my property, nor would there be any value in using discrimination in the selection of an investment in a growing industry. Your motives are appreciated, but the proposed method would do more harm than good.

Hugh W. Sanford, Fidelity Building, Knoxville, Tenn. The recent suggestion by Mr. Eccles, which I understand has been approved by Mr. Morgenthau, that something should be done to stop people from making money on the rise in the selling price of stocks has filled me with dismay, and I think has had the same effect on a great many other people in the United States. The psychology of the investor is being harried into pessimism; it would seem, on every occasion when the investor has some reason for being slightly optimistic. * * *

Just at the time when we had hopes that enough interest would be shown in the stock market to bring us back at least to the 1937 level, where we could get out without a loss and perhaps make a few pennies, we are informed that you two gentlemen are going to try to do something to prevent the stock market from going higher, and are ready to propose a measure by which the profit on increased values of stock will be very heavily taxed. This is quite contrary to what I regard as the wiser practice of England and Canada to place no tax whatever on capital gains, and it seems to be done with the idea of keeping people out of the stock market. * * *

Personally, I think that all this is a great mistake,
and I think that anything you gentlemen do to discourage the business man worse than he is already discouraged by what has already been done is a mistake. Therefore, I hope that you gentlemen will reconsider the question of taxing capital gains, and instead of increasing the tax, I hope that you will follow the English and Canadian lead and cut out this tax altogether, which to my mind would be a far wiser course and would be for the benefit of the country in the long run.

Henry A. Pierce, Jersey City, New Jersey. Really your office does the wrong things at the wrong time. I cannot understand your attitude toward the stock market at this time. As one who has saved a little money, I am naturally interested in conserving its value and not let it evaporate in inflation. I, like others, have invested in stocks with the idea of protection against this menace, which doubled daily, due to decisions -- or lack of decisions, taken by the Government. I once proposed to you the idea of a guarantee that all Government Bonds would be reimbursed at the dollar value of their origin of issue. If the average price of commodities has risen 10%, 20%, or 30%, such value will be added to the payment of the bond when turned in. This idea was turned down for some high-and-dreaded reason. Now there is one of two things. Either the Government held prices by O.P.A. on all commodities with the idea of controlling inflation -- which you now have the power to do -- or, you do not intend to keep down inflation and therefore want no strings tied around yourself in such guarantees, so you can permit inflation. As you turn down such a good idea, I assume you eventually might want inflation. O.P.A. control of real estate is a necessity, I believe. The price of land is the basic value of all things. When it goes up, we have inflation. The stock market values are of no importance.

Tom Connally, Yonkers, New York. M. E. Eccles' suggested tax on securities speculation is highly discouraging to the American people who are looking for a safe place for their very hard earned reserve funds. I wish to make a counter suggestion and that is that we resolve to throw overboard the Churchill-Roosevelt doctrine of unconditional surrender of Germany and Japan. Any sane man knows that this objective is costing us much more than its worth. Furthermore, you cannot deny that we are now fighting for Russia -- surely not America.

Robert S. Charlton, Brooklyn, New York. I am somewhat nonplussed by the proposals of Mr. Eccles, which seem to have your approval, to tax stock profits and to reduce the gold reserve held against the issue of paper money. First, if the gold reserve held against the issue of paper is to be reduced, what would that be other than inflation of a type we all are trying so hard to avoid? A tax on stock profits would simply curtail stock sales. With margin accounts buttressed at 50% where is the speculation? If the average trader can margin at 50%, he certainly can do the same at 75%, or even higher. The proposals seem to have been made without such practical sense. If common stocks can pay investors 6 and 7%, why should they buy Government Bonds paying less than 3%? Let the market tell you. I say, until there is a sensible relation between the prices of stock and their yields, then we can sell more Government Bonds in competition. Just look at stock prices today and their yields against the same in 1927 and you will find not inflation but the exact opposite. There is not one of the leading industrial stocks which is not now undervalued in relation to its peacetime possibilities.
Comments on "We, the People" Broadcast

Favorable

James Forsythe, The Bronx, New York City. I was interested in your address over the "We, the People" broadcast on the 18th. There were rates of interest on bonds you mentioned which puzzle me. I was speaking to a friend who claims the rate is 2 2/10%; you gave other figures. I could not make myself clear to him and it is likely I quoted wrong -- the spoken word over the radio is gone, unlike the press, it cannot be referred to. I would take it as a great favor if you will send me a copy.

Ira Platky, Atlantic Highlands, New Jersey. Would it interest you to know that your M.C. job on "We, the People" is considered by many as a "well performance"? The show itself was well done, but your contribution should be a source of great satisfaction to you. I hope it may soon again be our pleasure to hear your dignified but thoroughly refreshing radio "work". With well wishes for your continued success.

Comments on American-Soviet Friendship Address

Favorable

Pfc. John J. Hastings, U.S.A.C.E., El Centro, Calif. As you can see from the enclosed editorial that great (?) American, Hearst, doesn't think much of your address on Washington's Birthday. May I, as one of the plain Americans, say I do not agree with his comments. Certainly the Russian Army has achieved great enough

victories and lost enough good men that regardless of their political beliefs, they are entitled to our praise and respect. I have yet to hear the first Marine speak with other than admiration of the Red Army's exploits. The Russian people and ours can be and must be friends if peace is to follow this war. I wish you success in your forthcoming talk. **

E. C. Byers, Teacher, William Penn Senior High School, York, Pennsylvania. Kindly send me 50 copies of your February 22nd address before the National Council of American-Soviet Friendship, if available, for our History and English Departments.

Unfavorable

Mrs. E. L. Cridler, Pasadena, California, ** I think the enclosed clipping is an insult to the memory of George Washington, whose birthday we revere. Wish we had more "American Firsters" like this writer. If we did, we would not be in this mess today. "Old Glory and Sickle and Hammer" -- well, that makes us blood boils, what next?

Comments on Detroit Address

Hume Wilson, Detroit, Michigan. Your scholarly speech at the Book-Cadillac here today was a real treat for me. At my idle moments I think of the great burden upon your shoulders during this tragic war, and I pray that the formula mentioned by you today will prevent future wars. **

D. E. Scott, Chicago, Illinois. If copies of your splendid address broadcast February 20 are available, please send me a copy.
General Comments

John L. McMillan, Member of Congress, 6th District of South Carolina. * * * I have had numerous complaints from residents of my District because they were not permitted to purchase surplus war material just across the line in North Carolina. I will appreciate it if you will give me some justifiable reason as to why a rule or regulation of this nature was placed on the surplus war material. I think in a Democratic country a person should be able to purchase property from any Procurement Office in the United States if he has the purchasing price. I hope this rule or regulation can be regulated before it causes our Bureaucratic Government to receive more unfavorable criticism.

Senator Raymond E. Willis -- Indiana. * * * I am enclosing a Chinese bank note, which I wish you would return, and ask you if the fact that part of the wording on this note is in English, if there are any commitments on the part of our Government with respect to its solvency. Just what are, if any, the responsibilities of the United States, and what connections do we have with China which would impel that nation to use English in some of the printing on a note? * * *

Leslie B. Broome, Farm Adviser, Pulaski-Alexander Farm Bureau, Mounds, Illinois. Enclosed is a check for $60.00 as a contribution which the donor would like to go for the purchase of records, cigarettes, and other things which the wounded men in hospitals need and would like to have. This money is being contributed by Mr. Arch Miller of Pulaski County, Ullin, Illinois. However, he cannot write and his
Robert Sherman, President, Washington Industrial
Union Council, Washington, D. C. Last evening
Mr. Edward Bernstein of your Department gave a most
informative and stimulating talk before our organi-
sation on Bretton Woods. The meeting was a Conference
on Dumbarton Oaks and Bretton Woods for the purpose
of informing our leadership on these important mat-
ters so they may function more effectively with
their membership. We feel that you are doing a
great service to the Nation in having such capable
persons as Mr. Bernstein present the subject to the
people.

David Greenberg, San Diego, California. On February 22
I walked into the Security Trust & Savings Bank,
San Diego, California, and asked the teller to change
a $20.00 bill for four rolls of dimes. He refused to
give me this service when I told him I did not have
an account there, and referred me to the head cashier
who, in turn, informed me that inasmuch as I had no
account with their bank, it would be necessary to
place a service charge for this accommodation. I have
always been under the impression that there is never
a charge for money exchange. * * *

Unfavorable Comments on Bonds

E. N. Clark, President, United Home Bank & Trust Co.,
Mason City, Iowa. I presume I am just wasting my
time in writing this letter as it will probably be
consigned to the waste basket by some underling, but
even if it should reach someone in authority, be
probably would give it little attention as it comes
from a small town banker in the Middle West who is not
presumed to know very much about the affairs of finance
and the State, and being from the Middle West, of course,
is presumed to be complacent, not really knowing that
there is a War. The mere fact that the Middle West has
bought more bonds in accordance to its population than
has the East; and the mere fact that thousands of its
sons, brothers, and fathers have lost their lives or
are now in the service of their country does not
seem to convince people that the Middle West is other
than complacent. However, here goes -- I have read in
numerous newspapers and magazines that the Honorable
Secretary of the Treasury is considerably concerned be-
cause the banks seem to be buying the 22 War Bonds.
It is the opinion of the powers that be that the rate
of interest is too high and that similar bonds in the
next Drive should only bear interest at the rate of
1½ per annum. The fear being that because of the
purchase of these 22 bonds by the banks, inflation
may be the result. To a limited extent that might be
true, but the danger of inflation that will be caused
by the Government issuing 10-year 2% bonds rather than
15-year 1½% bonds is so small as compared with the
danger of inflation caused by many other agencies,
such as these Government agencies that are continually
being organized for the purpose of making large loans
to farmers, to businessmen, manufacturers, and every
one else, and while they are making these loans that
should legitimately be made through banks using up
these large deposits, the money remains unloaned, and,
course, it is a constant temptation to the banker to

Regraded Unclassified
buy anything that will, within reason, keep the money busy. * * * This present Administration has taken many wise steps to protect banks against any recurrence of the troubles following World War I; nevertheless, it is desirable and necessary that large reserves should be set up and if they cannot earn the money by buying the bonds, or because of undue Government competition in the banking business, they cannot set up these reserves. The FDIC cannot bear all the burden that will be there to bear if these reserves are not set up. Then too, there are retired people, widows, etc., who are dependent on the returns of their small amount of earnings to live. Because of so many various loaning concerns, the interest rates are down to a point where investments pay but little and where there are practically no loans to be made outside of Government bonds, and if you cut down the interest rate on these, I do not know what these people will do, as some people barely get by now. I know that this is not a convincing argument to people with the weight of the Financial World on their shoulders, but nevertheless it is real to the common herd of bankers in the Middle West and I am inclined to think all over.

I have heard a lot of them talk and they are not so hot about this idea of reducing the interest rate on 10-year bonds from 2% to 1%, simply because there is a demand for these 2% bonds by the banks and by investors generally. Well, I presume that this spasm will slip from my mind to the waste basket, but nevertheless, I will spend three cents to send it in.

International Association of Machinists, Local 1426, Sioux City, Iowa. (Telegram) Two years ago the union employees of Albertson & Company voted unanimously in favor of bond payroll deduction. Four months ago a signed majority carried favorable 5 to 1 for bond deductions. Still no cooperation on company part. Suspect coercion and deliberate delay. Check immediately. Yours for Victory.
March 2, 1945.

Memorandum

TO: Secretary Morgenthau
FROM: Mr. Mason

The special investigation by Irey in Miami looks rather promising. He is working with Palmer, Chief of the Intelligence Unit at Atlanta, Collector Fahn and the Revenue Agent in Charge of the District and is also being assisted by the other enforcement agencies. They have listed a fairly large number of persons spending freely in Miami and are having their returns checked at their homes. Yesterday they gave out a story to newspaper reporters who have been hounding them as a result partly of Drew Pearson's broadcast last Sunday night. I think it will get a play and have a good effect.

One of the banks has informed them about an unusual transaction. A man who gives his name as Dr. Anselmo Allegro of Havana, Cuba, opened an account in the First National Bank of Miami on December 15, 1944, with a deposit of $4,000. Last Friday he made a cash deposit of 400 one thousand dollar bills. Most of the bills were new, were consecutively numbered and bound with currency straps. Allegro was a member of the Cuban House of Representatives in the Machado regime, but fled at the time of the Batista revolution. Allegro's current balance at the Miami First National is $851,000. We are checking on the matter just on general principles.
STATIONERY BY HAMNER S. ECCLES ON A CAPITAL GAINS TAX
TO CURB FLIGHT PIECES OF CAPITAL VALUES

When questioned by members of the Senate Banking and Currency Committee last week as to what could be done to prevent further inflation of capital values, I reiterated my opinion that the most effective single instrument would be a wartime penalty rate on capital gains. Since the proposal, which was only briefly discussed before the committee, has been widely misunderstood and misrepresented in some quarters, I feel that I should outline what I advocated and why.

I did not propose any change in the present capital gains tax. My proposal would apply only to the sale of capital assets (as defined under the present law) acquired during a period to be fixed by Congress. My suggestion was that this period be from January 1, 1942, until such time as inflationary dangers have passed, which might be two, or possibly three years after the war. This special wartime capital gains tax would not be superimposed upon the existing tax, but would apply only to assets purchased during this period. It would not apply to real estate, stocks or other assets acquired at any time prior to January 1, 1942. These assets, if sold, would continue to be subject to the existing capital gains tax. The special tax I have in mind would impose a 50 cent rate on capital gains derived from sale of capital assets, within two years, of capital assets acquired during the specified period; thereafter it would diminish by 10 per cent, or more, annually until equal to the existing rate. Capital losses incurred on transactions subject to the special rate would be deductible against profits.

The special tax, like any other anti-inflation control, should be discontinued when the need for it no longer exists. Since the purpose of the special tax is anti-inflationary, revenue is not the objective but the more effective the tax, the less it would yield. However, such yield as resulted would be based on rates in line with those imposed under the wartime individual and corporate income tax structure.

The reasons for such a special capital gains tax may be summarized as follows:

Yet these profits are just as much a result of war expenditures as are high individual and corporate incomes which are subjected to high wartime tax rates. The inequity of this situation is the more pronounced because the benefit of the tax differential accrues only to those in the higher income brackets. The smaller income taxpayers can derive no tax benefits from it. Large operators, however, so-called smart men, are taking more and more advantage of the opening, and this is a principal factor at present in bidding up real estate, stocks and other capital values. It is not the book value investor or the small taxpayer who is applying this upward leverage to prices of capital assets. This is speculation -- not investment. It is speculation in basic essentials such as homes, or farms, or in stocks representing business investments. It adds nothing to national wealth. Such forms of gambling as betting on horse races or playing slot machines do little economic damage. But speculating in the things that people need and use, speculation that leads to disruption of production and employment, is the worst form of gambling.

4. The proposal I have in mind would simultaneously reach and discourage all such speculative transactions, whether in homes, farms, stocks or commodities, and whether based upon credit or cash -- and would do so without interference with normal, non-speculative transactions, whereas, if credit restrictions alone were applied, they would fall entirely to reach such transactions for speculative purposes and would interfere with legitimate, non-speculative credit transactions. The bona-fide investor would not be deterred either now or in the reconversion period by the proposed tax. For he puts his money into a farm, or into stores of existing or of new enterprises for the purpose of obtaining current income and for long-range appreciation of value. It is the speculator, not the investor, who puts money into capital assets in anticipation of a quick rise in price from which a speculative profit can be realized through selling before the price breaks. However, should the investor be obliged or desire to sell while the wartime rate is still in effect, he would not be injured, since he had not purchased in anticipation of selling in order to make a speculative profit. In any event, under the proposed tax, he would be permitted to retain a profit of 10 per cent, or more, depending on how long he held the asset.

5. To the extent that the proposed tax would discourage surplus funds from going into speculative fields, to which they will be attracted so long as prices are rising, there will be that much more available to go into Government securities where they should go to help finance this war. It would appear from criticisms expressed by some of the financial press and market operators that they fear the tax would be effective in greatly restricting buying activity that might otherwise develop. That is the purpose of the tax. According to these critics, the proposed tax would dry up the market because it would deter holders of capital assets from selling. But it need not deter holders of assets acquired prior to the effective date of the tax from selling, because it would not apply to them. It would deter the buying and hence the bidding up of capital assets while the tax is in effect, and that is exactly the result desired. It is the only way to
1. Capital values, as reflected in current prices of homes, farms, business properties and stocks, have increased sharply since this country entered the war, and are still increasing. If unchecked, this trend would undermine the entire price and wage stabilisation program, with grave consequences to postwar reconstruction. It would make war-financing problems more difficult and increase the cost of the war. It would make a mockery of the hopes of millions of war veterans who are counting on being able to obtain a home, or a farm, or to get started in business when they return from the front. Congress has encouraged this hope in the so-called G. I. Bill of Rights, and by providing dismissal pay and otherwise. Those on the home front have an inescapable obligation to take whatever steps may be necessary to protect the values of homes, farms and other necessities so that they will not be hopelessly out of reach of the veteran's purse. There are no war profits in that purse.

2. While other sectors on the home front have been protected by direct measures, such as rationing, allocations, price and wage controls, no effective controls have been applied to curb rising prices of homes, farms, stocks and other capital assets. The wartime expansion of liquid assets presents a vast and growing danger to those unprotected sectors. Currency, demand deposits and Government securities held principally by individuals and corporations are rapidly approaching 200 billion dollars and have nearly tripled since we entered the war. This huge inflation potential will continue to grow as long as deflation-tending continues. The line of effective action is to prevent these liquid funds from increasing inflation capital values, it will become more and more difficult, if not impossible, to hold the line against inflationary price and wage increases. Veterans of the last war, especially farmers, have not forgotten the inflation and the consequent ruinous deflation resulting from failure to control a relatively small volume of liquid funds in the last war. The present volume of such funds is already four times as great as it was in 1919. The national debt is nearly ten times larger today and is still growing.

3. The most serious gap in the line of defense against inflationary forces is the capital gains loophole in the wartime tax structure. While Congress has provided sharply progressive surface rates, rising to a high of 74 per cent on individual incomes, and a maximum excess profits tax of 99 per cent levied upon operating profits of corporations, no corresponding curb has been put upon capital gains, which continue to be subject to preferential taxes, with a 25 per cent maximum. This huge differential in favor of the capital gains tax benefits only the larger taxpayers. The bigger they are, the greater the inducement today to dispose of or refuse to put money into fixed interest-bearing obligations that return only a small yield and have little chance for a capital gain, and to put money instead into capital assets, which, when sold on a rising market, yield profits subject only to a capital gains tax of 25 per cent, or less.

keep the prices of those assets from being bid higher and higher until the bubble bursts. Nothing would be a greater deterrent to postwar reconstruction than such an inflationary rise in prices, which would inevitably be followed by a deflationary collapse. Hence nothing would do more to wreak postwar progress for full employment and economic stability on which, a lasting peace depends.

4. The proposed tax is an essential wartime expedient, like price, wage and other direct measures of control that deal with the effects, not with the causes, of inflationary forces resulting from huge deflation financing of the war. Had the public and hence the Congress been willing to deal with inflationary causes, deflation financing would have been held to a minimum by far higher taxes and by far greater economy and efficiency in war expenditures. Some of us urged that course from the outset, but since it has not been followed, the only alternative is to deal with inflationary effects by such expedients as are necessary to hold the line so long as inflationary dangers exist. After reconstruction, demand, which has so vastly exceeded supply in wartime, should be cut by fully employing our manpower and material resources in peacetime production, and creation of further inflationary forces should be ended by greatly reducing public expenditures and by maintaining such taxes as are necessary to bring about a balanced budget.

I have received a few letters from civilians who fall to see why we should have either such disagreeable things as taxes sufficient to deal with inflationary causes or, alternatively, direct control measures necessary to deal with inflationary effects. On the other hand, I have also received a number of letters from men in the armed forces who hope, if their lives are spared, to buy a home or a farm. They do see, with a clarity that should be a warning, why those on the home front should do whatever is necessary to make this country's economic future secure, with all that pertains for the peace of the world.
November 20, 1945

Mr. Secretary of the Treasury,

Since the situation in China has remained fundamentally the same and no change has been made in the gold sales program, you will probably wish to continue the policy of providing only small shipments of gold to China. It will be recalled that Ambassador Harriman agreed with you on the desirability of holding down gold shipments to approximately the same magnitude as in the past.

It is therefore suggested that arrangements be made with the Army to export to China during the next three months about 7 million of gold not on account in the Federal Reserve Bank of New York, one-third of which would be gold acquired in payment for exports from China to the United States. The Economic Administration has indicated that the export of gold acquired as payment for imports is essential to maintain the position in China.

The suggested reply to Mr. Harriman does not make any definitive commitments but, as soon as possible, we would inform its representatives fully that we have proceeded in making arrangements with the Army for the export of about 7 million of gold during the next three months.

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

Mr. Secretary,

You will recall that on several occasions we have discussed the provision of gold for China, and that you kindly undertook to expedite this matter. Since shipments to China have been considerably slower than we felt necessary, I wish now to present the situation for urgent attention.

The chief present financial problem of the Chinese Government, as you know, is to finance its large and growing deficit. The Government must handle this deficit in such a way that the inflation does not get out of hand — since if this took place, it would cause most serious consequences to the war effort of China and would be very harmful to the conduct of American operations against Japan in and from China. However, if inflation should seriously accelerate, this condition would undermine China's economic structure, impair internal stability, make it much harder for China to recover and restore the areas now in enemy hands, gravely impair China's reconstruction and progress in the next few years, and make it much harder for China to play the part in stabilization and peace maintenance in the Far East which its Government and people wish to play and which is desired by the American Government and people.
It is of vital importance, therefore, to reduce in every possible way the deficit financed through increase of note issue. For a little over a year, the Government has been selling gold to realize Chinese currency. In that way, we have sold from the latter part of 1943 to date over 500,000 ounces (something over US$30 million) - which have realized around US$36 million. While exact figures are not at hand, available data indicate that this sum is equivalent to something like a sixth of the deficit in the period. The sale of gold has been most helpful, and has definitely prevented the inflation from attaining a higher level which otherwise would have been reached. It helps to check increase of the general price level by diverting to purchase of gold certain funds which otherwise would be used to buy commodities to be held for higher prices.

The American Government, in order to help China, made available US$200 million of gold out of the US$500 million credit. Of this gold, the first installment was US$50 million. Unfortunately, deliveries of gold to China out of this US$200 million have totaled only US$73,456,846.40, including 40,000 ounces (outturn being US$33,99,447.99) delivered in New York to the Bank of England against a similar amount in India. Actual shipments to China out of this US$200 million were only US$81,976,118.12. Thus, shipments have fallen far short of what is needed. As a result, the Central bank has been obliged to substitute forward sales for spot sales. A black market for spot gold developed, which the Government could not control being of lack of ready-supply. The black market price for gold was taken as around US$30,000 per ounce, whereas the spot price - though no recent sales have been made - remains US$26,000 per ounce. Because of lack of gold, the Government has had to print and import more notes than otherwise would have been needed, which adds to the inflation.

The Chinese ounce in custom use, called the taul or new lin, is equal to 1,000/72 Troy penny.
black market would only be driven to a higher level — with a bad effect on confidence and upon the general price level. At the price policy, we feel it is important to raise the price in the near future to substantially the present level of the black market ($185.40 per ounce). Therefore, our selling price will be governed by the demand for gold and the course of general prices.

In view of the urgent need for gold in China, we are most anxious to send forward at once by air the balance of 18,812,709,209 (say 264,000 ounces) of the 18,800 million, which is required at the earliest possible moment to meet near deliveries and to make spot sales. We would, therefore, appreciate your good offices in arranging with the proper Air Transport Command for such shipments. Also we would like to have a further amount of say 200,000 ounces ($185.40,250,000) go forward as soon as practicable by air to enable the Central Bank of China to meet further near deliveries and to make spot sales. In addition, we would like to ship at once 350,000 ounces ($185.40,550,000) by sea to meet later deliveries. Therefore shipments should be adapted to meet in order to avoid again running short of gold in China.

I fully realize of course that the sale of gold is a financial operation which should not ordinarily be done, and it is only the present necessity that justifies this policy. We wish to keep off and discontinue the rate of gold after consumer goods, especially cotton textiles, begin to reach China in good volume. It is the policy of the Chinese Government to obtain shelves and ship to China 500,000,000 oz. of 1% as conditions of procurement and transport permit. In this way, the inflation will be checked most effectively at first, by adding to the supply of necessary goods, and second, by realizing from their sale on the basis of current market prices large amounts of Chinese currency which can be applied to meet the deficit and thus obviate the need for relying to that extent on increased note-issue. The opening of the "well" market, together with the growing volume of air transport over the short and the progress of the oil pipe-line, greatly ease in the available capacity

For another supply of goods, further, it is our intention to obtain and transport larger quantities of necessary goods as soon as sea communication with China is reopened. Subordinating the urgency of military requirements, I feel that it is in the interest of the war effort of China and the United States to ship large quantities of such goods, because of the beneficial effect of this operation in retarding inflation and removing the threat of disorganized and extreme price rises which, if they occurred, would disrupt the Chinese war effort and also make it very difficult for the Chinese Government to afford to the greatest armed forces the cooperation which they require and which China is anxious to give.

At present, a request from the Chinese Government to procure and ship to China about 20,000 tons of cotton textiles is pending before the authorities concerned. I very much hope that you will give your valuable support to this and other proposals for shipment of goods, in order that we may obtain the goods and the transport required.

I shall finally refer to the gold tokens of 1 ounce, 2 ounces, and 3 ounces denominations to be made in the American mint, which you will recall we have discussed and assurance of which is in accordance with your ideas. The design approved for these tokens were made with a view to commencing cooperation between China and the United States. We are very anxious that these tokens be completed and shipped as soon as possible, in order to obtain the maximum benefit through broadening the market. Obviously, gold in the form of ordinary bars is not adaptable to ready distribution whereas tokens such as these would be widely distributed among the public in China. It was stated last fall that we expected that production of the tokens would be begun about the end of last December. I write with appreciation early notice as to how the preparation of these tokens is progressing and how much we may expect
I shall appreciate favorable action on these matters as soon as possible. I regret that I am temporarily unable to meet with you in person to discuss these matters, because of receiving medical treatment in hospital. I shall, however, delegate representatives to arrange details with the officers of the Treasury.

With personal regards and good wishes, I am

Yours sincerely,

[Signature]

W. H. Martin

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TO: Secretary of State

FROM: [Signature]

SUBJECT: 90 Million Export-Import Bank Loan to Private Chinese Firm

1. The Export-Import Bank has under consideration an application from a Chinese private firm, the "Yung Hui Chemical Industries," Ltd., for a loan of $90 million to be guaranteed by the Chinese Government on an approved Chinese bank. The credit is to be used to finance the purchase of industrial plants. The credit is to be used for construction and maintenance of chemical plants, to be the property of the bank, and is to be repaid by the bank, interest at 4% per annum.

2. I have been asked to give my consent to this request. Subject to your approval, I propose to reply that Treasury does not have the funds to meet this loan and to forward your consent to the Treasury.

3. The available considerations are:

(a) The Chinese government has agreed on a dollar loan to buy Chinese industrial plants. However, the funds in the dollar market can be obtained in the open market.

(b) The Chinese government has agreed on a dollar loan to buy Chinese industrial plants. However, the funds in the dollar market can be obtained in the open market.

(c) There is a Chinese firm interested in building industrial plants in China. This loan would be guaranteed by the Chinese government and would be used to finance the construction and maintenance of industrial plants. The credit is to be used for construction and maintenance of industrial plants, to be the property of the bank, and is to be repaid by the bank, interest at 4% per annum.

4. The granting of this loan would be discriminatory against the Chinese private firm, as similar industrial plants in China are not in favor with the Chinese government and are therefore not eligible for the United States Export-Import Bank. The Chinese firm is to represent to the United States Export-Import Bank that the Chinese firm is not interested in the United States Export-Import Bank, and that it is interested in obtaining the loan offered by the Chinese government.

5. The present political and military situation in China under any situation is of a very serious risk at the moment.
MAR 8 1945

Dear Mr. McLeod:

This is in reply to your letter of February 28, 1945 attaching a memorandum to the board of directors of the Export-Import Bank recommending approval of a request from the Young Chemical Industries, Inc., for a loan of $16 million.

I feel that the loan should not be granted at this time and I am attaching a memorandum setting forth some of the reasons for this decision. I am therefore returning the original memorandum without my initials. Thank you for sending a copy for my files.

Yours very truly,

(Judith) H. D. White

H. D. White,
Assistant Secretary.

Mr. Richard H. McLeod,
Secretary, Export-Import
Bank of Washington,
Washington 25, D. C.

Enclosures.
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE: Mar. 8, 1945

TO: Secretary Morgenthau (For information)
FROM: Mr. Coo V.C.

Subject: Negotiations with the French to induce them to provide special facilities for U.S. troops to offset the bad effect of high prices.

1. About January 15 we discussed with Mr. Valensi, French Treasury representative, the antagonism developing among the U.S. troops in France over the high prices prevailing for the things the soldier buys. We suggested that the French Government consider the possibility of providing services for American troops at special prices and to take other measures to alleviate the growing discontent of the American soldiers. Mr. Valensi cabled his Government to consider these problems.

2. On February 8, Valensi reported that the French Government had replied to his cable but evidently did not understand the problem. He planned to discuss the matter in Paris during the following week.

3. On February 27, Valensi returned to Washington and said that the French Government had given full consideration to the proposals but found great difficulties in taking action. However, the French Government was giving further consideration to the matter and would report its conclusions to Mr. Valensi.

4. I also asked Mr. Bonnet if he had discussed the matter in Paris and he said he had not, referring to conversations with Secretary Morgenthau, and Mr. White as justifying his not having taken action himself in Paris.

5. Mr. Valensi promised to give the Treasury a full report on his discussions in Paris but we should take the next step only after he has given us his report which should be in the next few days.
TO: Secretary Morgenthau (For information)  
FROM: Mr. Coe F.C.  
Subject: Loan for Greece

The Finance Minister and several other officials in Greece have several times mentioned to our representative, Patterson, their need for loans or credits. None of these requests is formal enough or well enough based to require any answer from here. They are but one of many signs that the Greek Government is confronted with problems which it does not yet know how to solve.

EXECUTIVE OFFICE OF THE PRESIDENT  
WAR REFUGEE BOARD  
WASHINGTON 15, D.C.

OFFICE OF THE EXECUTIVE DIRECTOR

March 2, 1945

My dear Mr. Secretary:

I am forwarding to you herewith the proposed minutes of the sixth meeting of the War Refugee Board.

The approval of these minutes will be on the agenda for the seventh meeting of the Board.

Very truly yours,

William O'Dwyer  
Executive Director

The Honorable  
The Secretary of the Treasury

Enclosure.
MINUTES OF THE SIXTH MEETING OF THE WAR REHABILITATION BOARD

Held in the Office of the Secretary of War, Bliss Building, Wednesday, February 26, 1946.

Present: Secretary of the Treasury Morgenthau (acted as Chairman)
Secretary of War Stimson
Acting Secretary of State Grew
Assistant Secretary of the Treasury O'Connor
Assistant Secretary of War McCloy
William O'Dwyer, Executive Director, War Refugee Board
John Fewl, Assistant to the Secretary of the Treasury
George Warren, Special Advisor on Refugees to the Secretary of State
Florence Model, Assistant Executive Director, War Refugee Board

At the request of the Acting Chairman, the Executive Director explained that the special meeting had been called in order that the members of the Board might consider, in the light of all available facts, an application of the New National Emergency Committee of the Union of Orthodox Rabbis of the United States and Canada to limit $200,000 to its representative in Switzerland, Isaac Sternbach.

The facts of the case were stated as follows: On February 7, there arrived in Switzerland 110 Jews from the German concentration camp at Theresienstadt. The Swiss press carried notices that these refugees had been released as a result of personal negotiations with Husky conducted by former Swiss Federal Councilor, Husky, at the request of the European executive council of the Union of Orthodox Rabbis of the United States and Canada. The latter organization is well known to the Board and the State Department and has carried on certain rescue and relief work under license of this Government through its representative in Switzerland, Isaac Sternbach. The Husky negotiations, however, were carried on without the full knowledge or approval either of the Board or the State Department. The Executive Director explained that this Government's facilities had not been used for the transmission of messages on these negotiations but that the Board, with copies of all of these messages but to date this request had not been met. He also stated that he had requested the group to cease using communication channels other than those of this Government.

Rowell McClelland, the Board's representative in Bern, has reported that Husky's reputation is that of a Naziophile anti-communist, and that he is interested in obtaining a compromise for Germany. Husky is also concerned over the rehabilitation of his personal political reputation in Switzerland. He claims to have arranged for the release of the 110 Jews with Husky personally, supported by General Schiller, one of the top triumvirate under the NS, Husky has stated that the group of 110 is the first of a series of like conveyo to follow at intervals of one week.

Further arrivals, however, were said to be conditioned on the deposit of 5,000,000 Swiss francs to an account in Husky's name at the Swiss National Bank, the funds to be supplied by Horne, the Swiss representative of the Union of Orthodox Rabbis. The reason for this payment is not at all clear. Husky has stated that the money would remain in Switzerland. The Board's representative, McClelland, has reported, however, that Husky's acceptance of money for himself would not be consistent with his desire to play the role of heroic rescuer and great humanitarian. Sternbach claims that the funds must be sent to him in order that the further releases of Jews in Germany will not be forestalled.

The Executive Director explained that, while the information available does not clearly indicate the reason the funds are desired in Switzerland, it is conceivable that legitimate expenditures for the benefit of the refugees, such as transportation charges, maintenance and care of the refugees, etc., might be involved in connection with the release of detainees from German territory. In view of the fact that there is no clear information concerning the desired use of the funds and since the failure to send the money to Switzerland might operate to interfere with the further release of Jews from German-controlled territory, the Executive Director recommended that the Board approve the issuance of a Treasury Department license permitting the remittance to be made and the account of Husky, the name of Isaac Sternbach and Rowell McClelland, provided that no expenditure or commitment for expenditures be made without the prior authorization of the War Refugee Board. It was also recommended that the Board be prepared to give consideration to requests for its approval of any proposed expenditures involved in the release of detainees in the present case, provided, of course, detailed...
information were presented to the Board concerning the purposes for which such expenditures were desired to be made.

Secretary Stimson, stating that he was sure no one present wanted to benefit the enemy, raised the question as to whether or not this money might be desired for a ransom payment. He also inquired whether the Treasury Department under any circumstances would issue a license for the payment of ransom. The Secretary of the Treasury stated that the Treasury would not issue any license permitting a ransom payment.

Mr. Grew then raised the question as to whether or not the sending of the money from this country, even under the restrictions suggested, might in any way be misleading to the negotiators in Switzerland or to the Germans. The Executive Director explained that, since we have not been informed that the money is desired for ransom and since it is intended that conditions be attached by the Board absolutely forbidding its use for that purpose, the negotiators in Switzerland would be the misleaders if they had reason in mind. In any event, he added that it is still desirable to permit the remittance because of the possibility that the mere presence of the money in Switzerland might facilitate further negotiations and might be needed for legitimate expenses.

It was then pointed out that our present information indicates that the Germans do not appear to be primarily interested in ransom now; that, in fact, a payment of $1,000,000 would not appear to be of sufficient interest to one in Himmler's position. The real motive behind the release of these refugees appeared from recent cables read by Acting Secretary Grew to be a desire on the part of the Germans to gain favor in the eyes of the Allies.

After thorough consideration of all the facts in the case, Acting Secretary of State Grew moved that the Board approve the issuance by the Treasury Department of a license permitting the desired remittance to a joint account in the names of Jacob Sternbuch and Roswell Mott, provided that no expenditures or commitment for expenditure be made without the prior specification of the War Refugee Board and provided that under no circumstances could any part of the money in question be used for the payment of ransom. Secretary Stimson agreed and Secretary Morgenthau, as chairman, stated his concurrence.
The attached cables highlight the problems we are faced with in Switzerland concerning our proposed relief and rescue program. They were the subject of our discussion with you this noon and may be of interest to the Secretary if you have a chance to mention it to him this evening.

F. Hodel
There is therefore very little prospect of Swiss being able to furnish ICRC with trucks and certainly not unless tires are first supplied from outside.

For prisoners of war ICRC plan to send across Swiss border into Germany two initial convoys of ten trucks each. One convoy will go to Luzenbachtal carrying mainly gas and oil to supply six trucks placed at disposal ICRC Berlin delegation by German authorities. These six trucks are now performing invaluable service delivering parcels to Allied POWs on roads and in assembly center that region. Second convoy will proceed to Munson area loaded with POW parcels.

It is not anticipated that Germans will make any difficulties for entry these two convoys which will leave on or about March 8.

I understand that if these first two convoys get off successfully SHAEF in France will agree to supply ICRA with further stocks of fuel to be brought up from Kassel in tank cars if therefore adequate supply of fuel is available to ICRA it is assumed that truck delivery of POW parcels into Germany will be rapidly stepped up until majority of 100 American and Norwegian Red Cross trucks available to ICRA in Switzerland are in use. In this event Americans Washington might find it possible to move four or five of these trucks to ICRA for carrying parcels to unassailled groups in Germany.

Should sufficient trucks become available to move 150 tons of WSB Toulon parcels into Germany within next four weeks question of further supplies can arise. You might, therefore, also discuss with Amcross question of their releasing from unused POW stocks in Switzerland 90 to 95 thousand parcels for WSB program. At this point it is not anticipated that Germans will object to use of five kilo parcels for unassailled persons since there is no longer any question of using German postal service.

Limited amounts of certain essential medicines are available for purchase in Switzerland; and larger amounts could probably be secured against guarantees of replacement.

There is no (repeat no) clothing worth mentioning obtainable in Switzerland unless it be from Amcross or other POW supplies concerning volume of which I am not informed. Any clothing parcels shipped into Germany will therefore have to come from outside.
HARRISON

IRAQ, March 2, 11 a.m., From Bern

JDC is in principle quite willing undertake delivery relief supplies to any category of accessible "shibboleths" provided committee is supplied with necessary transport equipment.

I have taken up question of JDC organizing and effectuating removal of physically unfit detainees from Germany to Switzerland. I entertain, however, some doubt concerning feasibility this program. Outside of Muehle affair, Nazis have displayed no willingness to release civil detainees unshackled for labor in general although such an eventuality is not excluded. I have asked Burckhardt of JDC to bear this important request in mind in course of negotiations with Himmler and other German authorities which is hoped they will be able undertake in near future. I will inform board as soon as possible concerning this point.

Regarding Switzerland's acceptance of such additional groups of refugees as might be extricated by JDC under this program this will be made subject of special conversations with Swiss authorities. It is my feeling that such discussions will have to be supported by concrete assurances of evacuation within a given time as well as granting of rapid import facilities to Switzerland for necessary supplemental food stuffs. Latter point will be discussed with Currie Mission.

HARRISON
Government promised again admittance all inmates Bergenbelsen and part Theresin, this report confirmed news message yesterday. This last possibility save Remnants who are in greatest danger immediate extermination unless evacuated to safety. Rest not, make every human effort utilize historic opportunity. Here chief Rabbi Rabbi rousing all sections local community this matter do likewise."

FINKENTON

JJS-3/1947

Plain

Paris

Dated March 2, 1947

Re: 9245

For Urgent Gravity American Joint Distribution Committee

From: Joseph Schwartz

"Regarding Mexican children emigration GS here will not take any active steps select or transport children to Mexico or any other country without consulting us and giving us the opportunity of taking it up with other interested agencies. Wish point out also GS will not as general policy emigrate children from France except for very valid reasons such as existing families, etcetera. Naturally we have long ago advised both International Redcross and Pildesman that we wish operate in our name and that Congress may not operate with our funds. Must again emphasize these difficulties cannot be cleared up until our representative admitted Bucharest and Sofia."
CABLE TO AMERICAN LEGATION, WASH., FOR MOSSERLAND, FROM WAR REFUGE BOARD

Please deliver the following message to Leon Mincovski, 37 Quai Wilson, Geneva, from Kurt Grossman of World Jewish Congress:

QUOTE: "SINCE YOUR TRANSMISSION RECEIVED ONE LETTER FROM YOU, SENT YOU THESE REPORTS REGARDING CABLES. FOLLOWED UP ALL THOSE CABLES, UNREPORTED AS ASKED. CABLES FROM UNITED-NATIONS ARMED FORCES AND THE FAMILY.PREOJUVENILE ALIENED. APPROVED RED CROSS AND THE AMERICAN CAMP TRAFFIC IN ORDER TO SPEED UP ALL IMPORTS AS SOON AS LONG AS HANS ELSE. OTHERS ASKED OR NOT, ALL AVAILABLE HANDS TO MOSSERLAND. FURTHER INFORMATION IN PROGRESS. UNQUOTE.

THIS IS WAR RELIEF CABLE NO. 420

10130 a.m.
March 2, 1945

CABLE TO AMERICAN LEGATION, WASH., FOR MOSSERLAND, FROM WAR REFUGE BOARD

Please deliver the following message to Gerhard Magner, 37 Quai Wilson, Geneva, from Kurt Grossman of World Jewish Congress:

QUOTE: "HAVE TAKEN UP MATTER OF TRAFFIC OF EXHIBITION IN SWITZERLAND. RESTRICTIONS ARE IMPERATIVE FOR SECURITY REASONS. IT IS RECOMMENDED BY OUR AUTHORITIES THAT IN FUTURE EXHIBITION JEWISH COMMUNITY SWITZERLAND EARNS ARRANGEMENTS PRESTIGIOUSLY WITH SPECIAL RED CROSS FOR DELIVERY COMFORT ARTICLES AND CARRY-OUT OF OTHER MEASURES COMPATIBLE WITH SECURITY REGULATIONS, UNQUOTE.

THIS IS WAR RELIEF CABLE NO. 420

10145 a.m.
March 2, 1945

Regraded Unclassified
CABLE TO AMERICAN CONSULATE GENERAL, JERUSALEM, FROM WAR REFUGE BOARD

Please deliver the following message to Dr. Judah Magnes from M. A.

Leavitt of American Jewish Joint Distribution Committee:

QUOTATIONS REQUESTED ITALIAN REPORTS MADE BY ITALIAN REFUGEES NOW
PALESTINE PLEASE ARRANGE TO GET CERTIFIED TO ALLIED
COMMISSION ENSURE THAT STYLING EQUIVALENT HAS BEEN DELIVERED
TO INDIVIDUALS SO THAT ITAH NOW PALESTINE TO ACCOUNT NOW.

QUOTATION

11:00 a.m.
March 2, 1945
ICG-1305

London
Dated March 2, 1945
Rec'd 12:07 p.m.

Secretary of State,
Washington.

US URGENT
2154, Second

I feel compelled to point out that five months have elapsed since I first requested in my telegram No. 8362, October 5, instructions as to the payment of pounds 1944 as the share of the United States Government for 1945 administrative expenses of the Intergovernmental Committee on refugees and instructions as to the underwriting by the United States Government of one-half of pounds 2,000,000 the sum estimated necessary for 1945 EOG operational expenditure. My further telegram No. 11443, December 26 emphasized the necessity of receiving instructions as to the decision of the United States Government with respect to the 1945 operational expenditure in order that the EOG could make plans. My airmail despatch No. 20343 of January 12 requested authorization for the EOG to expend pounds 350,000 in France and pounds 69,000 in Belgium during the first six months of 1945 and my airmail 4-159 of February 27 requested authorization for EOG operational expenditure of pounds 200,000 in Spain and Portugal for the eight-month period May 1–December 31, 1945. These sums totalling pounds 619,000 are included in the pounds 2,000,000 requested for EOG 1945 operational expenditure. To date, however, I have received no instructions whatever in reply to my communications. One-third of the first semester of 1945 has already gone by and the EOG while going ahead with the necessary plans for this year is unable to act with any degree of certainty unless it knows the wishes of the United States Government in the premises. The British Government has given its approval in principle to the underwriting of 1945 operational expenditure. I urgently request the Department to expedite its decision in order that the present anomalous position of the EOG may be clarified.

Yours,

BB

-2-02154, Second, from London.
Cable to Harrison and McClelland, BHD, from Department and War Refugee Board

Reference Department's No. of March 2, 1945.

Following is text of Treasury license No. W-2426 issued to Yezid Bahattala:

"You are hereby authorized, so far as Executive Order No. 8389, as amended, is concerned, and notwithstanding General Ruling No. 11, to credit the Swiss francs equivalent of 907,000 to a banking institution in Switzerland for credit to a joint account in the name of Isaac Sternbach, representative in Switzerland of the War Refugee Board in the United States and Canada, and Russell D. McClelland, representative of the War Refugee Board in Switzerland, provided the following terms and conditions shall be complied with:

(1) No part of the above sum shall be expended or committed for expenditure except as authorized by specific action of the War Refugee Board, Washington, D. C.

(2) Any withdrawal, transfer, or payment order against the above joint account shall be signed jointly by Yezid Bahattala, representative in Switzerland of the War Refugee Board in the United States and Canada, and Russell D. McClelland, representative of the War Refugee Board in Switzerland.

"You, or your bank of account, are authorized to effect the remittance licensed herein by (a) payment of the dollar amount involved to the Federal Reserve Bank of New York for credit to the Banque Nationale Suisse, Zurich, for credit to the joint account referred to above, or (b) purchase of the Swiss francs involved from the Federal Reserve Bank of New York as fiscal agent of the United States, as shall be prescribed by the Federal Reserve Bank of New York."

THIS IS OUR HERB CABLE NO. 430

9:00 p.m.
March 2, 1945

[Signature]
In general it can be said that according to best available information, most "adults hostilized" (all capable of physical labor are being worked by Nazis at a great variety of tasks were or less directly connected with Germany's war effort. It is impossible however to obtain any statistic on numbers actually engaged in what could be called "free labor" (i.e., manicure plants or war material factories). A large number of all are being used literally in "slave labor" performing heavy physical work such as road building, tobacco classic, digging of anti-tank ditches and like. Many women in consequence for instances are engaged in reconditioning used clothing shipped from extermination camps in Poland. Jewish deportees who recently reached Switzerland from the concentration camps reported having worked at various menial camp uniforms and at making heavy wooden cases for machinery and like. Again in Berns well some categories of internees work while others do not.

At this time however a great many ill are inactive in terribly crowded assembly camp having been evacuated from previous camps and jobs in east.

In any special relief program for ill undertaken at this moment INR plans deliver parcels tolar as practically possible only to ill and exhausted all.

National groups mentioned in legislation 1956 February 16, comprise Jews of respective nationalities.

November
Josiah Kaplanski, 1471 Boston Road, New York, brother
Kaplanski Bernard, Hotel. Hugo Nathansohn Mba,
25 Lexington Avenue, Indianapolis, Long Island, New York, son
Eugene (Hon. 12th Avenue, 7 Avenue France Avenue, wife Patricia,
son Walter deported. Bernard Kaplanski, 592 133 Street,
Jamaica, New York, Klaus Höfleman, 1 Avenue des Fleurs,
Harry Leopold, 54 Green Street, New York, brother Joseph
Hofleman and family, 5 Rue du Palais. Ludwig T.,
105 East 60 Street, New York, brother Stanislas Tro and
Safina, Hermans Hotel, local from 7th 37 East 76 Street,
New York, sister Marie T., 29 Victor Hugo Boulevard.
Andrew Gleichauer, 15 Fifth Avenue, New York, wife Helene
Gleichauer, Imperial Hotel. Goldmam, 25 Central Park
East, New York, Rosa Pera Janek Silberstein, 6 Rue
Francisco Gresser, Max deported. around Cove, Woodstock
Hotel, 127 East 26th (1931) Street, New York, Avram and
family, 19 Twenty-fifth Boulevard. Adolf Holstein, Gleisnitz
Avenue, 201 Street, New York, Alex Moyer Family, Pension
House, 24 Avenue avenue. Thomas Joseph Alfred deported.
Howard Gilber, 536 East 113 Street, apartment 62, New
York, Siegmund Silberberg, Carathal Hotel. Joseph
Wilens, 50 Wall Street, New York, Irma de Lipper, 2 Ter
Rue Spitalieri, Charles deported. Emanuel Stern, 11 East
30 Street, New York, mother Luna Stern, 26 rue de Chatea-
ueuf. Hyper Beersprout, 133 Broadway, New York, Fanny
Fred Serson, 11 Ave avenue des Fleurs.

Max Klein, Forestdale, New York, nephew Schloss
Klajzle, wife, two children, 26 Rue Vitamendi Gomme.
Gerard Fronamme, Nippon State Hospital, Brentwood,
L. I., Suffolk County, New York, father Paul Fronamme,
Hotel des Colonies, Monte Carlo. Herman Waldner, 176
West 95 Street, New York, family Henry Goldberg, Villa
Vert, Cottage Beaulieu, Alps Maritime.

RONGE

MD-1555

Joint

Paris

Dated March 2, 1959

SOM: 10:46 p.m.

Secretary of State,

Washington.

RWW, December

Mr. W. L. Conway, American Joint Distribution
Committee, New York City.

'Suggest you engage Benjamin Brock and assign him
French Daily. Could use additional three or four
similar qualifications provided they have real possi-
bilities development within reasonable time. Would
assign one more to means balance. Believe
neither Joseph Lyon nor Dr. Harris Davidson because
of age or physical condition could meet requirements
overseas employment this time. Therefore suggest neither
be taken on. Have already advised you we have received
twenty million francs from Universal'.

CAPPOR

Regraded Unclassified
Department of State,
Washington, D.C.,
March 3, 1945
Re: [Redacted]

Dear [Redacted],

I have received a considerable number of requests from persons in Switzerland having relatives among recent Category F (refugee) exchange asking how they can correspond with and receive news of their relatives' welfare. I would appreciate any suggestions you might have to offer. As yet I have received no confirmation how many of this group were actually sent to Philippines. Perhaps you could eventually send us a list of those who arrived safe and sound.

Yours sincerely,

[Redacted]
SECRET

NOT TO BE RE-TRANSMITTED

RECEIVED

OPTEL No. 70

Information received up to 10 a.m., 2nd March, 1945.

NAVAL

1. ENEMY ATTACK ON SHIP. 1st. A 7176 ton U.S. ship sunk by mines or torpedo north of Croato.

MILITARY

2. WESTERN FRONT. Southern Sector: Further progress made north and south of Trier and advanced elements of 20 U.S. Corps are reported in southern outskirts city. South Central Sector: 1st U.S. Army continue advance and U.S. troops now reported within 2 miles of Cologne. North Central Sector: Considerable advances made by 9th U.S. Army and greater part of damaged now in our hands while advanced elements within two miles north. Northern Sector: Steady progress by 1st Canadian Army continues.

3. EASTERN FRONT. Central Sector: On right flank further ground gained N.E. and north Neustettin. In south two further suburbs and ten blocks occupied in Breslau.

4. RUSSIA. Central Sector: Wyssung bridgehead has been enlarged N.E. and south along east bank Iranskady where no report of contact with enemy. North of Kandalay our troops advanced five miles east and nine miles south against opposition.

AIR

5. WESTERN FRONT. 1st. 412 Bomber Command aircraft (3 missing) attacked through cloud Hennenheim (2039 tons) and synthetic oil plant Kanan (560 tons), escorted U.S. heavy bombers 1174 (9 outstanding but believed safe and 5 fighters missing) attacked railway centres in South Germany. Good results reported Bruchsal (364 tons), Heilbronn (283 tons) and Neckarau (222 tons), while results of other attacks including Um (1153 tons) and Ingolstadt (411 tons) unobserved. 9 enemy aircraft destroyed by fighters. 457 medium bombers dropped 702 tons targets Central Sector with mainly unobserved results while 1258 fighters (14 missing) operated whole front destroying 22 enemy aircraft and large number road and rail vehicles. 1st/2nd (night). 148 Bomber Command aircraft (without loss) despatched including 55 Berlin and 40 Durlstl.

6. MEDITERRANEAN FRONT. 7th/8th (night). 79 Strategic Bombers obtained good concentrations railway centre Verona (253 tons). 28th. 494 heavy bombers (11 missing) attacked railway targets Brenner Route (1594 tons). 514 tactical aircraft (1 missing) successfully attacked communications and Army support targets while fighter bombers and fighters 96 attacked railway targets Alagafurt with good results.

HOME SECURITY (Up to 10 a.m. 2nd)

7. ROCKETS. Thirteen incidents reported during period.