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Orig to Mrs. M.
Oct 1, 44 10/4/44

PHILIP J. GOODHART
854 MADISON AVENUE
NEW YORK 21, N. Y.

Dear Henry,

I cannot tell you how grateful I am to you for all that you did for me in Washington. I don't think that I have ever had these more enjoyable and interesting days. I shall remember them for years to come.

It was interesting that both Max Havelaar and Drew Pearson supported you tonight. They pointed out that it really was a question whether we wanted a strong Germany which could oppose Russia, or a weak Germany which would not be able to start another war in 25 years. Personally I favor the latter.

Again my best thanks.

Ever yours,

Arthur Goodhart

PUBLIC OPINION NEWS SERVICE

For Release

Sunday, Oct. 1, or Monday, Oct. 2, 1944

G. O. P. CHANCES OF WINNING CONTROL OF HOUSE IN NOV. APPEAR FAVORABLE

50.5% of Voters Plan At Present To Cast Ballots for G. O. P. Congressional Candidates

By GEORGE GALLUP

Director, American Institute of Public Opinion

PRINCETON, N. J., Sept. 30. — Regardless of the outcome of the presidential election, at this stage of the campaign the Republicans have a good chance to win control of the House of Representatives in November.

A nation-wide survey by the Institute finds that slightly more than 50 per cent of the voters, on the average, plan at present to vote for Republican candidates for Congress.

All voters polled in the survey were asked:

"As you feel today, would you be more likely to vote for the Democratic or the Republican candidate for Congress from your district?"

The vote is:
 Republican 50.5%
 Democratic 49.5

Obviously, Congressional voting sentiment may be affected by campaign arguments and appeals quite as much as the presidential race itself, so that sentiment may change between now and November. Today's report is a reflection only of the situation up to the end of last week, when balloting in this survey was completed.

G. O. P. TREND SEEN

In comparison with other recent presidential election years, the Republican percentage on Congress represents a marked gain.

In 1940, the last presidential election year, G. O. P. candidates

for the House polled an aggregate of 46 per cent of the popular vote. In 1936, the Republican figure was only 41 per cent, and in 1932 it was 43 per cent. The trend is shown in the following table.

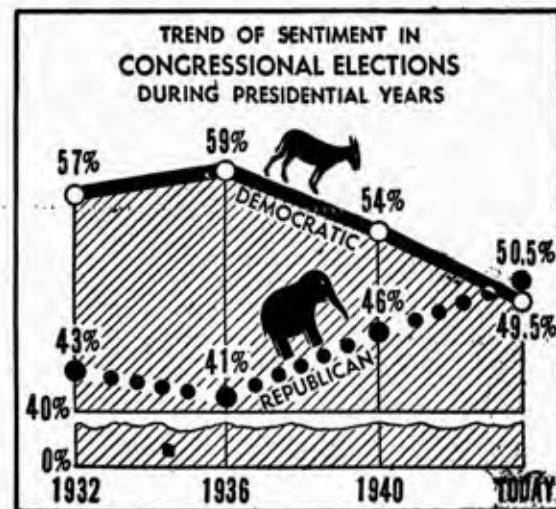
Trend of Sentiment in Congressional Elections During Presidential Years

	Dem.	Rep.
1932	57%	43%
1936	59	41
1940	54	46
Today	49.5	50.5

Congressional elections held during years when there is also a presidential race present a somewhat different pattern of sentiment from that found in mid-term elections. For one thing there is always a marked difference in turnout, the turnout in the South being especially low in mid-term years. The chief difference between mid-term and presidential year Congressional elections consists of the fact that the turnout in Southern states is much larger during presidential years, thus raising the Democratic percentage of the vote by several points without increasing the number of seats going to Democrats in the House.

Hence, no fair comparison can be made between today's results and the results of the last mid-term Congressional election held in 1942.

In mid-term elections Republi-



The trend line indicates the percentage of people voting for Republican or Democratic candidates for the House of Representatives. The latest figures, based on results of the Gallup Poll, give the Republicans a slight advantage — 50.5 per cent — and indicate that G. O. P. chances of winning control of the House in November look good at this time.

cans would have to have a higher vote than 50.5 per cent to win control of the House. In 1942, for example, they polled 52 per cent, but fell short of winning a majority of the seats.

The composition of the House, when it was elected in 1942, was 222 Democrats, 209 Republicans, with four seats divided among the Progressive, Farmer-Labor, and American Labor parties.

SECRET

COPY NO _____

NOT TO BE RE-TRANSMITTEDOPTEL No. 319

Information received up to 10 A.M. 1st October 1944.

1. NAVAL

On 28th three British Destroyers silenced enemy batteries on SCARLANTO DODECANESE: A large Caique was sunk on 29th. A British Cruiser and Destroyer bombarded SYR. ISLAND, south of ANDROS, five F. Lighters sunk and other shipping and harbour installations damaged.

2. MILITARY

Western Europe No change NIJMEGEN Salient where German counter attacks repulsed a gain of two miles made at one point north of the ANTWERP - TURNHOUT Canal. Along whole front Seventh U.S. Army General advance between two and five miles made. RAMBENVILLIERS reported unoccupied. Further south French troops have advanced four miles on twelve mile front NE LURE.

Italy Further heavy rain in ADRIATIC Sector slight advance astride RIMINI-BOLOGNA Road. North of SANSEPOLCRO U.K. troops continuing to press northward against light resistance making gains N.E. BAGNO. On Fifth Army front some improvement in positions. West of V. LSENIO violent German counter attacks against MONTE BATTAGLIA unsuccessful.

Russia Russians have captured MUKU Island off N.E. corner of OSEL. In Carpathian Mountains S.W. of LVOV they have captured several localities south of TURNL while S.W. of CERNAUTI they have occupied many localities about 20 miles S.W. of CAMPULUNG. South of TURNUL SEVERIN the Russians have crossed the D. NUBE into YUGOSLAVIA and reached NEGOTIN.

3/ AIR OPERATIONS

Western Front Over 3,300 sorties flown. Main operations:-
749 U.S. Heavy bombers attacked railway centres BIELEFELD HLM and MUNSTER. Total 1,780 tons much cloud and most crews used pathfinder technique. Results generally unobserved. 275 bomber command aircraft sent to Synthetic Oil Plants near BOTTROP and STERKLEDE, 445 and 170 tons respectively. Considerable cloud both places and no points could not be identified but crews bombed area of plants or alternative targets. Road and railway junctions near GOCH 90 tons. 714 aircraft delivered fuel and supplies. 18 aircraft missing, four German aircraft destroyed.

30th/1st. 83 Mosquitoes (one missing) sent to HLMBURG and three other objectives in Germany.

October 2, 1944

Dear Sam:

Thanks for your letter of September 28th, transmitting a clipping from PM which I read with much interest.

Sincerely yours,

(Signed) Henry

Honorable Samuel I. Rosenman,
The White House,
Washington, D.C.

THE WHITE HOUSE
WASHINGTON

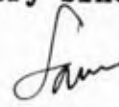
September 28, 1944

Dear Henry:

I suppose you have seen this story in PM. It is always a part of Washington technique to set one against another. I need not say to you that I have only a very vague idea of what your plan is, or what the Currie doctrine is, and that up to date I have had less to do with the whole subject than Falla.

With kindest regards,

Very sincerely,



SAMUEL I. ROSENMAN

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

U. S. Taking Its Time On Plans for Reich

Agencies Feel No Urgency; Hint of Longer War May Be Factor

By BLAIR BOLLES
PM's Bureau



WASHINGTON, Sept. 27.—Harry Hopkins, intimate Presidential adviser, is carrying the ball at the White House for Secretary Morgenthau's program of reducing Germany after the war to a secondary economic nation bereft of most of its industry, it was learned today.

Yet, despite this important backing, the plan is not assured of adoption as the policy of the U. S. Government, and no plan will be adopted immediately. No agency among the many here working on the German question is impelled by a sense of urgency.

The possibility that Gen. Charles de Gaulle is correct in saying that the war against Germany is more likely to finish in the Spring than this Fall may be the principal reason for the relaxation of the pressure here on those charged with making the decision about the future of Germany.

Strategy Factors

Moreover, the possibility of a longer war than was expected a month ago has raised the question of what strategic implications would come from the type of program decided upon for postwar Germany. Is it time to consider whether it would be useful to tempt the Germans into surrender with the prospect of something short of ruin for their industry? That question is being asked here now in official circles.

On the side of practicability, opponents of the harsh extremes advocated by Morgenthau hold that elimination of German industry would injure not only the present enemy but other European coun-

tries which need to buy and sell in Germany.

The origin of the Morgenthau plan is said to have been a suggestion from the White House that the Treasury work out a program for an agricultural Germany to see what it would look like. Morgenthau welcomed the idea because he has become an advocate of harshness for the enemy.

Plans Incomplete

The making of this plan was part of the general operations of the committee set up to consider ways of dealing with Germany economically. It includes the Treasury, State and War Depts., and the FEA (Foreign Economic Administration). Reportedly, none of the plans developed during these discussions is yet completely detailed, not even Morgenthau's. The Morgenthau plan is said also to have ramifications not yet publicized.

The variety in point of view within the committee is considerable. The War Dept. originally approached the question simply with the attitude that for the planners in Washington the future of Germany represented a problem only in relief. Now its approach, under the prods of Morgenthau, has been readjusted.

The Morgenthau plan was worked with the assistance of Harry D. White, special assistant to the Secretary of the Treasury. Its chief supporter in the FEA is Oscar Cox, the general counsel who formerly was general counsel at the Treasury.

Differences

The FEA is not firmly behind Cox on his views. The argument that Germany cannot be turned into an economic void without harming the rest of Europe is made most emphatically by Lauchlin Currie, deputy director of FEA. FEA has a special German studies section headed by James Angell, from Columbia University.

The State Dept. leans more in the direction of the Currie attitude. Its position is said to be that no

sweeping program for the treatment of Germany can be devised in one great plan. What will happen will depend in some degree on the state of Germany when it collapses. And for the future of industry, the State Dept.'s position reportedly is that the matter must be considered separately from each sort of industry.

Reflects British

Reflections are found here also of British differences on this matter. Prime Minister Churchill and Foreign Secretary Eden are for stern treatment of the Morgenthau sort. Yet a strong body of opinion within the Government in London favors continuation of certain industries in Germany so long as the Reich loses all its machine-tool industry.

Powerful British interests lean toward favoring the retention of some German industry. British industry relied in considerable degree on German chemicals before the war. As late as 1939, British and German industry reached the Dusseldorf agreement, calling for development of an interdependent relationship between the factory economies of the two countries.

Even within the White House there is yet no unanimity in view, with Judge Rosenman said to be leaning toward the Currie doctrine. Meanwhile, the Morgenthau plan has been in President Roosevelt's possession for some time.

October 2, 1944.

Dear Mr. Creighton:

It was very good of you to comply so promptly with my request that you make a rapid survey of business organizations in New England, in answer to my question about their reaction to postwar conversion and the selling of Government securities.

I have read the memorandum that you enclosed, and your comment upon it and the general situation with much interest, and I am going to see that others in the Treasury have an opportunity to acquaint themselves with this information.

With thanks again for your offer to be of service, and cordial personal regards,

Sincerely,

(Signed) H. Morganthau, Jr.

Mr. Albert M. Creighton,
Chairman, Federal Reserve Bank of Boston,
Boston, Massachusetts.

GEF/dbs

FEDERAL RESERVE BANK
OF BOSTON

ALBERT M. CREIGHTON
CHAIRMAN

September 28, 1944

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

Dear Mr. Morgenthau:

We have now completed a quick survey of business organizations in New England with respect to the question made by you at the time of our meeting here at the Bank last Saturday morning. That question, as you will recall, was "How many days after X Day (defeat of Germany) will corporations in New England begin to need cash for postwar conversion etc. and so begin to sell Government securities for such purposes".

I think that a fair statement of the results of our survey would be to the effect that New England industrial organizations in the main do not expect to liquidate their holdings of Government securities for the purpose of obtaining funds for postwar conversion and similar needs at any definite time subsequent to the date of the defeat of Germany. By and large, I believe that they expect to use special reserves built up for this purpose rather than to resort to the liquidation of their Government securities held now by them for investment. Of course, as you know, a substantial amount, perhaps the bulk, of Government securities held today by industry in New England is held for tax purposes and these will in the ordinary course of events be liquidated from time to time as tax payments fall due. A very few concerns expressed to us their intention sparingly to buy Government securities rather than to liquidate any they held during the immediate period following the conclusion of the European phase of the war. I believe that the situation in this area is perhaps best summarized in the statement made to me by a large bank in Boston which has intimate connections with a great many industrial organizations located throughout New England to the effect that ". . . it is our belief that there will be no great need or any particular desire to sell government obligations except over a period of time as the return to normal business progresses." You may find of some interest the enclosed copy of the full opinion of the above bank.

The foregoing information is not nearly as specific as I should like to have been able to give you had there been more time available to make a more exhaustive study and analysis of the question. The fundamental problem is indeed a vast and complicated one, any solution of which will have broad and far-reaching effects upon our country, and if we have been able to cast any light whatever upon some aspect of it we shall feel amply rewarded.

We wish to be as helpful as possible to you and to the Treasury Department and if there is anything further we can do, please let me know.

With best regards, I am

Sincerely,



September 26, 1944

MEMORANDUM

To

Mr. Albert M. Creighton,
Chairman of the Board and
Federal Reserve Agent
Federal Reserve Bank
Boston, Massachusetts

You have raised the question as to how soon after X-day, or victory in Europe, industrial corporations will find it necessary, either for re-conversion or for normal operations, to sell their holdings of government obligations.

I have talked with a number of my colleagues here and others regarding this, and I believe the following is a fair cross section of opinion among us.

It has been our observation that a large majority of industrial concerns in this area have limited their holdings of government obligations to relatively short issues. Many of these concerns have sizable cushions in cash balances and therefore are in a position to make substantial progress towards re-conversion as well as in the normal fields of their operations before they will be faced with the necessity of selling any great part of their government holdings. It is our opinion that a small proportion of industrial concerns in this area might have to dispose of government holdings almost co-incidental with their conversion to peace time activities, depending to a large extent upon how expensive and time consuming the process of re-conversion is.

In short, it is our belief that there will be no great need or any particular desire to sell government obligations except over a period of time as the return to normal business progresses.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE October 2, 1944

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

Summary

Commodity prices: The announcement of the new parity purchase program caused a sharp rise in grain and cotton prices last week. The Dow-Jones futures index rose 3.2 percent to reach the highest level since last April, and spot prices were noticeably higher.

Cotton purchase program: The WFA revealed last week that the CCC's purchase price of cotton initially would be slightly below parity and would increase monthly until slightly above parity. Cotton will be sold by the CCC at one-half cent a pound higher than the purchase price.

Stock prices: Recent fears over reconversion problems apparently abated somewhat last week, as German resistance threatened to prolong the war in Europe, and stock prices strengthened under the leadership of aircraft and railroad stocks. At the close on Saturday, average stock prices were about 1 percent higher than a week earlier, and had virtually regained the levels prevailing before the early September decline.

Reconversion: Progress of the WPB interim program for limited reconversion of industry thus far has been disappointing, with only 124 out of 1,506 applications approved in the first month of operation. However, the WPB is planning to simplify procedures in order to speed up the program. Steel production and new orders have recently declined, while automobile companies are having difficulty in ordering machine tools for reconversion.

Munitions output: Aggregate munitions output will have to rise 8 percent above the August level for the remainder of the year if the goal for 1944 is to be attained. For this program an additional 200,000 workers are needed in war industries.

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- 2 -

Prices again advance on new purchase program

Despite the provision of the Price Stabilization Act requiring the Government to take all lawful action to ensure parity prices for farm products, the recent announcement of the new parity purchase program for wheat and cotton took the commodity markets by surprise. Following the sharp advance in commodity markets last Monday, prices again turned strongly upward at the close of the week. (See Chart 1.) With the release of details of the cotton purchase program, the Dow Jones futures index on Saturday reached the highest level since April, and at the close of the week this index was 3.2 percent higher than a week earlier. Spot markets, as reflected in Moody's index, made notable advances.

Due to higher wheat and cotton prices the BLS index of 28 basic commodities rose 0.2 percent last week, equaling the high point reached at the end of June. (See Chart 2.) The 2.2 percent rise in cash wheat prices and the 3.0 percent rise in cotton carried them up to the levels of early July. Cotton prices are now only slightly below the war-time peak, but wheat prices are still about 5 percent below the high levels of last Spring. Steer and wool top prices last week declined moderately.

The BLS general index of wholesale prices advanced 0.1 percent in the week ended September 23, due largely to higher prices for fruits and vegetables, grains and eggs. The index now stands at 103.7 percent of the 1926 average, which is 0.8 percent higher than a year ago and is 38.3 percent above the pre-war August 1939 average.

Details of cotton purchase program announced

The uncertainty which pervaded the commodity markets following the announcement of the parity purchase program was partially dispelled near the end of last week by the CCC's disclosure of the details of the cotton program. The salient points of this program are as follows:

(1) Beginning in October the CCC will pay for 1944 crop 15/16-inch cotton (basis gross weight flat cotton at Memphis) 21.90 cents per pound, and will increase the purchase price .05 cent per pound each month from November to May. (The equivalent parity price of 15/16 inch middling cotton at Memphis is now 22.13 cents.)

(2) The CCC will sell cotton beginning October 2 at 22.40 cents per pound, with the sales price advancing .05 cent a pound each month through March. The WFA has indicated that the sales price will not be reduced before June 30, 1945,

- 3 -

unless the price in the spot markets since July 1, 1944 should average sufficiently above parity to threaten to squeeze textile manufacturers, whose ceilings are based on parity cotton.

(3) The CCC will purchase so far as possible through purchasing agencies, and the agents will receive a fee of 50 cents a bale.

Not all the particulars have been worked out on the CCC purchasing of unredeemed wheat in loan on May 1, 1945. However, due to subtraction of carrying charges from the parity payment, market prices for wheat may average a few cents below the equivalent parity price. Unlike cotton, wheat is covered by a ceiling price at the parity level, which would prevent the price rising above parity. While cotton and wheat prices rose sharply last week, the market quotations are still slightly to moderately below the parity equivalents.

No accurate estimate of the cost of the program can be made now, but some observers expect that it will cost between 500 and 1,000 million dollars. Moreover, the bolstering of wheat prices will necessitate increasing the flour millers' subsidy if bread prices are not to be raised. While the program for wheat and cotton may help indirectly to support prices of other farm products, it may foreshadow other support programs.

Farm prices slightly lower

The farm price index declined one point in September, but continues within the narrow range of the past year and a half. At 192 percent of the 1910-14 average, the index in mid-September was one point lower than a year ago. Since the index of prices paid by farmers was unchanged last month, the slight decline in farm prices resulted in lowering the parity ratio one point. Farm prices now average 113 percent of parity as compared with 114 percent a month earlier and with 118 percent a year earlier. While prices of most farm products were above parity in mid-September, prices of three important commodities, eggs, wheat and peanuts, averaged only 88, 90, and 92 percent of parity, respectively, while cotton at that time was at 100 percent.

Stock prices slightly higher

Stock prices strengthened noticeably near the end of last week as recent fears over reconversion difficulties and imminent peace problems appeared to be causing somewhat less concern.

- 4 -

Doubtless Prime Minister Churchill's warning that the war in Europe might continue in 1945 and the OWI's forecast of a long war against Japan bolstered the outlook for so-called "war stocks". In any event, buying of aircraft and railroad stocks featured increased trading activity at the end of the week.

At the close on Saturday, average stock prices were about 1 percent higher than a week earlier. (See Chart 3.) As a result of the recent gradual recovery, stock prices by the end of September had regained virtually all of the ground lost in the selling movement which occurred in the early part of the month. Industrial stock prices in London also strengthened in the latter half of September, but, for the month as a whole, prices showed a net decline of about 1 percent.

It will be noted that industrial stock prices in New York have shown irregularly advancing tendencies in 1944, but prices at the close of last month were only 9 percent above the 1943 average, and less than 1 percent above the July 1943 peak attained just before the downfall of Mussolini. Moreover, prices are still about 25 percent below the 1937 high, which has not been approached at any time during the war.

A comparison of prices and net earnings of the 30 stocks in the Dow-Jones industrial average reveals that under war-time conditions investors and traders have tended to evaluate industrial stock earnings more conservatively than in pre-war years. Reference to Chart 4 will disclose that, despite improved earnings in 1940 and 1941, average stock prices showed noticeable declines. Moreover, despite the improvement in prices since the 1942 low, the pre-war relationship between earnings and prices has not been restored. Earnings figures for the year 1944, of course, are not available, but it is of interest that in the first 6 months of 1944 earnings were about 6 percent above year-earlier levels.

Steel output below last year's level

After reaching 100 percent of capacity at the end of last April, steel operations have shown a gradual decline, with operations last week scheduled at 95.1 percent of capacity as compared to 100.8 percent in the corresponding week last year. However, due to the intervening expansion in the capacity of the industry, actual tonnage of ingots scheduled for production last week was less than 3 percent below last year's level. This compares with a corresponding decline of 1.6 percent during the month of August. (See Chart 5.)

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Figures recently released by the American Iron and Steel Institute reveal a further expansion of about 400,000 tons in the capacity of the steel industry in the first half of this year. This virtually concluded the war-time expansion program of the industry and raised total capacity as of July 1, 1944 to 94,055,000 net tons, or more than 12,400,000 tons above the level of January 1940.

Trade journals in recent weeks have indicated a decline in new orders for steel and some reduction in order backlogs of the mills, while noticeable price weakness and lack of buying interest continue to feature the market for steel scrap. Thus the Iron Age composite price for steel scrap last week showed a further decline of 62.5 cents per ton. As a result of the latest drop, the composite price on September 26 stood at \$17.00 per ton as compared with \$19.17 a month earlier.

Further evidence of the easier situation in the steel industry is seen in the announcement last week that the Republic Steel Corporation at Canton, Ohio had entered into an agreement with the CIO steel workers' union for a temporary reduction of the 48-hour week to 40 hours. This agreement, which is subject to WMC approval, was entered into in a "spread the work movement" necessitated by recent cutbacks in war contracts.

Heavy war production still required

Weakening of steel scrap prices and signs of slackening steel operations undoubtedly reflect to some extent the recent wave of optimism over peace prospects in Europe. Actually, present goals call for a very heavy volume of war production during the remainder of the year. Thus, the WPB last week indicated that production in the last 4 months of this year would have to run 8 percent above the August level in order to attain the present goal for 1944. Moreover, the WMC last week again called attention to the need for 200,000 additional workers in war industries, with 68,000 required in explosive and shell-loading plants and 50,000 in shipbuilding and ship repairing.

August munitions output was 2 percent higher than in July, on the basis of preliminary figures, with such critical items as heavy-duty tires, heavy-heavy trucks, super bombers and large caliber artillery ammunition reaching record highs during the period. Nevertheless, numerous critical munitions items were still behind schedule at the end of the month. Thus at the end of the first 8 months of the year, the percentage

- 6 -

completion of the 1944 program in certain critical items was as follows: heavy artillery, 58 percent; general purpose and fragmentation bombs, 53 percent; heavy artillery ammunition, 50 percent; heavy-heavy trucks, 45 percent; super-bombers, 42 percent; A-26 invader planes, 27 percent; combat loader and combat transport vessels, 14 percent.

Should the war end suddenly in Europe some of the items now listed as critical would be cut back sharply. Army requirements for heavy artillery ammunition after V-E Day will be cut 76 percent, while the demand for heavy-heavy trucks will be reduced 72 percent. Likewise, communications and electronics requirements will be cut almost in half.

Interim reconversion program may
have important influence

In the event continued heavy requirements for the war in Europe should prevent an early large-scale reconversion of industry, the interim reconversion program now evolving under the "spot authorization" order of mid-August will assume greatly increased importance. Initial progress of the limited reconversion program has not been encouraging, however, with only 124 out of 1,506 applications for reconversion approved in the first month of operation. The slow progress to date has been attributed in part to the relatively complicated procedures through which applications must move, and the WPB some time ago indicated that it was working on a simplification of the entire program.

It was revealed last week that 376 applications had been received in WPB Region 2, which includes all of New York State and Northern New Jersey. Of this number, 25 had been definitely approved up to that time. In the New York City area 11 manufacturers thus far have received authorization to resume limited civilian goods production of vacuum cleaners, aluminum trays, metal venetian blinds, gauges, picture frames, metal garment hangers, table and floor lamps, ash cans, garbage cans, electric heating pads, fishing rods and memorandum pad stands.

Reconversion problems of automobile industry

Further attention was focused on the reconversion difficulties of the automobile industry last week, as leading executives in the industry met in Detroit to consider the problem. In addition to previously-expressed concern over prospective delays in clearing plants of Government-owned machinery and materials, considerable emphasis was placed on the difficulty of securing machine tools. The president of General Motors indicated that his company would need 3,600 new

- 7 -

tools to bring new car production up to 50 percent of the 1941 level, and 23,000 new tools to carry out the company's post-war program. However, due to the accumulated backlog of priority-rated orders in the hands of machine tool builders, only 17 percent of the machine tools ordered by General Motors are promised for delivery by January 1, 1945. Moreover, some of the machine tool orders carry only tentative promises for delivery by next June.

It had been proposed that a special priority be granted for machine tools to give automobile makers a fast start on reconversion, but this has been turned down by WPB Chairman Krug. Likewise, it has been urged that the scope of the spot authorization plan be enlarged so that machine tool makers can more adequately fulfill the needs of the automobile industry.

Apparently, some of the difficulties of the automobile makers arise from the fact that the machine tool industry ceased to be regarded as a critical industry since the spring of last year. As production fell off from the December 1942 peak, some plants converted to war work in non-tool lines, while the industry as a whole has lost many skilled workers and technicians as a result of the draft and shifts to other industries. Recently, officials of the WPB's machine tool division stated that strong efforts were being made to have the industry declared critical in order to cope with its manpower difficulties. Reflecting the increased demand for machine tools, new orders received by the industry in August were 26 percent above the July figure.

Department store stocks at high level

Despite the inroads of expanded consumer buying and the obvious shortages in many lines of merchandise, department store stocks (in dollar value) continue to be maintained at high levels. Stocks in August rose more than seasonally, and the FRB adjusted index of stocks advanced to the highest level since September 1942. (See Chart 6.) At the end of August the value of stocks was about 1 percent greater than a year earlier.

However, outstanding orders for merchandise at the end of August were 8 percent lower than a year earlier. While actual goods shortages undoubtedly was a strong factor in this drop in buying by department store managers, caution engendered by peace prospects in Europe may have been a contributing factor. Thus the chairman of Montgomery Ward recently revealed that his company had cut orders in the hands of manufacturers one-fourth under year-earlier levels, due to uncertainties accompanying the prospective end of the war in Europe.

COMMODITY PRICE INDEXES IN U.S.

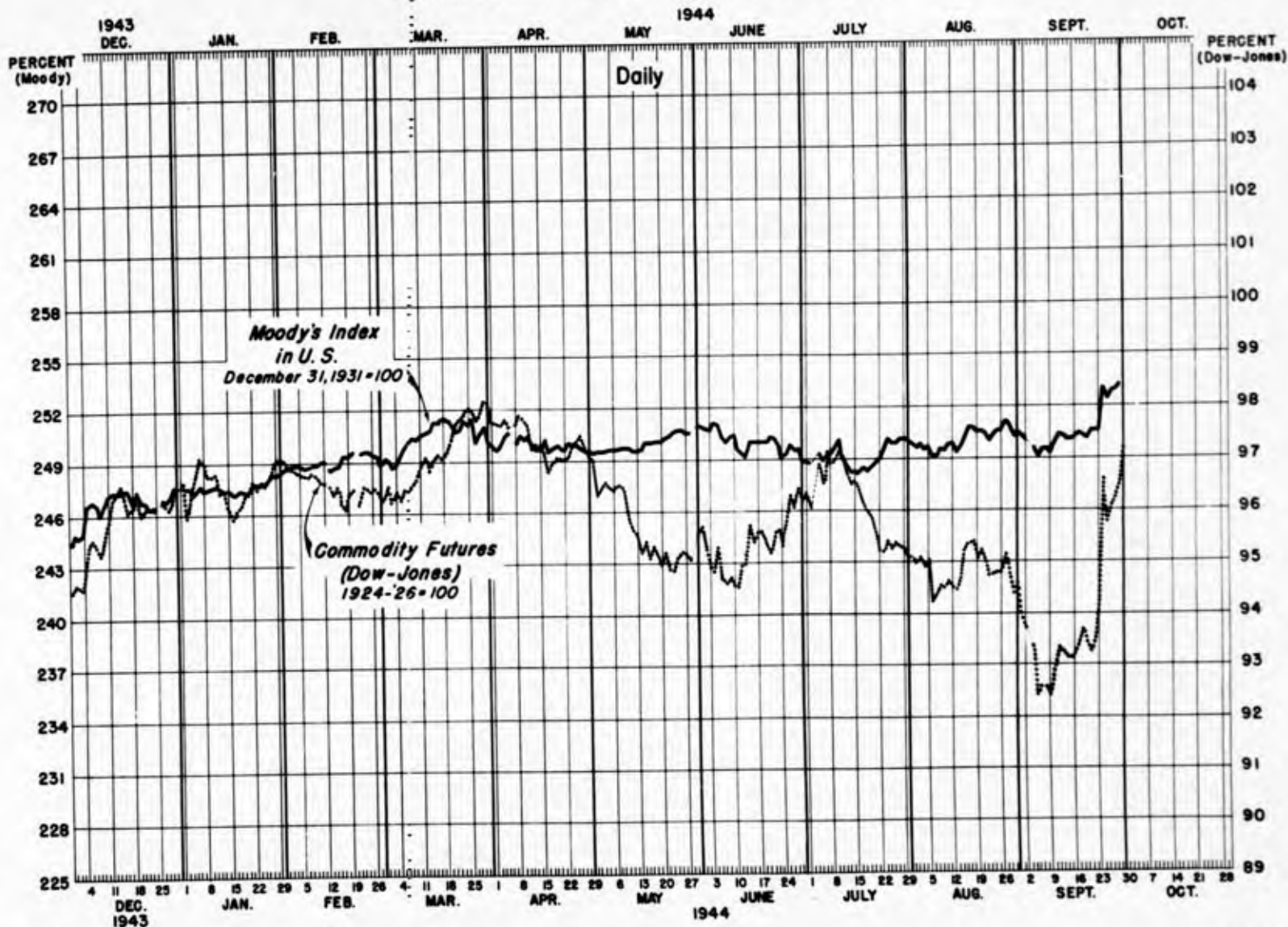
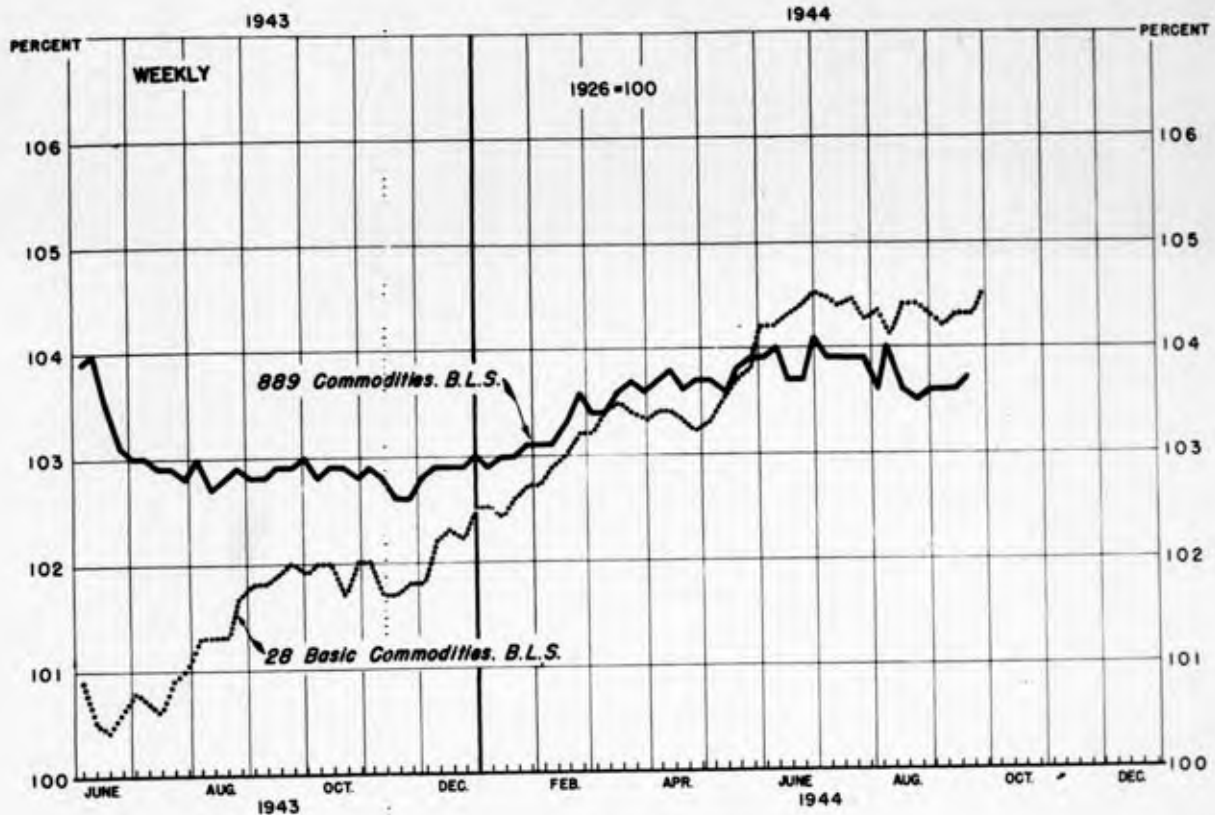


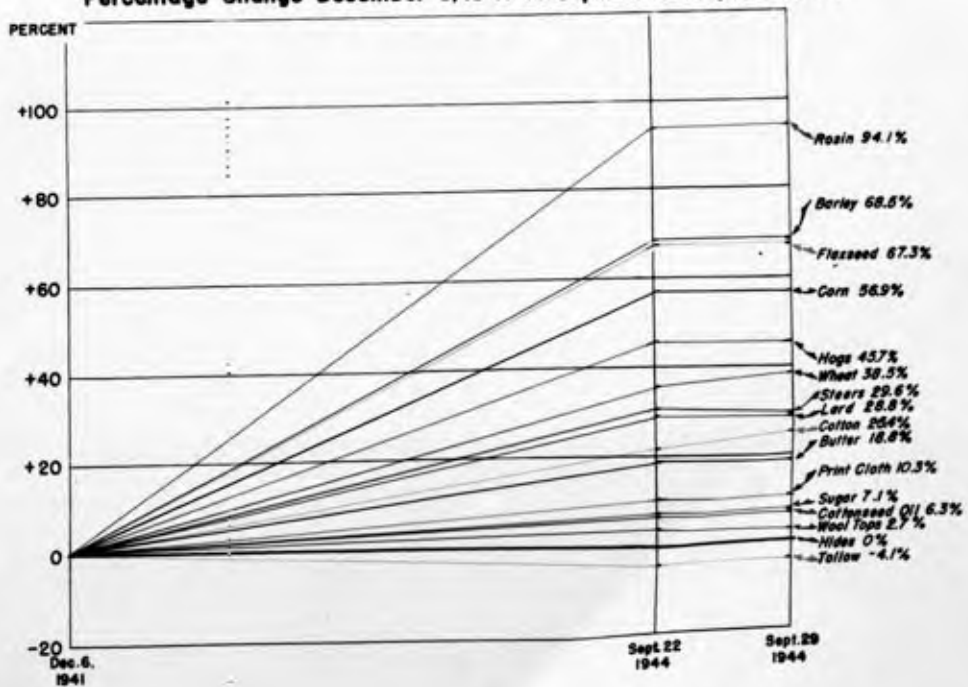
Chart 1

17

WHOLESALE COMMODITY PRICES



SELECTED BASIC COMMODITIES
Percentage Change December 6, 1941 to Sept. 22 and Sept. 29, 1944

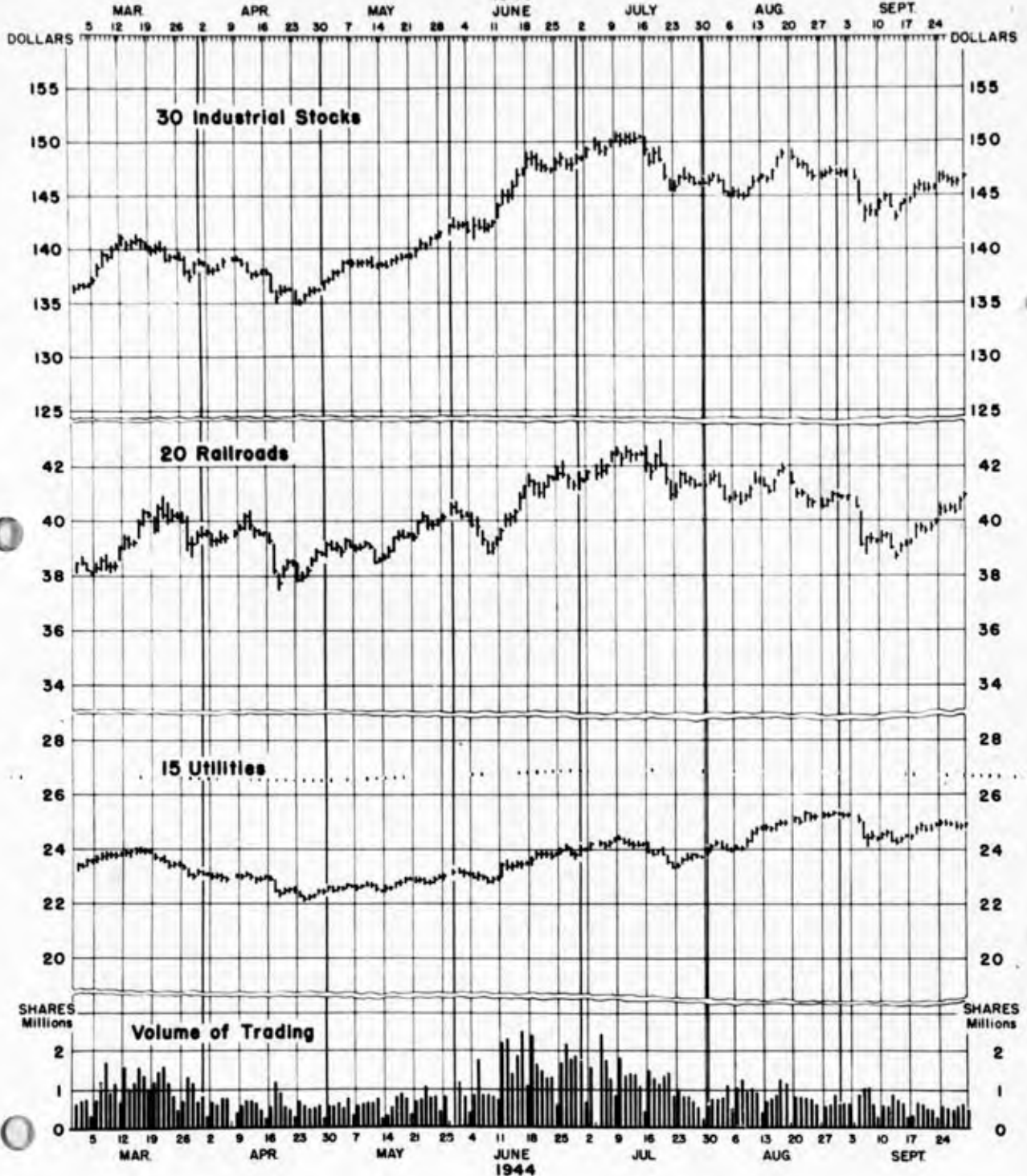


18

STOCK PRICES, DOW-JONES AVERAGES

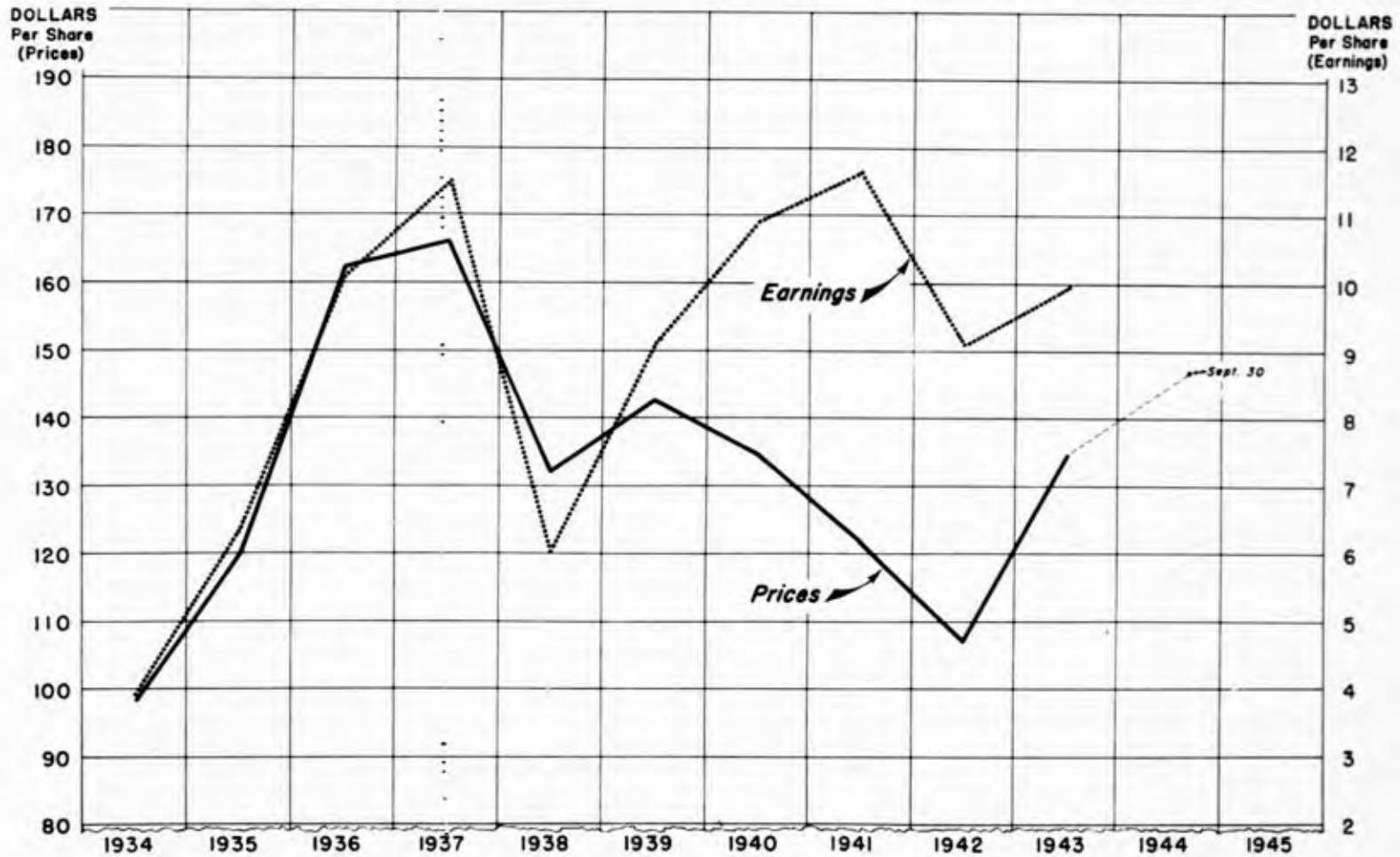
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1944



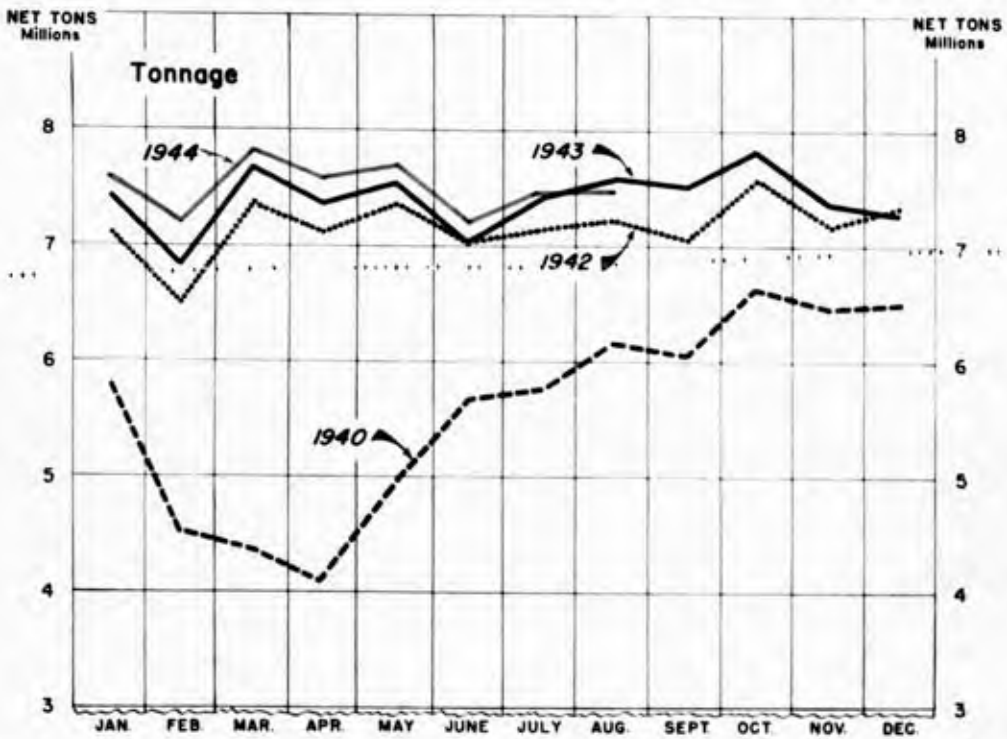
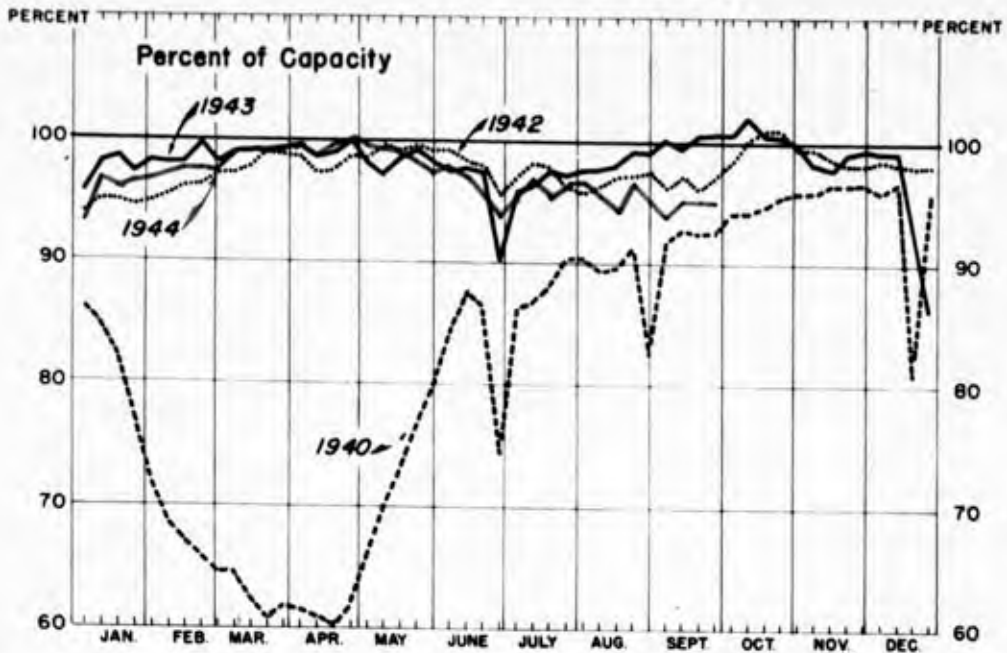
STOCK PRICES AND EARNINGS

30 Industrials Comprising Dow - Jones Average



Source: Dow-Jones and "Barrons"

STEEL INGOT PRODUCTION



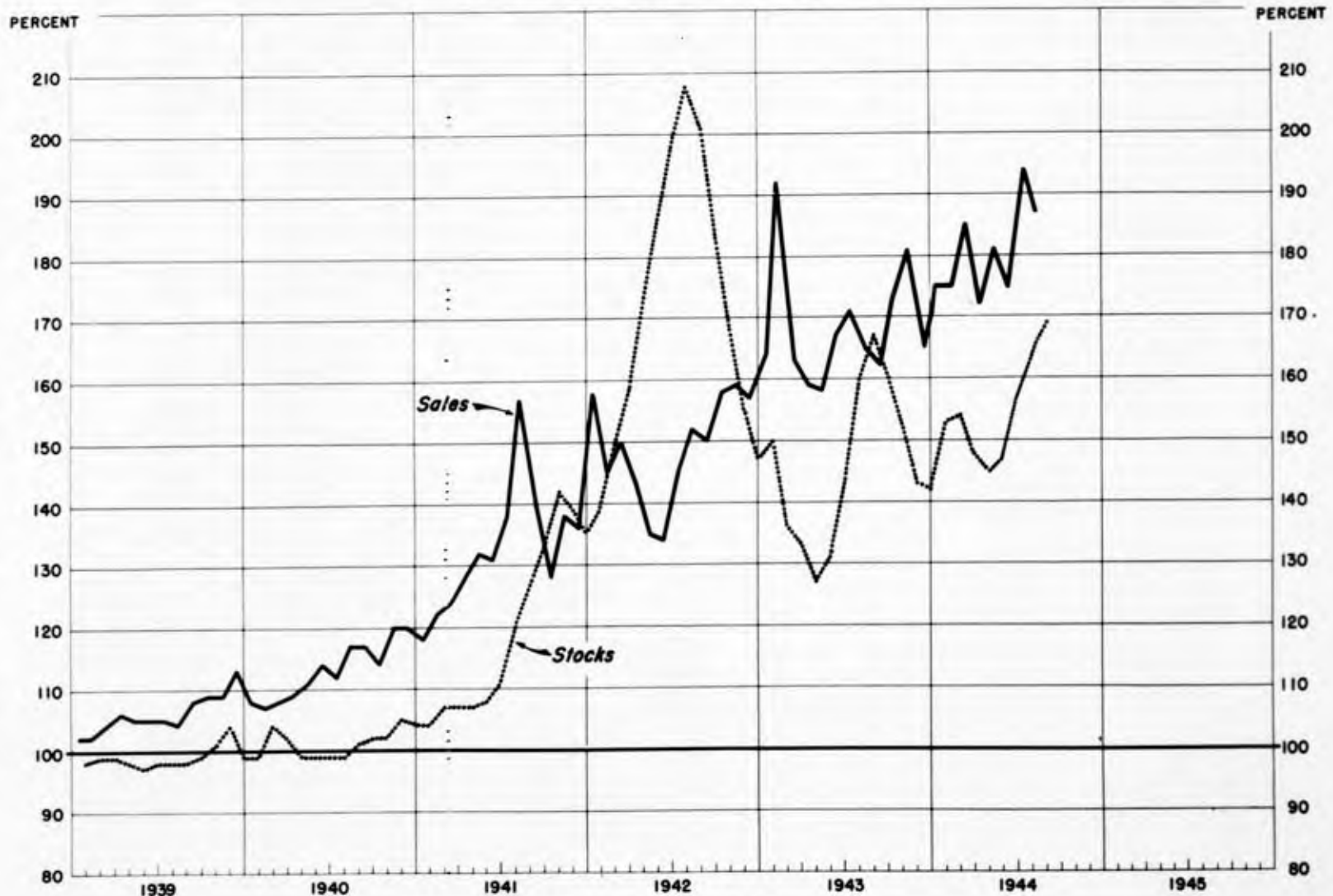
Office of the Secretary of the Treasury
Division of Research and Statistics

Source: American Iron and Steel Institute

G-532

DEPARTMENT STORE SALES AND STOCKS

Dollar Values, 1935-'39=100, Adjusted



Source: Federal Reserve Board

Treasury Department
Division of Monetary Research

23

Date October 4, 1946

To: Secretary Morgenthau

This is an interesting exchange of letters relating to rights of transfer to third countries of lend-lease armaments. I think you will be interested in reading the summary statement.

H.D.W.

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

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Date Oct. 2, 1944

TO Mr. White

FROM Mr. Casaday

Subject: Summary of correspondence between Secretary Hull and Lord Halifax concerning transfers of munitions by the U.K. or the U.S. to third countries under Munitions Assignment Boards procedure. Copies of correspondence were sent to Secretary Morgenthau September 23 for his information.

1. On June 20, 1944 Secretary Hull wrote Lord Halifax stating that U.K. representatives on the Munitions Assignment Boards had taken the position that their Government is free, without obtaining U.S. concurrence, to dispose of any weapons having U.K. origin even though the availability of such weapons resulted directly from the transfer to the U.K. on lend-lease of identical or similar articles. Secretary Hull reiterated the terms of reference of the Munitions Assignment Boards and stated the U.S. policy that all transfers to third countries must require consultation and agreement between the U.S. and U.K. representatives.
2. Sir Ronald Campbell replied on July 22 that the U.K. concurred in Secretary Hull's statement of policy. He admitted that a few transfers had been made without consultation but "this has been due to faulty procedure rather than to an intentional departure from the agreed policy". However, Campbell further stated that His Majesty's Government is concerned that U.S. representatives on the Boards have objected to transfers solely on the ground that similar material has been received by the U.K. from the U.S. on Lend-Lease. His Majesty's Government feels that this attitude is inconsistent with the idea of the common pool, and with the principle that allocations to third countries are to be made solely in accordance with strategic needs, without regard to origin.
3. Secretary Hull wrote Halifax again on September 14 noting U.K. concurrence with U.S. policy as stated but expressing concern at the apparent British assumption that the origin of munitions in the common pool could be disregarded in making allocations. He stated that "... in the absence of such completed settlements as are contemplated by the Lend-Lease Act, neither the Master Agreement nor the Lend-Lease Act itself permits the United States to disregard...the origin of the supplies so transferred." He contended that "...it is legitimate for the United States to consider the fact that American munitions are being or have been transferred for British use on Lend-Lease as a datum pertinent to consenting to the transfer of similar munitions by Great Britain to some third country." He concluded that this is a limitation on the common pool conception that must be borne in mind.

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lw



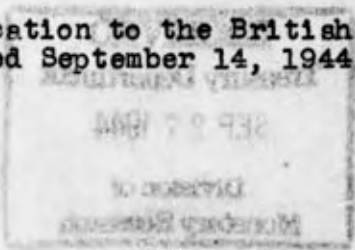
DEPARTMENT OF STATE
WASHINGTON

In reply refer to
NEA 800.24/7-2244

September 23, 1944

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith for his information copies of the following communications concerning the transfer to third countries by the United States and Great Britain of munitions similar to those received by either Government from the other under lend-lease or reciprocal aid:

1. Note to the British Ambassador, dated June 20, 1944.
2. Reply of the British Government, dated July 22, 1944.
3. Further communication to the British Ambassador, dated September 14, 1944.



Enclosures:

As listed.



REASON (mirrored)
SEP 27 1944
DIVISION OF
STATE DEPARTMENT

lw

Department of State

26

BUREAU
OF DOCUMENTS

ENCLOSURE
TO

Letter drafted NEA

ADDRESSED TO

Secretary of the Treasury

June 20, 1944

Excellency:

The Secretaries of War and Navy have called to my attention certain problems with regard to the assignment of munitions by the Washington and London Munitions Assignment Boards and the transfer thereof to third countries. I have discussed these problems with the President.

As you recall, the Munitions Assignment Boards were set up by the Prime Minister and the President in the following terms:

- "1. The entire munitions resources of Great Britain and the United States will be deemed to be in a common pool, about which the fullest information will be interchanged.
- "2. Committees will be formed in Washington and London under the Combined Chiefs of Staff in a manner similar to the South-West Pacific Agreement. These Committees will advise on all assignments both in quantity and priority whether to Great Britain and the United States or other of the United Nations in accordance with strategic needs."

In the assignment of munitions the objective as seen by the President and the Prime Minister was clearly to utilize all available resources, regardless of origin, for the most effective prosecution of the war. To do this they established the Munitions Assignment Boards. It is my understanding, however, that United Kingdom representatives on the Munitions Assignment Board have taken the position that their Government is free, without obtaining the concurrence of the United States, to dispose of any weapons having United Kingdom origin, even though the availability of such weapons for disposition resulted directly from the transfer on Lend-Lease of substantial amounts of identical or similar articles.

In order to settle the questions of interpretation and procedure which have arisen, it is the policy of the American Government that:

1. The

-2-

1. The two governments shall consult and concert their actions before making transfers of munitions to other countries.

2. Transfers to third countries of munitions of a kind which either government has received from the other shall be by agreement between the appropriate authorities of the two governments.

The Munitions Assignment Boards in London and Washington would appear to be the appropriate machinery for carrying out the foregoing.

I should appreciate being informed that the policy of this Government as stated above is concurred in by the Government of Great Britain.

Accept, Excellency, the renewed assurances of my highest consideration.

CORDELL HULL

British Embassy,
Washington, D. C.

No. 448

July 22, 1944

Sir,

In considering Your Excellency's note of June 20th, His Majesty's Government have assumed that it applies only to the assignment of those resources which fall within the scope of the Munitions Assignment Board.

His Majesty's Government entirely concur in the policy of the United States Government as set out in paragraph 4 of Your Excellency's note in regard to the assignment of munitions by the Washington and London Munitions Assignment Board and their transfer to third countries. Apart from those items which have been in full supply or in which the United States have expressed no interest, the United Kingdom representatives on the Board have, in fact, followed this policy in almost every case during the past two years and they do not consider themselves free, as suggested in the third paragraph of Your Excellency's note, to dispose of weapons of United Kingdom origin without obtaining the concurrence of their United States colleagues on the Board. In relatively few cases in which an assignment of United Kingdom munitions to a third country has been made without consultation with United States members of the London Board, this has been due to faulty procedure rather than to an intentional departure from the agreed policy.

At the same time, His Majesty's Government are concerned that in a number of instances the transfer to a third country of munitions of United Kingdom origin has been opposed by United States authorities purely on the ground that similar material has been, or is being, received by the United Kingdom on lend lease from the United States. His Majesty's Government cannot reconcile this attitude with the principle laid down by the President and the Prime Minister, quoted in your note, that the entire munitions resources of Great Britain and the United States will be deemed to be in a common pool regardless of origin. In the view of His Majesty's Government, each case should be considered jointly by United Kingdom and United States members of the Washington or London Board as appropriate, whose recommendations should be framed solely in accordance with strategic needs.

I have the honour to be,
with the highest consideration,

Sir,
Your most obedient,
humble Servant,

RONALD I. CAMPBELL

The Honourable
Cordell Hull,
Secretary of State of the United States,
Washington, D. C.

September 14, 1944

Excellency:

I refer to Sir Ronald Campbell's note of July 22, 1944, concerning the transfer of military supplies to third countries.

I am pleased to learn that your Government concurs entirely in the policy of the United States Government as set out in paragraph four of my note of June 20, 1944, which provides that the two Governments shall consult and concert their actions before making transfers of munitions to other countries, and that transfers to third countries of munitions of a kind which either Government has received from the other shall be by agreement between the appropriate authorities of the two Governments.

I am concerned, however, about the apparent assumption of your Government, as indicated in the last paragraph of Sir Ronald's note, that the President and the Prime Minister, in declaring that the munitions of Great Britain and the United States should be deemed to be in a common pool, intended that the origin of the munitions should be disregarded. It is true that the munition resources of the United States and Great Britain have been pooled in the sense that their munitions are made available to each other for the wisest and most efficient conduct of the war. But, in the absence of such completed settlements as are contemplated by the Lend-Lease Act, neither the Master Agreement nor the Lend-Lease Act itself permits the United States to disregard, after the transfer of supplies to Great Britain, the origin of the supplies so transferred. The specific reservation by the United States of the right to reclaim such supplies is proof of this. The decisions as to whether certain defense supplies are transferred to Great Britain is determined, of course, by the British need for such supplies, and bearing upon that need is the use which Great Britain seeks to make of these or similar supplies of British origin.

As

His Excellency
The Right Honorable
The Earl of Halifax, K.G.,
British Ambassador.

-2-

As regards the grounds on which American consent to transfers is given, it is legitimate for the United States to consider the fact that American munitions are being or have been transferred for British use on Lend-Lease as a datum pertinent to consenting to the transfer of similar munitions by Great Britain to some third country. This is not to imply that strategic needs are not to be considered in consenting to such a transfer. Indeed, such needs are primary, but obviously other considerations pertinent to the very widest concept of strategy are also relevant.

I renew my appreciation of your assurances that Great Britain concurs in the policy of the United States as expressed in my earlier note. I must, however, point out the limitations upon the common pool conception of our munition resources which must, as a matter of law and policy, be borne in mind.

Accept, Excellency, the renewed assurances of my highest consideration.

CORDELL HULL

800.24/7-2244

*Taken care of
by phone -*

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

OCT 2 - 1944

Dear Secretary Morgenthau:

I should like to suggest that in order to expedite the working out of an appropriate Lend-Lease policy for Great Britain during phase two, it would be helpful for representatives of our agencies to meet together with representatives of the State Department to consider at an early date some of the major considerations which are involved, a few of which can be mentioned here.

Both on the merits and as a matter of public acceptance one of the key issues in this whole question is the proportion of British resources which will be devoted to the Japanese phase of the war as compared with our own. Thus, for example, if Britain is directly devoting 15% of its resources to the Japanese phase of the war and we are devoting 30%, it might not be right or politic for us to supply six and one-half billion dollars worth of Lend-Lease aid.

I think Sir Henry Self's concern about the question probably indicates the importance of it.

The proportion of British production capacity that is devoted to the Japanese phase of the war can be measured in a variety of ways. Their contemplated budgetary expenditures for the Japanese phase of the war would be one criterion. The proportion of their manpower devoted to the direct war effort in the armed forces and in war production would be another indication. Similarly, I think we could formulate several other criteria which would be highly useful.

The proportion of its resources which Britain is likely to contribute to the Japanese phase of the war in comparison with our own should not, of course, be used as an absolute standard.

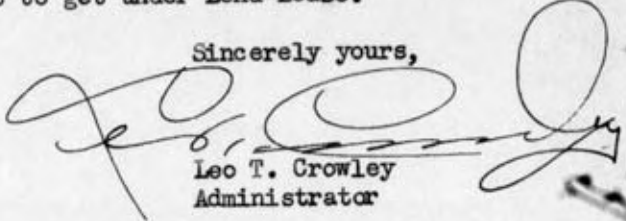
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SECRETARIA DE TREASURY
OFFICE

- 2 -

I think one of the other key questions that is likely to arise is whether or not the British, for example, can get supplies under Lend-Lease to rebuild some of their housing that was destroyed by the robot bombing. I think we ought to think about this question and keep it in mind when we look at the figures which they supply on the non-munitions articles they expect to get under Lend-Lease.

Sincerely yours,



Leo T. Crowley
Administrator

The Honorable

The Secretary of the Treasury

**BRITISH AIR COMMISSION**

1785 MASSACHUSETTS AVENUE
WASHINGTON, D. C.

TELEPHONE HOBART 9000

PLEASE QUOTE

REFERENCE NO.....

With the compliments of British Air Commission
who enclose Statements Nos. 155 and 156 --
Aircraft Despatched -- for the weeks ended
September 15th and September 22nd respectively.

..... The Honourable Henry Morgenthau, Jr.
Secretary of the Treasury
WASHINGTON, D. C.

October 2, 1944.

BRITISH/U. S. SECRET

STATEMENT NO. 155

BRITISH/U. S. SECRET

Aircraft Despatched from the United States
 Week Ended September 15, 1944

<u>TYPE</u>	<u>DESTINATION</u>	<u>ASSEMBLY POINT</u>	<u>BY SEA</u>	<u>BY AIR</u>	<u>FLIGHT DELIVERED FOR USE IN CANADA.</u>
<u>CONSOLIDATED</u>					
Liberator B VI	M.E.	M.E.		1	
Liberator B VI	India	India		4	
<u>BOEING</u>					
Catalina IV B	U.K.	U.K.		8	
<u>FAIRCHILD</u>					
Fairchild C61	N.W. Africa	Algiers	20		
" C61	India	Karachi	1		
<u>GLENN MARTIN</u>					
Marauder III	M.E.	M.E.		13	
<u>NORTH AMERICAN</u>					
Mitchell III	U.K.	U.K.		13	
Mustang	U.K.	U.K.	1		
"	Casablanca	Casablanca	15		
<u>DOUGLAS</u>					
Dakota IV	U.K.	U.K.		4	
Dakota IV	M.E.	M.E.		1	
Dakota IV	India	India		3	
<u>GRUMMAN</u>					
Avenger	India	Cochin	11		
Hellcat	India	Cochin	13		
<u>NOORDUYN</u>					
Harvard	U.K.	U.K.	7		
<u>BEECHCRAFT</u>					
U.C.45					
Beechcraft	N.W. Africa	Algiers	10		
<u>STINSON</u>					
Reliant	Trinidad	Trinidad		4	
<u>WACO</u>					
Glider	India	Calcutta	68		
Glider	India	Karachi	10		
Glider(C.G.4-A)	U.K.	U.K.	1		
<u>VULTEE</u>					
Vengeance	U.K.	U.K.	12		
<u>VOUGHT-STIKORSKY</u>					
Corsair	India	Cochin	14		
		TOTAL:	183	51	-

Movements V (USA)
 British Air Commission

JT:es
 File V-17

STATEMENT NO. 156

Aircraft Despatched from the United States
Week Ended September 22, 1944.

BRITISH/U. S. SECRET

<u>TYPE</u>	<u>DESTINATION</u>	<u>ASSEMBLY POINT</u>	<u>BY SEA</u>	<u>BY AIR</u>	<u>FLIGHT DELIVERED FOR USE IN CANADA</u>	
<u>CONSOLIDATED</u>						
Liberator B VI	M.E.	M.E.		15		
Liberator B VI	India	India		3		
Liberator GR VI	India	India		3		
Liberator B VIII	M.E.	M.E.		5		
<u>GLENN L. MARTIN</u>						
Marauder III	M.E.	M.E.		5		
Baltimore V	Canada	Canada			1	
<u>NORTH AMERICAN</u>						
Mitchell III	U.K.	U.K.		8		
Mustang	U.K.	U.K.	1			
Mustang	N.W. Africa	Casablanca	4			
Harvard	U.K.	U.K.	1			
<u>DOUGLAS</u>						
Dakota IV	U.K.	U.K.		1		
Dakota IV	M.E.	M.E.		1		
Dakota IV	India	India		19		
<u>BOEING</u>						
Catalina IV B	U.K.	U.K.		6		
<u>GRUMMAN</u>						
Wildcat	U.K.	U.K.	6			
Avenger	U.K.	U.K.	1			
<u>CURTISS</u>						
Kittyhawk	Australia	Melbourne	10			
<u>REPUBLIC</u>						
Thunderbolt	India	Karachi	28			
Thunderbolt	M.E.	Alexandria	5			
<u>NOORDUYN</u>						
Harvard	U.K.	U.K.	4			
<u>STINSON</u>						
Reliant	Trinidad	Trinidad		7		
Reliant	U.K.	U.K.	10			
<u>VULTEE</u>						
Vengeance	U.K.	U.K.	9			
<u>WACO</u>						
Glider	U.K.	U.K.	2			
Glider	India	Calcutta	30			
<u>VOUGHT-SIKORSKY</u>						
Corsair	U.K.	U.K.	4			
Total:				115	73	1

Movements Division
British Air Commission
msb File V-17

October 2, 1944



EXECUTIVE OFFICE OF THE PRESIDENT
WAR REFUGEE BOARD
WASHINGTON 25, D. C.

OFFICE OF THE
EXECUTIVE DIRECTOR

OCT 2 1944

My dear Mr. Secretary:

I am pleased to send you herewith a copy of the report of the War Refugee Board for the week of September 18 to September 23, 1944.

Very truly yours,

J. W. Penle
J. W. Penle
Executive Director

The Honorable,

The Secretary of the Treasury.

Enclosure.

Report of the War Refugee Board
for the Week of September 18 to 23, 1944

SITUATION IN HUNGARY

Reports from various sources continue to confirm earlier indications that the Germans have no intention of consenting to the voluntary departure of Jews from Hungary. However promising any disposition on the part of Hungarian authorities to allow emigration of Jews to countries willing to receive them may be, projects for removing Jews to countries of immigration or asylum consistently encounter this unyielding attitude of the Germans, whose unfortunately effective control of exit and transit facilities has thus far precluded fulfillment of these projects. The International Red Cross Committee reported that emigration from Hungary to Rumania and Bulgaria is now impossible and that serious obstacles stand in the way of emigration to accessible neutral countries, specifically Sweden and Switzerland.

The seriousness of the situation is accentuated in Representative McClelland's report of the deportation from Hungary of 360,000 Jews whose extermination the Gestapo in Budapest admitted. This information was received from a confidential source from which it was also learned that another 160,000 Hungarian Jews are presumably alive in labor service outside Hungary at several localities in German-controlled territory. The fate of the estimated 200,000 Jews remaining in Hungary, principally in Budapest, is suggested in the reported plan of the Hungarian Government to dispose of them by placing every able-bodied man and woman in compulsory agricultural and industrial work in various parts of the country "in the interest of national defense." Budapest Jews physically unsuited for work apparently are to be placed in two large camps with a combined capacity for 120,000 individuals, with those too aged or infirm even for these camps to be grouped in "Jewish hospitals" in unspecified locations. Preparations for the establishment of the camps were said to have been started the latter part of August, Hungarian Jews probably themselves to be required to assist in financing the plan. McClelland's informant declared that the camps are to be under military control; press reports from Budapest referred to Red Cross supervision, although without specifying whether such supervision would be by the International or the Hungarian Red Cross. However, McClelland was informed by the International Red Cross Committee that they had received no details concerning such an arrangement, and it was his opinion that because of continued failure of the Germans to issue transit

- 2 -

visas for Intercross personnel from Switzerland, the Committee would not be in a position to exercise any effective degree of control over the camps.

Apparent confirmation of this information was contained in a less detailed report which the Swiss received from their Legation in Budapest, from which it seems definite that the Hungarian Government, under German pressure, has decided to transfer Jewish residents of Budapest to Hungarian provinces very soon, incorporating into the Hungarian labor service Jews of both sexes from 14 to 70 years of age, and concentrating persons above and below these age limits in provincial camps. It was indicated that the Hungarian Government's approval of these measures is aimed at protection of the Jews, against whom the German Government would otherwise have taken measures without consulting Hungarian authorities.

McClelland later relayed to us the substance of a press dispatch from Budapest which gave the following propaganda description of mobilization of Jewish labor:

Mixed commission examines Jews at place of residence and enrolls them according to their training. Jews receive legal and customary wages. Budapest Jews not suited for military service nor defense labor are transferred to provinces. Jewish organizations will collaborate with the Red Cross in arranging quarters where such Jews can be employed mainly in home industries, including feather plucking, basket weaving, corn husking. Jews enrolled in Honved labor service will be used in industry and lodged in nearby Jewish houses. The Hungarian Red Cross will look after their welfare and health. Jewish persons not suited for work, the aged, the sick, and the weak will be placed in Jewish hospitals in Budapest. Privileged Jews are subject to compulsory labor. Under-age Jewish children will be placed in the care of the Red Cross. Jews in Honved labor service sent outside Budapest may have their families join them, with transfer and maintenance arranged by competent officers. Labor and transfer conditions meet all modern requirements and defy any criticism.

We advised McClelland of our regret at the inability of the Swiss to transmit to the Hungarians our proposed message concerning reports of active Hungarian participation in deportations and expressed the belief that, whether or not they would accept the message in a formal sense, the purpose of the communication would be accomplished by the mere awareness of the Hungarian Government that the outside world is informed of abuses occurring in Hungary.

- 3 -

Following the recently reported note from the Hungarian Legation to the Swedish Foreign Office stating that "future deportees for labor service will have the right of supervision by Hungarian Red Cross representatives in order to avoid further charges of brutality," and our request that the International Red Cross Committee contact Hungarian authorities and the Hungarian Red Cross in an effort to establish immediate Red Cross supervision also over all camps to which Jews from Hungary have been deported in the past, the Committee responded that it is continuing to oppose the deportations by every means in its power. The wish of the International Red Cross to refrain from any share in the deportations, if only to obtain more tolerable transportation, is stated to be dictated by a desire to avoid any possibility of its action being interpreted as participation in or approval of deportations. The International Red Cross has advised that a new proposal has been submitted to the Hungarian Government and the Jewish Senate in Budapest seeking extension of International Red Cross protection to Jews confined in camps or houses in Hungary. We asked McClelland to convey to Intercross our feeling that fear of misinterpretation should not be allowed to stand in the way if supervision of deportations can alleviate the sufferings of deportees. The very presence of Intercross observers might have a salutary effect beyond the mere humanization of treatment of deportees.

With reference to the persistent reports of renewed or impending deportations of Jews from Hungary and Slovakia, we requested McClelland to convey to the German authorities through official Swiss channels this government's emphatic protest against these deportations and its firm determination to see to it that all persons participating in any form whatsoever in these deportations or in any other forms of persecution in Hungary or Slovakia will be apprehended and punished. We also asked McClelland and Representative Olsen in Stockholm to make the strongest possible unofficial representations along this line to appropriate individual German officials through all channels that may be available to them.

Spanish Visas

Information received from our Legation in Tangier indicates that the 500 children and 70 adults who were granted visas for Spanish Morocco are being cared for in a special camp under the protection of the International Red Cross Committee and the Spanish Legation in Budapest. We requested our representative in Switzerland to verify this report, and unless it is confirmed, to request Intercross to undertake supervision of these beneficiaries of Spanish visas to prevent their deportation or persecution. We also requested that such supervision of the beneficiaries of an additional 1,500 Spanish visas authorized for Jews in Hungary be assumed as soon as feasible.

- 4 -

Visas for Children

Our Embassy in Quito advised us that the Ecuadoran Government, in connection with its acceptance in principle of our proposal with respect to refugee children from Hungary as well as from France, has indicated that it will be able to accept approximately 300 children.

Evacuation of Children to Switzerland

The representative of the private organization endeavoring to arrange the evacuation of 5,000 children from Hungary to Switzerland advised our representative that an undisclosed diplomat recently arrived in Switzerland from Hungary stated that he had received information from "competent German quarters" indicating that if convincing and concrete assurances were given by either the United States or British Governments that these children would be admitted to the United States and to the British Isles, the Germans would certainly permit them to leave Hungary by way of Switzerland. It was indicated that the question of the Swiss Government considering as insufficient the guarantees given and sponsored by Great Britain and the United States that such children would be evacuated from Swiss territory did not therefore arise.

SITUATION IN SLOVAKIA

McClelland cabled Board Representative Ackermann in Italy the substance of reports received in Switzerland from trustworthy sources in Bratislava indicating that the situation of the remaining 18,000 to 20,000 Jews in Slovakia is becoming more and more precarious. While a report that Slovak officials began to deport Jews again on September 11 had not been confirmed, McClelland advised Ackermann that reliable and confidential indications reaching him point to the responsibility of the Slovak "Quisling" government for this renewed persecution of Jews. This is borne out in the recent public statement by the Minister of Interior of the Tiso Government that the Jews and Czechs were the instigators of the extensive resistance movement active a short time ago in Slovakia. Czech circles in Switzerland and Jewish circles in Bratislava feel strongly that energetic and quick use of Vatican influence could help to alleviate the situation. McClelland requested that Ackermann discuss with Mr. Myron Taylor the possibility and advisability of Vatican intervention and also suggested that advantageous use might possibly be made of the fact, reliably reported, that Slovak Minister Sidor is still at the Vatican, where he supposedly hopes to secure protection after the war is over.

We suggested to the Apostolic Delegate in Washington that the Holy See might find it appropriate to reiterate to Dr. Tiso

and his associates, through Sidor or otherwise, the seriousness with which this Government views any part which Dr. Tiso or his associates may play in the deportation and persecution of Jews in Slovakia and our intention to take their participation in such activities into account in the future. Ackermann was advised of our action and of our concurrence in McClelland's suggestions.

SITUATION IN BULGARIA

Ambassador Harriman forwarded to us from Moscow a press dispatch from Sofia reporting the establishment of a Provisional Committee to help persons suffering from the effects of the policies pursued by the Fascist Bulgarian Government. The new Committee has issued an appeal for medical and other help for the thousands of persons just released from prisons and concentration camps.

Our Embassy in Ankara has verified recent reports of the impoverished condition of the major portion of the Jewish population in Bulgaria and the imperative need for their relief without delay.

SITUATION IN POLAND AND THE BALTIC STATES

Reports have reached us that there are perhaps 60,000 surviving Jews in Lodz, Poland, that several thousand Lithuanian Jews are held in a camp at Krotingen in the Lithuanian-East Prussian border region, and that 7,500 have been deported from Kaunas to East Prussia. There is every indication that the lives of all of these people are in grave danger and that all possible measures to avert the possibility of their tragic massacre by the retreating Germans must be joined and brought to bear in the crucial days immediately at hand. We requested Representative Olsen in Stockholm to make urgent attempts to extend to the Krotingen inmates and any Jewish deportees from Baltic countries in East Prussia the rescue and relief operations now being conducted from Stockholm in behalf of Jews remaining in the Baltic States, and to use every means at his command to safeguard the lives of the Jews in Lodz. Representative McClelland in Switzerland was asked to make inquiries of the International Red Cross and the Swiss Government regarding conditions in Krotingen and any camps in East Prussia, the numbers and treatment of persons held there including those with Latin American documents, and the facilities available to Intercross therein, and to urge Intercross to take immediate steps to include such camps in its program, mainly with a view of saving the inmates from death. While the Soviet authorities are undoubtedly aware of the danger that the Germans may attempt to exterminate the Jews remaining

- 6 -

in Lodz before evacuating the city and can be expected to use every means within their power consistent with the military situation to forestall such a disaster, we have requested Ambassador Harriman to discuss the matter with appropriate officials of the Soviet Government in the light of this Government's deep concern for the safety of victims of enemy persecution.

EVACUATIONS THROUGH TURKEY

Representative Hirschmann reported that he had made a recent survey of conditions and developments affecting rescue operations in the Balkans and that his findings point to the conclusion that only remote possibilities now exist for rescue activities from Hungary through Turkey. All rail communications and civilian movement between Hungary and other Balkan countries has ended. Possibilities for evacuations are further narrowed as a result of military operations attendant upon the advance of the Russian front into Transylvania and the Rumanian and Bulgarian declarations of war on Germany.

While approximately 100 additional Greek refugees have arrived in Izmir en route to Palestine, it appears, after exploration of the situation in Izmir and consideration of developments in the situation in Greece, that establishment of an independent operation to direct the rescue of refugees from Greece to Turkey is not warranted.

UNITED STATES VISAS FOR PERSONS IN ENEMY TERRITORY

In connection with his efforts to obtain affirmative action by the Portuguese Government in admitting refugees from Hungary and elsewhere under the visa programs which we have formulated, Ambassador Norweb inquired as to the possibility of sending those who do not receive American visas to Camp Fedhala.

EVACUATION OF SPANISH REPUBLICAN REFUGEES FROM PORTUGAL

Ambassador Norweb advised us that, although United States transit visas have been authorized for a number of Spanish Republican refugees to be admitted to Mexico, serious difficulties are now being encountered with the Portuguese police regarding their exit visas.

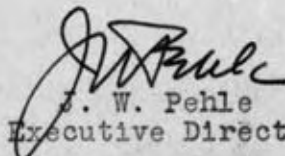
RECOGNITION OF LATIN AMERICAN PASSPORTS

Since Minister Harrison reported that he has not considered advisable official presentation of unconfirmed Salvadoran documents to the Swiss Federal Political Department for delivery to persons in Germany and German-controlled territory

- 7 -

other than Hungary, we cabled him that the documents in question may be deemed to be covered by the Salvadoran Government's declaration made some time ago through its protecting power that Salvadoran passports held by Jews in Germany or German-occupied territory are officially recognized. It was accordingly suggested that delivery of such documents be effected if, in his judgment, it would assist victims of enemy persecution to do so. Inclusion of the names of the individuals affected in the lists of persons eligible for exchange to be presented to the Swiss was also suggested.

We requested Minister Harrison and Representative McClelland to ask the Swiss authorities to continue pressing the German Government with our demands that the latter cease its practice of questioning documents issued in the name of any American republic and accord the bearers of such documents the rights and privileges to which nationals of the countries concerned are entitled. Demands for the immediate return to recognized civilian internment camps of such document holders deported therefrom are to be repeated with the declaration that German authorities responsible will be held strictly accountable for their failure to comply. On this point strong unofficial representations to appropriate individual German officials through available channels were also suggested.


J. W. Pehle
Executive Director

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

October 2, 1944

Noon

AMEMBASSY LONDON

7998

Please refer to your No. 7473 of September 11, and to Department's No. 7485 of September 14.

The following cable dated September 22 (Bern - No. 6276) has been received from McClelland:

QUOTE McClelland sends the following for the War Refugee Board.

Reference is made herein to the Department's September 14 cable No. 3185.

A note dated September 8 from Swiss Federal Political Department received by the British Legation at Bern and reporting substance of a conversation between an unnamed German Foreign Office official and Swiss Minister Feldscher at Berlin is the basis for the British Minister's telegram under reference. An approach had been made to the Germans by Feldscher concerning emigration of same initial group of 2,000 Hungarian Jews from Hungary holding Palestine certificates for whom the Swiss Legation at Budapest issued a collective passport in late July. (Legation's August 3 cable No. 4972 and August 5 cable No. 5043 mentioned this). The Germans replied, as British Minister's telegram stated, that since the Departure of these people for Palestine would disturb "German relations with Arabs" they could not permit these people to go. However the German Foreign Office intimated to Feldscher "that if these Jews were going to American or British territory their departure would be viewed more favorably". Consequently there is no question whatsoever of a concrete offer on the part of the German Government to permit such a group to depart if Allies agreed to accept them in either American or British territory but a vague statement only that "more favorable consideration" would or might be given to such a proposal. In addition the Swiss note reports very definite request by Germans that for security reasons an exact list of Jews whose departure is contemplated should be furnished the Germans. Note also that this was only a verbal (not written) statement from German Foreign Office which as is well known exerts only very slight influence on decisions and plans of Gestapo and SS who are obviously, so far as the German Government is concerned, in control of the Jewish situation in Hungary.

-2-, #7998, October 2, 1944, noon, to London

The British Legation at Bern with whom I discussed this question is of the opinion that the Swiss Legation at Budapest should not under any circumstances be requested to deliver to the Germans lists of Hungarian Jews and that transit of any group or groups of Jews through German-controlled territory at this particular time would be, to say the least, an extremely hazardous undertaking. Unless real control by some such organ as ICRC could be assured permission for such transit if it were granted could scarcely be relied upon. It is the feeling of the British Legation here that the responsibility of recommending such a move could not be assumed by it.

In agreement with the point of view of the British I feel that it would be exceedingly dangerous to try to evacuate Hungarian Jews through territory controlled by the Germans which now that exit by way of Bulgaria and Rumania is barred, is the only existing route. With respect to the eventuality of the Germans attempting to hold the Allies responsible for not accepting an offer which it could hardly be said, after all, has been concretely made would on their part constitute pure casuistry.

As an alternative an offer might be made to the Germans via the Swiss to grant temporary haven in Allied territory to the group of 2,000 or more Hungarian Jews who did not have Palestine certificates and who did not plan to go to Palestine eventually as the Legation's August 26 cable No. 5579 suggested. Of course from the Jewish point of view this would raise very knotty problem of selection in Hungary of a non-Palestine group. The possibility exists for the British to declare formally that this group would not go to Palestine and the Germans' alleged objection to Palestine immigration would thus be offset. It could be stated, if the Germans insisted on knowing the ultimate destination, that division of this group among various overseas countries of immigration was being actively arranged. It might be possible, in order to ease the problem of settlement of such a group in the postwar, if this could be done without German suspicion being aroused, to select Hungarian Jews who desired to return to their country when the war is over. The idea of getting Jews out of Europe permanently is an obsession in certain Nazi circles and they will not tolerate the departure of those they feel may come back again.

An additional alternative of a more positive nature would be to make a concrete offer to admit a group of 1,000 or more Hungarian Jewish children into the United States, for instance, those whose parents have been deported in line with August 21 cable No. 2877 from the Department. Pending possibility to evacuate such children to the United States they could possibly be convoyed under ICRC control from Hungary for a temporary sojourn in Switzerland. UNQUOTE

-3- #7998, October 2, 1944, hbon to London

The following reply has been sent to McClelland as No. 3378 of Sept. 30, 1944.

QUOTE Please refer to your No. 6276 of September 22. We concur in your conclusion that it probably would not be use ful to pursue further the vague suggestion by the German foreign Office that a request for the emigration from Hungary of Jews holding Palestine certificates might be more favorably considered if such Jews were going to American or British territory.

With regard to your suggestion that perhaps efforts could be made to facilitate the emigration of children and others who do not have Palestine certificates, your attention is called to the fact that the Legation in Bern already has broad authority to grant visas for entry into the United States.

Particular reference is made to Department's No. 2877 of August 21, which made available approximately 4,000 American visas for children in Hungary; Department's No. 2605 of July 28, which made special provisions in favor of persons to whom American immigration visas were issued or authorized after July 1, 1941; and Department's No. 2918 of August 23, making special provisions in favor of close relatives of American citizens and alien residents in the United States. Please refer also to Department's No. 3120 of September 9 which summarizes the arrangements made by this government for the emigration of refugees from Hungary to the United States and other countries.

You were requested to bring the foregoing arrangements to the attention of the Swiss Government and the International Red Cross, and through them, to the attention of the German and Hungarian authorities, in an effort to effect the evacuation from Hungary of as many as possible of the refugees for whom arrangements have thus been made. We assume that you have done everything possible to execute these instructions, and if anything further can be done in this regard, we are sure that you will proceed to do so under the already existing authorizations. You will note that the authorizations above referred to are applicable to substantially more than the 2,000 refugees referred to in your No. 6276 of September 22.

UNQUOTE

In view of McClelland's cable, we do not (repeat not) intend to take any further action in connection with the vague intimation of the German Foreign Office that the emigration of some 2,000 Hungarian Jews holding Palestine certificates might be more favorably considered if their destination were to be American or British territory.

-4- #7998, October 2, 1944, noon to London

As you will note, however, we have indicated to McClelland that he should continue to do everything possible to effect the emigration of these Jews from Hungary into "non-Arab" territory for whom arrangements have already been made. Since these arrangements presumably have been communicated to the Germans some time ago, it is not known whether any success can be achieved. However, we will continue to make every effort to that end:

For your convenience and for the information of appropriate officials of the British Government and of the Intergovernmental Committee, following is a summary of arrangements already made by this government for the emigration of Jews from Hungary to the United States and other territory:

(1) On August 21 the Legation in Bern was authorized to issue visas under liberal conditions to approximately 4,000 children arriving in Switzerland from Hungary. This authorization was issued in such manner as to insure the validity of the visas until transportation to the United States is available. The Legation was instructed at the same time to advise the Swiss authorities of the authorization to issue visas, and to make all appropriate efforts to arrange for the release from Hungary of children eligible for such visas.

(2) On August 1 the Legation in Bern was authorized to issue, under certain conditions, new American immigration visas to any person in enemy-controlled areas who held an American visa or for whom a visa was authorized after July 1, 1941. The Legation was instructed to

- (a) advise the Swiss authorities of this authorization;
- (b) request the Swiss Government to advise enemy governments of Switzerland's willingness to permit the entry, with or without transit visas, of all persons to whom immigration visas were issued on or subsequent to July 1, 1941; and
- (c) advise the Swiss authorities that such persons entering Switzerland would be adequately maintained until eligibility for new visas was determined, and that all persons found ineligible would promptly be evacuated from Switzerland.

The same authorization and instructions were sent to Sweden, Turkey, Spain and Portugal.

(3) On August 24 the Legation in Bern was directed to request Swiss authorities to advise enemy governments, par-

-5- #7998, October 2, 1944, noon to London

ticularly Germany and Hungary, that American Consular Officers in neutral countries had been authorized to issue immigration visas to

- (a) the alien husband, wife, parent and unmarried minor children of an American citizen; and
- (b) wife and unmarried minor children of an alien, resident in the United States

who has been in an area controlled by Germany or any of her allies, provided any such person(s) presents himself to an American Consular Officer and is found not to be disqualified for a visa. At the same time, the Legation in Bern was requested to secure the agreement of Switzerland to advise enemy governments of its willingness to permit the entry into Switzerland of persons falling within the categories indicated above, and to assure the Swiss officials that persons so admitted will be adequately maintained pending determination of eligibility for such visas, and those found unqualified will be evacuated promptly. Similar instructions were sent on the same date to Sweden, Turkey, Spain and Portugal.

(4) Assurances have been obtained from the governments of Ireland and various Latin American Republics that they will receive at least 2,000 children. In addition, Mexico has assured this government of its willingness to give emergency shelter to an unspecified number of refugees from enemy territory for the duration of the war. Among the neutrals the governments of Spain and Sweden have agreed to admit children, numerous adults, and persons to whom American visas were issued or authorized after July 1, 1941. Spain alone has authorized 2,000 visas.

In view of the foregoing, it is apparent that adequate assurances have already been afforded the Germans to test the sincerity of the intimation that refugees might be permitted to leave Hungary if they go to the United States and not to Palestine. Accordingly, it seems more practicable to continue our efforts to effect evacuation under these existing authorizations than to pursue further the somewhat nebulous statement of the German Foreign Office referred to in your 7473.

It will be appreciated if you will express our views on this matter to the appropriate officials of the British Government and the Intergovernmental Committee.

HULL

MS-591

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

London

Dated October 2, 1944

Rec'd 9:50 p.m.

Secretary of State,

Washington.

8266, October 2, 11 p.m.

MEW concurred in recommendation in Department's 7949, September 29 concerning shipment of parcels to French political internees in Germany and Embassy has so informed Bern.

WINANT

MEM

AIRGRAM

FROM

Tegucigalpa, Honduras

A-321

October 2, 1944

REC'D: October 7, 5 p.m.

SECRETSecstate,
Washington.

A-321, October 2, 12:30 p.m.

Department's secret circular airgram of September 19, 1944,
9:15 a.m., concerning holders of Latin-American documents.

The Government of Honduras does not have a list of the holders of such documents because the former honorary consular officers who sold them to the interested persons or organizations neglected (quite naturally!) to supply the names of the Honduran Ministry for Foreign Affairs. For the same reason, the Government of Honduras would be unable to check any list which might be submitted by the Swiss or other authorities.

A responsible official of the Ministry for Foreign Affairs told me this morning that as far as is known, only three bona fide Hondurans remain in Germany or in German-Controlled territory; these are Antonio ALDUVIN, Enrique LOZANO, and Violeta Victoria WALTHER. (The last was born in Honduras of a German father and a Honduran mother.)

ERWIN

704/711.5 SC
JBF:mb

Transmitted via courier pouch closing October 3, 1944 9 a.m.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate General, Jerusalem
TO: Secretary of State, Washington
DATE: October 2, 1944
NUMBER: 139

CONFIDENTIAL

The War Refugee Board is requested by Neustadt to transmit to Louis Segal, Jewish National Workers Alliance, 45 East 17th Street, NYC., the following message.

According to your letter dated July 28, you have instructed us via cable to place \$28,000 at the disposal of Yarblum Silbersh. No such instructions were contained in your telegrams of July 27 and August 7, 8, 29, or 31. On the contrary you stated that sum similar to that we received was also transmitted by you to Geneva. We have received two sums 1,728 from Amalgamated and 196,000 from Montreal and received additional 123 ova from Amalgamated September 29 and nothing else. If you intended us to transfer eight eight thousand from this sum to Yarblum Silbersh please cable us to that effect. We read with greatest late rest interest your reports mentioned in third paragraph of your July 28 letter, and all friends expressed great satisfaction over your replies. We thank you. Word has been received from Yarblum new location; he is very active and contact with him is being maintained.

PINKERTON

NOTE: Underscored parts are being serviced.

DCR:EBH 10/4/44

CORRECTION OF
PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate General, Jerusalem
TO: Secretary of State, Washington
DATED: October 2, 1944
NUMBER: 139

CONFIDENTIAL

On page 1, paragraph 2, line 8, of the above message delete "123 ova" and insert "1231". In the tenth line delete "sich". In Line 9 delete "Silbersh" and insert "Silbershein". In the eleventh line delete "late East".

DOR:EMS
10-7-44

PINKENTON

54

EMBASSY OF THE
UNITED STATES OF AMERICA

RESTRICTED

No. 3169

Madrid, Spain, October 2, 1944.

Subject: Transmitting Copy of Memorandum Presented by Embassy
to Ministry of Foreign Affairs Concerning Group of
155 Sephardic Jews Interned in Germany

The Honorable
The Secretary of State,
Washington.

Sir:

With reference to the Department's telegram No. 2519 of September 11, 1944, 10 p.m., concerning the precarious situation of a group of approximately 155 Sephardic Jews, in possession of Spanish passports, who are reported to be interned at Belsen Bergen in Germany pending completion of arrangements for their onward travel to Spain, I have the honor to enclose a copy of a Memorandum dated September 25, 1944 which the Embassy has presented to the Ministry of Foreign Affairs on this subject, in which the hope is expressed that the Spanish Government will use every means at its disposal to facilitate the transfer of these persons to Spain and that, in the meantime, it will exercise the greatest vigilance in protecting them from persecution at the hands of the German authorities. It will be noted that the suggestion is made in the Embassy's Memorandum that, should the early transfer of this group to Spain prove to be impracticable, the Spanish Government endeavor to arrange for their temporary entry into Switzerland, information having been brought to the Embassy's attention through the representatives of private American charitable organizations to the effect that the Swiss Government is disposed to accord sympathetic consideration to a proposal of that nature.

An official of the Ministry has stated, in response to the considerations set forth in the Embassy's Memorandum, that the Spanish Government is actively concerning itself with the welfare of the persons in question, and that it will continue to make every effort to have them brought safely out of Germany custody at the earliest possible moment.

Respectfully yours,

/s / Carlton J. H. Hayes
Carlton J. H. Hayes

Enclosure:

Memorandum, as stated
File No. 800
NWB/jf

Original to Department
(for Osalid machine)
Copy to Tangier

Miss Chauncey (for the Sec'y) Abrahamson, Ackermann, Akain, Cohn, Drury,
DuBois, Friedman, Gaston, Hodal, Lesser, Marks, Mannon, McGowan, Peble,
Regraded Unclassified

COPY

Enclosure to despatch No. 3169 dated October 2, 1944 from
Carlton J. H. Hayes, American Ambassador, at Madrid, Spain,
on subject of Group of 155 Sephardic Jews Interned in Germany.

MEMORANDUM

The Embassy has been informed that there are interned at the present time in a camp near Belsen Bergen in Germany a group of approximately one hundred and fifty-five Sephardic Jews, in possession of Spanish passports, whose entry into Spain has already been agreed to by the Spanish Government and the appropriate German authorities but whose onward transportation to Spanish territory has been held up by recent military developments. Assuming the above-mentioned facts to be essentially accurate, the United States Government desires to express the hope that the Spanish Government will use every means at its disposal to facilitate the transfer of these persons to Spain and, in the meantime, will exercise the greatest vigilance in safeguarding them from possible persecution at the hands of the German authorities.

Should the early transfer of this group to Spain prove to be impracticable, the Embassy would suggest the possible desirability of the Spanish Government's endeavoring to arrange for their temporary entry into Switzerland until such time as other more permanent arrangements can be made on their behalf, it being understood that the Swiss Government has given evidence of its willingness to accord sympathetic consideration to a proposal of that nature.

The United States Government wishes to repeat, in connection with the possible arrival of such persons in Spain, its previous assurances concerning the evacuation of such persons, should such be the desire of the Spanish Government.

Madrid, September 25, 1944.

NWB/jf

73f

CABLE TO MINISTER JOHNSON AT STOCKHOLM FOR OLSEN

There follow the names of persons who have been the contact men in Hungary and Slovakia for the Swiss representative of the organization that Wolbe represents in Stockholm. Please request Wallenberg, if feasible, to ascertain whether they have any programs which he can facilitate. If they need any funds for any projects which give any reasonable promise of success, you may, in your discretion, make funds available to them. If their requirements for any such projects exceed the amount you have available for such purposes, please advise the Board.

The names are: In Budapest: Charles Roth; Sch. B. Frey; and Dr. Reiner. In Bratislava: Rabbi Samuel David Ungar; Berthold Dennebaum; and M. B. Weissman.

THIS IS WRB STOCKHOLM CABLE NO. 94.

9:45 am

October 2, 1944

LSLesser:tah 9-30-44

HM
Distribution of true
reading copy by special
arrangement. (SECRET W)

October 2, 1944

5 p.m.

AMLEGATION

STOCKHOLM

1976

The following for Olsen is WRB 94.

There follow the names of persons who have been the contact men in Hungary and Slovakia for the Swiss representative of the organization that Wolbe represents in Stockholm. Please request Wallenberg, if feasible, to ascertain whether they have any programs which he can facilitate. If they need any funds for any projects which give any reasonable promise of success, you may, in your discretion, make funds available to them. If their requirements for any such projects exceed the amount you have available for such purposes, please advise the Board.

The names are: In Budapest: Charles Roth; Sch. B. Frey; and Dr. Reiner. In Bratislava; Rabbi Samuel David Ungar; Berthold Donnebaum; and M. B. Weissman.

HULL
(GLW)

WRB:MMV:KG
10/2/44

NOE

CABLE TO MINISTER JOHNSON, STOCKHOLM, FOR OLSEN FROM WAR REFUGEE BOARD

World Jewish Congress has called to the attention of Department and Board a proposed food parcel project benefiting detained persons Bergenbelsen and other camps. Parcels to be made up in Sweden and shipped from that point. Hillel Storch, World Jewish Congress representative, Stockholm, can acquaint you with texts of his cables of September 6 and September 20. Department and Board desire your opinion of this parcel scheme. Specific information is desired as to who is to finance the project and what shipping facilities are currently available from Sweden to Germany. Recent AmCross shipments to Gethenburg, which ~~include~~ include Prisoners of War and War Refugee Board packages, apparently have not yet gone forward to Germany due to shipping difficulties. We suggest that this matter be discussed with Intercross delegate with a view to determining Intercross interest, ability to supervise program. If favorable recommendation is received from you, Department, FEA and Board would be in a position to recommend favorable consideration of this program to Joint Relief Committee, MEW.

THIS IS WRB CABLE TO STOCKHOLM NO. 96.

11:30 a.m.
October 2, 1944
PMcCormack:ar 9/30/44

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

It is understanding of interested groups here that expenditure of funds for Queen Wilhelmina Fund and Belgian War Relief Society programs is closely supervised by you. We assume from your recent cables with respect to these projects that such is the case.

This IS WRB CABLE TO BERN NO. 194

11:15 a.m.

October 2, 1944

FH:Ed 9/29/44

ORIGINAL TEXT OF TELEGRAM SENT

FROM : Secretary of State, Washington
TO : American Legation, Bern
DATE : October 2, 1944
NUMBER: 3391

SECRET

Cable to Harrison, Bern, for McClelland from War Refugee Board.

It is understanding of interested groups here that expenditure of funds for Queen Wilhelmina Fund and Belgian War Relief Society programs is closely supervised by your. We assume from your recent cable with respect to these projects that such is the case.

THIS IS WEB CABLE TO BERN NO. 194.

HULL

NOT TO BE RETRANSMITTED

OPTEL No 320

Information received up to 10 A.M. 2nd October 1944.

1. NAVAL

Minesweeping has started at BOULOGNE. During 30th/1st. five MTB's on patrol between IJMUIDEN and THE HOOK met an enemy convoy of three or four cargo Ships, one Destroyer and several Tank Landing Craft, Trawlers and E-Boats. A series of engagements followed during which two medium ships torpedoed, two Trawlers badly damaged by gunfire and one slightly damaged. Two MTB's were sunk, our casualties: seven killed, two missing, nine wounded.

On 27th. a British Submarine sank an F. Lighter West of LEMNOS. In ADRIATIC 27th/28th armed landing craft attacked a convoy of enemy Lighters off SIBENIK sinking two and possibly a third. On morning 1st Allied Troops successfully landed with stores on the ISLAND OF POROS, GULF OF AEGINA by force consisting of 5 Minesweeping Flotilla Landing Craft, Motor launches and Coastal Craft supported by two Destroyers. No opposition.

2. MILITARY

N.W. Europe CALAIS has been captured. Commander of Garrison taken prisoner by midnight 30th and main body of defenders surrendered early next morning. U.K. and Canadian and Polish troops have made good progress N.W. of TURNHOUT.

Main feature in Salient has been opening of expected German attack East of NIJMEGEN. Main attacks came on afternoon 1st. after series of minor probing attacks and attempts to infiltrate. The attacks are being held. There are now two bridges over the W.A.L. at NIJMEGEN, the original road bridge which has been repaired and a pontoon bridges West of the road bridge.

Italy British troops have advanced about half mile and crossed the SAVIGNANO-BORGHI Road, three miles S.W. of SAVIGNANO South of BOLOGNA Fifth Army troops have made some slight progress astride the MOGHIDORO Road.

Balkans Russians report further advance in YUGOSLAVIA south of TURNUL SEVERIN.

3. AIR OPERATIONS

Western Front 30th/1st. A Wellington bombed and hit a 4,000 ton ship off FRISLAN ISLANDS. 1st. Owing to poor weather over the continent offensive activity reduced to minimum. Seventy-one Halifaxes carried petrol to BELGIUM and 583 Dakotas carried supplies to and between FRANCE and BELGIUM. 1st/2nd. ninety-seven Mosquitoes sent out, all returned. BRUNSWICK 48, remainder on other offensive operations over GERMANY.

Russia In BALTIC on 30th, Russian Naval Aircraft report having sunk 7,000 ton German Transport and another of 15,000 tons.

Italy 30th Medium Bombers hit nine bridges in MILAN and VENICE areas. 293 Fighter Bombers attacked communications PO Valley. Several bridges hit, railways cut in 21 places, six locomotives and several railway coaches destroyed.

German Activity One flying bomb plotted.

October 3, 1944
10:10 a.m.

BANK FINANCING - DISCOUNT CORPORATION

Present: Mr. D.W. Bell
Mr. Haas
Mr. Rouse
Mr. Mills
Mr. Repp

H.M.JR: What do you suggest on this nice day?

MR. MILLS: We had a little preview in the other room. We suggested the same basket as you had last time, Mr. Secretary; seven-eighths certificate, one and a quarter note of September '47, and a two percent bond of December '52-'54, and a '65-'70 due in June, three months longer.

That last basket was very successful and we think we can't do any better or do anything else to improve it. We think it will go well.

H.M.JR: You wouldn't use the exact same?

MR. MILLS: Just move them up a little further. With the one and a quarters, we moved them up six months, and we moved up the '52-'54 six months, and the '65-'70, three months. That is a long two and a half.

H.M.JR: How much did we sell the one last time?

MR. MILLS : About two and a half billion.

MR. BELL: That is right. We opened it at about two and a half billion. It is five billion, one, in that area, now. Five billion one ninety is the maturity - the March 5, '65-'70.

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H.M.JR: These various issues that were sold during the fifth War Loan, how much do you suppose are still in the hands of the people who bought them?

MR. REPP: That is rather a difficult thing to answer because the last figures available before this drive - but going from the 12th of July to the close of the drive - to September 20 - the bonds of all your reporting banks have only gone up four hundred millions of dollars in that period. So that would mean that a very high percentage of these things are still remaining in the hands of the public to whom you sold them.

I think that is one of the remarkable things on their over-all pattern, when you take the thing from the start - not each individual drive - the amount that really does stay out on all your issues.

MR. MILLS: And also how many are absorbed outside the bank in between drives. It is perfectly amazing the redistribution of securities that takes place from the banks in between drives.

H.M.JR: What interests me, after all, is what they talk about when you talk to them. What plans have they in mind now as to when the fighting will stop in Germany? I mean, what are they doing, if anything, in regard to their own estimate as to when the fighting may stop?

MR. MILLS: They don't know.

H.M.JR: What are they doing?

MR. MILLS: They are not doing anything. We don't think if the fighting stopped in Germany tomorrow this market would sell off on three or four thirty-seconds. A year ago when Mussolini stopped suddenly the market went off about twenty or twenty-four. We had that breakthrough, you know, from out of the peninsula and the market went out about six or eight thirty-seconds. We had a flurry. Then about a month ago when we were practically in Belgium, over the weekend the market went

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over about three thirty-seconds - from twenty to ten to three. I don't think, if the fighting stopped in Germany, it would go off more than it did when we were in Belgium. There was a tremendous advance.

H.M.JR: That isn't exactly what I mean. Are the banks doing anything on a permanent basis to get the house in order?

MR. MILLS: No.

H.M.JR: Are they accumulating cash?

MR. BELL: Well, they have a lot of short Governments.

MR. ROUSE: I would like to say that we have checked with a number of representative banks throughout the district in recent weeks and we find that the banks feel that they are in a position to meet anything that is going to take place, that they have a large volume of short-term securities, bills, certificates, short-term notes, adequate to take care, they believe, of anything that is going to develop.

Of course, the New York City banks think, over a period of time, their deposits will begin to increase, but nevertheless, the outstanding thing about their condition is their liquidity, and they are prepared, whether it's loans, whether it is opportunity to buy securities at low prices, or whatever it is, they feel that they are prepared to go ahead and do business, and certainly the condition of those banks in that area bears that out.

H.M.JR: Let me put it in a different way. There is lots in the papers for and against conversion - if you know what I mean. They are discussing it all the time. How much do the banks or anybody else that we have to sell bonds to figure that they are going to need - cash - say, thirty, sixty, ninety days after the fighting stops in Germany?

MR. ROUSE: The banks generally - I think the large lending banks, the demands that will be made on them will

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be very gradual. They are prepared to meet it, if necessary, by run-offs of maturities; but on the other hand, they don't expect their need to be met that way. They think there will be some gradual reshuffling of deposits and some return of currency from circulation. They are not too optimistic, generally, but they think there will be a stoppage of the increase and some reversal of the trend. So they don't see a great demand for money just over night. It is the old idea of talking about things in terms of Niagara when all you may have is a slight increase in rapidity of the current.

MR. BELL: There may be a shifting, but there won't be any change. There certainly can't be any decrease in deposits. It has got to go right out and into other banks.

MR. ROUSE: Of course, in Chicago the tendency will be for the fund to gradually come back to the large corporations and larger centers.

H.M. JR: From where?

MR. ROUSE: From the smaller communities around the country.

MR. BELL: And in the areas which are cut down in their war effort.

... MR. REPP: ... And return of circulation into the banks. ...

MR. ROUSE: But all those things will be very gradual and will not happen over night.

MR. MILLS: I think where you will first see it - we had a preview in the last maturity of the C. of I.'s that matured, three or four hundred million were not converted, and I think in these big corporations, instead of buying from the banks, what they are going to do in volume is to let their certificates of indebtedness and Treasury bills mature and not renew them. When you have, for example, February 1st, two or three billion maturing of certificates of indebtedness, you will find some very large

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corporations will say, "We won't exchange these; we will just let them go." And they will mature and you will find that there will be five or six hundred million not exchanged - maybe seven hundred million not exchanged - when you have three billion maturing.

I was surprised the other day when three or four hundred million went out, but the corporations wanted that money. It was September 1st before tax date, and they bought them for taxes and let them mature. I think that is where the first strain will show up - where you have a big maturity of one of these short-term certificates and there won't be as many exchanged as you think for.

MR. BELL: Quite a contrast between the September 1 certificate, which was a drive certificate, and the October 1, which was a banking certificate. I think we are going to get over ninety-nine percent of the outstanding October 1 in exchange.

H.M.JR: Which was the October 1?

MR. BELL: That was a banking certificate we put out to the banks after the Third Drive, and we think - well, I know we have gotten ninety-nine percent of them right now - about forty million of them left out.

H.M.JR: Largely held by the banks.

MR. BELL: Whereas the other was a drive certificate and held outside of the banks.

H.M.JR: What happened to them?

MR. BELL: We had about four hundred million of them left out for redemption. That showed up also in your taxes. We estimated that we would have about a billion, three hundred million in tax notes turned in and we only had a billion, one. Two hundred million tax notes didn't come in.

MR. MILLS: They bought C. of I.'s instead.

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MR. BELL: So it was offset to some extent.

MR. ROUSE: Kept the higher-yielding security.

MR. BELL: That is right -- which is good sense.

MR. MILLS: We are not disturbed at all about any sudden cessation of hostilities.

H.M.JR: I keep emphasizing Germany, because--

MR. MILLS: You should, but I wouldn't be concerned.

H.M.JR: You wouldn't? Do you think the corporations will continue to invest their surplusses as long as they have them?

MR. MILLS: I think they will. I think most corporation treasurers, when hostilities cease, are going to be conversion-minded.

H.M.JR: Of course, a lot will keep right on making war materials.

MR. REPP: I still think you have a demand among the corporations for your drive securities and will have in this next drive if your basket is equipped such as is being talked about with the certificate and note and bond. That gives them ample range to use their funds and put them to work and that maturity which fits their own corporate needs, I think they will be there to buy.

MR. HAAS: The cash balances are high, too.

MR. BELL: One fellow observed the other day that they thought that the corporations had become educated to investing their idle funds more than they ever had before. The fellow thought that after this war is over they will still continue to buy short-term Governments.

MR. MILLS: Oh, I think so.

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MR. BELL: And hold them. I asked these gentlemen what we should do if we wanted some additional money before the drive begins. You might want to get their opinion.

H.M.JR: You ask them.

MR. MILLS: If you want money in November, I would put out two billion one and a half percent notes for the banks.

H.M.JR: Before when?

MR. MILLS: Before the drive.

MR. REPP: If you needed money.

H.M.JR: What?

MR. MILLS: Two billion one and a half percent notes, four and a half years.

MR. BELL: And your comment on Treasury bills--

MR. MILLS: I don't think I would put out an awful lot of Treasury bills. They will go right into the Federal Reserve System, and as I see the picture, the currency was out a hundred million a week, and when it goes out some bank is short and sells Treasury bills and certificates of indebtedness and the Federal Reserve System will take them out. The Fed is going to get plenty of short-term security.

I think the thing to do is sell two billion notes, one and a half percent notes, before the drive. They wouldn't interfere with this program at all. I was hoping you would get through without having to raise money before the drive.

MR. REPP: From the standpoint of forgetting about cash balances - from the standpoint of effect - I think it would probably be better to put your cash financing at the end of your drive, rather than before. It would tend

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to dampen, somewhat, the premiums which have been paid on these last issues.

I think that, recognizing the bank credit gets into this picture in large volume, anyway, the over-all picture may be better to have some direct offering for the banks in this drive. It not only is practical - because they go into the banks, anyway - but it is also an assurance of the success of the drive at this time.

MR. BELL: Announcing bank financing after the drive is not any assurance.

MR. REPP: No, but I don't know whether there is going to be bank financing as part of that fourteen billion dollar quota or not. There has been no announcement that we know of or have seen in the press saying just what that includes.

MR. BELL: If the drive is a success, you won't need additional money after the drive. It is because your balances are running low before the drive that we are talking about additional money. There is where the need for it comes in. That is the insurance the Secretary needs to keep his balances on a higher level.

MR. REPP: If you are talking about balances, that is one thing, but from the technical matter it is another problem.

H.M.JR: How far did you go in discussing the bill program?

MR. BELL: I asked them about additional bills, and they felt that if you put out additional bills they go right into the Federal and that increases the premiums on outstanding securities. It provides funds to the banks with which they go in and buy other securities. I think Dudley thought if you were going to put out bills at all you should confine it to a hundred million a week - not more than that. But you prefer to have a note than have any bills at all?

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MR. MILLS: I would. You put out two hundred million a week between now and November 1st, that will be about a billion eight. That will practically all go in the Federal. Don't you think it would increase excess reserves, Bob?

MR. ROUSE: It would have quite a stimulating effect, and it is perfectly obvious that at least it would be remarked it was being done for that purpose. I am speaking from a market standpoint, not from the technical. From the market standpoint I wouldn't have any use for it in any way. I am afraid of that connotation in the market.

MR. MILLS: Too inflationary. I think I would put out a billion one and a half percent notes just before the drive and the banks will take them.

MR. REPP: You have no market for Treasury bills at the present time at a billion, two. The market is the Federal Reserve bank for a good portion of it, I think. You increase your excess reserves. The banks that are short, in turn, will have certificates to sell, and then when your drive gets going you have a release of acquired reserves, and if the desire is to cut down on this joy-riding by this combination of things, you are giving rise to the very factors which put premiums on bonds and encourages it.

H.M.JR: You fellows don't want any business?

MR. MILLS: We get plenty of business, anyway! There will be plenty for us.

MR. REPP: I will pass that one!

H.M.JR: Well, I have the feeling of the thing. I am much obliged.

MR. MILLS: Good luck. It will go over no matter what happens.

(Mr. Mills and Mr. Repp leave the conference)

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H.M.JR: You have talked about the hundred and two hundred?

MR. BELL: No specific amount - just talked about what we would do if we needed a billion or two billion of additional money. Put out two billion dollars of one and a half percent notes.

I asked them about bills and they gave us the same answer that they gave you, that they thought it would provide too much buoyancy to the market and increase the premiums on bonds and push your curve out of line. And Dudley came up with a sort of compromise. He said putting out a hundred million he didn't think would have so much effect.

H.M.JR: But a hundred million dollars means we have to have an issue before the drive.

MR. HAAS: Unless you are willing to go on a low balance.

H.M.JR: That is pretty darned low.

MR. BELL: We picked up some money in September and our balance at the end of the month, without any drive money, will be about three and a half billion dollars at the end of November.

Now, if you get the same amount of money in the drive, the ten-day period that you got in the Fourth and Fifth, your balance will be between eight and nine billion.

H.M.JR: With no increased bills?

MR. BELL: No increased bills - just sit tight.

H.M.JR: You must have done some new figuring.

MR. BELL: That is right. I had two and a half the last time I talked to you. You have had an increase of your receipts in September by two hundred and fifty million

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and you had a decrease in your tax notes by two hundred million, and you had a falling-off in expenditures of about five hundred million dollars in September over our estimate.

H.M.JR: So you would go up to the drive without any increase in bills?

MR. BELL: Three and a half the end of November.

H.M.JR: If the same amount came in you would have about nine. You have done a lot of refiguring since I have seen you.

MR. BELL: That is right. The only trouble you are running into is, what are you going to get between November 20 and November 30? If something happened and you didn't get that money, then three and a half is a low balance for November 30.

MR. ROUSE: You could run an over-draft.

H.M.JR: I don't like the over-draft. If you just start drawing interest from the 20th of November--

MR. BELL: It would draw your corporate money right in.

H.M.JR: Let me ask you this - I asked you to take it up with the Federal Reserve Board. What was their reaction?

MR. BELL: They are against it, very definitely - I mean unanimously. They have written you a memorandum.

H.M.JR: Another one?

MR. BELL: They sent you a memorandum some time ago on that, and Ronald Ransom wrote you a letter Thursday, I think - the day I called him.

H.M.JR: Where is it?

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MR. BELL: I don't know. I have a copy of it.

(The Secretary asks Mrs. Klotz for the letter from Ronald Ransom)

MR. BELL: "The Treasury proposal to increase the bill offering has been discussed at a number of meetings of the Executive Committee, which has taken the position that there should be no further increase in the weekly offering. This position was reviewed quite thoroughly at the meeting of the Federal Open Market Committee on September 21, attendance at which included presidents of all the Reserve banks. The discussion disclosed unanimous agreement in the position of the Executive Committee. The reasons are stated in a memorandum of September 13, furnished to Mr. Bell, but I assume with the heavy demands upon you there has not been opportunity to look at it. I am therefore attaching a copy I would appreciate your reading before October 4 as it presents the position I represent that might be considered in the event you feel it is necessary to raise additional funds."

(Mrs. Klotz hands the Secretary letter from Ronald Ransom)

MR. BELL: That memorandum of September 13 said the only excuse for increasing bills at any time would be the necessity for building up Treasury balances.

MR. ROUSE: We don't feel, speaking for the System, if I may, for a minute - we don't feel there is a necessity for building up the balances. Our estimate - my own - worked out to about three and a half billion and some of the others' worked out to a higher figure. I would think Mr. Bell's estimate of three and a half billion, today, was an air-tight minimum as far as anything you can figure on now, and the chances would favor a higher balance than that at the end of November, even if the securities were dated December 1.

H.M.JR: Say that again, please.

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MR. ROUSE: I think Mr. Bell's estimate of three and a half billion would be an air-tight minimum based on any guesses we could make as to expenditures and revenues between now and the first of December, that chances would favor a higher balance by the end of November, even if the securities were dated December 1.

October 3, 1944
10:40 a.m.

BANK FINANCING - C. J. DEVINE COMPANY

Present: Mr. D. W. Bell
Mr. Haas
Mr. Rouse
Mr. Devine

H.M.JR: Have you had a chance to talk with Bell?

MR. DEVINE: No, I haven't.

H.M.JR: Well, we have the Sixth War Loan coming up, and we have invited you down here to give us your ideas.

MR. DEVINE: There was one thing you mentioned in New York, Bob, about this question of getting some money prior to December 1. I don't know whether you still have that in mind or not.

H.M.JR: Prior to December 1?

MR. BELL: That is one of the questions that we have been talking about, if we need additional funds, what is the best way to get it.

MR. DEVINE: I see where you can get a billion and a half dollars, not by bills, but by selling C.I.'s. Take your present December maturity of C.I.'s and refund them on November first, and increase the issue of the banks by a billion and a half or more if you want to go over five billion, and you can pick up that extra money.

MR. BELL: That would be right in the drive.

MR. DEVINE: November first wouldn't be in the drive.

MR. BELL: You mean do it on November 1?

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MR. DEVINE: You did it last year on October 15, and the C.I.'s didn't mature until November 1. You did it on October 6 last year, and you offered the banks another billion and a half. I mean, that was one of the questions that Bob mentioned, you might want to raise a billion and a half dollars.

MR. BELL: What is your idea about bills?

MR. DEVINE: Well, I brought up bills on Friday when we talked, and it seems like they will all end up in the Fed, that is all. As far as increasing the issue of bills, I don't think it makes any difference; increase them, that is all right. The banks don't seem to keep them. I mean, they end up in the Fed's portfolio.

MR. BELL: He has to purchase so many securities, anyhow, to provide reserves. Wouldn't bills be better than to have to purchase certificates and bonds and notes?

MR. DEVINE: He would know that position much better than I would. I wouldn't have any idea about that, about his reserve position as it runs along. But I mentioned bills the other day, and the feeling seemed to be that they would only end up in the Federal. You wanted to get something that would stay out of there, and C.I.'s will certainly stay out.

MR. BELL: They won't stay out if they get rid of all their bills. That will be the next thing offered to the Feds.

MR. DEVINE: That is true. Again that comes back to his position, doesn't it?

MR. BELL: Sure, but he has to do something to provide the excess reserves.

MR. DEVINE: Then sell bills and let him buy them.

MR. BELL: That provides the market with excess reserves.

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MR. DEVINE: That is right.

MR. BELL: Do you see any harm to the market by that process?

MR. DEVINE: None whatsoever.

MR. BELL: Do you see any pushing up of premiums and down of yields through that process?

MR. DEVINE: No. I think your drive will decide that.

MR. BELL: You mean the excess reserves provided in the drive?

MR. DEVINE: Yes.

H.M.JR: Well, if these balances run down, which they will in the next thirty days, aren't you going to need some more excess reserves?

MR. ROUSE: Yes, we will have to put some funds into the market, no question about it. We will have to probably purchase a billion dollars in securities between now and Thanksgiving, roughly.

H.M.JR: Don't you need additional bills for that?

MR. ROUSE: No, sir, there is coming into the market now quite a substantial amount of certificates. A great many banks in the country own no bills--some of our largest banks now own no bills whatever, and they have to be provided with reserves. They sell certificates on the market, and we buy the net balance that can't be placed with other banks or corporations. To a certain extent there probably will be some notes and there may be some bonds come in. So far there have been no notes or bonds on balance offered for sale that couldn't be taken care of over a few days by retailing to other people, but in the case of certificates the figures would indicate around one hundred and seventy-five million certificates in the last three weeks.

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MR. HAAS: You would buy a good deal less if the bills were issued.

MR. ROUSE: It doesn't do the bank that has to adjust any particular good. It may go just as readily to a bank without this problem. It would go through the dealer directly to us and let our funds go into the market and stimulate the whole thing. When you get down to cases and talk about issues you find you are faced with the case of one and a half percent notes extending your pattern, going out a little longer than you want to go out. The same thing could be true with a bond. And it is another case of driving down interest rates.

MR. HAAS: That is the only risk.

MR. ROUSE: You are actually faced with it now, George.

MR. HAAS: Getting the market too high?

MR. ROUSE: Yes.

MR. DEVINE: The market seems to be back on the beam pretty well, doesn't it?

MR. BELL: Yes, the last week.

MR. ROUSE: Yes, the statement date of September 30. You have had a good deal of discussion about the banks getting a direct offering, and the net effect has been that you have a little easing in the market in prices, which was very welcome to me, and I think to everybody who is interested in this interest rate structure.

MR. BELL: How about the basket?

MR. DEVINE: C.I.'s, one and a quarters, two's, and two and a quarters.

MR. BELL: Two and a quarters! No, two and a halves?

MR. DEVINE: No.

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H.M.JR: Why?

MR. DEVINE: The last time I was down here I said two and three-eighths. I say two and a quarters now because I don't think the two and three-eighths can do the job that two and a halves and two and a quarters can do. Here you have a situation where every time you sell a two and a half all the issues come down to par, or to market. Actually, sure, the Fed will buy half a million or a million a day, but the bid is actually no good. You couldn't sell any quantity of those bonds. If you starve the market of two and a halves just for one drive, those two and a halves will come up off the floor; and if the war should end suddenly, you wouldn't have a frozen market at par, you would have a market at twelve, fourteen, or sixteen bid with a cushion. If the war stops any time during the drive--

H.M.JR: Do you mind saying if the war stops in Germany?

MR. DEVINE: Well, Germany--

H.M.JR: You are going to have a hell of a war on your hands after the war stops in Germany.

MR. DEVINE: That is all the more reason why you shouldn't sell the two and a half now, I think. Give them a rest. Sure, I know the insurance companies want them, but the figures prove that the insurance companies only own what? Is it seven billion of about nineteen billion, or somewhere in that neighborhood of two and a halves you have outstanding? How about the other eleven billion holders? The insurance companies may not sell at par, and they haven't; some of them have sold when they have gone to a premium. You only sold a billion two and a halves last time. What is that to insurance companies? It is only five percent of the total drive.

When you offer two and a quarters and two and a halves together--you sold three billion three hundred million two and a quarters.

H.M.JR: Well, how can you explain it if you don't do any two and a halves when last time you left the thing open for the insurance companies to buy? Didn't we?

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MR. DEVINE: They took a billion, two.

H.M.JR: I mean after the drive closed?

MR. BELL: They could pay for them up to November 1.

H.M.JR: Then on the one hand you do that, and the next drive you say, "You can't have any."

MR. DEVINE: I didn't want to see you sell two and a halves the last time.

H.M.JR: I know, but we did do it. There is something to being consistent.

MR. BELL: Chris, of course, had been to two and a quarters this time.

MR. DEVINE: For the benefit of the market. You have no pattern on two and a halves. You have sixty-three, sixty-eight; sixty-four, sixty-nine; sixty-four, and seventies all quoted at the same time.

MR. BELL: I will admit that the curve flattens out when you get out there.

MR. DEVINE: Just like that, there is no curve.

MR. BELL: But isn't that a sort of a wartime thing? That will certainly change when the war is over--I mean the complete war. This is just because people know they are going to get more two and a halves when the next drive comes along, and there is not much buying power behind that market there, not much selling power, either.

Now, after the war is over--and there will be trading in those, and maybe we will stop issuing two and a halves or stop having drives--that whole pattern will change, won't it? Each one will get in its nook.

MR. DEVINE: Wouldn't it be better to have the change from sixteen to eighteen bid than from par bid, if what you say is true?

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MR. ROUSE: Chris, you didn't have any problem in the Fifth Drive on two and a halves, did you?

MR. DEVINE: We sold you quite a few. We bought twenty-two million, or thereabouts, that we had in our possession.

MR. ROUSE: We didn't buy very many.

MR. DEVINE: We sold you some.

MR. ROUSE: You sold us some, but we didn't buy very many in the aggregate. They moved right out of your possession immediately thereafter.

MR. DEVINE: After the books were closed.

MR. ROUSE: I mean I could have taken yours, but what is the use? There was a market for them as soon as the drive closed.

MR. DEVINE: Truly, Bob, at no time was there a real market.

MR. ROUSE: No, there will be no market in the drive; there can't be, because here is the two and a half offered, you can buy as many as you want of them at par. Now, why should anybody else pay par, even, for the ones outstanding? They want to subscribe during the drive and get the credit for buying the drive security. So naturally there is no market for the two and a halves while the books are open on the new two and a halves.

MR. BELL: And your difference doesn't make any difference to anybody.

MR. ROUSE: It makes no difference to insurance companies, savings banks, the Federal Reserve Retirement System, a large holder of two and a halves.

MR. BELL: I don't see how you can change that by putting out a two and a quarter, particularly during a war when everybody knows that whenever you are going to have

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drives you are likely to have two and a halves. You certainly can't drive those securities up to sixty-seven, or seventy-two that you are selling for--you can't drive those up because you know you are going to get them, and there is a wider market for those. They are unrestricted, and you have banks buying.

MR. DEVINE: '62-'67 are eight, ten, twenty.

MR. BELL: I am talking about--oh yes. Well, they are unrestricted, too, aren't they?

MR. DEVINE: They are restricted.

H.M.JR: What do you mean by restricted?

MR. BELL: Banks can't buy them.

MR. DEVINE: They are quoted eight, ten, twenty.

MR. ROUSE: And you were able to place a large block of them over a period of time at rising prices, and the same thing is developing with respect to the '63-'68's, where last time we had a little premium on those. They were contrasted with the '64-'69's.

MR. BELL: The smaller volume has something to do with that, too? Two billion?

MR. ROUSE: Yes, and the better placement initially. In the last two drives the '64-'69's were the most speculated with and had a bad name as a result of it. Of course, we bought a lot of them in January and February, and a relatively modest amount in June and July, and the thing has recovered to eight, nine thirty-seconds premium at one point between drives here.

MR. DEVINE: Don't you feel--

MR. ROUSE: My only concern really is with the interest rate structure of the insurance companies.

MR. HAAS: But you feel that it would do what Chris says?

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MR. ROUSE: Oh, yes. Not the '62-'67's and possibly not the '63-'68's. The '64-'69's and the '65-'70's--

H.M.JR: They will come down, you mean, during the drive?

MR. ROUSE: Yes.

MR. HAAS: But if you starve them for a while I think it will do what Chris says. I don't know the amount, but how the insurance companies react--that is the problem.

MR. DEVINE: It is the insurance companies.

MR. ROUSE: You remember when the two and three-eighths was discussed here last time the Secretary asked me to talk to several of the large insurance companies between times of our meetings, which I did. And I got the answer back uniformly--

MR. DEVINE: Accordingly you could ask them if they wanted the two and five-eighths, and they would say--

MR. ROUSE: Two or three did say they would like to have a two and three-quarters, fifty year-- (Laughter)

MR. HAAS: You put the maturity--

MR. DEVINE: Here is my feeling, Danny: For the billion dollars' worth of bonds you sell those insurance companies, is that more important, or a market out there that is a market at fourteen, twelve, or sixteen billion dollars? Now, which is better?

MR. HAAS: I think he is raising a real problem.

MR. BELL: Well, it seems to me that Chris' suggestion would raise that market. But what are you going to do when the Seventh Drive comes along and you put out a two and a half? You would have to drop back to par.

MR. DEVINE: Not necessarily, not unless you brought out the same issue again, which you shouldn't bring out.

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MR. ROUSE: If you put out a '67-'72 two and a half now, it would have the effect of picking those up, wouldn't it?

MR. DEVINE: It would to some degree.

MR. ROUSE: It is the same thing.

MR. DEVINE: Only the next time you could sell a '70-'75, and they would clamor for them.

MR. BELL: Would you say we would sell a billion dollars less bonds by putting out a two and a quarter than two and a half?

MR. DEVINE: The figures proved you sold more two and a quarters when you offered both two and a quarters and two and a halves. You sold two billion, two, of two and a halves, and two billion, three, two and a quarters. So of the two, the two and a quarters were more popular.

MR. BELL: Savings banks bought the two and a quarters, I believe, and a few insurance companies.

MR. ROUSE: The insurance companies bought two and a quarters against the sales of immediate term securities in the market. Their new purchases for cash were two and a half percent. But where they sold tax-exempt bonds, they would buy the two and a quarters against those sales as being nearer their maturity pattern.

MR. DEVINE: One more thing on that, don't you think that with the war with Germany over, should it happen with God's help, there is a possibility that all of those two and a halves would be right down to par, all of them?

H.M.JR: Why?

MR. DEVINE: Because there are seven billion dollars in the hands of insurance companies who won't sell them, but there are some eleven or twelve billion in the hands of individuals who will sell some of them. And we can't buy them and sell them to commercial banks; we have to sell them to insurance companies.

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H.M.JR: Because they are limited?

MR. DEVINE: That is right. The only customer is insurance companies. Savings banks prove they don't want them. They only took sixty-one million in the last drive.

H.M.JR: What is the answer to that? It sounds like a good argument?

MR. ROUSE: There are a good many buyers of the two and a halves; they are trust accounts, individuals, retirement systems, pension funds.

H.M.JR: Enough to take up this slack?

MR. ROUSE: I don't believe that those people will be sellers. You may have some individuals who have bought them under drive pressure who will come in and sell them, but I am not looking for an avalanche.

MR. DEVINE: But how much is being gambled to protect those holders now, some above par? What is being gambled? A billion bonds is all that the insurance companies will buy. They will buy the two and a quarters, anyhow. If they don't buy a billion, they will buy eight hundred million.

H.M.JR: Might not they buy some outstanding issues?

MR. DEVINE: That will be all right.

MR. BELL: He wants them to do that.

MR. DEVINE: I don't want to see them go to a hundred one. I would like to see them at half eighteen or par twenty. They are quoted now at sixty-eight, quarter bid. They are only quoted sixty-eight because the interest between now and the time they can get the new ones amounts to a little more than that. They go down with the interest.

MR. ROUSE: Everybody waits for the drive to buy them--

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H.M.JR: How many less bonds would be sold?

MR. BELL: Well, the limit is a billion. You think you may sell two or three hundred million less.

MR. DEVINE: Then they will buy two's, or something else.

MR. BELL: But you might sell slightly less on the total than you would if you have a two and a half, but you don't think over two or three hundred million?

MR. DEVINE: No.

MR. ROUSE: You would have to take up the slack, have the insurance companies buy the two and a half in the market and put funds in the hands of other people and have the other people subscribe for more.

MR. DEVINE: That is possible.

MR. ROUSE: Certainly insurance companies, however, would feel obliged to buy the securities offered in the drive. They have pledged their new money to the Treasury while the war is on, in substance. Then you have a situation versus the insurance companies as to this rate situation, and I think it would make more difficulties for you initially, certainly, maybe over the long pull. This rate situation with the insurance companies--

H.M.JR: But that isn't my responsibility.

MR. ROUSE: I think perhaps it is, sir; it is certainly a factor here, a very real factor.

MR. DEVINE: One of the large insurance companies doesn't even go in for two and a half. The Equitable Life goes in for two's. You are actually worrying about the Prudential, the New York Life, and the Metropolitan and the Mutual.

H.M.JR: They are very substantial companies.

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MR. DEVINE: But they will take two and a quarters, anyway.

MR. BELL: From the standpoint of the market, this is right.

MR. ROUSE: Sure, no question about it.

MR. HAAS: It is a smart way to fix it up. It is pretty dead--I mean, the outfit.

MR. BELL: It wouldn't satisfy your salesmen.

H.M.JR: I am going to let him go and talk to Gamble.

MR. BELL: Gamble was supposed to be here, wasn't he?

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

MR. DEVINE: Is there anything else on the other issues?

MR. HAAS: How about the note, and so forth?

MR. DEVINE: Well, the note--I like one and a quarter because one and a half may upset your two's. The one and a half is actually too attractive. Now the last time you sold the one and a quarters the market was quoted at ten to a sixty-fourth on the first day. If you want that to happen again, sell a one and a half.

MR. BELL: Do you mean a one and a half, five?

MR. DEVINE: That will upset all your two's.

MR. BELL: You think one and a half might sell for ten?

MR. DEVINE: A four and a half year one and a half. I think that is what you are thinking.

MR. BELL: I am not, but--

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MR. DEVINE: All right, sell a five year one and a half, and then be prepared to see your two's go over the beam.

MR. BELL: Really?

MR. DEVINE: They have got to; June '49-'51's are not going to sell on a one-sixty basis while you have Septembers or Decembers doing five years on a one-fifty basis, six months shorter.

MR. BELL: That is right.

MR. DEVINE: So why look for trouble in there? Take a one and a quarter of December, '47. It is only worth par three, and it is all right; they will all fight over it. The one and a half due in four and a half years is worth par and a quarter, and I say they will open up par ten bid. A one and a half due in five years is worth approximately par and an eighth. It isn't worth that, but it will sell there. Now, if they are worth par and an eighth, which is about a one forty-six basis or one forty-seven basis, then June 2's, six months shorter, certainly are worth more than a one-sixty basis, and when you pull them up, you pull up all the two's.

MR. BELL: It is a definite maturity, whereas your two percent is not.

MR. DEVINE: There is a premium on the two's, too, but they will still buy the--

MR. BELL: What is your date for the one and a quarter?

MR. DEVINE: September or December of '47. The September is a little more attractive, but you have a September issue in there, so I would say December.

MR. BELL: That is it. I am finished.

MR. HAAS: How about the two's? Where would you place those?

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MR. DEVINE: The two's you probably want to place in December '52-'54. I would make them March '53-'55.

MR. HAAS: That is pretty thin, isn't it?

MR. ROUSE: No, that is just the thing I was saying about lowering your interest rate. That is the effect of this last drive. That is the effect it is having. It suggests to Chris that you extend it from eight, ten to eight and a quarter, ten and a quarter. It is the same thing.

MR. DEVINE: It is better to stick to December.

MR. ROUSE: Start out with nine years and five months. We are up to eight, ten, and you now suggest we go up beyond eight, ten.

MR. DEVINE: I am wrong.

MR. HAAS: If you stay on the beam, you are in September.

MR. DEVINE: Stay on the beam--I mean, the market is off the beam on that particular issue. The reason for that is, there is no supply--I mean, available supply. The issue should be quoted at ten, and if they are at ten, I think you should extend them, oh, six months longer and you won't do any harm.

MR. BELL: You say December '52-'54?

MR. DEVINE: Yes.

MR. ROUSE: The real reason that these securities go to the premium, is it not, Chris, a sudden premium of that sort, is that pressure by banks who haven't been able to buy them to come in and get a supply immediately, of new issues?

MR. DEVINE: Absolutely. It has been proven that that is what banks want so long as it is in ten years--they can be notes, or two's. The nearest bond to par is what they want.

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H.M.JR: I tell you what you had better do. You had better go to Gamble, and you can come back afterwards and see the people in George's office. And don't leave town until you see me again. I may want you to stay over night. Is that all right?

MR. DEVINE: Yes, sir. It is all right with me.

H.M.JR: Don't leave town without seeing me again.

(Mr. Devine leaves the conference.)

MR. BELL: What I talked about before was without any new money from the drive. Of course, when I talked to you there was no date set for the drive. I said your balance is liable to go down to somewhere between two and three billion dollars.

Now, your balance will be somewhere between three and four billion dollars.

H.M.JR: But I don't think you said to me that between the 20th and the 1st it could very well go up to nine billion.

MR. BELL: No, because the drive had not been set when I talked to you about balances. You always gets some money from the drive. The thing I am worried about is that something will happen and you may not get it from the drive.

H.M.JR: Well, it can't do any harm to have Chris go around.

MR. ROUSE: What I was going to say, Mr. Secretary, was this, that after discussing the matter with Mr. Bell I invited Chris and Levy and Repp over to the office Friday afternoon. Pope was away. I said I thought there would be three questions that might come up down here, that is, the basket, possible things about policing or bank offerings in connection with the drive, and the question of how to get new money. And we discussed them back and

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forth. There were different ideas expressed, but no attempt was made to reach any conclusion. Each fellow expressed his ideas and the reasons for them. Then we retired. There was no conclusions reached; I specifically asked that there be no conclusions reached, just that they have the benefit of the various possibilities to consider before coming down here.

Chris at that time said the same thing that he has said here about bills; they didn't think it would make much difference.

H.M.JR: Of course, I can't go along with everybody I have been talking to, that when the war stops in Germany everything is going to be just the same. That is what everybody seems to think, and I just don't believe it.

Now, I believe I should get ready for something different, less interest in the Government bond market; and if I am wrong, I haven't done any harm. But if I don't prepare for it, then I am stupid.

MR. BELL: You mean prepare for a decline or upset in the market?

H.M.JR: Take this thing he is talking about, eight or nine billion dollars--who the hell is going to buy them? The Fed isn't, or are they?

MR. BELL: The Fed is going to buy some of them.

MR. ROUSE: They will, but the funds will be available in the market. That is the answer. The money can't go anywhere, and people are anxious to keep their money working.

H.M.JR: Does it have to go in the loans?

MR. ROUSE: You could have a period of scare where it wouldn't, and our experience with those things indicates that that type of scare evanesces very quickly.

MR. HAAS: This bill thing is also a safety factor in case something happens like the Secretary mentioned.

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It gives more buoyancy. A market that is buoyant can take a shot much better than one that is right on the line.

MR. ROUSE: Your buoyancy in that situation in November is certainly going to come from the anticipation of the transfer of funds from private accounts to war loan accounts with the consequent release of reserves. That is a very buoyant factor in this whole thing. You have the banks making deals from the end of May right to the end of June, looking for loans to various companies, purchasing securities from them, all to take effect June 26, the date of the securities. And the banks bought securities for delivery on June 26. A lot of it was financed directly between the corporations and the bank and did not pass through the hands of these fellows we had down here this morning. Even in the case of bonds, some of the insurance companies made the deals directly with banks.

MR. HAAS: This bill thing would be something to top off that. It will make it that much more buoyant.

MR. BELL: That two and a quarter was a good bond put out last time.

H.M.JR: Were you interested in what Chris said?

MR. BELL: Yes, sir. I was sorry to see so much unanimity of opinion on this previous basket, because I was hoping we could switch to a two and a quarter, although I had more in mind eliminating the two and putting in the two and a quarter.

MR. HAAS: The only problem is how the insurance companies will feel.

October 3, 1944
11:20 a.m.

BANK FINANCING - FIRST BOSTON CORPORATION

Present: Mr. D.W. Bell
Colonel Pope
Mr. Haas
Mr. Rouse

H.M.JR: We have a Sixth Loan coming up. We would like to get your ideas, please.

COLONEL POPE: Just talk along as I think about it?

H.M.JR: Yes.

COLONEL POPE: My own belief is that it would be a mistake at this time to change in any general respect the basket. Set the date ahead a little bit, just as we have done before in the two and a half's and two's so as to conform to a six-months difference in time of offering. But for the securities themselves, I personally wouldn't recommend any change. I have heard people talk some about putting in another note rather than the one and a quarter that we have had before. Personally, I wouldn't do that at this time for the reason that I think if you put a little bit higher coupon on it, I think it would be an attractive bank issue. And I think it is a good thing, perhaps, at this time to save an attractive bank issue for sometime when you might want to have the banks coming in, or might have to have them come in.

So I would rather see us leave the one and a half's for some time when you might want to use it, and continue on with the one and a quarter's as we have in the past.

Incidentally, I think it would be a good thing to repeat what was done - I have forgotten what drive - when

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we had a certificate issue and a maturity coming shortly after that to change the maturity of the certificate, a refunding one, to thirteen months, or in this case it might be well to make it eleven, because you haven't got any certificate maturity in November.

In other words, give the maturity dates as odd dates so they can be identified against those that are issued at the time of the drive. As far as the amounts are concerned in the drive, and the method by which it is obtained, I am not trying to intimate that I don't think the drive could be successful, because I think it will. Of course, there could be some things that make it harder than the normal drive would have been.

H.M.JR: Such as?

COLONEL POPE: I think success abroad would be one thing which would upset a good many individuals more than others. I think there is a tendency to feel that when it looks as though things were going to end in Germany, a great many people will make that an excuse for not going in as much as they would for patriotic reasons.

I think you would perhaps have somewhat less industrial corporations buying this time than you had before, for reasons that are somewhat obvious. In some instances there is a changing over in the war contract, and so forth. I think there might be something there.

So I think if you could avoid the fourteen billion figure which, as I understand, has been announced - if you could make it twelve--

H.M.JR: But fourteen has been set.

COLONEL POPE: But I think if you could have made it twelve - I don't know whether you could now or not - but what I was getting at was that I don't think it is wise to make too much at this time of some excess buying on the part of, particularly, individuals for speculative purposes.

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Of course, everybody knows it has been done and it may be done again, and when it is done it isn't too healthy. But on the other hand, I think to make it too evident that it isn't wanted, can work too far the other way, so you don't get enough of that to really do the job.

So for that reason - I don't know whether it could be done - but if it is fourteen billion for the drive, I would like to have seen it made twelve with an offering at the same time to banks after the issue was over of about two.

I don't know whether that would come in the category of how much the drive is for, or not, but the reason I would like to see that done - in the first place, I think two billion to banks is not enough to supply them. I think you would have to have more than that. For that reason I wouldn't suggest as much as they would probably be able to use, and it struck me that two would be about the figure that could be used.

I am not sure whether you would offer them the two's or the notes, but I am inclined to think it would be the notes. In that way I think it does two things - more than just give to banks some investments. As I have seen in the past, the speculative element grows to a point where it is a little bit out of hand, particularly when the last issue has had a successful premium.

Now, of course, there have been times when they have been higher than this last time - the two's, for example, at twenty thirty-seconds. But I think that is enough to let some people think this will happen once and will probably happen again, and they do go into it.

I think that will be tempered a good deal if you made an offering of an issue to banks because most of the people that do go into it have their eyes pretty well open and if they see banks are going to be offered something, they know that banks aren't going, presumably, to buy so much.

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Therefore I think that would temper the speculative tendency. I never thought it was dangerous. I would rather do that to try to advise banks as to what kind of loans they would permit to remain. I have heard that some felt - it has been talked around in New York some - that there should be some limitation put on banks as to what they can loan. If you don't tell them what interest rate they can charge, why then, of course, you leave the gate pretty wide open there. If you do state how much cash would have to be deposited in a purchase, I am not sure that it would work out, necessarily, the way that it was intended. I think that a great many country banks - I know this personally - have been patriotic and thought they were doing the right thing, and have been loath at times - this is country banks, not city banks - to make loans, discouraged it.

I think if you came out and said ten percent cash deposit, why that would give them the understanding that the Treasury was glad to have loans made. A cash deposit of ten percent - and I think that might create more in the country bank loaning than it has some of the other drives. I don't think it would affect the city banks, particularly. I don't think, in general, the big city banks have done other than what was the best way to handle loans.

MR. BELL: Sort of legalize the free riding.

COLONEL POPE: Yes, I think it would have a tendency to do that. If you get too big cash payment, such as twenty-five percent, I think you would definitely discourage, possibly, some legitimate, and you might discourage too much a certain amount of the speculative element which I still think is unwise at the moment to discourage to the point of eliminating it completely.

I don't think it is good, but it is better than not to have any of that at all. So that my own feeling is that I would rather hesitate to attempt to tell the banks what loans they can make. I think it would be wise to repeat what has been said as to discouraging speculative purchasing, but I would think that ten percent cash payment

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might work out just the opposite way, and the twenty-five percent might work out too much - might eliminate, possibly, legitimate loans, and some loans that might well be made. So I would not, myself, advise a change in the instructions to the banks on that score. I have known of some banks who were country banks who have charged as much as three percent, thinking that was the patriotic thing to do, carrying two's, not because they didn't have the money, but because they thought that was the way to do it.

I think the other way would perhaps eliminate those from discouraging it and go ahead.

MR. BELL: Would you call a bank's attention to this speculation and indicate that we know that officers and directors and employees have been asked to subscribe in some cases, and sort of deplore that--

COLONEL POPE: As a personal telephone call from somebody in the Federal Reserve, or something like that?

MR. BELL: No, I mean tell them in a letter that we usually send out that this has been brought to our attention and it is to be deplored, that this action has been taken in order to acquire the securities - don't think it is in line with the Treasury's efforts to sell them outside of the banks permanently?

COLONEL POPE: If I knew of a case where there had been a very great exaggeration of the attendant policy - I can't see any reason for not writing an individual bank on it.

MR. BELL: This wouldn't be an individual letter, but a general letter to all banks, like we send out before every drive. It is just a question of whether we should put in one sentence saying that that was done and we would like to have the banks give consideration to eliminating it entirely.

COLONEL POPE: Of course, I don't know how many cases you had. I wouldn't say it should be done. If it were general I might think differently of it.

I wouldn't think it was too general, although I have heard of cases where there will be an awful lot of bonds allotted to individuals, purely speculative.

MR. BELL: I wouldn't say it is too large. Probably the total amount involved is less than a billion dollars of bank financing, isn't it, George, eight hundred million?

MR. HAAS: Yes. Most of it was switching.

MR. BELL: Prior to the drive.

COLONEL POPE: I wouldn't, if it is more or less isolated; I wouldn't do it, merely because of the fact that I feel that if you could announce the time you are going to offer the banks after the drive, I think you would have your speculative element eliminated to as full an extent as you would want. If you don't do that, I am still a little skeptical of putting too much pressure on this speculative business, because I am not so sure that people are going to be speculative, and I don't like to see all element of speculation eliminated, in spite of the fact it isn't what you want. But it is part of the business.

MR. BELL: In other words, in view of the uncertainties of the situation, you would leave it about as it was, leave the basket and everything about as it was in the Fifth?

COLONEL POPE: Yes, I would. I think there is going to be a much more difficult element that will make it a little more difficult in the drive for individuals. The percentages, which I think have been pretty generally established, of the total of a drive that should go to individuals--I think it would be a mistake to alter that very materially. In other words, if you thought you couldn't get so much from individuals as you did before, I think we must hate to admit it. But I think if you are going to keep the same percentage and eliminate or reduce the amounts that are going to be obtained through public subscriptions other than banks to twelve, you would accomplish a pretty good purpose by having a little less amount derived from individuals. I think it was fairly difficult last time, and I think it is going to be a little more difficult this time, so I would like to see it cut down

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from fourteen to twelve.

H.M.JR: What is the use of arguing about it? I have announced it publicly.

COLONEL POPE: What I have asked was, when you say drive, does it mean public drive and not what I suggested, the amount to be obtained--

MR. BELL: I think the amount has been broken down. As I recall, Ted gave out the nine billion from corporations and five from individuals.

MR. ROUSE: The wording of the nine billion would have permitted the banks to be included. At least all these fellows looked at this thing very closely, and the general interpretation was that that didn't cover bank financing. However, it could.

MR. BELL: But it wasn't interpreted that way in the market or in the papers.

MR. ROUSE: It is still left open. The Journal of Commerce said one thing, and another paper said another.

H.M.JR: What about bills? Do you think we should increase the bills?

COLONEL POPE: I should think that would be perfectly feasible to increase the bills a hundred million, one hundred and fifty, or two hundred million a week. I don't think it is the best way to obtain the money in view of the way the bill market is at the present time, but I think it is one way that money, certainly, can be obtained. If that was increased, I wouldn't think that was particularly detrimental, but I don't think it is the best way to do it from the standpoint of the way the bill market is at the present moment.

H.M.JR: If you needed that additional money, how would you suggest our getting it?

COLONEL POPE: At this particular time?

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H.M.JR: Between now and the first of December - between now and the 20th of November.

COLONEL POPE: I think that the bills are perhaps as good a way to do it as any other way, if it isn't too big an amount - a couple of hundred million or so.

H.M.JR: That would be the maximum.

One of these gentlemen that we have been seeing raised the question that we do not get out another two and a half. His argument is that if war should stop in Germany we would have to look to the insurance companies, principally, as our customers. If there wasn't another two and a half, they would have to buy the old ones, and to give the two and a half's a rest over one drive might be advantageous.

COLONEL POPE: I thought that two drives ago, I think - when I was down here - I suggested we give them a rest on the two and a half's at that time. That was when they were skating around par and there were rumors that there hadn't been a par bid, and so forth and so on. I would not have suggested it at this time. I would have thought at one time it was a good thing, but I think now - well, I wouldn't know just what you might expect from the insurance companies if you started to give them something with a lower coupon, and I presume you are not talking about changing it.

I don't think, myself, that the insurance companies are looking for a diversification. They are getting enough diversification with six months' difference in the thing, but I don't think they are looking at that.

As far as giving them a rest is concerned, their money is certainly piling in, and I would be afraid of losing it.

H.M.JR: What could they do with it?

COLONEL POPE: They can't use all of it, but there have been times when the insurance companies have gone in

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together and bid on issues. This one hundred and fifty million issue is coming in a week or so. There have been a hundred million issues - I don't know how many hundred millions there are of suitable bonds for insurance companies. They get a fair-sized proportion of them, of course, as it is, but they go out and buy the whole works; in fact, Equitable did buy one whole issue, fifteen or twenty million.

I think you might drive them into that. But I would think the time to avoid giving them an issue - in other words, a little scarcity coming in the two and a half's, when the two and a half's are in danger of having to have some material support, and I don't think that is true at the moment.

H.M.JR: But if this European phase should change, you don't feel that that might--

COLONEL POPE: I don't see how that is going to change the insurance companies so much. I think it will change the industrial corporations, and I think it might change the individuals, but not the attitude of the insurance companies, I wouldn't think.

MR. BELL: Don't you think it might be a good thing to let them have a little money there available to invest in the two and a half's if the other holders of two and a half's want to sell in case something happens on the Western front?

COLONEL POPE: Would it relieve that situation if you closed the insurance companies' books at the end of the drive?

MR. BELL: To the extent that they accumulated funds, yes - after the drive. Some of them, of course, borrow now and take care of their anticipated premiums up to the next drive.

COLONEL POPE: Yes, well, I think before the time was extended in which insurance companies and savings banks could make those purchases, I think there was a considerable

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amount of purchasing - more than there had been. There naturally would be. I can't tell you whether it would be enough to take up a big dumping of two and a half's, but I would be inclined to think that the dumping of two and a half's wouldn't be as great as it would be of two's, maybe. But I think a great many investors that have gone into two and a half's have gone in because they were investing. I think those that went into two's went in more for speculative reasons, and they are much more apt to let them go quickly than they would those with two and a half's.

We have seen the time when two and a half's have been a little difficult to handle, but I think if there were an interim after the drive when two and a half's might be coming into the market, I think - I don't think those insurance companies - they have learned how to borrow at the time, and so forth - but I don't think that is very general. At least to my knowledge it wasn't so very general. I think it was confined mostly to some of the bigger companies. I think we did the first one of those, didn't we, Bob - when that first came out?

MR. ROUSE: Yes.

COLONEL POPE: And then it spread some, but my impression is, it wasn't very general. I think it would mean a good deal of buying power left in the market if you didn't give them the opportunity to buy - extend the time of purchase. That might be worth considering. But I hadn't thought of the end of the war affecting the sale of two and a half's so much. I think they are better held. Of course they are better held when they are held by insurance companies.

H.M.JR: Over half of them are not held by the insurance companies.

COLONEL POPE: Yes, I know that is true, but a great many of them are held.

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MR. ROUSE: Schools, colleges, hospitals--

COLONEL POPE: My own family - I put them into two and a half's because I thought it was a good investment. I won't be affected by the war. I don't mean by that, I am an example of everybody, but that is me.

I wouldn't think that if you changed over and left the two and a half's out at this time, I wouldn't think that it would - I think it would be a little bit dangerous to do at this particular time.

H.M. JR: Anybody else have any questions?

MR. BELL: I think that covers it.

October 3, 1944
11:55 a.m.

BANK FINANCING - ~~SA~~LOMON BROTHERS AND HUTZLER

Present: Mr. Rouse
Mr. D. W. Bell
Mr. Haas
Mr. Levy

H.M.JR: What is on your mind for the Sixth War Loan?
How would you do it?

MR. LEVY: I would offer a basket with some seven-
eighths, one and a half percent note due in March, '49,
and some two and a halves.

H.M.JR: Where would that be different from the
last time?

MR. LEVY: You had one and a quarters and two's and
two and a halves.

H.M.JR: And this time?

MR. LEVY: Seven-eighths, one and a halves, and two
and a halves.

H.M.JR: Why would you change it?

MR. LEVY: Well, it is a question. When it gets to
a Loan like the last time there is a lot of switching around
and the banks are the ones that buy them up right along.
And if you put out something that isn't so easy to switch
out of, maybe they will buy some that they will keep for a
while, anyhow, and they won't have to have the worry in
the banks all the time to take it up. Only you don't want
to offer anything to the banks at the same time.

MR. BELL: Do you think there will be a lot of switch-
ing in the note?

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MR. LEVY: No, I don't think so, because they don't have the notes to switch around.

MR. BELL: I meant speculation in the note, if you only had the one.

MR. LEVY: I don't see any particular reason; I mean, as far as the appreciation is concerned, it can't be anywhere near as much as the bond, and I think a lot of corporations would buy them and they would rather buy one and a half percent notes. Some of them will have longer money than the C. of I.'s. And they will maybe hold them for a while. You won't have the switching around that they had the last time, where they would sell some twos and buy the new twos, because you will always have the switching in the seven-eighths. That is only natural; you can't stop that.

MR. BELL: That is right.

MR. LEVY: And as far as the savings banks, they are the biggest switchers in the world.

MR. BELL: What do you do with the two and a halves?

MR. LEVY: I'd leave it, say, September '65-70. You'd have to have a different kind from the other ones to make it more easy to figure.

MR. BELL: Six months longer?

MR. LEVY: Then you would also have the one and a halves as an offering.

MR. BELL: You can give them the right to go into the one and a halves.

MR. LEVY: That will hold down the market a little bit.

MR. BELL: The individual can go into the two and a half?

MR. LEVY: Well, that is what you want, if you want

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them for investment purposes.

MR. BELL: I am talking about the Coolidges.

MR. LEVY: You will find some of them around. I think most of them are held by banks, now.

MR. BELL: They may have switched in the last month.

MR. ROUSE: Don't you have corporate holders?

MR. LEVY: Yes, they bought them for tax purposes. I know one corporation got fifty million of them. He'll probably want his money, but he may switch them into one and a half and hold them for a while.

H.M.JR: Do you think there will be any more difficulty if the war stops in Germany before--

MR. LEVY: I personally don't think so, because we have had a lot of propaganda, and the fact that money rates are not going to change, I think, is psychologically okay. A lot of people, of course, felt six months ago that the money market will get firmer after the German war stops and there will be a lot of selling and all that. But I think they have been sold a bill of goods that there won't be any change in money rates. Even the Republicans--I heard that somewhere.

H.M.JR: Even Dewey said so.

MR. BELL: That is a strong statement of Dewey's.

H.M.JR: What about bills? Shall we increase them or leave them alone?

MR. LEVY: It is a question of whether you need any money now. You have plenty of cash lying around.

H.M.JR: We may need a little money.

MR. LEVY: Before the drive starts?

H.M.JR: Yes.

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MR. LEVY: Any appreciable amount?

H.M.JR: Maybe a billion dollars.

MR. LEVY: Well, you could do that easily enough just by increasing the bills, unless you want to put out, say, one issue every week maturing, say, June 15, '45.

H.M.JR: Of what?

MR. LEVY: Of the Treasury bill, and let the banks pay for it on deposit.

MR. BELL: What do you mean?

MR. LEVY: Just that particular date, just have them maturing at one time, then you can refund them all at one time, around June 15. You have an open date there. Let them pay for it with one loan deposit.

As long as you put out more bills, the Federal Reserve System buys them, anyway.

MR. BELL: Do you think the Banks--you say the Federal Reserve System will buy the weekly bill. Do you think the banks will buy?

MR. LEVY: At least you have the money in the banks.

H.M.JR: I tell you what I would like you to do, Mr. Levy. When are you going back?

MR. LEVY: Two o'clock.

H.M.JR: You could see Ted Gamble before that?

MR. LEVY: Sure.

H.M.JR: Do you want to talk to him some more?

MR. HAAS: I think I have it.

MR. BELL: Have you thought anything about a two and a quarter?

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MR. LEVY: If you just want to push it in with the two and a half I have no objection to it, because that will go to non-commercial buyers. I wouldn't object to it.

MR. BELL: Would you get any more money or detract from the two and a half?

MR. LEVY: You may get a little extra money. Maybe the savings banks might be tempted. They seem to like the two and a quarters because they sell two and a halves and twos. And they make a little profit and they get the same yield, you see. As far as the present market is concerned they do, but, as I say, the savings banks are really the biggest traders of any of them as far as the drives are concerned.

H.M.JR: Do you want to ask something, George?

MR. HAAS: No, sir.

H.M.JR: How about you, Bob?

MR. ROUSE: No, I have no questions.

H.M.JR: Well, you are always very concise.

(Mr. Levy leaves conference)

H.M.JR: George, I want to continue this at nine-thirty tomorrow morning. I'd like you to make me an analysis of people's names, where they differ, on one page. Be prepared to discuss it, and I will have Tickton, Gamble, Murphy, Lindow, Haas, Dan Bell, Mr. Rouse, if he is available. I want to discuss what we heard here today, the pros and cons. Then I want a memorandum on this balance business. If we get the bills, how will we be fixed, and if we don't, how will we be fixed? We'll get Mr. Rouse's comments on this discussion this afternoon. It would be very helpful.

MR. ROUSE: I'll be available all afternoon.

H.M.JR: Why don't you dictate a memorandum I could read tomorrow morning, commenting on these various suggestions?

MR. ROUSE: All right.

October 3, 1944.

TO: Secretary Morgenthau

FROM: Mr. Rouse

Interviews with dealers

Although there were variations as to particular items in the discussion of the program for the 6th War Loan, the dealers seemed to agree that V-E-Day would not bring on any sudden movements of broad scope in security prices, deposits, loans, etc. They also agreed that market psychology is good and that it has conviction as to the maintenance of the pattern of rates.

In general the dealers agree that there should be the same basket as in the 5th Loan - that with this basket and the smaller goal the Treasury is well protected against the effect of a drop in public morale prior to or during the drive.

Mr. Levy suggested the elimination of a 2% bond and the 1-1/4% note, recommending in their stead a 1-1/2% note of March 15, 1949. The basis of his recommendation was that it would reduce the volume of switching operations. It would satisfy only a limited number of customers and, in my judgment, ultimately bring about a volume of switching of an undesirable type.

Mr. Devine's suggestion of the omission of a 2-1/2% bond and the substitution of a 2-1/4% bond would, I believe, work as he indicated, namely to raise, temporarily at least, the market value

- 2 -

of the existing issues to 100-1/2 to 100-5/8. "Who," he asks, "doesn't like to see his holdings quoted at a premium?" My reply is that the man who wants to or feels he ought to buy more is that fellow. He is represented by the insurance companies large and small, endowments of various kinds, churches, pension systems and savings banks and individuals.

The Treasury heretofore has considered that its long-term financing rate of 2-1/2% could be maintained and that it should not be changed during the war at least. The step proposed by Mr. Devine, in my opinion, would be in the direction of a lower rate.

RDH

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Oct. 3, 1944

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Bonds Called for Redemption December 15

Four percent Treasury bonds in the amount of \$1,037 millions have been called for payment December 15, 1944. The most appropriate disposition for these securities would appear to be an exchange offer involving the 2 percent and 2-1/2 percent Treasury bonds issued in the Sixth War Loan, which will be in progress at that time, with commercial bank holders of the 4's being restricted to the 2 percent drive security while other investors would be given the option of either the 2's or 2-1/2's. Such an operation would follow the precedent of October 1943, when holders of the 3-1/4 percent bonds called for payment October 15, 1943, were given the option of exchanging into the 2 percent or 2-1/2 percent bonds offered during the Third War Loan -- except that the operation would occur during the course of the Loan itself rather than, as in the earlier case, immediately after the Loan.

It is recognized, of course, that if such an offer is made, the greater part of the called securities will find their way into the hands of banks and of brokers and dealers, the only classes of investors to whom the exchange privilege would be of real value. The proceeds received by nonbanking holders would, for the most part, be reinvested in drive securities.



THE UNDER SECRETARY OF THE TREASURY

WASHINGTON

October 3, 1944

TO THE SECRETARY:

In giving you the estimated cash balance last week for the period ending December 1, 1944, I said that we would go into October with about \$13 billion and would probably end up on November 30, without any credits in the War Loan Account from the new drive, with about \$3 billion. I asked you at that time if you would be alarmed at a balance as low as \$3 billion on that date if you did not get any new funds from the drive.

^{now} We came into October with \$13,300 million. We estimate that we will go out of October with \$8-1/2 billion, (based on \$7,400 million in war expenditures). We now estimate that the balance on November 30 (based on \$7,300 million in war expenditures and without any new money in the drive) will be \$3,500 million. If nothing happens to interfere with the usual trend of payments in the War Loan Drive, we might add between \$5 and \$6 billion to this figure. If we make the payment date on November 27, we could get in a good deal more than this in November and our balance might well be above \$10 billion on that date.

I am attaching a statement showing the expenditures as estimated for the six months' period ending December 31, actual expenditures and balances for July to September, and estimates for October to December.



(In millions of dollars)

	<u>Balances at beginning</u>	<u>War expenditures</u>		<u>Balances at end of period</u>
		<u>Estimates</u>	<u>Actual</u>	
July, 1944 ...	\$18,668	\$7,200	\$7,201	\$20,257
August	20,257	7,500	7,500	16,089
September	16,089	7,500	7,000	13,300
October	13,300	7,400	-	8,500
November	8,500	7,300	-	8,500 ✓
December	8,500	7,000	-	14,300 ✓

✓ Balance at end of November includes \$5,000M from Drive based on assumption that payment date will be December 1, and balance for December 31 includes an additional \$11,000M from Drive.

October 3, 1944

October 3, 1944
12:55 pm

HM, Jr: Hello.

Operator: Mr. Currie.

Mr. C: Mr. Secretary.

HM, Jr: Speaking.

Mr. C: The President - I just talked to Harry Hopkins and he told me the President wants to say something about Italy this afternoon and he wouldn't be holding another conference until the 13th and I said, "Well, we tried to get some statement from the War Department and I was surprised that -- why doesn't he release the approved recommendation we sent over?"

HM, Jr: Yes.

Mr. C: And Hopkins said, "Well, the President does not understand that altogether," and he thinks if you would call and say it has been cleared and has your full approval -- and I have the press release all ready that we got cleared with the British and everybody else and this would be now a change of the first sentence of it to indicate this is one of a series of steps to implement the joint statement of Churchill and the President on Italy so it fits in beautifully at the present time if he would use it.

HM, Jr: Well, it's been over there -- Hopkins called you to call me?

Mr. C: No. Hopkins -- I asked him to urge the President, "Well, why not issue this statement? That's something"

HM, Jr: Yes.

Mr. C: He said, "Well, Secretary Morgenthau put that over. He'd better." Like that.

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HM,Jr: Well...

Mr. C: That's why I thought of you.

HM,Jr: Yeah.

Mr. C: But your recommendation, I think, went over there about three weeks ago, didn't it?

HM,Jr: Well, it's longer than that and it's got Hull's O.K. and everything.

Mr. C: Everything. The British approved it ...

HM,Jr: And I asked Miss Tully about it a number of times and each time she said the President was waiting to see this Colonel from New York who was over there.

Mr. C: McGuire, yeah.

HM,Jr: Yeah.

Mr. C: And then he held it up because he did not want to spoil the news on his joint statement with Mr. Churchill. That's understandable. But now I think it's time it should be issued and this is a good time to do it, if he wants to say something on Italy.

HM,Jr: Well. Let me think it over, will you?

Mr. C: Fine.

HM,Jr: I doubt whether I'll call up because I have called about four times on it as it is.

Mr. C: Well, I'll be seeing him before the press conference except if I can say that I checked again with you and you feel that this Order should be issued, that might be sufficient.

HM,Jr: Well, that's all right. You are going to see him before?

Mr. C: Yeah.

HM,Jr: That's all -- you can quote me on that.

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Mr. C: Fine. I'll do that, then.

HM, Jr: Right.

Mr. C: Thank you.

HM, Jr: Thank you.

October 3, 1944
4:12 p.m.

HMJr: Hello.

Operator: Judge Patterson is with General Somervell. Did you want me to call him there or wait until he comes back?

HMJr: Oh, see if you can't get him. That can't be so important.

Operator: All right.

4:16 p.m.

HMJr: Hello.

Operator: Judge Patterson, and he's in his own office now.

HMJr: All right.

Operator: Go ahead.

Robert Patterson: Hello.

HMJr: Bob.

P: Henry.

HMJr: I just got a very disturbing cable which Oscar Cox sent over to me in which -- I'm sending you a copy -- in which it seems that the Army is asking for the figures of what the British Army will need and they're doing this in England.

P: Yeah.

HMJr: God damn it! We're trying to do this thing and tie it all up here together and what does the Army go on and do this thing for -- in England for?

P: I don't know.

HMJr: I wish you'd run it down. I mean

P: Is Oscar Cox over there now?

HMJr: In my room?

P: No, is he over in Britain?

HMJr: No. No, this cable came from Winant and Phil Reed.

P: Oh. Oh. Through Oscar Cox?

HMJr: Yes.

P: Uh huh.

HMJr: From Phil Reed....

P: Yep.

HMJr: in -- in London, and he can't understand it, and why should the Army be asking for this stuff and it's messed all -- everything up over there.

P: Yeah. Will you send me a copy of it?

HMJr: It will be over to you very shortly, but I -- the reason I'm phoning you was that I wanted to be sure that you'd get it.

P: Yep. Yep. Mark it for me and I'll get it.

HMJr: I thank you.

P: Thank you, Henry.

October 3, 1944

Dear Bob:

I am enclosing herewith a telegram which was sent over to me by Mr. Oscar Cox. I cannot understand why the United States Army should be asking the British War Office about production at this time in view of the Committee which the President and the Prime Minister set up at Quebec. I pointed out to you at lunch that it is most important, if we are going to do a good job, that we all work together.

I would appreciate your looking into this matter promptly, and letting me hear from you.

Yours sincerely,

(Signed) Henry

Honorable Robert P. Patterson,
Under Secretary of War,
War Department,
Washington, D.C.

copy to Oscar Cox

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

September 28, 1944

Dear Secretary Morgenthau:

You may be interested in the
attached cable from Phil Reed in connection
with Lend-Lease policies towards the U.K.
in Phase II.

Sincerely yours,

Oscar Lot

The Honorable Henry Morgenthau, Jr.

The Secretary of the Treasury.

SEP 29 1944

SECRETARY OF THE TREASURY
OFFICE

INCOMING TELEGRAM

London

Dated September 22, 1944

Rec'd 12:50 a.m., 23rd

Secretary of State,
Washington.

7899, September 22, midnight

PERSONAL FOR CROWIE Y, CURRIE, COX AND ACHESON FROM REED.

United States Army here has asked the British War Office what production they will have to supply United States requirements in the twelve months following the termination of the war in Europe and whether they will be able to increase such supply over quantities furnished to United States forces in the United Kingdom in 1944.

Occasion for this inquiry is cable War X 28496 of September 11 from International Division of War Department instructing Army here (A) to ascertain what United Kingdom production will be released from producing United Kingdom requirements for the war against Germany and will not be needed by the United Kingdom for the Japanese war during the first year after the end of the European war; and (B) to arrange with United Kingdom

authorities to keep this capacity in production to supply items required by the United States Army for the Japanese war.

These instructions raise major questions of policy, about which I will undoubtedly be asked by the British:

(a) If carried out literally the instruction could mean our asking the United Kingdom to retain its present level of military production for a year after the end of the European war in order to provide material required by the United States for the Japanese war at the same time that the United States is announcing 40% reduction in war production and the lifting of almost all restrictions on civilian production.

(b) The reciprocal aid agreements state the objectives of reciprocal aid as the most effective utilization of available materials, man power, production facilities and shipping space, and the reduction to a minimum of the need of each government for the currency of the other. These objectives are not likely to be served by production in the United Kingdom of requirements for the United States military in the Far East. Such production would reduce United Kingdom capacity to meet its own needs and tend to continue its dependence on the United States for Lend-Lease aid, whereas the United States could probably produce and ship most United States Army requirements for the Far East more quickly and effectively than the United Kingdom, and at the

-3-

same time convert a fair share of war production to its own civilian needs.

The foregoing, of course, relates only to United Kingdom production. Clearly there are mutual advantages in obtaining maximum production in places nearer the Far Eastern battlefront, such as Australia and India.

The proposals of the Army do not seem to me consistent with which I understand to be United States Government policy thus far developed about phase two. Please advise whether they have your concurrence and, if not, what is your position so that I may know how to answer inquiries from the British.

WINANT

JT

OCT 3 1944

Dear Oscar:

Thank you for sending me the copy of the cable from Phil Reed. It indicates the need for closer coordination at this end.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Oscar Cox,
General Counsel,
Foreign Economic Administration,
Washington 25, D. C.

P.S. I am taking this up with Bob Patterson. I will let you know what he has to say.

HPW
10/3/44

10-3-44

Mr. Sullivan and Mr. Blough have been asked to prepare a memorandum for the Secretary containing statement on taxes to have in readiness in case Dewey should attack the Treasury on its tax program. The Secretary wants Mrs. Klotz to have this memo. He wants Mr. Blough and Mr. Sullivan to have it ready to discuss at lunch and he wants Mr. Gaston to have a copy to read before lunch so he can be prepared to discuss it.



TREASURY DEPARTMENT

WASHINGTON October 3, 1944

ASSISTANT SECRETARY

MEMORANDUM FOR SECRETARY MORGENTHAU

From: Assistant Secretary Sullivan *MS*

Senator George can be reached at nine o'clock at Vienna,
Georgia, Telephone No. 42.

Congressman Doughton can be reached at Sparta, North Carolina
at the home of his son, Hort Doughton.

FOR DEFENSE

BUY
UNITED
STATES
SAVINGS
BONDS
AND STAMPS

October 3, 1944
9:36 p.m.

127

HMJr: Hello.

Operator: They say Congressman Doughton went from his son Hoyt Doughton to his son J. H. Doughton and I have him on the line now. And he said Congressman Doughton just left there but he'll see him in the morning.

HMJr: Well

Operator: He doesn't have any telephone where he's going.

HMJr: Let it go.

Operator: Cancel

HMJr: Cancel it. Try Senator George. It's at Vienna -- V-i-e-n-n-a. It's like Vienna.

Operator: Yes.

HMJr: 4-2 Georgia.

Operator: All right.

HMJr: Senator Walter George.

Operator: Right.

HMJr: Cancel out on the other one.

Operator: All right.

October 3, 1944
9:50 p.m.

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HMJr: Hello.

Operator: Senator George.

Walter
George: Hello.

HMJr: Henry Morgenthau.

G: Yes, Henry, this is Walter George.

HMJr: How are you?

G: Pretty good, thank you.

HMJr: Did you listen to Dewey?

G: Well, I tried to but couldn't get any reception here on the station he was talking on.

HMJr: Oh.

G: I just didn't get more than a flash of it.

HMJr: Oh, that's too bad.

G: Did you hear it good?

HMJr: Yes, we got it all right.

G: Uh huh.

HMJr: The principal thing is he's criticizing us for wartime taxes.

G: Yes.

HMJr: He wants to do away with all excess taxes, excise taxes except gasoline and tobacco and one other thing -- I forget what it was.

G: Whiskey, I guess.

HMJr: Liquor.

G: Yes.

HMJr: You hold that, yeah.

G: Yes.

HMJr: And he criticized us for taxing the man with eleven-dollar-a-week income.

G: Yes.

HMJr: And also, about how complicated it was. But the principal thing was the criticism of the high taxes during the war.

G: I see.

HMJr: And then he brought in the Lincoln Electric Case.

G: Oh, yes.

HMJr: Now, I wondered if this sounded all right. We were working on something tonight and what I was thinking of doing -- of preparing a statement which would say that after twelve years of the Republican regime, we found taxes in the following condition -- and then mention some of the glaring loopholes. See?

G: Yes.

HMJr: And then say that those had been corrected. Hello?

G: Yes, I think that's a good idea.

HMJr: And then say -- and then go on and say, "Now, Mr. Dewey"

... (Interruption on the wire.)

HMJr: Hello?

G: Hello.

HMJr: I'd say, "Now, Mr. Dewey, there are some of the others which we've not been able to do" -- like oil-well deple -- oil-well depletion, you see?

G: Yes.

HMJr: I was thinking of Mr. ^{Pew}~~Pugh~~ in Sun Oil.

G: Yes.

HMJr: And State and Municipal taxes and a few of those other things -- and ask him where he stood on those.

G: Yes.

HMJr: You see?

G: That's very good.

HMJr: And then go on to say that this whole tax program of ours has been part of the stabilization program which has cost -- kept the cost of living down.

G: Yes.

HMJr: And that -- he criticized us for having fifteen tax bills in eleven years and I was going to say "Well, we had to have those, first, to correct the inequities of the Republicans that went before us and, second, in order to keep up with the war."

G: Exactly.

HMJr: See?

G: The mounting cost -- the mounting cost of the war.

HMJr: That's right.

G: It ought to be pointed out too, Henry, that so far as these excise taxes are concerned

HMJr: Yeah.

G: the extraordinary excise taxes which we've imposed and even the increases which we have made go out six months after the termination of the war.

HMJr: That's right.

G: They're strictly war taxes.

HMJr: That's right. Well, now

G: And we came down to get the eleven-dollar income -- the man with the small income is likewise strictly a war provision because it's a part of a tax which we've tried out, known as that Victory Tax which itself, by its terms, would have gone out after the war.

HMJr: Now

G: Even that is -- is -- is a wartime levy -- but especially the excise taxes, practically all of them go out six months after the termination, and the increases that we were compelled to put on during the war period.

HMJr: Now, I think what I'm going to do is this: I think I'm going to put on the wires Dewey's speech of tonight. You see? So that you'll have it in the morning.

G: Yes.

HMJr: And then I think when we get our statement ready, I'd like to read it to you over the telephone for your suggestions.

G: Fine. I imagine I'll get it in the morning's press but I'm not sure about our papers carrying it in full.

HMJr: Well, I can put it on the wires so that you'll get it in the morning.

G: All right.

HMJr: Now, just send it to you at Vienna?

G: Yeah, that's right.

HMJr: And -- and then you'd get it at the telegraph office or they'd deliver it.

G: Yes, I'll get it in the morning. Yes, they'll deliver it.

HMJr: I -- I doubt if the newspapers will carry it in full.

G: I doubt it myself.

HMJr: I'd like to do that and then I'd like to show you
what we're going to say and get your advice.

G: All right.

HMJr: Thank you.

G: All right.

HMJr: Bye.

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

FROM _____
BUREAU _____
CHG. APPROPRIATION Contingent

U. S. GOVERNMENT PRINTING OFFICE 10-1723

OCTOBER 3, 1944

Senator Walter George,
Vienna, Georgia.

Text of Governor Dewey's speech October third quote Fellow Americans: This year more than fifty million of us are paying income taxes. The man who makes as little as eleven dollars a week now pays an income tax. So taxes today are mighty important to every one of us. They are important because the amount of taxes taken out of your pay envelope decide how much will be left to take home.

Taxes are also important because tax laws can either destroy our job making machinery, or can permit it to go to work, and jobs after the war will be the first objective of your new national administration.

In speeches over the radio within the past few weeks I have made constructive proposals for achieving our great objective for the years ahead. These are some of the things we must do if we are to be successful here at home after this war and in doing our share in bringing a lasting peace to the world.

As we all know, it took a war to get jobs under the present national Administration. The New Deal was in office from 1933 until 1940 when the war finally reduced unemployment.

Now, how is it that the New Deal managed to make a three-year depression last nearly eleven years? Why? With all its borrowing and spending, with all its emergencies and unlimited powers, were there still ten million unemployed in the spring of 1940?

One of the most important reasons was that our present Administration never once established a policy of encouraging people to do business. It never once had a stable policy that allowed people to make plans to go ahead and carry them out.

Our tax laws should be the most stable. They have been the most unstable. Consider just one startling fact: The New Deal changed our tax laws fifteen times in twelve years. It actually passed two Revenue Acts that were out of date before they could even go into effect, because new laws had been passed in the meantime.

- 2 -

How in the world can people plan ahead when they don't know from one month to the next what their taxes are going to be? Moreover, under this Administration these laws have even been used to discourage high wages. Here is an example:

The Lincoln Electric Company is a long-established firm which manufactures electrical equipment. It employs thirteen hundred highly skilled and productive workers who have enjoyed high wages for years.

In 1941 those thirteen hundred employees made an average of \$5400 a year. That is a little more than a hundred dollars a week. But a Treasury agent of this Administration went into that plant and announced that a man who worked with his hands should not be paid as much as \$5,000 a year.

I have here photostatic copies of the Treasury Department notice to the Lincoln Company, marking the pay of worker after worker as excessive. That is the way the New Deal keeps Americans from getting ahead. That is the way it has been fighting for twelve years against the whole future of our country.

Now, when this war is over, eleven million of our best men and women will be coming home. They will be eager for jobs, for an opportunity to start in business for themselves. Suppose one of these young men wants to set up a little business. He goes to some of his friends and gets the money and they incorporate. His wife makes a living as secretary-bookkeeper. The first thing she finds out is that she has to be an accountant, a statistician, a lawyer and a tax expert, all at once.

.... But even the experts can't decide how to do business under the New Deal, because they can't understand the laws themselves. I have here a dozen examples. Just listen to this little gem from Section 23P of the present tax law, about contributions to employee pension plan. It says:

"They shall not be deductible under sub-section A, but shall be deductible if deductible under sub-section A without regard to this sub-section under this sub-section, but only to the following extent."

From here on it gets technical!

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But suppose, in spite of everything, our veterans' wives do succeed in building up their business and in creating some jobs for other people. We have been making laws so they must hand over to the Government \$25 out of every \$100 the business earns. If they are still more successful, then the Government takes \$40 out of every \$100. And if they are very successful, under the present tax law the Government takes \$60 out of every \$100.

Of course, we cheerfully pay higher taxes to meet the cost of the war. But the taxes we are paying today are not just for the war. There has been too much waste and extravagance of the sprawling bureaucracy built up by the New Deal in these last twelve years. Even Vice President Henry Wallace has now made a speech urging relief from--and I am quoting--"excessive taxation and excessive Government regulation."

And who do you suspect came out in this morning's paper for tax relief for business? Harry Hopkins, whose slogan has been tax and tax, spend and spend, elect and elect.

In other words, the highest New Dealers admit that this Administration has created an impossible condition which urgently needs repair. They had plenty of chances. They have had twelve long years of what they now admit is failure. They changed the tax laws fifteen times in those twelve years, and only made things worse. So they ask for sixteen years and promise to do better.

Unfortunately, experience shows that they only talk about improving at election time, and then forget all about it. That is why it is time for a change.

But this is only part of the story. Not only do the men who make as little as eleven dollars a week now pay an income tax, but under the New Deal personal income taxes have been raised so that a man with a wife and one child who paid \$5 when the New Deal began, now pays seventy-six times as much on the same income.

In addition, countless hidden sales taxes have been piled onto almost everything we buy or use today. It has reached a point where every time a woman powders her nose there is a tax of twenty per cent on the powder.

One of the first jobs of your new Administration, which takes office next January 20, will be a revision of our tax laws. We need a whole new point of view. We need an administration which believes in full employment and in opportunity for all. We need a tax policy directed towards achieving and maintaining full employment and rising standards of living for all our people.

To that end I propose the following program to take effect immediately after victory is won:

First, revise the personal exemption so that the man who makes as little as eleven dollars a week no longer has an income tax taken out of his pay envelope. Our objective in peacetime must be expansive in recovery. We cannot achieve that objective by taxes which eat into the income of those who are already below a decent standard of living.

However, necessary these taxes may be in wartime, there can be no excuse for them in peace.

Two, reduce personal income tax rates. The tax law now takes at least twenty-three cents out of every taxable dollar after credit for dependents. That cuts the living standard of every one who works on a small wage. It would slow up our recovery after the war. We want to speed recovery along.

Three, change and lower the income tax on business companies until it no longer acts as a drag upon production and a barrier to jobs. The special wartime taxes which now rise to ninety-five per cent should end with the war. These taxes, of course, are almost confiscation. If continued after the war, they would encourage waste and inefficiency. They would discourage low cost production and block the expansion which creates job opportunities.

Four, shorten the present endless list of excise or nuisance taxes. We should eliminate as soon as possible all excise taxes except those on alcoholic beverages, tobacco, and gasoline.

Five, completely overhaul our existing confused and complicated tax laws. We must create a basic tax law which can be expected to remain simple and stable. It must be one that can be adjusted from time to time by changes in rates without requiring a complete revision once a year or oftener.

Six, establish and proclaim a consistent national tax policy, one directed toward achieving full employment and a rising national income; one that will assure us of a solvent nation and the ultimate reduction of our national debt. In the years ahead we face a national debt of three hundred billion dollars. We face an annual cost of Government, including adequate Armed Forces far above the level of pre-war years. Just to meet the interest on this debt and the cost of Government we shall need large Federal revenues, but it is utterly impossible to suppose that we can support our Government by levying heavy taxes upon a national income. Our first aim must be to increase our national income by putting to work all of the productive resources of our country, industry, labor, and agriculture. It is far better to have a low tax rate with a national income of \$150 billion than income of only \$76 billion with a high tax rate, as we had under the New Deal at its peacetime best.

What we want is a thriving, progressive country with jobs for all. We want our tax laws to be stable and understandable, so there will no longer be a block in the way of progress.

We want them to be levied sensibly with understanding for the human need of our people. That kind of tax policy we are going to have. We are going to have the kind of tax laws under which America once more can live and grow. We will have a Government that wants to see every American get ahead. UNQUOTE

HENRY MORGENTHAU, JR.

TEXT OF GOVERNOR DEWEY'S SPEECH

October 3, 1944

Fellow Americans:

This year more than fifty million of us are paying income taxes. The man who makes as little as eleven dollars a week now pays an income tax. So taxes today are mighty important to every one of us. They are important because the amount of taxes taken out of your pay envelope decide how much will be left to take home.

Taxes are also important because tax laws can either destroy our job making machinery, or can permit it to go to work, and jobs after the war will be of the first objective of your new national administration.

In speeches over the radio within the past few weeks I have made constructive proposals for achieving our great objective for the years ahead. These are some of the things we must do if we are to be successful here at home after this war and in doing our share in bringing a lasting peace to the world.

As we all know, it took a war to get jobs under the present national Administration. The New Deal was in office from 1933 until 1940 when the war finally reduced

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unemployment.

Now, how is it that the New Deal managed to make a three-year depression last nearly eleven years? Why? With all its borrowing and spending, with all its emergencies and unlimited powers, were there still ten million unemployed in the spring of 1940?

One of the most important reasons was that our present Administration never once established a policy of encouraging people to do business. It never once had a stable policy that allowed people to make plans to go ahead and carry them out.

Our tax laws should be the most stable. They have been the most unstable. Consider just one startling fact: The New Deal changed our tax laws fifteen times in twelve years! It actually passed two Revenue Acts that were out of date before they could even go into effect, because new laws had been passed in the meantime.

How in the world can people plan ahead when they don't know from one month to the next what their taxes are going to be? Moreover, under this Administration these laws have even been used to discourage high wages. Here is an example:

The Lincoln Electric Company is a long-established

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firm which manufactures electrical equipment. It employs thirteen hundred highly skilled and productive workers who have enjoyed high wages for years.

In 1941 those thirteen hundred employees made an average of \$5400 a year. That is a little more than a hundred dollars a week. But a Treasury agent of this Administration went into that plant and announced that a man who worked with his hands should not be paid as much as \$5,000 a year.

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out is that she has to be an accountant, a statistician, a lawyer and a tax expert, all at once.

But even the experts can't ~~ab~~ decide how to do business under the New Deal, because they can't understand the laws themselves. I have here a dozen examples. Just listen to this little gem from Section 23P of the present tax law, about contributions to employee pension plan. It says:

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But suppose, in spite of everything, our veterans wives do succeed in building up their business and in creating some jobs for other people. ...We have been making laws so they must hand over to the Government \$25 out of every \$100 the business earns. If they are still more successful, then the Government takes \$40 out of every \$100. And if they are very successful, under the present tax law the Government takes \$60 out of every \$100.

Of course, we cheerfully pay higher taxes to meet the cost of the war. But the taxes we are paying today

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However necessary these taxes may be in wartime, there can be no excuse for them in peace.

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can be expected to remain simple and stable. It must be one that can be adjusted from time to time by changes in rates without requiring a complete revision once a year or oftener.

Six, establish and proclaim a consistent national tax policy, one directed toward achieving full employment and a rising national income; one that will assure us of a solvent nation and the ultimate reduction of our national debt. In the years ahead we face a national debt of three hundred billion dollars. We face an annual cost of Government, including adequate Armed Forces far above the level of pre-war years. Just to meet the interest on this debt and the cost of Government we shall need large Federal revenues, but it is utterly impossible to suppose that we can support our Government by levying heavy taxes upon a national income. Our first aim must be to increase our national income by putting to work all of the productive resources of our country, industry, labor, and agriculture. It is far better to have a low tax rate with a national income of \$150 billion than an income of only \$76 billion with a high tax rate, as we had under the New Deal at its peacetime best.

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*Review of
this memo
to 8/30/44*

October 3, 1944

MEMORANDUM FOR SECRETARY MORGENTHAU

From: Assistant Secretary Sullivan
Commissioner Nunan

JS

We have conferred with several people in the Treasury and in the Bureau and we are all in accord that no satisfactory speech or statement can be written in answer to any possible charges that Governor Dewey can make against the Treasury on the tax front until we have read the charges.

However, we have scanned the possibilities and it appears to us that if charges are made they will involve:

1. Excess profits taxes,
2. Corporate income taxes,
3. Renegotiation,
4. Individual tax rates, exemptions and credits,
5. The failure to enact a Federal sales tax,
6. Excise taxes,
7. Complications of the form filed in March 1944, and
8. The Lincoln Electric case.

Accordingly, we have assembled the pertinent statistics and arguments on each of these points so that a defense and explanation of those items of which Governor Dewey is critical can be readily assembled.

It is our opinion that the general public is unaware of the tremendous job that has been done in the administration of taxes in the last five years—a period in which we have collected more taxes than had been collected in the previous 150 years. We believe the public should be told of the tremendous increases in returns and revenue yields in this five-year period. We also believe that the public should be congratulated upon their splendid response to the fiscal demands of the country.

Attachments

Excess-Profit Tax

An objective which has had the full sympathy of all parties concerned with tax matters is the prevention of excessive war profits. Government policy in this respect has been based on a number of social and economic considerations. Of prime importance has been fairness in the distribution of wartime sacrifices. This had to be considered in conjunction with the need for adequate incentives for increased production and for effective measures to combat inflation.

In this war, as in the first World War, the chief instrument for preventing excessive profits has been the excess-profits tax on corporations. Enacted under the Second Revenue Act of 1940, it provided for a tax on income in excess of a credit based either on invested capital or average earnings during the 1936-39 base period.

The original rates were graduated from 25 to 50 percent, but the tax was subsequently increased to a flat rate of 90 percent in the 1942 Act and 95 percent in the 1943 Act. However, under these latter rates, a postwar credit equal to 10 percent of the excess-profits tax has been allowed. In addition, a limit was placed on the excess-profits tax so that, when added to the normal tax and surtax, the combined liability was not to exceed 80 percent of corporate surtax net income. Abnormal situations have been recognized by various relief provisions, and a method of averaging income and excess profits has been provided through the two-year carry-backs and carry-forwards.

It cannot be said that the excess-profits tax has been wholly successful in recapturing excessive war profits. While its yield is substantial — 1944 liabilities are estimated at \$9 billion after the 10-percent postwar refund —, corporate profits after taxes have increased enormously. Comparing the calendar year 1943 with 1939, the excess-profits tax, together with the additional normal tax and surtax on corporations, has recovered about two-thirds of the increase in corporate profits before taxes (but after renegotiation of war contracts). This one-third of additional profits which corporations have been allowed to keep is one and one-half times as large as the 1939 level after taxes.

Aside from the reduction of excessive corporate profits, the excess-profits tax has played a key role in the integrated program to finance the war without danger of inflation. The heavy taxation of profits is essential to the maintenance of price ceilings and wage and salary stabilization.

Corporation Income Taxes

The joint effect of rate increases and the enormous expansion of corporate profits boosted corporation income tax liabilities from \$1.2 billion in 1940 to an estimated \$4.4 billion in 1944.

Substantial reliance on increases in the corporate normal tax and surtax was necessary because of the unavoidable imperfections in the excess-profits tax law. At best, it is extremely difficult to single out excess profits and war profits by legal definition. The corporate normal tax and surtax afforded an instrument for tapping war profits that were not defined as excess profits in our tax law. Furthermore, not all excess profits can be taken by taxes without impairing managerial incentives. Additional income taxes offered assurance that all corporations which had benefited from the war would make an additional tax contribution.

At the same time Treasury policy regarding corporate income taxes has been tempered by the necessity for keeping corporations in a sound financial condition for the postwar conversion. That this objective has been achieved is indicated by the large amounts of liquid assets which corporations have been able to accumulate during the war.

Prior to 1940, the corporation income tax was levied at 19 percent when net incomes exceeded \$25,000 with lower rates for small corporations. The normal rate was raised to 24 percent in 1940 and stabilized at that level. In the following years, however, increases in the corporation income tax came by way of a surtax in lieu of a further increase in the 24 percent normal tax which would have accrued to the advantage of holders of partially tax-exempt securities. The present combined normal tax and surtax on net incomes over \$50,000 of 40 percent was enacted in the 1942 Act.

Renegotiation

The belief that excessive profits should not be made on war contracts found Congressional expression in the profit-limitation provisions of the Vinson-Trammell Act of 1934. These provisions were suspended, however, upon enactment of the excess-profits tax in 1940. Its suspension was motivated by the belief that the Act was discriminatory in its coverage, that it was based on an arbitrary formula for reasonable profits, and that it created an impediment to prompt placement of contracts.

The suspension of this Act and its replacement by the excess-profits tax could only partially cope with the problem of securing reasonable prices on war contracts, particularly in view of the authorization given to the military establishment in 1940 to negotiate contracts rather than to award them by competitive bidding. At that time, the dominating consideration was speed rather than cost. Accordingly, in early 1942 the War Department instituted a procedure for renegotiation of contracts which was embodied in subsequent legislation applicable to contracts and subcontracts entered into by the Governmental procurement agencies.

Estimated renegotiation recoveries during 1942-44 on goods already delivered at the time of renegotiation amount to \$4 billion. In addition, renegotiation has reduced the prices of goods yet to be delivered at the time of renegotiation — an effect which is at least as important as recoveries of payments for goods already delivered, and has resulted in lower prices in new contracts. Therefore, even though a substantial portion of renegotiation recoveries would have been taken by taxes, renegotiation has reduced excessive profits more than taxes could have and has achieved a significant lowering of contract prices.

Individual Income Tax

Expansion of the individual income tax accounted for one-half (\$17,280 million) of the total increase (\$34,800 million) in internal revenue collections from the fiscal year 1940 to the fiscal year 1944. In the latter year individual income taxes yielded \$18,260 million. Under the stimulus of lowered exemptions and expanded incomes, the number of taxpayers increased more than tenfold from 1940 to 1944.

Despite the unprecedented growth of the individual income tax, collections failed to keep pace with the wartime growth in individual income. Even after deduction of all personal taxes, income payments to individuals rose from \$68 billion in the calendar year 1939 to \$124 billion in 1943. Net savings during this period rose from \$6 billion to \$33 billion. These figures indicate, first, that the wartime increases in the individual income tax were, in the aggregate, well within the limits of ability to pay and, second, that these increases, while contributing heavily to the stabilization program, left greatly expanded spending power in the hands of consumers.

The heavy reliance on the individual income tax in wartime is an acknowledgment of its ability to raise huge revenues in a way that meets the demands of equity and reduces inflationary pressure. Its personal exemptions protect minimum living standards and recognize differences in family responsibilities. The combination of exemptions and progressive rates has distributed financial burdens according to ability to pay without impairing the incentives to exert a maximum effort in war production. Strengthened by the shift to current payment, the income tax has been effective in withdrawing vast sums that might otherwise have been spent in an inflationary way.

Personal exemptions were progressively reduced from a level of \$2,500 for married couples and \$1,000 for single persons in 1939 to a uniform \$500 exemption for the taxpayer, for his spouse, and for each of his dependents under the Individual Income Tax Act of 1944. The credit for dependents, formerly \$400, was reduced to \$350 in 1942, and was replaced by the uniform \$500 exemption in 1944. The sharp reduction in the level of exemptions during the war provided the broad tax base needed to raise large amounts of revenue and to make the income tax more effective as a stabilization measure. The changes in the exemption system in 1944 also contributed substantially to the simplification of the income tax.

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Rates were sharply and steadily increased during the defense and war periods, from a range of 4 percent to 75 percent in 1939 to a range of 23 percent to 94 percent in 1944. In 1939 the normal tax was 4 percent, and the surtax began at 6 percent after an exemption of \$4,000 of surtax net income. In 1944 the normal tax had become a special tax of 3 percent, and the surtax began at 20 percent on the first dollar of surtax net income. The high wartime individual income tax rates, like the high corporation rates, limited the possibilities of war profiteering. The very high rates on the upper brackets have ample justification in circumstances where starting rates of 23 percent are needed to raise the requisite revenue.

The 3-percent normal tax now in effect is a substitute for the wartime Victory tax, which had been added to the regular income tax by the Revenue Act of 1942. It was in effect only for the income year 1943 and applied at a rate of 3.75 percent to single persons and 3 percent to married persons (less .1 percent for each dependent) on income in excess of \$624 per income recipient. It was repealed by the Individual Income Tax Act of 1944.

The great wartime expansion of the individual income tax called for a revision of payment methods and for simplification. The Treasury proposed current collection at source as early as 1941, and this device was applied to wages and salaries for Victory tax purposes by the Revenue Act of 1942 and extended to the regular income tax by the Current Tax Payment Act of 1943. By this means a convenient method of payment was provided for the millions of wage-earners accustomed to weekly and monthly budgets. In addition, the Current Tax Payment Act provided for current payment of liabilities on incomes not subject to withholding, by means of current quarterly payments. The individual income tax was thus strengthened as an instrument of war finance not only because it was made easier to pay but because the withdrawal of purchasing power was accelerated and the tax was made more immediately responsive to changes in the national income.

As the individual income tax grew to embrace approximately 50 million taxpayers, it became imperative to simplify tax compliance. Several simplifying changes were made in 1942 and 1943. Through the cooperative work of the Treasury and the Congressional Committees, a plan for further simplification was developed and put into effect through the Individual Income Tax Act of 1944. This act set up a system under which 30 million wage and salary earners can use their withholding receipt as a simple tax return, with the collector of internal revenue computing their tax and either issuing an assessment or a refund; 10 million taxpayers can file a simple return and compute their tax from a tax table; and the remaining 10 million taxpayers can use substantially simplified returns.

Federal Sales Tax

The Treasury has consistently opposed enactment of a Federal sales tax. This policy was dictated by several considerations.

In the first place, it was believed that the imposition of a substantial sales tax would run the risk of upsetting the Government's stabilization program. General commodity taxation and price and wage controls do not go together. A sales tax would have raised living costs at a time when vigorous action was being taken along many fronts to keep prices down. It would most certainly have been the signal for higher wages and farm prices which, if allowed, would have resulted in large additional costs to the Government and increases in the cost of living over and beyond the amount of the tax. The Treasury's position on this matter was emphatically supported by the Office of Price Administration and the Office of Economic Stabilization.

Secondly, it would have encroached upon the living standards of the many low-income consumers who have not shared in the wartime expansion of incomes. Applying as it would to the bulk of consumer purchases, it would not have given these groups any real choice, such as is given them under selective excises, between paying the tax and escaping it by cutting their taxable purchases.

Thirdly, a Federal sales tax would have entailed a disproportionate administrative and compliance effort, particularly if an attempt were made to exempt food or otherwise to give the lower income earners some relief from the harsh effects of a general sales tax.

Analysis of the revenue potentialities of a Federal retail sales tax indicated that the exemption of necessities would have reduced the yield substantially. It was estimated that a 10-percent levy, a rate over three times as high as the rate in force in any State, would have raised about \$6 billion at 1944 levels of business, assuming that there were no exemptions for necessities. If food, medicine, and clothing were exempted, the yield would have been cut to \$2.6 billion. Of that amount, however, \$1.2 billion would have come from goods and services already subject to Federal excise taxes. Moreover, a substantial part of the remainder would have come from the sale of equipment and materials used in business and entering into business operating costs.

Excise Taxes

In the excise tax field, the Treasury has attempted to steer a course which would contribute to the wartime revenue goal and at the same time be conducive to an efficiently operated war economy.

Successive upward revisions of rates in each year's revenue act and the introduction of several new excises boosted the yield of these taxes from \$1,870 million in the fiscal year 1940, to \$2,380 million in 1941, \$3,120 million in 1942, \$3,790 million in 1943, and \$4,460 million in 1944.

In addition to raising substantial amounts of much needed revenue, the new excise taxes were first designed to discourage the consumption by civilians of goods requiring materials and facilities needed for war production. Accordingly, the Revenue Act of 1941 increased the taxes on tires and tubes, radio sets and parts, and mechanical refrigerators, and imposed new imposts on electric, gas and oil appliances, photographic apparatus, and many other commodities. As production and consumption became subject to more direct controls, additional excise taxes were selected on the basis of their effects on the cost of living, business costs, and other phases of the wartime stabilization program. These considerations were found to permit a gradual strengthening of such excises as the liquor, tobacco, and admissions taxes and the retail levies on cosmetics, furs, jewelry, and luggage, which applied in only minor respects to commodities which are necessities of life and which entered into business and farm costs to only an insignificant extent. These same considerations entered into the Treasury's policy of opposing a general sales tax.

Complications of the Form Filed in March 1944

(Submitted by Commissioner Nunan)

It appears to me if the Republican candidate for President were to talk and take the Treasury Department or its policies to task such subject would be along the line wherein he first of all would criticize the tremendous increase in revenue and the resultant spending thereof, that he would further say that our tax system was archaic, cumbersome and overlapping. As one of the reasons supporting this he would point to the forms used last March and the confusion existing among the taxpayers at that time.

As to the first, it does not appear to me that this is a matter of whole concern to the Treasury, but rather a matter for Congress. As to the second, I am pondering whether it would not be a good thing if the Secretary should issue a statement saying he has asked the committee studying post war taxes to also make a further study of proposed changes in the tax law which might simplify same. (When I say "pondering" such a suggestion I do so because such a move on the part of the Secretary might be an indication that he also thinks our tax system is burdensome.) As to the last, namely the criticism against the form, the answer to this would be in my opinion, that it was necessary because of the transition from the former system of paying taxes to the "pay-as-you-go" system, and as proof of this we might point to the simplified forms now being issued by the Bureau.

If, as suggested by Mr. Blough at the recent conference, Professor Crum is advising the Republican candidate, Mr. Blough might possibly know the Professor's likes and dislikes regarding the present set-up and anticipate what the Professor might suggest.

Statement on The Lincoln Electric Company Case Relating to Deductions

The Lincoln Electric Company case is one in which the Government is seeking to collect additional income and excess profits taxes amounting to nearly \$1,500,000. The company is disputing its liability. The controversy is now awaiting a hearing before the Tax Court of the United States. From the decision of that court either party may appeal to the United States Circuit Court of Appeals. The proceedings in both courts are matters of public record. The rights of the taxpayer and of the Government are fully and adequately protected by this judicial process. There is no need for resort to a one-sided trial of the issues in the press. If the amount claimed by the Government is due, the courts will direct its payment. If the position adopted by the company is correct, the Government's claim for taxes will be denied by the courts.

Widespread publicity has been given by the company to a statement that a considerable part of the Government's tax claims resulted from the disallowance of tax deductions for wages paid to factory workers in excess of \$5,000 a year, pursuant to an alleged philosophy that a man who works with his hands should not be paid more than \$5,000. A company official claims that a statement to this effect was made to him by a Treasury representative.

The Treasury officials who attended conferences with this company have categorically denied that any such statement was made. Their denial is completely confirmed by the action they took in the case. Every dollar actually paid to this company's employees, whether classified as base pay or as incentive bonus, whether the total was over or under \$5,000, has been allowed in full as a deduction. In fact there were 211 employees, including 129 factory workers and 41 foremen, who received wages over \$5,000. None of these wage payments was disallowed.

The record is therefore clear. The assertion that the administration believes that people working with their hands should never receive more than \$5,000 is plainly contrary to facts. It is the policy of the Government in time of war to prevent sky-rocketing of wages and salaries. It is not, however, its policy to prevent or discourage incentive bonuses or other incentive wage schemes to increase efficiency and production. Under the wartime wage and salary controls, the Government has expressly authorized, without need for approval, reasonable increases in wage and salary rates as a result of increased productivity under incentive plans.

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The controversy in this case involves a different issue, namely, the deductibility of nearly \$2,000,000 set aside by the company in 1940 and 1941 in so-called employee funds. No part of this money was actually paid over to the employees. The issues involved in the company's claim for deductions can be adequately and properly presented only in an orderly trial before an impartial tribunal. The rights of the Lincoln Electric Company will be better served and protected by this procedure than by a heated publicity program by company officials presenting merely their own views of the case.

The Lincoln Electric Company is also contesting renegotiation.

Further Memorandum of Possible Allegations and Replies, regarding Tax Administration, submitted by Commissioner Nunan

<u>Allegation</u>	<u>Reply</u>
1. Taxes have been levied without regard to conflict with state and local systems, so as to create serious overlapping.	Wartime needs for revenue do not permit overlooking of any sources; Treasury has been making intense studies of overlapping, but action is impractical until after the war.
2. The public has been plagued with unnecessarily complicated and difficult forms.	The forms merely reflect the requirements of the law. The Treasury took the initiative in getting law simplified and has simplified forms for next year.
3. Treasury tax policies cripple business; destroy incentives; prevent reserves for post-war, etc.	Taxes had to be high for war; taxes had to prevent war-time profiteering. Excess profits law provides post-war refunds which will help finance reconversion.
4. Treasury has failed to get along with Congress; lack of cooperation has prevented development of best tax programs.	Treasury has cooperated and gotten along with Congress. Treasury should get credit, not blame, for giving forthright and open opinions and plans. No good could have come from silence or docility.
5. Corporation taxes are a hopeless jumble and ununderstandable.	Complexities are necessary to fairness; fairness essential under high wartime rates.
6. Treasury opposed pay-as-you-go.	This is untrue. Treasury was early advocate of pay-as-you-go; the only argument was because Treasury wanted a simpler and fairer "forgiveness" provision.
7. The Treasury has imposed a very unfair tax on autos—auto stamp.	The Treasury opposed this tax, and always favored its repeal.
8. Having an auto stamp tax, the Treasury has failed to enforce it.	We have enforced it as best we could in view of Congress' refusal to appropriate funds for that purpose.
9. The Treasury opposed a sales tax.	Opposed it because it is unfair and inflationary.
10. Treasury did sponsor nuisance excises.	Excises were applied where possible to meet war revenue needs, avoiding taxes on necessities which would have resulted from sales tax.

- 2 -

- | <u>Allegation</u> | <u>Reply</u> |
|--|---|
| 11. Tried to put cabarets out of business. | Cabarets are a definite luxury and should help pay for the war. Better tax cabarets than bread. |
| 12. Treasury and Bureau been rude to taxpayers. | No rudeness. Only firmness necessary to maintain integrity of U. S. finances. |
| 13. Politics have been mixed in tax administration; especially Mr. Hannegan as Commissioner. | Politics have never influenced handling of any tax matters. Note that Mr. Hannegan resigned as Commissioner same day he became chairman. Note Hannegan and Nunan both picked from ranks of collectors for Commissioner. |
| 14. S.S.U. has put stranglehold on necessary salary adjustments. | S.S.U. has followed the law set up by Congress to prevent inflation. |
| 15. S.S.U. has permitted "big-shots" to get big raises denied low-paid labor. | Stories about big-shots untrue—Schram case. Administration impartial. |
| 16. Tax administration inefficient; note how pension trust and Sec. 722 cases bogged down. | Such complicated matters require most careful analysis to avoid arbitrary or capricious action. Care more important than speed. |
| 17. Bureau hindering publications by requiring capitalization of circulation expense. | Not a Bureau whim. This has been the law, upheld by courts, for a generation. |
| 18. Withholding has failed; now have to make 18,000,000 refunds. | Withholding has been great success. Refunds unavoidable without making withholding terribly complicated. |
| 19. Refunds have not been immediate, as law requires, refunds being held up until election time. | Refunds been as rapid as manpower shortage and safeguarding of Government funds permit; however, refunds been going out at rate of 340,000 a week; none held back unless irregularities need checking. |
| 20. Refunds have been made to favorites. | No favoritism. Each refund made in mechanical order. Interest paid for delay from March 15 helps equalize treatment. |

Internal Revenue Collections, Fiscal Years 1940-44

Fiscal year	:Corporate : income : taxes	: Excess : profits : taxes	:Individual: : income : taxes	: Excise : taxes	: Employ- : ment : taxes	: All : other	Total Collections
(Millions of Dollars)							
1940	1,121	—	982	1,867	834	520	5,323
1941	1,852	164	1,418	2,381	926	611	7,352
1942	3,069	1,618	3,263	3,123	1,185	771	13,030
1943	4,521	5,064	6,630	3,795	1,499	861	22,369
1944	5,284	9,345	18,261	4,461	1,738	1,029	40,120

Percentage Distribution

1940	21.1	—	18.4	35.0	15.7	9.8	100.0
1941	25.2	2.2	19.3	32.4	12.6	8.3	100.0
1942	23.6	12.4	25.0	24.0	9.1	5.9	100.0
1943	20.2	22.7	29.6	17.0	6.7	3.8	100.0
1944	13.2	23.3	45.5	11.1	4.3	2.6	100.0

October 3, 1944
10:08 p.m.

HMJr: Hello.

Operator: Mr. Cox.

HMJr: Hello.

Oscar
Cox: Hello, Mr. Secretary.

HMJr: How are you?

C: Pretty good. How are you?

HMJr: We're down here at the Treasury drafting an answer on the Dewey tax message.

C: Oh, yes. I didn't want to disturb you but I've been quite concerned about this stuff attacking you on the German thing.

HMJr: Yeah.

C: And I'd just gotten through when I called you -- reading a piece by James Conant. You know who he is don't you?

HMJr: Conant?

C: Yeah, President of Harvard.

HMJr: I've heard of him.

C: He's making a speech before the Foreign Policy Association this coming Saturday.

HMJr: Yeah.

C: And it's a very good job.

HMJr: Job on me, you mean?

C: No, it's -- he agrees with you in basic substance.

HMJr: Oh, for goodness sake.

C: It's a swell job of presentation.

HMJr: Yeah.

C: And I thought I'd get a copy for you and send it over to you.

HMJr: Well, that's fine.

C: And I think you'll find the trend is going to turn anyway.

HMJr: I think so. We've got this Professor of Law at Harvard that's going on

C: Warren Seavey.

HMJr: Yeah.

C: Yeah, he's pretty good, but this Conant thing is first rate.

HMJr: Well, I'd like very much to see that.

C: I'll send it over to you and I've been getting some mail from some of the soldier boys who

HMJr: Yeah.

C: feel very strongly about this stuff.

HMJr: Oscar, as long as you've called me on this, who in F.E.A. had a copy of our plan?

C: Nobody.

HMJr: Well, I understand they did.

C: I don't think so. I'm pretty sure, nobody.

HMJr: Well, I'm pretty sure they did.

C: That may be. I can check for you.

HMJr: Well, I understand somebody had a copy of the plan -- my plan which I gave to the President.

C: I doubt it, but I'll check.

HMJr: Will you?

C: Yeah. You know where sometime -- you know where most of this dope is -- came out from anyway?

- 3 -

HMJr: No.

C: Well, some of your friends across the street.

HMJr: Really?

C: In the baroq -- baroque building over there.

HMJr: The baroque building?

C: The State Department.

HMJr: Oh. Across the street to us is the White House.

C: I know -- I mean the

HMJr: So that doesn't count?

C: No. No, this came from State.

HMJr: Are you sure?

C: Well, all I can tell you is: about five newspaper fellows called me

HMJr: Yeah.

C: and asked my comments and I said, "Well, in the first place, this is not my field and I don't talk about things that are out of my field anyway." And they said, well, these people over there had been giving them this, that and the other, and I said, "It's pure speculation as far as I can see. Why don't you go ask some of the people at the Treasury?"

HMJr: Yes.

C: "I don't know whether they can talk but you, at least, ought to ask them."

HMJr: Yes.

C: But there were four or five that got it from over there, I'm sure.

HMJr: From State?

C: Yeah.

HMJr: Not from War?

C: No.

HMJr: Do you know on what level they got it?

C: No, I don't, but I gather some of them pretty high up, and I'd like to tell you one of them. I don't know how accurately they got it, but he claimed he got it pretty high up.

HMJr: Yeah. Well, my phone's all right.

C: Is it? Okay.

HMJr: Yeah.

C: Well, I'll tell you. Krock called me and said he understood that at Quebec there was this discussion about how it would help the British on Lend-Lease.

HMJr: Yeah.

C: And I said, "Well, I don't know anything about it and furthermore I can't figure out how it would."

HMJr: Yes.

C: He said, "That -- that's so." He said, "I get it on very high authority that the -- Eden and the P.M. were on one side of the table and other people on the other side talking about it." And I said, "Well, I don't know anything about it, and I would -- I would just be very skeptical." He said, "Oh, I got this on very good authority."

HMJr: Yeah. But he didn't say from whom?

C: No. But you know who he talks to over there most of the time.

HMJr: Well, he talks to Hull.

C: That's right. And he ran one part of the thing which didn't make any sense at all.

HMJr: Yeah, but when -- the second article he ran, you could see that he knew a lot.

C: Yeah.

HMJr: And he was groping

C: Yeah.

HMJr: Uh -- not groping -- he just wanted to let out part of it.

C: Yeah.

HMJr: But I felt that he'd been told the whole story.

C: Yeah.

HMJr: But this thing which the President did Friday

C: Yeah.

HMJr: for F.E.A. seemed to have been very effective.

C: Well, that had a curious history. That -- there was one change in that point made by State

HMJr: Yeah.

C: which added, "under the guidance of the State Department" and Leo went over to see Hull a couple of times suggesting that that ought to be taken out

HMJr: Yeah.

C: because it just would -- didn't have any relevance to this thing even if they were talking about the matter of foreign policy.

HMJr: Yeah.

C: And he said he'd talk to his people about it and he never called Leo back. And it was raised specifically with the White House that this might precipitate some business on this row and that wasn't any mechanism for doing it.

HMJr: Yeah.

C: They probably felt they wanted to go ahead anyway.

HMJr: Well, had that been in the works some time?

C: Oh, yeah. That's been in the works for three weeks.

HMJr: Well, I thought that that was something which was just cooked up on the spur of the moment as a red herring.

C: No. It turned out to be a red herring but it was purely unintentional, I think.

HMJr: Oh, really?

C: Yeah.

HMJr: Well, I thought it was deliberate.

C: No. Well, I think it was never intended as such. I think they -- when they focused on it, they thought it might have had that effect, but I don't think it was intended that way.

HMJr: Uh huh. Now, that letter that you sent me about this Army doing some work in England

C: Yeah.

HMJr: I wrote Patterson about it -- and called him.

C: Yeah.

HMJr: And I was quite rough about it.

C: Yeah.

HMJr: I sent you a copy of my letter to Patterson.

C: Oh, I haven't gotten it yet.

HMJr: You'll get it the first thing in the morning.

C: Right.

HMJr: And I told Patterson, "My God," I said, "what is the matter with your people?"

C: Yeah.

HMJr: And he knew nothing about it, but he said he would get right after it.

C: Right.

HMJr: Because now, of all times, we've got to play together.

C: Oh, I'll say.

HMJr: And why the Army should be doing this inquiring over in London is beyond me.

C: Yeah.

HMJr: Do you think, as far as you know, that the Army has been all right on this German business?

C: I

HMJr: I mean publicly.

C: Yeah. I know McCloy has wept privately to me and I disagree with him.

HMJr: Yeah.

C: I'm pretty sure that publicly they've stayed pretty much in the family.

HMJr: Raymond Gram Swing was very good last night.

C: Yeah. He's a good fellow.

HMJr: Did you hear him?

C: No, I didn't but I've heard reports of it.

HMJr: He was very good. I think the thing is swinging our way.

C: Oh, I think so.

HMJr: I'd love to get what Conant has.

C: I'll get it over to you tomorrow. I'll have to have a copy made.

HMJr: Right.

C: But the thing ought to be reprinted. I'll talk to him and see if he won't get some reprints out.

HMJr: Thank you so much.

C: All right.

HMJr: Bye.

C: Bye.

September 29, 1944

Harry White.

Secretary Morgenthau.

Please dig up the now-famous memorandum from the Inter-departmental Committee which you gave me on the plane to England. I'd like to look it over once more. I'd also like you to find out officially if there are any other memos on the same subject since that date. What the hell has that Committee done? Have they made any other reports on how to treat Germany since then? I think the date was June 30th. You might also consider whether we ought to serve on the Navy and the Maritime Commission notice of the creation of this new committee to consider all Lend-Lease. I think we should. *Finished*

*see White's
memos - 10/2/44*

October 3, 1944

Memorandum for the Secretary's Files

On the night of September 6, 1944, we were permitted to examine the Handbook for Military Government in Germany dated September 1, 1944. This handbook represented a redraft of the handbook which the Secretary brought back from London and which was given to the President. The handbook was revised in London subsequent to Treasury's oral comments to various persons and following upon the memorandum from the President to Secretary Stimson expressing dissatisfaction with the earlier draft of the handbook. On the night of September 6, Mr. Pehle, Mr. DuBois, Mrs. Gold, Mr. Taylor and I went through the revised draft of the handbook carefully and picked out several extracts which were indicative of a still unsatisfactory policy being pursued by the Military in respect to civil affairs in Germany. There was also drafted a fly leaf which should be attached to the handbook in the event that the allied authorities in London felt that it was absolutely essential that a limited number of copies of the handbook should be given out to civil affairs officers.

We have received notice from the War Department that the text of this fly leaf would be cabled to London after clearance with the British. The following morning Mr. McCloy called at the Secretary's office and when the Secretary informed him that he was about to send a letter to him enclosing a copy of our excerpts from the handbook with a revised draft of the fly leaf, Mr. McCloy asked that the letter not be sent and the Secretary handed to him copies of the memorandum and the fly leaf. Mr. McCloy said that he would take care of the matter.

Subsequently, two weeks later Mr. McCloy turned over to Mr. Taylor a copy of the handbook of September 1 which is now in my office.

H. D. White

MEMORANDUM FOR THE SECRETARY.

October 3, 1944.

The following figures include letters commenting on the postwar treatment of Germany as received from early Friday afternoon on through noon Tuesday:

Favorable.....	40
Unfavorable.....	24
Uncertain.....	3

Number of newspaper clippings -- perhaps half a dozen in all -- sent to Mr. White. As most newspaper comment is unfavorable, these perhaps should be counted in that column, since, presumably, they represent the opinion of the person mailing them to us.

J. G. Forbush

OCT 3 1944

Dear Leo:

Thank you for sending me the memorandum referring to the words "or sold for profit". It will be helpful in our coming discussions.

Sincerely yours,

(Signed) Henry

Secretary of the Treasury.

Mr. Leo T. Crowley,
Administrator,
Foreign Economic Administration,
Washington 25, D.C.

10/3/44

Handwritten signature

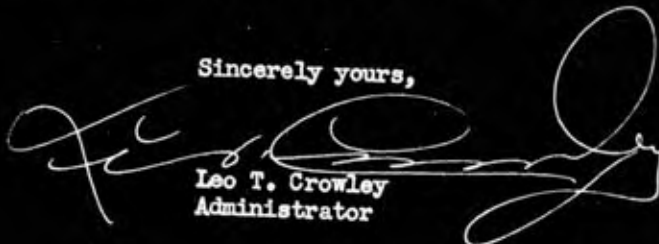
FOREIGN ECONOMIC ADMINISTRATION
WASHINGTON

SEP 30 1944

Dear Secretary Morgenthau:

I am sending you herewith a short memorandum on some of the past history with reference to the words "or sold for profit" which were used in the record of conversation between the President and Prime Minister Churchill at Quebec on September 14, 1944.

Sincerely yours,

A large, stylized handwritten signature in white ink, appearing to read "Leo T. Crowley".

Leo T. Crowley
Administrator

Hon. Henry Morgenthau, Jr.

The Secretary of the Treasury

Enclosure

SECRET

MEMORANDUM

1. The record of conversation between the President and Prime Minister at Quebec on September 14, 1944, reads as follows:

"The Prime Minister pointed out that if the United Kingdom was once more to pay its way it was essential that the export trade, which had shrunk to a very small fraction, should be reestablished. Naturally no articles obtained on lend-lease or identical thereto would be exported or sold for profit."

2. The phrase "or sold for profit" as used in the record of conversation, and viewed in the light of the history of the same or similar words previously used in connection with lend-lease supplies, doubtless refers to the policy with respect to commercial distribution of lend-lease supplies within the United Kingdom.

3. That policy was established by the United Kingdom Government in the Summer of 1941 as a result of charges that private British interests were profiting from lend-lease. On July 31, 1941, Sir Kingsley Wood, Chancellor of the Exchequer, handed Ambassador Winant a note containing statements of principles that the United Kingdom Government would follow in (a) permitting re-exportation of lend-lease goods, or goods similar thereto, and (b) permitting distribution of lend-lease goods through commercial channels. After some modifications made at the request of United States authorities, these two principles became embodied in the Eden White Paper of September 10, 1941.

Regraded Unclassified

4. The Eden White Paper contains the following with respect to commercial distribution within the United Kingdom:

"The general principle followed in this matter is that the remuneration received by the distributors, whatever the method of distribution, is controlled and will be no more than a fair return for the services rendered in the work of distribution. The arrangements rigorously exclude any opportunity for a speculative profit by private interests from dealing in lend-leased goods. In most cases, lend-leased supplies will be distributed through organizations acting as agents of His Majesty's Government in the strict sense of the term and not as principals. Where for strong practical reasons this cannot be done a full explanation will be supplied to the United States administration and their concurrence sought beforehand in any alternative arrangements proposed. The justification for retaining existing channels of distribution operating under strict Government control, is that the creation of elaborate new organizations in their place would inevitably result in loss of efficiency and the wasteful use of manpower, and retard the war effort. In the distribution of lend-lease goods there will be no discrimination against United States firms.

"Food is a special case. Only some 5 or 6 percent in tonnage of the total British food supply is coming from the

United States and without great practical complications it would be impossible to have a separate system for the distribution of lend-leased food. Food distribution is carried out in the United Kingdom by wholesalers, to whom the Government sells food as principals. In fact, the Ministry of Food has established a close control over all distributive margins so that neither the wholesalers nor the retailers receive any greater remuneration than is adequate to cover the cost of the services performed. No food obtained on lend-lease terms is, or will be, sold at uncontrolled prices. Thus the general arrangements as regards the issue of lend-leased food fit into His Majesty's Government's policy of stabilizing the whole price level of foodstuffs, a policy to which the Government contributes £100 millions a year.

"In some cases direct free distribution is practicable and will be adopted. For example, some milk products (including lend-leased supplies from the United States) are distributed direct and free of charge to children and others in need through schools, clinics, and hospitals. The distribution is undertaken by State agencies and the cost of the distribution is borne by the Government."

5. The British Government announces in this quotation that its policy is to distribute lend-leased goods through Government channels wherever practicable. There is not, however, the slightest indication that the British Government intends to see that no lend-leased goods are distributed through commercial channels. The United States representatives

had suggested in a draft letter from General Burns to Mr. Purvis dated August 14, 1941, that the British Government should adopt such a policy, at least with respect to food. That letter had stated "in the administration of the Lend-Lease Act, the President will expect that, insofar as practicable, lend-lease articles will be distributed through Government agencies and, in the case of foods, on the free list." The British representatives were, however, unwilling to accept this suggestion because it would have required a new system of distribution which would waste manpower, would lead to great confusion in the pricing system, and would thus interfere with the prosecution of the war. The White Paper therefore did not provide that all commodities received under lend-lease would be distributed exclusively through Government channels. Instead it provided that commercial distribution would be used only where necessary and that when it was used, the British Government would prevent private individuals from obtaining an unreasonable or speculative profit.

6. In view of this history, the statement that "no articles obtained on lend-lease or identical thereto would be * * * sold for profit" should therefore be interpreted to mean that "when lend-lease goods must be sold through commercial channels the British Government will see that private interests do not make a speculative profit therefrom."

IMMEDIATE RELEASE

OCTOBER 3, 1944

STATEMENT BY THE PRESIDENT

On February 21, 1943, I signed an Executive Order setting up the Surplus War Property Administration to direct and expedite the orderly disposition of surplus war property so far as possible under existing law, pending action by the Congress.

H.R. 5125, the Surplus Property Disposal Act of 1944, which is before me for signature, places the general disposition of surplus war property under a Board of three and provides in considerable detail the methods to be pursued by the Board.

It is with considerable reluctance that I have decided to sign this bill. While I am in full accord with the declared objectives of the bill which are to aid reconversion from a war to a peace economy and to facilitate the orderly disposal of surplus property, I have considerable doubt whether many provisions of the bill will not make extremely difficult the accomplishment of its objectives. There is danger that the confused methods of disposition and the elaborate restrictions imposed by the bill will in many instances delay rather than expedite reconversion and reemployment. Our surplus property should speedily be placed into channels of disposition which should provide the most jobs and the greatest good for the greatest number.

But we must be in a position to get on with the organization of our plans for the disposition of surplus war property. I have, therefore, concluded that it would be best to let the bill become law in the hope that after the Surplus Property Board provided for in the bill has had some experience in operating under it, the Congress will give careful consideration to needed changes which may be suggested by the Board.



TREASURY DEPARTMENT
WASHINGTON 25



AA

October 3, 1944

MEMORANDUM TO THE SECRETARY

I am enclosing a list of the
special items valued in excess of \$50,000
as of October 2, 1944.

A handwritten signature in cursive script, appearing to read "E. L. Olrich", written over a horizontal line.

E. L. Olrich
Assistant to the Secretary

...Enclosures

PROPERTY FOR DISPOSAL

SPECIAL ITEMS, COST TO GOVERNMENT IN EXCESS OF \$50,000

AS OF OCTOBER 2, 1944

QUANTITY UNIT COST COST TO GOVT.

1. Automotive Products

JACKS, HYDRAULIC

10 741 \$ 79.00 848 539

4 wheel, roller type, for garage use. There are several makes. We are awaiting inspection report.

HYDRAULIC FLUID

378 459 1.74 658 580
gals.

Needs reprocessing. Was supposedly withdrawn by Army last June. We are now waiting manufacturer's decision as to re-purchase. No reply to our wire of September 29th.

AUTOMOTIVE PARTS, OBSOLETE, USED

2 000 000

Majority are used, having been taken from used vehicles and put in stock. There are acres of used bodies, fenders, cowls, cabs, etc., at Blue Grass, Ky. and Fort Crook. Spot check inspection list has gone to Chrysler as a test action on disposal. Other lists are going to other manufacturers. The regional offices have been authorized to dispose of parts occupying 75,000 sq. ft. of space.

<u>QUANTITY</u>	<u>UNIT COST</u>	<u>COST TO GOVT.</u>
<u>AUTOMOTIVE SPARE PARTS, NEW</u>	23 000 000	16 000 000

Large quantities on recent declarations are bolts, nuts, spark plugs, fuses - called "parts common" that can be used on any motor vehicle. Lists totalling 11 million parts worth \$2,500,000 have been submitted to Ford and General Motors for them to analyze and determine parts acceptable.

<u>TRAILER HITCH, USED</u>	767	\$ 80.00	61 360
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New declaration - no action as yet.

2. Textiles and Wearing Apparel

All textiles and clothing in the hands of disposal agencies have been temporarily frozen to enable the Army to make selections for use in program for occupied countries.

<u>CARRIER, GAS MASK</u>	400 000	1.00	400 000
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New and used. Samples being sent to all regions to attempt to get sales in each region. It appears to be a salvage item.

	<u>QUANTITY</u>	<u>UNIT COST</u>	<u>COST TO GOVT.</u>
<u>W.A.C. CAPS</u>	76 712	\$ 2.20	168 766
Samples have been given to exporters and others. This is an item that is hard to dispose of.			
<u>HATS, ARMY SERVICE</u>	45 928	3.00	137 784
The old-style broad brimmed campaign hat. Of original amount of 91,000, half have been sold. Negotiations in process for balance.			
<u>GLOVES, RUBBER, ANTI-GAS</u>	667 000	1.00	667 000
Gauntlet type. An industry meeting was held to discuss disposal program. Represents 4 years supply. Present inventories in mfrs. hands are high. Recommendation was to export or sell as crude rubber to manufacture critical items.			
<u>MOSQUITO BARS, WITH RODS</u>	669 000	5.90	3 947 100
Export deal for used items is being worked on. If successful, this will take care of 50% of the lot. Domestic sales at \$1.50 are continuing in small lots.			

	<u>QUANTITY</u>	<u>UNIT COST</u>	<u>COST TO GOVT.</u>
<u>LEGGINGS</u>	213 280 pr.		109 833
World War I stock, good only for salvage. Now being authorized for sale by Regions.			
<u>BELT POCKET FOR CARTRIDGE CLIPS</u>	1 000 000	\$ 0.10	100 000
Web pocket with fastener. Radio advertiser is taking quantities under option as re- quests from program develop. Price received \$0.06.			
<u>MAGAZINE BELTS</u>	55 369		130 325
Very little interest shown. Samples have been sent to all regions to widen sales effort.			
<u>APRONS, IMPERMIABLE</u>	79 449	5.00	174 800
Rubber coated apron, with sleeves, designed like an operating gown. Has very little use, except to cut up to salvage the material. Manufacturers not interested in re-purchase. Negotiations are under way to sell in open market.			

	<u>QUANTITY</u>	<u>UNIT COST</u>	<u>COST TO GOVT.</u>
<u>RUCKSACKS, NEW AND USED</u>	5 000	\$ 12.66	63 600
Will attempt to sell on open market. Samples awaited.			
<u>TARGETS, ANTI-AIRCRAFT</u>	8 861	14.32	126 891
New declaration - sample awaited.			
<u>HOODS, ANTI-GAS, NEW</u>	97 997	1.00	97 997
New declaration - sample awaited.			

3. Machinery

<u>GROUSERS</u>	43 853	3.00	131 559
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Reported as new grousers for tractors, i.e. shoes to be bolted to the flat tracks of crawler tractors. Inspection proved that they were simply short pieces of mild steel (structural) angle iron with punched holes. They were made as an improvisation for use in the soft going in Burma but were impractical. Sample awaited. Advertising folder will be issued.

	<u>QUANTITY</u>	<u>UNIT COST</u>	<u>COST TO GOVT.</u>
<u>ICE GROUSERS, NEW</u>	76 726 pieces	\$ 2.70	207 160

Ice gripping shoes to be attached to special rubber tired treads of high speed military tractors. Each weighs 6 lbs. A tractor needs 296 pieces. There is no known application on standard machines; no market, except for scrap. Publicity being released.

<u>CONSTRUCTION MACHINERY, HEAVY</u>	5 942	1,000.00	5 942 000
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General inventory of used machinery, most of it in very poor condition. Sales are being made regularly but inventory mounts.

4. Furniture

<u>PILLOWS, NEW AND USED</u>	938 000	.73	684 740
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Some cotton, some feather, some mixed. 68,000 new, 870,000 used. Moderate sales of new pillows continue regularly.

	<u>QUANTITY</u>	<u>UNIT COST</u>	<u>COST TO GOVT.</u>
<u>MATTRESSES, NEW AND USED</u>	962 000	\$ 5.50	5 291 000

200,000 new; 762,000 used. Large quantities of used mattresses are going into the manufacture of paper. This will provide a strong market for some time. New mattresses are selling in appreciable volume but quantity does not decrease much because of new declarations.

<u>MATTRESSES, INNERSPRING, NEW</u>	9 500	6.00	58 000
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From O.C.D. stocks. New declaration - plans being formulated.

<u>BED PARTS</u>			65 000
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Springs, heads, feet, and side rails; un-assembled. Negotiating with bed mfrs. regarding repurchase.

<u>CANVAS COTS & FOLDING BEDS, NEW</u>	18 000		67 000
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New merchandise from O.C.D. stocks. New declaration. Disposal policy being formulated.

	<u>QUANTITY</u>	<u>UNIT COST</u>	<u>COST TO GOVT.</u>
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5. HardwareHEATERS, SPACE

3 099

\$ 20.00
average

62 000

Magazine type. (Army No. 1) The manufacturer will inspect stoves and prepare a proposal, due middle of October.

RANGES, GAS, NEW

1 957

95.00

142 754

141 sold to govt. agencies. 455 expected to sell in next 10 days. Manufacturer will make proposal this week on balance.

HOSE, RUBBER10 000
plus short pieces

33.50

372 446

Large size, 25 ft. lengths. Approximately 18,000 lengths that have been used for handling explosives have been withdrawn.

HOSE, FIRE, NEW250 000
ft.

.50

125 000

From O.C.D. stocks. Army will take entire lot.

	<u>QUANTITY</u>	<u>UNIT COST</u>	<u>COST TO GOVT.</u>
<u>COVERS AND SEALS, RUBBER</u>	27 3/4 tons		169 245
Includes 3/4 ton seals, which are round rubber washers about 1 inch in diameter. There are 27 tons of new "covers" which are 2 in. lengths of black rubber hose - thin wall, about 1 inch in diameter. Inspection report awaited.			
<u>BOLTS, MISCELLANEOUS</u>	8 500 000		2 500 000
Have been frozen. Negotiations with mfrs. are under way looking towards methods of distributing through trade channels.			
<u>STAPLES, GALVANIZED</u>	2 240 000 lbs.		100 000
Made up for Lend-Lease export to Russia. Most are 2 inch, 8 gauge, galvanized. Sales are being made in substantial quantities at price near cost to govt.			
<u>WOOD SCREWS, BRASS, NEW</u>	260 tons		325 000
About 40 tons were sold for \$25,000. New bid for entire remaining lot expected.			

	<u>QUANTITY</u>	<u>UNIT COST</u>	<u>COST TO GOVT.</u>
<u>SMOKE GENERATORS</u>	67 600	\$ 3.50	236 600
<p>Obsolete, individual smoke pots with chimneys. All bids have been withdrawn. There are no prospects of sale at present.</p>			
<u>SMOKE GENERATOR PARTS (VEHICULAR)</u>			277 000
<p>Small metal parts (valves, fittings). Many are special and new uses will have to be found. Sears-Roebuck not interested. Several large manufacturers are being solicited.</p>			
<u>SNOWSHOES, EMERGENCY</u>	21 837 pr.	4.25	92 807
<p>Paratroopers' special type, of no value for sport purposes. We have sold 1000 pr. at \$1.00 each for children's use.</p>			
<u>SNOWSHOES, USED & NEW</u>	53 556	9.00	482 000
<p>Serviceable, trail and bear paw types. 11,794 used, 41,762 new. Over 8000 used snowshoes were sold.</p>			

	<u>QUANTITY</u>	<u>UNIT COST</u>	<u>COST TO GOVT.</u>
<u>ROPE, NYLON, TOW, USED</u> . :	206 871 lbs.		104 446
<u>HELMETS, SAFETY, O.C.D.</u> . :	330 000	\$ 0.89	293 700
Packed 10 to a carton. New declaration - samples awaited. :			
<u>SHOTGUNS</u> :	1 880	55.00	101 332
Manufacturers will submit re-purchase plan. :			
<u>EMPLACEMENTS, MACHINE GUN</u> :	32	5,300.00	169 600
A mount for a machine gun. No utility value known.			
<u>MACHINE GUNS, ELECTRIC</u> :	707	279.00	197 253
Practice gun. Suggested use for amusement purposes.			
<u>SCABBARDS, BOLO</u> :	114 290	1.60	190 864
Obsolete item. No bolos available - a short curved, heavy blade-knife. Have received no offers.			

	<u>QUANTITY</u>	<u>UNIT COST</u>	<u>COST TO GOVT.</u>
<u>SPURS, NEW AND USED</u>	300 000 pr.	\$ 1.30 average	390 000
Publicity release produced many inquiries. Descriptive folder will be mailed this week. General Mills still offers only \$0.12 a pair for entire amount. Some small sales are being made at \$0.50 a pr.			
<u>LANTERNS, OIL BURNING</u>	34 460	3.00	107 316
Navy will withdraw for transfer to Army.			
<u>MARKERS, MINE FIELD</u>	11 378 sets	6.85	77 937
Web fabric carrying case containing 30 metal pins (18 inch) with 4" x 4" metal flag marked "Danger." Pocket contains 2 rolls of narrow, yellow tape. National publicity has been sent out. Inquiries have been received, but no offers.			
<u>PLATFORM TRUCKS, STEEL, NEW</u>	8 000	75.00	600 000
Steel trucks on casters, designed to move airplane engines undergoing repairs. National price of \$32.50 has been set and item has been advertised. Sales are being made in small quantities.			

	<u>QUANTITY</u>	<u>UNIT COST</u>	<u>COST TO GOVT.</u>
<u>RESPIRATORS, DUST, COMMERCIAL</u>	61 127	\$ 1.00	59 293
Made for African combat use - some are suitable for industrial use. A manufacturer has made a re-purchase offer of \$0.70 for those of his make. Other manufacturers' offers awaited.			
<u>SIRENS, NEW</u>	28 638	6.00 (approx.)	174 569
Hand warning device for combat use. In canvas case with shoulder strap. All bids withdrawn because of police restrictions on use of sirens.			
<u>INCINERATORS, NEW</u>	34	9,818.00	333 812
Designed for human excretia but can be used for burning lower-water content material by remodeling at cost of \$1000 each. Manufacturer decided against repurchase.			

	<u>QUANTITY</u>	<u>UNIT COST</u>	<u>COST TO GOVT.</u>
<u>IMPRINTING MACHINES, NEW</u>	35 600	\$ 21.95	781 420
An Addressograph-plate press, portable, designed for Army Medical Corps identification purposes. Original manufacturer is developing a proposal for our consideration in regard to re-purchase.			
<u>HARNESS</u>	16 524	5.60	93 476
Miscellaneous harness parts and pieces. Region will sell to manufacturers on established contract.			
<u>RAFTS, PNEUMATIC, 5 MAN</u>	1 500	200.00	300 000
About one-third of original lot have been sold at established trade prices. Sales continue to come in - also new declarations.			
<u>CARTS, FOOD</u>	586	368.00	215 648
Hospital equipment. Inspection report awaited.			

	<u>QUANTITY</u>	<u>UNIT COST</u>	<u>COST TO GOVT.</u>
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6. Medical and Hospital Supplies

<u>STERILIZERS, NEW AND USED</u>	1 381	\$ 300.00 (average)	495 037
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Considered unsafe for medical department use by Army. Negotiations with manufacturer in process. Offer for part of lot received.

<u>DISK, METAL, ABRASIVE, 7/8"</u>	134 000 cards	.60	80 400
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Dental supply item - packed 12 disks on a card. Manufacturers have been contacted in regard to re-purchase.

<u>FLASK, WITH CUP</u>	200 000	.33	66 000
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Made for soldier to carry liquid medicine in field - a small canteen. Probably of no commercial value.

<u>BOTTLES, WIDEMOUTH, 250 CC</u>	201 307	.45	90 588
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Samples being obtained. New item - no action as yet.

<u>TEST TUBES, GLASS</u>	4 670 000	.03	140 100
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Some samples have arrived and disposal plans are being made.

	<u>QUANTITY</u>	<u>UNIT COST</u>	<u>COST TO GOVT.</u>
<u>PETRI DISHES, WITH COVER:</u>	230 000	\$ 0.27	62 100
Laboratory dish for making germ cultures. Sample awaited.			
<u>FLOSS, SILK, DENTAL</u>	510 000 spools		173 400
Samples awaited.			
<u>SUTURES, SILK AND CATGUT:</u>	13 500 000 tubes		2 397 000
For sewing after surgical operations. All government hospital agencies and the Red Cross have been advised of availability. Government agencies not interested. One manufacturer (Davis & Geck) not interested in re-purchase.			
<u>DRESSINGS, FIRST AID PKGS.</u>	30 000 000		3 582 000
Withdrawals have been made and it is <u>pre-</u> <u>sumed</u> that this balance represents quantities that have been purchased from commercial houses, not Red Cross.			

	<u>QUANTITY</u>	<u>UNIT COST</u>	<u>COST TO GOVT.</u>
<u>BANDAGES, MUSLIN</u>	134 584 doz.		128 034
Action is being taken to secure a desirable outlet.			
<u>GAUGE, PLAIN, 25 YD. ROLLS</u>	150 000	\$ 0.75	112 500
New. Region has been instructed to dispose of this item to govt. agencies.			
<u>BOXES, TABLET</u>	320 000	.40	128 000
500 boxes in a carton. Believed to be World War I stock. Samples awaited.			
<u>STRETCHERS, CANVAS AND METAL</u>	8 400		54 000
New items from O.C.D. stocks. Disposal plans being made.			
<u>SURGICAL & DENTAL INSTRUMENTS, MEDICINES & SUPPLIES</u>			1 846 000
Mostly non-standard, obsolete, or deteriorated. Includes \$52,228 in N.Y. Depot, \$250,000 in Louisville Depot, and \$100,000 dental supplies at Perry Point, Md. Disposal policy for non-standard items is being formulated.			

<u>QUANTITY</u>	<u>UNIT PRICE</u>	<u>COST TO GOVT.</u>
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MEDICINES AND ANTISEPTICS

5 800 000

This listing covers many declarations recently declared by Army. It is made up of various preparations of highly technical nature, in great quantities. All are on new declarations. Samples are being obtained. Will be tested to determine quality.

7. General ProductsBATTERIES, DRY CELLS AND PACKS

100 000

Overage for Army use. New declarations come in and sales are reported regularly.

CAMERAS, AIRCRAFT

96

307 386

Each camera has great variety of collateral equipment. Obsolete type. Physical inspection being made. Informal negotiations with Fairchild Camera Co. in process.

	<u>QUANTITY</u>	<u>UNIT COST</u>	<u>COST TO GOVT.</u>
<u>FILM AND PAPER, PHOTOGRAPHIC</u>	34 000 pkgs.		250 000
The bulk of this is miscellaneous film - rolls, cut film, and packs - most of which is overage. The overage material will probably be processed to recover the silver and chemicals.			
<u>HORSES</u>	1 468	\$ 165.00	242 220
All horses will be sold according to established program of auctions.			
<u>DRUMS, 55 GAL., USED</u>	100 000	2.50	250 000
Sales of moderate quantities are being made regularly at ceiling price of \$1.00.			
<u>GASOLINE CANS, 5 GAL.</u>	2 500 000	2.00	5 000 000
National sales plan will be announced this week. Cans will be sold in carload lots stipulated prices, depending on quantity.			

QUANTITY UNIT COST COST TO GOVT.

8. Paper and Office Equipment

NONE

Total \$ 68 519 317

SURPLUS USED CARS REPORT

For 7 Days and Period Ended Sept. 30, 1944
(Period Began January 1, 1944)

7 Days to Sept. 30, 1944 Period to Date

Total Used Cars Declared		<u>232</u>	<u>5707</u>
Less Declarations withdrawn	0		<u>108</u>
Less Loans to Other Federal Agencies	0		<u>19</u>
Less Transfers to Other Federal Agencies	<u>2</u>	<u>2</u>	<u>689</u>
Net Used Cars Declared for Sale		<u>230</u>	<u>5018</u>
Less Used Cars Sold		<u>265</u>	<u>3369</u>
Balance of Used Cars on hand			<u><u>1649</u></u>

ANALYSIS OF INVENTORY

Inspected and ready for sale		<u>759</u>
Not Inspected		<u>890</u>
		<u><u>1649</u></u>

SURPLUS MOTORCYCLE REPORT

For 7 Days and Period Ended, Sept. 30, 1944
(Period Began January 1, 1944)

	<u>7 Days to Sept. 30, 1944</u>		<u>Period to Date</u>
Total Motorcycles Declared		<u>1605</u>	<u>14130</u>
Less Declaration withdrawn	<u>0</u>		<u>5</u>
Less Loans to Other Federal Agencies	<u>0</u>		<u>0</u>
Less Transfers to Other Federal Agencies	<u>0</u>	<u>0</u>	<u>210</u>
Net Motorcycles Declared for Sale		<u>1605</u>	<u>13915</u>
Less Motorcycles Sold		<u>391</u>	<u>7407</u>
Balance of Motorcycles on hand			<u>6508</u>

ANALYSIS OF INVENTORY

Inspected and ready for sale	<u>1780</u>
Not Inspected	<u>4728</u>
	<u>6508</u>

SURPLUS USED TRUCKS REPORT
 For 7 Days and Period Ended Sept. 30, 1944
 (Period Began January 1, 1944)

	<u>7 Days to Sept. 30, 1944</u>		<u>Period to Date</u>
Total Used Trucks Declared	<u>2461</u>		<u>39565</u>
Less Declarations withdrawn	<u>1</u>	<u>1404</u>	
Less Loans to Other Federal Agencies	<u>0</u>	<u>145</u>	
Less Transfers to Other Federal Agencies	<u>33</u>	<u>2964</u>	<u>4513</u>
Net Used Trucks Declared for Sale	<u>2427</u>		<u>35052</u>
Less Used Trucks Sold	<u>2073</u>		<u>23241</u>
Balance of Used Trucks on hand			<u><u>11811</u></u>

ANALYSIS OF INVENTORY

Inspected and ready for sale	<u>6333</u>
Not Inspected	<u>5478</u>
	<u><u>11811</u></u>

October 3, 1944

Dear Mr. Hinckley:

See Book 766, p. 98

This refers to your letter of August 21, 1944 and my reply of August 25th, designating Mr. George C. Haas, Director, Division of Research and Statistics, as a member of a committee of the Contract Settlement Board to act in an advisory capacity on matters of statistics, records, procedures, and reports related to the statistics of terminations, settlements, interim financing of terminations, etc., and Mr. W. J. Sims, Chief, Control and Reports Branch, Office of Surplus Property, Procurement Division, as alternate member.

After the first meeting of this Committee it appeared that the representative you wanted from the Treasury was someone who is actually working with war contract terminations. I would like, therefore, to designate Mr. Clifton E. Mack, Director of the Procurement Division, as the member, and Mr. J. B. McNamara as the alternate member, instead of Messrs. Haas and Sims.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Honorable Robert H. Hinckley
Director
Office of Contract Settlement
Washington, D. C.

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OCT 3 1944

Dear Mr. Hinckley:

Your letter of September 22 to Mr. McConnell requests the designation of a Treasury member and alternate member to the proposed Training Committee of the Contract Settlement Advisory Board, and states that the Training Committee will also act in an advisory capacity to your office.

I have designated Mr. A. J. Walsh, Deputy Director, Procurement Division, to serve as Treasury member of the Training Committee and Mr. J. W. Flatley, Chief, Contract and Purchase Branch, Procurement Division to serve as alternate member.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Mr. Robert H. Hinckley
Director, Office of Contract
Settlement
Washington, D. C.

DJS:ims
10/2/44

OFFICE OF CONTRACT SETTLEMENT

WASHINGTON, D. C.

September 22, 1944

Mr. Robert E. McConnell
Office of the Secretary
Treasury Department
Room 3420, Treasury Bldg.
Washington, D. C.

Dear Mr. McConnell:

Mr. Conover

I am requesting that a committee of the Contract Settlement Advisory Board be established on training, and would appreciate your designating a member and alternate member. The committee will act in an advisory capacity to the Office of Contract Settlement. It will advise on matters relating to the responsibility of the Director for "...the training of personnel for termination settlement and interim financing by contracting agencies, war contractors, and financing institutions...".

I have asked the Training Within Industry Service of the War Manpower Commission to organize and direct this work as a branch of this office, and they have designated Mr. William Conover, Assistant Director of TWI, to be in charge of the activity. He will act as Chairman of the Committee. If you have questions concerning the program of the committee on training in relation to the person you might wish to designate as a member, I shall be glad to have Mr. Conover discuss the over-all nature of the program with you.

Sincerely,

Robert H. Minkley
Robert H. Minkley
Director

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○ October 6, 1944 - Gave this information to the Secretary orally and the Secretary agreed to recommendation that we send \$20 million of gold to China. (The Secretary informed Dr. Kung of that decision when he had dinner with him on October 5.)

H.D.W.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 3, 1944

TO Secretary Morgenthau

FROM Mr. White

Subject: China's dollar balances and dollar position.

1. China's gold and official dollar balances total approximately \$553 million.

(a)	Gold on earmark	\$10,690,000
(b)	Official dollar balances:	
	Federal Reserve Bank of New York	368,336,000
	Other banks	<u>174,156,000</u>
	Total	<u>\$553,182,000</u>

In addition Chinese private short-term dollar balances amount to \$76,458,000 and Chinese private holdings of long-term assets \$99 million, making a grand total of Chinese dollar assets in the U. S. of almost \$750 million.

2. \$240 million of the \$1/2 billion dollar loan has already been transferred to China as follows:

- (i) \$200 million on April 15, 1942, of which \$100 million was for the Chinese US\$-backed certificates and \$100 million for Chinese US\$-backed bonds.
- (ii) \$20 million on January 14, 1943, for purchase of gold on earmark. All this gold has now been shipped to China.
- (iii) \$20 million on February 19, 1943, for purchase of banknotes, paper, ink, etc.

3. So far, the Bank of China, New York, has paid out \$18 million for the redemption of US\$-backed savings certificates presented on maturity, so that most of the \$200 million transferred to the Chinese Government account in 1942 has remained intact.

4. We shall probably have to pay China \$100-\$125 million for payment of our outstanding yuan obligations incurred on account of U. S. Army expenditures in China up to June 30, 1944. In addition, at Bretton Woods we offered to pay them \$20 million a month for the three months

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July to September and may have to pay them say from \$10-20 million monthly for U. S. Army expenditures in China from now till the end of the war in the Far East. In that contingency, our net further payments to the Chinese for U. S. Army activities in China may easily amount to \$250-300 million. It should be noted that we have already paid the Chinese \$160 million for our Army expenditures in China.

5. Therefore, China's total U. S. dollar assets may well amount to about \$1 1/2 billion before China's isolation is broken, unless the Chinese dissipate all the \$200 million of gold we have promised to sell them. This estimate is made up as follows:

(a) <u>Official</u>	\$ million
(i) Current dollar balances	540 1/
(ii) Current gold on earmark	10
(iii) Sum to be received for U. S. Army expenditures in China	250 - 300
(iv) Unused portion of the \$ 1/2 billion loan	<u>200 - 250</u>
	\$1,000 - 1,100
 (b) <u>Private</u>	
(i) Current dollar balances	75
(ii) Current long-term assets	<u>100</u>
	175
(c) <u>Grand Total</u>	<u>\$1,175 - 1,275</u>

- 1/ Even if all of the \$80 million or so for unredeemed US\$-backed savings certificates is paid out into private accounts, the net result will be that most of it will go into Chinese private dollar balances, so that (b)(i) will increase by approximately the same amount as (a)(i) diminishes and the grand total will not be affected.

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Oct. 6, 1944 - Discussed orally with the Secretary and Secretary agreed with our recommendation that we give them 20 million ounces of silver.

H.D.W.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE
October 3, 1944

TO Mr. White

FROM Mr. Lipsman

Subject: Indian request for 65 million ounces of silver for coinage purposes.

Mr. Mahindra, in letter dated August 22, 1944, requests that 65 million ounces of silver for coinage purposes be lend-leased to India.

1. Conclusion

It is recommended that the Treasury lend-lease to India 15 to 20 million ounces of silver instead of the requested 65 million ounces.

2. India's silver position and request for 65 million ounces of silver

In view of India's present silver stocks (120 million ounces of silver) and her coinage requirements up to March 31, 1945 (54 million ounces), India would be left with only 66 million ounces of silver on March 31, 1945, which Mr. Mahindra considers an insufficient amount. Since he feels that the entire 100 million ounces of lend-lease silver are needed for sale in the Bombay market to combat inflation, and that a further amount of 31 million ounces is needed for coinage requirements for the period April to August, 1945, a theoretical total of 131 million ounces would be needed on March 31, 1945. The Indian request for 65 million ounces of silver, plus the 66 million ounces of silver available as stock on March 31, 1945, would bring the total to the desired 131 million ounces.

Below are given the figures of India's silver stocks and need for silver as provided by Mr. Mahindra:

<u>Silver stocks & need of July 31, 1944</u>	
	(millions of ounces)
Stock in hand.....	11.0
Silver in transit from U.S.A.....	92.0
Silver contracted from Iran.....	<u>17.0</u>
Total stocks of silver.....	120.0

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<u>Coinage requirements</u> <u>August 1, 1944 to March 31, 1945</u>		(millions of ounces)
Whole rupees at 4.75 million ounces per month....		38.0
Half and quarter rupees at 2 million ounces per month.....		<u>16.0</u>
Total coinage requirements for 8 months.....		<u>54.0</u>

3. Basis for granting India's request for 65 million ounces of silver only in part

- (a) The request for 31 million ounces of silver is not urgent.

It is not necessary to make arrangements now for the 31 million ounces coinage requirement which will arise for the period April through August, 1945. If the necessity should arise, part of the 100 million ounces of lend-lease silver could be used to meet an immediate emergency.

- (b) India may not need as much as 54 million ounces of silver for coinage for the period August 1, 1944 to March 31, 1945.

India's recent average monthly coinage requirements have been running at approximately 3.5 million ounces, and while a rapid increase in coinage is planned (6.75 million ounces per month), it is not certain that this target will be reached, in which case somewhat less than 54 million ounces of silver will be required. Thus, instead of 54 million ounces, it may be that about 34 million ounces will be needed, a reduction of 20 million ounces.

- (c) India can draw upon a portion of the 100 million ounces of lend-lease silver in an emergency.

Mr. Mahindra claims that 200 bars of silver (about 200,000 ounces) are sold daily in India, making it inadvisable to depend upon the 100 million ounces of lend-lease silver as a reserve. According to our Bombay Consulate, however, during September only 40 to 60 bars were sold daily in India. Moreover, even if 200 bars were sold daily, the 100 million ounces would last for almost 1-1/2 years - a long enough period in which Treasury could come to the rescue and make additional silver available to India.

- (d) Therefore, there is no need to lend-lease more than 15 to 20 million ounces of silver to India.

Treasury Department
Division of Monetary Research

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Date..... Oct. 4, 1944¹⁹

To: Secretary Morgenthau

Appended is a summary of Labor
Letter No. 6, which may be of interest to
you.

H.D.W.

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

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Date Oct. 3, 1944

TO Mr. White
FROM Mr. Casaday

Subject: Summary of Labor Letter No. 6 (1944) U.S. Embassy, London,
September 2, 1944.

1. Formation of a National Miners' Union.

(a) From the beginning the miners of Britain have been organized in autonomous district unions, loosely federated nationally in the Mineworkers' Federation. The latter possessed very meager staff, knowledge, funds and authority and has never been able to bargain on a national basis.

(b) Under pressure of the necessity for national bargaining in wartime (and after much Government encouragement) the miners have finally overcome their sectional jealousies and at a national conference in August adopted a new constitution establishing the National Miners' Union with full autonomy and adequate funds to enable it to bargain nationally, enter into national agreements, call and finance national strikes and impose uniform national rules.

(c) Berger describes this move as the most important in the mineworkers' history. The new unity of the nation's 500,000 miners may be instrumental in alleviating the traditionally bad conditions of workers in this industry. (Although Berger does not say so, it seems to me likely to strengthen the move for post-war nationalization of the mines. A recent poll by the conservative Daily Express, to that paper's evident amazed chagrin, showed a substantial majority of its readers in favor of nationalization of mines and railroads.)

2. Sir Stafford Cripps' status in the country.

(a) Berger briefly reviews Cripps' fluctuating wartime career. Following Russia's entry into the war, for which curiously, Cripps was given considerable credit in the public mind, he achieved the status of a national hero and in February 1942 entered the Cabinet as Lord Privy Seal. There were even rumors that he might become Prime Minister. At this time he was unofficially invited to re-enter the Labor Party from which he had been expelled in 1938 for advocating a united front with the Communists. He refused the offer.

(b) Cripps was unhappy in the Cabinet because he was forced to defend the Government's cautious position on social reforms against criticisms with which he fully agreed. Berger says it was reported (I also heard this from Harold Laski) that Cripps tried to get Bevin to threaten to resign with him in an effort to force Churchill's hand on domestic reforms and also on the Indian situation.

Division of Monetary
Research

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(c) This precipitated Cripps' removal from the Cabinet to the post of Minister of Aircraft Production. For the past two years he has been completely inconspicuous except for occasional speeches, which are now characterized by progressive rather than radical Socialist exhortations. His present position illustrates the ineffectiveness of a man without a party.

3. Post-War Controls.

Berger reports a strong up-surge of right wing conservative advocacy of early post-war return to free and unregulated private enterprise. Prominent and influential names are associated with this movement. It is opposed, however, not only by the Labor Party but by the moderate and left wing Tories as well, including Churchill. These latter elements want a post-war continuation of the Coalition which would be impossible if extreme right wing views were to prevail in the Conservative Party.

4. Post-War Reconstruction Plans.

(a) Detailed Government plans for military and industrial demobilization and transfer of manpower to peacetime industry, both for "Stage 2" and for the post-war period are, Berger says, well advanced although as yet unannounced.

(b) Legislation has been passed (usually in much weaker form than earlier recommendations) and is in process of implementation on: Education, Housing, Catering Reform and Parliamentary Reform. Labor is particularly bitter toward the Ministry of Education which, after forcing through an Act considered inadequate by Labor, has now announced that the raising of the school leaving age from 14 to 15 must be postponed until at least April 1946 and possibly to April 1947 instead of becoming effective in April 1945 as promised. Shortage of teachers and facilities is the reason given.

(c) Bills are pending on Town and Country Planning and on Milk Control (pasteurization, tubercular tests, general sanitation, etc.). In the latter field the U.K. is decades behind the U.S. For this reason the U.S. Army buys no fresh milk in Britain.

(d) White Papers, but no legislation, have been introduced on: Social Security, Employment Policy, Monetary Policy, National Health Service, Water Policy, Coal Industry Reform, Building Industry Reform and Disposal of Surplus War Property.

5. Annual Labor Party Conference.

There is much internal pressure within the Party to convene the 1944 Conference, postponed because of D-Day. Left wing elements called a rump conference of local and regional representatives for mid-September but it is not expected to accomplish much. Disciplinary action is threatened by Party Leaders. Probably an official conference will be held before year-end.

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Research

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6. Engineering Industry workers are negotiating for pay increases, "equal pay for equal work" and the 40-hour week immediately after the war. The first and third of these seem likely to be successful.

Mr. Whit 216^{9m}

THE WHITE HOUSE
WASHINGTON

September 22, 1944

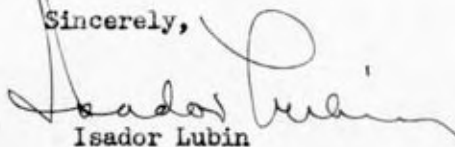
The Honorable

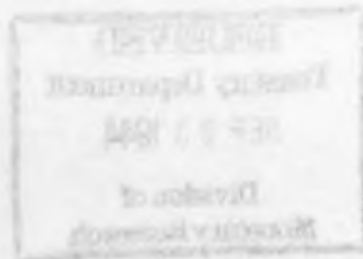
The Secretary of the Treasury

My dear Mr. Secretary:

I am herewith attaching the sixth in
the 1944 series of bi-monthly letters on
labor conditions in Great Britain.

Sincerely,


Isador Lubin



EMBASSY OF THE
UNITED STATES OF AMERICA

MISSION FOR ECONOMIC AFFAIRS,
1, GROSVENOR SQUARE,
LONDON, W.1

September 2nd, 1944

LABOR LETTER NO. 6 (1944)

1. FORMATION OF A NATIONAL MINERS' UNION: Probably the most important event in the history of the miners' union took place on August 16 and 17 when a special conference of the Mineworkers' Federation endorsed the text of a new constitution which will abolish the Federation and establish a centralized national union in its place - the National Union of Mine Workers. The proposed constitution will now be submitted to a national referendum to be completed by October. It is fairly certain that a majority of the miners will support the change in structure, and the new union should come into being about January 1945.

The significance of this step can hardly be over-estimated since at least part of labor's traditional difficulties in this industry are directly traceable to defects in the miners' union itself.

The Mineworkers' Federation has always been an ineffectual body. Apart from the National Executive, composed of representatives from each district, the Federation, which embraces over 500,000 members, consists of a paid secretary, two assistants and two typists. It has almost no funds - about 125,000 dollars a year. Nor has it any real power or authority. All decisions must be referred back to the autonomous district unions, which frequently ignore policies and agreements endorsed by the Federation. It is not uncommon for the district leaders on the National Executive to approve one policy, and support a contrary policy when they return to their districts. 1/

I have

1/ This happened in January-February, and was one of the causes of the strikes over the Porter award. Bevin in an off-the-record talk when the strikes were at their worst, referred to some of the Federation leaders as "lily-livered buggers, who accepted the award in London and then went back to their districts and opposed it."

- 2 -

I have been told by miner leaders, mine owners, and Ministry of Fuel and Power officials that the Mineworkers' Federation leaders frequently disagree and contradict themselves in the midst of actual negotiations with the mine owners. Finally the Federation headquarters has no research staff, and it is no secret that it knows almost nothing about such elementary things as wages, hours, age of miners, costs, profits, etc.

The weakness of the union's internal structure has been the subject of resolutions for over 50 years, but every attempt to form a national union has broken down because of the reluctance of the district unions to give up any part of their sovereignty. The result has been to perpetuate inter-district competition and make national collective bargaining impossible. This refusal to form a centralized national union is at least part of the reason why the miners were never able to force the owners on to a national bargaining basis.

Curiously, it was not the miner's doing but the war and outside influences which finally produced the long overdue structural reorganization of the union. The Government in July 1942, on Bevin's insistence, established the national minimum wage principle and forced the owners to agree to bargain nationally - demands which the union was unable to secure by its own power. The short-comings of the Mineworkers' Federation have created great difficulties for the Government, and Bevin and the Ministry of Fuel and Power have insisted ad nauseam that the Federation reform itself so that the national union leaders could speak with authority on national mining problems.

The new constitution gives the National Union of Mine Workers power to bargain nationally, to call strikes, and to enter into national agreements. Each district union will transfer \$1 per capita to the national union which will give it a fund of two million dollars to start off. Union dues will hereafter be paid direct to the national union. The national union will also have power to establish a research office and publish a paper. The district unions will, in effect, be reduced to area branches.

Will Lawther,

- 3 -

Will Lawther, President of the Mineworkers' Federation will continue in that office until an election is held under the new constitution. Eddy Edwards, permanent secretary of the Mineworkers' Federation will continue as permanent secretary of the new Union.

2. SIR STAFFORD CRIPPS: STATUS IN THE COUNTRY: The ups and downs of Cripps' prestige in this country has been one of the remarkable small incidents of the war (see LL No. 4 (1942)). When Germany attacked Russia, Cripps, who had been Ambassador to Moscow for the Churchill Government, became a national hero; and, as admiration for Russian resistance swept this country, Cripps' prestige grew greater and greater. One cynical observer remarked that it seemed as if it was not Hitler but Cripps who had brought Russia into the war on the side of Britain. So great was Cripps' prestige that in January 1942, when the Churchill Government was under fire because of the setbacks in the Pacific and the disappointments in North Africa, rumours were about that Cripps would succeed Churchill as Prime Minister. There was never any foundation for these rumours, but the criticisms of the Government led to a shakeup which brought Cripps into the Cabinet in February 1942 as Lord Privy Seal and Government Leader of the House of Commons. Subsequently it was Cripps who was sent as emissary to India to negotiate with Gandhi in the critical early Summer of 1942.

It was during this time, when Cripps' prestige was at its highest, that members of the Labor Party unofficially approached him with an invitation to return to the Party. (A left-wing Socialist, Cripps had been expelled in 1938 for advocating a united front with the Communists, in the face of Labor Party policy.) Cripps rejected these advances with the remark that he was "above party" and that he could do more as an individual than as a member of any party.

Cripps was never very happy in the Cabinet or as Leader of the House of Commons. He was dissatisfied with the Government's refusal to nationalize the mines, and with the apparent lack of preparation for post-war reconstruction. Yet as Leader of the House he was forced to defend the Cabinet's policies and stave off criticism with which he was in accord.

According

- 4 -

According to fairly reliable information, Cripps approached Bevin in September 1942 shortly before the Egyptian campaign opened, with a proposal that, since Bevin was also critical of the Cabinet, the two of them should leave the Coalition. Bevin laughed at the proposal. Cripps went off and told his friends he was thinking of resigning by himself. In November 1942 while he was still deliberating, a curt message came from Churchill thanking him for his services as Lord Privy Seal and Leader of the House, and offering him the post of Minister of Aircraft Production.

Cripps took the post and, although he has done an excellent job, he has virtually disappeared from the public eye during the last 22 months. Almost the sole occasion on which his name now appears is when he makes a speech, which he does every three or four months. But his speeches attract little attention and are only briefly reported in the press. He is clearly paying the price of not being attached to a political party. Were he attached, he would be looked upon as one of the prospective post-war leaders, and much more attention would be paid to what he says.

Cripps' speeches show that he has lost none of his passion for social and economic reform, but his recent speeches are couched in progressive terms, rather than in the doctrinaire Socialist phraseology which he used in the past. Following are some excerpts from his speech of last week:

"The D-day of peace requires quite as much preparation as the D-day of war."

"We shall embark on the solution of our post-war difficulties largely under the aegis of private enterprise. That system will have to justify its own continuance by showing that it has the enterprise to meet the new circumstances and to overcome them."

"Unless we can get back all our pre-war export trade and something like another 50 per cent we shall be unable to maintain pre-war standards."

"The difficult position in which we shall find ourselves requires a complete reconsideration of our industrial methods. Quality and efficiency must be the aim."

"The

- 5 -

"The old methods of patronage and autocracy of management are out of date. A partnership of effort must be established between management, a smoothly working joint-production committee, and a well organized trade union. We must get rid of the fatal slogan 'what was good enough for my father is good enough for me.'"

"The different grades of management must look upon their job as a professional job, and one for which a high degree of training is required. There is need for some strong central institute of management which can build up the necessary professional and educational standards."

"We must see to that our educational institutions are enlarged, financed, and made adequate to give up that flow of scientists and technicians, without which we cannot keep or win supremacy in the quality of our manufactured products."

3. POST-WAR CONTROLS; PRO AND ANTI: Although the idea of active and continuous government direction of economic life has gained wide acceptance during the war, (See LL No. 4 (1944) and Embassy Dispatch No. 16826 analyzing the Parliamentary Debate on Full Employment), right-wing elements are now coming out in the open for a return to the status quo ante.

Chief among these are the Society of Individualists and the National League for Freedom. The Society of Individualists, which wants "the resumption of private enterprise and the overthrow of bureaucratic socialism" foisted on the country during the war, represents the "intellectual" side of the movement. Its president is Sir Ernest Benn, the publisher, and another of its prominent members is Dean Inge. The National League for Freedom, whose aim is to get rid of the war-time controls without delay, once the war ends, represents the politicians and the industrialists. Its chairman is Conservative M. P. Sir Leonard Lyle (of Tate and Lyle). Forty-five right-wing Conservative M.P.s are members of the League's Council, including Sir Patrick Hannon, vice-president of the Federation of British Industries, and president of the National Union of Manufactureres (an association of small manufacturers which is uncompromising

in its

- 6 -

in its opposition to reform). It was recently announced that these two organizations are negotiating with the object of merging into a single body.

To further the objectives of these and similar organizations, an appeal was issued a fortnight ago by 25 more or less prominent public men for £1,000,000 to form The Fighting Fund for Freedom. The Fund will be used to ensure "freedom for the soul of man" by securing "freedom from the continuance of state control after the war." The appeal also deplures the trend of current legislation. "Bill after bill is being envisaged which involves compulsion and the loss of personal freedom." It calls for immediate action "to halt the race down the road to the totalitarian state."

These developments should be considered in conjunction with the Tory campaign, gradually gaining momentum, to discredit the Labor Party. For example, the current issue of Onlooker, organ of the Conservative Party Central Office, describes the Labor Party as follows:

"The Socialists think that everyone will be happier if they plan the way people should live, where they work, and the sort of lives they should lead (rather on the principle of "mother knows best") and thus everybody would either be a state official or run by state officials."

The merger of the Society of Individualists and the National League for Freedom; the establishment of The Fighting Fund for Freedom; and the Conservative Party Central Office attacks on the Labor Party must be regarded as preparations by the right-wing Conservatives for a return to party politics immediately the war ends.

While the views expressed have considerable popular support and the influence of these groups should not be underestimated, it is well to keep in mind that Conservative politicians and industrialists are by no means unanimously behind it. For example, J. M. Young, leading editorial writer for the conservative Sunday Times, made a scathing attack on these extreme views in a recent issue:

"Certain

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"Certain Leagues and Societies favor me from time to time with their literature, from which I gather that the war in their minds ought to end in one gigantic bonfire of Regulations... I do not, for my part, see how we can get through the armistitial period without control, and perhaps a very strict control of priorities and distribution, both in labor and in material... I wish my friends of the Leagues and Societies would tell me what, besides bonfires, they think should be done."

The right-wing Conservatives will have not only to fight the Labor Party, but the moderate and left-wing elements in the Tory Party, including Churchill. These elements recognize the danger of a too rapid relaxation of war-time controls. Furthermore they want a continuance of the Coalition Government, which is unthinkable if the extreme right-wing views should prevail in the Conservative Party.

The other side of the British picture is also shown by a public opinion poll taken recently by the Conservative Daily Express, owned by Lord Beaverbrook. The results showed that 66% favored state-ownership of coal mines, 25% were against and 9% undecided. On the question of state-owned railways, 58% were in favor, 30% against and 11% undecided. 39% of the voters stated they were conservatives, 34% labor, 11% liberal and 10% other parties.

In announcing the result of the poll the Daily Express described itself as having "always advocated private enterprise and offered strong and determined opposition to public control." The editorial added that the results of the poll were "entirely unsatisfactory" and that the Express was disappointed to find how little effect its arguments had on public opinion. It came to the conclusion that "more effort and more determined argument" was needed.

A month later, after a second poll, the Daily Express announced "that by a large majority of about 11%, the British public pins its faith to Private Enterprise as being a better system than state-ownership for the maintenance of full and well-paid employment," 48% voted for

private

private enterprise, 37% for state-ownership and 15% were undecided. Curiously, only 84% of the Communists and 56% of the Socialists voted for state-ownership, while 66% of the Conservatives and 32% of the Socialists voted for private enterprise.

4. POST-WAR RECONSTRUCTION PLANS: The following resumé shows the status of Britain's Major post-war reconstruction plans at the present time:

(i) Demobilization of Military and Civil Defence Personnel: The general principles were approved by the Cabinet several months ago, but they have not been announced. The detailed plans and the administrative arrangements are well advanced. The Reinstatement in Employment Act, passed last spring, became operative on August 1.

(ii) Transfer of Industrial Manpower from War to Civilian Production: The outlines of the main problems which will arise in Stage 2 -- the period from the collapse of Germany to the end of the war in Japan -- have been thought through, and the detailed plans and policies are fairly well completed. The manpower budget for the first 12 months of Stage 2 has now been drawn up and will be laid before the Cabinet early in September. The order in which the war-time controls over manpower shall be relaxed will also be considered. No special administrative arrangements will be needed during this period since the inter-ministry procedures and the machinery of the Ministry of Labour and National Service, developed during the war to mobilise manpower, can also do the reverse job.

(iii) The Education Act: This act, which will raise the school-leaving age in England and Wales to 15 and eventually to 16 and which provides for certain other major educational reforms, was passed in August. The newly-established Ministry of Education is working with great energy on the problems of training teachers, constructing schools, reorganizing curricula, etc.

(iv) Employment of Disabled Persons Act: This act, which was enacted early this year, provides for the training and compulsory employment of disabled persons,

irrespective

- 9 -

irrespective of the cause of disablement. The Ministry of Labour, after appropriate investigations, is authorized to assign to each employer a job quota which must be filled with disabled persons. The training programs are already under way but no date has yet been fixed when the balance of the law becomes operative.

(v) The Catering Act: This act, which authorizes the setting-up of Government Boards under the Ministry of Labour to fix the minimum catering industry, was enacted in the summer of 1943. It was announced last week that the first of these Boards -- for factory and canteen workers -- had now been established.

(vi) Parliamentary Reform: Because local voting registers have not been revised since before the outbreak of war, no one under the age of 26 and no one who has moved from one constituency to another since 1939 is able to vote. The Parliamentary Elections (War-Time Registration) Act was passed this spring in order to establish an up-to-date voting register. The register has now been completed and will be effective for the next general election, and possibly before then for the by-elections.

The All-Party Parliamentary Committee on Electoral Reform (known as the Speaker's Conference) was set up this spring and recently issued its first report. This recommends the redistribution of seats on the basis of changes in population which have occurred since the last redistribution. This will eliminate current anomalies whereby Members of Parliament are elected in constituencies which range in size from 20,000 to 175,000 voters. The report also recommends the same register for both local and parliamentary elections. This will enable several million people, hitherto in some constituencies disfranchised on property grounds, to vote in local elections. The report also recommends several minor reforms, such as a further limitation on candidates' election expenditures; the elimination of the dual vote for certain categories of persons; etc. The report opposed any form of Proportional Representation.

It is customary for the Speaker's Conference recommendations to be accepted by Parliament.

(vii) The

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(vii) The Housing (Temporary Provisions) Act: This act, designed to expedite the building of permanent housing -- about 300,000 in the first two years after the war in Europe ends -- was passed in August. Another Housing Bill which will provide for the construction of between 200,000 and 300,000 temporary houses in the same period did not reach the final stage of debate, but should be enacted soon after Parliament reassembles in September.

(viii) The Town and Country Planning Bill: This Bill is intended to assist local authorities in acquiring blitzed, blighted and related areas and to increase the power of local authorities to control the use of land. This Bill, which caused so much dissatisfaction (see LL No. 5 (1944) Item 6), should also be enacted shortly after Parliament resumes in September.

(ix) Provision of Water Supplies and Sewage Facilities in Rural Areas: This act, which will help develop rural amenities in this regard, was also enacted during the recent session of Parliament. No progress was made with similar proposals for rural electrification.

(x) Milk Control Bill: This is a pure food bill which will establish the principle of national instead of local control over milk production. It is intended to put a stop to the sale of milk produced under unsanitary conditions and from tubercular herds. (parathetically, the U.S. Army in Britain does not buy any fresh milk for this reason.) This Bill reached an advanced stage in the recent session of Parliament and should be enacted soon after Parliament reassembles.

(xi) The Scottish "T.V.A.": An act to develop hydroelectric power in order to rehabilitate certain depressed areas of Scotland was enacted last year.

(xii) Seven White Papers have been debated in both the House of Commons and the House of Lords, but no legislation on any of the subjects covered has as yet been put before Parliament. These White Papers deal with:-

Full Employment Policy
 Monetary Policy
 National Health Service
 Water Policy

The 12

The 12 Year Plan for the Building Industry
(debated 12 months ago)
The Post-War Position of the Coal Industry
Disposal of Surplus War Property

A White Paper on Social Security (the Beveridge Report) has been promised for this Fall along with the first instalment of legislation.

5. LABOR'S CONTROVERSY WITH THE MINISTER OF EDUCATION:
All of Labor's latent suspicion that the Conservatives in the Government are sabotaging reconstruction plans was roused this month when Mr. Butler, Minister of Education, announced it would be impossible to raise the school-leaving age to 15 on April 1, 1945 as promised during the Education debate:

"In view of the impossibility of securing the necessary teachers and school accommodation the Minister proposes to make an order retaining the school-leaving age at 14. It is not possible to say how long the order will remain in force, but it will not cease to have effect before April 1, 1946."

The Labor Party is always extremely critical of any whittling-down of reconstruction proposals. In this case it feels more bitter than usual because during the Education debate, Labor M.P.s made a special point of demanding that dates should be specifically fixed for raising the school-leaving age not only to 15, but to 16 as well. Where individual local education authorities found it impossible to secure teachers or buildings by the fixed dates, the Labor Party took the view that the Minister could extend the date. Reason for the Labor Party's insistence on fixed dates was the memory that the Education Act of 1921 had approved the higher school-leaving age, but the Conservatives had never taken steps to put it into effect.

The Labor Party's motion to fix the "16" date was defeated by 172 to 137 votes, but the Minister agreed to fix the "15" date for April 1, 1945. This, the Minister said, is "an earnest of the intention of the Government to proceed with this matter." He also explained to the House that in "certain circumstances" postponement "to a

date

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date not later than April 1, 1947 might be necessary" but emphasized that he was taking the power to postpone merely as "a precaution."

Since there was a shortage of teachers and accommodation even before the war began, which was made much worse by the call-up of teachers, the curtailment of teacher training, and the bombing of schools, it was obvious to almost everyone that it would be impossible to raise the school-leaving age to 15 by April 1945. Most people were therefore surprised at the rash promise to fix the date for April 1945. The explanation is that the Government was under strong pressure from Parliament, and had to give in or face another adverse vote. (You will recall that a majority vote was cast against the Government during the debate, when the Government refused to agree to an amendment to the Bill providing for "equal pay for men and women teachers." This adverse vote resulted in Churchill demanding a vote of confidence.)

In fairness to the Government it must be pointed out that it is working with the greatest energy to give practical effect to the Education Act at the earliest opportunity. Teachers in the Forces will be given the highest priority in demobilization. An emergency scheme to train teachers in one year instead of the customary two or three has already been drawn up. Local authorities have been directed to give school construction the highest priority in their building program.

6. ANNUAL LABOR PARTY CONFERENCE: It was pointed out in LL No. 22 that the restlessness and ferment inside the Labor Party was such that the Executive's decision to postpone the annual Labor Party conference because of the invasion would eventually be attacked. This has turned out to be the case. During the past month the Executive has been under pressure to call the conference, and it is probable that the conference will be held in October or November.

Meanwhile a group of impatient Labor Party members, including one Labor M.P., four chairmen of regional Labor Parties, and representatives of a dozen or so local Labor Parties, have decided not to wait. Acting under the slogan "Victory for Socialism" they have invited the

local

- 13 -

local Labor parties, but not trade union branches, to send delegates to an unofficial 2-day conference in the middle of September. The conference will discuss four main issues:

- (i) The electoral truce and continuance of the coalition. (The rump conference will oppose both).
- (ii) A Socialist program for the next general election.
- (iii) Post-war international problems. (The Government's alleged policy of opposing the recognition of left-wing governments in liberated territories, and the treatment of enemy peoples will be the main items).
- (iv) Democratic Reorganization of the Labor Party.

The issues to be discussed, especially the last, and the fact that no trade union representatives have been invited, gives the clue to the real significance of this conference. The "ideologically-minded" local Labor Parties often do not see eye to eye with the "practical" trade union sections, and periodically they revolt against what they regard as the disproportionate influence of the trade unions in the Labor Party. These results seldom have much effect and this latest will be no exception. (SEE LL No. 22)

The Executive Committee of the Labor Party has informed all affiliated organizations that the conference is unauthorized and has warned that those attending will face disciplinary action.

Meantime, in anticipation of the official Labor Party conference, the Communist Party has made another plea to the Labor Party for a "united front". This is the third Communist approach to the Labor Party, but it is unlikely to be treated differently than the first two appeals. (See LL No. 22)

7. ENGINEERS'

- 14 -

7. ENGINEERS' LATEST DEMANDS FOR WAGE AND HOUR IMPROVEMENTS: 750,000 women employed in the engineering industry have just received wage increases of 6/- to 8/- a week, raising the minimum wage for time workers from 50/- to 56/-, and the minimum for piece workers from 53/3 to 61/2. The increases resulted from a claim brought before the National Arbitration Tribunal by the three unions catering for women engineering workers; the Transport and General Workers Union, the General and Municipal Workers Union and the Amalgamated Engineering Union. What is interesting is that the increase was negotiated after the National Arbitration Tribunal threatened to make the award on the above basis, if the Employers' Association and the union did not work out a settlement within six weeks. Agreement was reached within a fortnight. The Union's original demand was for a general increase, and also for the establishment of the "equal pay for equal work" principle. Only the first of the demands have been settled. Negotiations will shortly begin on the "equal pay" demands.

Early in September the Engineering Joint Trades' Movement (comprising the Amalgamated Engineering Union, the National Union of Foundry Workers, and the 32 unions in the Confederation of Shipbuilding and Engineering Unions) will present two new demands to the Engineering Employers' Federation.

(i) An immediate advance of 10/- a week in the basic rate of all adult workers. This claim involves about 1,500,000 workers.

(ii) The introduction of a 40-hour week without loss of earnings immediately hostilities cease, in place of the present standard of 47 hours, secured after the last war. This is in accordance with the T.U.C.'s campaign for the 40-hour week, (see LL No. 5 (1944) Item 5), which envisaged legislation laying down the 40-hour principle, leaving each industry to work out the details of its application for itself.

S. D. BERGER

Samuel D. Berger (Lt. A.U.S.)
Mission for Economic Affairs,
United States Embassy,
London, England.

CABLE TO AMBASSADOR KIRK AND ACEHRMAN; AMPOLAD; CASERTA

In view of the recently announced Hungarian plan to remove Jews from Budapest to provincial camps, please convey the sense of the following message to Hungarian authorities through such channels as may be available to you:

QUOTE The Government of the United States has learned of the plan of Hungarian authorities to remove the Jews still remaining in Budapest to putative work camps in the provinces. In view of the fate of Jews who were removed in previous months from other cities to similar camps, and in view of the approach of winter, the Government of the United States has good reason to regard the present plan as a further measure of mass extermination, for mass extermination may be accomplished either by the methods employed at camps of final destination in Poland, or by subjecting large numbers of people to under-nourishment, hard physical labor and unhygienic living conditions in improvised camps. Consequently, the United States Government considers appropriate to remind Hungarian authorities of its determination, as expressed by the President of the United States on March 24, that INNERQUOTE none who participate in these acts of savagery shall go unpunished **. All who share the guilt shall share the punishment. CLOSE INNERQUOTE. This determination was publicly reaffirmed on May 31 and June 28 by members of the Senate Foreign Relations Committee and the House of Representatives Foreign Affairs Committee, respectively.

QUOTE The Government of the United States, however, recognizes the possibility that the present plan may in fact have been evolved to achieve genuine humanitarian ends as has been claimed by various Hungarian authorities. To the extent that the plan, if put in operation, may achieve such ends, the Government of the United States will, of course, recognize the validity of such claims. On the other hand, should the removal of the Jews from Budapest to provincial camps be but a prelude to their further removal to extermination centers or otherwise result in their deaths, Hungarian authorities are fully apprised of the attitude of the people and Government of the United States. UNQUOTE.

Alegation Bern has been asked to request the Swiss Foreign Office to deliver the foregoing message to appropriate Hungarian authorities. Both Alegation Bern and Ambassador Lisbon have been asked to use such unofficial channels as may be available to them for the same purpose. Please advise Department and Board of action taken by you.

THIS IS WRB CABLE NO. 51.

5:00 p.m.
October 3, 1944

CABLE TO AMERICAN DELEGATE, ROME, FROM WAR REFUGEE BOARD

Please deliver the following message to Arthur Greenleigh from
Joseph Schwartz of the American Jewish Joint Distribution Committee:

QUOTE WOULD APPROVE YOUR GOING INTO FRANCE IF YOU CAN
ARRANGE PERMISSION YOUR END BUT BEFORE LEAVING WOULD URGE
YOU ARRANGE PERMISSION REUBEN RESNIK NOW LISBON ENTER AS
REPLACEMENT. MEANWHILE WE UNDERTAKING NECESSARY STEPS THIS
END ARRANGE PERMISSION FRENCH GOVERNMENT FOR YOU AND ME TO
ENTER. WOULD ALSO URGE YOU ARRANGE PERMISSION ISRAEL JACOBSON
AMERICAN NATIONAL NOW NEW YORK ENTER ITALY AS MEMBER OUR STAFF
UNDER INTERGOVERNMENTAL COMMITTEE. WHEN MAX PERLMAN HAS BEEN
ABLE TURN OVER OUR PROGRAM TO RESNIK AND JACOBSON WE WOULD
THEN APPROVE HIS COMING HOME FOR CONSULTATION BUT SUGGEST
THAT HE ARRANGE FOR TRAVEL ORDERS PERMITTING HIM TO RETURN
TO AREA UNQUOTE

2:30 p.m.
October 3, 1944

RDrury 10/2/44

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

Please deliver the following message to Arthur Greenleigh from
M. A. Leavitt of the American Jewish Joint Distribution Committee:

QUOTE WE HOLD TREASURY LICENSE REMIT TO YOU UP TO
TEN MILLION LIRA FOR REPAYMENT DEBTS INCURRED BY DELASEM
FROM OCTOBER 1943 TO JUNE 1944. ADVISE WHETHER YOU WISH
REMITTANCE SENT TO YOU FOR SUCH REPAYMENT OR WHETHER CLAIMANTS
PREFER HAVING BLOCKED DOLLAR ACCOUNTS SET UP THEIR NAME IN
BANKS THIS COUNTRY. IN MAKING REIMBURSEMENT PLEASE SCREEN
EVERY INDIVIDUAL CLAIMANT CHECKING WITH AMERICAN OFFICIALS
AND DELASEM ON BONAFIDES AND THAT CLAIMANT ACTUAL OWNER OF
FUNDS LOANED TO DELASEM. SECURE SIGNED RECEIPTS AND
UNCONDITIONAL RELEASE FROM APPLICANT PROPERLY WITNESSED.
UNQUOTE

2:30 p.m.
October 3, 1944

Tangier, Morocco, October 3, 1944

RESTRICTED

No. 2374

Subject: Relief of Jews in Hungary

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

Sir:

I have the honor to refer to my airgram No. 199 of September 12, 1944, concerning the relief of 500 Jewish children and 70 adults in Hungary and to report the following developments subsequent to the despatch of the airgram.

On August 26, 1944, the President of the local Jewish Community addressed a letter to General ORGAZ, Spanish High Commissioner in Tetuan, requesting that he lend his support to the end that an additional 700 Jewish inhabitants of Hungary be admitted in principle into the Spanish Zone of Morocco. It was contemplated in this letter that these additional individuals would receive the same treatment as the 500 children and 70 adults, that is to say, they would remain in Hungary under the protection of the Spanish Government until the end of hostilities in Europe.

When this letter was brought to my attention on September 21, I addressed a note to General Orgaz, a copy of which is enclosed, outlining the progress made through the good offices of the Spanish Government in the relief of Jews in Hungary and gave my support to the proposal that he assist in obtaining permission for these additional number of Jews to secure the protection of the Spanish Government. On September 26 the High Commissioner addressed me a note, a translation of which is enclosed, in which he indicated agreement with the general terms of the proposal, stating that he was informing the Foreign Office thereof. He added that it would seem advisable for the Legation to take up the matter with the American Embassy in Madrid in order that it might be pursued with the Spanish Foreign Office, the agency which would issue the pertinent instructions to the Spanish Minister at Budapest.

A copy of this despatch, together with enclosures, is being transmitted to the Embassy at Madrid in order that it may take whatever action may be deemed appropriate in the circumstances.

Respectfully yours,

Enclosures:
As stated

840.1

RDF:gp

Original and hectograph to
Department

Copy to: American Embassy, Madrid

Miss Chauncey (for the Sec'y) Abrahamson, Ackermann, Aksin, Cohn, Drury,

E. B.

J. Rives Childs
Charge d'Affaires ad interim

Enclosure No. 1 to Despatch No. 2374 of October 3, 1944,
from the American Legation, Tangier, Morocco.

Tangier, September 21, 1944

My dear General Orgaz and distinguished friend:

Being fully aware of the deep humanitarian impulses of Your Excellency and appreciating the kind support which you have already accorded the appeals made to you on behalf of Jewish refugee children in Hungary, I am writing to appeal for your further support in behalf of the 700 additional Jewish refugees who were the subject of a letter dated August 25, 1944 from the Jewish Community of Tangier. I do so not only in the light of the kind consideration previously accorded me on this general subject, but also in view of the official instructions which I have had from my Government to do everything possible on behalf of the victims of oppression who are in imminent danger of death.

Although Your Excellency is no doubt already acquainted with the developments with respect to the 500 Jewish refugee children who have been the subject of discussion with you, it is desirable to inform you of the status of these according to information which the Legation has received. According to a telegram dated August 31, 1944, addressed by the International Red Cross at Budapest to the President of the local Jewish Community:

"Government authorized departure 500 children and 70 adults accompanying staff. Transit visas at present unobtainable. Gathering children in special camp under protection International Red Cross Committee around Spanish Legation here daily cost about 4000 pengoes... Cable agreement....."

In reply to this telegram the local office of the Jewish Joint Distribution Committee cabled on September 3, 1944 agreeing to accept responsibility for this refugee group.

The local representative of the American Joint Distribution Committee has informed me that it is his belief that the 500 children and 70 adults will remain in Hungary under the protection of the Spanish Legation in Budapest pending the conclusion of hostilities when they will be free to resume their normal mode of living.

The interest which Your Excellency is now requested to take in extending protection to 700 additional persons will not involve, as I understand it, any actual removal of these persons from Hungary, but will mean merely that they will enjoy protection from the Spanish Government such as is afforded to the 500 children and 70 adults.

Enclosure No. 1 to Despatch No. 2374 of October 3, 1944
from the American Legation, Tangier, Morocco.

I feel confident, in view of our previous conversations and in view of your well known humanitarian ideals, that Your Excellency will do everything possible in behalf of these additional 700 persons. Any expenses incident to the further protection of these 700 persons will be borne by the agencies now occupying themselves with the 500 children and 70 adults in whose fate you have already taken so much interest.

Believe me, dear General Orgaz and distinguished friend, in the expression of my kind regards and highest consideration.

J. Rives Childs

His Excellency
Lieutenant General Luiz Orgaz y Yoldi,
High Commissariat of Spain in Morocco,
T E T U A N.

Enclosure No. 2 to Despatch No. 2374 of October 3, 1944,
from the American Legation, Tangier, Morocco.

Tetuan, September 26, 1944

Mr. Charge d'Affaires and dear friend:

I have received your kind communication of September 21, and I am grateful for your commendation of my humanitarian sentiments. You may be sure that I am very sensitive to considerations of this nature and that in the measure that the means within my reach permit it I have given to the Community all the collaboration requested to alleviate the afflictive situation in which some Jewish groups find themselves in European countries.

I am very pleased at the information you give me that the five hundred children whose entry into Morocco had been agreed upon in principle, have been placed in Hungary under the protection of the Spanish Legation until the end of hostilities which will make their transportation to Morocco unnecessary. As to the petition made to me by the Jewish Community of Tangier that another seven hundred Jews be granted admission here, a petition which is supported by you under the inspiration of the same humanitarian sentiments which prompt me, I believe that if it does not involve, as you suppose, any movement of persons inasmuch as they will possibly remain in Hungary under the protection of the Spanish government, it is advisable for the Embassy of the United States in Madrid to pursue this matter, inasmuch as the Minister of Foreign Affairs should be the one to issue, if necessary, the pertinent instructions to our Representation in Budapest.

In any case, I shall be very pleased to study any suggestions which you may wish to make with regard to this matter, about which I am taking pleasure in informing the Ministry of Foreign Affairs.

Please accept Mr. Charge d'Affaires the testimony of my highest consideration and esteem.

..... (Signed) Luis Orgas

CABLE TO AMERICAN CONSULATE GENERAL, JERUSALEM, FROM WAR REFUGEE BOARD

Please deliver the following message to Judah Magnes from M. A.

Leavitt of the American Jewish Joint Distribution Committee:

QUOTE YOUR 160 JDC WORKING WITH ALL COMPETANT AUTHORITIES FOR PERMISSION SEND ITS OWN REPRESENTATIVE LIBERATED AREAS POLAND BUT MEANWHILE ONE OF OUR REPRESENTATIVES INCLUDED IN PROPOSED UNRRA MISSION TO PROCEED THESE AREAS. REGARDING ITEM THREE YOUR INQUIRY HELP TO RELATEIVES FRANCE BELIEVE THIS PREMATURE TIME BEING SINCE INTER GOVERNMENTAL COMMITTEE HAS NOT YET ARRANGED FOR ITS REPRESENTATIVE TO ENTER THAT TERRITORY. MEANWHILE WE MAKING EVERY POSSIBLE EFFORT SEND OUR OWN REPRESENTATIVE AND ESTABLISH CLOSER CONTACT WITH OUR LOCAL COMMITTEES WHICH ALREADY FUNCTIONING. REGARDING FIVE WE HAVE ASKED FOR IMMEDIATE PAYMENT AND MATTER NOW IN HANDS BRITISH TREASURY FOR DIRECT REPAYMENT TO CLAIMANTS NOW PALESTINE UNQUOTE

2:30 p.m.
October 3, 1944

RDrury 10/2/44

CABLE TO MINISTER NORWEB, LISBON, FROM WAR REFUGEE BOARD.

Please refer to your No. 2875 of September 14 (WRB 189).

As you were advised in Department's No. 2118 of July 28, and 2332 of August 24, this Government has guaranteed that it will arrange for the maintenance in Portugal and the removal to the United States or to other areas outside Portugal of all refugees who are admitted to Portugal in accordance with the terms of those cables. It is the firm intention of this Government to comply fully with the terms of this guarantee, should the necessity arise. Until the number of such refugees and other similar facts are known, it is neither possible nor desirable to determine exactly where they will be taken. You may assume that all available havens, including Fedhala, will be used to fulfill this Government's guarantee.

THIS IS WRB LISBON CABLE NO. 101.

10:15 a.m.
October 3, 1944

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

October 3, 1944

8 p.m.

AMEMBASSY

LISBON

2656

The cable below is WRB 101.

Please refer to your No. 2875 of September 14 (WRB189).

As you were advised in Department's No. 2118 of July 28 and 2332 of August 24, this Government has guaranteed that it will arrange for the maintenance in Portugal and the removal to the United States or to other areas outside Portugal of all refugees who are admitted to Portugal in accordance with the terms of those cables. It is the firm intention of this Government to comply fully with the terms of this guarantee, should the necessity arise. Until the number of such refugees and other similar facts are known, .. it is neither possible nor desirable to determine exactly .. where they will be taken. You may assume that all available havens, including Fedhala, will be used to fulfill this Government's guarantee.

HULL

WRB:MMV:KG
10/3/44

CABLE TO NORWEB, LISBON, FROM WAR REFUGEE BOARD.

Please deliver the following message to Robert Filpel from M. A.

Leavitt of the American Jewish Joint Distribution Committee:

QUOTE FURTHER OUR CABLE REGARDING PERLMAN'S REQUEST \$10,000
BEHALF RAB REFUGEES UNITED YUGOSLAV RELIEF FUND HERE WISHES
KNOW WHETHER PARTISAN RED CROSS REPRESENTS OFFICIAL YUGOSLAV
RED CROSS ALSO WHO ADMINISTERS FUNDS ASSIGNED THIS PURPOSE.
ARE 650 REFUGEES FOR WHOM YOU BELIEVE EVACUATION POSSIBLE
PART RAB INTERNEES? UNQUOTE

THIS IS WRB CABLE TO LISBON NO. 102.

2:30 p.m.
October 3, 1944

CABLE TO NORWEB, LISBON, FROM WAR REFUGEE BOARD.

Please deliver the following message to Robert Pilpel from
Joseph Schwartz of the American Jewish Joint Distribution Committee:

QUOTE HAVE ADVISED ARTHUR GREENLEIGH TO PROCEED FRANCE IF
PROPER ARRANGEMENTS WITH MILITARY AUTHORITIES CAN BE MADE.
IMPORTANT YOU ADVISE REUBEN RESNIK WHO WE ASSUME NOW LISBON
THAT WE TRYING ARRANGE HIS ADMISSION ITALY TO REPLACE
GREENLEIGH. IF RESNIK NOW CAIRO IMPORTANT YOU COMMUNICATE
WITH HIM IMMEDIATELY ASKING HIM PROCEED ITALY EARLIEST
POSSIBLE TIME UNQUOTE

THIS IS WRB CABLE TO LISBON NO. 103.

2:30 p.m.
October 3, 1944

CABLE TO AMBASSADOR NORWEB AT LISBON AND DEXTER

In view of the recently announced Hungarian plan to remove Jews from Budapest to provincial camps, please convey the sense of the following message to Hungarian authorities through such channels as may be available to you:

QUOTE The Government of the United States has learned of the plan of Hungarian authorities to remove the Jews still remaining in Budapest to putative work camps in the provinces. In view of the fate of Jews who were removed in previous months from other cities to similar camps, and in view of the approach of winter, the Government of the United States has good reason to regard the present plan as a further measure of mass extermination, for mass extermination may be accomplished either by the methods employed at camps of final destination in Poland, or by subjecting large numbers of people to under-nourishment, hard physical labor and unhygienic living conditions in improvised camps. Consequently, the United States Government considers it appropriate to remind Hungarian authorities of its determination, as expressed by the President of the United States on March 24, that INNERQUOTE none who participate in these acts of savagery shall go unpunished **. All who share the guilt shall share the punishment. CLOSE INNERQUOTE. This determination was publicly reaffirmed on May 31 and June 28 by members of the Senate Foreign Relations Committee and the House of Representatives Foreign Affairs Committee, respectively.

QUOTE The Government of the United States, however, recognizes the possibility that the present plan may in fact have been evolved to achieve genuine humanitarian ends as has been claimed by various Hungarian authorities. To the extent that the plan, if put in operation, may achieve such ends, the Government of the United States will, of course, recognize the validity of such claims. On the other hand, should the removal of the Jews from Budapest to provincial camps be but a prelude to their further removal to extermination centers or otherwise result in their deaths, Hungarian authorities are fully apprised of the attitude of the people and Government of the United States. UNQUOTE

Amlegation Bern has been asked to request the Swiss Foreign Office to deliver the foregoing message to appropriate Hungarian authorities. Amlegation Caserta and Amlegation Bern have also been requested to transmit the foregoing message to appropriate Hungarian authorities through such other channels as may be available to them. Please advise Department and Board of action taken by you.

THIS IS WEB CABLE TO LISBON NO. 104.

5:00 p.m.
October 3, 1944

PLAIN

Lisbon

Dated October 3, 1944

Rec'd 6:47 p.m.

Secretary of State,
Washington.

3057, Third 7 p.m.

FOR LEAVITT FROM ROBERT FILPEL

JDC 82 WRB 209

Portuguese Consulate, New York authorized
visa Joseph Schwartz by telegram October 2.

NORWED

LMS

cc:

CABLE TO MINISTER JOHNSON, STOCKHOLM, FOR OLSEN FROM WAR REFUGEE BOARD.

Please deliver the following message to Rabbi Wilhelm Wolbe,
11 Olefsgotten Strasse, Stockholm, from Rabbis Aron Kotler and Abraham
Kalmanowitz of the Vaad Hahatzala Emergency Committee:

QUOTE MONEY FOR RESCUE NOT LIMITED TO RABBIS AND RABBINICAL
SCHOLARS. CAN BE UTILIZED BY YOU FOR RESCUE WHEREVER OPPORTUNITY
PRESENTS. VITAL YOU CONTACT CONCENTRATION CAMP KROTINGEN FOR
RELIEF AND POSSIBLE RESCUE. IN REFERENCE LITHUANIA DIFFICULT
SEND DELEGATION FROM AMERICA. TRY ARRANGE DELEGATION PERSONS
FAMILIAR WITH YESHIVOTH AND JEWISH COMMUNAL LIFE IN LITHUANIA
AND SECURE PERMISSION THROUGH YOUR GOVERNMENTS INTERVENTION
WITH U.S.S.R. FOR FREE TRANSIT THIS DELEGATION FOR PURPOSE OF
CONTACT WITH RABBIS AND COMMUNAL LEADERS TO ESTABLISH WHEREABOUTS
AND RENDER RELIEF. ENDEAVOR SEND FOOD PARCELS TO KAUNAS AND
OTHER FREED TERRITORIES. UNQUOTE

THIS IS WRB CABLE TO STOCKHOLM NO. 97.

9:40 a.m.
October 3, 1944

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

Sample receipt card being forwarded to American Red Cross by wire photo September 22, re your 6263 of September 21, not yet received. Please follow up as failure to get receipt cards printed will automatically delay Amcross package production.

THIS IS WRB CABLE TO BERN NO. 195.

9:40 a.m.
October 3, 1944

CABLE TO MINISTER HARRISON AT BERN AND McCLELLAND

Reference Department's No. 2046, June 14; No. 2490, July 21,
paragraphs 1 and 4.

Please endeavor to secure confirmation of report from Polish
Legation at Santiago de Chile that Anna and Rose Ruumkin and Eugenia
Gorlin are at Belsen-Bergen.

THIS IS WRB BERN CABLE NO. 196.

10:15 a.m.
October 3, 1944

ORIGINAL TEXT OF TELEGRAM SENT

FROM: Secretary of State, Washington
TO: American Legation, Bern
DATE: October 3, 1944
NUMBER: 3403

SECRET

To Harrison and McClelland.

Reference Department's No. 2046, June 14; No. 2490,
July 21, paragraphs 1 and 4.

Please endeavor to secure confirmation of report from
Polish Legation at Santiago de Chile that Anna and Rose

~~FRANKLIN AND EUGENIA GORLIN ARE AT BELSEN-BERGEN.~~

Franklin and Eugenia Gorlin are at Belsen-Bergen.

THIS IS WRB BERN CABLE NO. 196.

HULL

CABLE TO MINISTER HARRISON AND MCCLELLAND, BERN, SWITZERLAND

Reference is made to your 6445 of September 28.

You may state that our information contained in Department's 2933 of August 25 was received from a person connected with a neutral legation in Budapest. The place of the specific instance cited was an old brick yard in Budakalasz. The time of the occurrence is unknown, but seems rather immaterial, since the Hungarian Government denied that Hungarian officials ever participated in cruelties in connection with the deportations.

For your confidential information, the legation concerned is that of Sweden, and the incident was related to Olsen by Count Bernadotte, Chairman of Swedish Red Cross.

THIS IS WRB BERN CABLE NO. 197

10:15 a.m.
October 3, 1944

ORIGINAL TEXT OF TELEGRAM SENT

FROM: Secretary of State, Washington
TO: American Legation, Bern
DATE: October 3, 1944
NUMBER: 3404

SECRET

To Minister Harrison and McClelland.

Reference is made to your 6445 of September 28.

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For your confidential information, the legation concerned is that of Sweden, and the incident was related to Olsen by Count Bernadotte, Chairman of Swedish Red Cross.

THIS IS WRB BERN CABLE NO. 197.

HULL

CABLE TO MINISTER HARRISON AT BERN AND MCCLELLAND

Reference your 6447 of September 28.

(1) The O.W.I. is informed of the situation.

(2) Please request the cooperation of the Swiss Foreign Office in conveying the sense of the following message to appropriate Hungarian authorities. You should also employ such unofficial channels as may be available to you to the same end.

QUOTE The Government of the United States has learned of the plan of Hungarian authorities to remove the Jews still remaining in Budapest to putative work camps in the provinces. In view of the fate of Jews who were removed in previous months from other cities to similar camps, and in view of the approach of winter, the Government of the United States has good reason to regard the present plan as a further measure of mass extermination, for mass extermination may be accomplished either by the methods employed at camps of final destination in Poland, or by subjecting large numbers of people to under-nourishment, hard physical labor and unhygienic living conditions in improvised camps. Consequently, the United States Government considers it appropriate to remind Hungarian authorities of its determination, as expressed by the President of the United States on March 24, that INNERQUOTE none who participate in these acts of savagery shall go unpunished **. All who share the guilt shall share the punishment. CLOSE INNERQUOTE. This determination was publicly reaffirmed on May 31 and June 28 by members of the Senate Foreign Relations Committee and the House of Representatives Foreign Affairs Committee, respectively.

QUOTE The Government of the United States, however, recognizes the possibility that the present plan may in fact have been evolved to achieve genuine humanitarian ends as has been claimed by various Hungarian authorities. To the extent that the plan, if put in operation, may achieve such ends, the Government of the United States will, of course, recognize the validity of such claims. On the other hand, should the removal of the Jews from Budapest to provincial camps be but a prelude to their further removal to extermination centers or otherwise result in their deaths, Hungarian authorities are fully apprised of the attitude of the people and Government of the United States. UNQUOTE

(3) Please advise the Department and Board of the action taken by you.

For your information, Amembassy Lisbon and Ampolad Caserta are being requested to convey a similar message to Hungarian authorities through such channels as are available to them.

THIS IS WRB BERN CABLE NO. 198.

5:00 p.m.
October 3, 1944

CORRECTION

FBM-606

October 3, 1944

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

In cable from Bern 6471, September 29, 10 a.m. for WRB from McClelland serial number should read "6470" instead of "6471".

DIVISION OF COMMUNICATION AND RECORDS

CSB

CABLE TO AMBASSADOR STEINHARDT AND HIRSCHMANN, ANKARA, FROM THE WAR REFUGEE BOARD.

Please refer to your No. 1858 of September 29 (WRB Ankara 162).

As indicated in our circular cable of September 7th (WRB No. 106) War Refugee Board activities are to be strictly limited to the rescue and relief of the victims of enemy oppression who are in imminent danger of death, that is, who are still in enemy occupied territory. The Board is interested in the removal of refugees now in liberated areas only in the event that their presence serves to discourage and prevent the rescue of additional refugees from enemy occupied areas.

Unless emigration from Bulgaria is essential for the foregoing purpose, it is not (repeat not) within the Board's functions, and accordingly the Board should not in any way be associated with projects for such emigration. You may make this fact clear to all interested parties. This does not mean, however, that the Board should attempt to pass judgment on such emigration projects carried on by other organizations or individuals. In this class of cases it is the Board's policy neither to encourage nor discourage emigration activities since they involve matters clearly outside of the Board's jurisdiction.

THIS IS WRB ANKARA CABLE NO. 114.

10:15 a.m.
October 3, 1944

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

October 3, 1944

7 p.m.

AMEMBASSY,

ANKARA.

851

The cable below for Steinhardt and Hirschmann is WRB 114.

Please refer to your No. 1858 of September 29 (WRB Ankara 162).

As indicated in our circular cable of September 7th (WRB No. 106) War Refugee Board activities are to be strictly limited to the rescue and relief of the victims of enemy oppression who are in imminent danger of death, that is, who are still in enemy occupied territory. The Board is interested in the removal of refugees now in liberated areas only in the event that their presence serves to discourage and prevent the rescue of additional refugees from enemy occupied areas.

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WRB:MMV:KG
10/3/44

HULL
(GHW)
SE

NE

A-442

2:10 p.m.

Oct. 3, 1944

AMEMBASSY

MONTEVIDEO

The War Refugee Board requests that you deliver the following message to Rabbi Aaron Milefsky, 896 Serriano, Montevideo, from Rabbi Abraham Kalmanowitz:

QUOTE As per last alarming information received by us the Germans placed more than one hundred bearers of Paraguayan documents formerly in Vittel under jurisdiction of Gestapo and probably deported them to annihilation camp at Auschwitz. Please arrange influential delegation to Paraguay and make strong representations that Paraguayan Government should instruct their ambassador at Madrid to request good offices of Spain to strongly protest against evacuation of these people from camp for civilian internees and energetically demand to grant them the same rights, privileges, and immunities which Germans expect for their nationals. Paraguay should make it clear to German that should any harm befall these persons Germany would be held strictly accountable for every life. The Paraguayan ambassador at Madrid should diligently and constantly follow up this latter until he will obtain positive results. For your information United States Government is doing utmost to save these people, but Paraguay's direct action is vital. Vaad Hatzala Emergency Committee, Rabbi Abraham Kalmanowitz. UNQUOTE

HULL

WRB:MMV:KG
9/30/44

DEPARTMENT OF STATE
 DIVISION OF

1944 OCT 4 AM 10 16

CORRECTION

BAS-680

October 3, 1944

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

In cable from Chungking 1527, September 29, 4 p.m.
 for Secretary of the Treasury delete serial number "1527"
 and insert "1627".

DIVISION OF COMMUNICATIONS AND RECORDS

CSE

CONFIDENTIAL

For security reasons the
 text of this message must
 be closely guarded.

SECRETCOPY NO 11NOT TO BE RE-TRANSMITTEDOPTEL No. 322

Information received up to 10 A.M. 3rd October 1944.

1. NAVAL

Yesterday French submarine torpedoed two ships and probably a third in convoy in the GULF OF SALONIKA. On 30th a U-Boat was damaged by rocket from carrier-borne aircraft South of BEAR ISLAND. On 1st aircraft damaged a U-boat in the Great Belt. Two 7,000 ton ships in convoy from NORTH RUSSIA were sunk by U-boats on 29th.

2. MILITARY

N.W. Europe No details yet of attack by first U.S. Army in AACHEN area.

Italy Heavy rain has practically stopped operations by Eighth Army although Indian Troops have made some progress East of MERCATO. Fifth Army troops have captured MONGHIDORO.

3. AIR OPERATIONS

Western Front 1st/2nd. Thirty-eight Mosquitoes of A.E.A.F. attacked 34 trains in HOLLAND and N.W. GERMANY.
2nd. 1,195 escorted heavy bombers despatched:- 890.

U.S. attacked following objectives through cloud:-

M.T. Works COLOGNE	244 tons
M.T. Works and Ordnance Depot CASSEL	1,139
HMM Railway Centre	611

457 tons dropped on other targets no enemy fighter opposition. 13 heavy bombers and 7 escorting fighters missing. 680 aircraft delivered supplies to the Continent. 129 A.E.A.F. bombers attacked troop and MT concentrations S.E. of ARNHEM while 853 fighters successfully attacked transport and shipping.

2nd/3rd. 88 Bomber Command Mosquitoes were sent on offensive operations of which 34 attacked BRUNSWICK. 25 A.E.A.F. Mosquitoes carried out offensive patrols no losses.

Mediterranean 1st. Operations again restricted by bad weather. 808 medium, light and fighter bombers successfully attacked communications etc., in the battle area.

OPTEL 321 not sent to Washington.