

DIARY

Book 851

June 1-4, 1945

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June 1, 1945
8:45 a.m.

TAX EVASION

Present: Mr. Pehle
Mr. O'Connell
Mr. Sam Clark
Mr. Numan
Mr. Wenchel
Mr. Donoghue

H.M.JR: What we wanted some help from your people in New York on was to see whether we can't cut some corners when we have what we think is a good case in Treasury. The normal process is a long, difficult affair, from six months to a year or a year and a half, and I frankly don't want to find ourselves puppets or in the same position OPA has gotten, and so I don't know. Mr. O'Connell here has got some ideas that the Justice Department, United States Attorney's Office in New York, and ourselves might put our teeth into making these investigations simultaneously so that when it's completed--I'm not a lawyer, but I'd let Mr. O'Connell explain it. Isn't that the general idea?

MR. O'CONNELL: In our discussion we had--

H.M.JR: Isn't that a pretty good explanation for a farmer?

MR. O'CONNELL: Except you came further than we had thought at this point. We weren't suggesting that we adopt a system of doing this entirely, but we were suggesting that in some of the most important cases--and I have one I would like to use as an illustration--rather than do as we would normally do, let our investigators complete a report. Usually the investigators prepare reports and send them to Washington and they go through the Penal Division. Half the time the Penal Division recognizes that the case is deficient in some respect. It is not handled by a lawyer in the field, and it's sent back, and the process takes some time.

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What we had proposed or thought of doing in a particular case is we proposed at this point that cases about which we are informed within a week or ten days of completion, as far as the investigation is concerned, and the case I'd like to describe to you a little bit is in New York and it's a big case--

H.M.JR: Name it, they know.

MR. O'CONNELL: Lustig, involving the owner of Long-champs Restaurant. He diverted over two million dollars in cash receipts of his restaurants in '43 and '44. None was reported as income, either as a corporation or personally, but was put in safety deposit boxes. He took over one million and a half out and deposited it in banks in New York within a period of ten days in March, and it was the deposit of that money which gave us the lead on the case. Without going into detail, it's as open and shut a criminal case as we could ever hope to get. It involves a lot of money. It involves this man--well, he owns this chain of restaurants. He's a big-time gambler, owns a chain of race horses, and so forth. My thought in connection with that case is this: That Joe be prepared to send Riley Campbell, his best man in the Penal Division to New York, if Sam Clark and the United States Attorney's Office would feel themselves in a position they feel they could forward the progress of this case and to pool the efforts of all the people involved in it right now. Let those fellows win something like we did in the Annenberg case. This is a simpler case than the Annenberg case. I'd like to pool our resources with the hope that the United States Attorney in New York would work with the investigators and get that case before a Grand Jury within a short time, much shorter than normally would be the case.

MR. CLARK: Mr. Secretary, as far as I am concerned--I am sure I can speak for the rest of the Justice Department--I want to see that these cases are expedited to the greatest extent possible. Now, I think I should say this: That it's a matter of working it out in your office more than a matter of working it out in my office, because normally I can expedite a case so it's a matter of one, two, or three days in my office if it goes through the regular course.

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In other words, if it went through my office in the regular course, I would guarantee you, if it's a strong case and there are no defects in it, to get it out in three days, because I am so organized, and I have worked this out with Wenchel, if any case is important--a black market case which should be expedited--I handle it specially. There was one case we sent out--I forget which one, I think it was a small black market case--we sent out, I think, three days after we received it. So that the question is whether you want to short-cut the normal processes in this office.

H.M.JR: I would like to hear more about that. Where is Wenchel?

MR. O'CONNELL: He's supposed to be here.

MR. NUNAN: I didn't tell him. Did you tell him? You didn't tell me to tell him.

MR. O'CONNELL: No, I didn't tell you, but your office told me they called both of you.

MR. NUNAN: The Secretary called me direct, and so did you. I didn't tell Wenchel because nobody told me.

H.M.JR: Check on that, Pehle.

MR. PEHLE: Yes, sir.

(Mr. Pehle leaves the conference temporarily.)

MR. O'CONNELL: You cannot avoid all the functions of the job that is done in the Penal Division and Department of Justice. The investigative reports have to be processed by lawyers. Now, that operation normally is not an operation that can be done in an over-all way in three days. If we take three weeks in the Penal Division or a month--and they have been spending that much time--and do a good job, then it's possible for you to handle a case in three days. It assumes we do a very good job of processing that case. From a legal standpoint, all we are suggesting

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in the Lustig case is we telescope anything regardless of how much time you fellows would spend in the Penal Division or the United States Attorney would spend in the Penal Division. Normally, those follow one after the other. We are suggesting we not only telescope those organizations in this case, but telescope them with the investigative process which has not yet been completed.

I don't say that's a pattern that can be used in each job. If we are successful in doing the kind of job the Secretary wants, you won't be able to use this individual technique, or what have you, to do this as a streamlined procedure in an assembly line way because you won't have enough people.

MR. CLARK: I have given a thought to that and there are various ways of streamlining it.

(Mr. Pehle reenters the conference.)

MR. PEHLE: He's on his way now. There is a slip-up. It wasn't his fault. (Referring to Mr. Wenchel.)

MR. CLARK: I think that too great of a speed will prove to be a waste of energy in the long run in many cases. These tax evasion cases are a peculiar kind of criminal case. I think the typical tax evasion case is the most difficult case we have, somewhat comparable to a mail fraud case, but even more difficult than a mail fraud case, and unless it's an open and shut case where there is no possible defense, there are a lot of things that can go wrong by too much haste.

We have had experience of that kind in the past and mistakes that you make--or they are not mistakes, but they are lack of knowledge because there hasn't been a thorough enough study--may react very seriously when you get before a jury.

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H.M.JR: Have you any suggestions from observing the Treasury as to how we can, without too much haste, get these things over to you faster?

MR. CLARK: Well, of course, Mr. Nunan, as the cases go to your Adjustment Unit--I think that's what you call it--to figure out the tax--

MR. O'CONNELL: After they go to the Penal Division there is an audit.

MR. NUNAN: Which we have suspended for the time of this drive in that Unit.

MR. O'CONNELL: That very thing may be an example of haste making waste.

MR. NUNAN: Against the wishes of the people who are in there I said, "I am sorry, but for the time being it's going to be suspended."

MR. CLARK: That's all right in probably nine cases out of ten. In the tenth case the failure of the Audit Division to figure out the exact tax may be serious.

MR. NUNAN: I said we'll have to go along on the tenth case to miss it because we have to hurry these cases through for the time being. I have made arrangements to suspend that during this tax drive.

MR. CLARK: If you don't have your case nailed down in the technical detail, that gives as much an opportunity for the defense to argue to the jury--for example, if we show an indictment of say, five hundred thousand dollars, and they come forth with a clear civil non-fraud item which reduces it to two hundred and fifty thousand dollars, we still have a good fraud case, but the argument is, well, the Government itself can't figure it out this man's taxes. How can you expect the poor businessman with no accounting knowledge to figure out this? And that kind of argument will be made.

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Another matter, often these tax evaders in their haste to get in their returns don't take credit exemptions or deductions that they are legally entitled to, and if that suddenly is sprung on you in the jury room, that's sometimes very devastating because the argument is tax evaders will take advantage of every legal deduction as well as illegal deductions. That was used with serious effect in the Burton case in Louisiana. However, if that's the decision, I am not going to argue against that. I think it will not prove dangerous in a great majority of cases. I think a case will come along where we will regret that we don't have that very careful audit.

MR. PEHLE: What percentage of the criminal tax cases do you win?

MR. CLARK: We win an overwhelming percentage of them. I think it runs around ninety percent.

MR. NUNAN: Does it go as high as that? Cases that come out of your office, I think, run about ninety-nine percent.

MR. PEHLE: What would happen if by pushing through faster you only won eighty percent?

MR. CLARK: Well, I think you have to consider qualitatively as well as quantitatively.

H.M.JR: How many criminal tax cases do you try? I don't think you try one hundred, do you?

MR. CLARK: About that.

MR. O'CONNELL: They run about one hundred?

MR. PEHLE: Suppose they ran five hundred and your average went down a little bit?

H.M.JR: I would have been surprised if there were one hundred.

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MR. O'CONNELL: They try cases we send them and our Intelligence Unit in the past years has started about a thousand cases a year, and by that I mean cases we have referred to them where some indication of fraud is involved. About seventy-five percent of those are saddled before they are ever sent to the Penal Division, but in the process between the thousand that start and the hundred that get to the Department of Justice, there is a dropping off all along the line and it is not more than one hundred cases.

MR. PEHLE: But there will be more now.

MR. O'CONNELL: Definitely.

MR. CLARK: Well, if we lose an occasional small case of an insignificant businessman, I don't think that's serious. If we lose an important case of a prominent black market operator, that I would regard as serious, assuming we could have won it. I think that would be more serious--a prominent man--where the case is in the newspapers. That would be more serious than losing a half dozen small ones. It would induce others to fight cases and our pleas of guilty would go down.

I understand an audit is usually taken in about three weeks. That's what Phil Wenchel told me. If that's cut out, that would reduce the time. Now, of course, in this particular case I have no objection to streamlining it in any way that it can be done.

MR. O'CONNELL: Well, now, what do you think specifically of this suggestion which I made to the Secretary the other day? This particular case, the Lustig case, it might have everything we hope to develop in this particular drive from our point of view, and I should think from the view of everyone in the group. If we could pool our efforts and move from all angles at once and get an indictment in two weeks instead of two months, it would be a great advantage from our point of view in the whole program.

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MR. CLARK: Assuming you are ready to go to the question which involves the situation of the United States Attorney's Office. As I can see it, under your method we have very little to do with the case. You know the situation up there.

MR. DONOGHUE: Yes. We give black market cases a number one priority and try to put them in as fast as we can.

MR. NUNAN: This may not be a black market case, but tax avoidance, where he took cash out of the corporation and put it in his pocket. There may be some black market activity, but it's mainly tax avoidance.

MR. DONOGHUE: We give it an absolute priority and put three or four of the best men on it.

MR. CLARK: Do you have someone that could make that his job?

H.M.JR: Well, could I ask this? I ought to know more about this, but I don't. After it leaves the office of Mr. Clark, what happens to you? How long does it take you normally to get ready to prepare a case?

MR. DONOGHUE: We put a couple assistants on it, depending upon the complexity of the facts.

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H.M.JR: Do you make your own investigation?

MR. DONOGHUE: No.

H.M.JR: You accept the facts.

MR. DONOGHUE: We check the investigative reports as to factual accuracy, in some degrees as to the main aspects of the case.

H.M.JR: A case of this nature--roughly, would it be a matter of days, weeks, or months before you would be prepared to present it?

MR. DONOGHUE: Well, I'd say a couple of weeks, probably.

H.M.JR: Couple of weeks.

MR. DONOGHUE: To get it to the Grand Jury for indictment.

H.M.JR: Would this idea of Mr. O'Connell's be helpful, if your man began to work with our men now.

MR. DONOGHUE: Yes, it would cut down the period during which the assistant in charge would have to familiarize himself with the facts. He'd have his finger on the pulse beat from the beginning, so he'd know the picture as it went along.

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MR. O'CONNELL: The idea, it seemed to me, since we normally open the investigation--Penal Division, Department of Justice, and United States Attorney's Office--in this case we could take one of Phil's better men, one of your men, if you wish, send them to New York to work with the United States Attorney, put them right into the middle of this job, which is, say, nine-tenths investigated, button it up as quickly as possible by having them all work together. Now, I may underestimate the difficulties in doing that, but it seemed to us it would be worth a try.

MR. NUNAN: I talked to McQuillan yesterday, and he said there's a tremendous amount of work involved in the Lustig case. There are five different corporations. We have to audit their books. He said he may not be ready with all five corporations but he would be in a position with one at least within a week or ten days. So I suggested to him we might possibly have the District Attorney and somebody from Sam Clark's office, and somebody from our own office, go in. McQuillan said he'd be careful about that, because so far they've been cooperating and we've been able to get everything we want to make a case. If the District Attorney came in, their lawyers might immediately make objections and put their backs up against the wall and you might further delay the situation. If they knew we expect to spring the trap as quickly as we could, they wouldn't be so cooperative, but our men could be working up in McQuillan's office, as he brought books in without Lustig knowing we were doing that, because he's probably figuring on the usual procedure, indictment within a year, and he's sitting back and saying, within a year anything can happen. As soon as he knows we intend to indict him in two weeks, his lawyers will throw every obstacle in they can.

MR. CLARK: How far along are the agents investigating his personal situation?

MR. NUNAN: They're in on the books now.

MR. CLARK: They have his own personal return?

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MR. NUNAN: Yes.

MR. CLARK: And the returns of five corporations?

MR. NUNAN: That's right.

MR. O'CONNELL: Five or six.

MR. CLARK: And you don't know yet whether you'll have a case against the corporations as well as against him or some of his assistants also?

MR. O'CONNELL: I can't say whether they've got the case nailed down and in a sense approved, but from the reports we have it seems entirely clear we'll have a case against the corporations and him as an individual, because these two million dollars which he took out of the daily earnings of his restaurants never appeared in corporation income or individual income, and he's never paid tax on more than twenty-two thousand dollars income in his life.

MR. NUNAN: A week after we went in they rushed down to file returns.

H.M.JR: I wouldn't be too much worried about McQuillan's fears. I think we've got to try this thing out and we'll learn by making mistakes, and these are mistakes we can't help, but I'd like to have somebody from the United States District Attorney's Office in our office Monday morning, and I'd like somebody there from your office.

MR. NUNAN: You mean McQuillan's office in New York.

H.M.JR: Whichever is the right office.

MR. PEHLE: I think you can quiet his fears by not having a man from the United States Attorney's Office question witnesses. He sits in the background.

H.M.JR: They won't know whether you're from Washington, or Chicago, or New York.

(Mr. Wenchel enters the conference.)

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MR. WENCHEL: I just got the message.

H.M.JR: But I'd like to start this thing Monday morning, if that's agreeable to you.

MR. CLARK: Yes. Today is Friday. Surely. What I planned to do is to hold a conference Monday and I'd like to have a man of mine there and find out about the case.

H.M.JR: In New York.

MR. CLARK: In New York, but I don't think I would plan to have a man there on a daily basis. I'd just put the matter with complete confidence in the United States Attorney's Office in New York.

MR. O'CONNELL: Phil?

MR. WENCHEL: I have Mr. Campbell. Riley Campbell was formerly detailed to the United States Attorney's Office in Chicago. He had prepared the Annenberg case and Johnson-Skidmore cases, and he's thoroughly familiar with the procedure. If you want him I'll be glad to detail him.

MR. O'CONNELL: It seems to me, after he's been there a little bit--

H.M.JR: Well, it has gone this far. Mr. Clark is delighted to cooperate; the United States District Attorney's Office in New York is delighted to cooperate, and I made the suggestion they start Monday morning working with McQuillan, and that's entirely agreeable, isn't it?

MR. DONOGHUE: Yes.

MR. WENCHEL: I'll send Campbell up there.

H.M.JR: You're sending him up to help McQuillan.

MR. O'CONNELL: If he needs anybody else--this is an important enough case, if Riley needs some help, I'd give it to him.

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MR. WENCHEL: Charlie would be good.

MR. O'CONNELL: Charlie is a good Penal man. Let's not do that Monday.

H.M.JR: Wait a minute. If you don't mind, lets not. I want to keep Charlie Oliphant here because we've got-- there will be a lot of these cases, and if you don't mind, I want to talk to you about that.

MR. O'CONNELL: All right.

H.M.JR: We've got to keep--he's the only tax man you have in your office?

MR. O'CONNELL: Mr. Wales, or--

H.M.JR: Let's keep him here, and because we've got this Washington District case--are you ready to talk to Mr. Clark about that?

MR. O'CONNELL: Reports aren't in yet.

MR. WENCHEL: I can talk to him on the basis of Revenue Agent's report. I haven't seen the Special Agent's report.

H.M.JR: Are you ready to move forward on that? Is it the same as the one in New York?

MR. WENCHEL: Yes, sir. But from what I understand, it's not as good a case.

H.M.JR: It isn't? How about the Baltimore case?

MR. NUNAN: The way we proved the Wright case is we found out he sold seven cents over the market, and they found the number of pounds of beef he sold and multiplied that by the amount, and that's how we come to the tax. Isn't that right, Phil?

MR. WENCHEL: That's right.

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MR. WENCHEL: That's right.

MR. NUNAN: If they have one other year, it's a little stronger than that. 1944 is stronger than that.

H.M.JR: When you have some other cases as good as the Lustig case you tell me and we'll get hold of Mr. Clark. Maybe you people would like to talk things over a little more, I don't know. I have accomplished what I wanted to, to get this thing started Monday.

MR. NUNAN: I will meet them in McQuillan's office Monday morning.

MR. DONOGHUE: I'll be there, too.

MR. CLARK: All right. What time shall we make it?

MR. NUNAN: Any time you want.

MR. CLARK: I'll have someone there from my office.

H.M.JR: Why don't you set the time now?

MR. NUNAN: Will they go on up Sunday night?

MR. CLARK: I assume so.

MR. NUNAN: I can make it early or at their convenience.

MR. CLARK: Let's say ten o'clock.

MR. NUNAN: I'll be there.

MR. CLARK: You'll be there, won't you?

MR. DONOGHUE: Yes.

MR. CLARK: You expect to participate personally in this, don't you?

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MR. DONOGHUE: I don't know. I'll attend the conference Monday.

MR. NUNAN: Maybe Jack will come over with you.

H.M.JR: Don't be surprised to see me drop in there one of these days.

June 1, 1945
9:29 A. M.

16

Operator: Go ahead.

HMJr: Hello.

Operator: Here you are, sir.

Mr. Charles Ross: Hello.

HMJr: Good morning.

R: Good morning, Mr. Secretary, Charles Ross talking.

HMJr: Yes.

R: The President is going to make that little statement about the 10,000 new agents.

HMJr: Good.

R: He wonders whether it will be possible to say that service men to the fullest extent will be used - discharged veterans.

HMJr: Well, now that is very interesting. I'm coming over to see him in 15 minutes.

R: Yes.

HMJr: And I've got a little statement for him. We've worked out with the Civil Service Commission, they are going to detail a man specially at every discharge station to recruit for this.

R: That's fine.

HMJr: And I'll have a little thing for him because I thought that that would appeal to him.

R: It will very much, and I'll tell him that you'll be over in about 15 minutes.

HMJr: My appointment is at quarter to ten.

R: I see.

HMJr: And I had this written out because I thought that that would be of interest, and what you tell me proves it.

R: Yes. O. K. I think your minds are running together on that.

- 2 -

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HMJr: Well, I like to think so.

R: Yes. O. K. I'll tell him that right away.

HMJr: Thank you so much.

R: Thank you.

June 1, 1945 18
2:07 P. M.

Mrs. Klotz: Hello, Mr. Shore.

Mr. Sam
Shore: Hello, Mrs. Klotz.

K: Yes.

S: I suppose the Secretary has talked to you.

K: He mentioned that you would be calling.

S: That's right. Now, I was at home last night.

K: Yeah.

S: I told him that I will arrange with a reporter of the "Forward" to come down to Washington and have an interview with him.

K: Yeah.

S: Now, I've called them, and they will have one of their feature writers go down. I want to make the appointment with you. You tell me the time, and I will see that he is there.

K: Well, now let me tell you this. Let me ask you before I fix the time I'd like to ask you a question.

S: Yes.

K: You represent - you head up a Labor Council, do you?

S: A what?

K: Labor Council. Just whom do you represent? I'll tell you why I'm asking in a moment.

S: Well, I represent the Jewish Labor Committee.

K: Jewish Labor Committee?

S: That's right, the Jewish Labor Committee. I'm also vice-president of the International Leaders here.

K: Yes, that I knew, but I didn't know about this Jewish Labor Committee.

S: That's right.

- 2 -

K: I see. That representative -- explain a little bit about it, it's for him not for me.

S: A -- well....

K: That organization?

S: Well, the Jewish Labor Committee is composed of the various Jewish Trade Unions.

K: I see.

S: Of course many of them will have non-Jewish membership, but they are primarily Jewish, such as the various affiliated locals of the International Ladies Garment Workers' Union.

K: I see.

S: Millinery Workers' Union.

K: I see.

S: The Amalgamated Clothing Workers' Union.

K: Oh, I understand.

S: I mean all of these organizations excepting those that are admittedly Communist controlled -

K: I understand. Mr. Shore, he is coming up to New York.

S: When?

K: A week from this Sunday. That's his present plan.

S: Yes.

K: And he thought he might, if you thought well of it, meet with some of these people.

S: No, well, this is not to meet with the people.

K: Now, wait a minute - the two things have nothing to do with each other. I'm not speaking of the "Forward" man coming down. That's something else.

S: Oh, you're.....

K: I'll come to that in a moment. I wanted to combine - see, what I'm trying to get over to you is this. If you thought well of his coming up and meeting with

- 3 -

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K: (cont.) this group, why then we probably could combine the two. Have the interview at that time, too. If you felt that it couldn't wait that long, why then I'll give you an appointment for the middle of the week.

S: I don't think that it is wise to combine it.

K: All right.

S: This is...

K: I don't mean combine, but happened to be when he comes up.

S: I look upon this as a public relations job because it's the largest national newspaper and it is very highly regarded.

K: I know the "Forward." No, I don't know whether I got over to you what I had in mind. He didn't want to combine it, he wants to make one trip for the two.

S: Well, I know, but they are going to have somebody who will get down to Washington so that is not going to put him out. You see?

K: Yeah, I understand.

S: Now, if they have one of their feature writers - one of the editorial staff to go down to see him say Tuesday or Wednesday...

K: Well, let me explain something to you...

S: You see they may run the interview the following Sunday.

K: I see.

S: Whereas if they only meet him Sunday...

K: I see.

S: It's time and so on.

K: I....

S: Rather the sooner the better.

K: Yeah. Well, now, let me tell you. He is leaving today - I don't know whether he told you, to go down to see his wife, who has been sick for a number

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K: (cont.) of months in Daytona Beach.

S: Yeah.

K: At this time he's not sure whether he gets Monday, Tuesday or Wednesday, see?

S: Yeah.

K: But when he gets down there tomorrow, he will know exactly when he will be back.

S: Yeah.

K: Therefore I would like to make a tentative appointment for Wednesday.

S: I see. Wednesday, when?

K: Tentatively, oh, 10 o'clock?

S: Wednesday, 10 A. M.

K: Yeah.

S: At the Treasury Department?

K: That's right.

S: Now, how will I know whether that....

K: I will call you on Monday to make it..

S: No, I wouldn't be in town Monday suppose you call me Tuesday anytime between 10 and 12.

K: Will that be time enough?

S: Yeah.

K: Ahm. Fine.

S: I will call them and have them make the arrangements for Wednesday, you see, subject to this confirmation Tuesday.

K: That's right.

S: You see?

K: Yes.

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S: Now, he's coming to New York Sunday you said?
K: A week from Sunday.
S: A week from Sunday.
K: That's right.
S: I see. He would like to meet with us again?
K: Well, with this -- he has it in mind, you see..
S: Yes.
K: That you represent -- he calls it a Labor Council.
S: The Labor Group, yes.
K: Yes. He would like to meet with you all if you think well of it.
S: You mean just with Labor?
K: That's right - with this whole labor group. Jewish Labor Committee.
S: I see, with the Labor Group by itself. Because you see last night there was the representative of the American Jewish Committee, and the League.
K: No, no, that is not what he had in mind.
S: I see. He has in mind a meeting with representatives of the Jewish Labor Committee only.
K: That's what I understood, yeah.
S: Well, suppose -- I will probably be away for the weekend.
K: Well, it may not necessarily have to be on Sunday. I don't know, but he wanted you to know, you see.
S: Fine. Well, suppose when I get back Tuesday, I'll fix it up...
K: Yeah.
S: And I'll be able to talk to you about it on Wednesday.

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K: Fine.
S: Maybe we can arrange here for next Sunday, and let a few of us meet with him.
K: I see.
S: All right?
K: Yes, but I'll talk to you again on Tuesday.
S: Yeah.
K: You are not coming down on Wednesday are you?
S: No, no.
K: No. Would you tell me who is coming. What his name is.
S: Well, I'll know that..
K: On Tuesday?
S: It will be either Mr. Crystal or Mr. J. Rich. I mean they are both on the editorial staff.
K: Yeah. Fine.
S: Either one of the two will be assigned.
K: Fine. And you'll tell me more on Tuesday.
S: I'll tell you Tuesday.
K: Fine.
S: O. K.
K: Thank you. Goodbye.

June 1, 1945
2:43 P. M.

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Operator: Mr. LaFollette.
HMJr: Hello.
Senator LaFollette: Hello, Henry.
HMJr: Hello, Bob, how are you?
L: I'm all right, how you all? How is Mrs. Morgenthau?
HMJr: Pretty well.
L: Well, I'm glad you can say that.
HMJr: Yeah, but she is getting better steadily.
L: That's fine. Say, Henry.
HMJr: Yes, Bob.
L: Some weeks ago I ran into Randolph Paul..
HMJr: Yeah.
L: And we had a brainstorm about what might happen to the Renegotiation Statute when it got to the Supreme Court.
HMJr: Yeah.
L: And so we went into a kind of conspiratorial huddle, and went out to see Bob Patterson.
HMJr: Yeah.
L: And the only way we thought -- legitimately -- we could get some material into the court's hands before it got the case...
HMJr: Yeah.
L: ...was to get Bob Patterson and Randolph Paul articles on renegotiation which would present some of the things which I fear the Solicitor-General would not consider suitable to present to the court on the case - the background, etc.
HMJr: Yeah.
L: And Bob has agreed to write an article or two, and Randolph wants to.

- 2 -

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HMJr: Yeah.
L: But he needs some help. Now he took it up with O'Connell...
HMJr: Yeah.
L: ...and O'Connell was very enthusiastic and sympathetic about the idea, but said that there was a rule over there that nobody could belong to anybody outside in private activity, and so he didn't feel that he was in a position to take it up with you.
HMJr: Yeah.
L: Now, I don't know how you feel about it, but I would like to get those articles written because I'm afraid they will take this case up to the Supreme Court on pretty narrow grounds.
HMJr: Well, Bob, this is the first I've heard about it.
L: I know, and please don't blame O'Connell because he is just standing by the general office rule.
HMJr: I understand.
L: But the fellow Randolph would like to get just permission to work with him a little on it is Eisenstein, who is in the Legislative Council's office.
HMJr: I see. Well, tell you what you do, old man, let me have a look at it, will you?
L: Yeah, sure.
HMJr: And I'm going down tonight to see my wife..
L: Yeah.
HMJr: ...and when I get back early next week, I'll give you a ring.
L: All right, and maybe you could talk to Randolph a little about it.
HMJr: I'd be delighted.
L: He can give you a little more of the ideas. We just want to shove this into the Yale or Harvard Law Review, or both of them, and then we think somebody might give them to members of the court as a present.

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HMJr: Well, I'll see if we can't do something.
L: O. K. Henry.
HMJr: Always glad to hear from you.
L: Give my best to Mrs. Morgenthau.
HMJr: I thank you.
L: Thank you.

June 1, 1945 ✓
3:43 P. M. 27

Mr. Thomas: Hello.
Mrs. Klotz: Hello.
T: Mrs. Klotz?
K: Yes.
T: This is Thomas speaking, in Territories of Interior.
K: Yes.
T: You want to take down a message over there?
K: Surely.
T: This is a radiogram dated June 1, Alaska, May 31.
K: Yes.
T: It's from Governor Ernest Gruening.
K: Yes.
T: It is addressed to Mr. Phoron, The Director of the Division of Territories.
K: Yes.
T:

And reads as follows: FOLLOWING FOR SECRETARY MORGENTHAU QUOTE ACTION TAKEN THUS FAR IN EXTENDING WAIVER OF JONES LAW PERMITTING INTERPORT SHIPPING IN CANADIAN BOTTOMS GREATLY APPRECIATED STOP HOWEVER THE JULY 1st DATE WILL FIND ALASKA'S FISHING INDUSTRY TERRITORIES LARGEST AT ITS VERY PEAK STOP IF AMERICAN LINES WERE READJUSTED FROM THEIR WARTIME CONDITIONS AND HAD ADEQUATE SERVICE AVAILABLE DURING THE FISHING SEASON NOW UPON US, WE WOULD NATURALLY PREFER THAT THEY HANDLE THE BUSINESS BUT WITH NO ASSURANCE THAT AMERICAN LINES WILL BE ABLE TO HANDLE THE TRADE AT THAT TIME, I URGE UPON YOU EXTENSION OF THE JONES LAW WAIVER TO THE END OF FISHING SEASON NOVEMBER 1st. EFFORT IS BEING MADE BY FISHING INDUSTRY TO GET MAXIMUM OUTPUT TO DO ITS PART IN SUPPLEMENTING GREATLY NEEDED FOOD PRODUCTION. SHOULD IT NOT HAVE ADEQUATE SHIPPING FACILITIES DURING ENTIRE SEASON THIS OBJECTIVE CANNOT BE ATTAINED AND TERRIFIC LOSS CAN ENSUE TO NATION'S FOOD SUPPLY. FISH IS A HIGHLY PERISHABLE PRODUCT AND MUST BE HANDLED PROMPTLY THROUGH COLD STORAGE FACILITIES. THESE ARE SMALL

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T: (cont.)

IN ALASKA AND CAN BE CHOKE IN 24 HOURS STOP THEREFORE IT IS HIGHLY IMPERATIVE THAT SUFFICIENT AND TIMELY TRANSPORTATION BE PROVIDED. I CANNOT URGE TOO STRONGLY THE ABSOLUTE NECESSITY OF MOVING THIS GREAT FOOD SUPPLY AND URGENTLY REQUEST YOUR FAVORABLE CONSIDERATION OF THIS VITALLY IMPORTANT PROBLEM UNQUOTE.

Now that's all. We are sending that over to you with a letter transmittal to be signed in the Department - will go over tomorrow.

K:

Fine, well, I'll see that Mr. Morgenthau gets that today.

T:

Thank you very much.

K:

Thank you.

T:

Goodbye.

June 1, 1945
4:09 P.M.

29

Mr. T.V. Soong: Hello, Mr. Secretary.

HMJr: How are you?

S: Fine, thank you.

HMJr: First, may I extend to you my very heartiest congratulations on your new position.

S: Thank you very much. I hope we can do more together now.

HMJr: I hope so. I wanted to let you know that I was able to get you the cotton that you wanted.

S: That's grand - thank you, Mr. Secretary.

HMJr: I don't know how we let you know, or whether they have let you know, but they have got a firm allocation of 45 million yards for the third quarter.

S: Yes, that's fine.

HMJr: And I thought that would please you very much.

S: It does, it does. Of course, I know how difficult it is, too, when there is a general shortage, and how difficult it is.

HMJr: Well, our own Army is short.

S: Yes, I know that.

HMJr: And I didn't think I was going to be successful, but I was.

S: Thank you so much.

HMJr: Pardon me?

S: The Generalissimo will be happy over it. I'm going to tell him how hard you've worked for it.

HMJr: Yes. There is a firm allocation of 45 million yards for the third quarter.

S: Third quarter. Right.

HMJr: Yes.

- 2 -

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S: Thank you.

HMJr: I just wanted to let you know that.

S: Yes. How is Mrs. Morgenthau?

HMJr: Well, she's making headway, but I'm not sure yet whether we can bring her back next week or not.

S: I see.

HMJr: Right. My regards to Madame Soong.

S: Thank you, Mr. Secretary.

HMJr: Goodbye.

S: Goodbye.

June 1, 1945
11 P. M.

31

HMJr: Hello.

Congressman
Spence: Hello, Mr. Secretary.

HMJr: How are you?

S: I'm pretty well, how are you?

HMJr: Fine. Well, I suggested to the President that
he write you a letter.

S: Yes.

HMJr: And he's going to do it, and I think you will get
it in the next day or so.

S: All right. We go into the -- we got a rule just
now.

HMJr: Oh, did you?

S: Yes. The debate goes on all day Tuesday..

HMJr: Oh, yes.

S: And Wednesday until 3:30..

HMJr: Yes.

S: ..when they start reading the bill.

HMJr: It goes on...

S: It's a rule -- it's an open rule the way I ordered
it.

HMJr: I see.

S: Subject to any amendments, but we can meet any
amendments, I think.

HMJr: I see.

S: And it unifies all points of order against the bill,
so..

HMJr: Well, if you don't get the letter by Monday, you
call me up and if I'm not here you ask for Harry
White.

S: I will.

- 2 -

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HMJr: I definitely got that letter, you see?

S: All right, thank you, and I know I'll get it.

HMJr: Right.

S: Thank you, Mr. Secretary.

HMJr: Thank you.

S: I hope it goes through the House, and we don't
have any trouble in the Senate.

HMJr: No. Well, I don't think we will have as easy
a time in the Senate.

S: No, I don't believe you will either, but they've
got some good sports over there. Senator Tobey
is allright.

HMJr: Oh, yes, he's wonderful.

S: He's fine.

HMJr: Right.

S: All right. Thank you, Mr. Secretary.

HMJr: Thank you.

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June 1, 1945
4:15 p.m.

PRE-PRESS

Present: Mr. D. W. Bell
Mr. O'Connell
Mr. Pehle
Mr. Shaeffer
Mr. Nunan
Mr. Fussell
Mrs. Klotz

MR. SHAEFFER: The Blue Network is giving you up for this week, but they want you next week.

H.M.JR: Fine. What about having my picture taken?

MR. SHAEFFER: We are keeping him outside until after the conference.

H.M.JR: All right. The Blue Network won't do anything tonight.

MR. SHAEFFER: They're going to carry the President of it.

H.M.JR: Wonderful! Are we all right? Are there many boys out there?

MR. SHAEFFER: Quite a few.

H.M.JR: Fussell, are you all right?

MR. FUSSELL: Yes.

H.M.JR: Dan, if you stay behind a minute--I've got to see you. Are you fixed with Harry White for that appointment tomorrow with Fred Vinson? Do you know?

MR. BELL: I just heard about it when I came through.

COPY

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ALLIED FORCE HEADQUARTERS
G-5 Section
APO 512

FAS/RA

FILE: G-5123.9

1 June 1945

SUBJECT: Interview with Hjalmar H. G. Schacht

1. On 31 May 1945, in company with Major Haas (Air Intelligence Officer, HQ MAAF) the undersigned officer interviewed Herr Hjalmar H.G. Schacht at PWK 326, in the vicinity of Santa Maria, Italy. The interview was designed to cover two subjects: (a) Follow-up of an earlier interview conducted by Major Haas touching generally on the financing of the German war effort, but particularly directed toward the Luftwaffe. Herr Schacht had undertaken to obtain answers to a questionnaire on the effects of strategic bombing from certain German generals at the PWK. He brought the answers to this interview and read them to Major Haas. (b) The financing of the German war effort, particularly as concerns borrowing and price control, and certain aspects of the absorption of Austria by Germany.

2. Herr Schacht answered all questions freely and without any apparent reservation. He was at great pains to state repeatedly that he had nothing to conceal from the Allies, that he had thrice risked his life to oppose Hitler, that he had been interned for 10 months, that he was not a War Criminal, and that he did not understand why he was treated as one. He presented a written protest on the subject of the treatment being accorded to him. This protest, addressed to Major Haas, was later handed by him to the officer on duty in the Camp Commandant's office.

3. Major Haas continued his questions concerning the German barter or clearing system, which Herr Schacht explained he had started in 1934 when he was Minister of Economics. Until the war began, Germany met all its commitments on deliveries under barter agreements. Thereafter, inability to make full deliveries resulted in the piling up of a net debit on clearing account which Schacht stated was estimated by some of his well-informed associates in the Camp at 12 billion marks. He again made it clear that for several years he himself had not been in touch with the situation.

4. Questioned concerning the note-issue in Germany, Herr Schacht stated that in 1939, when he left the Reichsbank, the circulation was 8 billion, which he considered normal. Since then he believes it has increased by some 10 times.

5. The present national debt is probably about 450 billion marks, excluding the note circulation of the Reichsbank, but including all other forms of Reich indebtedness such as floating debt, net debit on clearing account, short-term bills, intermediate term notes, etc. The interest rate has averaged 3 1/2 to 4 percent, but with a tendency for the bill rate to increase. The two principal forms of indebtedness by which the war has been financed are 3-6 months bills, and 3-9 year bonds. At the beginning of the war the budget was covered about equally by borrowing and taxation. Herr Schacht has no recent information as to what proportion has been covered by taxation, but assumes it was much less.

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6. Concerning the absorption of Austria by Germany, Herr Schacht made the following comments in response to questions:

a. The Austrian debt was merely allowed to mature. There was no debt conversion scheme.

b. The currency conversion was carried out at a rate of 1 Reichsmark equals 2 Schillings because Hitler decided that was politically more likely to be popular with the majority of Austrians than the rate of 1 Reichsmark equals 3 Schillings which was the prevailing rate and which was strongly recommended by Schacht. As a result, Austrian industries were subjected to a deflationary force. However, Herr Schacht conceded that since the Austrian industries were at once integrated into the expanding German war economy the deflationary effect was shortlived.

c. Asked how he would go about determining the rate at which to carry out the reverse conversion from Reichsmarks to Schillings, Herr Schacht gave a confused and wordy reply which amounted to saying that we could take any rate we liked, depending on how much or how little deflation or inflation we wished to encourage.

7. Herr Schacht said that the main element in German war finance was price control, supported by thoroughly widespread and all-pervasive rationing. The sanctions depended upon to enforce this system were exceedingly severe, extending to death sentences. Having in mind the huge expansion in currency, Herr Schacht warned that any breakdown in the rationing system in Germany and Austria would result in disaster in the form of uncontrollable price and wage increases.

8. It is the opinion of the undersigned that if Herr Schacht's living conditions are improved somewhat, he will be entirely willing to answer questions as long as he has not been officially informed that he is a War Criminal. However, it is also considered that further questioning is not very likely to be fruitful. Herr Schacht is determined to dissociate himself from any recent events in Germany and therefore even if he knows what has happened and has opinions concerning such events, he is unlikely to express them freely. Moreover, he has no access to factual information, and many of his answers are necessarily based on memory. Finally, he is garrulous, opinionated, vain, and unreliable.

FRANK A. SOUTHWARD JR.,
Commander, U.S.N.R.
Financial Adviser

CONFIDENTIAL

1 JUN 1945

My dear Senator:

I have your letter of 21 May 1945 concerning the need for trained personnel to assist in the investigation of foreign assets and international connections of the German institutions currently being investigated by the Finance Division of the U.S. Group Control Council and the Financial Branch of G-5 Division of Supreme Headquarters.

I am in full agreement with your estimate of the importance of this work. As you know I have already assigned some of the Treasury's best experts in Foreign Funds Control to Colonel Bernstein's staff. We are at present engaged in recruiting a substantial number of additional personnel and are asking for the assignment of certain former Treasury personnel currently in the Armed Services. We are asking and obtaining the cooperation of the Budget Bureau and the Civil Service Commission in expediting the necessary expansion of our staff.

I am very happy to note your active interest in the furtherance of this program. You may be sure that we are making every effort to expedite the mobilization of the staff which will be needed to carry on this important work.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Senator Harley M. Kilgore,
Supreme Headquarters,
Allied Expeditionary Force,
c/o G-5 Division.

MLHoffman:er 6/1/45

Original letter transmitted through
General Marshall's office. Copy sent to
Kilgore's office.

Supreme Headquarters
ALLIED EXPEDITIONARY FORCE
G-3 Division

21 May 1945

Honorable Henry Morgenthau, Jr.
Secretary of the Treasury

Dear Mr. Secretary:

A well coordinated program has already been worked out under the sponsorship of the Financial Branch, G-5 Division of Supreme Headquarters and the Finance Division of the US Group Control Council to investigate the foreign assets and international connections of the big German combines. I know that you are already familiar with the program and with the success that Colonel Bernstein and his staff have had, in spite of their shortage of manpower, in getting these investigations under way. They have uncovered huge masses of records of I. G. Farbenindustrie, Carl Zeiss and Bausch and Lomb, for example. They have under way an operation which may place additional tons of documents of Vereinigte Stahlwerke, Stahlunion, Mannesmann, Krupp and other steel companies under guard and ready for investigation.

Army authorities in the field and at Supreme Headquarters and the US Group Control Council are fully cooperative and are actively supporting the program. They ask only that agencies at Washington intending to investigate foreign assets and international connections of German firms continue to send their personnel into the field through the channels that have already been set up. In the case of foreign assets and connections, these channels are the Finance Division, US Group CC and Financial Branch, G-5 SHAEP.

My chief concern is that the government agencies at Washington should be supplying more personnel, and their best personnel, to enable this work to be completed within the next few months when it will do the most good. Colonel Bernstein now has 40 to 50 persons in all working on I.G. Farbenindustrie at Frankfurt. This is almost the whole of his available investigative staff and is barely enough to do a minimum job of searching the files and interrogating the key personnel of I. G. Farbenindustrie. The same sort of work should be going on at the same time in regard to other companies.

I feel that it is of the utmost importance for the Treasury and Justice Departments, which seem to be the greatest potential sources of qualified manpower, to get behind this program fully and immediately. The additional manpower needed is approximately 250 professional and 60 or 70 clerical and stenographic people. I feel that you will agree that Treasury and Justice, with perhaps some aid from the APC, ought to take the lead in this matter which is of primary concern to them. I understand that a small group of about 12 or 13 has been assembled in London by FEA with State Department backing and is proposing also to investigate German international assets. The GCS also appears to have a small amount of personnel desirous of making similar investigations. It is my feeling that these agencies should be invited to participate in the program to the extent of their available manpower, working through the organization already approved in the Finance Division of US Group CC and the Financial Branch of G-5, SHAEP, but that Treasury and Justice must take the main burden of the work.

I have discussed these views of mine fully with Colonel Bernstein, who will be able to go into all the particulars. I cannot urge too strongly that you discuss this matter fully with the Attorney General and see if arrangements can be made at the earliest possible moment to assemble and send over the additional personnel which will be needed to accomplish these investigations satisfactorily within a period of two or three months. It seems to me to be imperative to get this job done while the opportunity lasts and at the time when the information will be the most valuable to us.

Sincerely yours,

Harley M. Kilgore
Harley M. Kilgore

40

HM Jr took this letter with him when he saw the President on June 1st and the President signed it. HM Jr left the signed letter with Matt Connelly to send it up to Spence.

TO:

The Secretary
Mr. D. W. Bell
Mr. Gaston

41
Mr. O'Connell
Mr. Sullivan
Mr. Charles Bell

Miss Alger
Mr. E. M. Bernstein
Miss Chatfield
Document Room
Mr. I. Friedman
Mr. A. U. Fox
Mr. Glasser
Mr. Heffelfinger
Mrs. Kern
Mr. Kline
Law Library
Mr. Lynch
Mr. Oliphant
Mr. Peble
Mrs. Rose
Mr. Schmidt
Mr. Shaeffer
Mr. Stewart
Mr. Taylor
Mr. Tietjens
Mr. Vanehel
Mr. White

Mr. Aarons
Mr. Alk
Mr. Arnold
Mr. Brenner
Mr. Brons
Mrs. DeLacy
Mr. DuBois
Mr. J. B. Friedman
Mr. Lesser
Mr. Minskoff
Mr. Moskowitz

Harry White and I feel that there is no need for a letter from the President in the House and that we should hold back and use his letter in the Senate where it may be needed.

We also doubt the wisdom of shooting a heavy gun like this more often than is absolutely necessary

I have sent O'Connell a copy but do not have his views yet.

FROM: MR. LUXFORD - Room 370

Honorable Brent Spence,

House Office Building.

My dear Mr. Chairman:

I have already made clear my conviction that the prompt enactment of the Bretton Woods legislation is of paramount importance in the establishment of a sound economic foundation for lasting peace.

I am confident that this legislation will be enacted. But my interest in its enactment is almost equalled by my interest in seeing that the Bretton Woods legislation continue to have the full bipartisan support so manifest by the action of your committee in reporting the bill. You and Mr. Wolcott, as well as the other members of the Committee, have demonstrated a high degree of statesmanship and non-partisanship for which America can be proud and her fighting men and women can be encouraged that their sacrifice has meaning in terms of tomorrow.

Let us hope and pray that the example set by your Committee on the Bretton Woods legislation will become the pattern for American participation in international economic and security cooperation. An America united in its determination for lasting peace and prosperity can know no defeat.

Sincerely yours,

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Date
1 June 1945

TO Secretary Morgenthau
FROM Mr. Gaston

Colonel Bernstein was in this morning to talk about some investigative help for him in Germany. Irey and Chief Wilson were also present. We undertook to supply him:

Five Secret Service agents to be sent from here as soon as possible.

A list of former Secret Service men now in the European theater as military personnel, arranged in the order of their probable usefulness to Colonel Bernstein.

A similar list of revenue agents in military service.

Two competent Customs administrative men to go to Germany as soon as possible.

The Customs men would be assigned by Colonel Bernstein to reorganizing German customs service in the American sphere of operations. Their work would be entirely separate and distinct from that of the regular Customs representatives in Europe whom we will need to send over soon. Bernstein now has one Secret Service man, McNally, who is tracing and arresting Germans who have special knowledge of industrial and financial matters. He wants others for the same purpose. The revenue agents are wanted for a census of foreign assets of German nationals. I have instructed Chief Wilson to ask the Army on account of these projects to release to us all the men we have taken off the White House Detail. None of these men would be sent to Europe as they are not specially qualified, but they could take the places of men who would go.

HM JR took with him to Cabinet

6/1/45

1 June 1945

REPORT OF SPECIAL COMMITTEE ON CHINESE REQUESTS

A Special Committee, consisting of the undersigned, has made the following arrangements in response to the Chinese request for gold, textiles and trucks.

1. Gold

\$189,224,000 of gold is to be shipped to China.

2. Textiles

We have been successful in getting a large allocation of cotton textiles for China, particularly in view of the tight supply condition and the late time at which Dr. Soong made his application. A firm allocation of 45 million yards has been obtained for the third quarter of this year. It is probable that an allocation as high as 60-65 million yards will be obtained for the fourth quarter. If the supply agencies are able to carry this through at the regular time, this will make a total allocation of 105-110 million yards for the last six months of 1945 compared with the Chinese net requirement of 112 million yards for the same period.

This result was only obtained because of the active support of the War Department which wishes these textiles to be used to assist in the procurement of supplies for those Chinese troops which are being trained and equipped by the U. S. Army. Accordingly, FEA is arranging to have the textiles distributed in the manner mutually agreed upon by the U. S. Commanding General in China and the Chinese authorities.

The supply agencies will have much hard work to do to deliver the textiles on schedule.

3. Trucks

4,000 trucks over and above the present allocation to China (15,000 trucks) are to be furnished by FEA as a result of Army out backs. A Lend-Lease requisition is being filed by the Chinese Government with FEA, and the Army is to have no responsibility for financing.

4. Further operations under the Anti-Inflation program will be carried out through regular channels and procedures.

Wm. H. Taft
Secretary of the Treasury

R. P. B.
Under Secretary of War

W. Clayton
Assistant Secretary of State

W. C. C.
Foreign Economic Administrator

12"

SAVEIN REPLY REFER TO:
WDOLGOFFICE OF THE
ARMY-NAVY LIQUIDATION COMMISSIONER
WASHINGTON 25, D. C.

1 June 1946

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

Dear Mr. Morgenthau:

I am inclosing for your information a photostatic copy of the notice of appointment of Mr. James S. Knowlson as Central Field Commissioner, European Theater of Operations, to represent me in that Theater.

I will further advise you when Mr. Knowlson has established his headquarters and is ready to assume his responsibilities.

Very sincerely yours,

*Thomas B. McCabe*THOMAS B. McCABE
Commissioner1 Incl.
Ltr, 23 May 46,
fm McCabe to
Knowlson



IN REPLY REFER TO:
WDOLC

OFFICE OF THE
ARMY-NAVY LIQUIDATION COMMISSIONER
WASHINGTON 25, D. C.



23 May 1945

SUBJECT: Notice of Appointment.

TO : Mr. James S. Knowlson.

1. Reference is made to the following instruments:

a. Memorandum 850-45, War Department, 27 January 1945, "Establishment of the Office, Army-Navy Liquidation Commissioner."

b. Letter of authority, 1 February 1945, from the Secretary of the Navy, "Delegation of Authority to Army-Navy Liquidation Commissioner for Disposal of Surplus Property Outside the Continental United States, its Territories and Possessions, and in Connection with Settlement of Claims."

2. Under the authority contained in the above, you are hereby appointed Central Field Commissioner to represent the Army-Navy Liquidation Commissioner in the Area of Army and Navy activity presently defined geographically by the War Department as the European Theater of Operations and by the Navy Department as that part of the Twelfth Fleet lying within the European Theater of Operations.

3. You are directed to dispose of all surplus property in the control of or for the disposal of which the Army and Navy may be responsible located in the above designated area, and to pay and discharge settlements of contractual and quasi-contractual obligations in the described area by the transfer of surplus property to the extent that you determine that the settlement should be coordinated with the disposition of surplus property.

4. For discharge of the above duties and responsibilities, the Commissioner delegates to you the authority vested in him.

Thomas B. McCane
THOMAS B. MCCANE
Commissioner

Treasury Department
Division of Monetary Research

Date: 1 June, 1945

To: Secretary Morgenthau

From: Mr. Coo FC

We rewrote the F.E.A. memorandum as being too technical for a White House memorandum. The revision has been signed by all three of your colleagues.

MR. COO
Room 3430 - Branch 305 and 306

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4,000 trucks over and above the present allocation to China (15,000 trucks) are to be furnished by FEA as a result of Army cut backs. A Lend-Lease requisition is being filed by the Chinese Government with FEA, and the Army is to have no responsibility for financing.

- 2 -

4. Further operations under the Anti-Inflation program will be carried out through regular channels and procedures.

Secretary of the Treasury

/s/ Robert T. Patterson
Under Secretary of War

/s/ W. A. Parsons
Assistant Secretary of State

/s/ Lee Harvey
Foreign Economic Administrator

PG:ISP:df 5/31/45

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Exchange Stabilization Fund

1 June 1945

His Excellency Dr. T. V. Soong,
Chairman, Chinese Delegation,
United Nations Council on International Organizations,
Hotel Mark Hopkins,
San Francisco, California.

Please accept my congratulations on your appointment to the high office of President of the Executive Yuan of the Republic of China.

I know from our dealings together that you are devoted to the cause of world peace and democracy, and will use the influence and prestige of your new post to promote these ends.

Your friends, like myself, are looking forward eagerly and with confidence to the many desirable and needed accomplishments and reforms which will take place under your leadership.

Sincerely yours,

Henry Morgenthau, Jr.

H. Morgenthau

IDF:df 6/1/45

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE 1 June, 1945

TO Secretary Morgenthau
FROM Ted R. Gamble

This is the article by Sam Grafton that I
spoke to you about.

Attachment

"I'd Rather Be Right"

By Samuel Grafton

The Transition Blues

These are the transition blues; there has never been so confused and mingled a period in American life. Experienced soldiers are being demobilized, and they've earned it; that's for peace; 18-year-olds are being taken out of school for training and combat, that's for war.

This curious business of winning half the struggle at a time even gives us the privilege of making a bad peace if we want to, while still fighting a good war. Usually the firing stops before the diplomats take over. But in this war the boys in the foxholes can read about the Battle of San Francisco while dodging bullets. Everything has run together so.

SAVE

IN REPLY REFER TO:

OFFICE OF THE
ARMY-NAVY LIQUIDATION COMMISSIONER
NEW WAR DEPARTMENT BUILDING
WASHINGTON 25, D. C.



June 1, 1945

Dear Mr. Morgenthau:

I am very grateful for the letters of recommendation for Mr. James S. Knowlson, which you sent me with your letter of May 29th.

The Treasury has been very helpful to us in every possible way and I can not speak too highly of the assistance which Dan Bell and your Messrs. Glasser and Gunter have given us in our difficult undertaking.

With warmest personal regards, I am,

Sincerely,

Thomas B. W. Calk

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

56
Assistant Secretary of the Treasury ✓

Date... June 3, 1945

To: Secretary Morgenthau *AM*

As of interest.

H.D.W.

Mr. White
Room 3434

1-2-3-4

57

Why We Are For



Bretton Woods

C I O Political Action Committee
205 East 42nd Street, New York 17, New York

Assistant

To: Secret

As of

Because - -

1. In the past, wars in the counting houses of the world's bankers led to bloody wars on the battlefields. *Bretton Woods* will prevent money wars and thereby help prevent real wars; in the past, a handful of people could ruin a financially weaker nation through cut-throat competition in money. *Bretton Woods* will help the financially weaker nations and thereby establish greater justice in the world's money dealings.

2. *Bretton Woods* is a United Nations plan to help war-devastated nations to get to their feet, and become secure. Insecure nations are a threat to the world's peace; secure nations are shields against war.

3. The *Bretton Woods Plan* is designed to create more international trade. That will mean more jobs for all countries and more particularly to our country, because we can produce so much for export. The *Bretton Woods Plan* may result in five million more jobs in the United States. If five million men become unemployed, there is a threat of unemployment to all the other millions of employed workers; if five million more are employed, the employment of all the other workers becomes more secure.

4. The *Bretton Woods Plan*, by stabilizing the value of money, will prevent nations from lowering the standard of living. That will mean more jobs at better wages. The Standard of living for all workers will rise. The first to benefit will be the American workers.

Without *Bretton Woods* all political promises for world security will fail. We, the, people, are determined that it shall not fail.

That is why we are for Bretton Woods.

No Higher Authority

Although the large majority of independent bankers and banker organizations freely support the *Bretton Woods* proposals, still the American Bankers Association argues that the machinery to make *Bretton Woods* a success is very hard to understand.

It goes on to say that we have no right to be for *Bretton Woods* unless we master all its details. Until then we have no authority to pass judgment on it.

It is the same as if they had said: You people need a bus system to take your children to school and the workers to their jobs. But before you can favor such a bus system, you must first learn all the sciences that go into the making of a good automobile engine. You must know thermodynamics to understand the ignition, you must know physics to understand the transmission and you must know a lot of automotive engineering to understand the rest of the engine. Not until you know all these, according to the American Bankers Association, can we say whether a good bus system is needed for our community.

Well, *Bretton Woods* is just the bus system that we need to take our children to school and to take us to our jobs. Let the monetary experts of the United Nations work out the details of the machinery to make the plan purr like a good motor. We don't have to be experts.

All we have to know is that Bretton Woods was designed to prevent war and to secure the peace.

Knowing that, we are fully qualified to say that we are for it and that we want our Senate to approve it.

There is no higher authority than an enlightened people demanding a just economic relation between men toward the end that peace and good will shall prevail.

And if the American Bankers Association is against it—that's just too bad.

Assistant Sec

To: Secretary, War

As of interest

H.D.

Mr. White
Room 3636

President Roosevelt

Just two months before he died, our great President Roosevelt told Congress: "The cornerstone for international political cooperation is the Dumbarton Oaks proposal for a permanent United Nations. . . . The cornerstone for international economic cooperation is the *Bretton Woods Proposal* for an *International Monetary Fund* and an *International Bank for Reconstruction and Development*."

President Truman

Only three days after President Truman assumed his heavy duties in the White House, in his first press conference he came out strongly for the *Bretton Woods Plan* and endorsed the creation of a *Monetary Fund* to be used to stabilize money and to fight inflation throughout the world.

Mr. Citizen

But *Bretton Woods* will not be realized until our Congress is told by the Great Voice that they must approve it. And that Great Voice is the Voice of the People.

It is clearly your duty, whoever you are, to join your voice with the voices of all your neighbors in demanding that *Bretton Woods* be turned from a plan to a reality. Write or wire your Congressman and your Senators. Tell them that you hunger for peace. Tell them that *Bretton Woods* will sustain you in that hunger. Tell them. Tell them now. They will surely listen to you.

Based on "Bretton Woods Is No Mystery," CIO-PAC's Pamphlet No. 1, prepared by Pamphlet Press.

58
HM Jr. got original of this memorandum
with [redacted] and gave it to the President at
conference on June 1st.

59
1 June 1945

MEMORANDUM TO THE PRESIDENT:

Yesterday I acquainted the top officials of the Civil Service Commission with our special tax drive and the necessity for an accelerated program of recruitment. Arrangements have been made with the Civil Service Commission to have placed at every Army discharge center in the United States a qualified recruitment officer from the Civil Service Commission, fully versed in our recruitment requirements, who will steer to us qualified veterans as they are discharged.

CSB:mt:ried
1/Jun/45

58

HM Jr took original of this memorandum

With him and gave it to the President at
conference on June 1st.

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CSB:mt:led
1/Jun/45

CHAMBERS OF

8 Lewis B. Schwellenbach
United States District Judge
P. O. BOX 1432
SPOKANE 8, WASHINGTON

June 1, 1945

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

Dear Mr. Secretary:

I deeply appreciate your letter concerning my appointment to the post of Secretary of Labor. The new assignment is a tough one, as you know, but I shall give my best to it. Your expression of confidence is heartening to me.

8 With appreciation of your letter and looking forward to seeing you when I reach Washington, I am

Yours very truly,

L. B. Schwellenbach
L. B. Schwellenbach

COPY

OLVANY, KISNER & DONNELLY

20 Exchange Place
New York 5, N.Y.
Tel. Digny 4-4900
Cable Address "Olveidon"
June 1, 1945.

Hon. Joseph D. Nunan, Jr.,
Commissioner of Internal Revenue,
Washington, D. C.

Re: Lexington Longchamps, Inc.
408 West 15th Street, New York

Dear Sir:

On April 24th, 1945 I communicated with you on the telephone requesting an appointment in order to voluntarily disclose to the Bureau of Internal Revenue that the net income reported by Lexington Longchamps, Inc. in certain of its tax returns was understated and accordingly that its tax liability was likewise understated. You told me that it was not necessary to make a special trip to Washington for the purpose of making such disclosure, and that the disclosure could be made to the Collector of Internal Revenue for the Second District of New York.

The following day, namely, April 25th, 1945, an officer of the taxpayer, Mr. Mark Eisner and I, attended at the office of the Collector of Internal Revenue for the Second District of New York, and voluntarily disclosed to the Collector and two of his deputies, the understatements hereinbefore referred to. At that time a letter was filed with the Collector of Internal Revenue, a copy of which is attached hereto. (not attached)

Hon. Joseph D. Nunan, Jr.,

2 June 1st, 1945.

Because certain statements which have appeared in the public press, purporting to be releases from official sources, indicate skepticism on the part of the Treasury Department with relation to the voluntary character of the disclosures made on behalf of the taxpayer, I hereby submit a chronological outline of the steps taken by the taxpayer in order to effect such disclosures.

Mr. Henry Lustig, President of the taxpayer, retained me to represent the Company on April 20th, 1945. On that date Mr. Lustig advised me that there were understatements of income and tax made in certain of the returns of this Company, and realizing this fact, he in the early part of February, 1945, while in Florida, decided to make a voluntary disclosure to the Bureau of Internal Revenue. He then telephoned the accountant for the Company and instructed him immediately to check the records of the Company and ascertain the various items involved. The accountant followed these instructions, and on April 20th was still engaged in such work.

Mr. Lustig immediately upon his return to business on February 28th, 1945, caused the cash in the vault to be deposited in the bank accounts of the Lexington

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Hon. Joseph D. Nunan, Jr., 3 June 1st, 1945.

Longchamps Inc. and the respective affiliated companies. He knew that the banks notified the Federal Reserve Bank of all large deposits and, therefore, that there would be some official record of his first affirmative step in connection with a voluntary disclosure. Tax notes were also purchased for this taxpayer and its affiliates. These deposits to the accounts of the various companies were made over a period of about thirty days.

Thereafter and on or about March 26th, 1945, Mr. Lustig called to arrange an appointment and to retain the undersigned to represent the Company in connection with a voluntary disclosure. He was informed that I was in California and would return the week of April 16th. Pending my return, an officer of the Company, Mr. Allan Lustig, went to see Collector Pedrick to inquire as to whether there were any investigations contemplated or pending against any of the companies or against Henry Lustig. Mr. Lustig was informed by Collector Pedrick that he had no knowledge of such contemplated or pending investigations. Therefore, Mr. Lustig decided to await my return from California, so that I might represent the companies and himself.

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Hon. Joseph D. Nunan, Jr., 4 June 1st, 1945.

One of the affiliated companies of the taxpayer, Broadway and Forty-first Street Corporation, received on April 17th, 1945, a letter from the Revenue Agent in Charge, Second Division, New York, dated April 16th, 1945, enclosing a Revenue Agent's report (photostatic copy of the letter and first sheet is attached hereto), covering the examination of the income tax return of the taxpayer for the fiscal year ended March 31st, 1944. This fact confirms that the voluntary disclosure was not made because of or in contemplation of an investigation by the Bureau of Internal Revenue.

I am taking the liberty of communicating the foregoing to you because of my long familiarity with the policy of the Treasury Department of more than twenty years to encourage voluntary disclosures by waiving criminal prosecutions when they are made. I sincerely feel that if a voluntary disclosure is hereafter to receive treatment different from that accorded in the past, the effect will be to discourage taxpayers from freely revealing understatements with a resultant loss in revenue. Any change of the rule that has prevailed for many years should apply prospectively only and should not in fairness affect the present case when the parties have acted in good faith in reliance on such policy.

If there is any doubt as to whether there was a voluntary disclosure in this case, or if there is to be

Hon. Joseph D. Nunan, Jr.,

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June 1st, 1945.

a change in the settled policy with respect to voluntary disclosures, it is respectfully requested that a conference be granted.

Power of attorney has heretofore been filed.

Respectfully submitted,

/s/ Sylvan Oestreicher



OFFICE OF
CHIEF COORDINATOR

TREASURY DEPARTMENT

TREASURY ENFORCEMENT AGENCIES

WASHINGTON

1 June 1945

TO: Secretary Morgenthau
FROM: Elmer Irey (Through Mr. Gaston)

(1) The Bureau of Internal Revenue has expanded rapidly in the past few years and has had thrust upon it numerous complicated problems of administration. A thorough examination of the organization of the Bureau should be made with a view to streamlining its structure and in order that it might operate on an efficient, economical basis. A planning board or committee should be established in the Bureau permanently for this purpose. Such a board has existed in the Post Office Department during the past few years and has been most successful in improving organizational conditions within that Department.

(2) I have in mind a number of changes in the organization of the Bureau which it is believed would improve the situation. If a planning committee should be established, as suggested in the above paragraph, I would like to furnish these suggestions for its consideration.

(3) Diligent effort should be made to improve procedures in the Bureau of Internal Revenue in the way of payments of rewards and for information in criminal cases. The Bureau does not make as effective use of this procedure as do other Treasury agencies, such as Customs and Narcotics.

(4) A real effort should be made to make revenue employees, especially revenue agents, more "fraud" conscious. Rating revenue agents on production, as has been somewhat the practice in the past, tends to discourage exploration of illegal activities by taxpayers.

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(5) As soon as our military men return in considerable numbers, consideration should be given to the injection of new and younger blood into the supervisory positions of the Intelligence Unit and the Alcohol Tax Unit. Improved general educational standards should be established and improved courses of training instituted.



TREASURY DEPARTMENT
Washington

Statement of Secretary Morgenthau
before the Appropriations Committee of the
House of Representatives

Friday, June 1, 1945

Your Chairman, Mr. Cannon, was kind enough to afford me this opportunity to discuss informally with your Committee a situation which has been giving increasing concern to me as Secretary of the Treasury and which, I am sure, will be of interest to you gentlemen, not only as members of the House Committee on appropriations, but as individual citizens and taxpayers.

As you all know, wartime needs for revenue have resulted in a tremendous broadening of the tax base and a great increase in the number of taxpayers, as well as a great increase in the rates of tax. Where before the war we were collecting \$5,000,000,000 in taxes a year and there were 4,000,000 individual taxpayers, we are now collecting upwards of \$45,000,000,000 a year and there are approximately 50,000,000 individual taxpayers.

As the tax burden increases there is more and more inordination by the greedy and dishonest to evade their taxes, and it is to the problem of enforcement of our tax laws against that kind of individual that I wish to address myself.

We in the Treasury have been conscious of the seriousness of our problem for some time, but I would be less than frank if I did not admit that recent disclosures have persuaded me that our sights have been too low.

I fully recognize the patriotic and willing response of our nation of taxpayers to the increased demands placed upon them for war finance. But in all earnestness I am alarmed at the evidence of evasion and concealment, especially by those who seek to grow rich through war-swollen profits and illicit black market operations in foodstuffs and short commodities. To combat that situation, about two months ago I initiated a special enforcement drive.

Starting with a nucleus of a couple of hundred special agents of our Intelligence Unit, men trained to detect criminal tax evasion, we have presently assigned to this special drive some 1,600 Bureau of Internal Revenue employees, almost all of them drafted from other work. And it is of the results of the work

- 2 -

of that group, and the implications of what they have disclosed, that I wish to tell you.

I have personally reviewed the weekly reports made by the men in charge of the special squads working in various sections of the country, and the situation disclosed has shocked me profoundly. The group has under active investigation some 3,600 cases indicating substantial tax evasion, and, in addition, more than 7,000 leads have been turned up and are awaiting only available manpower to investigate them.

I would like to give you something of an insight into what I have been learning in recent weeks. We are finding "pay dirt" in transactions involving food, liquor, automobiles, furs, jewelry, gambling and cabarets, just to mention a few. Many cases combine black-market operations with a criminal concealment of income. Some of the most striking cases -- and I will give you the details -- are what we refer to as "currency" cases. By that we mean cases in which the malefactor made a practice of conducting his dealings in cash, in order better to conceal the nature and scope of his operations.

If I were to attempt to relate in detail all of the cases now pending, it would keep you here until this Congress adjourns. But I know you are interested in specific cases and before coming over here today I selected a few.

An investigation now underway in California indicates concealment of between \$10,000,000 and \$12,000,000 taxable income in raisin operations, in which food intended for the armed forces was diverted to wineries. Because military requirements for raisins are so heavy, the War Food Administration requires that raisins be sold only to the United States Government or under permit. A price ceiling of \$185 a ton was placed on raisin grapes. No ceiling, however, was set for culls and wastage, which normally run about 6 percent of the crop, with wastage sold at \$15 to \$45 per ton.

The 1944 crop has now been largely marketed and indications are that 40 percent of the crop was sold as "wastage" at prices ranging from \$325 to \$440 per ton. So here we have the astounding situation of "wastage" selling for more than twice the price of the product, because there is a ceiling on the product and none on the waste. Our investigation thus far indicates a widespread conspiracy, involving the use of large amounts of currency and fictitious names. We already have between twenty and thirty cases involving individuals but we have thus far only scratched the surface. The Treasury and the War Food Administration are cooperating closely in a thoroughgoing investigation of this entire subject.

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- 3 -

Another shocking case of diversion from war uses, accompanied by an attempt to cheat the Government of its revenue, has been turned up in the New York district. A preserving company got approximately 30,000,000 pounds of sugar for the avowed purpose of making jams and jellies for the United States Navy. So far as we can learn, not one pound of the sugar was used for these purposes. The evidence indicates that most of the sugar was diverted to beverage concerns. To conceal its sales the company required payment to be made in cash in many cases and in other cases cashed checks outside of the usual banking channels. By these methods the company sought to conceal sales of more than \$1,200,000. With fraud penalties and interest the Government expects to collect approximately \$2,000,000. There will also be a recommendation for criminal prosecution.

The Treasurer of a New York corporation selling products to baking companies was discovered recently to have been cashing, through check cashing agencies, some substantial checks made out to his corporation, instead of putting the proceeds of these checks were not being entered on the books of the corporation. During the progress of the investigation, this man and his attorney offered to make a full disclosure of these omissions, stating that they would total over \$300,000. Treasury investigations continued, however, disclosing tax evasions more than double the \$300,000 figure. Last week the corporation formally notified the Treasury that the company had transferred more than \$600,000 in currency, which had been held in safe deposit vaults, to a bank, the transfer being made by armored car. The money has been put in a special account for the specific purpose of paying any deficiency tax assessments which may be levied against the corporation.

Operators in black market liquor have been particularly brazen in their use of currency of large denominations and in unusual amounts. Cash payments of nearly \$2,000,000 in "side money" -- that is, money paid on the side, above the ceiling price which appeared upon the books recording the transactions -- have been traced by the Treasury in one black market case which is also an income tax case. In one instance \$60,000 was deposited in a New York bank for transfer to a man in a Southwestern state. Of this total, fifty \$1,000 bills were identified by serial numbers as having been issued at Richmond, the first indication of extensive operations of the syndicate in Virginia. In another instance an agent of this syndicate deposited in a bank the contents of a paper covered package which he was heard to refer to as "lettuce". The deposit, it developed later, consisted of nearly \$300,000 in \$50 and \$100 bills.

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- 4 -

In another case a collector for a liquor syndicate traveled with a Gladstone bag completely filled with large denomination bills. When he received another payment of \$12,000, his bag was so full that he had extreme difficulty in stuffing the additional money inside. Another collector, when temporarily confined to a hospital, carried on business from his bedside. When a nurse entered the room, after a visitor had brought in bills which covered the bed as they were being counted, she thought a robbery had taken place, and started to call the police. It later developed that the bills spread on the bed for counting amounted to \$80,000. It was a robbery, but not exactly the kind that the nurse imagined.

There are literally all kinds of cases, large and small.

We have almost completed one case against a Midwestern war contracting concern which is expected to net almost \$5,000,000 in taxes, interest and penalties -- plus prosecutions. Only last week a merchant in a Pennsylvania town of less than 7,000 people was convicted, and the taxes and penalties that the Government will collect in this case will approximate \$110,000. You gentlemen undoubtedly have read in the papers recently of the meat dealer whose undeclared income, on black market sales in the Washington area, will approximate \$400,000, and of the conviction of the Brooklyn physician who diverted millions of yards of textiles, which he was supposed to be using in producing surgical bandages for the Army and Navy, to the black market. Only yesterday this man was sentenced to serve three years in prison and to pay a fine of \$100,000. We have an income tax case against this doctor, also, and have jeopardy assessments against property in Florida and Atlantic City in which he is supposed to be interested.

But one statement, in the sordid mass of reports that come in week by week, struck me with particular force, because it is so symptomatic. One of the largest automobile dealers in a Southern state, a man who has profited exceptionally through used car dealings through the war years, was discovered to have omitted more than \$100,000 from his tax returns and to have instituted an elaborate system of secret records. While this man was being examined, under oath, one of the agents asked what prompted him to begin his evasion.

And the answer speaks volumes as to the spirit pervading all too many people today. The man said:

"(It was) the desire to evade taxes; (we were) making such enormous profits; more than we had ever made in our lives -- that is the truth."

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- 5 -

You and I know how the men who have been fighting in Europe and those who are fighting in the Pacific will react to these things. The man overseas knows that war requires great sacrifices from the man in the field, and dollars from us at home. And no group should be more helpful in running down tax cheats than the men who risked their lives in battle. I hope we will be able to enlist in our drive against tax evaders many veterans discharged under the 85 point rule.

I have endeavored to give you only the highlights in a deplorable situation. I want your support in this drive to ferret out and bring to justice those who have not only profited from the bloody business of war but who have also ignored their responsibilities as citizens.

Specifically, I should like to have the approval of Congress of our pending request for a supplemental appropriation amounting to \$16,300,000 for the fiscal year 1946. In addition, I want to be sure you understand the other steps by which we propose to meet our problem. It is our intention -- and I hope we have your approval -- to expend at an accelerated rate the money available from our regular 1946 appropriation in order to build the law enforcement staff necessary to carry out this public protection program. With this understanding we can go forward immediately with our program to recruit the 5,000 investigators we so urgently need.

We feel that the time is rapidly approaching when competent talent will be available from which we can draw qualified personnel. Cut-backs in military production and the release of men from the armed forces will be material factors in our recruiting program.

If it is possible for us to recruit the number of people needed during 1946, I will have to come back to your committees with a request for about \$20,000,000 in addition to the \$16,300,000 estimate now before the House Appropriations Committee. The supplemental request now pending did not contemplate this greatly expanded law enforcement work, but I should like to make it clear at this time that I have no intention of continuing to request money for these or any other positions in the Treasury Department beyond the period of time required to perform the necessary work.

I am sure you will appreciate that under existing conditions every dollar spent in combatting tax evasion will bring monetary returns that will repay the Government many times over. I am personally confident that if we can recruit the force for which I am asking we can collect a minimum of one billion dollars which is now being evaded.

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- 6 -

I need not dwell on our Government's need for revenue, nor upon the absolute necessity for our doing everything within our power to see to it that the burden of wartime taxes is borne by each and every one of us according to his ability to pay -- under the law. I need not point out that respect for law is based in major part upon the belief of the average man that it operates evenly and fairly upon all who are subject to it. A belief, even ill-founded, that many of our people are able successfully to avoid their obligation to pay taxes will breed disrespect for the law and make for more widespread evasion of it.

If we do less than everything we can to enforce, without fear or favor, the wartime tax laws of the United States, we will not keep faith with the millions of young men and women who bear the brunt of fighting this war, nor with our people who willingly meet their obligations, nor with our 85,000,000 bondholders.

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25

1 June 1945

My dear Mr. Sackett:

Mr. Ted Gamble has shown me the editorial entitled "In Praise of Mr. Morgenthau" from the May 21 issue of the Coos Bay Times.

I want you to know how much I appreciate such words of commendation. Beyond this, however, is the fact that a newspaper of general circulation, such as yours, is inspired to display such an intelligent interest in the basic fiscal problems of our Government. All too many people consider such matters too complex or too dull for the average reader. The details of finance are complicated, but the important basic principles are easily understandable, and they will be understood by increasing numbers of newspaper readers as editors like you present them with the clarity and comprehension displayed in your editorial.

Again thanking you for your kind personal references, I am

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Sheldon F. Sackett
Editor and Publisher
Coos Bay Times
Marshfield, Oregon

ESF:nmc

May 21, 1945

PAGE FOUR

Cooz Bay Times

Southwestern Oregon's Only Daily Newspaper

Published by Times, Inc., Daily Except Sunday at Coos Bay, Oregon.
FULL UNITED PRESS LEASED WIRE

SHIELDON F. SACKETT Editor and Publisher
ALAN L. TORRETT, Manager F. W. HILTON, Managing Editor

"It tongue and pen alike are free,
Safe from all foes stands liberty." — Pope.

In Praise of Mr. Morgenthau

In the prognostications of impending cabinet changes, one most-frequently mentioned name for replacement is that of Henry Morgenthau, secretary of the treasury. This quiet former-friend of the late president never was popular in Wall Street. Unquestionably many of the predictions are inspired by financiers who want a man of their own heading the treasury.

We earnestly hope the predictions are newspaper scuttlebutt. To us, it seems the management of the treasury in World War II has been extremely sound and that Mr. Morgenthau's record should make President Truman anxious to retain the secretary rather than replace him.

To Mr. Morgenthau goes most of the credit for the Series E bonds, a great improvement over World War I financing. These treasury issues, now held by \$5,000,000 Americans in an aggregate sum of 27 billions of dollars have, as never before, given eight out of 13 citizens a financial stake in the government. They are the outgrowth of "baby bonds" Mr. Morgenthau instituted long before the war in order to give a wider sector of Americans a savings stake in government. They were succeeded by the small-size defense bonds which in turn became the Series E war bonds. No investor, under the government's promise in these securities, need have any fear that in the postwar period he will have to sell his security at 80 cents on the dollar as was the case in 1918. Moreover, the bonds pay a progressive rate of interest; persons holding them 10 years will average 2.9 per cent interest, the best rate Uncle Sam is paying.

Mr. Morgenthau also deserves much credit for fighting the war on a two per cent or less basis in contrast to an average of more than four per cent in 1917-1919. A part of the lessened interest rate inheres in more accumulated savings than prevailed a quarter of a century ago which has tended to lower all interest rates. But the treasury always has sought to get moneys for the government at the lowest market rate—which is one reason the conventional financial community does not like the secretary. He, rather than the banking interests, has made the final decisions on interest rates. With the federal debt approaching 250 billions of dollars, a two per cent overall saving means an annual budgetary saving of \$5,000,000,000 in interest charges alone.

The treasury has stood firm for unpopular high taxes; an excess profits tax which took 65.5 cents of every dollar earned by corporations in excess of 1 per cent of their invested capital or their four-year average prewar earnings, whichever was larger. It has not always won its case before congress—which always prefers to spend money rather than levy the necessary taxes to procure needed funds. However, in insisting that at least half of war's enormous maw be filled by current levies, the treasury has sheared away much potential debt which otherwise the nation would have accumulated for the postwar period.

Mr. Morgenthau is a shy, almost diffident man. He is not one to toot his own horn, or to hire someone to do it. But we think his record as secretary of the treasury when the United States was called upon to fight a 300-billion-dollar war will be ranked high by historians. Mr. Truman should retain him as long as the secretary will continue in his all-important government post.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

1 June 1945

TO Mrs. Klotz

FROM Charles S. Bell *CSB*

I am attaching hereto copies of the two memorandums from me to the Secretary, the Secretary having given these to the press people. Since these were the originals and copies, I thought you should have copies for your files. They are marked A and B.

The memorandum marked C is a rough draft which the Secretary read and handed to Joe Homan after Joe O'Connell approved it. I am attaching letter marked D which is the final of the letter marked C. Homan has a copy of D and this copy again has been approved by O'Connell and goes into your file as the permanent memo from me to the Secretary.

The form marked E was signed by the Secretary on the Capitol steps and the original of which was handed to Joe Homan. It is the approval for our taking a personnel action making Mr. Hankins an Assistant to the Commissioner from his present position as Executive Officer and gives him a promotion.

Memo marked F is the one the Secretary took with him to the White House to discuss with the President.

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Secretary Morgenthau

Charles Bell

(SIGNED) CHARLES S. BELL

1 June 1945

The Enforcement Drive which you have launched in the last sixty days reveals that 5,000 Special Agents receiving \$2,600 and \$3,200 annually aggregating twenty million dollars on an annual basis could be used profitably in this work.

Since we do not know how long it will take to recruit the 5,000 agents, we are putting Congress on notice that we expect to recruit these agents and spend funds out of the 1945 Appropriation available 1 July 1945 at an accelerated rate. You are indicating to the Congress today, that as soon as you know definitely the number of persons you will be able to recruit in 1945 for this work, you will return for a specific appropriation which will not exceed 5,000 agents and twenty million dollars on an annual basis.

CSB:led
1/Jun/45

78

1 June 1945

Secretary Morgenthau
Charles Bell
(SIGNED) CHARLES S. BELL

There is before the House Appropriation Committee a request for \$18,300,000 which estimate was approved by the Bureau of the Budget. This estimate is for the purpose of employing 5,943 additional persons in the Bureau of Internal Revenue. Specifically:

Deputy Collectors	1,000
Clerical help in	
Collectors' offices	2,716
Revenue Agents	1,500
Clerks in Income	
Tax offices	611
Conferees and clerks	
in Salary Stabilization	116

These persons are to strengthen the Internal Revenue offices generally and are separate from the 5,000 agents to be engaged for the Tax drive.

CSB:led
1/June/45

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Date: June 1945

to Secretary Morgenthau
FROM Charles Bell *mm*

Since the resignation of George Schoeneman as Assistant Commissioner of Internal Revenue, an important field of work is now being supervised by Mr. William T. Sherwood and Mr. Numan and it is felt that neither of these gentlemen can assume this added responsibility.

The work comprises general office and administrative supervision over the 68 Collectors of Internal Revenue throughout the United States. While Mr. Schoeneman carried on this direct responsibility as Assistant Commissioner of Internal Revenue, he was able to supervise in addition other activities relating to the offices of the Deputy Commissioner of Miscellaneous Tax, Deputy Commissioner of the Alcohol Tax Unit, Deputy Commissioner of the Stabilization Unit, etc.

Mr. Numan has recently proposed the appointment of Mr. Paul A. Hankins, at present Executive Officer in the Office of the Deputy Commissioner of Accounts and Collections, for the position of Assistant Commissioner, and it is my opinion that he has not the qualifications to step into the position vacated by George Schoeneman, even though he has had considerable training in the Office of the Deputy Commissioner of Accounts and Collections.

May I suggest that until a candidate can be selected who would have all of the qualifications thought necessary to fill the position of Assistant Commissioner of Internal Revenue, now vacant, Mr. Hankins be elevated to the position of Assistant to the Commissioner and in this capacity have turned

- 2 -

over to him that portion of the work heretofore handled by Mr. Schoeneman relating to the supervision and administration of the 68 Collectors' offices throughout the United States, provided of course that Mr. Numan feels that he could satisfactorily discharge this responsibility.

This arrangement could be perfected with a minimum of organizational rearrangement. All that would be necessary would be for this office to set up with the Civil Service Commission a CAF-15 job paying an entrance salary of \$8,000 with a title of "Assistant to the Commissioner", fully describing the duties and orally impressing upon the Commission the unprecedented expansion in the Revenue program of work, such for instance as the rise in Internal Revenue collections from four billion dollars before the war, to forty-five billion dollars, and from five million taxpayers to fifty million taxpayers. I am confident that I could, in a matter of hours, get the Civil Service Commission's approval to such a proposal.

Mr. Numan would then have at his elbow an Assistant Commissioner, Mr. William T. Sherwood, entirely conversed with practically every phase of Internal Revenue operation including the technical aspects arising in connection with the application of income tax laws. Mr. Sherwood is well equipped to guide the work, under the Commissioner, of the Income Tax Unit, the Intelligence Unit, the Technical Staff, and relieve the Commissioner in any other field of technical responsibility, acting for him in matters arising in the Chief Counsel's office. It would seem that the Commissioner could profitably use the services of an Assistant Commissioner to whom he might delegate a degree of responsibility over such units as the Alcohol Tax Unit, the Miscellaneous Tax Unit, the Stabilization Unit, and the Accounts and Collections Unit, unless he wished Mr. Hankins to report to him direct.

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The need for a Director of Enforcement is now under current consideration by the Commissioner of Internal Revenue. The Director could likewise report to the Commissioner through the vacant Assistant Commissioner.

Other details of a purely service or administrative nature might properly be grouped under the Assistant Commissioner vacancy, however, it should be pointed out that Mr. Munan lives very closely with his organization and his door is open at all times to any of the Deputy Commissioners or other officials irrespective of the position of Assistant Commissioner.

*OK
JPC*

OFFICE CHIEF CLERK

UNITED STATES TREASURY DEPARTMENT
WASHINGTON, D. C.

WORK SHEET

Date 1 June 1945

TO DIRECTOR OF PERSONNEL

Name HANKINS, Paul A.From Bureau of Internal Revenue

(BUREAU OR DIVISION)

Nature of Recommendation

Promotion

	FROM	TO	APPROPRIATION
Position	Executive Officer	Assistant to the Commissioner	CIR
Grade	CAF 14	CAF 15	DATE OF BIRTH
Salary	\$6,500 per annum	\$8,000 per annum	12-23-94
Bureau or Div.	Internal Revenue	Bureau of Internal Revenue	LEGAL RESIDENCE
Organizational Subdivisions	Accts. & Collections		Ill.
	Deputy Commissioner		SEX
			M
Headquarters	Washington, D. C.	Washington, D. C.	NATURE OF POSITION
Post of Duty	Coll. the Int. Rev.	Coll. the Int. Rev.	NEW
Appropriation	#36	Deptl.	ADDTL. CHGT.
Assignment	Deptl.		VICE VACANCY
			VICE
EFFECTIVE	First pay period after approval by the Civil Service Commission of the classification sheet.		
Remarks:			
Justification:			
Approved:			
(Signed) H. Morgenthau, Jr.			
Secretary			
Consideration given all other eligible employees			
Certified as to sufficiency of Appropriated Funds			
	(BUREAU OR DIVISION HEAD)		

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1 June 1945

MEMORANDUM TO THE PRESIDENT:

Yesterday I acquainted the top officials of the Civil Service Commission with our special tax drive and the necessity for an accelerated program of recruitment. Arrangements have been made with the Civil Service Commission to have placed at every Army discharge center in the United States a qualified recruitment officer from the Civil Service Commission, fully versed in our recruitment requirements, who will steer to us qualified veterans as they are discharged.

CSB Initialed
1/June/45

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June 1, 1945

Harry White
Secretary Morgenthau

Please draft a telegram for me to T. V. Soong
congratulating him on his new position. I would like
to have that by 11:00, if you please. *Telegram air 6/15*

HM SR had these papers with him when he
appeared before House and Senate Appns.
Comm. on June 1, 1945, in connection
with additional appns. for law enforcement
work.

Secretary Morgenthau
Charles Bell

1 June 1945

There is before the House Appropriation Committee
a request for \$16,300,000 which estimate was approved
by the Bureau of the Budget. This estimate is for
the purpose of employing 5,943 additional persons in
the Bureau of Internal Revenue. Specifically:

Deputy Collectors	1,000
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Collectors' offices	2,716
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Tax offices	611
Conferees and clerks	
in Salary Stabilization	116

These persons are to strengthen the Internal
Revenue offices generally and are separate from the
5,000 agents to be engaged for the Tax drive.

CSB:icd
1/June/45

87

1 June 1945

Secretary Morgenthau
Charles Bell

The Enforcement Drive which you have launched in the last sixty days reveals that 5,000 Special Agents receiving \$2,800 and \$3,200 annually aggregating twenty million dollars on an annual basis could be used profitably in this work.

Since we do not know how long it will take to recruit the 5,000 agents, we are putting Congress on notice that we expect to recruit these agents and spend funds out of the 1945 Appropriation available 1 July 1945 at an accelerated rate. You are indicating to the Congress today, that as soon as you know definitely the number of persons you will be able to recruit in 1945 for this work, you will return for a specific appropriation which will not exceed 5,000 agents and twenty million dollars on an annual basis.

CSB:lod
1/Jun/45

<u>Seattle</u>	<u>Washington</u>	<u>Atlanta</u>	
19,993.44 ✓	938,828.98 ✓	1,611.587.59 ✓	
69,812.14 ✓	840,096.60 ✓	333.784.63 ✓	
206,430.98 ✓	1,278,712.31 ✓	4,934.660.40 ✓	
37,589.34 ✓	118,924.85 ✓	894.821.28 ✓	
		678.567.82 ✓	
		4,193.458.48 ✓	
333,825.90	3,173,562.74	1,929,947.35 ✓	
		317.344.72 ✓	
		7,594.356.61 ✓	
		1,378.424.82 ✓	
		324.235.27 ✓	
		1,609.302.22 ✓	
		338.835.90 ✓	
		3,173.562.74 ✓	
		Grand total all divisions	929,512,899.83

For
Krebs
Mohr
Apr

IMMEDIATE RELEASE

JUNE 1, 1945

STATEMENT BY THE PRESIDENT

Secretary Morgenthau has told me about the truly shocking cases of tax evasion his men have discovered. I am thoroughly in sympathy with his plan to enlarge the Bureau of Internal Revenue forces to whatever extent is required to insure full compliance with the law. It will be good business for the Government, because every dollar we spend in collection and enforcement will produce \$20 or more in revenue. And much more important is the matter of good morals. We are not fighting this war to make millionaires, and certainly we are not going to allow the black market operators or any other racketeers to be in a favored class, when the men in the armed forces, and our citizens generally, are sacrificing so heavily.

The top officials of the Civil Service Commission have been acquainted with our special tax drive and the necessity for an accelerated program of recruitment. Arrangements have been made with the Civil Service Commission to have placed at every Army discharge center in the United States a qualified recruitment officer from the Civil Service Commission, fully versed in our recruitment requirements, who will steer to us qualified veterans as they are discharged.

The American people understand that sacrifices are necessary. They know the war is still far from being over. The one thing that might break down their will to keep on to complete victory would be a feeling that a few were profiting from the sacrifices of the many. We must see that there is no justification for any such feeling, and that is just what we are going to do.

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HOLD FOR RELEASE

HOLD FOR RELEASE

HOLD FOR RELEASE

JUNE 1, 1945

CONFIDENTIAL: To be held in STRICT CONFIDENCE and no portion, synopsis or intimation to be given out or published until the READING of the President's Message has begun in either the Senate or House of Representatives. Extreme care must therefore be exercised to avoid premature publication.

CHARLES O. ROSS
Secretary to the President

TO THE CONGRESS OF THE UNITED STATES:

The primary task facing the Nation today is to win the war in Japan - to win it completely and to win it as quickly as possible. For every day by which it is shortened means a saving of American lives.

No one can recount the success of the forces of decency in this war without thinking of the one man who was more responsible for victory than any other single human being -- Franklin D. Roosevelt.

Under his guidance, this great Nation grew to be the most powerful military force in all history.

Under his leadership, the Allied strategy was developed which broke down Hitler's fortress, crumbled Germany itself into ruins and unconditional surrender, and has brought us within striking distance of Tokyo.

But there can be no peace in the world until the military power of Japan is destroyed - with the same completeness as was the power of the European dictators.

To do that, we are now engaged in a process of deploying millions of our armed forces against Japan in a vast movement of troops and supplies and weapons over 14,000 miles -- a military and naval feat unequalled in all history.

I think it appropriate at this time to inform the Congress and my countrymen of some of the problems, difficulties, and dangers which confront us in finishing this war - and how we expect to meet them.

Those who have the heavy responsibility of directing the Nation's military efforts do not underestimate the difficulties of crushing an enemy defended by vast distances and animated by desperate fanaticism.

And yet, we have adopted what is a new development in military history. In the face of a conflict with a numerous and fanatical enemy we have undertaken during the next twelve months to discharge approximately two million of the best soldiers the world has ever seen.

The program for the defeat of Germany was accomplished with an accuracy seldom attained in war - yet we had but little margin at the finish. On April 1, 1945, the last American division to arrive in France entered the battle line.

The strategy of the war in Europe was to have all the men that could be effectively deployed on land and sea to crush the German military machine in the shortest possible time.

That is exactly what we plan to do to Japan.

Up to the time of the collapse of Germany the United States Navy, under the expert leadership of Fleet Admiral King, was carrying on two great campaigns thousands of miles apart from each other - one in the Atlantic and one in the Pacific.

These campaigns were distinctly different. The Atlantic campaign consisted essentially of anti-submarine and amphibious operations. Even as the war neared the end, our Navy had to cope with a submarine blitz which was intended to hit our coast in April.

The Pacific campaign has involved to a major degree all the surface, air, amphibious, and submarine aspect of Naval warfare; but anti-submarine operations have played only a subordinate role.

At one time in 1943, the United States Navy was employing over 1100 planes in its anti-submarine warfare in the Atlantic; and, in mid 1944, over 900 ocean-going escort vessels.

All of our escort vessels have been, or will be, sent to the Pacific, except for a very few to be retained in the Atlantic for training purpose or to meet any remotely possible emergency.

Our Navy, in addition to the miraculous job of conveying our endless stream of men and materials to Europe, did its full share, under over-all British naval command, in amphibious operations in that theatre. The use of its landing craft and carriers, and the fire support of its battleships, cruisers, and destroyers, made possible the landings in North Africa in 1942, in Sicily and Italy in 1943, and in Normandy and southern France in 1944.

Even before the invasion of France, some of our Atlantic naval force had already been sent to the Pacific. After our troops were firmly established ashore, fighting ships were moved to the Pacific as rapidly as they could be released from the requirements of the European and Mediterranean theatres and from anti-submarine warfare. The Japanese have already felt the presence of those ships - and will continue to feel it more and more.

In the Pacific the naval campaign has gone through four major phases.

The first was the defensive of 1941 and of the first half of 1942, when we fought in the Philippines and the East Indies, in the Coral Sea, at Midway and in the Aleutians.

The second was the offensive-defensive in late 1942 at Guadalcanal.

The third was the limited offensive in 1943 which we advanced slowly through the Solomons and re-took the Aleutians.

The fourth was the full offensive of 1944 and 1945 when the forces of the Southwest Pacific Area under General of the Army MacArthur, and those of the Central Pacific Area under Fleet Admiral Nimitz made their great seaborne sweeps to the Philippines and Okinawa.

During this time the Navy has fought four full-scale sea battles: the Coral Sea, Midway, the Philippine Sea last summer off Saipan, and the three-pronged battle for Leyte Gulf last October.

The Japanese surface Navy has now been reduced to a fraction of its former self. We have driven their ships into hiding and their naval aircraft back to their shore bases.

A large part of this success is due to our present carrier-based air power, which has permitted us to carry forward, for many hundreds of miles at a time, the air cover that is needed for a successful amphibious attack. The carriers that made possible these enormous strides were laid down in 1940 -- a year and a half before we entered the war. Had they not been started then, our fast advances in the Pacific could not have occurred until much later.

The Japanese merchant marine, in spite of a large program of building, has now been reduced to less than a quarter of its pre-war size. In fact we have sunk more Japanese merchant tonnage than they had at the time of Pearl Harbor.

For this and for the reduction of the Japanese Navy, we can thank our submarines, our Army and Navy shore-based aircraft, and our fast carrier task forces. Today, no enemy ship can proceed between Japan and her southern conquests without running the most serious risk.

The outstanding feature of the Pacific war -- the one which sets it apart from all previous wars -- has been the number of the amphibious operations.

We have constructed a great fleet of special vessels for this purpose: attack transports, attack cargo ships, landing ships and landing craft. These ships make it possible to put troops and equipment ashore on open beaches in the minimum of time.

The Navy has a great share in every amphibious attack. For instance, one attack which involved landing 45,000 troops required the use of 125,000 naval personnel. In general it may be said it takes two to three sailors to put one soldier or Marine ashore. It takes half a million tons of naval shipping for each division in an amphibious operation.

The Navy is now engaged in a series of grim tasks: a battle of attrition with the Japanese Air Force in the waters around Japan and Okinawa; a tightening of the blockade of Japan; redeploying its own forces from Europe; aiding the Army to redeploy; and preparing for the climactic operations yet to come.

As we approach the enemy's homeland, the density of his air power naturally becomes greater and greater. A year and a half ago, the enemy had more than 5000 operating airplanes to guard perhaps eighteen million square miles of area. We could attack wherever we saw that the defense was thinly spread. Since then, we have reduced his total air power very much, but the area he is now forced to defend has been shrunk so much more quickly by our rapid advance, that the density of his air power is four or five times as great as it was.

This means tough fighting in the air. It means the loss of ships. It means damaged ships that must be replaced or brought back thousands of miles for repair.

We at home can hardly imagine either the delirium of Japanese suicide attacks on our troops, airfields and ships, or the heroism of our men in meeting them. As we approach the main islands of the enemy the damage to our ships and the loss of our men are becoming more severe. In the future we shall have to expect more damage rather than less.

In carrying out its future tasks the Navy will need not only all of its present great fleets, it will need additional vessels. These vessels are now being built - partly to replace anticipated losses in future operations and partly to reinforce the fleet for the final operations it will have to conduct in enemy home waters.

The Navy is deploying all but a handful of its men from Europe to the Pacific. But unlike the Army, the Navy, after the collapse of Germany, did not have a surplus of personnel. There can not be even a partial naval demobilization - until the Japanese are defeated.

The Navy still needs civilian laborers, particularly in the yards where ships are repaired. Working continuously under the concentrated air effort of the enemy, the fleet suffers daily damage. Many vessels have come back wounded in varying degree. To tell the number would give information to the enemy but the number is substantial. The Navy must get these ships back into the fight with the least possible delay.

We have in our Navy yards the machinery and mechanical equipment to deal with the mounting load of battle damage. But civilian workers are needed now in ever increasing numbers. I know that the patriotic workers of the nation will rally to the aid of the Navy in this emergency as they have rallied in past emergencies. For they know that every day saved in getting a damaged ship back into service shortens the war and saves American lives.

In the air, we have shown what America can do with land-based planes and with carrier-based planes - in strategic bombing and in tactical bombing.

We are now able in Germany to investigate and examine the results of our strategic bombing. In spite of the most desperate resistance of the Luftwaffe and in spite of murderous barages from anti-aircraft guns, the American and British Air Forces smashed at German industry day after day and night after night until its support of the German armies ceased.

Our strategic bombardment did a complete and masterly job of destroying the sources of strength of the German Air Force and the German military machine. Our bombers dried up the flow of vital oil and gasoline supplies not only to the German Air Force, but to the rest of the German Army and to German industry as well.

We have had experience too - deadly experience for the Nazis - with our tactical air forces as distinguished from strategic bombing. They wrecked the bridges and roads, the railroads and canals on which the German army counted. Germany's best panzer divisions - entire Army Corps, in fact - were immobilized.

The air force of Japan is not as strong an opponent as the Luftwaffe. Japanese industry is neither as great nor as scattered as Germany's. The planes we are using and will continue to use against Japan will be larger in size and more powerful in action than our bombers in Europe.

Our Army planes and our Navy ships and planes are now driving Japan out of the air, and when our strategic air force reaches the Pacific in full might it will demolish the enemy's resources of production. Our strategic bombardment of Japan is now well beyond its initial phase. The missions of the Twentieth Air Force are mounting in size and intensity. Substantial portions of Japan's key industrial centers have been levelled to the ground in a series of record incendiary raids. What has already happened to Tokyo will happen to every Japanese city whose industries feed the Japanese war machine. I urge Japanese civilians to leave those cities if they wish to save their lives.

Our tactical air forces, experienced and battle-wise, will soon be ranging over the Japanese homeland from nearby bases.

The Japanese air force will be shattered by our Army and Navy fliers as surely and relentlessly as the Luftwaffe. The concentration of Japanese industry, so long an advantage, will now contribute materially to Japan's downfall.

The Army Air Forces began its redeployment last December when a heavy bomber group returned to this country from Europe, and received B-29 training before moving to the Pacific. The following month a B-25 medium bomber group came to this country and proceeded, after training, to fly A-26 attack bombers against the Japanese.

During the last month twenty bombardment groups have received orders to move from Europe to the Far East by way of the United States.

Our ground armies, our corps and our divisions have followed the best traditions of the American soldier for courage and skill; and their leadership has been of the uniformly high quality which results in victory.

The United States has been fortunate in having as the Chief of Staff to the Commander in Chief of the Army and Navy a man of so great experience and ability as Fleet Admiral Leahy.

We have also been fortunate in having at the head of our land and air forces men like General Marshall, General Eisenhower, General MacArthur and General Arnold. They have provided the inspiration and the leadership for all our Army operations.

The American soldier of this war is as brave and as magnificent as the American soldier has always been. He has the initiative and ingenuity he has always had. But in this war he is a better soldier and a more successful soldier than he has ever been before. For in this war he has gone into battle better trained, better equipped, and better led than ever before.

In the face of the formidable Nazi hordes which had secured a stronghold on Western Europe, our armies, shoulder to shoulder with those of our Allies, forced a landing on the shores of France. In the short space of eleven months they drove the enemy from France, Belgium, Luxembourg and Holland and forced him to unconditional surrender in the heart of his own homeland.

To the south our troops and those of the Allies wrested North Africa from the Axis, fought a dogged advance through Italy from Sicily to the Alps, and pinned down a force that otherwise could have brought substantial aid to the enemy on the eastern and western fronts.

(OVER)

The heroism of our own troops in Europe was matched by that of the armed forces of the nations that fought by our side. They and the brave men in the underground movements of the occupied countries - all gave their blood to wipe the Nazi terror from the face of the earth. They absorbed the blows of the German military machine during the many months in which we were building up our expeditionary forces, and they shared to the full in the ultimate destruction of the enemy.

The same courage and skill which brought about the downfall of the Nazis are being displayed by our soldiers now fighting in the Pacific. Many of them are veterans of the grim months following Pearl Harbor.

Since 1942 our Army troops and Marines in the south Pacific have thrown the enemy back from his furthestmost advances in New Guinea and the Solomons, have traveled 1500 miles up the New Guinea coastline, have conquered the Admiralty Islands, Rik and Morotai. Meanwhile, Marines and Army troops have been cleaning up in the Solomons and the Palau. In October of last year these magnificent achievements culminated in the landing of our troops in Leyte. Four months later they freed Manila.

Westward across the Central Pacific other Marines and Army units, in hard fought battles, have forced the Japanese back four thousand miles. Tarawa, Kwajalein, Saipan, Guam, Iwo Jima have been the stopping stones. Today Army and Marine divisions are slowly but steadily sweeping the Japanese from Okinawa.

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All of our campaigns in Europe and in the Pacific have depended on long lines of communications and upon quantities of supply unheard of in prior warfare. One of the marvels of Allied achievements has been the organization, guarding and operation of these world-girdling supply lines.

For this we have to thank management and labor in our war industries, our farmers and miners and other Americans - who produced the equipment and supplies for ourselves and our Allies; the gallant members of our Merchant Marine - who transported them overseas under the guns of our Navy; and the men of our Army Service Forces - upon whose work in clearing ports, rushing up supplies, and constructing roads, railroads, bridges, highways, and gasoline pipe lines, the fate of battle often depended.

There are also included in our experience in this war miracles of saving human life as well as miracles of destruction of the enemy. Since the invasion of Africa in November, 1942, in all our operations in Europe and in Africa, we have lost about 1600 soldiers from sickness. In the Civil War the Union forces, never more than a third as large as our forces in Europe, had 224,000 deaths from sickness. In the three years since April, 1942, the Army forces in the disease-infected islands of the Pacific lost fewer than 1400 men from sickness.

Surgery in this war has reduced the percentage of death from wounds in the Army from 8.25% in the last war to 4% in this one. This is due to many factors: the high professional skill of the surgeons and nurses, the availability of blood and blood plasma, penicillin and other new miracles of medicine; the devotion of the Medical Corps men who rescue the wounded under fire, the advanced position of surgical staffs right up behind the front lines.

....

Shifting our ground and air strength from Europe to the Far East presents transportation problems even greater and more complicated than those involved in the initial deployment of our forces to all parts of the world. Millions of men and millions of tons of supplies must be moved half way around the globe.

The movement of troops from Europe has been swift in getting under way. They are coming by ship and they are coming by air. Every day the process of transfer gains momentum.

After the first World War - when the only problem was getting men home and there was no bitter, powerful enemy left to fight - it took nearly a year to complete the evacuation of 1,933,156 men. This time the Army Transportation Corps and the Air Transport Command plan to move 3,000,000 troops out of Europe before a year passes.

It is not easy to visualize the volume of supplies that must precede, accompany, and follow the soldiers going from Europe and the United States into the Pacific. To maintain our forces in Europe the Army shipped across the Atlantic 68 million tons of equipment and food - nearly eight times the total shipped in all the first World War.

Now we must reclaim all of this equipment that is still serviceable. We must supplement it with new production. And we must make shipments of comparable size to the Pacific over supply lanes which are three times as long as those to Europe.

The initial requirement of equipment for each man fighting against Japan is about six tons and an additional ton is needed each month for maintenance.

Finding the ships to transport these supplies is not the only difficulty. We must continue to develop in the Pacific new harbors and bases out of practically nothing, install roads and build power systems.

Great as these problems of redeployment are, we are not losing sight of the human aspect in shifting men from one side of the world to the other. However it can be done without slowing down the pace of our projected operations in the Pacific, we are deploying our soldiers by way of the United States so that they may have a chance to visit their homes and loved ones before they go on to tackle the Japanese.

On the basis of present estimates, only a small fraction of the men now in Europe will have to go directly to the Far East without first stopping off at home.

The remainder of our present European forces will go to the Pacific through the United States, will be assigned to necessary military duties in this country, will be discharged, or will be kept in Europe for occupation duty. Most of those who will go directly to the Pacific are in supply and service units whose presence in the new theater is essential to the immediate construction of harbors, bases, communications and airfields - from which to step up our blows against Japan.

The Army is mindful that those who come through this country want to get home with the least possible delay once their ship docks or their plane lands. Everything is geared for speed to accomplish this at the air and sea ports. Within twenty-four hours in most cases they are aboard a train at government expense bound for one of the nineteen Army Personnel Centers, where the men immediately eligible for discharge are separated from those who are destined for further service.

Men who are to remain on active duty are promptly "ordered" home from the Personnel Center at government expense, for a period up to thirty days, plus travel time, for rest and recuperation.

(OVER)

Regraded Unclassified

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(OVER)

Regraded Unclassified

The period spent at home is not charged against the man's furlough time nor is it classed as leave of absence. It is "temporary duty", and the soldier draws full pay for the period. His only instructions are to have the best time he knows how until he reports back to the Personnel Center. That is what I mean when I say that we have not forgotten the human side of redeployment.

Relatives and friends of servicemen can do their part in this program by not crowding around the ports and Personnel Centers through which the men pass. The men will get home as soon as is humanly possible. Troop movements on the nation's railroads will become increasingly heavy from now on. I ask for full public cooperation in preventing any aggravation of this burden on domestic transportation, for it would slow down the rate at which soldiers can be reunited with their loved ones.

At the same time as we step up the movement of men and munitions to the Far East, we have been exerting every effort to increase the number of ships available to return men to this country for discharge.

Three hundred and sixteen cargo ships are being converted to help soldiers get out of Europe faster. They are not the most luxurious ships ever seen, but they will get the men home. In addition, the British are letting us use their three proudest passenger liners -- the Queen Elizabeth, the Queen Mary and the Aquitania.

These, added to fifty of our own transport vessels, eight hundred bombers and transport planes, and such ships as we are able to use out of the German merchant fleet, will make it possible to bring men home for discharge without interfering with the main job of transferring troops and equipment to the war against Japan.

The Army's system for selecting the soldiers for release to civilian life represents a democratic and fair approach to this most difficult problem. A poll was taken among enlisted men in all parts of the world. They were asked what factors they believed should be taken into consideration in deciding who should be released from the Army first. More than 90 per cent said that preference should go to those who had been overseas and in combat longest, and to those with children.

The Army spent two years developing a program of point credits designed to carry out these views expressed by the soldiers. It checked and rechecked its program, and made comprehensive surveys in order to make sure that the plan would achieve the objectives.

The system applies equally to the members of our Army in all parts of the world. It embodies the principle of impartial selection that we applied in drafting our citizen Army and that we shall continue to apply in meeting the manpower requirements of our armed forces until Japan is defeated.

By reducing the strength of the Army from 8,300,000 to 6,968,000 and by maintaining the Army calls on Selective Service at a level substantially higher than requirements for actual replacements, it will be possible to restore to their homes during the next year a total of two million officers and men, including those who will leave because of wounds, sickness, age and other specific causes, as well as those who will leave under the point system.

To accomplish this while continuing to be liberal in the deferment of men thirty years of age and over, it is the Administration's policy to induct all non-veterans under thirty years of age who can be replaced and who can qualify for the armed forces. Many of such men who have thus far been irreplaceable will become available for induction when the plants in which they are working are cut back or when they can be replaced from time to time by cutback-production workers and returning veterans.

In the three weeks since the point system became effective 2500 officers and 33,000 enlisted men and women from every theater of war have received final discharge papers at Army Separation Centers. During June, 50,000 high-score men are scheduled to leave Europe for this country, and 33,000 are scheduled to come from the Pacific and Asia. The great majority of these, a few days after they arrive, will be civilians again.

Let no one be under the delusion that these discharges are being authorized because the war is nearing an end or because we feel the Japanese are easy to beat. They are being made because our military leaders believe that we can reduce the overall strength of our Army at this time without jeopardy to our cause in the Pacific or to the lives of the men fighting there.

The Joint Chiefs of Staff, after consultation with General MacArthur and Admiral Nimitz, have decided that our Army can deliver its heaviest blows in the Pacific and win final victory most quickly with a strength which a year from now will be about seven million.

By maintaining our Army at this size, we shall be able to more than double the force we now have in the Pacific and hurl against the Japanese an overseas force larger than the 3,500,000 men who united with our Allies to crush the Wehrmacht and the Luftwaffe.

These are the men who will be carrying the fight to the enemy, but obviously they cannot operate effectively unless there are adequate reserve troops in training in the United States, and also an adequate base from which our advance troops can be supplied and serviced.

It is our plan that every physically fit soldier in the United States who has not yet served overseas be assigned to foreign duty when he completes his training or, if he is fulfilling an essential administrative or service job, as soon as he can be replaced by a returning veteran. This has been the Army's policy since the beginning of the war. It will be rigidly adhered to in the redeployment period.

If it were not for the overwhelming ascendancy established by our air and fleet units, we should have to send many more men to the Pacific than we now intend. The Japanese have more than four million troops under arms -- a force larger than the Germans were ever able to put against us on the Western Front. To back up this Army, they have several million additional men of military age who have not yet been called to the colors. We have not yet come up against the main strength of this Japanese military force. The Japanese army is organized into 100 combat divisions. Its air force, despite the heavy losses it has suffered, still comprises over 3,000 combat planes. We are cutting heavily into Japanese aircraft production through our Superfortress raids, but Japan remains capable of producing planes at the rate of 1,250 to 1,500 a month.

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Army casualties on Okinawa from March 18 to May 29 totaled 3603 killed and missing and 14,661 wounded. The Marines in the same period reported 1889 dead and missing and 8403 wounded. Navy and Coast Guard losses were 4729 killed and missing and 4640 wounded, an overall total for all services of 10221 killed and missing and 27704 wounded. Japanese deaths were nearly six times as great as our own. On May 29, the total of Japanese killed on Okinawa was 61,066.

That is an example of the increasing toughness of this war as our troops get closer to Tokyo.

It is this kind of fighting we must be prepared for in our future campaigns. All of our experience indicates that no matter how hard we hit the enemy from the air or from the sea, the foot soldier will still have to advance against strongly entrenched and fanatical troops, through sheer grit and fighting skill, backed up by all the mechanical superiority in flamethrowers, tanks and artillery we can put at his disposal. There is no easy way to win.

Our military policy for the defeat of Japan calls for:

- (1) Pinning down the Japanese forces where they now are and keeping them divided so that they can be destroyed piece by piece.
- (2) Concentrating overwhelming power on each segment which we attack.
- (3) Using ships, aircraft, armor, artillery and all other material in massive concentrations to gain victory with the smallest possible loss of life.
- (4) Applying relentless and increasing pressure to the enemy by sea, air and on the land, so that he cannot rest, reorganize or regroup his battered forces or dwindling supplies to meet our next attack.

Of course the differences between the war in Europe and the war in the Pacific will cause differences in war production. The composition of the army will be different, as will the equipment issued to troops. There will be changes in strategic plans and in replacement factors.

Until the expanded pipelines for the Pacific war are filled, and until equipment arrives in substantial amounts from the European theatre, war production must continue at a high rate.

The Navy program will continue on an even keel.

There has been a sharp reduction in the program of the Army Air Forces.

Similar sharp cuts in the program of supplies for our ground troops are now being put into effect. Some new items of equipment will be added. The emphasis will be shifted in others.

Thus, there will be a decreased production in heavy artillery, artillery ammunition, trucks, tanks and small arms.

There will be increased production in aircraft bombs, atabrine, steel barges, wire and insect screening cloth, combat boots, cotton uniforms, amphibious trucks, raincoats, distillation units, radio relay units, special railway equipment, and motorized shop equipment.

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In a number of important items there will be little change in demand for an indefinite period. These include food, clothing, petroleum products, lumber, and certain chemicals. It is likely that all these will remain on the critical list. Leather is tight. So are textiles. There is a shortage of cotton duck and fabrics for clothing. The food problem has been accentuated by the steadily increasing numbers the Army has been called upon to feed.

Accordingly, production for the Japanese war cannot be taken as a matter of course. It will require a high percentage of our resources.

War Production Board Chairman Krug has stated that during the balance of this year, our munitions production will run at an annual rate of \$58,000,000,000, which is almost equal to the rate of 1943, and more than nine-tenths the rate during the peak of 1944.

With these production objectives before us, we must not slacken our support of the men who are now preparing for the final assault on Japan. War production remains the paramount consideration of our national effort.

These then are our plans for bringing about the unconditional surrender of Japan. If the Japanese insist on continuing resistance beyond the point of reason, their country will suffer the same destruction as Germany. Our blows will destroy their whole modern industrial plant and organization, which they have built up during the past century and which they are now devoting to a hopeless cause.

We have no desire or intention to destroy or enslave the Japanese people. But only surrender can prevent the kind of ruin which they have seen come to Germany as a result of continued, useless resistance.

The job ahead for this Nation is clear.

We are faced with a powerful Japanese military machine. These are the same Japanese who perpetrated the infamous attack on Pearl Harbor three and one-half years ago; they are the same Japanese who ordered the death march from Bataan; they are the same Japanese who carried out the barbarous massacres in Manila.

They now know that their dreams of conquest are shattered. They no longer boast of dictating peace terms in Washington.

This does not mean, however, that the Japanese have given up hope. They are depending on America tiring of this war - becoming weary of the sacrifices it demands. They hope that our desire to see our soldiers and sailors home again and the temptation to return to the comforts and profits of peace will force us to settle for some compromise short of unconditional surrender.

They should know better.

They should realize that this Nation, now at the peak of its military strength, will not relax, will not weaken in its purpose.

We have the men, the material, the skill, the leadership, the fortitude to achieve total victory.

We have the Allies who will help us to achieve it. We are resolute in our determination - we will see the fight through to a complete and victorious finish.

To that end, with the help of God, we shall use every ounce of our energy and strength.

HAROLD G. TRUMAN

THE WHITE HOUSE
June 1, 1945

Regraded Unclassified

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1 June 1945

TO MRS. ROOSEVELT:

Many suggestions for issuance of a \$10 denomination savings bond (\$7.50 purchase price) have been presented to the United States Treasury. The Treasury feels that its facilities are now taxed to the limit for the present issues and that it could not undertake to make available generally to the public bonds in the denomination of \$10. The cost of issuance, handling lost bonds, the numerous other transactions and their ultimate redemption would be greatly out of proportion to the receipts from their sale. It is felt that the \$25 denomination is as low as the Treasury can safely go and be certain to meet the public demands.

The availability of war savings stamps in denominations of from 10¢ to \$5 and the widespread payroll savings plans which amount to partial payment plans for bond purchases, open to 27,000,000 workers, would seem to cover adequately the market for very small investors.

(Signed) H. Morgenthau, Jr.

DVB:NLE
1 June 1945

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SECRETARY'S READING COPY OF STATEMENT
BEFORE HOUSE AND SENATE APPROPRIATIONS
COMMITTEES JUNE 1, 1945 - IN CONNECTION
WITH ADDITIONAL APPROPRIATIONS TO HIRE
LAW ENFORCEMENT PERSONNEL

Final Page changed for 98
House & Senate

House version

Your Chairman, Mr. Cannon, was kind enough to afford me this opportunity to discuss informally with your Committee a situation which has been giving increasing concern to me as Secretary of the Treasury and which, I am sure, will be of interest to you gentlemen, not only as members of the House Committee on Appropriations, but as individual citizens and taxpayers.

As you all know, wartime needs for revenue have resulted in a tremendous broadening of the tax base and a great increase in the number of taxpayers, as well as a great increase in the rates of tax.

99

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- 2 -

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Where before the war we were collecting \$5 billion in taxes a year and there were 4 million individual taxpayers, we are now collecting upwards of 45 billion dollars a year and there are approximately 50 million individual taxpayers.

As the tax burden increases there is more and more inclination by the greedy and dishonest to evade their taxes, and it is to the problem of enforcement of our tax laws against that kind of individual that I wish to address myself.

We in the Treasury have been conscious of the seriousness of our problem for some time, but I would be less than frank if I did not admit that recent disclosures have persuaded me that our sights have been too low.

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I fully recognize the patriotic and willing response of our nation of taxpayers to the increased demands placed upon them for war finance. But in all earnestness I am alarmed at the evidence of evasion and concealment, especially by those who seek to grow rich through war-swollen profits and illicit black market operations in foodstuffs and short commodities. To combat that situation, about two months ago I initiated a special enforcement drive.

Starting with a nucleus of a couple of hundred special agents of our Intelligence Unit, men trained to detect criminal tax evasion, we have presently assigned to this special drive some 1600 Bureau of Internal Revenue employees, almost all of them drafted from other work.

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And it is of the results of the work of that group, and the implications of what they have disclosed, that I wish to tell you.

I have personally reviewed the weekly reports made by the men in charge of the special squads working in various sections of the country, and the situation disclosed has shocked me profoundly. The group has under active investigation some 3600 cases indicating substantial tax evasion, and, in addition, more than 7,000 leads have been turned up and are awaiting only available manpower to investigate them.

I would like to give you something of an insight into what I have been learning in recent weeks.

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We are finding "pay dirt" in transactions involving food, liquor, automobiles, furs, jewelry, gambling and cabarets, just to mention a few. Many cases combine black-market operations with a criminal concealment of income. Some of the most striking cases -- and I will give you the details -- are what we refer to as "currency" cases. By that we mean cases in which the malefactor made a practice of conducting his dealings in cash, in order better to conceal the nature and scope of his operations.

If I were to attempt to relate in detail all of the cases now pending, it would keep you here until this Congress adjourns.

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But I know you are interested in specific cases and before coming over here today I selected a few.

An investigation now underway in California indicates concealment of between \$10 million and \$12 million taxable income in raisin operations, in which food intended for the armed forces was diverted to wineries. Because military requirements for raisins are so heavy, the War Food Administration requires that raisins be sold only to the United States Government or under permit. A price ceiling of \$185 a ton was placed on raisin grapes. No ceiling, however, was set for culls and wastage, which normally run about 6 percent of the crop, with wastage sold at \$15 to \$45 per ton.

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The 1944 crop has now been largely marketed and indications are that 40 per cent of the crop was sold as "wastage" at prices ranging from \$325 to \$440 per ton. So here we have the astounding situation of "wastage" selling for more than twice the price of the product, because there is a ceiling on the product and none on the waste. Our investigation thus far indicates a widespread conspiracy, involving the use of large amounts of currency and fictitious names. We already have between twenty and thirty cases involving individuals but we have thus far only scratched the surface.

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The Treasury and the War Food Administration are cooperating closely in a thoroughgoing investigation of this entire subject.

Another shocking case of diversion from war uses, accompanied by an attempt to cheat the Government of its revenue, has been turned up in the New York district. A preserving company got approximately 30 million pounds of sugar for the avowed purpose of making jams and jellies for the United States Navy. So far as we can learn, not one pound of the sugar was used for these purposes. The evidence indicates that most of the sugar was diverted to beverage concerns. To conceal its sales the company required payment to be made in cash in many cases and in other cases cashed checks outside of the usual banking channels.

- 9 -

By these methods the company sought to conceal sales of more than \$1,200,000. With fraud penalties and interest the Government expects to collect approximately \$2,000,000. There will also be a recommendation for criminal prosecution.

The Treasurer of a New York corporation selling products to baking companies was discovered recently to have been cashing, through check cashing agencies, some substantial checks made out to his corporation, instead of putting the checks through regular channels. It was also discovered that the proceeds of these checks were not being entered on the books of the corporation.

- 10 -

During the progress of the investigation, this man and his attorney offered to make a full disclosure of these omissions, stating that they would total over \$300,000. Treasury investigations continued, however, disclosing tax evasions more than double the \$300,000 figure. Last week the corporation formally notified the Treasury that the company had transferred more than \$600,000 in currency, which had been held in safe deposit vaults, to a bank, the transfer being made by armored car. The money has been put in a special account for the specific purpose of paying any deficiency tax assessments which may be levied against the corporation.

- 11 -

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Operators in black market liquor have been particularly brazen in their use of currency of large denominations and in unusual amounts. Cash payments of nearly \$2,000,000 in "side money" -- that is, money paid on the side, above the ceiling price which appeared upon the books recording the transactions -- have been traced by the Treasury in one black market case which is also an income tax case. In one instance \$60,000 was deposited in a New York bank for transfer to a man in a Southwestern state. Of this total, fifty \$1,000 bills were identified by serial numbers as having been issued at Richmond, the first indication of extensive operations of the syndicate in Virginia.

- 12 -

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In another instance an agent of this syndicate deposited in a bank the contents of a paper covered package which he was heard to refer to as "lettuce". The deposit, it developed later, consisted of nearly \$300,000 in \$50 and \$100 bills.

In another case a collector for a liquor syndicate traveled with a Gladstone bag completely filled with large denomination bills. When he received another payment of \$12,000, his bag was so full that he had extreme difficulty in stuffing the additional money inside. Another collector, when temporarily confined to a hospital, carried on business from his bedside.

- 13 -

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When a nurse entered the room, after a visitor had brought in bills which covered the bed as they were being counted, she thought a robbery had taken place, and started to call the police. It later developed that the bills spread on the bed for counting amounted to \$80,000. It was a robbery, but not exactly the kind that the nurse imagined.

There are literally all kinds of cases, large and small.

We have almost completed one case against a Midwestern war contracting concern which is expected to net almost \$5 million in taxes, interest and penalties -- plus prosecutions.

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Only last week a merchant in a Pennsylvania town of less than 7,000 people was convicted, and the taxes and penalties that the Government will collect in this case will approximate \$110,000. You gentlemen undoubtedly have read in the papers recently of the meat dealer whose undeclared income, on black market sales in the Washington area, will approximate \$400,000, and of the conviction of the Brooklyn physician who diverted millions of yards of textiles, which he was supposed to be using in producing surgical bandages for the Army and Navy, to the black market. Only yesterday this man was sentenced to serve three years in prison and to pay a fine of \$100,000.

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We have an income tax case against this doctor, also, and have jeopardy assessments against property in Florida and Atlantic City in which he is supposed to be interested.

But one statement, in the sordid mass of reports that come in week by week, struck me with particular force, because it is so symptomatic. One of the largest automobile dealers in a Southern state, a man who has profited exceptionally through used car dealings through the war years, was discovered to have omitted more than \$100,000 from his tax returns and to have instituted an elaborate system of secret records. While this man was being examined, under oath, one of the agents asked what prompted him to begin his evasion.

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And the answer speaks volumes as to the spirit pervading all too many people today.

The man said:

"(It was) the desire to evade taxes; (we were) making such enormous profits; more than we had ever made in our lives -- that is the truth."

You and I know how the men who have been fighting in Europe and those who are fighting in the Pacific will react to these things. The man overseas knows that war requires great sacrifices from the man in the field, and dollars from us at home. And no group should be more helpful in running down tax cheats than the men who risked their lives in battle.

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I hope we will be able to enlist in our drive against tax evaders many veterans discharged under the 85 point rule.

I have endeavored to give you only the highlights in a deplorable situation. I want your support in this drive to ferret out and bring to justice those who have not only profited from the bloody business of war but who have also ignored their responsibilities as citizens.

Specifically, I should like to have the approval of Congress of our pending request for a supplemental appropriation amounting to \$16,300,000 for the fiscal year 1946. In addition, I want to be sure you understand the other steps by which we propose to meet our problem.

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It is our intention -- and I hope we have your approval -- to expend at an accelerated rate the money available from our regular 1946 appropriation in order to build the law enforcement staff necessary to carry out this public protection program. With this understanding we can go forward immediately with our program to recruit the 5000 investigators we so urgently need.

We feel that the time is rapidly approaching when competent talent will be available from which we can draw qualified personnel. Cut-backs in military production and the release of men from the armed forces will be material factors in our recruiting program.

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If it is possible for us to recruit the number of people needed during 1946, I will have to come back to your committees with a request for about \$20,000,000 in addition to the \$16,300,000 estimate now before the House Appropriations Committee. The supplemental request now pending did not contemplate this greatly expanded law enforcement work, but I should like to make it clear at this time that I have no intention of continuing to request money for these or any other positions in the Treasury Department beyond the period of time required to perform the necessary work.

I am sure you will appreciate that under existing conditions every dollar spent in combatting tax evasion will bring monetary returns that will repay the government many times over.

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I am personally confident that if we can recruit the force for which I am asking we can collect a minimum of one billion dollars which is now being evaded.

I need not dwell on our Government's need for revenue, nor upon the absolute necessity for our doing everything within our power to see to it that the burden of wartime taxes is borne by each and every one of us according to his ability to pay -- under the law. I need not point out that respect for law is based in major part upon the belief of the average man that it operates evenly and fairly upon all who are subject to it.

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A belief, even ill-founded, that many of our people are able successfully to avoid their obligation to pay taxes will breed disrespect for the law and make for more widespread evasion of it.

If we do less than everything we can to enforce, without fear or favor, the wartime tax laws of the United States, we will not keep faith with the millions of young men and women who bear the brunt of fighting this war, nor with our people who willingly meet their obligations, nor with our 85,000,000 bondholders.

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6/1/45 - File -

Mr. Coe says that it will be impossible for him to have the memorandum to the President on Lend-Lease ready today. He thinks it will take a full day after they have cleared up the German matter to get this memorandum ready.

May 14 - Mr. Coe said that the memo on Lend-Lease is stopped for the time being. Events have out-moded it and it will be taken up later.

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3/30 -

MEMORANDUM FOR THE SECRETARY

June 1, 1945.

Mail Report

It seemed that fully half the letters during the past week related in some way to the drive against tax evaders. For the first time in many months tax matters pushed bond matters out of first place in the fan mail.

The country is solidly behind this effort to trap evaders. Some 75 individuals expressed approval, many of them offered constructive suggestions, and a great many reported specific instances, giving names and addresses of evaders. In many cases these were anonymous "tips" but bore the hall-mark of authenticity. A few writers made the point that Internal Revenue investigators are underpaid. Several urged that the Treasury secure military discharges for seasoned tax men who are needed on the homefront. Two or three again advanced the idea of calling in large bills as a control on tax dodgers, and a number insisted that names of the guilty be made public.

In the remaining tax mail were two letters favoring continued high taxes, five objecting to the present rates, and twelve requesting tax refunds. A number of letters forwarded from the White House endorsed the President's statement in regard to continued high rates until the end of the war with Japan. There were two or three letters describing the plight of white-collar workers who had gone steadily into savings to pay their taxes and now were completely without reserves.

Bond mail contained routine inquiries about War Bonds and Adjusted Service Bonds, promotional ideas, and a dozen or so protests along the usual lines --

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Memorandum for the Secretary.

June 1, 1945.

against OPA, Labor Unions, and our policy in relations with foreign countries. The very end of the week brought one or two mentions of the Congressional move for tax exemption on \$2,500. The brightest spot in the bond mail was the group of twenty-two letters thanking the Secretary for sending "Here's Your Infantry" to various parts of the country. This show received the most enthusiastic praise we have ever had about any such exhibition, and there were no unfavorable comments on it.

Last week's outburst about the Roosevelt dime and bond was only feebly echoed this week. Of fifteen comments on the dime, seven were favorable, eight unfavorable. Of ten comments on the bond, all were favorable except one which asked for a smaller denomination.

There were only three small gifts to the war effort this week and also three minor contributions to the conscience fund.

J. E. Forbush

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General Comments

Mr. and Mrs. J. Rosenberg, New York City. May we say thank you for the wonderful job you are doing as head of our nation's fiscal policy. We support the Bretton Woods policy.

Edward W. Heusinger, Heusinger Hardware Company, San Antonio, Texas. I note that you have announced that a new 10-cent piece with the likeness of the late President Roosevelt is to replace the present dime by next Christmas, also that a new series of War Bonds bearing a picture of Mr. Roosevelt of a new denomination of \$250.00, with a caption containing one of his most popular utterances, would be issued later for the Eighth War Loan. It would be appropriate for the Treasury Department to honor the memory of our late President in issuing a new War Bond with Mr. Roosevelt's picture, and it is also fitting and proper for the Post Office Department, as recently announced, to issue a special set of 1, 2, 3, and 5 cent postage stamps, to the memory of our departed President. ** I do not believe, however, that it is appropriate or proper at this time for the U. S. Government to issue a coin bearing the likeness of Mr. Roosevelt. *** It was not until 1909, the 100th anniversary of the birth of Abraham Lincoln that the so-called "Lincoln Head" cent was issued. The present coinage of quarters bearing the profile of Washington have only been coined since 1932, which was the 200th anniversary of the birth of George Washington, and our present coinage of nickels bearing the likeness of Thomas Jefferson began in 1938, one hundred and ten years after the death of "the father of democracy". I believe every loyal American will agree with me that it is not only unwise, but highly inappropriate to place the likeness of Mr. Roosevelt on any of our coins, the approval of Mrs. Eleanor Roosevelt, the late President's widow, notwithstanding.

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Mrs. M. E. Cooke, Route 1, Box 90, Apopka, Florida. I met several people at the house of a friend this afternoon, and the subject of the Bretton Woods Proposals came up. I had a copy of the little pamphlet put out by your Department, "The Bretton Woods Proposals, Fund and Bank, Questions and Answers", and from having read it, I was able to give them what they declared was the best explanation they had had of the Proposals, and their importance to the future of our country. They expressed a desire to have copies to read and to give to their friends and acquaintances. ***

Thos. H. Daily, Lawyer, Shawneetown, Illinois. I hope that you do not resign and that President Truman does not want you to resign. I want you to remain Secretary of the Treasury as long as I live and as long as the Democratic Party is in power. I do not know you in a business way, but you are a man of my liking, and if this will be beneficial to you, please convey it to the President, or to anyone that will be helpful to you in retaining your office. I have just read about some resigning, which prompted me in writing this letter immediately. I am only a small country town lawyer, but at that, I do like to express my feelings once in awhile.

Rabbi Oscar Fleishaker, Temple of Israel, Portsmouth, New Hampshire. During the period of Passover to Pentecost, it is a Jewish custom to save up a little bit of one's produce for 49 days and on the 50th day to bring the offering to the Temple. This custom was practiced many years ago when the magnificent Temple of Israel existed in Jerusalem. This year three of my children came to me on the 50th day, each with an offering of forty-nine pennies taken from their allowances and asked me to send it to the National Treasury. This is their free-will offering to help in the war effort. It is my privilege to send their small gift to you. ***

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Otis R. Penn, The E. B. Brown Optical Company, Cleveland, Ohio. I see by the papers that there is to be issued some time hence, a new dime with the likeness of our grand and glorious President who had to leave us before he could finish his work that he had laid out for himself and the World. * * * There are about one-half million coin collectors in the United States, and many more in the foreign countries, and I am sure that each and every one of them would be more than glad to pay handsomely for a coin of this kind for its historical as well as sentimental value. Issue a commemorative half dollar and sell it for let us say \$2.00 -- look at the revenue it would bring to help pay for this scrap.

F. M. Reeves, Executive Vice President, The First National Bank, Cornelia, Georgia. This is to acknowledge receipt of a printed letter, bearing date of May 21, 1945, from the Secretary of the Treasury, Entitled, "Instructions to Financial Institutions in the United States". * * * May I say, in the first place, that there is not the remotest possibility that this little "bob-tail country bank" will have transactions covered by this letter. However, if anyone of our customers should desire a \$50 bill, or a \$100 bill, to facilitate his carrying money in his pocket for a legitimate purpose in order to keep from bulging a pocket-book with \$1 bills, we shall accommodate him, and we shall treat it in the manner of a confidential transaction between him and this Bank, not to be reported as a case for the Gestapo of the Treasury Department. If anyone of our regular customers desires to carry out cash to pay for any legitimate thing of value, like a farm, a city home, or a business, or a bill of goods, or an automobile, or any other thing of legitimate value, we shall treat it in the same manner. The relationship between this Bank and its customers is sacred and confidential. We shall maintain that relationship and protect it to the uttermost. "UTTERMOST" means

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in this instance that I am prepared to be shot down by Federal Agents, or rot in a Federal Jail before I will break, or abuse this confidence. This order smacks of the orders of the late Heinrich Himmler of Germany, and I shall resist to the uttermost any effort of any Treasury Agent to interfere with the orderly and legitimate relationships existing between this Bank and its customers. I have six out of my family in the military service of the United States. One of them has already died for the protection of the rights of Americans. I am prepared to do the same thing at home when the occasion arises. I think the Treasury Department has far transcended its reasonable powers. In this order it acknowledges its failure to function legitimately. This Bank is not a tax collector. Its charter doesn't provide that it shall be a tax collector. It is not our intention to accept the job at the hands of the Treasury Department. We will pay our own taxes. That's all.

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Favorable Comments on Bonds

Miguel A. Martorell, Dorado, Puerto Rico. I feel that I have been highly honored by your letter dated the 9th inst., and wish to assure you that it has served as a great new incentive in my sincere desire to continue cooperating with the war effort with more zeal than up to the present. You may no doubt realize that humble citizens appreciate deeply to be noticed by high government officials like you. When one acts to the inner satisfaction of duty performed the pleasure of realizing that one's efforts are appreciated, the efforts in cooperating with a just cause are more pleasurable. * * *

W. E. Dougherty, Little Rock, Arkansas. Having saved \$2,000 in bonds we have at last realized a great ambition and finished paying for our home with them. We wished to keep them to mature but needed the home for our four boys when they come home. My wife and I are taking four Q's per month and hope to continue as long as they last. Probably only this way would we have saved as much.

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Unfavorable Comments on Bonds

Lillian M. Wilson, Portland, Oregon. I am having a tight time convincing our Postal and Savings Bank here in this city that my bonds are not War Bonds, but Government Savings Bonds which I paid \$100 each for, and one \$50.00 bond, purchased in 1930 and 1940. I transposed these bonds to my maiden name. When I wanted to cash these bonds, the Post Office of East Side (this city) sent me to the Federal Reserve Bank; they took the bonds, but they gave a check discounting me \$25.00 on a hundred. I demanded my full face value as I had paid for them. They said the lettering of L and E proved them as War Bonds. I contended I'd bought them long before we were ever in War. * * * Then he turned to a list of Government Bond letters. He showed me that the letters on bonds as late as 1940 were D's and E's. He said, "You go back to the Post Office and make them change this -- it's too much of a loss for you to take". But they said these are War Bonds and you never paid a cent more for these bonds than \$75.00. * * * Well, it was awful the way they talked to me, as if I were cheating or crazy. I took it up with the Post Office Inspector. He has messed around for a year and kept me waiting until today, when he said he couldn't do anything more, but he kept insisting the man that made the transposition was such a grand man, and that if this got out he would be facing punishment. Now I don't know that he has done this to cheat me, but I do know I paid \$100 for three of these bonds and \$50.00 for one, so I am informed to appeal to you. * * * Now, I am nearly 67 years old and can't earn any more money. I am in ill health and I feel this is not a decent way to treat a citizen of this U.S.A. I am waiting patiently for reply and hoping all will come well.

Ralph L. Mosier, Accountant, Wichita, Kansas. For several weeks I have listened to Guy Lombardo's orchestra over a national radio chain and it makes

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me very indignant at the tie-up between the U. S. Treasury and the Union represented by Mr. Lewis Petrillo. I am appealing to you to direct me to the person or persons who are responsible for this direct connection between a branch of our Federal Government and an organization which is political in power and affiliation. * * * I am asking you for this help with the thought that the matter has not been called to your attention by any of your assistants or subordinates. * * * I have the utmost respect for you and your Department and for the magnitude of the job which you are pledged to accomplish for the war effort and domestic front, and I assure you that you will have my utmost cooperation as long as it does not become the political football for any voting block or economic group. * * *

Frances H. O. Dannell, Holyoke, Massachusetts.
I have noticed with apprehension the ennui existing in regard to the 7th War Bond Drive. This, I hope, is but temporary. I further hope that it does not indicate a hand, other than yours, "at the throttle". * * * As you know, V-E Day arrived, and as a result of a constant dinning by radio and press the people did not blow off in a wild display of pride and enthusiasm. This expression of thankfulness was wrongly suppressed. * * * This unhealthy restriction, in my opinion, is responsible for much of the apathy shown by the people. On V-E Day in a war plant in which I work, I took particular note of the peace and victory declaration. If I did not know that we had won the war, I would say we had lost, because of the vacant expression in American's eyes. * * *

LeRoy Adams Grumbine, Los Angeles, California. I have had it in mind for some time to buy more War Bonds, but my enthusiasm for buying them is being very much lessened by the way our State Department is acting -- protecting the King of Italy, condoning Argentine,

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helping Franco, not to mention all the mistakes and persistent bungling of the past in supplying Japs with scrap and oil, in our relations with France, Italy, Greece, Poland, Spain, resulting in needless additional sacrifice of lives of our American boys, and now its pro-fascist and anti-democratic leanings at San Francisco. I am inclined to wonder if the money wouldn't do more good towards insuring the future peace of the world, by sending it direct to Russia, instead.

O. E. Benner, Philadelphia, Pennsylvania. This is to inform you that in the event Congressmen receive the \$2,500 tax-free annual rise, I shall redeem my War Bonds on that day when the law is passed. I have heard similar views expressed on numerous occasions.

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priority regulations obliged the Homestake Mining Company in South Dakota to discontinue paying dividends. This reduced my gross annual 1942 income from \$883.17 to \$383.17, or \$31.93 per month. I am 77 years of age. * * * During the last 8 years I have been battling pernicious anemia and its accompanying ills. This means heavy medical expenses. Consequently, because of my drastically reduced income, I was recently obliged to sell some of my Homestake Mining securities. Under these circumstances, forced upon me, it is neither right nor just that my Government should demand of me the impossible -- payment of not only \$36.12 tax, but also accrued interest of \$2.10. * * * I trust, Mr. Morgenthau, that this explanation will meet with your approval; that you will understand, and that I may not again be annoyed by receiving "Notice and Demand" forms for income tax. * * *

W.C.H., New York State. (Asks name and address be kept confidential.) Much has been said in the papers recently about the "Income Tax Chiselers" and rightly so, but I think a great deal of the fault lies with your own Departmental policy. Your Internal Revenue Agents are not alone overworked, but they are most certainly underpaid. I have handled personnel for many years, and after careful review of many of the Government Agencies, I think, without a doubt, your agents represent the finest type of employee, both from the standpoint of education and personality, as well as acumen. Much is to be said in compliment of your "Agents in Charge" for the selection of their men. Despite all this, however, they are the lowest paid men throughout all of the Government Agencies. * * * They have to do a lot of local travelling, all of which is paid for by the Agent, the Government gives them no allowance for this. It is my belief that because of the importance of their positions, no agent, no matter how inexperienced, should have a rating under CAF-9, and that the majority of your men should be 11's and 12's. They are the fellows who

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are bringing in the money, and it seems to me if they were relieved of their financial worries, which they would be if they received a wage commensurate with the importance of their positions, they would turn up more of these "Tax Chiselers" than you have any idea exist at the present time, particularly here in the Metropolitan area. * * *

H. Benjamin Ray, Fairfield, Connecticut. This is the time of the Seventh War Loan Drive and we are all rightly urged to buy more bonds to keep inflation away from our doors and to furnish the money to purchase the materials with which to effect the final defeat of Japan. I heartily concur with these thoughts, perhaps a bit more so than some of our public, for I have a son who has already stormed the beachheads of Saipan, Tinian and Iwo Jima, and who has done his bit to help secure these stepping-stones on the road to Tokyo. * * * I am terribly disturbed and distressed that I am unable to come to his aid financially by purchasing more bonds. Nothing would make me happier than to do so, but while the spirit is willing, yes, even anxious to serve, the financial structure is weak and I am tied hand and foot. * * * I am and have always been in the so-called "white collar" class, i.e., I work for a bank. * * * For some unfathomable reason, we appear to be the "forgotten men" and we have have had to suffer more than any other group in the country. There has never been any attempt, to my knowledge, to alleviate our sad position, and we seem to be going from bad to worse. While living costs have steadily increased, our earnings have been largely frozen by Government decree, while at the same time our taxes have increased enormously. Not that we mind paying our proportionate share of the costs of the war, and our Government's expenses -- far from it, but, I ask you, is it fair and just that we be taxed so far out of proportion to our reduced incomes? * * * To illustrate my personal position, I have referred to my copies of

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my income tax returns for the period from 1938 to 1944, inclusive. The originals are in your files and can be seen if you want to verify the following figures. I have taken the figures of 1938 as 100% for comparative purposes, and they are as follows:

<u>Year</u>	<u>Income</u>	<u>Taxes</u>
1938	100%	100%
1939	103%	217%
1940	106%	803%
1941	113%	3225%
1942	123%	9781%
1943	117%	14371%
1944	116%	13648%..estimated

These figures seem fantastic; in five years, taxes increased 14,271%, while income increases amounted to 17%. * * * Mr. Secretary, I am sincere in asking you to take steps to alleviate this position into which I, and many others in my same category, find ourselves. * * * I feel that you, and you alone, can help us out. Won't you please try, for we shall be forever grateful for anything that you can do in this situation. * * *

UN-881

UNITED KINGDOM TREASURY DELEGATION

BOX 880
BENJAMIN FRANKLIN STATION
WASHINGTON, D.C.

TELEPHONE EXECUTIVE 8080

REFERENCE

4-A

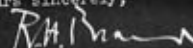
1st June 1945.

Dear Coe,

In continuation of my letter of 5th May I am writing to send you our figures of gold and dollar holdings as at 30th April which were as follows:-

		\$ millions
Gold	1,828	
less gold liabilities	<u>357</u>	
Net gold		1,471
Dollars	476	
less dollar liabilities	<u>152</u>	
Net dollars		<u>324</u>
Net gold and dollars		1,795

Yours sincerely,



R.H.Brand.

Mr. Frank Coe,
Director of Monetary Research,
Room 3430,
U.S. Treasury,
Washington, D.C.

DEPARTMENT
OF
STATE

RECEIVED
DIVISION OF
CENTRAL SERVICES
**INCOMING
TELEGRAM**

DIVISION OF ¹³⁷
CENTRAL SERVICES
TELEGRAPH SECTION

1945 JUN 2 AM 8 54

NS-1750 DC/L
LIAISON

PLAIN

Bern

Dated June 1, 1945

Rec'd 9:30 p.m.

Secretary of State,
Washington.

2960, First

NRB AND DEPT FROM MCCLELLAND

Legation's 2471, April 27.

Following report has been received from Dunand,
ICRC delegate, who was in Theresienstadt in early May:

As of April 6 there were 17,556 Jewish deportees
in Theresienstadt between that date and May 5; 12,863
new deportees arrived from camps all over Germany such
as Bergen Belsen, Buchenwald; Dachau and Mauthausen.
Of these 12,863 88 arrived dead and 221 died shortly after
arrival; total survivors there as of May 5 was therefore
30,110. Theresienstadt is now reported to be under
Czech control.

HARRISON

JT

DEPARTMENT
OF
STATE

**INCOMING
TELEGRAM**
DIVISION OF
CENTRAL SERVICES

DIVISION OF ¹³⁸
CENTRAL SERVICES
TELEGRAPH SECTION

AdeR-1457 1945 JUN 1 PM 2 51 PLAIN

DC/L
LIAISON

Bern

Dated June 1, 1945

Rec'd 11:38 a.m.

Secretary of State,
Washington.

US URGENT

2982, First

ODWYER NRB FROM MCCLELLAND

Legations 2874, May 24th

In view attitude of Zionist faction among
refugees who were to be evacuated to southern
Italy from Switzerland beginning with first
convoy scheduled leave Geneva June 4, Swiss
authorities today informed me they will not
be able go through with June 4 transport
and requested I inform SHAEF accordingly. I
have wired SHAEF today asking them cancel first
convoy. 700 Palestine certificates were
authorized May 30 for delivery to Zionists among
refugees from Bergenbelsen and Theresienstadt in
Switzerland, as result Zionist group numbering
approximately 1100 refused evacuation to Italy
threatening

threatening

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6:
-2-#2982, June 1, from Bern
threatening physical resistance and declaring
they will only leave when can proceed directly
Palestine. It is however hoped Swiss can
still organize and assemble group for second
convey consisting refugees not (repeat not)
desiring go to Palestine so that a departure
can take place toward end June. Will keep
you informed further developments this exceedingly
trying situation.

HARRISON

RR

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CABLE TO HARRISON AND MCCLELLAND, BERN, FROM DEPARTMENT AND WAR
REFUGEE BOARD

Reference Department's 891 of March 18, 1945 of August 1,
and 2194 of September 18, 1944.

Department and Board are desirous of knowing whether any refugee
children admitted to Switzerland were beneficiaries of visas in
foregoing cables and, if so, the numbers.

THIS IS WKS BERN CABLE NO. 529

2:00 p.m.
June 1, 1945

Miss Kipple (for the Sec'y), Cohn, Nodal, Hatchison, McCormack, Files.

FJMcGIFH:hd 6/1/45

DEPARTMENT
OF
STATE

INCOMING
TELEGRAM

DIVISION OF 141
CENTRAL SERVICES
TELEGRAPH SECTION

GEM-1666

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(SECRET W)

CENTRAL SERVICES

Bern

Dated June 1, 1945

Rec'd 6:12 p.m.

DC/L

Secretary of State,

Washington.

2997, June 1, 4 p.m.

O'DWYER FROM MCCLELLAND

Department's 1829, May 18 and Legt's 2797,

May 18.

ICRC'S DSA is continuing to do splendid work
distributing food relief including WRB parcels to
liberated detainees in southern Germany and Austria.

4 trucks were despatched to Linz on May 28 with
40 tons food including 2650 WRB parcels for relief
detainees liberated from Mauthausen. Some 27,000
of latter are reported leading most precarious exis-
tence in Linz area with 300 to 400 dying daily from
disease and starvation. In light of these reports
I requested ICRC'S DSA to prepare second truck convoy
for Linz to leave about June 4. Hope to be in this
area myself at that time as part of camp visits you
authorized and will accordingly be able determine
where our remaining WRB stocks can do most good.

Convoy consisting

For security reasons the
text of this message must
be closely guarded.

-2-#2997, June 1, 4 p.m., from Bern.

Convoy consisting of 28 trucks left Switzerland
May 29 for Pilsen with Theresienstadt as final destina-
tion carrying along with relief goods from other
organizations both confessional and natl 3600 WRB
parcels. Two Czech officials accompanied convoy
to attempt to arrange Czech and Russian clearance so
that relief goods may proceed to Theresienstadt.

DSA is sending out third convoy on June one
carrying 80 tons supplies including about 5000 WRB
parcels for released civil detainees in Salzburg
area.

HARRISON

EEC

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June 2, 1945 143
4:13 P. M. ✓

HMJr: Hello.

Mr. Harold
Hochschild: Hello, Henry.

HMJr: Yes, Harold.

H: Henry, I had a very nice talk with Mr. Luxford.

HMJr: Good.

H: I'm afraid that the result is pretty negative as far as my making any helpful suggestions are concerned. He can tell you in detail about our discussion, but I can sum it up this way.

HMJr: Please.

H: I think the chances of getting any of these people in these companies that are active in the silver states to take any stand on the thing is practically nil.

HMJr: Yes.

H: And secondly, I think that even if they did that it would have relatively little effect.

HMJr: I see.

H: Because the issue, you know, is so mixed up with domestic politics.

HMJr: Oh.

H: In those states.

HMJr: Yeah.

H: And I think for instance, let me put it this way, if the silver senator said, "Sure we are in favor of Bretton Woods, but we think you should do so and so. You should pay \$1.29 for silver, or you should include so many million ounces of silver in the fund." I don't think any of these people would dream of opposing it.

HMJr: I see.

H: Now the only thing I can think of you might want to check my reaction possibly by talking to Roger Straus, I think you know him quite well.

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HMJr: No, I don't know him at all.
H: I had an idea you did.
HMJr: No.
H: I'm quite sure you wouldn't hear anything different.
HMJr: Well, no, I wouldn't dream of going to him.
H: I see.
HMJr: No, I don't mind going to you, the poker-pretzel fellow.
H: (Laughs) Well, I hope we will be able -- I'm sorry, Henry, but that's the way...
HMJr: Well....
H: ... I seize it up. I don't know -- as I said to Mr. Luxford, I don't know what reason you have except public opinion.
HMJr: Yeah.
H: That's the only thing that I can...
HMJr: Well, we'll have to think up something, but I just thought that if there was something that you would know it.
H: Yeah.
HMJr: Well, thank you, Harold.
H: O. K. Henry. Good news from Ellie?
HMJr: She continues to gain, but I don't know yet when I can bring her home.
H: Yeah, I see.
HMJr: How's Adam?
H: Oh, Adam is swell.
HMJr: I suppose he is about the most wonderful child in the world.
H: Oh, naturally.
HMJr: What?

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H: Naturally.
HMJr: I see.
H: He is a pretty fine boy. Sometime if you are in New York and have a few moments, I'd like to have you see him.
HMJr: I'll do that.
H: O. K., Henry.
HMJr: Right.
H: Bye.

Original is with the
President's personal papers 146

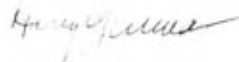
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June 2, 1945

Dear Henry:

I have been thinking about
your suggestion of May twenty-third
about the Refugee program and I have
about made up my mind not to appoint
any committee.

The next time we meet we will
discuss it further.

Sincerely yours,



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

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 2,
1945TO Secretary Morgenthau
FROM J. W. Pehle

The following is a summary of significant developments in the Surplus Property and Procurement Offices for the week ending April 21, 1945.

SURPLUS PROPERTY:

A tabulation of inventories of sensitized products other than serial film was prepared for submission to federal agencies. It will be necessary for government agencies to utilize outdated film from our stocks since new film production is presently inadequate to meet all federal requirements.

New declarations were received covering an additional 40,000 pairs of "as is" Army shoes. These shoes were sold to a relief organization in this country for shipment to Italy.

Conferences were held with Alabama and Mississippi state officials who requested information concerning our plans for the disposal of surplus to local governments. Both of these states are endeavoring to establish central points through which all requests for surplus property submitted by the states and their instrumentalities will be channeled.

In view of the critical civilian need for transportation facilities, we suggested to representatives of the Navy the desirability of declaring to us automotive equipment heretofore deemed to have only salvage value, since it is possible for dealers to condition for reuse a portion of this equipment and to salvage critical parts for servicing other worn out equipment.

Following centralization of control in the Washington office of the freezing of inventories and after reviewing property lists, instructions were issued to the regional offices to release all items on which sales have been improperly suspended and to withhold sales on only those items in

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respect to which special sales programs are being developed or federal requirements are being studied.

We discussed with representatives of the Surplus Property Board and the Office of Civilian Defense the development of procedure for collecting and preparing for declaration OGD equipment which has been distributed among municipalities throughout the country. It was tentatively agreed that the Surplus Property Board and the OGD would attempt to arrange through mayors and other local officials for the collection of this property at central points within each municipality at which the property will be inventoried and reported surplus by the OGD.

At a meeting with representatives of the Department of Interior we discussed problems in connection with the assumption by that Department on May 1 of the responsibility previously assigned to this office for the disposal of surplus property in the territories and possessions. Arrangements were also made for the transfer to the Interior Department on May 1 of our office in Puerto Rico.

Information was provided to writers for Collier's Magazine and Fairchild Publications and to a representative of the Commerce Department, for use in the preparation of articles relating to surplus property.

It is our desire to increase dealer attendance at spot sales of construction equipment through newspaper advertising, and it has been decided to proceed with such advertising on a spot test basis.

Publicity on the disposition of surplus film was released to the press and to the photographic trade. Discussions were held with trade representatives and with the Office of Price Administration. The problem of ceiling prices is still a troublesome one since the trade representatives complain that they cannot process the film and sell at a profit under the ceilings proposed to be established by the OPA. Final decision on this matter has not been reached.

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Final plans were made for the disposal of 2000 armored scout cars and a series of sales scheduled consecutively across the country so as to allow as many persons to bid at each sale as is possible. Nation-wide publicity is being planned in conjunction with this series of sales. Because of the special type of vehicle involved, some of the usual methods of selling motor vehicles have been changed for this series of sales; no limit is placed on the number of vehicles which may be purchased by one bidder, bidders may go outside of their own region and bid at any sale anywhere in the country, and users of armored equipment may purchase directly in competition with dealers. A great deal of interest has been exhibited in the coming sales and it is expected to be very successful.

An executive order has been prepared which will transfer the Office of Surplus Property to the Department of Commerce, effective May 1, 1945.

PROCUREMENT:

Total purchases for the week amounted to \$32,862,267.44, including \$32,500,000.00 for Lend-Lease (schedule attached) and \$362,267.44 for regular purchases.

Carloadings of Lend-Lease materials totaled 3,549 cars; active contracts totaled 15,045.

Unusual requisitions for the week included 6,945 gross toothbrushes for NAAFI Depots (which is a Navy, Army and Air Force Service Organization run solely for the benefit of the British); 2,200,000 l.f. of telegraph poles containing 54,600 pieces for France; and medical textiles for civilian relief by UNRRA in Liberated Areas.

Unusual purchases for the week included 14,000 vials of 100,000 oxford units each of Sodium Penicillin for civilian use. This is the largest quantity of Sodium Penicillin ever received on one requisition. Shotgun cartridge cases, primers and lead shot for Russia; 36,850,000 paper bags for use in packing seeds for distribution in Liberated Areas.

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Representatives of the Philippine Government were advised that this office would not be permitted to procure and deliver to such Government any materials which were subject to control under existing allocation procedure. Accordingly, a request was made that the existing requisition be amended so as to withdraw therefrom typewriters and adding machines since such materials are required to be procured by the Foreign Economic Administration under a directive issued by the Director of War Mobilization and Reconversion.

In order to carry out more effectively the purposes of the Blind-made Products Act of June 25, 1938, proposed revisions of the regulations under that Act have been prepared. Procurement Division coordinates purchases of blind-made products by the Federal Government from non-profit making agencies for the blind, the entire program being under the direction of the statutory Committee on Purchases of Blind-made products. The proposed revisions to the regulations will be considered by the agencies for the blind in Chicago this week and by the Committee in New York early in May.

ADMINISTRATION:

Employees of the Personnel Division prepared lists of employees who will be affected by the order transferring the Office of Surplus Property to the Department of Commerce. The lists were broken down to show (by organizational units, name, title, grade and salary) those employees in the Office of Surplus Property, employees in all other Divisions who are paid from Federal Property rolls, and employees paid from other rolls. These lists have been completed and are being used to assist in determining the personnel to be transferred to the Department of Commerce and that to be retained in the Procurement Division.

Meetings are currently being held with officials of the Department of Commerce in an effort to get their thinking with respect to the varied administrative problems involved in this transfer. It is felt that quite a lot of benefit has been derived from the conferences that have been held and that we are now in a position to go ahead with many of the plans for the transfer.

LEASE
TREASURY DEPARTMENT-PROCUREMENT DIVISION
STATEMENT OF ALLOCATIONS, OBLIGATIONS (PURCHASES) AND
DELIVERIES TO FOREIGN GOVERNMENTS AT U. S. PORTS
AS OF APRIL 21, 1945
(In Millions of Dollars)

	<u>Total</u>	<u>U. K.</u>	<u>Russia</u>	<u>China</u>	<u>Administrative Expenses</u>	<u>Miscellaneous & Undistributed</u>
Allocations	\$5936.7 (5936.5)	\$2361.8 (2579.2)	\$2459.1 (2457.4)	\$135.4 (182.9)	\$18.9 (18.6)	\$961.5 (698.4)
Requisitions in Purchase	\$163.0 (162.8)	\$ 24.4 (21.5)	\$ 13.6 (15.7)	\$ 2.4 (1.4)	-	\$122.6 (124.2)
Requisitions not Cleared by W.P.B.	\$ 87.9 (90.1)	\$ 20.9 (16.8)	\$ 27.1 (30.1)	\$ 1.1 (2.7)	-	\$ 38.8 (40.5)
Obligations (Purchases)	\$4684.6 (4652.1)	\$2122.1 (2113.6)	\$2156.5 (2147.4)	\$114.9 (105.8)	\$18.1 (17.9)	\$473.0 (467.4)
Deliveries to Foreign Governments at U. S. Ports*	\$3804.4 (3773.9)	\$1913.8 (1902.2)	\$1852.9 (1838.8)	\$ 30.4 (30.4)	-	\$207.3 (202.4)

*Deliveries to foreign governments at U. S. Ports do not include the tonnage that is either in storage, "in-transit" storage, or in the port area for which actual receipts have not been received from the foreign governments.

Note: Figures in parentheses are those shown on report of April 14, 1945

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE 2 June 1945

TO Secretary Morgenthau
FROM E. B. Russell

The outstanding features of mail handled during the last week are these:

1. Interest in tax evasion drive (25 requests for investigative jobs, 58 reports of evasions, 26 commendatory letters, etc.)

2. Indications that the George drive for immediate tax reductions is NOT taking hold. (Only 8 letters protesting tax rates. Labor letters make no such argument.)

Particularly interesting, especially in view of Labor broadcast planned for later this month, is the memorandum from Mr. Hyatt, chief of Labor section of War Finance, last of the attached papers.

In view of the diverse subjects covered by the letters received by the Secretary's Correspondence Division and War Finance, I have not undertaken a detailed consolidation of the reports, which are submitted herewith.

E. B. Russell

Report of Correspondence received in the
Secretary's Correspondence Division

May 26, 1945 to June 1, 1945, Incl.

		Totals 177
BONDS:		
Promotional ideas and materials for Seventh Drive	38	
Promotional ideas and materials for Eighth Drive	3	
Replies to form letters of War Finance Division	5	
Thanks for "Here's Your Infantry"	21	
The Roosevelt bond:	10	
Favorable	9	
Unfavorable	0	
Smaller denomination	1	
Rumors that bonds will be invalidated	1	
Complaints about delays in receiving bonds:	7	
Service men	6	
Others	1	
Complaints about overdue interest on bonds	1	
Other complaints:	9	
Tickets for special bond shows improperly handled	2	
Bonds were incorrectly discounted when redeemed	1	
Bank refuses to cash bonds	1	
Treasury bond program on radio tied up with Petrillo	1	
Bond advertisement makes Marshall rather than Leahy top man	1	
Vandergrift is never featured in bond advertising	1	
Seventh Drive stickers not available in particular locality	1	
Harlem, N.Y., bond organization unable to secure cooperation of War Department	1	
General suggestions:	14	
Make E Bonds negotiable	2	
Establish bond annuities	2	
Convert Adjusted Service Bonds into E Bonds	2	
Continue bond selling program after the war	1	
Others	7	

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Totals

Routine matters:		68
Inquiries about Adjusted Service Bonds	17	
Bonds for redemption	4	
Subscriptions	2	
Problems of inheritance, re-issuance, replacement, limitations, etc.	45	
TAXES:		216
Requests for refunds	13	
Approval of drive against tax evaders	26	
Reports of evasions	58	
Applications for Job of Internal Revenue Investigator	95	
Questions, protests, etc.:	24	
Car use stamp should be abolished	1	
Inheritance taxes are too high	1	
Present tax rates cause hardships	8	
Embassiers are not taxed	2	
Present tax rates should be continued	2	
Others	10	
CHECKS FOR EXHIBITING		49
THE ROOSEVELT HOME:		14
Favorable	7	
Unfavorable	7	
DONATIONS:		6
To the war effort	3	
To the conscience fund	3	
CURRENCY PROBLEMS, MUTILATED MONEY, ETC.		15
BREXTON WOODS PROPOSALS		11

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Totals

MISCELLANEOUS PROTESTS:

OPA regulations	5
Congressional raise of \$2500	2
Handling of foreign affairs	2
Unfairness of "Instructions to Financial Institutions" to report currency transactions	2
Inflationary rise of stock market	1

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OTHER SUGGESTIONS AND COMMENTS:

Roosevelt memorial coins, currency, and stamps	3
Establishment of Government lotteries	2
Requests to "fix" the Treasury statement for numbers racket	1
Inquiries about obtaining surplus property	1
Inquiries about foreign funds control	7
Personally abusive	4

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Report on White House Correspondence

May 26, 1945 to June 1, 1945, incl.

BONDS

A correspondent pledges to buy \$250,000 in bonds and to help sell \$1,000,000 in bonds	1	
A corporation transmitted 4 large books filled with bond pledges of employees	1	
A school transmitted 6 pages of bond pledges, signed by parents of the pupils	1	
Favorable comments on FFR memorial bond	1	
Miscellaneous War Bond suggestions - poems, songs, publications, etc.	<u>10</u>	14

TAXES

Favorable comments on present tax system	5	
Suggestions for increase in specific exemption from excess-profits tax	3	
Routine income tax matters - refunds, exemptions, informers, mistakes in filing returns	6	
Plans for stopping evasion of income taxes	2	
Suggestions for exemptions from income taxes of benefit amusements, teen-age amusements, pensions, furs, telephone calls of debarkees	6	
Suggestion for repeal of \$5 auto-use Tax	1	
Suggestion for legislation on land taxes	<u>1</u>	24

CURRENCY

Suggestion that control over \$3,000,000 in interest-free currency not be taken from President	3	
Suggestion for changing size or color of all currency of denomination larger than \$100	<u>1</u>	4

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MISCELLANEOUS

Favorable comment on FFR memorial dime	1	
Unfavorable comment on Bretton Woods proposals	1	
Favorable comment on Bretton Woods proposals	2	
Routine personnel matters	3	
Members of a Mississippi Jr. High School suggest Silver Certificates of \$25 value bearing portrait of FFR	1	
Routine comments, suggestions, plans	<u>11</u>	19
		61
TOTAL RECEIVED FOR PERIOD		

EAW

WAR FINANCE DIVISION

2 June 1945

DIGEST OF MAIL
FOR
REPORT TO SECRETARYConstructive Suggestions

Exploit episodes in history of U.S.-Japanese diplomatic relations during second half of 19th century-- 1

Have a national "Bond Sunday" in churches-- 1

Make continuing and greater use of atrocity pictures-- 1

Have Schools-at-War program specialize in sponsoring hospital equipment-- 5

Have Schools-at-War program center around rehabilitation-- 7

("Give much more attention to cost of convalescent care for veterans than you are doing..." Cpl. Milton A. Feinberg, Brooke General Hospital, San Antonio, 24 May)

("...the dramatics of the program should be provided through the symbolic purchase or sponsorship of such things as craft shop units, lathes, and other specialized tools or machines rather than center around the symbolic purchase of artificial limbs, wheel chairs, etc." T.E. Wilson, War Finance Committee, Denver, 18 May)

Proposal to stimulate sales in Schools-- 1

("Soldier of the Month" plan. Have pictures of servicemen from the school mounted with faces covered by sticker, on which is indicated appropriate figure in Bond or Stamp values. When the sum is met, uncover face. Hazel Anderson, Central High School, Pueblo, Colorado, 23 May)

Request for a Negro poster-- 1

(Many War plants in Chicago area have substantial percentages of Negro workers. These people respond very well to bond appeals, and might well be recognized by another poster, as we have had few featuring this race. Sherer, Illinois Chairman, 24 May, reflecting view of Negro deputy, Turpin)

Proposal for nationwide "Retail Day" on which certain percentage of sales of retail stores be invested in Government bonds-- 1

7th War Loan folder "Straight Talk" should have included info that Series G Bonds redeemed before maturity are not redeemed at "par"-- 1

Jan 2/6/45

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War Finance Division

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2 June 1945

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Criticisms

Protest, against almost everything-- 1

(This letter from Wilmington, Delaware, anonymous, and cannot be dealt with, but is so entertaining a complete copy is attached to end of this report. J.M.W.)

Protest against Chain Letters referring to War Bonds or Stamps-- 1

Complaints of inaccuracies in one of our newspaper ads featuring a Jet plane and a B-32-- 2
(I am sure there have been several more not scored. J.M.W.)

We distribute too much material to schools-- 1

Protest that some employers represent is obligatory for all Federal employees to put 10% of salary into War Bonds regardless-- 1

There is waste of manpower on Government payrolls-- 1

Bond redemption rate is too high-- 2

Protest against alleged part of the Secretary in pegging French franc at too high a level-- 1

(This was telephone call, not letter, from Amon Carter, of Fort Worth Star-Telegram to Julian Street, Jr., which Mr. Street has reported more fully direct to Mr. Fussell. J.M.W.)

Report that soldiers are urging their relatives not to buy War Bonds-- 1

(We used to have a lot of these. This report brought in as result of interview of Mr. Falk of our Newspaper Section with Verne E. Tompkins, publisher of Dairy Farmers' Digest, Metuchen, N.J. Mr. Tompkins reported to have stated that a considerable number of his readers report to him that their boys, fighting overseas, have written home advising against the purchase of War Bonds. States further that soldiers do not give any specific reasons for this, and Tompkins thinks story based on dissatisfaction of some with Army life in general, perhaps a "pushing around" received from certain officers. Tompkins suggested any such propaganda ought to be cut out of letters by Army censors. That is hardly in our province. I should like to find out if Tompkins has really seen any of these letters, or whether this is another of the fifth-hand rumors. J.M.W.)

Protest against action Rent Control section of OPA (New York City)-- 1

Our State Department is very inept-- 1

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War Finance Division

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2 June 1945

Miscellaneous

Suggestions from the public for new poster designs-- 5

Stimulate bond sales by offering gas coupons-- 1

War Bond advertisers much appreciate the "Thank You" cards provided by our
Newspaper Section-- 6

Use poem "Sail On, O Ship of State," to bolster general morals of the country-- 1

Poems submitted-- 4

Slogans-- 4

Labor

Attached to this report is copy of memorandum from the Chief of our Labor Section. (This is not a "Box Score" of recent correspondence, but a voluntary contribution to the subject of Mail review, suggested by the fact we have begun to keep score. J.K.N.)

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(Exact copy)

War Finance Div.
Wash. D. C.

Yes we will be years fighting our enemies if we keep on kow-towing to German Breweries, Union hi Jackers etc. Our Gov. for years has been run by a bunch of two-timing racketeers. The Democrats condemn the capitalist, while all the time they are making wealthy people out of the foreign enemy skunks running our Unions. They can hold up the coal mines, hold up trucks of vegetables, let butter and meat spoil in the stores. Keep sending someone over to ask the Pope what to do when any one with a child's mind knows how his gang has made a mess of Europe, no use lying about it. Most of those countries were controlled by Catholics so what? Those in the Vatican live in luxury while others starve. And I suppose Italy will head the Peace this time. We all know who is behind the Polish question. Priests criticize the conference because they can't get us into war with Russia. Anyone know how southern Ireland, Spain, Argentina and Italy have done and our Gov. or part of it kow-tow to them or that kind here and use the unions (CIO) especially to whip votes in line. What else is it but dictatorship when people are forced to join unions? And more than poor workers are in that plan too and why. I think we know. I believe and so do lots of others that God took Roosevelt because the people or most of them were becoming a sickening toe-kissing lot. Any racket was all right long as it got votes, easy spots for union leaders, profiteers. Thousands of service men going A.W.O.L. imitating strikers etc. One M.F. came home from the front saying he was tending more ally prisoners than German. A pretty state of affairs. Men have a right to have Unions but go too far when they force them and use the war to promote their own interests. The Gov. had better wake up and stop this two-timing. Some use the Radio to make trouble with Russia. Who was dumb or foxy when the Japs attacked Pearl Harbor? What price dumbness?

At Camp Lee Virginia alone there are lines of Sailor prisoners far as you can see, and home peoples faults too.

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Cefay

1 June 1945

TO: Mr. J. M. Morse
FROM: Gilbert E. Hyatt
SUBJECT: Mail Digest Report

My secretary, Elisabeth Haggerty, has informed me that you have detailed her to scrutinize our correspondence and report concerning various items mentioned in your memorandum of 23 May 1945.

Matters pertaining to the items in your memorandum will of course be reported by Miss Haggerty as they occur. It does appear pertinent to the subject, however, to give you a resume of clearly defined opinions of Organized Labor upon the various headings:

1. Labor correspondence contains no references to the subject of taxes being too high.
2. There have been frequent inquiries as to dollar costs of War, but more particularly concerning the costs of various items such as the equipment of an infantry division, the cost of a battleship, etc.
3. Organized Labor has made no comment to the effect that the interest rate on Bonds is too low; quite the contrary, they use the argument that the present interest rates make Government bonds a very attractive investment.
4. There have been tentative suggestions of different denominations of bonds, usually of smaller denominations -- in one case for \$10.
5. Labor is emphatically and determinedly against War Bonds being made negotiable. Their support of the present War Bond campaign is upon two principles (a) the non-negotiable character of the Bonds and (b) the voluntary character of the campaign.
6. No complaints have been received concerning waste of paper.
7. No propositions have been received for a national lottery.
8. There are very frequent requests for "Special Events." These take the form of a more adequate representation of Labor in the events held and the promotion of numerous events pertaining to Labor as such.
9. There has been no criticism of the use of movie stars, although frequent comments have been made that the use of this special stimulation is not necessary with respect to unionized wage earners.

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Mr. Morse

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1 June 1945

As stated in the foregoing paragraphs, Labor correspondence is largely settled into a routine having to do with the mechanical operations of the War Bond campaign and comments along the lines you are seeking were therefore principally received in the early informative stages of the campaign.

In other words, Labor has made up its mind and is not submitting suggestions for changes in the established formula.

cc - Mr. J. L. Bougheling
Miss E. A. Haggerty

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FOREIGN ECONOMIC ADMINISTRATION
Washington, D. C.

June 2, 1945

MEMORANDUM

To: **The Honorable Henry Morgenthau**
From: Herbert Willett
Director of Research and Reports
Office of General Counsel
Subject: Monthly Reports on Lend-Lease Operations

Transmitted herewith are copies of Executive
Reports on lend-lease operations as of April 30, 1945.

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CONFIDENTIALLend-Lease Operations
Executive Report No.1ALLOCATIONS, OBLIGATIONS AND EXPENDITURES
LEND-LEASE FUNDS APPROPRIATED TO THE PRESIDENTReport as of April 30, 1945
(Thousands of Dollars)

Appropriation Category	Adjusted Appropriations	Cumulative to April 30, 1945		
		Allocations	Obligations	Expenditures
Ordnance and Ordnance Stores	1,429,898	1,428,606	1,386,174	1,311,262
Aircraft and Aero. Material	2,407,796	2,407,795	2,331,726	2,205,872
Tanks and Other Vehicles	764,273	763,974	725,260	663,665
Watercraft	4,183,875	4,090,090	3,953,053	2,587,723
Misc. Military Equipment	287,979	287,979	268,065	264,553
Production Facilities	1,079,446	1,079,446	1,058,907	1,012,153
Agric. and Indust. Commodities	16,787,205	16,769,087	14,147,082	11,882,235
Servicing, Repair of Ships, etc.	780,818	748,007	663,357	481,077
Services and Expenses	455,000	414,612	340,683	300,168
Administrative Expenses	33,208	32,179	31,025	30,543
Total	28,209,498	28,021,775	24,895,332	20,739,251

Procuring Agency	Cumulative to April 30, 1945		
	Allocations	Obligations	Expenditures
War Department	5,430,420	5,203,982	4,917,230
Navy Department	4,419,651	3,582,702	3,296,680
Maritime Commission and War Shipping Admin.	4,141,436	3,937,158	2,666,821
Treasury Department	6,086,775	5,089,976	4,345,401
Department of Agriculture	7,852,554	7,015,333	5,690,289
Other	88,939	66,181	22,830
Total	28,021,775	24,895,332	20,739,251

Foreign Economic Administration
Office of General Counsel
Division of Research and Reports
May 29, 1945

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CONFIDENTIAL 167
Lend-Lease Operations
Executive Report No.2

STATEMENT OF LEND-LEASE AID

Report as of April 30, 1945
(Thousands of Dollars)

Type of Aid	Cumulative to		Month of	
	April 30, 1945	March 31, 1945	April 1945	March 1945
Goods Transferred	35,709,304	34,807,191	902,113	993,665
Servicing, Repair of Ships, etc.	547,485	557,593	- 10,108	12,706
Rental of Ships, Ferrying of Aircraft, etc.	2,947,261	2,868,958	78,303	- 52,868
Production Facilities in U. S.	634,069	634,027	42	- 3,716
Miscellaneous Expenses	104,253	104,028	225	2,301
Total Services	4,233,068	4,164,606	68,662	- 41,577
Total Goods and Services	39,942,372	38,971,797	970,575	952,088

Data on Goods Transferred include value of goods procured from lend-lease appropriations to the President and to the War and Navy Departments.

Type of Aid	Cumulative to April 30, 1945				
	Br. Empire	China	U.S.S.R.	Other	Total
Goods Transferred	25,353,284	351,905	8,902,382	1,101,733	35,709,304
Servicing, Repair of Ships, etc.	383,903	1,896	118,837	42,849	547,485
Rental of Ships Ferrying of Aircraft, etc.	2,238,170	15,811	435,650	257,630	2,947,261
Production Facilities in U. S.	-	-	-	-	634,069
Miscellaneous Expenses	53,817	1,223	7,668	41,545	104,253
Total Goods and Services	-	-	-	-	39,942,372

Foreign Economic Administration
Office of General Counsel
Division of Research and Reports
May 29, 1945

P-1752 P2 of 2 1000-100-000

CONFIDENTIAL
Lend-Lease Operations
Executive Report No. 3

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LEND-LEASE GOODS TRANSFERRED

Report as of April 30, 1945
(Thousands of Dollars)

	Cumulative to April 30, 1945			
	Br. Empire	China	U.S.S.R.	Other
Ordnance (Excl. Ammunition)	911,224	16,769	300,102	41,743
Ammunition and Components	2,011,470	28,180	472,916	95,255
Aircraft	3,408,100	94,213	1,087,007	186,185
Aircraft Engines, Parts, etc.	1,957,809	37,891	345,243	67,457
Tanks and Parts	2,788,916	2,213	612,468	53,983
Motor Vehicles and Parts	852,575	28,707	1,029,675	30,159
Watercraft and Parts	2,855,860	447	368,864	261,274
Foods	3,165,484	3,766	1,539,797	70,507
Other Agric. Products	740,085	543	26,021	418
Machinery	810,883	13,662	1,222,861	20,262
Metals	1,220,442	13,776	729,132	63,151
Petroleum Products	1,897,205	2,878	101,969	16,140
Miscellaneous Materials and Manufactures	2,773,231	108,860	1,066,327	195,219
Total	25,353,084	351,905	8,902,382	1,101,733

Foreign Economic Administration
Office of General Counsel
Division of Research and Reports
May 29, 1945

PARAPHRASE OF TELEGRAM RECEIVED

169

FROM: American Embassy, London
TO: Secretary of State, Washington
DATED: June 3, 1945
NUMBER: 556

SECRET

With reference to my cable Number 2212, dated May 31, I was informed by the Brazilian Ambassador (following discussion at IGC executive meeting May 31 concerning voluntary contributions to IGC operational expenses by IGC member governments) that he would forward the invitation of IGC's director to contribute to the government of Brazil, and that favorable action thereon would be recommended by him. It is the belief of the Brazilian Ambassador that if instructions to bring the U. S. Government's interest in principle on voluntary contributions to the Brazilian Government's attention were issued to the American Ambassador at Rio, favorable action by the Brazilian Government would be expedited. Recommendation of the Brazilian Ambassador would be strengthened by such action, which might prevent the invitation of the director of IGC from becoming a routine matter and from being pigeonholed.

WINDAUF

DC/SPW:VCA

6/4/45

CONFIDENTIAL

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INCOMING CLASSIFIED MESSAGE

170

From: CG, US Army Forces in the Far East, Manila, P.I.
To: War Department
No. U 29436
Date: 3 June 1945

From CG USAFFE and MacArthur to WARTAG cite U 29436.
From ALK for Treasury Secretary Morgenthau.

I have received the following instructions:

1. By authority granted the Commander in Chief by paragraph 20 of the Joint Chiefs of Staff directive for administration of civil affairs in the Philippines, and in accordance with the letter from Secretary of Treasury, dated 25 May 1945, making you the head of the Philippine Office of Foreign Funds Control, you are responsible for the control, in conformity with the relevant statutes and executive orders, of those financial transactions in the Philippines involving foreign property and foreign subjects which are usually controlled by the Secretary of the Treasury.

2. All communications with the Secretary of the Treasury will be sent to this headquarters for transmitting to the Treasury Department and you will function as the designee of the Commander in Chief. Permission will be exercised under general supervision of the military authorities but the Treasury Department will have the total responsibility of the program. The cooperation of G-2 and civil censorship is assured. To determine if they have any impact on established military policy, dispatches and reports will be militarily examined only. The State Department channels will not be used to report to Secretary. Contact with the Philippine authorities will be carried through Civil Affairs Section, United States Army Forces in the Far East. Upon request, official opinions of military authorities on subject of interest to Treasury will be made known. It is believed that the Treasury will be able to operate satisfactorily under this arrangement.

ACTION: G-2 (Treasury Dept)
INFO : ASF; OPD; GAD/ Mr. McCloy.

CM-IN-2730 (3 Jun 45) DTG 031011Z

CONFIDENTIAL CONFIDENTIAL

MS-126

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

171
Chungking via Navy
Dated June 3, 1945
Rec'd 9:52 a.m.

Secretary of State,
Washington.

905, June 3, 10 a.m.

Embassy requests information on behalf director of currency DEPT
Finance Ministry, on US GOVT policy in regard to Jap sponsored currency
notes and banks in Philippines, especially on following points:

One. Were such notes allowed to be circulated following reoccupation
and, if so, for what period?

Two. If such banks (including regular branches of Jap banks) were
liquidated, what was necessary procedure?

HURLBY

MM

eficopy
6-5-45

Original is with the
President's personal
papers 172

Copies to:
D.W. Bell
Harry White
Joe O'Connell
Ansel Luxford

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THE WHITE HOUSE
WASHINGTON

June 4, 1945

MEMORANDUM TO THE SECRETARY OF THE TREASURY:

The National Advisory Council on International Monetary and Financial Problems should consist of the Secretary of the Treasury, as Chairman; the Secretary of State; the Secretary of Commerce; the Chairman of the Board of Governors of the Federal Reserve System; and the Chairman of the Board of Directors of the Export-Import Bank.

Harry Truman

THE UNITED NATIONS CONFERENCE
ON INTERNATIONAL ORGANIZATION

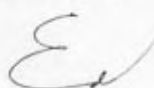
San Francisco,
June 4, 1945.

Dear Henry:

Thanks for your note of May 29. You can be sure that I will not ask Harry White to return to San Francisco unless I really need him.

I very much appreciate your congratulations and best wishes.

Sincerely yours,



The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

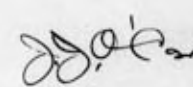
TO: SECRETARY MORGENTHAU

FROM: MR. O'CONNELL

In connection with the special tax drive, on Saturday you asked Mr. Oliphant to take up with the Commissioner the establishing of a quota of six black market and currency cases to be completed and reported to Washington each week by each of the field divisions of the Intelligence Unit. The Commissioner is of the opinion that we should defer setting a quota at this time. His fear is that under a time pressure the cases might be inadequately developed or subject to error. I agree with the result he reaches and for the additional reason that I do not see how the progress of tax cases can be reduced to as precise a formula. It seems to me that at least until our recruitment program has progressed much further than it now has, we should not attempt to establish quotas for the force.

In any event Mr. Oliphant will be watching weekly production reports, and we shall be in a position to take adequate steps if production in any division falls below a reasonable level.

You should be both surprised and pleased to learn that the Bureau handled the Wright case (the Washington meat dealer) even more expeditiously than was promised. Last Tuesday I told you the agents' reports would be completed Saturday or today. The reports were received and that case was processed through the Bureau during the week. It was sent to Justice Saturday morning with a recommendation for criminal prosecution.



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✓

June 4, 1945

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✓
4 June 1945

Fellow Employees:

You have no doubt noticed recent accounts in the public press telling of the intensive drive against tax evaders which is now being conducted by the Treasury's Bureau of Internal Revenue.

I should like every Treasury employee to feel free to offer suggestions which may be helpful in carrying out this campaign. We are planning a substantial enlargement of the Bureau of Internal Revenue staff and it will be particularly helpful if, through your friends and acquaintances, you can encourage applicants who meet our technical standards to file applications with the nearest Revenue or Civil Service office.

On the reverse of this letter you will find a brief statement setting forth the general qualifications for a wide range of Revenue Service positions which must be filled at once.

Sincerely,

H. May Jr.

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QUALIFICATION REQUIREMENTS FOR INTERNAL REVENUE POSITIONS

The Agents' jobs will pay \$2,600 or \$3,200, depending upon education and experience qualifications. Briefly, the qualifications required are 2 to 3 years' experience in responsible accounting, auditing, or investigational positions and substitutions are allowed in lieu of experience for accounting and legal education.

Deputy Collector positions are available at \$2,000. The requirements for these are 2 years of business experience, preferably bookkeeping or accounting, or 2 years of accounting or legal education. A simple test is given to applicants for these positions.

The clerical positions offer salaries of \$1,440 and \$1,620.

In addition to the salaries shown above all employees are paid from \$311 to \$628, depending upon the salary rate, as overtime as long as they are on a 48-hour per week basis. A further pay increase may be approved on 1 July 1945, which would add 20 per cent for the first \$1,200 and 10 per cent for the amount between \$1,200 and \$4,600. The Senate has already approved this increase and it is now being considered by the House.

Any one interested in these jobs should immediately make application on Standard Form 57 to any field office of the Bureau of Internal Revenue of the Treasury Department, to any Civil Service Commission Regional Office, or to the Director of Personnel, Treasury Department, Washington, D. C.

I N D E X

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6/4/45
1. Developments to date in response to your suggestion that a memorandum be sent to the President recommending the establishment of a new planning group particularly to avoid another depression.
 2. Description of National Resources Planning Board and National Planning Association.
 3. Draft memorandum prepared by George Haas showing how such an agency would concern itself with fiscal matters.
 4. Memorandum prepared by Silvermaster discussing the problem and recommending a Cabinet committee.

PRECISION

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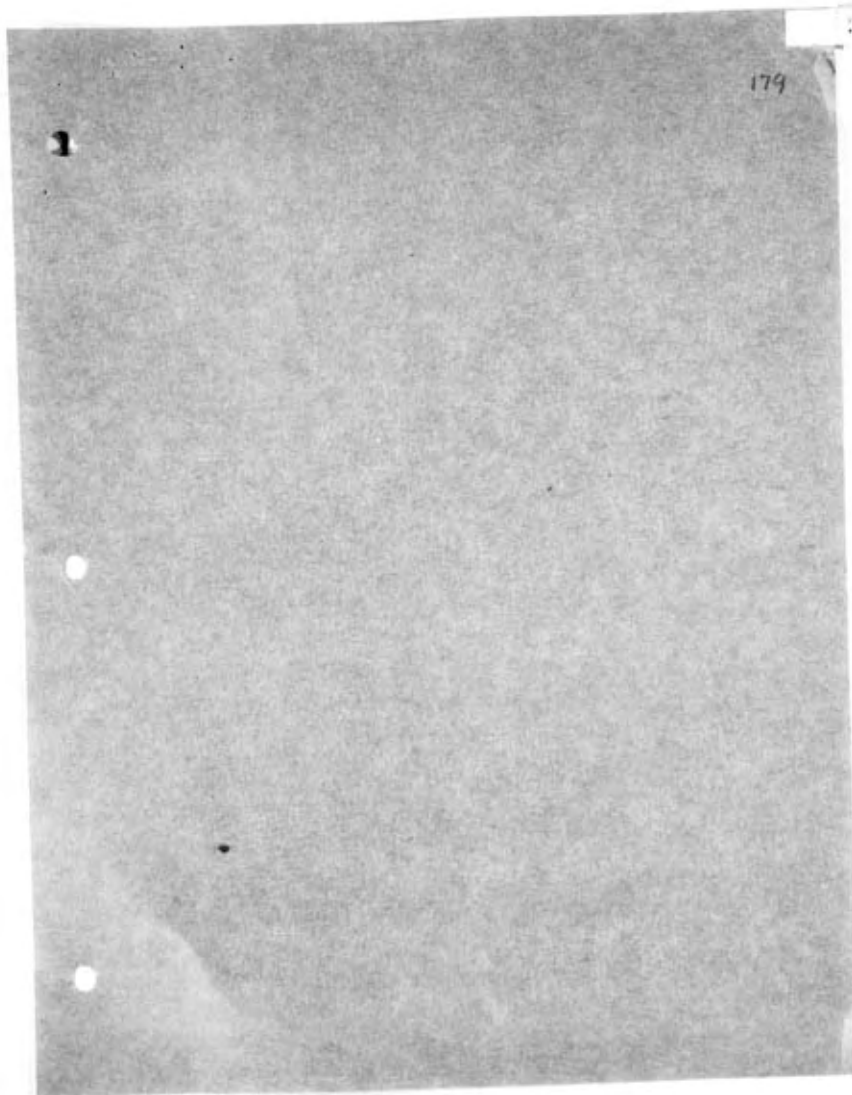
MICROSTAT

REG. U. S. PAT. OFF.

MICROFILM

ROLL NO.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 4,
1945

TO Secretary Morgenthau
FROM J. W. Pehle

Re: Developments to date in response to your suggestion that a memorandum be sent to the President recommending the establishment of a new planning group particularly to avoid another depression.

1. Considerable consideration has been given to this suggestion. I have discussed it at some length with George Haas and his staff. Included herein in item 3 is a draft memorandum prepared by Haas indicating how such a planning organization would necessarily concern itself with fiscal matters ordinarily within the Treasury's jurisdiction. Haas is still considering the matter.

2. I discussed the matter with Silvermaster and asked him to consider it. He prepared a memorandum which is included herein as item 4, which suggests the establishment of a Cabinet committee. I think you will find the memorandum well-reasoned and helpful.

3. At my suggestion, D. W. Bell also called a meeting of the principal Treasury people interested in this subject. We discussed the matter at some length and considered the

following alternatives:

- (a) A new Cabinet committee of which you would be the Chairman. There seemed to be considerable agreement with this method of approach but some doubt as to whether you would want to make such a recommendation to the President at this time.
- (b) The early establishment of the Cabinet committee which you have already recommended to the President. Such a committee would cover, at least from the fiscal point of view, many of the major aspects of the problem of domestic employment.
- (c) Establishment of a new organization similar to the National Resources Planning Board. In connection with the establishment of such an organization it was felt that the following points should be kept in mind:
- (a) Vinson, as Director of War Mobilization and Reconversion, already has a legislative mandate to plan for the reconversion period. He has established an interdepartmental committee to study the problem, on which the Treasury is represented.
- (b) Any such organization would, as has been stated above, be bound to become involved in important fiscal problems such as taxation, federal government expenditures, bank reserves, interest rates, Public Debt policy, monetary policy, etc.
- (c) An independent agency devoted to planning is likely to be the same kind of target for congressional attack as was the National Resources Planning Board. This would not be true of a Cabinet committee.

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4. The designation by the President of an Economic Adviser to the President. Such an officer would have no administrative or independent policy functions, but merely advise the President on economic matters. Such an adviser might have a small staff financed from regular White House appropriations, plus the power to obtain information and assistance from the regular government departments. This is the function which is understood Lauchlin Currie was supposed to perform but which never worked out.

5. Without going to the President at this time the Treasury could undertake leadership in planning for full employment by setting up the necessary staff, starting the necessary studies and arranging for meetings with interested government agencies.

Mr. D. W. Bell has suggested that you might want to call a further meeting in your office to explore this entire matter more fully before any recommendation is made to the President.

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National Resources Planning Board:

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This Board was established by Reorganization Plan No. I under the Reorganization Act of 1939. It succeeded to the functions of the National Resources Committee which had been established in 1935 by Executive Order.

The functions of the National Resources Planning Board, as prescribed by Executive Order of the President, were as follows:

- (a) To survey, collect data on, and analyze problems pertaining to national resources, both natural and human, and to recommend to the President and the Congress long-time plans and programs for the wise use and fullest development of such resources.
- (b) To consult with Federal, regional, state, local, and private agencies in developing orderly programs of public works and to list for the President and the Congress all proposed public works in the order of their relative importance with respect to (1) the greatest good to the greatest number of people, (2) the emergency necessities of the Nation, and (3) the social, economic, and cultural advancement of the people of the United States.
- (c) To inform the President of the general trend of economic conditions

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and to recommend measures leading to their improvement of stabilization.

- (d) To act as a clearing house and means of coordination for planning activities, linking together various levels and fields of planning.

The National Resources Planning Board was abolished effective August 31, 1943 by direct congressional action. Apparently the Congress was motivated in abolishing the Board by the following:

- a. The Board was known as the germinating place for New Deal ideas.
- b. The Board was said to advocate deficit financing.
- c. The Board was a handy target for persons who disliked "planning" and particularly planning by the executive, instead of the legislative, branch of the Government.

National Planning Association:

This is a private, non-political, non-profit organization devoted to planning, particularly in the fields of agriculture, business, labor and

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international policy.

On the attached sheet are shown the names
of the trustees of the National Planning
Association and the members of special committees.

N. P. A.

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A NON-POLITICAL, NON-PROFIT ORGANIZATION DEVOTED TO

PLANNING BY AMERICANS

IN

AGRICULTURE

BUSINESS • LABOR

GOVERNMENT

NATIONAL

PLANNING ASSOCIATION

800 Twenty-first Street, N. W. • Washington 6, D. C.

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OSCAR JOHNSTON, National Cotton Council of America.

ALLAN B. KLINE, Iowa Farm Bureau Federation.

DONALD B. MURPHY, Editor, WALLACE'S FARMER AND IOWA HOMESTEAD.

LOWRY NELSON, University of Minnesota.

MRS. RAYMOND SAYRE, Iowa Farm Bureau Federation.

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 HAROLD RUTTENBERG, United Steelworkers of America.
 BORIS SHISHKIN, American Federation of Labor.
 TED F. SILVEY, Congress of Industrial Organizations.
 MARK STARR, International Ladies Garment Workers' Union.
 *LAZARE TEPER, International Ladies Garment Workers' Union.
 FLORENCE C. THORNE, American Federation of Labor.
 RAYMOND WALSH, Congress of Industrial Organizations.
 ROBERT J. WATT, American Federation of Labor.

*Absent while in the armed services of the United States.

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 WILLIAM HOWARD SCHUBART, Lazard Freres and Company.
 TREGGORE W. SCHULTZ, University of Chicago.
 EDGAR W. SMITH, General Motors Corporation.
 ROBERT J. WATT, American Federation of Labor.
 ROBERT WEST, Esmond Mills.

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Any agency which is to plan effectively for economic stability at a high level of employment must be in a position to make recommendations to the President with respect to all of the matters just enumerated. They are matters of high policy, and any determinations with respect to them would inevitably impinge on the prerogatives of the heads of practically every Government department. It follows, that the head of the proposed planning agency would have to be a super-coordinator, to whom all of the members of the cabinet were subordinate, or he would be ineffectual. Neither of these alternatives appears acceptable.

It seems to us, that the most promising solution of this dilemma would be the creation of a cabinet committee to plan for postwar economic prosperity. In view of the great importance of fiscal matters, the logical chairman of such a committee would be the Secretary of the Treasury.

It would be desirable for such an inter-departmental committee to have a permanent staff, not attached to any department.

Such a committee could, of course, hardly be expected to decide matters of high policy by a majority vote, but its recommendations -- with majority and minority reports when necessary -- would be invaluable to the President.

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Closer Co-ordination of Domestic Economic Policies

I The Need for a Unified Economic Program

The absence of a unified economic program has seriously hampered the business-like operation of the Federal government. Reliance on the scattered, uncoordinated bits and pieces of policy which are sponsored by the individual agencies has led to wasteful duplication, repeated inter-departmental controversies and increased administrative burdens on the White House. Moreover, the need for closer coordination is growing steadily more acute as war-time controls are progressively relaxed.

A Most of the fundamental problems which lie before us, such as minimizing unemployment, preventing inflation, promoting more balanced industrialization among the regions of the country, and increasing our foreign trade, overlap the jurisdiction of several departments. Each of the departments involved can contribute to the solution of such problems. But special machinery is needed to fit these parts together, to resolve differences, to eliminate duplication, and to fill in gaps.

B Although their primary purposes may differ, a variety of Federal programs, including taxes, government lending and borrowing, social security and surplus disposal have an important bearing on price levels, consumer purchasing power, business incentives and other determinants of economic conditions.

Unless these economic objectives are centrally defined, however, and made common to each such broad program, the latter may actually counter-act one another instead of furthering the attainment of these goals.

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C The numerous proposals for major program adjustments or for wholly new programs which issue from the various Federal agencies frequently compete with one another for the public's attention, for legislative priority and for White House consideration.

It would strengthen the Administration immeasurably both in its Congressional strategy and in its public relations if such spontaneous departmental suggestions were screened by a responsible coordinating body which would then assign priorities in accordance with the highest interest of the Administration.

In short, the more effective coordination of Federal operations requires a unified economic program -- including the definition of common economic objectives to guide all agencies, the gearing together of the self-centered proposals of each agency, and the orderly scheduling of new or remedial measures.

II Organizational Alternatives

A Recommended Form

Designation by the President of an Economic Program Board (Council) composed of the Secretaries of the Treasury, Commerce, Labor, Interior and Agriculture, with a small professional staff of its own and with power to establish appropriate interdepartmental committees to assist it.

This arrangement would ensure direct responsiveness to the President and close integration with Cabinet decision. It would ensure that technical judgment would be tempered by top level political considerations before transmission to the White House. Moreover, its

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ability to really effect integration is reinforced by the prestige of its membership as well as by the direct participation of the major permanent departments involved in domestic economic policy.

B Other Possible Alternatives

- 1 Establishment of a new special agency along the lines of the National Resources Planning Board.

Would lack the prestige and authority conferred on the Program Board arrangement by its very membership, would require more formal responsibility to Congress, and, because of the non-participation of the operating departments, would be less able to integrate policies than merely to referee controversies.

- 2 Broadening the responsibilities of the Bureau of the Budget.

Such an arrangement would offer no special advantage in view of the fact that the integrating of domestic economic policy on the highest political level has relatively little in common with the preparation of consolidated budget estimates, either with respect to the prestige and authority required or with respect to the procedures employed.

- 3 Organization of a complex structure of interdepartmental committees similar to those established by the Executive Committee on Economic Foreign Policy.

This would involve interminable negotiations and discussions instead of authoritative determinations and would continue to be dominated by the bureaucratic interests and technical findings of the

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4

individual departments instead of by the over-riding political requirements of the Executive branch as a whole.

Thus, an Economic Program Board composed of appropriate Cabinet members offers significant advantages over possible alternatives in respect to prestige, political responsibility, effective authority, and, hence, in the ability to minimize burdens on the White House.

III Suggested Functions of an Economic Program Board

- A Preparation for the President and the Cabinet of an annual economic outlook report, outlining the major problems which may be anticipated and their relative urgency, and defining specific economic objectives for the year ahead.
- B Review of each department's recommendations for new legislation and for basic modifications in its present programs as a basis for preparing a unified legislative program and a unified executive program for consideration by the President, the Cabinet and administration leaders in Congress.
- C Submission to the President and to the Cabinet of quarterly reports of progress toward broad economic objectives, highlighting major shortcomings and suggesting means whereby they might be overcome most readily.
- D Investigation of major interdepartmental controversies as basis for negotiating their settlement or for recommending action by the President.

CONFIDENTIAL

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Closer Co-ordination of Domestic Economic PoliciesSUMMARYThe Need for a Unified Economic Program

The absence of a unified economic program has seriously hampered the business-like operation of the Federal government. Reliance on the scattered, unco-ordinated bits and pieces of policy which are sponsored by the individual agencies has led to wasteful duplication, repeated inter-departmental controversies and increased administrative burdens on the White House. Moreover, the need for closer co-ordination is growing steadily more acute as war-time controls are progressively relaxed. Past experience at such co-ordination has not been successful either because of lack of prestige and authority or because of divided and conflicting responsibility.

Recommended Form

Recommended machinery for achieving the needed co-ordination is the designation by the President of an Economic Program Board (Council) composed of the Secretaries of the Treasury, Commerce, Labor, Interior and Agriculture, with a small professional staff of its own and with power to establish appropriate interdepartmental committees to assist it.

This arrangement would ensure direct responsiveness to the President and close integration with Cabinet decision. It would ensure that technical judgment would be tempered by top level political considerations before transmission to the White House. Moreover, its ability to really effect integration

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is reinforced by the prestige of its membership as well as by the direct participation of the major permanent departments involved in domestic economic policy.

APPENDIX

Background for the Proposal

The need for an Economic Program Board to advise the Chief Executive has been recognized for some time and several attempts in this direction have been made in the past. The attachment of an economic staff to a committee of the Cabinet, as proposed in this memorandum, will eliminate the various disadvantages of its predecessors.

The National Resources Committee (later called the National Resources Planning Board) was originally intended as an economic advisory board to the President but its existence as an independent agency left it wide open to bitter attacks. In addition, it existed at the same level as other departments and lacked the authority to coordinate the activities of the various government agencies concerned with the economic welfare of the people.

Later the Bureau of the Budget assumed certain responsibilities along these lines but the mixture of administrative and fiscal activities conflicted with activities which should be concerned simply with the economic affairs of the nation.

The appointment of administrative assistants to the President, although originally intended to assist him along the lines suggested in this memorandum, eventually resulted in their simply carrying out certain administrative functions for the President.

It was during the war that Congress became concerned with the problem of coordinating the activities of the war effort within one agency. The

Kilgore-Pepper-Tolan bill called for the establishment of an Office of War Mobilization. Before Congress acted upon this bill the late President established the Office of War Mobilization. Subsequently, Senator Kilgore introduced a bill which called for the establishment of an Office of War Mobilization and Reconversion. A section of the bill provided for the establishment of a Bureau of Programs which was designed to carry out certain functions along the lines suggested by this memorandum. The passage of the George bill, which established this new Office, failed to include this provision.

Thus, there is lacking in the Executive Office any economic staff which can assist the President in developing an economic program which is designed to prevent depressions and serious unemployment.

Congress will shortly hold hearings on the "Full Employment Bill", which was recommended for consideration by the War Subcontracts Committee of the Senate Military Affairs Committee. The Bill calls for an annual report by the President on the anticipated economic situation for the ensuing year and requires that the President set forth in a National Production and Employment Budget certain lines of action which would encourage private enterprise to expand its activities and recommend certain Federal action which will encourage private industry to expand and which will fill in, by certain lines of action, any gaps between the needs of the economy and employment furnished by private industry.

7th War Loan News Desk
War Finance Division
Treasury Department
Washington 25, D. C.

Sp. Release "VV"
(6-6-45)

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RELEASE MONDAY PMs. JUNE 4

WASHINGTON, D.C., JUNE 4 — The cost of maintaining and operating the United States Navy, the world's largest, will continue to increase until Japan is defeated.

For the next fiscal year, beginning July 1, 1945, about \$8,500,000,000 will be required for the pay, subsistence, transportation, training and medical care of the Navy's military personnel. That is more than twice the E-Bond quota for the 7th War Loan, \$4 billion.

Another \$8,500,000,000 will be needed for supplies and equipment necessary to maintain and operate the fleet.

In addition, there are new capital items that must be procured and the cost of these may run as high as \$7 billion. That would make \$24 billion in all. The overall quota for the 7th War Loan is \$14 billion.

The Navy is currently spending at a rate of \$30 billion a year, an average of \$2,500,000,000 a month or \$80 million a day — and it doesn't take Sundays off.

The cost of maintaining and operating the Navy alone is estimated at roughly \$90 million a day. That doesn't include any additions to the fleet or equipment.

These figures were given by the Navy to the War Finance Division of the Treasury Department, upon request of Secretary of the Treasury Morgenthau, as part of the Treasury's 7th War Loan information on "where your bond money goes" and why quotas for individuals and E-Bonds were larger than ever.

The Marine Corps will continue to need large quantities of the very best material that the home front can supply. So that this may be given them during the next fiscal year, the Navy is asking Congress to grant appropriations of \$1,350,000,000 or 15 percent more than was required in the fiscal year ending June 30, next.

"These are only the overall figures," said Ted R. Gamble, national director of Treasury's War Finance Division, in announcing them today. "They are only for the Navy, remember. The army plans to put more fighting men on the Pacific fronts than we had on the European front. That is why the Mighty 7th War Loan must be mighty and must succeed."

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FEDERAL RESERVE BANK
OF NEW YORK

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June 4, 1945.

CONFIDENTIALDear Mr. Secretary: Attention: Mr. H.D. White

I am enclosing our compilation for the week ended
May 23, 1945, analysing dollar payments and receipts in
official British, French, Canadian, and Australian accounts
at the Federal Reserve Bank of New York.

Very truly yours,

/s/ H.L. Sanford

H. L. Sanford,
Assistant Vice President.

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

Enclosures 2

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THEASURY DEPARTMENT
OFFICE OF THE SECRETARY

5 June 1945

CONFIDENTIAL

Received this date from the Federal Reserve Bank of New York, for the confidential information of the Secretary of the Treasury, compilation for the week ended 23 May 1945 showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York and the means by which these expenditures were financed.

K/

ANALYSIS OF BRITISH AND FRENCH ACCOUNTS
(In Billions of Dollars)

Week Ended May 23, 1945.

Strictly
Confidential

PERIOD	BASE OF ENGLAND (BRITISH GOVERNMENT)					BASE OF FRANCE (FRENCH GOVERNMENT)				
	DEBITS		CREDITS			DEBITS		CREDITS		
	Total	Gov't	Transfers to	Official	Other	Total	Gov't	Transfers to	Official	Other
War Years (a)	Debits	Expenditures	Official Canadian Account	Debits	Credits	Debits	Expenditures	Official Canadian Account	Debits	Credits
First	1,793.2	605.6	80.9	1,166.7	1,828.2	1,356.1	52.0	3.9	416.2	+ 35.0
Second	2,203.0	1,792.2	3.4	407.4	2,189.8	1,193.7	274.0	16.7	705.4	- 13.2
Third	1,235.6	904.8	7.7	223.1	1,361.5	21.8	5.5	57.4	1,276.8	+ 125.9
Fourth	764.0	312.7	170.4	280.9	1,072.3	-	0.5	155.1	916.7	+ 308.3
Fifth	1,197.7	300.4	61.4	835.9	1,369.6	-	-	253.0	1,116.6	+ 171.9
1944										
September	151.0	19.9	50.4	80.7	56.5	-	-	1.0	55.5	- 94.5
October	127.9	21.0	7.4	99.5	54.7	-	-	1.0	53.7	- 73.2
November	74.2	45.4	2.9	25.9	94.1	-	-	1.0	91.1	+ 17.9
December	80.4	21.9	-	58.5	91.6	-	-	-	91.6	+ 11.2
1945										
January	145.9	98.7	31.3	18.9	54.2	-	-	-	54.2	- 94.7
February	41.4	15.7	2.9	19.8	80.5	-	-	-	80.5	+ 39.1
March	79.2	40.1	6.2	32.7	75.1	-	-	-	75.1	- 3.9
April	66.6	25.9	11.2	20.6	60.6	-	-	-	60.6	- 54.0
May										
June										
July										
August										
Week Ended										
May 2, 1945	16.9	8.7	-	8.2	16.2	-	-	-	16.2	- 0.7
May 9, 1945	44.7	32.1	2.6	10.0	10.4	-	-	-	10.4	- 34.3
May 16, 1945	9.2	0.7	-	8.5	25.2	-	-	-	25.2	+ 16.0
May 23, 1945	6.1	2.5	-	3.6	30.7	-	-	-	30.7(1)	+ 24.6

Average Weekly Expenditures Since Outbreak of War

France (through June 19, 1940) \$19.6 million
 England (through June 19, 1940) \$27.6 million
 England (through June 20, 1940 to March 12, 1941) \$54.9 million
 England (since March 12, 1941) \$1.6 million

See attached sheet for footnotes.

Reports and Analysis Division

- (a) Includes payments for account of British Ministry of Supply Mission, British Supply Board, Ministry of Supply Timber Control, and Ministry of Shipping.
- (b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of war securities through December, 1940 amounted to \$334 million.
- (c) Includes about \$85 million received during October, 1939 from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts since October, 1939 apparently represent current acquisitions of proceeds of exports from the sterling area and other accruing dollar receipts. See (k) below.
- (d) Reflects net change in all dollar holdings payable on demand or maturing in one year.
- (e) For breakdown by types of debits and credits see tabulations prior to March 10, 1943.
- (f) Adjusted to eliminate the effect of \$20 million paid out on June 26, 1940 and returned the following day.
- (g) For monthly breakdown see tabulations prior to April 23, 1941; October 8, 1941; October 14, 1942; September 29, 1943; September 6, 1944.
- (h) Transactions for account of Caisse Central de La France E'coute-Mar included for first time in week ended December 6, 1944.
- (i) Includes \$12.6 million apparently representing current and accumulated dollar proceeds of sterling area services and merchandise exports, and \$16.0 million in connection with the expenses of our armed forces abroad.

Reports and Analysis Division

ANALYSIS OF CANADIAN AND AUSTRALIAN ACCOUNTS
(In Millions of Dollars)

Week Ended May 23, 1945

Strictly
Confidential

PERIOD	CANADA (and Canadian Government)							COMMONWEALTH BANK OF AUSTRALIA (and Australian Government)						
	DEBITS			CREDITS				DEBITS			CREDITS			
	Transfers to			Transfers from Official				Transfers to			Transfers from Official			
	Total	Official	Others	Total	Proceeds of Gold Sales	For Own A/C	For French A/C	Other Credits	Net Incr. (+) or Decr. (-) in \$ Funds	Total	Official	Others	Total	Proceeds of Gold Sales
War Years (a)	Debits	A/C	Debits	Credits	Sales	A/C	A/C	Credits		Debits	A/C	Debits	Credits	Sales
First	323.0	16.6	306.4	304.7	412.7	20.9	38.7	32.4	+ 181.7	31.2	3.9	27.3	35.1	30.0
Second	460.4	-	460.4	462.0	246.2	3.6	123.9	88.5	+ 1.6	72.2	16.7	55.5	81.2	62.9
Third	525.8	0.1	525.5	566.3	198.6	7.7	-	360.0	+ 40.5	107.2	57.4	49.8	112.2	17.2
Fourth	723.6	-	723.6	958.8	47.1	170.4	-	743.3	+ 235.2	197.0	155.1	41.9	200.4	-
Fifth	849.3	1.0	848.3	958.5	38.1	61.4	-	859.0	+ 283.3	298.6	253.0	45.6	287.7	-
1944														
September	76.5	0.1	76.4	91.8	-	50.4	-	41.4	+ 17.3	5.8	1.0	4.8	7.3	-
October	24.1	-	24.1	24.2	-	7.4	-	76.8	+ 60.1	20.3	1.0	19.3	21.0	-
November	38.8	-	38.8	53.7	-	2.9	-	50.8	+ 14.9	3.4	1.0	2.4	3.8	-
December	44.5	0.3	44.2	50.7	-	-	-	32.7	+ 8.8	1.4	-	1.4	19.6	-
1945														
January	35.1	-	35.1	91.6	10.0	31.3	-	50.3	+ 56.5	27.4	-	27.4	5.6	-
February	27.8	-	27.8	103.9	-	4.0	-	59.0	+ 76.1	1.8	-	1.8	4.9	-
March	23.5	-	23.5	62.4	-	6.2	-	56.2	+ 33.6	3.3	-	3.3	2.0	-
April	28.4	0.5	27.9	70.8	-	11.1	-	59.7	+ 42.4	1.1	-	1.1	1.7	-
May														
June														
July														
August														
Week Ended														
May 2, 1945	9.7	-	9.7	12.1	-	-	-	12.1	+ 2.4	2.0	-	2.0	1.5	-
May 9, 1945	52.0	-	52.0	17.7	-	2.6	-	15.1	+ 34.3	0.6	-	0.6	0.7	-
May 16, 1945	26.1	-	26.1	28.4	-	-	-	28.4	+ 2.3	1.7	-	1.7	0.4	-
May 23, 1945	0.3	-	0.3	33.0	-	-	-	33.0	+ 32.7	2.1	-	2.1	0.5	-

Average Weekly expenditures for

First year of war	6.2 million.
Second year of war	8.9 million.
Third year of war	10.1 million.
Fourth year of war	13.9 million.
Fifth year of war	16.1 million.
Sixth year of war (through May 23, 1945)	9.3 million.

- (a) For monthly breakdowns see tabulations prior to: April 23, 1941; October 6, 1941; October 14, 1942; September 29, 1943; September 6, 1944.
- (b) Reflects changes in all dollar holdings payable on demand or maturing in one year.
- (c) Includes \$ 2.5 million deposited by War Supplies, Ltd.
- (d) Reflects net change on all dollar holdings payable on demand or maturing in one year.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

207

June 4, 1945

TO Secretary Morgenthau

FROM Charles Bell

Following your appearance before the Appropriation Committees and the press publicity resulting from that and the President's statement, the following steps have been taken to set in motion the recruiting machinery for Internal Revenue:

(1) Standards for Revenue Agents have been reduced to facilitate securing applicants and to achieve uniformity with the requirements for Special Agents.

(2) The Civil Service Commission has written strong letters to their regional offices directing full support of this program.

(3) The Bureau of Internal Revenue has released letters to its field personnel instructing them in the procedures to be followed in working with Civil Service in their respective localities.

(4) I have a letter for your signature to Mr. Paul McNutt, asking that a higher priority rating be given our work by the War Manpower Commission in all areas.

(5) Our Director of Personnel is devoting full time to the project along with the Revenue representatives and the Civil Service people.

(6) I expect to put several men into the field to check on the effectiveness of our working relations with the Civil Service Commission and the internal mechanics of the Revenue service in bringing in new appointees.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE 4 June 1945

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TO Secretary Morgenthau

FROM Mr. Hays

Subject: The Business Situation,
Week ending 2 June 1945.

Summary

Goods shortages: Continuing severe shortages of many civilian goods items are in prospect, despite war production cutbacks and the lifting of numerous restrictions on civilian goods output. Military requirements for cotton textiles in the third quarter will reach a record high, and the WPB estimates that as many as 150,000 additional workers would be needed to meet all textile production goals. Other materials in particularly short supply include lumber and leather.

Reconversion: By the beginning of last week the WPB had revoked 156 orders and schedules limiting civilian production out of a total of 650 which were in effect on 1 April. Third quarter allotments of steel for essential civilian use will be 330,000 tons greater than in the first quarter. In addition to specific allotments, it is estimated that about 500,000 tons of "free" steel will be available for civilian production during the third quarter.

Employment: The WAC has placed the Detroit area in the "balanced or slight surplus" labor area classification as a result of recent and anticipated war production cutbacks. Production of General Sherman tanks by the Chrysler Corporation has been ordered terminated by the end of June, thus contributing to the increasing release of war workers in the area. The WPB chairman last week estimated that curtailments in war production will cause nation-wide unemployment to rise to 1,900,000 within 3 months, but reconversion is expected to cut the total to 1,300,000 at the end of 6 months.

Retail trade: Cutbacks may be affecting retail trade. Department store sales in the 4 weeks ended 26 May were only 3 percent above year-earlier levels, as compared with a cumulative sales gain of 12 percent thus far in 1945.

Commodity prices: Commodity prices continued to move higher last week, with the Dow-Jones futures index advancing to a new war-time high. An important factor in the advance was an increase of 3-1/8 cents per bushel in the ceiling price for wheat.

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Many civilian goods shortages to continue

Despite cutbacks in war production and the recent lifting of numerous restrictions on civilian goods production, acute shortages in many civilian goods items are in prospect for some time ahead. While heavy curtailments are under way in such leading war industries as aircraft and shipbuilding, military requirements for such items as textiles and leather are higher than last year. Allocations of cattle-hide leather for military purposes in the second and third quarters of this year are reported to be 30 percent above the average consumption rate last year. Likewise, military requirements for cotton textiles in the third quarter will reach a record high, while military takings of woven woolen goods during the same period will be about 60 percent of the total supply.

Textile industry hampered by manpower shortage

Reporting on the unfavorable prospects for civilian textile supplies in coming months, the WPS last week said that the industry has been hampered by a shortage of manpower, and estimated that as many as 150,000 additional workers would be required to meet all textile production goals. It was asserted, however, that there is no over-all shortage of textile fibers, and that the capacity of the textile industry could be increased as much as 25 percent above current levels with full 3-shift operations.

Along with the extremely tight supply situation in civilian textiles, the need for continuing shoe rationing was emphasized by the OPA last week with the disclosure that distribution of rationed shoes last year exceeded production by about 50 million pairs. Moreover, inventories of rationed shoes in the hands of wholesalers and retailers dropped approximately 25 percent during the year.

Numerous important materials used for civilian purposes continue in very short supply. The lumber shortage is reported to be one of the most critical, due to heavy demands in the face of an 11-percent drop in production thus far in 1945 as compared with last year. Paper and various chemicals also continue in short supply. The Petroleum Administration for War recently took exception to what he characterized as a widespread but erroneous impression that home-heating oil will be more plentiful as a result of the defeat of Germany. He asserted that more oil of the home-heating type will be required to carry on the war against Japan than was used in

- 3 -

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fighting a two-front war. As a consequence the majority of applications for converting heating installations from coal to oil, which have risen substantially in recent months, are being rejected.

Consumer durable goods output to increase

Consumer durable goods production within a year is expected to be more than double the current rate of output, according to a prediction made last week by the WPS chairman. However, it remains to be seen how rapidly manufacturers can get into actual production of civilian goods. A recent survey by the Journal of Commerce disclosed that many manufacturers of civilian items on which restrictions have been lifted have been swamped with orders. However, numerous difficulties are being encountered in securing materials and manpower, meeting price ceilings, etc., and as a consequence manufacturers are warning that it will take at least several months before any increase in civilian production will make itself felt.

Civilian steel allotments increased

One of the outstanding uncertainties at the present time is the confused outlook for civilian steel supplies after 1 July, when the Controlled Materials Plan is "opened." In this connection, the Iron Age last week commented as follows:

"Already there is some belief among steel consumers that the heavy demand for non-rated uses will be so great that if it is adequately divided in the months immediately ahead, no single group will receive large quantities of steel. This possible outlook, according to some district reports, has caused steel consumers to be quite pessimistic concerning their ability to obtain a representative steel tonnage in the near future. Cancellations, however, if greatly accelerated over the next few months could, overnight, change this conservative attitude."

Some clarification of the outlook occurred near the end of the week when the WPS announced that third quarter allotments of steel for domestic civilian use will be 330,000 tons greater than in the first quarter. The only new items receiving civilian steel allotments will be refrigerators and washing machines, but allotments for farm machinery, trucks, buses, and heating and plumbing equipment will be increased.

- 4 -

In addition to the specific allotments for essential civilian needs, the WPB estimates that about 500,000 tons of "free" steel will be available for civilian production during the third quarter. This is steel that can be obtained on the open market without priorities.

Meanwhile, steel operations during the current week are scheduled at 91.1 percent of capacity, after declining 1.9 points to 91.0 percent of capacity last week. (See Chart 1.) Cancellations of steel orders are reported to be increasing, but large backlogs and new war orders are sustaining production. The recent moderate weakness in steel scrap prices appears to have been checked, due in part to reported heavy buying by Pittsburgh mills. As a result, the Iron Age scrap composite price showed no change last week after declining in the previous 2 weeks.

Further relaxation of controls on civilian production

By the beginning of last week the WPB had revoked 156 orders and schedules limiting civilian production out of a total of 650 in effect on 1 April. Further progress in relaxing these restrictions was made during the week. Among others, production controls were lifted on such items as hand tools, aluminum household utensils, and motorcycles.

Construction curbs have been relaxed by raising the dollar limitations on expenditures (without special WPB permission) for construction and alteration of homes, factories, and commercial buildings. However, such work on a one-family house, for example, is still limited to \$1,000 per year. Moreover, the practical effect of the measure is limited, since no guarantee is given that necessary building materials will be available.

The Ford Motor Company has announced the details of its new car, the 1946 Ford, on which production is expected to start in 60 to 90 days. Contrary to some expectations, the car shows numerous style and design changes as compared with the former model, on which production ceased in February 1942. The company stated that the new car embodies more mechanical improvements than many pre-war annual models. Because of limited production and the requirements of essential car users, the new car is not expected to be available generally for a year or more. No announcement of the selling price has yet been made.

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- 5 -

Tank contracts cutback

Numerous cutbacks in war contracts continue to be announced. Among others, tank contracts held by the Chrysler Corporation and the Pressed Steel Car Company were cut back last week as the Army indicated that present supplies of General Sherman tanks were sufficient. The cutback at the latter company will release 3,100 employees and affect more than 450 subcontractors, while approximately 3,500 employees will be affected at the Chrysler plant. The Detroit Board of Commerce reports that lay-offs in the Detroit area are now averaging 30,000 per month.

The WMC has placed the Detroit area in the "balanced or slight surplus" labor area classification as a result of recent and anticipated war production cutbacks. During the past week the WPB chairman estimated that curtailments in war production will cause unemployment to rise to 1,900,000 within 3 months. However, largely as a result of reconversion to civilian goods production, he estimated that unemployment at the end of 6 months will be reduced to 1,300,000.

Department store sales show some signs of slackening

After declining close to last year's levels in the previous 2 weeks, department store sales in the week ended 26 May rose 9 percent above the corresponding week last year. (See Chart 2.) However, it may be significant that sales in the 4 weeks ended 26 May were only 3 percent above year-earlier levels, as compared with a cumulative sales gain of 12 percent since the beginning of the year, indicating some slackening of the sales pace in recent weeks.

During the 4 weeks ended 26 May the widest gain, amounting to 11 percent, was shown by the San Francisco district. On the other hand, the Boston and Richmond districts dropped 1 percent under year-earlier levels, while the Philadelphia and Chicago districts were unchanged from the corresponding period last year. It is of interest that revenues from the sales tax in Michigan during May were about \$1 million less than in April, a seasonal decline.

Following unusually heavy pre-Easter buying in March, total retail sales in April declined more than seasonally and fell moderately below the corresponding month last year. Total consumer short-term debt outstanding in April also contracted moderately but was still about 11 percent above the war-time low reached in February 1944. (See Chart 3.)

All types of consumer credit have shown some expansion in the last year, although the most important factor in the increase has been the expanding volume of charge accounts.

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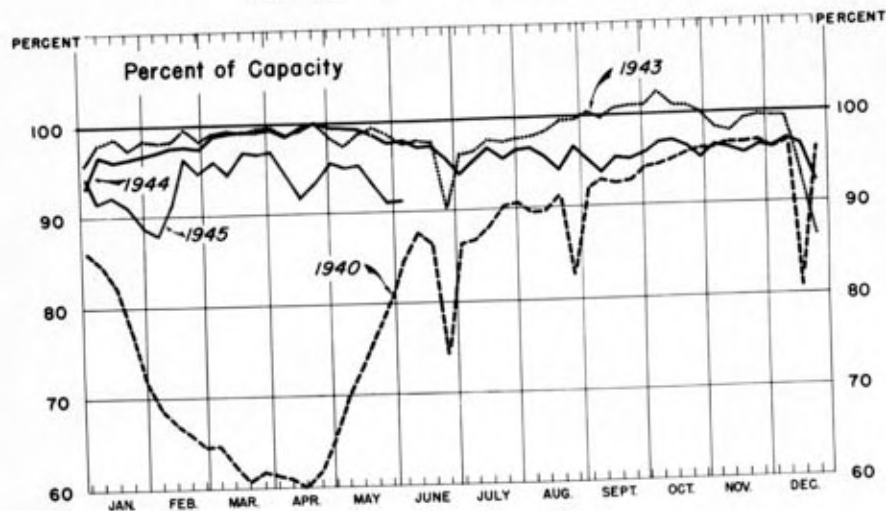
- 8 -

Meat subsidy announced

A subsidy program to help increase the production of beef by encouraging feeding operations has been approved by Stabilization Director Davis, as detailed in a directive to the WFA last week. Commodity Credit Corporation funds up to \$40,000,000 may be used to make payments to feeders at the rate of 50 cents per hundred pounds, live weight, on cattle weighing 800 pounds or more. The cattle must have been owned by the feeder for at least 30 days, and must be of such quality when sold as to bring at least \$14.25 per hundred pounds, Chicago basis, or to produce beef grading A or AA.

As a further aid in improving the civilian meat situation, the quantity of beef being set aside for Government purchase by federally-inspected slaughterers has been reduced by 5 percentage points. The set-aside on Army-style beef, for example, is reduced from 55 percent to 50 percent. The set-aside percentages for pork cuts have also been slightly reduced.

STEEL INGOT PRODUCTION



Source: American Iron and Steel Institute

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

C-532-A

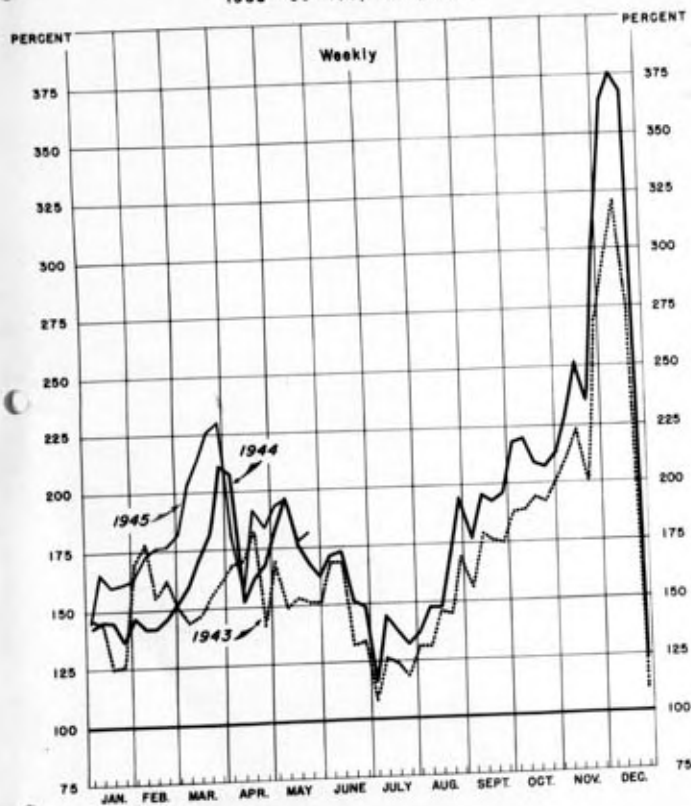
Chart 1

Chart 2

217

DEPARTMENT STORE SALES

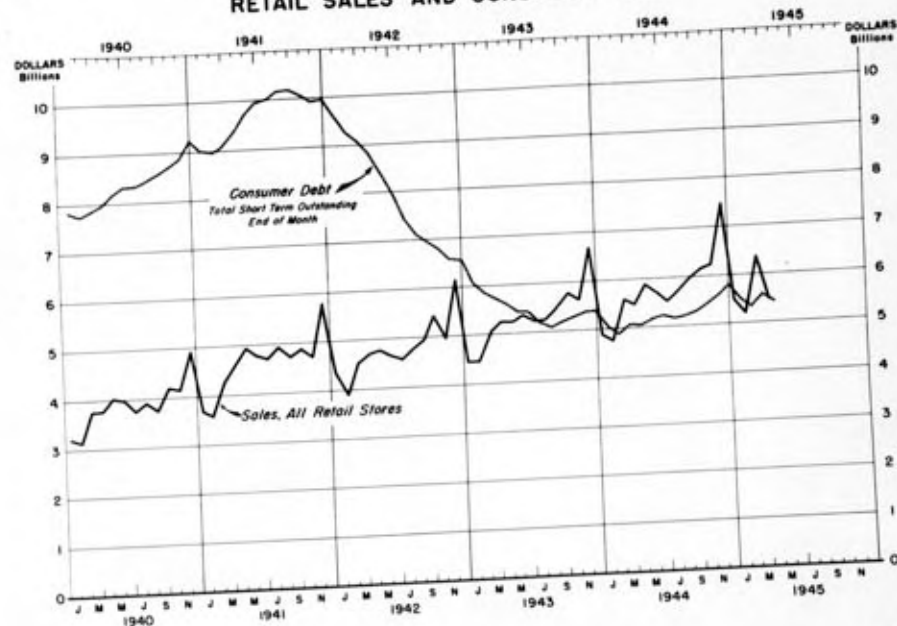
1935-'39 = 100, Unadjusted



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

C-390-0

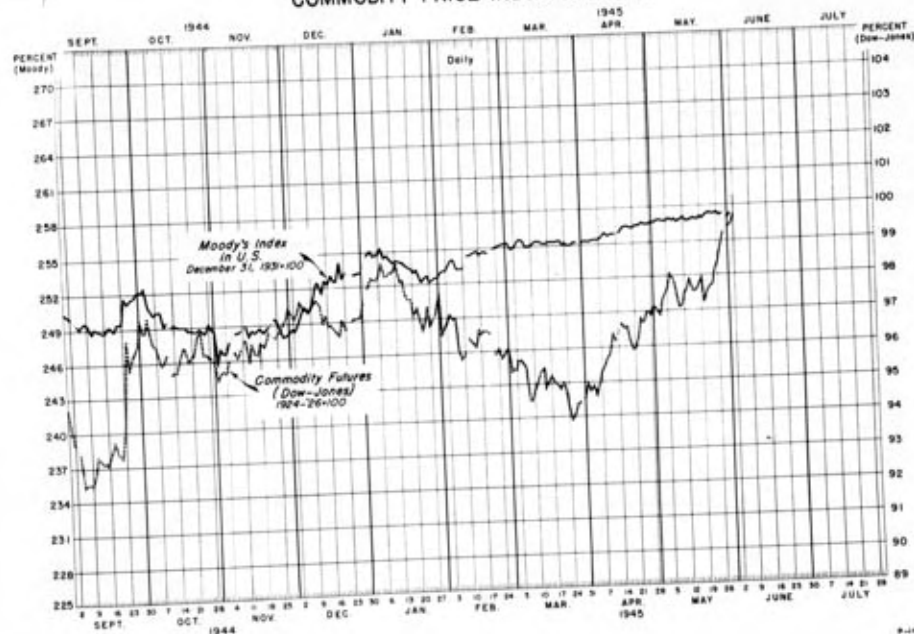
RETAIL SALES AND CONSUMER DEBT



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

C-482-B

COMMODITY PRICE INDEXES IN U.S.



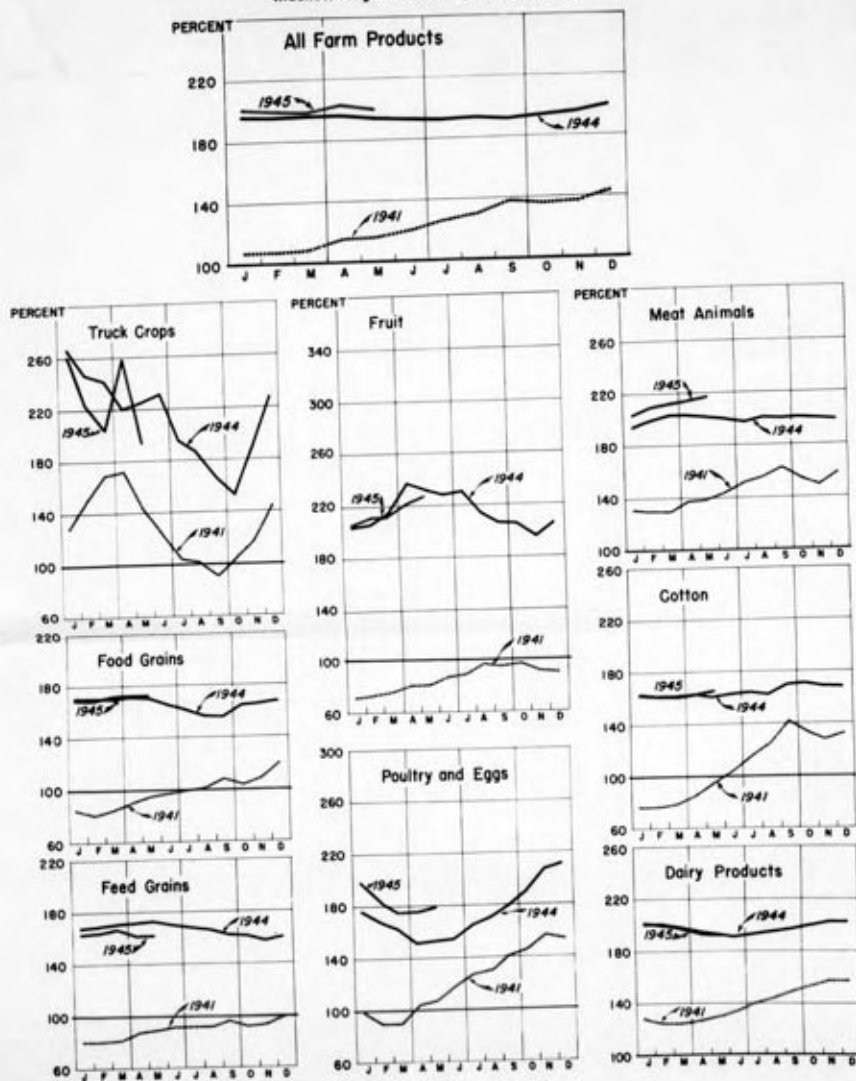
Office of the Secretary of the Treasury
Bureau of Economic Warfare

Chart 10

P-148-R

AVERAGE PRICES RECEIVED BY FARMERS

Indexes, August 1909 = July 1914 = 100



DEPARTMENT
OF
STATE

OUTGOING
TELEGRAM

DIVISION OF 221
CENTRAL SERVICES
TELEGRAPH SECTION

DIVISION OF 221
CENTRAL SERVICES
4 p.m.
Distribution of true
reading only by special
arrangement. (SECRET W)

1945 JUN 4 AM 10 15

DC/L
LIAISON

MEMORANDUM

MEMO

1947

The following for Harrison and McClelland from
DEPT and War Refugee Board is WRB 529.

DEPTS 891 of Mar 18, 2805 of July 28 and 3194
of Sep 18, 1944.

DEPT and Board desire to know whether any
refugee children admitted to Switzerland were
beneficiaries of visas authorized in foregoing
cables and, if so, the numbers.

GREW
(Acting)
(OLE)

For security reasons the
text of this message must
be closely guarded.

W. H. Vancetta
6/2/45

UE

VO

222

June 4, 1945

7 p.m.

AMEMBASSY

CHUNGKING (CHINA) VIA HAVY
854

In as much as specific information lacking in
DEPT concerning points one and two raised UNTEL 905,
June 3 Dept is referring your request to Consulate
General in Manila for report. When reply is received
you will be informed further.

CRES
(Acting)
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