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March 1, 1945
10:25 a.m.

PRE-PRESS

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

H.M.Jr: Have you decided whether you are going up?

MR. BELL: I don't know.

H.M.Jr: I have one for you and Herbert.

MR. BELL: I'll go. Thank you.

H.M.Jr: Is there anything special?

MR. SHAEFFER: There is the price of gold, Bratton Woods, and speculative taxes. That's all I know of.

MR. O'CONNELL: No, the answer is too--

MR. GASTON: The answer is no.

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

MR. GASTON: I don't know whether we have in mind any proposal to change--which of course we don't know.

H.M.Jr: Shall I say that about the Republicans?

MR. BELL: There is no change in our policy.

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MR. GASTON: Why don't you say "no comment"?

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

H.M.Jr: You're helpful.

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

H.M.Jr: Sylvia Porter was in. She knew everything that happened up until yesterday.

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 The understanding is if she writes it, it is to be withdrawn if it isn't announced.

H.M.Jr: I didn't tell you.

MR. BELL: I am going to ask you if I can give it to her.

H.M.Jr: I don't know what the answer is.

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

H.M.Jr: Well, she's coming in this afternoon.

MR. BELL: Oh.

MR. WHITE: You have competition, Dan.

MR. BELL: He sees them more often than I do.

MRS. KLOTZ: You're losing out slowly.

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Notes on Meeting Held with Life Insurance
Company Representatives in the
Chart Room, 11:00 to 11:55 a.m.,
Thursday, March 1, 1945

Present:

For the Life Insurance Companies:

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

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

Franklin D'Olier, President, Prudential Insur-
ance Company of America, Newark, New Jersey

Lewis W. Douglas, President, Mutual Life In-
surance Company of New York, New York,
New York

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

Laurence F. Lee, President, American Life Con-
vention, Raleigh, North Carolina

F. A. Shaller, Vice President, Equitable Life
Insurance Society of the United States,
New York, New York

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

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

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

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

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For the Treasury Department:

Secretary Morgenthau
Under Secretary Bell
Mr. Gamble
Mr. Hess
Mr. Murphy

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

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

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

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

Quite a number of the representatives of the life insurance companies spoke on this point. All of them denied that they operated for short-term profits of the character

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alleged, although several stated that they sold securities as they approached maturity and their yield went below a certain level. One of the representatives said that his company sold securities whenever their yield went below 1 percent, while another representative indicated a deadline of 1-1/2 percent for his company.

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

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

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

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

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

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

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often made portfolio changes of one kind or another necessary, and that the Department would not ask the companies to agree to freeze their portfolios of Government securities. The Secretary agreed to this statement of the case.

Mr. Smith, President of the New England Mutual Life Insurance Company, made the point that it would be helpful if a 90-day, rather than a 60-day deferred payment plan, were permitted in connection with the Seventh War Loan.

Mr. Gamble said that a 75-day (rather than a 60-day one) had, in fact, been allowed in the Sixth Loan.

NCA

March 1, 1945
2:51 p.m.

HMJr: Hello.

Operator: I have Mr. Johnson on the wire. We saw that their son is over at Newburg today; that they had snow there last night but he was going to get out to the farm today to talk to him in time to get him some more apples. He said they hadn't gotten anything since Sunday, that they can use some more small ones and some more large ones, too.

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

Operator: Right.

HMJr: It's waiting for Frank Taylor.

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

March 1, 1945
2:54 p.m.

John McCloy: Hello.

HMJr: Hello.

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

HMJr: Yes.

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

HMJr: Yes.

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

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

M: Yeah.

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

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

HMJr: Yeah.

M: and put something formally over to them.

HMJr: Yeah.

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

HMJr: You'll be glad to help.

M: You'd be glad to help?

HMJr: Yes.

M: Okay. Well, I'll talk to State Department, and then I'll talk to you again.

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HMJr: Did you have a good French dinner last night?

M: Last night?

HMJr: Weren't you

M: Oh, yes, with Monnet. Yeah, I was with Monnet last night.

HMJr: Well, the dinner couldn't have been so good if you can't remember it.

M: Well, I was with another French dinner the night before. It got me confused. He brought out his finest brandy.

HMJr: Yeah.

M: His finest cigars.

HMJr: Yeah.

M: And his finest dinner. He was in a pretty good mood.

HMJr: We were invited and we couldn't come. I'm sorry.

M: Yeah. Well, he was -- he was very pleased, of course, with everything. The -- the State Department people called me up today and said they thought there was going to be some ruckus on the Hill.

HMJr: Oh, really?

M: Well, the -- there was some indication that the thing was being picked up.

HMJr: Oh.

M: And -- in connection with the extension of Lend-Lease. It looked as if they were going to go into it.

HMJr: Did you hear -- this is very, very confidential -- that Ed Stettinius tried to hold up the thing yesterday?

M: Oh, no.

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HMJr: Yeah. Don't breathe it except to Mr. Stinson.

M: Yeah.

HMJr: Because he wanted it as a lever on them to agree to come to San Francisco....

M: Oh.

HMJr: The French.

M: I see.

HMJr: And according to what's his name -- Grew

M: Yes.

HMJr: ... Ed got quite angry when they wouldn't agree to hold it up.

M: Oh huh.

HMJr: But I gather Grew told them it was too late.

M: Too late because they had the whole thing set up. There would have been a great conference on, I suppose, if they had; but that's funny.

HMJr: But that's just for you and Stinson.

M: All right.

HMJr: I just thought it was sort of amusing.

M: Very. Okay.

HMJr: All right. Thank you.

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MEETING IN SECRETARY MORGENTHAU'S OFFICE WITH MR. ECCLES AND MR. SPROUL REPRESENTING THE EXECUTIVE COMMITTEE OF THE FEDERAL OPEN MARKET COMMITTEE

Thursday, March 1, 1945
3:00 P. M.

Others present: Mr. Bell, Mr. Haas

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

When Mr. Eccles reached point 3 in the memorandum, which recommends that no announcement be made at the present time of the maturities of any of the issues included in the Drive but to state the coupon rates carried by the various issues, the Secretary indicated his approval of that procedure, stating that he had made a similar suggestion to his staff. Mr. Eccles continued his reading of point 3 which also recommends that the Treasury consider lengthening the period during which these securities are ineligible for bank purchase. The Secretary said that he thought these restricted securities should be made eligible for bank purchase at the time they have only 10 years to run to maturity.

When Mr. Eccles read point 4 of the memorandum, which recommends a direct offering to banks, the Secretary indicated his interest and said he wanted to think the matter over carefully and would start discussions with his staff at 9:30 the next morning.

The Secretary said that he would like to work out something that would favor the smaller banks who have less favorable earning position than the larger banks. Mr. Sproul said that recently the smaller banks were also showing good earnings reports, particularly when the earnings are expressed as a percentage of their capital funds. But Mr. Sproul went on to add that some of the banks are so small that the percentage may look favorable and yet the total amount of earnings remains small. The Secretary made the suggestion that the little banks would be favored

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if they were allowed to buy up to the \$100,000 limit of F and G Savings Bonds. The Secretary also said that he was inclined to think that if a direct bank offering were made it might be better to put it before rather than after the Drive, that the psychological effect may be more favorable if handled in this way. Mr. Eccles indicated that such an arrangement would be satisfactory to them.

The Secretary then asked Mr. Eccles and Mr. Sproul to consider the question of the direct bank offering of \$3 billions, consisting only of the 7/8% certificate. Mr. Sproul said that he did not think that type of offering would serve the purpose intended, i. e., to take the steam off of switching securities into the banks. He felt that in order to do this the banks would have to be offered some of the 1 1/2's included in the Drive. The Secretary closed the discussion with regard to the direct bank offering by repeating again that he wanted to consider the matter very carefully with his staff the next morning, and that he would keep in touch with Mr. Eccles during the day.

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

At the Secretary's suggestion, the group retired to Mr. Bell's office and continued the discussion. (Mr. Rouse joined the group in Mr. Bell's office.) The matter of whether or not the announcement should include the maturity terms of the issues in the Drive was again discussed. Mr. Bell felt that if the maturities were announced, some of the bloom on the market might be saved, and suggested for the 2 1/2's a 10 year call period or a 7 or 8 year call period, the 10 year call period being something approximating 1967-77, for example.

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

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STRICTLY CONFIDENTIALD
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Y

March 1, 1945

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

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

1. That the Seventh War Loan Drive be divided into two distinct parts, the first for individuals and the second for other nonbank investors, and that the goal for the second part be placed at 5 billion dollars. The suggested dates, May 14 - June 16 and June 18-30, are entirely satisfactory.
2. That the Treasury announce at the present time that the offerings in the individual drive, in addition to savings bonds and savings notes, will consist of 7/8 per cent certificates, 1 1/2 per cent securities, and 2 1/4 and 2 1/2 per cent restricted bonds and that the offerings in the second part of the drive will consist of the same securities, except for the exclusion of Series X savings bonds and the 1 1/2 per cent securities.
3. That no announcement be made at the present time of the maturities of any of the issues included in the drive. The announcement should, however, state that the maturities on the 2 1/4 and 2 1/2 per cent bonds will correspond approximately with the last previous issues of such securities, with allowance for the lapse of time. It is suggested that the Treasury consider lengthening the period during which these securities are ineligible for bank purchase. The maturity of the 1 1/2 per cent securities would be determined in relation to the level of the market after the announcement and at the time of the offering.
4. That the Treasury also announce at the present time that, after the end of the corporate drive, it will make a direct offering of 1.5 billion dollars of certificates and 1.5 billion of 1 1/2 per cent securities to commercial banks. Subscriptions would be limited to a proportion of capital and surplus or a proportion of deposits, with the objective of limiting total subscriptions to not far in excess of 3 billion dollars. All subscriptions for \$50,000 or less for each issue would be accepted in full. This would make it unnecessary to continue offerings to commercial banks on the basis of their time deposits.
5. That the Treasury limit the amount of war loan deposits held by any one bank to 30 per cent of its deposits, other than war loan deposits, and that the collateral pledged to secure such deposits be confined to U. S. Government securities.
6. That the Treasury continue to increase the outstanding amount of Treasury bills by 100 million dollars a week until the completion of the

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March 1, 1945.

full cycle and that the question of continuing this increase be reexamined at that time.

The separation of the drive into two distinct parts, one for individuals, partnerships, and trust accounts, and the other for other nonbank investors is in line with our earlier recommendations and has our full endorsement. We feel also that the increase in the quota for the individual drive will place individuals and the selling organization under substantial, but not impossible, pressure. It is recommended that the quota for other nonbank investors be decreased to 5 billion dollars, which would make it unnecessary for these investors to sell any of their existing holdings. The selling organization should be instructed to discourage the making of quotas by selling from existing holdings. It would be expected that between 3.0 and 3.5 billion dollars of this total would be obtained from insurance companies, mutual savings banks, and similar institutions, this amount representing their accumulation of funds. The remainder would come principally from corporations.

A maximum rate of 1 1/2 rather than 1 3/4 per cent unrestricted securities would have a number of advantages. The lower rate would reduce the interest cost of the debt and retard the growth in bank earnings. It also would reduce the temptation for commercial banks to arrange for indirect purchases and would reduce the amount of free-riding and speculation. At the same time, it would not be likely to reduce materially the demand from individuals.

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

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

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

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

March 1, 1945
1:50 P.M.

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HWJr: Hello.

Henry A. Wallace: Yes, Henry.

HWJr: Hello, Mr. Secretary. I want to congratulate you.

H: Well, you had a lot to do with it.

HWJr: I'm delighted.

H: Well, I'm so lucky. It was better than I expected.

HWJr: I think you did fine.

H: Thank you.

HWJr: And I want to see you soon.

H: Are you -- when are you leaving, Henry?

HWJr: Leaving?

H: I thought you were going....

HWJr: Oh, I had to postpone that on account of Bretton Woods.

H: I see.

HWJr: No, I'll be here for a while.

H: Oh, yes.

HWJr: And if you've got nothing better to do early next week, I'll get in touch with you and we'll walk down.

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

HWJr: Fine. I'm delighted, Henry.

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

HWJr: He called you up?

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W: Yeah.

HMJr: Well, that was nice.

W: Wasn't that nice of him.

HMJr: That's awfully nice of him.

W: Yeah.

HMJr: Well, I'm delighted.

W: Thanks, Henry.

HMJr: Be seeing you. Bye.

W: Bye.

HMJr: Bye.

Operator: All right?

HMJr: Yes.

Operator: Go ahead.

HMJr: Yes.

Frank Isbey: Hello.

HMJr: Frank?

I: Yes, sir.

HMJr: How are you?

I: All right. How are you, Mr. Secretary?

HMJr: All right.

I: That's good.

HMJr: Frank.

I: Yes.

HMJr: After getting back -- may I first again thank you for all you did.

I: Oh, well, I'm honored to have you come.

HMJr: Well, it's wonderful. Now....

I: "Thanks to you! Mrs. Isbey said, "for the roses." She will write you a note. They were beautiful.

HMJr: Well, I'm sorry that I took you away on her birthday.

I: Oh, no, that was fine.

HMJr: Frank.

I: Yeah.

HMJr: They feel here that -- I don't want to push too hard with the Labor Union.

March 1, 1945
5:05 p.m.

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I: Yes.

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

I: I get it.

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

I: Good judgment.

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

I: Yeah.

HMJr: Now, they've confirmed Wallace.

I: Yeah.

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

I: I see.

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

I: Yeah.

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

I: Yeah. I get you.

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

I: Yeah.

HMJr: You see?

I: That's right.

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

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I: Yeah.

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

I: Right. Right.

HMJr: I just thought I'd put that

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

HMJr: Well, it's just

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

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

I: Yes.

HMJr: Yes

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

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

I: Yes. All right.

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

I: I'm glad to get that.

HMJr: Right.

I: And we -- we had so many -- I want you to know this because really Mrs. Isbey, when I came home, she -- you know your address was rebroadcast. I wish we'd have known it. She said, "What's the matter with you? The Secretary could have listened to it again at four-thirty."

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HMJr: Yes.

I: And she said that you are getting to be quite some speaker.

HMJr: I see. (Laughs)

I: (Laughs) But it was fine, and lots of good comments everywhere.

HMJr: I see.

I: Now, you -- and I mean it get some into the right places.

HMJr: Right.

I: And so if you'll let me handle this, now, for just a few days

HMJr: I will.

I: I've got the ball rolling and we'll do it locally.

HMJr: Good.

I: And then it will go on to those two parties locally. See?

HMJr: Fine.

I: But you'll hear from me. We'll carry right through on what I said we'd do.

HMJr: Right. Ever so much obliged.

I: Thanks to you.

HMJr: All right.

I: Good bye.

22

March 1, 1945

Fellow Employees:

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

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

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

Sincerely,

[Signed] H. Morgenthau, Jr.

Copy to H. C. Hall

ITEMS OF EMPLOYEE INTEREST

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

One recommendation concerns overtime. The present law expires in June. A new law will undoubtedly be passed before then. The Commission recommends that the new law be permanent. Further, it proposes that it pay more overtime than the present law. At present, your overtime pay for work over 40 hours a week increases your paycheck by about 21.8%. This figures out to about time and one-twelfth. The new proposal is that you be paid time and one-half overtime. For working a 48-hour week, you would get 30% more pay instead of 21.8%.

This formula would apply on regular salaries of \$3800 or less. Above \$3800, overtime pay would taper off gradually until at \$6500 the overtime paid is only slightly higher than that paid under present law.

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

The Commission also recommends that employees who have to wait 18 months for a within-grade salary advance, wait only 12 months. These would be persons in grade CAF-10 (\$3800) or lower. For those who now wait 30 months, the time would be shortened to 18 months. These would be persons in CAF-11 and higher. Also, the advance would be effective at the beginning of the month after completion of the waiting period rather than the next quarter.

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

A bill containing these recommendations was introduced in Congress, immediately after their receipt. Senator Downey, in introducing the bill in the Senate, added a provision to it. His bill proposes, in addition to the above benefits, a flat 1% increase in employees' base pay.

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

COMMUNICATIONS SECTION
MAY 24 1954
SECRETARY ROBERTSON

ITEM OF INTEREST

(17)

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

25

Date

February 27, 1945

TO Mr. White

FROM R. Peltus

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

1. I arranged with the Blue Network tentatively, for a special fifteen-minute program on the evening that hearings in the House open. Because of the WAR Code, it is necessary that both sides be presented on such a program. However, I think it is a good idea to expose the bankers' position to the light of day.
2. I arranged with the World-wide Broadcasting Company to make a special fifteen-minute transcription program on Bretton Woods for release in mid-March. These transcriptions are carried on a hundred smaller stations through the country. I arranged for professional radio writers and actors to produce this program. We will check the script for technical accuracy and policy.
3. I made tentative arrangements for a meeting in New York within the next week of radio writers, directors and producers, magazine writers and editors, syndicated writers and columnists, commentators and others. This group would be addressed informally by you and others in the Treasury, with a view to educating them on Bretton Woods. The group will be hand-picked and only friendly persons will be there. The result will be a wide variety of comments on Bretton Woods in various media.
4. I made arrangements for top-flight writers to come to Washington on special assignments from time to time. These individuals would come without compensation, but we would guarantee expenses. McDonald tells me this can be done.

- 2 -

5. I made tentative arrangements for the fifteen minute motion picture discussion of Bretton Woods which I mentioned in a previous memorandum. This is not definite at either end, but I am confident that we can close the deal if we can furnish top-flight participants. You will remember that I suggested Secretary Morgenthau, Will Clayton and Walter Lippman.
6. I made tentative arrangements for five minute spots on WGB-Mutual every week until Bretton Woods is disposed of. This would be part of a news-cast. This is not yet definite.
7. I spoke over the telephone to several of the top commentators, who promised to watch for the news broadcasts on Bretton Woods and to comment favorably. Some of these I have contacted before and they told me they had already broadcast at the time of the President's message on the day the Bill was introduced. Among these were:
 - Quincy Howe
 - Shirer
 - Glavin
 - Vandercook
 - George Klint
8. I talked to Saml Harris, President of the United States Lines and made a date to see him next Monday in New York. He was tied up yesterday, but seemed interested in discussing the matter. I did not tell him specifically what I wanted, but left that for a personal interview. I found that Emmet McCormack would most probably give active support to the proposals. He is now in Florida, but his secretary wrote him yesterday explaining what I wanted and asking him to telephone me from Florida. I was unable to get through to J. A. McGraw, President of McGraw-Hill, but will try him via long distance. These three men are good prospects for a business men's group.
9. I discussed strategy and timing with Beanie Baldwin and others at PAC. They agreed to come in strongly at the proper strategic time. They are working on a pamphlet and their women's division is pushing the matter quietly among women's groups and organizations throughout the country. I had previously sent some literature to them and had discussed the matter with Verda Barnes, Head of their Women's Division.

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Dear Mr. Shaw:

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

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

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

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

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

RB:ec 2/27/45

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MAR 1 1945

Dear Mr. Gailmor:

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

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

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. William Gailmor
c/o Radio Station WJL
30 Rockefeller Plaza
New York City, New York

RB:ec 2/25/45

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MAR 1 1945

Dear Mr. Hale:

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

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

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

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- 2 -

I should be happy to have a member of my staff discuss the agreements with you if you are interested in presenting additional material to your listeners.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Mr. Arthur Hale
c/o Radio Station WOR
1440 Broadway
New York, New York

RB:ec 2/23/45

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE FOR EMERGENCY MANAGEMENT
COORDINATOR OF INTER-AMERICAN AFFAIRS

COMMERCE DEPARTMENT BUILDING
WASHINGTON, D. C.

March 1, 1945

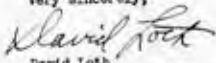
Mr. Henry Morgenthau, Jr.
Secretary of the Treasury
Treasury Department
Washington 25, D. C.

Dear Mr. Secretary:

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

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

Very sincerely,



David Loth
Chief of Publications
Press and Publications Dept.

Enclosure

El Presidente Roosevelt esboza un programa de economía extranjera

WASHINGTON.—El Presidente Roosevelt esbozó al Congreso medidas para llevar a la práctica el programa de economía exterior de la Administración.

El esbozo del programa de la Administración fue revelado en el reciente mensaje del Presidente al Congreso, solicitando la ratificación de las proposiciones de Bretton Woods, para el establecimiento de un Fondo Monetario Internacional y de un Banco Internacional para la Reconstrucción y el Fomento. El fondo monetario de \$2,000,000,000 y el banco mundial con un capital de \$2,250,000,000 fueron descritas por el Presidente como "la piedra angular de la cooperación económica internacional." Dijo Roosevelt que eran similares a las proposiciones de Dumbarton Oaks en la esfera política.

Provisiones del proyecto

Un proyecto de ley fue presentado simultáneamente en ambas cámaras del Congreso solicitando la aprobación del fondo monetario internacional y del banco internacional, así como la derogación parcial la Ley Johnson, que prohíbe los empréstitos comerciales particulares a los países que no han cubierto sus deudas contractadas con los Estados Unidos como resultado de la primera guerra mundial. Bajo el proyecto abolido, la Ley Johnson sería derogada en favor de los países afectados, los que pasarían a formar parte del propósito fondo y banco internacionales.

Las otras proposiciones económicas internacionales que el Presidente dijo al Congreso serán en breve sometidas para su consideración, incluyen:

- (1) El establecimiento del organismo de agricultura y alimentos de las Naciones Unidas; (2) mejoras en la Ley de Acuerdos Comerciales de 1934; (3) un acuerdo internacional para la reducción de las barreras comerciales; (4) un acuerdo internacional para el control de los aranceles y la venta ordenada de los excedentes mundiales de ciertos artículos de consumo; (5) mejoras en el Banco de Exportación e Importación de Washington; (6) un acuerdo internacional sobre el petróleo; (7) proposiciones en el



El Secretario del Tesoro de Estados Unidos, Henry Morgenthau, dirigiéndose a la Conferencia Monetaria Internacional, en Bretton Woods, New Hampshire, EE. U., durante una de las sesiones de la misma.

campo de la aviación civil, el transporte marítimo y las comunicaciones telefónicas, telegráficas y por radio.

Negociaciones

De acuerdo con el mensaje del Presidente, los Estados Unidos tratan de establecer el principio de la cooperación económica como base de un comercio mundial más amplio, su creación un superorganismo, sino mediante negociaciones y acuerdos tendientes a mejorar las instituciones monetarias del mundo y las leyes que regulan el comercio.

"Los Estados Unidos deben actuar sin pérdida de tiempo," dice el mensaje presidencial, "con relación al plan para el banco internacional que concederá o garantizará empréstitos convenientes para las necesidades de la moneda extranjera, así como para llevar a cabo importantes obras de reconstruc-

ción y fomento en los países más pobres. Una de sus funciones más importantes será facilitar y asegurar una gran participación privada en semejante empréstitos.

"Sin embargo, todas sabemos que una economía mundial próspera, debe estar basada en algo más que inversiones extranjeras. Los tipos de cambio deben establecerse y abrirse las facilidades comerciales en todo el mundo. Un gran comercio exterior después de la victoria generará producción, y por lo tanto riqueza. También hará posible el pago de los intereses y la amortización de las inversiones."

"El fondo," explicó el Presidente, "es una institución financiera para preservar la estabilidad y el orden en los tipos de cambio entre las diferentes monedas. . . . Los cambios en el valor de las monedas extranjeras solamente se harán después que el fondo haya prestado cuidadosa consideración al asunto."

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633468-EB-1272

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

SECRET

DATE
March 1, 1945TO : Secretary Morgenthau
FROM : Mr. LufordFor your information

In view of Jesse Wolcott's position on Bretton Woods and the fight that raged around the mere fact that Wallace would be on the Board of Directors of the Export-Import Bank, I am troubled about the possible bad effects which might flow from releasing at this time the president's Executive Order establishing a Foreign Economic Policy Board.

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

Cc: Mr. White
Mr. O'Connell

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE
March 1, 1945TO : Secretary Morgenthau
FROM : Mr. WhiteInformation

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

Stassen is coming to Washington and is going to see what he can do to push the Bretton Woods program along.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

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TO Secretary Morgenthau
FROM Mr. Luskford

DATE
March 1, 1945

For your information

Henry Edlinton called me this morning and said that Chester Davis wanted you to know that he had spoken to Peyton, Gilbert, and Melarin, presidents of the Minneapolis, Dallas, and Atlanta Federal Reserve banks, respectively, and thought all were prepared to cooperate fully in organizing meetings in these areas.

OK

Cc: Mr. White
Mr. Peltus
Mr. L. M. Bernstein

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

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TO Mrs. Klutz
FROM Mr. Aaron

Date March 1,
1945.

At the meeting in the Secretary's office yesterday he asked that his records show the various stages in the Yasad Bahatzis license. There is attached for the Secretary's record a conformed copy of the license as it was issued today. The way in which we had originally intended to draft the license was to provide that no transfers could be made out of the Swiss fund account except pursuant to specific Foreign Funds Control license. Although that was our intention, the license actually never got to the stage of being drafted that way in view of the Secretary's suggestion that it be made subject to the specific prior authorization of the War Refugee Board.

Klutz

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25 MAR 1 1945

In reply please
refer to: 81610-A

License No. W-2426

Dear Sirs:

You are hereby authorized, so far as Executive Order No. 9359, as amended, is concerned, and notwithstanding General Ruling No. 11, to remit the Swiss franc equivalent of \$937,000 to a banking institution in Switzerland for credit to a joint account in the names of Isaac Sternbuch, representative in Switzerland of the Vaad Hatzala Emergency Committee of the Union of Orthodox Rabbis of the United States and Canada, and Roswell D. McClelland, representative of the War Refugee Board in Switzerland, provided the following terms and conditions shall be complied with:

- (1) No part of the above sum shall be expended or committed for expenditure except as authorized by specific action of the War Refugee Board, Washington, D. C.
- (2) Any withdrawal, transfer, or payment order against the above joint account shall be signed jointly by Isaac Sternbuch, representative in Switzerland of the Vaad Hatzala Emergency Committee of the Union of Orthodox Rabbis of the United States and Canada, and Roswell D. McClelland, representative of the War Refugee Board in Switzerland.

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

Sincerely yours,

William L. C. Arons
L. C. Arons
Acting Director

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

WPA:CA:smm
3/1/45

EXECUTIVE OFFICE OF THE PRESIDENT
WAR REFUGEE BOARD

38

1	Mrs. Klots	3400	(Room)	(Side.)
(4)	.....	.....	(Room)	(Side.)
(2)	.....	.....	(Room)	(Side.)
(3)	.....	.....	(Room)	(Side.)

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

F. Hodel

*original cable to
Hodel dated 3/1/45*

From	.....	3/1/45	(Date)
	2410	.....	(Room)
	(Room)	.....	(Side.)

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

Reference your Nos. 881 of February 8, 1069 of February 17,
and 1175 of February 22, 1945, and Department's No. 703 of
February 14, 1945.

The members of the War Refugee Board met on February 28th to
consider the application of the Vaad Hatzala Emergency Committee
for a license to remit the Swiss franc equivalent of \$887,000 to
Isaac Sternbuch. The Board disapproved the issuance of a license
permitting such remittance to Sternbuch. However, after careful
consideration, the Board unanimously approved the issuance by the
Treasury of a license permitting the Vaad Hatzala to make the
desired remittance to a joint account in a Swiss bank in the names
of Isaac Sternbuch, representative in Switzerland of the Vaad
Hatzala Emergency Committee of the Union of Orthodox Rabbis of
the United States and Canada, and Roswell D. McClelland, representa-
tive of the War Refugee Board, provided that the license clearly
stated that no part of the sum could be expended or committed for
expenditure except as authorized by specific action of the War
Refugee Board.

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

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

Please advise Sternbuch of the foregoing. Text of Treasury
license being issued to Vaad Hatzala will be sent to you in
separate cable.

mm-h

40

C
O
P
Y

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Bern
 TO: Secretary of State, Washington
 DATED: February 22, 1945
 NUMBER: 1175

CONFIDENTIAL

FROM MOORELAND FOR WRB.

On February twenty-first the question of five million francs guarantee needed for Musy affair was again discussed with Sternbach (S). (See No. 1069 dated February seventeen from the Legation and WRB's 405, No. 703 dated February fourteen from the Department.)

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

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

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

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- 2 -

avoid discussion with officials of Switzerland and, if possible, that it be made directly in Swiss francs. If funds were transferred in instalments, he feels this might be less difficult. On February nineteen Musy and his son went back to Germany by automobile.

HARRISON

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PARAPHRASE OF TELEGRAM RECEIVED

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

SECRET

US URGENT

The following message from McClelland for WRB and the Department is transmitted.

Reference is made to message of February 8 from the Legation, number 681, and to Department's message of February 14, Number 703 - WRB's #03.

On the 16th of February I was told by Sternbuch (S) that he had been successful in securing a paper credit of 2,000,000 Swiss francs issued in his name by a reputable concern in Zurich, the fiduc Treuhand-Vereinigung. With the help of an international real estate manipulator, a certain Micol Olian, who is on our Proclaimed List and who is doing this in the hope of being removed from that List, it is certain, the foregoing was made possible. He had managed to secure 2,000,000 and Olian had guaranteed the missing three million francs, S stated.

Explanation was made by S that Musy appeared to be satisfied with this paper proof that he (S) was holding the 2,000,000 necessary, and Musy did not insist that this money be deposited in his name, at least for the moment. I am unable to recommend that I, as a member of the staff of the Legation, go on a joint account with Musy which would become known to Swiss authorities without doubt, in view of the highly unsavory and suspicious nature of Musy's own doubtful reputation and his negotiations with the Nazis. A joint account between Sternbuch and me might be an alternative plan. Should our Treasury issue a license allowing Vaud Habatzala to remit to Switzerland \$937,000, in view of the fact that 20,000,000 francs are already being held by Saly Mayer and me to back up negotiations of this type, I anticipate a considerable amount of difficulty from Swiss authorities in obtaining conversion of this amount of money into Swiss francs. Sternbuch would prefer to die in his tracks rather than ask Mayer for funds, on the other hand.

It is certain that any discussion with the Swiss with regard to conversion of the \$937,000 for Sternbuch would react unfavorably on the entire rescue plan and would make it necessary

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to disclose the fact that hard cash is being demanded by Musy for actions which have been publicized widely in Switzerland during the past week as being humanitarian.

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

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

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

HARRISON

DC/L:LCW 2-19-45

February 14, 1945
11 p.m.

AMLEGATION

BERN
/03

The following for McClelland from Department and War Refugee Board is WRB 403.

Vand Khabatzala has requested Board to recommend to Treasury the issuance of a license permitting the remittance of Swiss franc equivalent of \$97,000 to Sternbuch. In view of the information contained in your 551 of February 8 indicating the use which may be made of these funds, please find out from Sternbuch immediately whether Musy will agree to the deposit of the funds in a joint account in the names of Musy and you as War Refugee Board representative, no part of the fund to be expended or committed for expenditure without the express prior approval of this Government.

Please report urgently to Department and Board.

GREEN
(Acting)
(GHW)

WRB:MMV:KG
2/14/45

WE

FMA

45

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Bern
TO: Secretary of State, Washington
DATED: February 8, 1945
NUMBER 551 (SECRET)

US URGENT

The following message is from McClelland for WRB.

Reference Department's 385, January 23; WRB's 377; Department's circular cable June 14, 1944; Department's 1168, April 6, 1944, and Legation's 605, January 28, 1945.

Legation's 605 previously reported the entire matter of the Musy negotiations which have come into considerably sharper focus since the third of February when Sternbuch told me that Musy had come back on the first of February from Germany and had reported that his endeavors to induce Himmler to release Jews had been successful and that, on or around February 8, a first convoy of some 1200 individuals would arrive at the Swiss frontier. On February 6 this convoy was to depart from the Dresden area. When Sternbuch requested that I bring up the question of Swiss permission for their entrance into Switzerland, I did this personally with the Chief of Federal Police, Dr. Rothmund, on the third of February, reaffirming the interest of our Government in such rescue work and recommending that the Swiss make preliminary preparations for the reception and housing of this group if it should actually reach the Swiss border. The Police Chief stated he would take the necessary measures and brought up the problem of whether our Government's assurances concerning the evacuation from Swiss territory of Jewish refugees from Hungary to Allied regions would hold good for a group from Germany such as this. To this I replied that while I had no specific instructions to this effect, I thought our Government would extend its guarantees to include such groups from Germany. (See assurances given in Department's circular June 14, 1944, and reported on basis of President's statement of March 24, 1944 in Department's 1168, April 6, 1944). Since Musy himself later stated to me that this was to be the first of a series

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of like convoys, this is a particularly important point on which I should welcome the Board's advice as soon as possible. If the military situation in Germany permits, others would follow at intervals of approximately a week.

In later talks with the Federal Police of February 7, this question of evacuation by us was raised again.

I talked at length with Musy, Sternbuch and Bost on the 6th of February, and they informed me as follows:

Himmler has been induced by Musy to release all Jews as yet surviving in German controlled regions, particularly those not suited for labor, within practical limits. SS General Schellenberg, who is one of the top SS triumvirate immediately under Himmler, strongly seconded Musy, according to the latter. Musy describes Schellenberg as a really good man and as his own particular friend. With regard to Himmler, he was very much more interested in the entire proposal this time than on Musy's previous trip in November 1944 (*) coming, if this rescue action was to be initiated by first convoy of 1200.

In addition, Musy stated that Himmler and the SS in general were prepared to drop all endeavors to obtain compensation in goods in return for Jews released as they now realized the impracticability of this.

A token compensation payment of five million Swiss francs which was to be deposited to an account in Musy's name with a Swiss bank, after delivery of first convoy, was the only string attached. The only bank which Musy declared would be acceptable to him was the Swiss National Bank. He also assured me that this money would stay in Switzerland and he intimated that in all probability the Nazis would release it to the IGRG as an additional gentlemanly "gesture" some time in the future. The five million is expected to be supplied by Sternbuch.

I did not press Musy for an explanation of the purpose behind this token deposit at the request of Sternbuch, since he was eager not to make an issue of the money question at this critical point because he feared that Musy might be insulted and thus the successful outcome of the entire affair would be endangered.

In private, Sternbuch admitted to me that he was not

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

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

Information that a convoy of 1200 individuals was at Konstanz was given the Federal Police by the German Legation at Bern on February 6, at 6 p.m. They arrived February 7, about noon, in Switzerland. This convoy is made up of 1210 individuals, including some 58 children under twelve, but it is composed mostly of adults about equally divided between men and women.

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

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

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

Sternbuch and I cannot get away from the impression that Musy's negotiations with Himmler have not been confined to the Jewish problem which after all cannot be of major importance to Himmler, in view of Germany's present military situation. It is possible that the release of the Jews may be the forerunner of proposals of much greater importance to the Germans.

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You will find it interesting to note that Musy also has been in touch with the French Embassy in Bern and in addition to effecting the release of the Jewish group of 1210, has also effected the release of some 540 French men and women, presumably political prisoners. On the night of February 7, this French group arrived at the Swiss border and they will be rerouted through to France by the Swiss.

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

Of course, Embassy will keep you posted with respect to any additional interesting developments in this entire Musy question, and in the meantime, would be grateful for your advice concerning evacuation of this convoy of 1210 individuals, and later groups which may arrive, to Allied territory.

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

HUDDLE

(*) Apparent omission.

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1945

To: Mr. Collado

From: Mr. Cox

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

FOR AGLER FROM THE SECRETARY OF THE TREASURY:

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

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

Please cable your comments thereon with particular reference to question whether Treasury should permit U.C.B. to sell negotiable checks in China.

AM/lw/ete 2/28/45

ASSISTANT SECRETARY OF THE TREASURY

March 1, 1945

Secretary Forganthau:

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

U.S.W.

[Handwritten signature]

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[Handwritten initials]

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COPY

STRICTLY CONFIDENTIAL

Letter III

Dear Mr. White,

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

Hope to get off a cable on Army expenditures in the last quarter of 1944 in the next day or two. Have had several conferences with the responsible Army people here, and while all the details are not available, the broad picture is fairly clear. The best Army figure for expenditures for October to December is GH\$9.1 billion. This figure is GROSS and not net. After making certain deductions, which are discussed below, the net figure is approximately GH\$7.8 billion, which is smaller than the sum spent in the third quarter of 1944, when of course prices were lower. On the basis of the attached price data as well as on the basis of corroborative data from the Army, it would appear that the goods and services received from the Chinese were not as great in the last quarter of 1944 as they were in the 3rd quarter and were certainly smaller than in the 2nd quarter. Thus, there was practically no airfield construction in October and November, and while there was a spurt in construction in December as a result of the loess in East China, it was not enough to compensate for the decline in previous months. As for direct expenditures by our own Army disbursing officers, it will be noted that they were not greater than in the previous quarter in GH\$ magnitude, while prices were rising all the time. Unfortunately, the breakdown of expenditures by area is not available yet, so that it is impossible to weight the local price increases for the time being. Allowing for the price increases and the reduction in airfield construction, a good first guess is that the goods received and services rendered in the last quarter of 1944 were from 1/2 to 2/3 of the goods received and services rendered in the previous quarter. This estimate errs on the side of generosity to the

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Chinese. On the assumption that we paid US\$60 million for the third quarter of 1944 (i.e. the Secretary's Bretton Woods offer for July, August, and September without any allowance for the sweetener of US\$25 million for the whole 6 months) we should be justified in offering the Chinese US\$40 million per month for October, November, and December, with a sweetener of US\$10 million for the whole quarter in reserve to close the deal. It could be pointed out that with the payment of US\$40 million for the last quarter of 1944, the Chinese would have received a quarter of a billion for the year 1944, a very handsome addition to their foreign exchange balances. China is one major belligerent country whose foreign exchange position has improved during the course of the war. It must also be remembered both that Army activities are likely to increase in this theater during 1945 -- (at least such are the plans -- and that prices are rising sharply all the time, so that with the continuance of the present arrangements China's foreign exchange position is going to be further improved as a result of U. S. Army activities in China. Therefore it is essential to allow for the increase in prices and the reduction in goods received and services rendered unless we are going to pay the Chinese sums altogether too large in relation to what we are getting. (As a sidelight, it is worth mentioning that the Communists indicated their willingness to build us airfields etc. from this greatly interested the financial people in the Pentagon.) Finally, the Chinese included in the expenditures for February - September items, the responsibility for which is highly arguable. While there is no point in raking up ancient history, we should not allow them to go on doing this in view of the probability of an increase in our activities in this theater. Naturally, the above suggestion as to an offer is tentative and is made in ignorance of the circumstances in Washington, which may override other considerations.

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

The following are the relevant considerations with respect to the reduction of the gross total of C\$30.1 to C\$27.8 million.

1. Taxation. There is no reason why we should pay hard US\$ for taxes levied by the Chinese Government which fall on U. S. Army operations in China. Such taxes total about C\$2900 million for the 4th Quarter of 1944. They are made up roughly as follows:
 - (a) 11%, or about C\$3300 million, of the C\$33.1 million expended by the Engineering Commission for us.
 - (b) Over C\$2600 million for taxes on liquid fuel, mainly alcohol. In the case of alcohol, where 80% of current production goes to the U. S. Army, the tax is definitely discriminatory in character. The actual tax on alcohol is small and has recently been reduced. But the tax on raw spirits, which is used chiefly for the manufacture of alcohol, is high and has been increased concomitantly with the reduction in the tax on alcohol. The tax on liquid fuel of which alcohol is by far the main item, averages 20.3%. A recent attempt to increase it sharply was thwarted by the Army. In the last quarter of 1944 the tax amounted to over C\$2600 million, a very sizeable sum and an entirely unjustifiable tribute on the American war effort in China. (See attached memorandum on "Procurement of Liquid Fuels.")

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For your information, the price of alcohol in October was C\$1100 per gallon, and in November and December C\$1200 per gallon. The average mileage is 5 miles per gallon, which works out at C\$220 - 240 per mile. (At a hypothetical conversion rate of C\$200 per US\$1, this amounts to over US\$1 per mile.) Expenditures on liquid fuel, i.e. mainly alcohol, amounted to about 1/3 of total U. S. Army expenditures in China in the 4th quarter of 1944. Expenditures on liquid fuel are going to go up in 1945 both because of an increase in the amount consumed and an increase in price. It is therefore all the more important to get a clarification of the tax situation. When I took up the question with the Minister of Finance, he was somewhat ambiguous. He said that he had issued an order about a month ago that the Army should not be charged taxes. But when pressed, he admitted that it would be administratively cumbersome not to collect taxes on a commodity uniformly and ended by claiming that his order amounted to an instruction that our payments of taxes should be credited to Lend-Lease. This of course is no help at all, as we should be still paying US\$ for C\$ we were devoting to the payment of taxes. Such a sensible would be the deduction of tax payments from our C\$ obligations as they accrue.

Note: A contract is being negotiated with the Chinese Government transportation agencies whereby tax payments and other items would be deducted from their transportation bills for the Army. The amount involved is small and does not significantly affect the total of C\$600 million given above.

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

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

(a) A substantial amount of the liquid fuel we buy has been used for transporting Chinese Army forces. The amount for the last half of 1944 for this item alone will probably exceed C\$½ a billion. We took care of transportation for the Y force in Yunan throughout the ~~60~~ campaign.

(b) We have bought vaccines for the Chinese Army from Chinese Government organizations, paying in C\$ for which we have to reimburse the Chinese Government in U. S. dollars. The reason for this anomalous procedure is that Chinese Government organizations are reluctant to sell to the Chinese Army, because they are not certain of being paid and because they cannot continue to function without such payment.

(c) We have made certain payments for the Chinese American Composite Wing, which is 50% Chinese, and for which the Chinese Government is responsible. (Strictly for your own information, the Army is also standing ready to buy rice for a number of Chinese divisions, should this be the only way of ensuring an adequate food supply for these divisions. But the Army does not want this fact to be known or to be made use of. Incidentally, the Army is insisting that the two divisions flown in from Burma be maintained at the same level of efficiency as in Burma, and in order to do so it buys the rice for them itself with funds furnished

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by the Chinese Government and delivered it to the American liaison officers to make sure that the soldiers get it. In addition, we are flying supplementary rations for them over the Hump. The difference between them and the ordinary Chinese soldiers is tremendous. Their morale is high and they carry themselves like men, so much so that the local populace cannot believe its eyes when it sees them. The presence and operations of the American Army in China are already producing certain repercussions. Thus it is reported that Chinese soldiers in Kweiyang are already asking for food and clothing such as the Americans receive.)

3. We have paid and are paying extremely high prices for goods produced in China, but amounts of which we have supplied the Chinese on Lend-Lease. Copper wire is one instance. Thus we are paying large sums for goods similar types of which we have given the Chinese gratis. There are also examples of our paying exorbitant prices for goods essential components of which we are supplying on Lend-Lease, e.g. transformers. The problem would not arise if there were a Reverse Lend-Lease arrangement which was comprehensive in effect. But there is no reason why we should be penalized still further.
4. There are also cases on record where we have paid for goods in connection with the housing and feeding of troops, which we are supposed to receive on Reverse Lend-Lease. This ties up with 2(c) above.

Eliminating all duplication, items 2 - 4 above on a conservative estimate amount to not less than CN\$400 million, which together with the CN\$900 million paid in taxes totals CN\$1.3 billion.

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

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

The reasons given were that the cost of collection in the case of the monopolies was too high, that the wartime consumption and consolidated taxes were exorbitant, and that there was a need to reduce and simplify the tax collection agencies. These are undoubtedly steps in the right direction and were partly in response to popular demand. Nevertheless, it remains to be seen how these reforms are carried out; there are already reports that the reduction in staff is not taking place in a genuine way. Moreover, in the short run they entail a reduction in revenue and a widening of the gap between expenditures and revenue which according to some rumors the Government intends to make up by an increase in other taxes. It is therefore necessary to wait before any final evaluation of these reforms is made.

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

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this request. The following are some of the arguments for reducing it.

- (a) Transportation difficulties. These are much more serious than the reopening of the Burma Road might induce one to expect. The Chinese Government has 3,000 tons of cotton yarn in India and is experiencing great difficulty in arranging for their transportation. Even assuming that the goods are available in the U. S., according to the transportation experts it will be impossible to move them before the end of the year. And there are so many other goods which the American Army and the Chinese Army will want to move before them that even that is doubtful, so that by the time the goods could get here their relevance to the inflation situation may have changed very considerably.
- (b) The fact that the Chinese Government has very large dollar balances in the U. S. which it can use for purchasing civilian goods. This argument does not apply to the Chinese purchasing the goods themselves.
- (c) The fact that large amounts of cotton are being exported to occupied China in spite of the acute shortage of cotton goods in Free China. (See enclosed memorandum by a member of the FSA staff.)
- (d) The fact that the economic policies of the Chinese Government are such as to discourage the cultivation of cotton and the production of cotton goods in Free China. (See enclosed press clippings)

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

1. The Chinese Government is about to eliminate some of the grosser anomalies. It is about to raise the office price of raw cotton and to permit Tai Li's organization to indulge in preclusive buying of cotton at the points of departure of goods for occupied China.

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2. Nevertheless, it is to be feared that an increase in the inflow of cotton goods into Free China may serve to increase the outflow to occupied China.
 - (e) In the light of previous experience as well as of (c) and (d), it is doubtful whether the Chinese Government will make the most effective use of such supplies. During the retreat last December, U. S. Army authorities came across large amounts of goods which were being hoarded and of the existence of which they had not previously known. (One excuse advanced for the Chinese is that they themselves did not know of the existence of these goods. Which may or may not be true, but which is not very reassuring.) Thus over 40,000 tons of munitions which we had not known about before had to be destroyed in order to prevent them from falling into enemy hands, 800 tons of certain types of medicine were unearthed, for which the Chinese had put in a request on Lend-Lease.
 - (f) It is not known whether the American economy can release such large amounts of textiles at this time.
 - (g) Agreement would constitute a precedent for further Chinese requests for other civilian goods on Lend-Lease. Prices have been rising very sharply of late. The first estimates show an increase of 30-40% in Chungking during January and even more in Kuming. The price of rice rose over 50% in Chungking. It is expected that this rate of increase will continue in February.
- With respect to political developments there is nothing much to report. Chou En-lai is in Chungking again and both T. V. and Hurley are relatively optimistic. But the best informed Americans continue not to expect too much.

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The big stumbling block is the question of a one-party Government. The Communists won't come into a one party Government and the Kuomintang doesn't seem to be willing to agree to any other kind of Government. Sun Fo has suggested a dodge to avoid this dilemma, namely the inclusion of the Communists in the Supreme National Defense Council. The only snag is that the Supreme National Defense Council derives such authority and power as it possesses from the Kuomintang. The issue remains: Is the Kuomintang willing to broaden its base? If it isn't, very little progress will be made. Hurley says that February 20 is the deadline and that if negotiations have not succeeded by then, nothing much can be expected.

Hurley's reputation continues to decline. He is very thick with T. V., for whom he is no catch; he even showed one of Service's names advocating fire policy vis-a-vis the Generalissimo to T. V. He is also very angry with the State Department for commending Service for his excellent work in Yenan. Incidentally, all American officials returning from Yenan continue to be enthusiastic. Unfortunately our first impression of Hurley at Cairo is being confirmed. Brooks Atkinson's opinion that he is at least 20% bull looks too conservative. There are various nicknames for him such as the Paper Tiger, Little Whiskers, etc. none of them very complimentary. The rift between Ida and Wedemeyer is deepening. The latter complained that T. V. was around their jointly shared establishment so much that there was no privacy.

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

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

On the military front the Japanese have already initiated their campaign to mop up the rest of the Canton-Hankow railroad. For some time of late they have been concentrating forces in northern Indo-China, which created some nervousness in American military circles, as it seemed to be a preparation for an offensive against Kunning. But latterly this concentration has ceased and the whole question of a campaign against Kunning, discussed in detail in my previous letter, remains in the same state as before. Wedemeyer is an excellent administrator and to all appearances is doing a good job.

The inflation has had a very demoralizing effect not only on Chinese but also, it must be admitted, on a number of Americans. The Colonel who until a few months ago was chief of the Service of Supply for the whole theater was arrested on his arrival in the States and was found to have US\$130,000 in U. S. currency in his possession. In addition his bank account had increased by US\$100,000 during his tenure of office. Had to relate, exchange speculation and other dubious activities have been widely practiced by officers pretty high up in the 14th Air Force. This is not too surprising, as many of them were recruited from the A.V.C., a considerable number of whom were soldiers of fortune in the literal sense. These officers protected each other and refused to serve on courts with the result that only the small fry were brought

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to justice and that all the efforts of the old Regular Army officers to do something about it were defeated. Recently, 12 out of 13 planes were discovered to be loaded to the gills with US\$30,000 of opium drugs. All except the lead plane, which was empty, were named by Chinese. The lead plane was named by a Sate in the employ of the Chinese Air Force; he was undoubtedly the ringleader, as he has large amounts of US\$-backed bonds in his possession.

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

With kindest regards to your wife and daughters,

Yours sincerely,

(Signed) Sol Adler

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HEADQUARTERS
United States Forces
China Theater

AGO 879
2 Feb. 1945.

MEMORANDUM FOR: Mr. S. Adler; Treasury Attaché, U.S. Embassy,
Chungking, China.

SUBJECT: Procurement of Liquid Fuels.

1. As per your request here with are figures on Liquid Fuels procured by the Army in the two last quarters of 1944. It should be noted that the quantities and unit prices are in round figures, however the actual figures will vary only a little either way, not more than 1 or 2 %.

1st Quarter 1944

<u>July</u>	Alcohol	600,000 gals	c 1000.00	600,000,000.00
	Veg Gas	35,000 "	c 1390.00	58,650,000.00
	Diesel Oil	45 tons	c 360000.00	16,200,000.00
	Gasoline	5,000 gals	c 770.00	3,850,000.00
				<u>678,700,000.00</u>

<u>August</u>	Alcohol	625,000 gals	c 1000.00	625,000,000.00
	Veg Gas	20,000 "	c 1460.00	29,200,000.00
	Diesel oil	45 tons	c 275850.00	12,463,250.00
	Kansu Gas	8,000 gals	c 770.00	6,160,000.00
				<u>672,823,250.00</u>

<u>Sept</u>	Alcohol	680,000 gals	c 1040.00	688,800,000.00
	Diesel oil	45 tons	c 275850.00	12,463,250.00
	Gasoline	20,000 gals	c 885.00	17,700,000.00
				<u>718,963,250.00</u>

Total for 3rd Quarter 1944 2,064,186,500.00

2nd Quarter 1944

<u>Oct.</u>	Alcohol	775,000 gals	c 1100.00	797,500,000.00
	Diesel Oil	45 tons	c 343853.00	15,473,365.00
	Kansu gas	25,000 gals	c 885.00	22,125,000.00
				<u>835,098,365.00</u>

November

Alcohol	750,000 gals	c 1200.00	900,000,000.00
Diesel oil	50 tons	= 343853.00	17,192,690.00
Kerosene	30,000 gals	c 988.00	29,640,000.00
			<u>966,832,690.00</u>

December

Alcohol	650,000 gals	c 1200.00	780,000,000.00
Veg gas	1,000 gals	c 1660.00	1,660,000.00
Diesel oil	50 tons	= 343853.00	17,192,690.00
Kerosene	32,000 gals	c 988.00	31,616,000.00
			<u>830,468,690.00</u>

Total for 4th quarter 1944 2,852,199,680.00

Total for 3rd & 4th quarter 1944 4,916,386,168.00

Taxes represent 22.35

Taxes for 3rd quarter 1944 = 646,313,589.50
 4th " " = 830,248,228.96

Taxes for last half 1944 = 1,096,354,116.46

(signed) Paul J. B. Murphy

Lt. Colonel W.H.
 Central Purchasing and Procurement Authority

72A - Chungking

A SHORT SUMMARY OF THE CURRENT COTTON
 SITUATION IN CHINA, JANUARY 1945

I. Cotton Consumption, 1942:

(1) Army padding and quilting	200,000 shih piculs
(2) Mill consumption	550,000 " "
(3) Handicraft spinning and people's padding and quilting	<u>970,000 " "</u>
Total	1,720,000 shih piculs

II. Potential Supply of Cotton:

(1) Stocks of cotton	85,000 shih piculs
(2) Cotton crop of 1944	<u>1,451,000 " "</u>
Total	1,536,000 shih piculs

III. Cotton Prices:

(1) Official price in Shensi 0.810,000 / 82,400 =	813,000
(2) Open market price in Shensi	0.822,000
(3) Heavy price in the border of Shensi	818,500,000

IV. Cotton Seized to Occupied China:

(1) From Sept. 15, 1944 to Jan. 14, 1945 Seized out from Shensi	150,000 shih piculs
(2) During the same period seized out from Hupeh, Honan and Hsianan	<u>150,000 " "</u>
Total	300,000 shih piculs

V. Government Procurement of Raw Cotton:

(1) Originally planned to buy	900,000 shih piculs
(2) On Dec. 5, 1944, the plan reduced to	700,000 " "
(3) As of Jan. 5, 1945 only bought	165,000 " "
(4) Potential quantity to be purchased	<u>300,000 " "</u>

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VI. Cotton Spindles Suspended Operation:

- (1) As of Jan. 1, 1945, 30% of the cotton spindles in Chungking suspended operation due to lack of raw cotton.
- (2) Government plans to ask U.S.A. to send cotton and cloth to China.

VII. Suggested Means of Solution:

- (1) Increase the price of cotton in order to compete with the market and enemy prices.
 - (2) Strengthen both central and local cotton marketing organs using experienced cotton merchants and marketing specialists.
 - (3) If these two things can be done immediately, about 300,000 piculs of cotton can be bought from Free China and 150,000 piculs from Occupied China.
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POTENTIAL COTTON SITUATION IN FREE CHINA, JANUARY 1945I. Required Quantity of Cotton Consumption in 1945:

According to the per capita consumption of 1.6 pounds of raw cotton in 1944-45 as estimated by most cotton authorities, the total consumption of raw cotton in 1945 will be about 189,299,200 pounds, or 1,720,000 shih piculs. Of this total, the army padding and quilting requires 200,000 shih piculs, the mill consumption requires 590,000 piculs and handicraft spinning together with padding and quilting of the general public requires 970,000 piculs.

II. Potential Supply of Cotton in 1945:

At the beginning of 1945, the stock of the old cotton crop of 1943 was only about 85,000 shih piculs, of which 35,000 piculs was government stock and 50,000 piculs belonged to merchants. The cotton crop of 1944 was 1,451,000 shih piculs according to the information obtained from a number of reliable sources. The potential supply of cotton for 1945 is therefore 1,536,000 shih piculs.

III. Cotton Prices:

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

Table 1. Cotton Prices in Free China.

Localities	Official (C.H.)	Market (C.H.)	Enemy Puppet
Shensi	10,500	28,000 (Jan.)	50,000
North Szech	8,000	28,000 (Nov.)	50,000
Central Szech	7,000	28,000 (Nov.)	50,000

Source: Official -- From Cotton, Yarn and Cloth Administration.
Market and Enemy -- From Cotton Merchants.

On Dec. 5, 1944, a price of 2222,400 was added to the official price for each picul of cotton. That is to say, the official cotton price has been increased by 22,400 since Dec. 5, 1944.

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IV. Smuggling of Cotton to Occupied China

On account of the low official price and the high energy price, cotton naturally goes to Occupied China from time to time. It is estimated by some cotton experts that over 100,000 shih piculs in Shensi were smuggled out from September 15, 1944 to January 12, 1945. During the same period, about 150,000 piculs were smuggled out from the free areas of Honan, Hupeh and Hunan. As of January 12, altogether about 300,000 piculs of the 1944 cotton crop had been smuggled out.

V. Government Purchasing of Raw Cotton

In the season of 1944-45, the government planned to buy 900,000 piculs of raw cotton. Because the production of 1944 crop was low and the official price was so low that such an amount could hardly be purchased, the government reduced the amount from 900,000 piculs to 700,000 piculs, of which 450,000 piculs was to be bought from Shensi, 200,000 piculs from Hupeh and 50,000 piculs from Honan. As of January 6, altogether only 165,000 shih piculs had been purchased, of which 110,000 piculs were bought from Shensi, 50,000 piculs from Hupeh and 5,000 piculs from Honan.

Since Dec. 9, 1944, the governor of Shensi has started a cotton contribution campaign. The farmers in Shensi have been ordered to sell 450,000 shih piculs of raw cotton to the Cotton, Yarn and Cloth Administration before Feb. 12, 1945. Describing this, the farmers use the Chinese proverb: "To kill the chicken so as to take out its egg." The farmers are forced to sell their cotton at the low official price and they will not grow cotton again next year.

It is estimated that no matter how much political force is used, the government, before Feb. 12, can hardly buy 300,000 piculs of cotton including the 165,000 piculs which have already been bought. Of the 300,000 piculs, 250,000 piculs may be bought from Shensi and 100,000 piculs from Hupeh and Honan.

VI. 304 of Changping Cotton Spindles Suspended Operation

As of Jan. 1, 1945, 304 of the cotton spindles (i.e. 47,000 spindles) in Chungking had already suspended operation simply because of the shortage of raw cotton. If the situation does not improve, cotton spindles will suspend operation time after time. It is said that the government is planning to ask the United States to send cotton and cloth to China. This is not a sound way to solve the problem since transportation is very difficult and assumption is more important than cotton or cloth.

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VII. Suggested Means of Solutions

(1) To increase the price of cotton -- The best way of solution is to increase the cotton price so that it may compete with the market price and the energy price. Right now the cotton price should be increased to 6000,000 per shih picul. If this can be done immediately, the government by Feb. 12 may be able to buy 300,000 piculs from Free China and 150,000 piculs from Occupied China. In addition, the cotton acreage can also be increased this spring.

(2) To improve the cotton marketing organ -- The present cotton marketing organ is far from satisfactory. It has a large organization and a big budget. But on one hand it has an inefficient and loose administration and on the other, it has not used the right man to do the right job. It has been strongly opposed by the Peoples' Political Council, the cotton interests and the cotton growers. In order to carry out such an important cotton programme during this period, there should be a strong, simplified and energetic central cotton marketing organ. Under this central organ, two strong Provincial Cotton Marketing Corporations should be set up -- one in Shensi and the other in Hupeh. Such kind of Corporation may be organized by the central cotton organ, the Provincial Government and the cotton merchants. Such kind of organizations can utilize the political power of both central and local governments, together with the ability of experienced cotton marketing specialists and cotton merchants.

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

DISCONTENT TO COTTON ADMINISTRATION ARISE IN THE COTTON TEXTILE INDUSTRY.

From Ta Kung Pao, January 14, 1945

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

1. Supply of Cotton -- The cotton mills in Free China depend on the cotton supply from the Northwest. This year such supply faces serious shortage both on account of reduced production and extensive smuggling. At the same time, owing to the laxity of the control administration, the adulteration of cotton is such worse than before, making the work of spinning more difficult. The administration has moreover become careless in grading, so that hardly 95% of such picul of cotton comes up to standard. If the above conditions are allowed to continue all the cotton mills may suspend operations at any moment for lack of raw material. The deterioration of the quality of cotton not only cuts down the efficiency of production

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but endangers the sound foundation of Chinese cotton industry. It is imperative to raise the price of cotton according to market conditions whenever necessary in order to eradicate smuggling and encourage cotton cultivation. Also the cotton farmers should be given loans at planting time, and the control administration should exercise strict care in grading and stamping out adulteration.

2. Postwar Protection -- The cotton mills in Free China have done their best, but their equipment obsolete and out of repair after the war will not be of much use. The government should recognize their contribution and sacrifices in wartime and adopt proper measures for their protection not only for the sake of the cotton mills but also for the purpose of laying the postwar foundation for industrial construction.

3. Cotton Machinery -- The government control machinery should be simple, efficient and economical. The Cotton, Yarn and Cloth Control Administration controls the Chungking and Kweichow factories of Tufecoy Mill; Yuhua Mill; Chungking, Chungto and Facki factories of Sung Sing Mill; Shast Mill; Sungruan and Dian factories of Tshwa Mill; Tsaidape Mill; Haisung Mill, Kuocheh Tsching Mill -- 12 factories in all with a combined staff of a 1000 odd persons. Before government control these people did all the work of purchasing, shipping, storing and marketing. The Administration now employs a staff of over 4000 to do this work with an enormous outlay in salary and administrative expenses. This waste of public funds brings with it an excess of "red tape" which may well be simplified. If the money saved by increasing the efficiency of the control administration and getting down of its staff is used to getting needed equipment for the mills, their production can be considerably increased.

4. Conclusion -- The Control administration should understand the business it controls and therefore be able to help solve its problems. The present administration is ignorant of the working of the spinning and weaving mill and cannot be expected to alleviate its difficulties. If the government makes good use of the textile guild and seeks their advice, the control administration and the mills may be made to cooperate to the benefit of all concerned. As it is, the control administration does nothing beyond supplying cotton to the mills, and has never even inquired about such difficulties as the low stock of lubricating oil and other materials, which, if not increased in time, may force them to close down. Nor has the administration bothered about the serious shortage of liquid capital which has hampered proper maintenance of their equipment.

Treasury Department 71 ✓
Division of Monetary Research

Date March 5, 1945

To: Secretary Morgenthau
From: Mr. Coe FC.

For information

You will want to read at least the summary of this report by Hoffman on France and, if possible, the full report.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

March 1, 1945

TO Secretary Morgenthau

FROM Michael L. Hoffman

In accordance with your instructions, I submit herewith a report prepared upon my return from France. This report covers the following main questions which are important in the current French situation and which I believe will be of special interest to you:

1. The Franc is obviously overvalued at the present rate of 49.558 to the dollar, but in the present state of affairs it is impossible to say what the rate ought to be. No responsible official in the Ministry of Finance believes that the rate can be maintained at less than 75 and it may go to 100 or even higher. So far no hint that the rate will change is being given out. The French will try to hold the present rate as long as our troop pay provides substantial amounts of dollars and so long as France is not in a position to do much exporting.

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

3. The French are making a strong effort to mobilize their foreign exchange assets and to put an end to evasion by Frenchmen of their fiscal responsibilities. You will recall that prior to the war the evasion of taxes and the flight of capital from France were among the most important causes of economic weakness and demoralization in France. The only really progressive thing about the Ministry of Finance is the determination of M. Fleven to put an end to evasion and fraud in this field. M. Fleven got the agreement of the British Treasury to cooperate by providing them with information on private French assets in Britain. They have

again requested your agreement to do the same thing. They will make an exchange of such information a condition to the conclusion of commercial treaties with other European countries. They intend particularly to break the Swiss hot money industry which has long been a source of trouble to France. I feel that on this point they deserve our cooperation.

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

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

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

6. The supply situation in France is bad and is deteriorating. At best, the French economy will not be working even at minimum levels for some time. Nothing can be accomplished until the internal transport system is able to work for the civilian economy. Lack of transport equipment is the key to all other economic problems.

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7. De Gaulle is following a policy of placing political and military prestige above economic reconstruction as objectives of his Government. He is meeting more and more opposition on this, even from some of his own ministries, but so far his successes have carried the people along. Many people are worried about his super-nationalistic position in dealing with the Allies and feel that his inability to get along with President Roosevelt will eventually lead to his downfall. He continues to reflect to an exaggerated degree France's sensitivity to being treated as a second rate power.

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

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

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

Michael L. Hoffman

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REPORT ON FRANCE

- I. Rate of Exchange - General.
- II. Rate of Exchange - Attitude of U.S. Soldiers.
- III. Domestic Fiscal Policy.
- IV. International Financial Policy.
- V. French View on Treatment of Germany.
- VI. Lend-Lease.
- VII. Supply Situation.
- VIII. Responsibility for Supply Situation.
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- X. Relations with the United States.
- XI. Relations with Russia.
- XII. Internal Political Developments.
- XIII. German Economic Influence in France.

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I. RATE OF EXCHANGE - GENERAL

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

At present it would be unrealistic to attempt to estimate what the franc rate of exchange ought to be. An essential characteristic of the present economic situation in France is that no such thing as price levels exist. Until there is restoration of something approximating normal movement of goods, no one can tell what prices will be. For instance, the price of butter in Paris is approximately 350 francs (\$7.00 per pound), the price in Normandy is approximately 30 francs (60c per pound). It is impossible to tell what will be the price of butter in Paris when it can again move from Normandy through regular legal channels. No one would contend that either the present Paris price or the present Normandy price was a good basis for estimating what should be a new exchange rate. This is the situation with respect to every essential commodity. With respect to export products such as brandy and perfumes, while the price of existing stocks could conceivably be fixed at any level, producers cannot tell at present whether a given price is or is not adequate because the cost of practically everything used in the production of future stocks is unknown. It is for this reason that most of the economists who have expressed views on the problem feel that a fixation of a new franc rate should be postponed as long as possible.

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

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

The fact is that the American soldier really has very little reason for complaint. The Army is doing a good job of providing the soldiers with everything they need and many forms of recreation and entertainment. Furthermore, ordinary types of entertainment available in Paris are not expensive for the soldiers even at the 50 franc rate. I have talked with large numbers of soldiers of all grades in an attempt to find out in what respects they really feel they are being "gypped". I am convinced that there are three reasons for this feeling:

(a) By far, the most important reason is the knowledge on the part of the soldiers that dollar currency in the black market is worth three to four times the amount in francs which they receive for their dollars. They naturally conclude that this rate is correct and that the rate that they receive is a discrimination. No real effort has been made to tell the soldiers anything different.

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

(c) The soldiers, although they do not buy clothes, women's hats, dishes, etc., see the prices posted on these items in the Paris stores and are impressed when they convert these prices into dollars with the fact that "everything is outrageously expensive in Paris."

As far as prices actually paid by the troops are concerned, a change in the rate of exchange would make little difference anyway as long as supplies remain as tight as at present. Such prices would be exorbitant in dollars at any rate that would be at all realistic from the point of view of the French economy in general, and many prices would simply rise further following a change in the rate.

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

III. DOMESTIC FISCAL POLICY

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

The Ministry of Finance takes the position that drastic measures to reduce the circulation by a heavy capital levy, a blocking program, or otherwise, would merely aggravate the essential difficulties in the supply and employment situation. With few exceptions both government circles and the press regard the Belgian program as having failed and as having contributed to the unrest in that country. It is argued while France's monetary and debt position is bad, it can be supported if it is prevented from becoming worse by permitting moderate

upward adjustment of legal prices and by working hard to restore transportation and the movement of goods within the country. Without the restoration of transportation and movement of goods, it is held, no financial measures will succeed in eliminating the black market or in removing the pressure for higher prices and wages. The corner stones of the Ministry of Finance's policy, therefore, are flotation of public loans, encouragement of the regular flow of savings through savings banks and other savings institutions, taxation of war profits, and a high level of regular tax collections. In the proposed budget for the coming year the French plan to raise about thirty to thirty-five per cent of their expenditures by current taxes.

As soon as possible they plan to carry out their program of currency conversion which will be accompanied by a census of liquid wealth. On the basis of such a census they plan to impose a moderate capital levy which will not, however, have very much effect on the inflation picture inasmuch as it will probably allow for a payment over a substantial period. The currency conversion is being delayed by the practical difficulties of distributing the currency and by the fact that, due to the ease of counterfeiting, the higher denomination currency notes prepared in the United States will not be used and the French are therefore awaiting completion of printing of additional notes in the United Kingdom. The 100-Franc notes printed in the United States will be used and are already in France. The problem of distributing the currency within the country to something over 23,000 different local exchange centers is, however, difficult of solution at a time when using transport for currency means taking it away from carrying food. An effort has been made to work out a system of having trucks carry currency out from Paris and carry food back. On this basis the Ministry of Finance has been able to get certain trucks allocated to the program. It is now anticipated that the currency may be distributed by the first of April.

IV. INTERNATIONAL FINANCIAL POLICY

The dominant trend in France's international financial policy is to obtain control of all French foreign assets in

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

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

It is well known that in the past wealthy people in France evaded taxation on an enormous scale by hiding their money abroad. The Government is requiring all persons having assets abroad to file new declarations on the basis of which they may, by payment of a flat 50 percent penalty, be forgiven all back taxes. If they do not file and settle with the French Treasury, all their property, including property in France, will be confiscated if their evasion is later discovered and they will be treated as deserters in time of war. It remains to be seen how effective the French will be in carrying out this policy if evasions are on a large scale. The announcement of the British agreement to furnish the French with data on French holdings in the United Kingdom has, of course, been of great assistance in bringing about compliance with the orders requiring declarations of foreign holdings.

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V. FRANCE VIEWS OF THE TREATMENT OF GERMANY

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

The French position is a natural development of the traditional French views on the treatment of Germany as formulated, for example, by Clemenceau. The French are still very much impressed with what they regard as the betrayal of France following the war of 1914-1918 by the British and by those Frenchmen who were willing to trade concrete measures of security for the Locarno Pact and dependence on the League. All statements of France's position start with the assertions that this time they will not rely on promises and will insist on concrete security measures.

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

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

There is also a general agreement on the internationalization of the Ruhr, although just what this means concretely is by no means clear. There is a great deal of sympathy for the view that Germany should be deprived of all heavy industries and all industries capable of being converted into war purposes but so far it is my impression that the French have not thought through this question. They are more inclined to think in terms of how much industrial and transport equipment

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they can move out of Germany. Generally speaking, French thinking seems to be less concerned about the possible commercial disadvantages of having a deindustrialized Germany than British thinking, although there are, of course, many people who will be receptive to the argument that Germany must be maintained as a barrier against Soviet Russia. I am inclined to think that the French have taken Russia's pre-eminence on the continent so far granted that this argument will not be so potent as in England or in certain quarters in the United States, but it will likely be influential behind the scenes in the present Government. In the present political atmosphere I can hardly imagine anyone publicly expressing or even hinting at such a view. The attitude of the French Socialists is somewhat discouraging as they seem to be unable to forget the doctrinaire Socialist internationalism of the prewar period sufficiently to enable them to seriously consider strong measures to wreck the German war potential.

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

VI. LEND-LEASE

Outside of limited governmental circles the Lend-Lease Agreement which has just been signed has attracted relatively

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

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

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

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flow of current payments. They regard this as being primarily the problem of restoring exports to the United States and, consequently, regard as of primary importance United States policy concerning the amount of imports we will accept.

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

VII. SUPPLY SITUATION

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

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

No real improvement can be expected until transportation equipment is made available to the civilian economy. Every analysis of the supply program comes back to this same point. The French have ordered locomotives in the United States but understand that they will not be ready until the end of 1945.

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

VIII. RESPONSIBILITY FOR SUPPLY SITUATION

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

The Ministry of National Economy is just beginning to get some facts on the situation in the United Kingdom and is beginning to try to get at some of the British stockpiles. I understand that State Department is also beginning to press the British to release some of their stocks and that Prime Minister Churchill was approached at Yalta on the question but refused to discuss it. In the British Parliament a

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Government representative recently stated flatly that the British Government would not take any steps that would endanger existing British rations.

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

IX. DE GAULLE'S GENERAL POLICY

In general, de Gaulle's policy since the liberation has consistently been to work for the restoration of French military strength and the French political position in international affairs at the expense, if necessary, of economic reconstruction and reform. Not all members of the Government and certainly not all sections of the population agree with de Gaulle's emphasis on strictly political objectives at the expense of improving the conditions of life in France, but this disagreement does not go to the point of being unwilling to follow de Gaulle's leadership. There is a definite feeling, however, on the part of practically all groups who are actively concerned with the French internal economic situation that there must soon come a time when economic reconstruction is given first priority.

It has been very surprising to witness the development of this situation. A country that has undergone severe psychological and material suffering suddenly finds the enemy gone from most of the territory, immediately begins to hope for improvement in the conditions of life, but finds, on the contrary, that it is faced with a deterioration of living conditions, the hardest winter in history from a material

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point of view, and a Government which tells the people that things are bad and will be worse but that they must make further sacrifices in order to have a strong army and a position of power in world councils.

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

X. RELATIONS WITH THE UNITED STATES

Next to Russia, all shades of French opinion agree that relations with the United States are the most important for France. The French Press is very sensitive to fluctuations in Franco-American relations and wide differences are frankly discussed and recognized and criticisms of the United States are quite open, there is great concern at any sign of friction with the United States. The bad relations between de Gaulle

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and the President are a source of constant worry to all except the few adventurers in the Government who have made a career out of profiting from the situation. Many individuals to whom I have talked say that they feel that de Gaulle's bad relations with President Roosevelt will ultimately lead to his failure to retain leadership in France.

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

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

Closely allied to the above source of dissatisfaction with United States policy is the complaint that we have constantly treated the French supply problem as a relief problem when what

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France needs is not relief but replacement of basic transportation equipment and raw material supplies which were either taken by the Germans, dissipated in the fighting, or are currently being used by the Allied armies. They feel that strictly from the point of view of war production, France's marginal contribution could be very much greater than that of the United Kingdom and that they therefore deserve better treatment in the allocation of supplies. They cite figures to show what France could do with one more locomotive in the way of steel production, aluminum, tires, and other products. Most American observers of the French industrial situation agree with the French claim that their marginal contribution would be greater than that of the United Kingdom.

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

II. RELATIONS WITH RUSSIA

It is no exaggeration to say that de Gaulle's ability to maintain his position in the face of the Government's failure to press vigorously an internal program of economic reconstruction and reform and in the face of the failure of living conditions to improve since the liberation is the direct consequence of the conclusion of the Franco-Soviet Alliance. Although the full story of the negotiation of this Alliance and of the various formal and informal agreements

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made at Moscow is not known to me, it is generally believed that de Gaulle was willing to make almost any sacrifice in order to come back with a treaty and that he gave in on practically every Soviet request.

The conclusion of the Franco-Soviet Alliance not only improved France's position in dealing with her other Allies but definitely removed the possibility of serious organized internal trouble in France for the time being. The French Communists were not in conflict with de Gaulle prior to the visit to Moscow but their position had not been defined and it is quite possible that it would have become one of opposition. At any rate, the de Gaulle Government was quite obviously afraid of the Communists. In Moscow de Gaulle succeeded in getting Stalin's agreement to discourage any tendency on the part of the French Communists to make trouble or to utilize their very considerable potential military and financial strength against the de Gaulle Government. As a consequence of this, the Communists became not only non-revolutionary but, in a real sense, the only party supporting de Gaulle. Maurice Thorez returned to France with the Soviet "party line" and within three weeks had reversed the Party's position on every important point of conflict with the Government.

The decisive effect of the Russian Alliance on the French internal situation is the most spectacular but not the only indication of the fact that the French of all shades of political opinion regard their relations with the Soviet Union as the most important aspect of French foreign relations. There is a strong feeling that good relations with Russia are the essential corner stone of postwar French policy. This is just as true of the Right, where the feeling is based on fear, as of the Left, where it is based on genuine hope of greater Russian influence in France. Consequently Russian influence in France today is far greater than that of the United States or the British as far as concrete policy decisions are concerned.

XIII. INTERNAL POLITICAL DEVELOPMENTS

Within the past month there has been an increasing crystallization of the French internal political situation. Although

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This process is only beginning, certain interesting developments may already be noted. It must be kept in mind, however, that for the great bulk of the population, participation in organized political activity continues to be kept to a minimum by the pressure of the material difficulties of life, including plain lack of sufficient energy in many sections of the population.

At the time I left Paris it was agreed on all sides that the de Gaulle Government was not going to carry out the political objectives of the Resistance Movement which had been so widely proclaimed during the earlier period of the liberation. The Resistance Press has taken on a tone of disillusionment to an increasing extent. Even if the Government desired to carry through the political, structural, and economic reforms which are generally regarded as being the aims of the major Resistance groups, it would have been faced with major practical difficulties. The fact that the basic economic situation has been bad and getting worse during the winter months would have made it difficult to carry out changes, the short-run effect of which would have been further to impede the carrying on of ordinary business and administrative functions. Even in ministries in which there has been no question of desire to put through a thorough reform in administration, such as the Air Ministry and the Ministry of National Economy, it has been impossible to do so under conditions in which the capacity of the administrative machinery has been strained to the utmost.

However, the departure of the Government from the Resistance program is not simply a question of lack of opportunity to carry out reforms. It is due also to opposition in the Government to the making of fundamental changes at the present time. This opposition is partly in good faith and partly not in good faith. There are some groups who admit the need for fundamental social, economic, and administrative reforms in France but who feel that such reforms under present conditions would risk creating a situation in which the reforms would be discredited because of the impossibility of carrying them out effectively. The Communist Party's position represents the most thoroughgoing adoption of this view. While their program commits them to social and economic changes of the most drastic

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and fundamental type, the Communist Party is not at present taking the lead in advocating the adoption of basic reform measures by the Government, and is stressing unity, winning the war, and support of de Gaulle. The Communists do, however, press for changes in personnel and the application of sanctions against certain individuals and groups who are regarded by them as being remnants of Vichy or of collaborationist interests. There is another group which doesn't want reforms now because it doesn't want reforms at all. This group is the French Right and it is becoming increasingly vocal. The Right-wing point of view has always been strongly represented among persons influential with de Gaulle. It has now, however, also acquired a press and a small following in the consultative assembly.

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

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

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

XIII. GERMAN ECONOMIC INFLUENCE IN FRANCE

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

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

One move the French have made towards uncovering hidden enemy assets is to request nearly a billion francs worth of assets located in Monaco, with whom the Finance Ministry has an agreement permitting the French to act directly in the Principality. It was in this way that the Bank Charles case was uncovered, involving a clear case of "safe haven" for German, French, and American money fleeing France to escape possible taxation or confiscation. The revelation of the American Government's policy to cooperate with the French in any cases involving United States citizens found to be involved

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in such collaborationist activities has had an extremely healthy effect in Paris and puts us in a very strong position to use cases of this type to strengthen generally the French policy on similar positions.

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

Michael L. Hoffman
Michael L. Hoffman

March 1, 1945

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

March 1, 1945

TO Secretary Morgenthau (For information)

FROM Mr. White *per F.C.*

SUBJECT: Lend-Lease Exports to Russia

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

2. Among the principal non-military items were:

Motor trucks (all sizes) (\$25 million)
Dried eggs (\$17 million)
Wool cloth and dress goods (\$11 million)
Lard (\$7 million)
Canned sausage (\$5 million)
Linseed oil (\$5 million)
Butter (\$4 million)

3. Among the munitions sent were:

1756 railway freight cars (over 10 tons)
904 universal carriers
908 motorcycles
406 45 caliber Thompson sub-machine guns
228 medium tanks
123 ordnance combat vehicles
58 2 eng. medium bombers
3 2 eng. light bombers
22 PG3 1 eng. pursuit fighters
21 C47 2 eng. medium transports
16 44mm AA guns
4 80mm AA guns

4. Shipments to Eastern Russia, presumably on Russian boats via Vladivostok or some other Siberian port, accounted for about \$142 million of the total of approximately \$300 million exported during the month under review.

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TREASURY DEPARTMENT
OFFICE OF THE SECRETARY

March 1, 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 (see incoming letter), showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York and the means by which these expenditures were financed.

pld.

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COPY

FEDERAL RESERVE BANK
OF NEW YORK

February 28, 1945

CONFIDENTIALDear Mr. Secretary: Attention: Mr. H. D. White

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

Very truly yours,

(Signed) H. L. Sanford

H. L. Sanford,
Assistant Vice President.

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

Enclosures 2

ANALYSIS OF CANADIAN AND AUSTRALIAN ACCOUNTS
(In Millions of Dollars)

Strictly Confidential
Week Ended February 21, 1945

PERIOD	BANK OF CANADA (and Canadian Government)										COMMONWEALTH BANK OF AUSTRALIA (and Australian Government)						
	DEBITS			CREDITS			CREDITS				DEBITS			CREDITS			
	Total	British	Others	Total	Gold	For Own	For French	Other	Net Incr. (+) or Decr. (-) in \$/m.	Total	British	Others	Total	Gold	Other	Net Incr. (+) or Decr. (-) in \$/m.	
Year Total (a)	317.0	19.6	306.4	504.7	412.7	20.9	38.7	32.4	+ 181.7	31.2	9.9	27.3	36.1	30.0	6.1	+ 4.9	
First	40.4	-	40.4	462.0	246.2	3.4	123.9	88.5	+ 1.6	72.2	16.7	55.5	81.2	17.2	95.0	+ 5.0	
Second	505.8	-	505.8	566.3	198.6	7.7	-	360.0	+ 20.5	107.2	57.4	49.8	112.2	-	200.4	+ 3.4	
Third	723.6	-	723.6	938.8	47.1	170.4	-	741.3	+ 235.2	197.0	155.1	41.9	200.4	-	287.7	+ 10.9	
Fourth	949.3	1.0	948.3	938.5	38.1	61.4	-	859.0	+ 283.3	298.6	253.0	45.6	287.7	-	-	-	
Fifth	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
1944	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
September	74.5	-	74.5	91.8	-	50.4	-	41.4	+ 17.3	5.8	1.0	4.8	7.3	-	7.3	+ 1.5	
October	22.1	-	22.1	84.2	-	7.4	-	76.8	+ 50.1	20.5	1.0	17.2	21.0	-	21.0	+ 0.5	
November	38.8	-	38.8	53.7	-	2.9	-	50.8	+ 14.9	3.4	1.0	2.4	5.8	-	5.8	+ 2.4	
December	21.3	-	21.3	32.7	-	-	-	32.7	+ 8.8	3.1	-	-	19.6	-	19.6	+ 16.5	
1945	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
January	35.1	-	35.1	91.6	10.0	31.3	-	50.3	+ 56.5	27.4	-	27.4	5.6	-	5.6	+ 21.8	
February	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
March	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
April	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
May	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
June	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
July	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
August	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Week ended	-	-	-	-	-	-	-	7.6	- 0.7	0.1	-	0.1	0.3	-	0.3	+ 0.2	
January 31, 1945	84.5	-	84.5	7.6	-	-	-	16.1	+ 16.5	0.6	-	0.6	0.3	-	0.3	+ 3.0	
February 7, 1945	1.0	-	1.0	16.2	-	-	-	20.7	+ 22.1	0.2	-	0.2	0.3	-	0.3	+ 0.1	
February 14, 1945	3.1	-	3.1	28.2	-	-	-	54.1(c)	+ 50.0	0.1	-	0.1	0.4	-	0.4	+ 0.3	
February 21, 1945	21.1(c)	-	21.1	54.7(c)	-	-	-	-	-	-	-	-	-	-	-	-	

Monthly 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 February 21, 1945): 7.5 million.

(a) For monthly breakdowns see tabulations prior to: April 23, 1941; October 8, 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) Does not reflect transactions in short term U. S. securities.
 (d) Includes \$ 2.6 million deposited by War Supplies, Ltd.
 and \$ 3.0 million received from New York accounts of Canadian chartered banks and \$ 46.3 million representing proceeds of sales of United States Treasury Notes.

- (a) Includes payments for account of British Ministry of Supply, Ministry of Shipping, Ministry of Control, and Ministry of Shipping.
- (b) Estimated figures based on transfers to the New York agency of the British Ministry of Supply, Ministry of Shipping, Ministry of Control, and Ministry of Shipping, including those transferred directly to the Ministry of Supply, Ministry of Shipping, Ministry of Control, and Ministry of Shipping. In addition to the official selling, substantial quantities of securities for private British account were sold in the early months of the war, although the receipt of the proceeds at this time would be identified with our Treasury, (as related to data supplied by the British Treasury and released by Secretary Morgenthau) total official and private British liquidation of our securities through December, 1940 amounted to \$114 million.
- (c) Includes about \$85 million received during October, 1939 from the accounts of British citizens made with the New York branch, presumably reflecting the repatriation of private dollar balances. Other large transfers to the New York branch during October, 1939 apparently represent current acquisitions of proceeds of exports from the British area and other countries dollar receipts. See (i) below.
- (d) Reflects net change in all dollar holdings payable on demand or otherwise in one year.
- (e) For breakdown by types of debits and credits see tabulations prior to 1940, N.Y. 1940.
- (f) Adjusted to eliminate the effect of \$20 million paid out on June 26, 1940 and returned to the Treasury on July 1, 1940.
- (g) For monthly breakdown see tabulations prior to April 31, 1941; October 31, 1941; and prior to 14, 1942.
- (h) Transactions for account of Caisse Central de la France d'Outre-Mer involved the firm, the International Bank of Paris, 1940.
- (i) Includes \$ 2.8 million apparently representing current and accumulated dollar proceeds of sterling exports, and \$ 17.0 million in connection with the expenses of our armed forces abroad.

ARMED SERVICES THROUGH AGENCIES
(In Billions of Dollars)

Week Ending February 21, 1945

Strictly Confidential

PERIOD	DEBITS					CREDITS					Total Debits (a)	Total Credits (b)	Net Sur. (+) or Def. (-) (c)		
	Total	Govt. Transfers	Official	Other	Total	Proceeds of	Transfers	Other	Other						
War Years (a)															
First	1,793.2	405.6	20.9	1,366.7	1,458.2	1,350.1	82.0	2.9	405.2	1,760.2	37.9	1,722.3	1,722.3	0.0	
Second	2,303.0	1,792.2	3.4	507.4	1,107.8	1,212.1	272.0	10.7	1,760.2	1,760.2	14.5	1,745.7	1,745.7	0.0	
Third	1,235.6	904.8	7.7	323.1	1,302.3	21.0	2.5	7.4	1,270.0	1,270.0	10.3	1,259.7	1,259.7	0.0	
Fourth	784.0	312.7	190.4	280.9	1,074.0	-	0.5	195.1	1,270.0	1,270.0	-	1,270.0	1,270.0	0.0	
Fifth	1,197.7	300.4	61.4	835.9	1,302.6	-	-	253.0	1,197.7	1,197.7	-	1,197.7	1,197.7	0.0	
1944															
September	151.0	19.9	59.4	85.7	7.5	-	-	1.0	151.0	151.0	-	151.0	151.0	0.0	
October	127.9	21.0	7.4	99.5	34.7	-	-	1.0	127.9	127.9	-	127.9	127.9	0.0	
November	74.2	45.4	2.9	25.9	31.1	-	-	-	74.2	74.2	58.7	15.5	15.5	0.0	
December	11.7	21.0	-	9.3	1.4	-	-	-	11.7	11.7	-	11.7	11.7	0.0	
1945															
January	146.9	96.1	31.3	19.5	27.4	-	-	-	146.9	146.9	146.9	0.0	146.9	146.9	0.0
February															
March															
April															
May															
June															
July															
August															
Week Ended															
January 31, 1945	43.2	36.9	-	6.3	14.1	-	-	-	43.2	43.2	-	0.0	0.0	0.0	
February 7, 1945	12.5	5.9	-	6.6	6.6	-	-	-	12.5	12.5	-	0.0	0.0	0.0	
February 14, 1945	5.3	1.0	-	4.3	4.3	-	-	-	5.3	5.3	-	0.0	0.0	0.0	
February 21, 1945	12.8	4.4	-	8.4	8.4	-	-	-	12.8	12.8	-	0.0	0.0	0.0	

Source: Bureau of Economic Warfare, since week ending
 January 31, 1945 (through June 17, 1945)
 Department of War (through June 17, 1945)
 War Relocation Authority (through July 31, 1945)
 War Relocation Authority (since March 17, 1945)

r = Revised

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

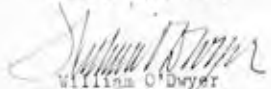
OFFICE OF THE
EXECUTIVE DIRECTOR

MAR 1 - 1945

My dear Mr. Secretary:

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

Very truly yours,


William O'Dwyer
Executive Director

The Honorable,

The Secretary of the Treasury.

Enclosure.

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Report of the War Refugee Board
for the Week of February 12 to 17, 1945

PERSPECTIVE EVACUATIONS TO SWITZERLAND FROM GERMAN-
CONTROLLED TERRITORY

Reports reaching us indicate that there is a growing conviction in responsible quarters that a progressive increase is to be expected in the number of Jewish refugees released from Germany and German-controlled areas. Practical factors pointing to this conclusion include the difficulties anticipated for the Germans as a result of a reported lack of food for Jewish internees and the probable need of Jewish internment camps for housing German refugees from Soviet-occupied areas. On the theoretical side, expression has been given to the possible existence of a desire on the part of German officials to gain credit for releasing Jewish internees, as well as a wish to avoid embarrassment to the local population which might result from the presence of Jewish internment camps in Germany proper where incriminating evidence of any mass exterminations might remain.

In view of intimations that additional transports are to follow the recently arrived group of 1,210 refugees from Theresienstadt, the Board requested Representative McClelland by cable to advise us whether in his judgment there appears to be an imminent possibility that German authorities, under the pressure of growing overcrowding in Germany resulting from the flow of refugees from the east, may present increasing numbers of refugees at the Swiss border for admission. While it is assumed that, if such arrivals take place in an orderly manner and not in too great numbers at one time, the Swiss Government may be willing to accept them, both supplies and assistance in removing corresponding numbers of refugees already there may be requested by the Swiss if the flow becomes substantial. We accordingly suggested to McClelland the desirability of initiating appropriate discussions with a view to determining and organizing the action to be taken in the event that the indicated

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possibilities materialize.

EVACUEES FROM THERESIENSTADT AND BERGEN BELSEN

In order that appropriate arrangements might be made for their transportation and for their reception and maintenance at Philippeville or other suitable camps, we notified the War Department and the United Nations Relief and Rehabilitation Administration of the arrival in Switzerland of the group of 1,210 refugees from Theresienstadt and of the urgency for their removal from Swiss territory. Representative McClelland was advised of this action. According to information from a private source, the Dutch Jews in this group are receiving assistance from their government and the German, French, and Polish refugees are being cared for temporarily by Swiss authorities.

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

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

COOPERATION OF SWISS AND SWEDISH GOVERNMENTS

As indicated in their replies to our suggestions that frequent and extended visits of consular officials to places where Jews are concentrated be made as a part of intensified measures in behalf of Jews and other internees surviving in German territory, it is apparently the impression of the Swiss and Swedish Governments that we were requesting renewed intercessions, the positive effect of which they regard as extremely questionable. Accordingly, we cabled our Legations in Bern and Stockholm and Representatives McClelland and Olsen asking that it be explained that

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our request was made to secure the indirect influence which might be exercised by the presence of Swiss and Swedish consular officials near localities where Jews are concentrated and by such informal conversations which they could hold in those places rather than official acts of intercession.

CONDITIONS IN GERMAN CONCENTRATION CAMPS--DISTRIBUTION OF RELIEF PARCELS

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

Our Embassy in Moscow relayed to us information obtained by an American news correspondent concerning the recently liberated Oswiecim (Auschwitz) death camp. It was reported that approximately 4,000 prisoners, exhausted from suffering, overwork, and hunger, were freed from the camp and that there were Czech, Yugoslav, Dutch, French, and Belgian nationals among them. Arrangements were immediately undertaken by the Polish Provisional Government for shipments of urgently needed medical and food supplies to alleviate their condition.

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The Swiss Legation at Berlin reported that, according to information supplied by persons who had witnessed the fate of Jews interned in camps in Upper Silesia, an attempt was made to evacuate the internees from Auschwitz on foot under deplorable conditions. Representative McClelland advised us that he had received from other sources confirmation of the fact that the greater part of the internees remaining in Auschwitz were evacuated on foot before the Soviet advance. Unconfirmed reports in Switzerland indicated that only 2,000 to 3,000 persons were found in Auschwitz at the time of the Russian occupation.

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

JEWISH REFUGEES IN SWEDEN

According to statistics sent to us by Minister Johnson, there are 5,508 "German refugees" registered with the Swedish Department of Social Welfare. All of these may be assumed to be stateless persons, and it is estimated that about 2,500 of them are Jewish. Of the estimated total of 11,916 Jewish refugees in Sweden, the others include 115 Czechs, 70 Poles, 750 Norwegians, 6,000 Danes, 3 Finns, and 673 stateless persons, of whom 350 are from Norway, 200 from Denmark, and 123 from Finland. Of the total, 50% live in and around Stockholm; the location of the others was not indicated.

EVACUATIONS THROUGH TURKEY

A report received from Turkey brought the information that six Jewish refugees, three of Italian nationality and three of Turkish, had succeeded in escaping from the German-occupied Island of Rhodes and in landing at Marmaris, Turkey. Palestine certificates for them have been requested. These refugees reported that, of the

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3,000 Jews who formerly lived on Rhodes, only 14 remained besides themselves, all of the others having been deported, presumably to Poland. That the 20 survivors escaped deportation was attributed to their Turkish or Italian nationality.

REPORTS FROM TURKEY

From Istanbul, it was learned that a Jewish refugee who recently reached Sofia from Albania reported that there are in Albania at present 350 Jews, most of whom are Yugoslavs, Greeks, and Italians. Jewish refugees arriving in Bucharest from Transylvania stated that Transylvanian Jews were deported to Granitzburg and Wienerneustadt as well as to Auschwitz, with most of the Jews of Solnoc and Miskolcz confined at Wienerneustadt. Absence of communications with these deportees makes it impossible to determine their present situation, and the only facts known are that they were divided into three groups: (a) men between 15 and 50, (b) women between 15 and 50, and (c) children, elderly people, the physically disabled, and mothers who refused to be separated from their children. It was reported that the first two groups were sent to labor camps, while the third group was gassed.

William O'Dwyer
William O'Dwyer
Executive Director

107

CABLE TO AMERICAN EMBASSY, LONDON, FOR INFO, FROM WAR REFUGEE BOARD

Please deliver following message to Joseph Schwartz from H. A. Leavitt of American Jewish Joint Distribution Committee:

QUOTE: UNDERSTAND POLISH PASSPORT OFFICE HERE: CABLED TODAY CONCERNING ANDROVICH APPLICATION FOR BRITISH VISA. WOULD BE HELPFUL IF IN ADDITION YOUR INTERVENTION LEONARD MONTFORD AS BOARD MEMBER FOUNDATION IMMEDIATELY APPROACHES HOME OFFICE. IN OUR LETTER ACCOMPANYING APPLICATION WE STATED VISA REQUESTED FOR TEMPORARY STAY THREE TO SIX MONTHS THAT ANDROVICH HOLDS RESIDENCY PERMIT TO UNITED STATES VALID TO JANUARY 1946. HAS FIRST AMERICAN PAPERS ISSUED 1942. LEFT ROMANIA 1924. HAS BEEN MEMBER JDC EXECUTIVE STAFF CONTINUOUSLY FROM 1919 AND FROM 1924 AS GENERAL SECRETARY AND VICE MANAGING DIRECTOR FOUNDATION. IMPORTANT INDICATE HIS FAMILY REMAINING UNITED STATES STOP YOUR REPLY REGARDING EMPLOYMENT REMAINING BROOK FOR OVERSEAS SERVICE URGENTLY AWAITED. UNQUOTE

2:15 p.m.
March 1, 1945

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

March 1, 1945
4 p.m.

AMERUCASNY

LONDON

1554

For Wissant from Department, FEA and WFB as WBS 50.

Reference Department's 6095, July 31, 9419, November 10,
and your 6279, August 5, 10022 of November 16.

In view of the extreme urgency of extending additional
aid to unassisted persons in enemy-controlled concentration
camps and in view of recently received reports from Intercross
that more widespread distribution can be effectuated under terms
of Berle-Foot Agreement, the Department, FEA and WFB recommend
the shipment from this country by the War Refugee Board of an
additional 300,000 packages of three kilos each of foodstuffs
for distribution by the International Red Cross. It is requested
that this matter be referred urgently to the Relief Sub-Committee
for Blockade authorization to proceed with this program at the
earliest possible date.

GRUP
(Acting)
(SDF)

WFB:WFB:WFB

DC

OFF

FEA

MS-1187

PLAIN

London

Dated March 1, 1945

Rec'd 12:32 a.m., 2nd

Secretary of State,
Washington.

MRG, First

FOR YOUR INFORMATION FROM HAMB

Please deliver the following messages to those
Leavitt of American Joint Distribution Committee from
Joseph Schwartz.

Message begins. Have allocated \$4,000 monthly
to Jewish Coordinating Committee in liberated Holland
for emergency purposes especially non-Dutch nationals
that territory until regular transmissions. Possible
Dutch Government here will accept payments in sterling
and pay equivalent to Jewish Committee Holland. Suggest
therefore, you transmit immediately our account here
\$8,000 cover two months budget. Message ends.

Message begins. At the time I left Belgium the
committee did not actually receive \$150,000 which you
paid Belgian Embassy. Committee, however, was advanced
equivalent that amount by three local banks including
Jules Philippson who acted with consent of Belgian
National Bank. The Belgian Finance Ministry during
my stay there indicated that the money would be re-
paid to the three banks within a few days so that I
assume that the money has already arrived Belgium but
have no direct knowledge this effect. Have already
told Hensik sometime ago not to assume responsibility
Greece at least until my arrival in Italy and Passman
fully informed. Expect see Hensik soon and clarify
situation. Reference Harry Hiels, would be glad have
him overseas service and believe he should be assigned
Switzerland immediately. Have no objection Canadian
field workers provided they meet our usual standard.
Will make every effort see Samuel Goldwyn in Paris.
Message ends.

Message begins. Budgetary recommendations for
March and April same as previous months except for
following: France \$200,000 Greece \$50,000 Poland
\$200,000 via Switzerland \$250,000. Total reduction
\$325,000 monthly. For time being believe unnecessary
vote additional one-time grants for next two months.
Writing fully. Message ends.

Message begins.

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- 2 -

Message begins. Have made formal applications Inter-governmental Committee for additional grants \$300,000 each: Romania and Hungary for first quarter 1945. Message ends.

VI AMT

MJP

111

IS-123

PLAIN

Paris

Dated March 1, 1945

Rec'd 7:40 a.m., 2nd

Secretary of State
Washington

956, First

FOR WOODS LEAVITT AMERICAN JOINT DISTRIBUTION
COMMITTEE FROM ANTHONY GREENGLIEN

"Berk Baskind claims to have deposited equivalent
three thousand dollars March 1940 Poland with David
Gusik. Please cable verification."

CAPVIRY

MEM-934
This telegram must be
paraphrased before being
communicated to anyone
other than a Government
Agency. (UNRESTRICTED)

Secretary of State

Washington

769, March 1, 10 p.m.

FBI SAN FRANCISCO BOARD.

Re NY 436 February 5, noon.

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

KINK

Caserta

Dated March 1, 1945

Rec'd 3:10 p.m.

LC-860

PLAIN

Rome

Dated March 1, 1945

Rec'd 10:57 a.m.

Secretary of State,

Washington.

568, March 1, Noon.

FOR MESSRS LEAVITT FROM RESNIK

Number four. Your letter February 21 concerning
Matsoth distribution received. Our distribution
facilities already completely organized working in
close cooperation with Tarek and others. Still
awaiting shipments. For your information we supplying
two tons Matsoth additional packages for 900 refugees
leaving for Palestine during Passover holidays.

Have secured through American relief for Italy
clothing for 1600 children distribution taking place
February 27 in Rome. Other supplies promised for
other areas including some from UNRWA. Regards.

KINK

WGB

12"

115

100-1192

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

Jerusalem

Dated March 1, 1945

Rec'd 2:11 a.m. 2nd..

Secretary of State,

Washington.

44, March 1, 7 1945.

Following message is from Jacob Griffl who requests paraphrase be sent through War Refugee Board to Union Orthodox Rabbinic Rescue Committee, 132 Nassau Street, New York:

"Agency representative Lichtin Geneva cables Snapp release Theresien obtained from Kissler personally by Swiss right wing politician May who was sent Germany by Orthodox groups originally to trace Vittel group. In destitute condition but suddenly obtained release 1200 Theresien. Were such transports promised but not arrived probably owing transport difficulties. German attitude result general situation Germany embarrassed by necessity constantly evacuating 100,000 prisoners of war civilian internees. In Theresien now large number prisoners of war. Rescue efforts can profit from situation in order to obtain large scale release of Jews. See memo presently discussed with official quarters here. Czech reports Czechish Government promised certain admittance all inmates Bergenbelsen and part Theresien, this report confirmed news message yesterday. This last possibility save Remnants who are in greatest danger immediate extermination unless evacuated to safety. Best not, make every human effort utilize historic opportunity. Were chief Rabbi Rabbin running all serious local community this matter do likewise."

FINISHED

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CORRECTION

AIR

PLATE

March 1, 1945

In cable from Lisbon 386 February 20 for WFB JDC 180 serial number should read 385 instead 386.

Correction from the Embassy.

DIVISION OF CENTRAL SERVICES

CSB

116

CABLE TO AMERICAN EMBASSY, LISBON, FROM WASHINGTON BOARD

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

QUOTE REGARDING SOBASKA REQUEST PILNOSZANSKY PAY OUT
DESIGNATED FUNDS WE HAVE NO COMPETENCE THIS MATTER AND
PILNOSZANSKY MUST MAKE HIS ARRANGEMENTS DIRECTLY WITH
SOBASKA. UNQUOTE

THIS IS WFO LISBON CABLE NO. 190.

2:15 p.m.
March 1, 1945

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190-097

PLAIN

Lisbon

Dated March 1, 1945

Rec'd 12:48 p.m.

Secretary of State,
Washington.

461, First

WFO 347 JDC 192 FOR LEAVITT FROM HAROLD TROBE

Reank cables AFIS informed British and American
Embassies and Governor of Greece that Greece approved
remittances 175,000 each January February. Bank of
Greece selected Guaranty Trust Company New York and
Bank of England to receive sterling or dollar deposits
for payment equivalents our Greek representative.
Reank now ready proceed Greece. Advised Schwartz.

CROCKER

12"

119

CP-777

PLAIN

Lisbon

Dated March 1, 1945

Rec'd 3:51 p.m.

Secretary of State,

Washington.

462, First.

HRB 346. FOR HIAS 425 LAFAYETTE STREET, NEW YORK,
FROM DAVID SCHWITZER HICEM.

Received following cable from Bulgaria transmitted by Harry Balcan of Istanbul, "We of liberated Bulgaria hereby send our heartiest greetings to annual meeting HIAS and entire American Jewry for help already extended and for more which we hope is on its way. We particularly thankful to HIAS for having undertaken through HICEM the bridging together of hundreds Jewish families Bulgaria with relatives throughout world from whom been separated during war. We hope HIAS will find way make possible for impoverished masses Bulgarian Jews receive individual money remittances, clothing, parcels from relatives overseas consistoire General des Juifs en Bulgaria".

CROCHER

HLP-1225

PLAIN

Bern

Dated March 1, 1945

Rec'd 7:45 a.m., Hds.

Secretary of State

Washington

PRIORITY
1331, 1m

PER HAD RESPONSE FROM BOCLELAND

Please deliver following message to World Jewish Congress from Leon Babowitzki: "Annetta and Oswald Hochberg are not among group which recently arrived in Switzerland from Theresienstadt".

HARRISON

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CABLE TO AMERICAN EMBASSY, ANKARA, FROM THE WAR RESOURCES BOARD

Please deliver the following message to Charles Passman from

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

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

THIS IS WAR ANKARA CABLE NO. 144

11:15 a.m.
March 1, 1945

FG-1092

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

Istanbul

Dated March 1, 1945

Rec'd 8:40 p.m.

Secretary of State

Washington

7A, March 1, 1 p.m.

FOR WAR REFUGEE BOARD.

Please deliver to Moses Leavitt Joint Distribution Committee. From Passman.

1. With regard to Resnik's projected emigration scheme from Greece your cable was relayed by Hagman to Schwartz.
2. Prior to my departure from Jerusalem, Harold Day (?) telegraphed to us the contents of Resnik's cable. I thereupon telegraphed immediately to Schwartz to the effect that the Jewish Agency has no knowledge this project and that the cost thereof is extremely excessive. I suggested to Schwartz also to advise Resnik by telegraph not to be concerned with Balkan emigration projects.
3. For your information I have - at a cost of less than \$100 per - negotiated various transportation projects from Greece to Palestine in conjunction with Jewish Agency representatives in Palestine and at Istanbul.
4. Although certificates are at present unavailable, transportation at reasonable rates will be arranged as soon as certificates are granted.

THEOTMAN

END

SECRET

OPTEL No. 69

Information received up to 10 a.m., 1st March, 1945.

NAVAL

1. HOME WATERS. Last night E-boats probably mine laying, active on convoy route to Antwerp and engaged by our patrols when one of H.M. Frigates sunk one E-boat and took 26 prisoners.
2. MEDITERRANEAN. Under cover fire from gun landing craft and air attack coastal craft assisted evacuation of Partisans from Pag (N.W. Zara) which necessitated by strong enemy counter attack.
3. ENEMY ATTACKS ON SHIPPING. 28th. A 1926 and 646 ton ships sunk by U-boat St. George's Channel. A 3517 ton ship damaged by mine or torpedo off the coast yesterday. A 798 ton ship damaged by enemy aircraft Antwerp. 28th/1st (night). A 1349 Panamanian ship in convoy damaged by mine or torpedo off Reykjavik.

MILITARY

4. WESTERN FRONT. South Central Sector: In bridgehead east Saarburg further advance three miles made. Further northeast of River Prum advance continues on wide front with forward troops reaching line River Kyld while house to house fighting continues Bitburg. North Central Sector: N.E. of Duren U.S. forces reached Erit Canal where two bridgeheads established, while further north troops of 9th Army reaches southern and western outskirts Rheidt. Northern sector: U.K. and Canadian troops meeting strong resistance Hochwald Forest made limited advances.
5. EASTERN FRONT. Northern Sector: Further places S.W. Kongsberg taken. Central Sector: In Pomerania on right flank this sector base of thrust towards Baltic widened by capture of important rail and road junctions Frechlau and Neustettin. Further south progress continues reduction Breslau.
6. BURMA. Central Sector: Village in Myinmu bridgehead finally cleared of enemy after fierce fighting lasting 56 hours and 506 enemy dead have been counted. Bridgehead to east is being enlarged and strengthened. Northern Sector: Chinese troops continue advance down road Hsensi Lashio against stiff opposition.

AIR

7. WESTERN FRONT. 28th. 154 escorted Bomber Command Lancasters dropped 659 tons through cloud on benzol plant Nordstern with unobserved results. 1072 escorted U.S. heavy bombers (3 bombers and 8 fighters outstanding) attacked through 10/10th cloud five railway centres in N.W. Germany (2199 tons), two railway viaducts Bielefeld (203 tons) and Arnberg (226 tons) and casting plant Meschede (187 tons). Enemy opposition very small but 18 enemy aircraft destroyed and 10 damaged on ground. SHAEF (Air). 121 bombers attacked Geldern and Rheinberg and 346 (2 missing) others dropped 553 tons communication targets North and Central Sectors, while 2200 fighters (16 missing) supported land forces and attacked communications scoring 9,2,12 in combat and 2,0,4 on ground and destroying or damaging 43 locomotives, 375 railway wagons and 201 H.T. 69 Fighter Command Spitfires attacked rocket sites Holland with good results. 28th/1st (night). 262 aircraft despatched (1 missing, 1 crashed): Berlin 74, bomber support 72, sea mining 5 and other missions ill.
8. MEDITERRANEAN. 27th. 557 escorted heavy bombers (15 missing) attacked railway centres Augsburg (979 tons), Salzburg (179 tons) and Lienz (43 tons), while incomplete reports show tactical aircraft 589 tons and damaging two railway bridges.
9. SOUTH EAST ASIA. 24th. 105 Super Fortresses (1 missing) dropped 221 tons Empire Dock area Singapore with good to excellent results.

10. ROCKETS. Five incidents reported morning 1st.

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March 2, 1946
9:30 a.m.

FINANCING

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

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

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

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

MR. HAAS: Surely.

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

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

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

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

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

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

H.W.JR: Was there anything in there?

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MR. BELL: I don't know that there is anything in there that you haven't talked about generally.

MR. HAAS: At one time or another, but I think--I hoped the Secretary could sit down through the whole thing, but he says he can't.

H.W.JR: You fellows all know it? You have seen it?

MR. GAMBLE: Yes, I don't think it is the clearing house for all the subjects we have had under discussion. I think it is very informative. When you have the time you ought to do it, but it is not pertinent to the decision you need to make.

MR. BELL: How about the books you need to get up?

MR. HAAS: We are putting it up so you can look at it at your leisure. You don't have to take the time--

H.W.JR: On the farm?

MR. HAAS: Any place that you have the time to look at it.

H.W.JR: I have a satchelfull there that I took to Detroit. Well, I think that is a good thing to work from, unless you people have some other suggestions. Why not work from that? Is that the Eccles and Sproul memo? What do you think?

MR. BELL: That's all right, work from that.

H.W.JR: Have you all got copies of it?

MR. GAMBLE: Well, I haven't. Are you talking about this?

MR. BELL: Yes.

H.W.JR: Is that not as good a thing to work from as any?

MR. BELL: Yes, that's all right as far as I am concerned.

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MR. GAMBLE: Or the approach itself--

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

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

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

MR. MURPHY: Just keep turning.

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

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

H.M.JR: Who said that?

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

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

MR. BELL: I almost had to do that for you to get her down here.

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H.M.JR: She said, "I have already seen Mr. Bell. You are not the only one who gets around." She is a smart cookie!

"That the Seventh War Loan Drive be divided into two distinct parts, the first for individuals and the second for other non-bank investors, and that the goal for the second part be placed at five billion dollars. The suggested dates, May 14 - June 16 and June 18 - 30, are entirely satisfactory."

MR. BELL: Ted has some objection to the five, and he has discussed it with his Chairmen.

MR. GAMBLE: We have received arguments against the five billion dollars. One is, psychologically if we asked for twelve million dollars, that is not going to support the extra demand for individuals, their quotas in many instances are going to be too low; two, upon examination anybody can see there is five billion dollars fighting to get into the corporate field, and it all comes rushing in in a few days; they are over the top on corporate sales. It makes their operation look too easy from the corporate side of it.

H.M.JR: May I interrupt you? Can the corporates come between the 14th of May and the 16th of June?

MR. GAMBLE: No. But they have always come in before the individual goal has been reached; they come bounding in, and in a couple of days corporate loans are over the top.

H.M.JR: Why couldn't the individuals be from May 14 to June 16?

MR. GAMBLE: They are, but it all opens as part of the Drive, and individuals continue to the 30th, as they have in the past.

H.M.JR: It doesn't say that here.

MR. GAMBLE: I am not for this, and neither are they. They wouldn't like this distinct break on it. We have

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never done this before, and the way it is worded, it sounds like that is what we are doing, but we are not. We have individual sales from May 14 to June 30, and corporates open on the 18th of June. Corporates overlap; they need that extra time. Many States have opposed the Treasury's saying in the middle of the drive, "the sale for individuals is closed, and the corporate drive opens tomorrow," in effect.

MR. BELL: It only overlaps the E bonds.

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

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

(Mr. Bell leaves the conference temporarily.)

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

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

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

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

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

H.M.JR: No, guess again.

MR. GAMBLE: Six--

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H.M.JR: What I want to know is the estimate of our balance June 1 and July 1, our balance position. Do you want anybody else in for your side?

MR. BELL: I was going to tell you that Bob Rouse is here in my room if you would like to have him in at this time or later.

H.M.JR: You should get another one.

MR. GAMBLE: If we are going to talk about indirect bank financing, we may want to say some things we don't want him to hear.

H.M.JR: Do you want Heffelfinger or anybody?

MR. BELL: I don't think so.

H.M.JR: Let me have the cash balance. I would like it for May 1.

MR. BELL: For May 1?

H.M.JR: May 1, June 1, and July 1.

MR. BELL: Well, this is based on the assumption that we have the Drive in May and June and we raise sixteen billion dollars and also one billion, eight hundred million in bills. According to the program we won't raise quite that, we will only raise one billion, seven hundred million. So we will go out of April without any money from the drive except normal savings bond sales with about nine billion dollars.

H.M.JR: That is the 1st of May?

MR. BELL: Yes, that is the 1st of May.

H.M.JR: Nine billion?

MR. BELL: And we would go out of May without any money from the Drive with about three and one-half billion dollars.

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H.M.JR: Before I write that down, will that mean that you won't have any money from June?

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

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

MR. BELL: Yes, whatever--if you start May 14, you ought to get at least five billion dollars.

H.M.JR: So you will have about nine billion dollars for the 1st of June?

MR. BELL: On the 1st of June, assuming you get sixteen billion dollars from the Drive, you would have between fifteen and sixteen billion dollars.

H.M.JR: When?

MR. BELL: On June 30.

H.M.JR: How much?

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

H.M.JR: I will say between fifteen and sixteen.

MR. BELL: Yes.

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

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

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

H.M.JR: Let me just talk to Gamble a minute.

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

MR. GAMBLE: Yes.

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

MRS. KLOTZ: Yes.

H.M.JR: You haven't taken on Fussell?

MR. GAMBLE: No.

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

MR. BELL: Yes.

H.M.JR: And he will supervise our press room, because the job is just a--you know, to sit here all day long--he is just what we have been looking for. He will write speeches and that sort of thing.

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Well, anyway, what I am trying to do is, I would like to leave the financial community in an atmosphere of feeling that what the Treasury has done is fair, extra fair, see? And I have decided I don't want them to feel I am going to try to punish them because they are opposing me on Bretton Woods, see? I mean, we are going around in a circle, and I am not going to let anyone have an excuse for saying, "because we are fighting the Treasury on Bretton Woods, he is trying to get even with us," because, after all, in the final analysis my first job is to finance the war; everything else comes second. And I am not going to give the financial community any excuse to point a finger and say that we are being vindictive, and I want you people to know that in helping me to get a program, see? I mean, my first job is just to finance the war. It would be interesting just to digress a minute to give you a little background. Little pieces come in.

I invited, through Frank Isbey, E. T. Keiler, President of Chrysler Corporation to meet me in Mr. Isbey's home, and we spent one hour and a half together--at least one hour and a half. He was rather sore at first; he said, "Gosh, Mr. Secretary, we keep our nose right on one thing, making munitions, and you have got time to go around the country talking about the post-war period. I don't see how you have time to do that."

I explained to him why, and so forth, but his first reaction was that he was quite angry that I was bothering him with a post-war problem.

Then he went on to say, "Now, Studebaker, for instance"--you learn these things--"They have gone to Mexico and set up an experimental branch. They have got a car already. General Motors and ourselves are specifically devoting ourselves to the war effort." You pick up plenty of this. Therefore, I think there is something to this argument from the standpoint of the banks, that they have to go to the market and always have to pay a premium; they can't get it at par, and everybody else does. So I am interested in a straight bank financing.

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Then I began to talk and say, "Well, should we do it before the Drive, or after the Drive?" I was inclined to do it before the Drive because of the theory that if the banks know they have this security, part of their appetite is satisfied.

MR. GAMBLE: Yes.

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

MR. BELL: Three days.

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

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

H.M.JR: I would be over in two days.

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

MR. BELL: The 1st of June.

H.M.JR: No, the 1st of July. That would be a long time; you would have your individual drive to June 16,

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and you might not get some of that money if you let it go that long.

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

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

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

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

H.M.JR: I see.

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

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

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

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

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

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

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

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

MR. GAMBLE: Burgess is not.

H.M.JR: He is not?

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

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

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MR. GAMBLE: Yes.

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

MR. GAMBLE: Between seventeen and eighteen billion.

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

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

H.M.JR: Yes.

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

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

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

H.M.JR: How much?

MR. BELL: About eight, eight--no, wait a minute. I am sorry; you would have about seven, eight or seven, five; somewhere in that neighborhood.

H.M.JR: About eight.

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

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

MR. GAMBLE: In October.

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

H.M.JR: What?

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MR. BELL: Below six billion dollars.

H.M.JR: How much would you say?

MR. BELL: Five and one half.

H.M.JR: Well, you most likely would repeat the thing in October, November, and December. Well, we don't need any bank money.

MR. GAMBLE: You are in the best shape because you are going to get bank money in this drive indirectly.

H.M.JR: We don't need a direct offering.

MR. GAMBLE: You are in the best shape in 1945 to go ahead and make these gains down. We have made, by virtue of the Sixth War Loan, a great contribution; while it looks bad, it gave us money to run for six months, and it has also pulled down the bank participation in the over-all picture; and if we take an exchange in the Seventh and Eighth War Loans we can end up the calendar year of 1945 with the best picture of the war so far as bank participation is concerned.

H.M.JR: This is based on an estimate of seventeen, isn't it?

MR. GAMBLE: And that is conservative. That doesn't include the one billion eight if you let them have it, and I think you should let them have it as an insurance policy.

H.M.JR: Now wait a minute. The only thing I want to do which I think is a good wrinkle on the bank thing is, I would like to let every bank that has time deposits buy up to one hundred thousand of F and G's.

MR. BELL: Not E's?

H.M.JR: F and G's.

MR. GAMBLE: Not E's.

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MR. HAAS: We did that once before.

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

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

H.M.JR: F and G.

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

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

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

H.M.JR: Savings accounts.

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

(Mrs. Klots leaves the conference)

H.M.JR: I meant savings.

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

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

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

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

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MR. GAMBLE: It really doesn't.

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

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

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

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

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

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

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

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

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

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

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

H.M.JR: Let me just read this thing. (Indicates "Criteria for an Offering of Securities to Banks Concurrently with the Seventh War Loan, attached.") You say, "If all

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commercial banks were permitted to subscribe for a new offering of Government securities in an amount equal to 10 percent of their total assets, but not in excess of \$200,000 for each bank, the total potential subscription would be about \$1.8 billions." You don't say what the securities would be.

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

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

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

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

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

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

MR. GAMBLE: About savings deposits?

H.M.JR: Yes.

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

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

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the banks would have occasion to feel friendlier toward the Treasury than any previous drive.

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

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

H.M.JR: What was the formula?

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

H.M.JR: Of savings deposits?

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

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

MR. BELL: Did we?

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

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

H.M.JR: What is the difference?

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

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

MR. BELL: Thirty days.

H.M.JR: The Board of Governors has a regulation defining savings accounts and passbook accounts, and in the last Drive everything was savings accounts, as so

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defined, plus time certificates of deposit in the names of individuals and non-profit corporations, but excluded time certificates of deposit in the names of corporations organized for profit.

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

MR. MURPHY: They were part of the basket for current security offerings.

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

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

H.M.JR: When?

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

H.M.JR: Two percent?

MR. MURPHY: Practically all two percent.

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

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

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

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

MR. BELL: Where is it?

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H.M.JR: In what way is this Drive different?

MR. GAMBLE: Banks were permitted to buy ten percent of their time deposits or five hundred thousand dollars' worth of securities, whichever was lower, and they bought one billion eighty-four million dollars' worth.

MR. BELL: This formula would apply to all banks. This formula of Henry's would take all banks regardless of the type of deposits, and you would take ten percent of their total assets or two hundred thousand, whichever is smaller.

MR. MURPHY: There are two fundamental differences. First you take the total deposits instead of time deposits, excluding those of corporations, and you lower the ceiling from five hundred thousand to two hundred thousand.

MR. GAMBLE: You take in more banks.

MR. TICKTON: It goes up because you take the total deposits instead of time deposits.

H.M.JR: The total is a much broader base than time deposits.

MR. BELL: You may get thirty-five million for time deposits and seventy--

MR. GAMBLE: The only difference between that and a direct bank offering is, if you do it during the Drive when the formula is not too far departed from the formula adopted in the two previous drives, there doesn't appear to be too great a difference. The banks will know the difference and will appreciate the difference, and it would create a very good feeling.

H.M.JR: This way you are including all banks.

MR. GAMBLE: Yes, and one billion six of it would go to little banks, and about two hundred million would go to the big banks.

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H.M.JR: What do you think, Dan?

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

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

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

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

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

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

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

MR. BELL: You don't--

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

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MR. LINDOR: Last year when we had direct and indirect offerings that didn't seem to stop them a bit--the indirect didn't seem to stop them a bit; they just went out and got that much more. We offered them three billion dollars in October after the Third War Loan in '43, and I didn't see that it made any difference whatever as to what they went out in the market for.

H.M.JR: Say that again.

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

MR. BELL: They will.

MR. LINDOR: You have increased your bank financing.

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

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

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

MR. BELL: You may not get more money, or you may get as much.

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

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

MR. GAMBLE: I think that is the strongest argument in the world for indirect bank financing, because they say you won't get any less than direct, and you may get more.

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

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

MR. LINDOW: If you deduct the corporate quota, Ted's seven billion quota is a drop of two billions in the corporate quota. You are also talking about the insurance company allotment. It seems you are taking three steps there; at least you are taking some steps to cut down indirect. One is, you are cutting down any long-term issue. That ought to have some kind of effect on indirect. Another issue cutting the corporate quota from nine billion to seven and cutting down some of the quota pressure which has been a significant factor--the insurance companies, whether or not you put an allotment on them, will do less switching around under this basket, and after having come down and found out--everybody knew how much funny business they were doing--they will do less next time.

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

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

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

MR. BELL: If you got both--

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MR. BELL: And they believe you get less.

MR. HAAS: There is no proof of it.

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

W.V.JR: I am not prepared to listen.

MR. GAMBLE: I can filibuster on it.

W.V.JR: Let me ask you something before you get violent, because I am a very gentle soul. The thing that interests me is this impression of the War Finance organization--if you can be unprejudiced in your remarks, which I know you can, what effect would this have on the War Finance organization if we did the direct financing.

MR. GAMBLE: Direct?

W.V.JR: Supposing we needed money?

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

W.V.JR: Just a son of a gun. Nobody thinks he is dumb. Burgess' letter--he knows damn well the effect on you and me.

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

MR. HAAS: I thought you changed (Bell). I thought you agreed to it without the bank financing when we went on the plane trip.

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MR. GAMBLE: Dan, let me ask you a question. Do you think with the intermediate bond out of the basket there is any danger of getting nine million dollars of indirect bank financing?

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

H.M. JR: We can. I can have a similar meeting with savings banks.

MR. BELL: Bob Rouse has already talked to--

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

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

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

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

H.M. JR: Between people here in the room we will get hold of some Mutual Life people and some other people and have a similar meeting to what we had yesterday. That would be much more effective.

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

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

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

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

H.M. JR: It didn't make any difference?

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

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

MR. LINDON: They were getting three billion dollars, and they went out and got five billion, anyway.

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MR. GAMBLE: It proves the Treasury can make--they didn't get that at all, and you cut the corporation quota.

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

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

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

H.M.JR: You mean starting in October, just for a month. It still isn't decided. Let's say we won't have a direct bank financing, see? Let's say that for the minute and then say what we will do for the banks if we don't do that. Let's say for the minute we won't do it direct. Then we still want to do something for the banks. We want to do it the way we did last time. Let's argue about that for a minute. What is the next best thing. Because before anybody says anything I would like to--I believe the fewer changes we keep making each time between drives the better, see? You heard me say, that.

MR. BELL: It is simpler.

H.M.JR: I mean if--what was the matter with the thing we did last time for the banks?

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

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

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

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

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

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

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

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

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

H.M.JR: The two and what?

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

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

MR. BELL: They have had those before.

H.W.JR: Not this year.

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

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

MR. HAAS: It doesn't make much difference.

H.W.JR: Who was eligible last time to subscribe?

MR. GAMBLE: All banks with savings accounts.

H.W.JR: All banks?

MR. BELL: Any commercial bank with savings accounts in the type Henry--

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

H.W.JR: Is this the formula as laid down by the Federal Reserve?

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

H.W.JR: Just a minute. What is the formula we used in the Sixth War Loan, not the amount, but who could qualify?

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

H.W.JR: Yes. That was the formula?

MR. MURPHY: And that resulted in subscriptions of slightly over one billion dollars, most of which was in two percent bonds. However, they were permitted to subscribe to the F's and G's and the two's and two and one-half's. One reason for the small subscription to F's and G's is they had been offered the opportunity to subscribe to F's and G's twice before during the year, and F and G subscriptions for the whole year were limited to one hundred thousand dollars.

H.W.JR: Don't let's talk for a minute about what kind of securities we are going to offer, just the formula. What was the matter with the formula of the Sixth War Loan?

MR. BELL: Nothing, and that has been recommended by bankers to be continued.

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

MR. BELL: Yes. They recommended the same formula.

MR. GAMBLE: There is nothing wrong with that, no objection.

H.W.JR: Did anybody complain about that formula?

MR. HAAS: We just made up this other formula trying to meet the idea you had.

MR. BELL: Nobody complained about that.

MR. GAMBLE: We were just working on your idea when the other was developed.

H.W.JR: Have you any suggestion for changing the formula of the Sixth War Loan?

MR. BELL: Have I any objection?

H.W.JR: As to who can qualify.

MR. BELL: No. If we don't have direct bank financing, I would leave the formula alone.

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H.M.JR: Leave it alone?

MR. BELL: Yes, I would.

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

MR. GAMBLE: Yes, I have no objection to leaving the formula alone, but if you have--and I see some merit in this idea of doing a little more for them, I think a changed formula is a good compromise, and I think it disarms a little of the banks' argument for a direct offering, and it would further disarm them if you made it seven-eighths or one and one-half percent securities.

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

MR. BELL: It probably wouldn't give you more than one billion dollars, one billion and a quarter, I think.

MR. GAMBLE: About the maximum--

MR. BELL: That is, you might get a little more this time because it brings in for the first time this year the F and G limitation, so you might get a little more, but I should think about a billion to a billion and one-quarter.

H.M.JR: Say we had exactly the same formula as we had in the Sixth. The question is, what kind of securities should we let them have, see? We all agree on F's and G's. Is that right?

MR. BELL: That is right.

H.M.JR: Shall we let them subscribe to the seven-eighths?

MR. BELL: That is not a problem; they can get those in the market volume there and don't have to pay much premium for them.

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

MR. MURPHY: No.

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

MR. MURPHY: Yes.

H.M.JR: And let them have two and one-quarter if there is a two and one-quarter.

MR. BELL: I would.

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

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

MR. HAAS: Make a special job of that.

MR. BELL: They didn't take the two and one-half, and they can take the G bond, which is a two and one-half bond.

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

MR. BELL: The type of banks that will take the two and one-half are the ones that shouldn't have it.

MR. MURPHY: Doesn't the same thing apply to the two and one-quarter?

MR. BELL: Yes, it does.

MR. MURPHY: Very few banks pay out more than one and one-half on time deposits, anyway. And those that do are ill-advised. I feel it would be a cleaner deal if the two and one-quarter were out.

H.M.JR: How long would that run?

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MR. MURPHY: Two and one-quarter? To 1960.

MR. TICKTON: Fifteen-twenty.

MR. BELL: It would be '58-'61.

H.M.JR: Roughly?

MR. MURPHY: Either '61-'64 or '60-'65.

H.M.JR: It shouldn't be in.

MR. GAMBLE: That is the way I feel.

MR. BELL: The two and one-half was in last time, which was even a longer bond.

MR. TICKTON: They didn't take it.

H.M.JR: F and G, seven-eighths, and one and one-half's--I would be inclined to say cut it down from five hundred thousand to two hundred thousand.

MR. GAMBLE: I was going to suggest the same formula; I wouldn't change it.

H.M.JR: It means more explanation.

MR. HAAS: It looks like you are chiselling them and won't--

MR. GAMBLE: It won't mean anything, and psychologically you are going in the other direction from which you want to move.

H.M.JR: Which way?

MR. GAMBLE: It will seem like you are chiselling on them or tightening them.

H.M.JR: I would say seven-eighths, one and one-half, F's and G's, and the same formula you had last time.

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MR. BELL: That is all right with me.

H.M.JR: Murphy's looks good to me; it looks good for about one billion dollars. When you said seventeen or eighteen--

MR. GAMBLE: I wasn't counting this.

H.M.JR: You didn't count it last time.

MR. BELL: Not as part of the Drive.

H.M.JR: Why don't we do this just to save time, tell this to House, or House could tell it to Eccles, and they could be thinking about it?

MR. BELL: No bank financing except the same formula they had the last time.

H.M.JR: That is right, and it would have--we have decided it would be a one and one-half?

MR. BELL: I think we are all agreed on the one and one-half.

MR. HAAS: You haven't discussed it, but we have.

MR. GAMBLE: It is the one thing everybody agreed on, only for individuals.

H.M.JR: What did you say?

MR. GAMBLE: Only to individuals. That is out of the corporate basket.

MR. MURPHY: And the bank concurrent offering, but not the regular corporation.

H.M.JR: That won't--I am telling them now what would be for the banks.

MR. GAMBLE: Yes, that wouldn't apply to that.

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H.M.JR: No, that is the next thing in the mint. But I mean, I just thought that--well, I told Eccles we would keep him posted.

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

H.M.JR: He can be thinking about it if he wants to see me on that, you see?

It's a wonderful job I have got. I get a lot of fun out of it.

MR. BELL: Out of what?

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

MR. BELL: Rest after you go home.

H.M.JR: Under the sod. (laughter)

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

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

MR. GAMBLE: When the two comes out of the corporate basket you might get everybody to make sure they get full quotes.

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

MR. GASTON: It could run a billion three.

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

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

(Mr. Rouse enters the conference.)

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

MR. ROUSE: Good morning, sir.

H.M.JR: We are making a little headway, and I thought you might get hold of Mr. Eccles and Mr. Sproul and be thinking about it in order to save time; and if they want to see me, at least they will know as I move, you see? They said they would come out of their meeting, but the thought is on bank financing that we have all come to an agreement here that we don't want any bank financing. Not counting anything from any banks, we figure we will get seventeen in this, according to Gamble. And we would start the 1st of October with five and one-half billion on hand.

MR. ROUSE: The 1st of October?

H.M.JR: The 1st of October. And then we figure we would like to start another drive similar to this one in October, covering October, November, and December. What we are thinking of is using exactly the same bank formula as we had in the Sixty.

MR. ROUSE: Five hundred thousand dollars?

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

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

MR. BELL: Cut out the two and one-half.

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

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MR. ROUSE: I think it is a mistake to omit bank financing myself.

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

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

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

MR. BELL: I have included the old formula.

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

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

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

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

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

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

MR. ROUSE: I will.

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

MR. ROUSE: I will go ahead.

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

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

MR. BELL: They recommended that.

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

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

MR. ROUSE: It takes that much off.

MR. BELL: If it is higher--

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

MR. ROUSE: I will call them.

H.M.JR: Then they will know, and they can be thinking about it, but I can't see any excuse for offering the banks three billion dollars. We don't need the money. Other than doing it the way we did it in the Sixth War Loan--and you say in your District there were no complaints about the formula.

MR. ROUSE: No as far as the formula is concerned, just the way you get it from the banks. That was our reason--

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

(Mr. Rouse leaves the conference.)

H.M.JR: They are working right below here on posters. Do you want to drop down a minute or stay here?

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MR. GAMBLE: I want to stay here. I don't want to lose any ground. (Laughter)

(Secretary leaves the conference temporarily.)

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

Now, are you all right, Henry on that?

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

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

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

H.M.JR: What was that?

MR. MURPHY: While you were out.

MR. BELL: Bank financing.

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

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

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

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

H.M.JR: You are satisfied?

MR. BELL: Yes.

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

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

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

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

MR. GAMBLE: April 9.

H.M.JR: April 9?

MR. BELL: For E bonds.

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

MR. GAMBLE: April 9 to July 7.

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

MR. BELL: No.

H.M.JR: That is settled.

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

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

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

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

H.M.JR: Excuse me.

MR. GAMBLE: The way we wanted the press release phrased for the Drive is, "The formal period of the Seventh War Loan is May 14 to June 30, with the corporation end of it starting June 18. Instead of making a distinction

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between the drives to make it appear as though we are going to have individual drives, close one and go out of business and have the corporation drive and open it.

H.M.JR: All right?

MR. BELL: Sure.

H.M.JR: Well, that takes care of that part. Now, we have got to talk about how much the individual drive is going to be for.

MR. GAMBLE: Seven.

H.M.JR: Four and three. Is there any question on that?

MR. BELL: No, we all agree, four and seven.

H.M.JR: And other than individuals is how much?

MR. GAMBLE: The Chairman recommended seven.

H.M.JR: Yesterday you said six.

MR. GAMBLE: I tried to sell six, but I was not successful. New York, Ohio, Pennsylvania--we spent a couple of hours on it, and they persuaded me at least that their position was one that should win the consideration psychologically, and they want seven and seven.

MR. TICKTON: For the Seventh.

H.M.JR: I don't play crap; seven is good when you play crap.

MR. BELL: When you get them. (laughter)

H.M.JR: What is a shell in a crap game?

MR. GAMBLE: There is a shell game.

MR. TICKTON: A shell in an auction sale is a come-on person.

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H.M.JR: A shell?

MR. GAMBLE: Not a shell--a finger man.

MR. BELL: I didn't have any strong feelings on it yesterday; I hoped it would be six, because I thought it would look good for the corporation drive, not only the reduction, but it would be below--the corporation goal would be below the goal for individuals. I like that.

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

H.M.JR: I don't care. Do you?

MR. BELL: I think it means you have got to get some money from the banks indirectly in the corporate drive, because--

MR. GAMBLE: Which we know we are going to get, anyway. Insurance savings, three billion, nine, corporations four billion two.

H.M.JR: How much was it last time?

MR. GAMBLE: Twenty-one billion.

H.M.JR: What had we asked for?

MR. GAMBLE: Nine and five, fourteen.

H.M.JR: The war is costing just as much. It is a mistake to ask for less, and it is a month longer.

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MR. BAAS: That is another argument for it.

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

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

MR. BELL: All right. Seven?

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

Any question about one and one-half's?

MR. BELL: No.

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

MR. BELL: I haven't heard any.

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

MR. BAAS: There used to be, but it's all over.
(Laughter)

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

MR. BELL: We have agreed to this. That was the original recommendation that the one and one-half percent security be eliminated from the corporate basket.

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MR. GAMBLE: That is the big step you are taking.

H.M.JR: But the corporates can take the two and one-quarter.

MR. GAMBLE: Yes, but banks couldn't get them.

H.M.JR: I see, and the banks can't get them.

MR. BELL: If they buy them in this Drive, the only place they can sell them is in the restricted market like insurance and savings.

MR. GAMBLE: That is the most courageous decision ever made.

H.M.JR: I feel courageous.

MR. GAMBLE: They both serve the same purpose.

H.M.JR: Corporations cannot buy them?

MR. GAMBLE: That is correct.

H.M.JR: So they can't buy them and sell them to banks.

MR. GAMBLE: They won't be in the basket.

H.M.JR: The thought I had on this is, this would be the simplest way, simply say that these aren't eligible to the banks until they only have ten years to run.

MR. BELL: That is the way.

MR. GAMBLE: That is just about it.

MR. BELL: The two and one-half's ought to be fifteen years before the banks can own them, and the two and one-quarters ought to be ten years from the issue date.

H.M.JR: No, but these securities must have only ten years to run before they become eligible to the banks.

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MR. MURPHY: You mean to maturity?

H.M.JR: Yes, to maturity.

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

H.M.JR: The same.

MR. BELL: If you have, say, 1960 just for argument's sake, the banks could buy them in 1950, five years from now? Wouldn't it be a good thing to turn it around the other way and say they can't buy them until ten years from issue date so that would be 1955, and then you would have five or six years to run from there on, the banks could run them?

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

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

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

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

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

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

MR. HAAS: Murriner would like to have them never eligible.

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H.M.JR: He was satisfied yesterday on the two and one-quarters.

MR. BELL: I think that is right.

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

MR. BELL: You do?

MR. TICKTON: How long?

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

MR. HAAS: I think that is smart.

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

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

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

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

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

H.M.JR: "The announcement should, however, state that the maturities on the 2 1/4 and 2 1/2 per cent bonds will correspond approximately with the last previous issues of such securities, with allowance for the lapse of time. It is suggested that the Treasury consider lengthening the period during which these securities are ineligible for bank purchase. The maturity of the 1 1/2 per cent securities would be determined in relation to the level of the market after the announcement and at the time of the offering."

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Oh, that doesn't--they are advising me. I am not going to say that at all in the announcement; we will simply say it verbally; it won't be in the form of writing. Within a few days we will decide what the maturities will be.

MR. HAAS: But that next sentence does take the bloom all off.

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

MR. TICKTON: Is this memo?

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

MR. LINDON: Good.

MR. TICKTON: We all agree. (Laughter)

H.M.JR: I mean that sentence.

MR. BELL: I don't think you have to say it when you announce it; without a maturity date the bloom is gone.

MR. MURPHY: I think most people will read that sentence into it.

MR. BELL: You don't have to announce it, but I hope it doesn't go further. I don't think it will.

MR. MURPHY: When flowers droop, they droop fast.

H.M.JR: When I get through I have a suggestion I want to make.

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

Number five, that war loan--I don't understand it, anyway.

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

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

MR. BELL: O.K. I like fixing the maturity date. I don't like to go back, but I think it puts a peg on--

H.M.JR: I don't want a peg.

MR. BELL: I would like to have a seven-year call date.

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

MR. BELL: But I don't think--

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

MR. BELL: I don't think there is any doubt about that in the next forty-eight hours.

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

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

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

MR. BELL: I think if you fixed the maturity date--you would have to take the bloom off by fixing it anyway.

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H.M.JR: Then I will be accused of snoving it down.
Look, Dan--

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

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

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

MR. BELL: You are saving yours? It must have been
the elbow.

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

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

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

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

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

MR. BELL: Yes, and if we want it next week, we can
call them and say we want to increase it and discuss it
earlier than what they propose. There will be a lot of
discussion.

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H.M.JR: What else is there besides that? Have we
covered the whole thing?

MR. GAMBLE: Yes, that is the end of it.

H.M.JR: Now, the only thing that I have got in mind
is this--

MR. BELL: There are two other things; one is we
decided the bank participation on the F and G's, and the
other--and I assume from your statement yesterday about
the insurance companies that you want to grant them defer-
red payments for sixty days.

MR. MURPHY: Just insurance companies, or the same
classes of investors?

MR. BELL: The savings banks are in there. I suppose
it would be rather--

MR. HAAS: Like we had last time?

MR. BELL: It would be difficult to take them out now.

H.M.JR: Did we do that?

MR. MURPHY: For quite a class of investors, insurance
companies, State and local governments.

MR. BELL: The same class as we had before. That is
what I meant to ask a question on.

MR. LINDAW: Savings banks have used that. I hope
we can talk to them and tighten that up.

MR. MURPHY: With the one and one-half out now there
wouldn't be much opportunity.

MR. LINDAW: They might move out two's and buy two
and one-quarters, Henry.

MR. TICKTON: Part of the discussion ought to be on
their abuse last time so they will know what we know about
them.

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H.M.JR: Now, I have got a suggestion to make. If we are so near agreement, I think that we could just verbally tell this to the press this afternoon for tomorrow morning's papers after the market closed and gain a day and stop-- I mean, everybody has talked about so many rumors.

MR. GAMBLE: It would be wonderful.

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

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

H.M.JR: Well, the three of us--

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

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

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

H.M.JR: We will get the story out.

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

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

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

MR. GAMBLE: I would support it with that.

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H.M.JR: Why don't I do this?

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

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

MR. BELL: That is all right.

H.M.JR: What will give you another hour.

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

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

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

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

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

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

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

MR. GAMBLE: Three o'clock today?

H.M.JR: I have Cabinet, you see.

MR. GAMBLE: He said after the market closes.

MR. BELL: You could have Marriner do it.

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H.M.JR: What do you think

MR. BELL: It is a good idea.

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

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

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

Which way can I shut them off quicker.

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

H.M.JR: I will ask just for Mr. Eccles.

MR. GAMBLE: We are more closely together with them than we have ever been.

MR. HAAS: Yes, closer than we have ever been.

MR. GAMBLE: Yes.

H.M.JR: Do they know the one and one-half is not available to the corporations?

MR. GAMBLE: They recommended that.

(Mr. House enters the conference.)

H.M.JR: Sit down, Bob. Have you had a chance to speak to anybody over there?

MR. ROUSE: I talked to Mr. Sproul.

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H.M.JR: I am trying to get Mr. Eccles now. The only difference we have now is--

MR. ROUSE: Bank financing? Good.

MR. BELL: The goal of fourteen instead of twelve.

H.M.JR: I wrote you a memo about this luncheon Saturday. I would like to know who is coming and all about it. You will find it on your desk.

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

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11:17 A.M.

HMJr: We're here with our group. You're on the loud speaker, and House is here.

Marriner Eccles: Yes.

HMJr: I don't know whether you want to come over or whether you'd like for me to tell it to you on the phone, whichever you would prefer. The only difference is on the question of direct financing for the banks. Everything else I think we're in agreement.

E: Uh huh. Well, of course, that's -- that's pretty basic because if you only expect to get twelve billion

HMJr: No, we're going to ask for fourteen, seven and seven.

E: Oh, yes. Well, of course, it means the banks are going to have to take indirectly, and our point was that it would be a little bit more -- it seemed to us a little bit more honest and a little more -- better policy, if we recognize what the situation is that has developed.

HMJr: Well, there are two things. The first, we wanted to ask for as much money as we did last time, which is fourteen....

E: Yes.

HMJr: because with the Government spending as much for the war, it would be difficult to explain if we asked less, so we thought we'd ask for the same amount, seven and seven. And then if we add that, and not counting on anything from the banks -- I mean, if we do this proposal the way we did last time -- and figuring we'd get a minimum of seventeen, we'd go into the first of October with five and a half billion dollars.

E: Well, that's getting, of course, about four billion less than you got last time....

HMJr: Yeah.

E: ... in the drive.

HMJr: Yeah.

E: My -- my point is you -- you get the seven billion from the individuals. They've got the money.

HMJr: Yeah.

E: And the seven that you propose to get from the corporations -- they haven't got the money without reselling what they've got to the banks, so that what will happen is, the banks will get at least two billion of the seven and then any oversubscription you get -- if you get instead of seventeen -- instead of fourteen billion, you get seventeen billion, which is your oversubscription

HMJr: Yes.

E: I think you'll find the banks will get at least three of that, and it would be my judgment if seventeen billion is raised

HMJr: Yeah.

E: that you'll end up with at least five billion of that in the banks.

HMJr: Well, that would be four billion less than last time.

E: Well, that's right, but that will be four billion less than you will have also raised -- four billion less than you did last time.

HMJr: That's correct.

E: So that it was our thought that to the extent you could reduce the indirect financing by giving the banks the three billion direct, we could then insist that the bank play ball and not try to come in through the back door by getting the corporations to put in heavy subscriptions for the certificates, which they will do to get the seven billion. You will find there will possibly be two billion more subscriptions on the corporations to the certificates which they will immediately sell out certificates they now own at a premium.

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HMJr: Yeah.

E: In order to take two billion -- the two extra billion up to the seven billion in.

HMJr: Well, you know we've taken your suggestion which is a very important one, about the 1-1/2s -- not making them available to corporations.

E: Well, I think -- I think this is a big improvement. Now, there isn't any question that the 1-1/2s, as compared with the 2 last time is going to be a big improvement and will help cut out the free riding.

HMJr: And -- the boys just gave us a note -- they say that the corporations have about four billion dollars new money on hand, and the insurance -- savings banks and insurance

E: We figured three.

HMJr: They say about another four.

E: They really think they can get that out of the corporations?

HMJr: They think so, yes. They say there's four billion three and there's another four billion in the insurance and savings banks, so there's eight there.

E: Well, I -- I -- I hope we can get more out of the corporations and they won't sell to the banks. It would be just my judgment that this is what you'd get

HMJr: Well

E: I would make this -- that you would get from the individuals instead of seven billion -- you'd get more than seven and possibly get eight billion. You'll get at least a billion to two billion more in 1-1/2s that will go into the banks through the individuals. You'll get from the corporations instead of seven billion, you'll get eight or nine billion, and you'll get at least a couple of billion to three billion more in certificates that would go into the corporations. I think really what this does as against direct bank offering, it just means, of course, that the individual and the corporation

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E: Will take more and the banks will get them indirectly. Now, that -- that's why we made this recommendation. I do say this, that the program is a big improvement over the others. It hasn't got quite as far as we'd like to see it.

HMJr: Well, now, did Boroul tell you about the thought -- how we would handle the banks?

E: In what way?

HMJr: Well, the formula will be just the same as last time.

E: Well, except

HMJr: Except that we would offer them the F and Gs, the 7/8s and the 1-1/2s, but nothing else.

E: Well, you -- you mean -- you mean the System to take up the 10% or 500,000

HMJr: Yes.

E: with a limit -- with a limit of 100,000 in the -- in the F and Gs, which would mean that the banks that took more than 100,000 would -- would have to come in on the 7/8s or the 1-1/2s.

HMJr: That's right.

E: Well, that helps -- I mean, that would help the small -- that will help the banks up to 500,000.

HMJr: That's right.

E: And if the big banks will not be running -- here's the thing that -- if you're going to do it this way, this is -- this is -- it seems to me that this is going to make a very strong market in the 1-1/2s, and I would suggest that you don't price them -- I mean that you don't announce them -- the maturity with the announcement in the basket.

HMJr: No, we're -- we're following that suggestion, and we both had that idea. I had it and you people had it, and we're going to announce, and then -- not announce how long it will mature until we get a chance to see.

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E: For a week at least.

HMJr: What we're going to do is say we're going to take a number of days. We're not going to say how many days.

E: Now, on the

HMJr: We'll leave it open to see how the market reacts.

E: We felt a little different on the 2-1/2s and the 2-1/4s.

HMJr: Yeah.

E: We suggested yesterday to Dan and George after we went in their office, and I think we all agreed that there was no desire to push out the 2-1/2s and the 2-1/4s, and that it might be well to announce at this time that the maturity of those would be approximately in line with what it had been before.

HMJr: Yes.

E: Leaving a little leeway, but approximately. Did you expect to defer

HMJr: On the whole thing -- we -- we'll -- what we're going to do if we're in agree -- if you and I can get to an agreement -- we hope to do it at five o'clock tonight, for tomorrow morning's papers -- we'd like to stop the gossip as quickly as possible.

E: I think that's desirable.

HMJr: But we'll tell them about the coupons but not how long they run. We'll keep that open.

E: Yes.

HMJr: And then we'll watch the market.

E: Well, don't you think on the 2-1/2s and the 2-1/4s that it might be well to indicate that -- that your desire is to maintain that -- that pattern approximately where it's been?

HMJr: Well, I know what's in your memorandum. I've been studying it all morning, but what the boys here

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HMJr: Cont'd.

E: We're a little bit worried -- if we followed that sentence, that would shove them down too far, and what I compromised with them was -- was just to say we'd leave it open and see what happens.

E: Uh huh.

HMJr: I understand that Piser says that eight points a day seems to be the quota that they're putting them down -- joking, you know.

E: Well, that's what they did for two days.

HMJr: Yeah.

E: The -- did -- did you discuss this other aspect that we discussed yesterday morning on the 2-1/2s and 2-1/4s

HMJr: Yeah.

E: that they not be made eligible for bank investment for a longer period?

HMJr: Well, what we had in mind was this -- we thought that this would come within what you had in mind -- we'd simply say in announcing it that the banks could only buy these securities when they had ten years to run. Put it that way.

E: I see, and out out the

HMJr: When they have ten years to maturity, then they become eligible to the banks.

E: Yeah, well, I think that might -- that will be some improvement. Did you also discuss the -- the call -- a limit -- spreading out the call to maturity date? We talked yesterday

HMJr: No, we didn't talk about that today.

E: of instead of the five years, it was suggested here we call -- yesterday -- a ten years' spread and then Dan thought that it might be well to have a seven year, and we agreed with him.

HMJr: I guess I wasn't in the room at that time.

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E: No, this was in the -- we went out and discussed this thing for a half hour, you remember, in Dan's office.

HMJr: Well

E: But I was wondering -- they were going to discuss that this morning and we seemed to -- we agreed with him that the 2-1/2s, it might not be bad to -- to -- to widen the period between the maturity and the call date.

HMJr: Well, I -- I've been trying to do that. I've always been trying to do that, starting when I was in Farm Credit, you know. I think we had twenty years' spread there at one time.

E: Well, it's five now, and we thought ten was pushing it a little too far the first time, but we agreed that seven would -- might be a good idea to start.

HMJr: Right. Rouse got a little pale when I said a twenty-year spread.

E: Well -- (Laughs) -- he's afraid that would

HMJr: No, he says I misinterpreted. I was just being -- I didn't want to be too serious. I misinterpreted.

E: Well, we -- I think it's worth thinking about.

HMJr: I'd be interested in that, and we could discuss that next week when we see what the market does. But I've always been for a longer spread. I'd like to have a ten-year spread, on those long bonds.

E: Uh huh. That would be part of the maturity terms, of course. Wouldn't it?

HMJr: Yes, and then we wouldn't say anything about that tonight.

E: Yes.

HMJr: See? We'd leave

E: Well, I don't know that there's anything further for -- I'll talk to Alan and see if he wants to talk to you. I'll have him call you back if he does.

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HMJr: Would you do that?

E: So far as I'm concerned -- of course, I'm disappointed in that -- that the -- that the bank three billion didn't come from them, and we'd get that much less indirectly from the banks. Now

HMJr: My sales organization is violent on that subject.

E: I know. Of course, they've got an ace in the hole on this other because they'll get -- they'll get a lot of secondary market, and a certain amount of free riding, and of course, it becomes -- it becomes easier to get fourteen billion if the banks don't come in, or it becomes easier to get twelve. It -- it follows -- it's following the old pattern of a lot of indirect bank financing.

HMJr: Well

E: And it make the sales -- it make the quota, of course, easier to reach, and our whole basis is reduce the quota to the individual and the corporation and be more honest about it and get it from the banks instead of -- instead of giving the impression we're getting it by non-bank financing, when, as a matter of fact, we're not. I mean, now, that's the basic difference. However, I've stated my case and we've stated our recommendations in a memorandum.

HMJr: Yeah.

E: And -- and, of course, it's your responsibility to make the decision.

HMJr: Well, the other thing is this, we looked at the Third War Loan, and in the Third War Loan we had a direct bank financing, and we couldn't see that it made an awful lot of difference.

E: Well, I think in the Third War Loan you -- the pattern hadn't been developed or set like it -- like it has now. I mean, there was so -- there was a lot of difference at that time on the part, I think, of the General -- of the corporations and the individuals and the banks. I think at the present time the amount of free riding in the Fourth got a little worse. The amount in the Fifth got still worse, and last year, as you know, it was terrible.

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HMJr: Yeah.

E: And it -- it became that the banks -- all of them then, or more of them at least, were unwilling to follow the instructions, and those that did were sore because the fellow that broke the rules got the benefit and the fellow that played according to the game didn't.

HMJr: I know.

E: And -- and it created, I think, a bad psychology on the part of a lot of the banks, and it still is -- it still is there in the picture, but not to the extent that it would be if you had a two percent bond. I think we've improved it, as I say, by putting the 1-1/2 in, and by cutting out -- by not permitting your corporations to take the 1-1/2e.

HMJr: Right.

E: Now, I do think you've made a big improvement on it. Now, maybe next time we can -- we can cross the other bridge.

HMJr: Well, if we made all the improvements this time, we'd have nothing left.

E: Well, that's right. (Laughs)

HMJr: So we

E: Well, I'll tell you what I'll do -- I'll have Alan call you back, but so far as I'm concerned I don't know that -- it wouldn't be necessary for me to -- to meet because I've had my say, and I don't know that I could say any more if I

HMJr: Well, if Alan is going to call us back, I'd like for him to do it between now and twelve.

E: I'll -- I'll -- he's in this meeting with the group and I'll call him right out.

HMJr: Well, I want to thank you very much for all your help and advice.

E: Well, we have the same interest you do.

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HMJr: I know.

E: We're in the same -- listen, we're in the same boat together. We sink or swim.

HMJr: I know that. I know that. I appreciate the time and thought you have given on it.

E: Well, I'll call Alan and have him -- see if he wants to talk to you.

HMJr: Thank you very much.

E: All right, Henry.

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H.M.JR: He is very reasonable.

MR. MURPHY: When I am in a boat I prefer neither to sink nor swim. (Laughter)

H.M.JR: When I get into a boat I just want to float, period. I think you can start your boys, and will you tell Shaeffer we will have a press? Will you take care of that?

MR. BELL: Yes, I will have Shaeffer in right after luncheon on the press statement.

H.M.JR: I would like Mr. Gamble to be here. Would you like to bring in anybody from your organization?

MR. GAMBLE: Nobody other than Coyne if I can bring him. I think not. I think Shaeffer--

MR. BELL: Five o'clock. Do you want to see us before just to read over the statement? We had better go ahead and have it mimeographed.

H.M.JR: I don't want to see it, because I am not getting confused. And if you could see the dealers before the market opens tomorrow morning--

MR. ROUSE: I will have Marriner see them late this afternoon.

MR. BELL: Four o'clock this evening, or something like that.

H.M.JR: See them at four.

MR. ROUSE: About half past four.

MR. BELL: After the market closes.

H.M.JR: San Francisco is closed, isn't it?

MR. ROUSE: San Francisco is still open.

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H.M.JR: Would you mind not seeing him until five o'clock?

MR. ROUSE: I could see him the first thing tomorrow morning. We could have a meeting with the group.

H.M.JR: Either five o'clock or the first thing in the morning if that is all right with you. There is three hours difference, and the market doesn't close until four. Let's say tomorrow morning.

Thank you very much.

Eccles & Sprue

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March 1, 1945

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

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

1. That the Seventh War Loan Drive be divided into two distinct parts, the first for individuals and the second for other nonbank investors, and that the goal for the second part be placed at 5 billion dollars. The suggested dates, May 14 - June 16 and June 18-30, are entirely satisfactory.
2. That the Treasury announce at the present time that the offerings in the individual drive, in addition to savings bonds and savings notes, will consist of 7/8 per cent certificates, 1 1/2 per cent securities, and 2 1/4 and 2 1/2 per cent restricted bonds and that the offerings in the second part of the drive will consist of the same securities, except for the exclusion of Series E savings bonds and the 1 1/2 per cent securities.
3. That no announcement be made at the present time of the maturities of any of the issues included in the drive. The announcement should, however, state that the maturities on the 2 1/4 and 2 1/2 per cent bonds will correspond approximately with the last previous issues of such securities, with allowance for the lapse of time. It is suggested that the Treasury consider lengthening the period during which these securities are ineligible for bank purchase. The maturity of the 1 1/2 per cent securities would be determined in relation to the level of the market after the announcement and at the time of the offering.
4. That the Treasury also announce at the present time that, after the end of the corporate drive, it will make a direct offering of 1.5 billion dollars of certificates and 1.5 billion of 1 1/2 per cent securities to commercial banks. Subscriptions would be limited to a proportion of capital and surplus or a proportion of deposits, with the objective of limiting total subscriptions to not far in excess of 3 billion dollars. All subscriptions for \$50,000 or less for each issue would be accepted in full. This would make it unnecessary to continue offerings to commercial banks on the basis of their time deposits.
5. That the Treasury limit the amount of war loan deposits held by any one bank to 30 per cent of its deposits, other than war loan deposits, and that the collateral pledged to secure such deposits be confined to U. S. Government securities.
6. That the Treasury continue to increase the outstanding amount of Treasury bills by 100 million dollars a week until the completion of the

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full cycle and that the question of continuing this increase be reexamined at that time.

The separation of the drive into two distinct parts, one for individuals, partnerships, and trust accounts, and the other for other nonbank investors is in line with our earlier recommendations and has our full endorsement. We feel also that the increase in the quota for the individual drive will place individuals and the selling organization under substantial, but not impossible, pressure. It is recommended that the quota for other nonbank investors be decreased to 5 billion dollars, which would make it unnecessary for these investors to sell any of their existing holdings. The selling organization should be instructed to discourage the making of quotas by selling from existing holdings. It would be expected that between 3.0 and 3.5 billion dollars of this total would be obtained from insurance companies, mutual savings banks, and similar institutions, this amount representing their accumulation of funds. The remainder would come principally from corporations.

A maximum rate of 1 1/2 rather than 1 3/4 per cent on unrestricted securities would have a number of advantages. The lower rate would reduce the interest cost of the debt and retard the growth in bank earnings. It also would reduce the temptation for commercial banks to arrange for indirect purchases and would reduce the amount of free-riding and speculation. At the same time, it would not be likely to reduce materially the demand from individuals.

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

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

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

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

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from Harry Murphy

Criteria for An Offering of Securities
to Banks Concurrently with the Seventh War Loan

You asked us to suggest a method by which an offering of long- or medium-term securities might be made to commercial banks concurrently with (but not as a part of) the Seventh War Loan, in such a manner as to favor distinctly the smaller banks and possibly to exclude the larger banks altogether.

If all commercial banks were permitted to subscribe for a new offering of Government securities in an amount equal to 10 percent of their total assets, but not in excess of \$200,000 for each bank, the total potential subscription would be about \$1.8 billions. This compares with an actual subscription of \$1.0 billion to the concurrent offering of securities to banks, based on their time deposits, made at the time of the Sixth War Loan.

Of the total potential subscription of \$1.8 billions permitted by the formula just described, only about \$200 millions would be allowed to the approximately one thousand largest banks in the country, which hold over 75 percent of total deposits; while the remaining \$1.6 billions would be allowed to the smaller banks.

The formula just described does not exclude the larger banks altogether. We do not believe that this would be wise, for the following reasons:

- (a) It would present a difficult "notch" problem -- i.e., a bank just over the limit would be substantially worse off than a bank just under it. This could be obviated only by an arbitrary and complicated "notch" provision.
- (b) Eliminating the larger banks would appear arbitrary and might very well be the target for significant criticisms.
- (c) Substantially the same purpose can be achieved by means of a "ceiling" as here suggested, since a \$200,000 subscription means a great deal to a small bank and a very little to a large bank.

February 27, 1945

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March 2, 1945
11:57 a.m.

Operator: Go ahead.

Alan Sorouf: Hello.

HMJr: Hello, Alan.

S: Good morning.

HMJr: How are you?

S: Fine. Harriner has been talking with me and telling me of his conversation with you earlier.

HMJr: Yeah.

S: And I agree with what he said to you, and thought I might emphasize one or two points.

HMJr: Please.

S: First, we see the desirability from your standpoint and from the standpoint of the sales organization of perhaps having a fourteen billion quote....

HMJr: Yeah.

S: But we also see that you expect to get at least seventeen billion, and that any way you figure it, it looks to us as if there's going to be three billion of bank money in the financing; and that therefore, we still think it would be better to get at least that three billion by a direct offering to the banks.

HMJr: Yeah.

S: And in that way you'd be likely to have less bank money in the whole financing, rather than more bank money. Second, we had understood that one of the slogans of the Drive, or one of the underlying bases of the Drive was "Don't sell to buy".

HMJr: Don't sell to what?

S: Don't sell securities in order to buy securities in the Drive. In other words, to reduce shifting and switching.

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HMJr: Yes.

S: But if you're going to have three billion of indirect bank financing of the Drive as we think you can't avoid with a seventeen billion Drive, that then it will be impossible to have that sort of a program because to the extent of three billion, at least, you're going to have switching, and you can't say, "Well, switch up to the three billion, but don't switch beyond that." You'll probably have switching of four or five or six billion because it's impossible to say, "Don't switch to buy" -- "Don't sell to buy", so that we still think it would be better to have the fourteen billion quote, and go out after it with all the pressure we can, and to get it without selling to buy, and to get the other three which is going to have to come from the banks in any case, directly from the banks.

HMJr: Well, I'm very glad to get your opinion.

S: Right.

HMJr: I hope you don't -- won't be angry if I don't follow it.

S: Well, I never have been.

HMJr: All right, but I gave Harriner all the reasons. I don't know whether he repeated them.

S: Yes, he did.

HMJr: And our bank balance is so we don't need it -- our cash balance.

S: No, I know you don't need the money, but you're going to get it in any case. You're going to get seventeen billion, approximately. That -- all the estimates agree, and whether you

HMJr: Well

S: you get it directly or indirectly, you're going to get three of the seventeen, at least, from the banks.

HMJr: Well, Harriner thinks the whole program is a big improvement. I hope you do, too, even though we don't offer the banks anything direct.

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S: I do think it's an improvement. I think if you don't come to a direct offering this time, you'll come to it next time.

HMJr: Well, thank you very much for calling.

S: All right.

HMJr: I'll be seeing you.

S: Righto.

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March 2, 1945
4:18 p.m.

HMJr: ... around four o'clock this afternoon with my remarks for the House -- Ways and Means.

Herbert Gaston: He was in to see me yesterday with an outline which we discussed, and he discussed with Harry and others, and said he would be in today with a draft.

HMJr: Well, would you ask DuBois -- Loth -- I mean Fussell -- I don't mean Fussell -- Luxford.

G: Yes.

HMJr: He's supposed to have been in here at four.

G: Yes.

HMJr: I'd like very much to have you see him and Fussell see the thing.

G: Yes.

HMJr: I've been planning to start in tomorrow morning at nine-thirty on it.

G: Yes. Yes. You'd like us to see it today, and then you'll talk to us about it tomorrow?

HMJr: At nine-thirty.

G: Yes. All right.

HMJr: Tell that to Loth.

G: I'll do that. Yeah.

HMJr: But I just -- I want to be sure that if he's around the office, that you get hold of him now and you and Fussell familiarize yourselves with it.

G: Correct.

HMJr: Thank you.

G: Yeah.

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March 2, 1945
4:55 p.m.

PRE-PRESS

Present: Mr. D. W. Bell
Mr. Gaston
Mr. Gamble
Mr. Shaeffer
Mr. Coyne
Mr. Fussell
Mrs. Klotz
Miss Chauncey

H.M.JR: Now, where is Mr. Bell?

MR. GASTON: This is the whole thing here.

MR. SHAEFFER: Everything but maturities.

H.M.JR: Are the boys here?

MR. SHAEFFER: Yes.

(Mr. D. W. Bell, Mr. Gamble and Mr. Coyne enter the conference.)

H.M.JR: Hello. Do you want to sit on that side?

MR. BELL: There's the basket, and these lines show what is left out of the corporations, and on bank investors, and this is sort of different from any other drive that we have had.

H.M.JR: All right, that's very good.

All right, Bell, do you think it is necessary to call his attention to the little mixup?

MR. BELL: There is a little that I might show to you. This phrase here, "To obtain maximum funds necessary to prosecute the war from non-bank investors," that ought to be up after "attained". It can't be misread.

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H.M.JR: Well--

MR. GASTON: It isn't wrong, it is just a case of preference.

MR. BELL: Well, it sounds funny.

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TREASURY DEPARTMENT
WashingtonPress Service
No. 48-35FOR RELEASE, MORNING NEWSPAPERS,
Saturday, March 3, 1945.

Secretary Morgenthau announced today the types of securities to be sold in the Seventh War Loan Drive and the periods during which intensive campaigns will be conducted to sell these securities to the various classes of investors.

The goal for the Seventh War Loan has been set at \$14,000,000,000, of which \$7,000,000,000 is to come from sales to individuals and \$7,000,000,000 from other non-bank investors. Again the major emphasis throughout the entire Drive will be placed on the quote for individuals, which is the highest established in any of the war loan drives. Of that quota, \$4,000,000,000 has been established as the goal for Series E War Savings Bonds, which is also the highest quota established in any drive for that security.

The goal and the securities to be offered were determined by the Treasury after full discussion with various groups, including chairmen of the State War Finance Committees, officials of the Federal Reserve System, members of the American Bankers Association, representatives of insurance companies, and other investment authorities.

The Secretary stated that there is every evidence that Federal expenditures are going to remain at a high level for some time to come, and that the Seventh War Loan program was designed to obtain maximum funds necessary to prosecute the war from non-bank investors.

The securities, which will be sold under the direction of the State War Finance Committee, are as follows:

Series E, F and G Savings Bonds
Series C Savings Notes
2-1/2% Bonds
2-1/4% Bonds
1-1/2% Bonds
7/8% Certificates of Indebtedness

(The 1-1/2% Bonds will not be offered in the Drive to corporations)

The Drive for individuals will extend from May 14 to June 30. However, an intensification of activities in the

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The Treasury requests that all non-bank investors refrain from selling securities heretofore acquired to obtain funds to subscribe for the securities offered in the Seventh War Loan Drive. However, this request is not intended to preclude normal portfolio adjustments.

Life insurance companies, savings institutions, and States, municipalities, political subdivisions and similar public corporations, and agencies thereof, will be permitted to make deferred payment, at par and accrued interest, for the 2-1/4% and 2-1/2% marketable bonds allotted to them, up to August 31, 1945.

During the period from June 18 through June 30 commercial banks, which are defined for this purpose as banks accepting demand deposits, will be afforded an opportunity to subscribe for Series F and Series G savings bonds, and for the 1-1/2% bonds and the 7/8% certificates offered in the drive, in aggregate amounts not exceeding \$500,000 or 10 percent of the time deposits (of which not more than \$100,000 may be Series F and Series G savings bonds) under the same formula as was used during the First Drive. Securities so acquired by the banks will not be included in the Drive nor will they be counted toward any quota.

Commercial banks will not be permitted to own the 2-1/2% or the 2-1/4% marketable bonds offered in the Drive until within ten years of their respective maturity dates.

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- 2 -

sale of Series E bonds will begin April 9, when millions of persons on payroll savings plans throughout the country will be asked to enlarge their participation as a part of the Seventh War Loan. All Series E, F and G Savings Bonds and Series C Savings Notes processed through the Federal Reserve Banks between April 9 and July 7 will be credited to the Drive.

During the final phase of the Drive which will cover the period from June 18 through June 30, subscriptions will be received from all other non-bank investors for the 2-1/4% and 2-1/2% marketable bonds and the certificates of indebtedness.

The Treasury will request that there be no trading in the marketable securities and no purchases of such securities other than on direct subscription until after the closing of the Drive on June 30.

To avoid unnecessary transfers of funds from one locality to another, the Treasury again urges that all subscriptions by corporations and firms be entered and paid for through the banking institutions where funds are located. This request is made to prevent disturbance to the money market and the banking situation. The Treasury will undertake, as in the Sixth War Loan Drive, to see that statistical credit is given to any locality for such subscriptions as the purchaser may request, except that subscriptions from insurance companies will be credited to the State of the home office as in the past. The Treasury appreciates the substantial cooperation it has received in this respect.

In order to help in achieving its objective of selling as many securities as possible outside of the banking system, the Secretary will request the cooperation of all banking institutions in declining to make speculative loans for the purchase of Government securities, and in declining to accept subscriptions from customers which appear to be entered for speculative purposes. The acquisition of outstanding securities by banks on the understanding that a substantially like amount of the new securities will be subscribed for through such banks, thus enabling them to expend their war loan deposit balances, is regarded as an improper practice by the Treasury. The Secretary will request banking institutions not to make such purchases, and not to make loans for the purpose of acquiring the Drive securities later for their own account. The Treasury is in favor of the banks making loans to facilitate permanent investment in Government securities provided such loans are made in accord with the joint statement issued by the National and State Bank Supervisory Authorities on November 23, 1942.
(Attached)

The Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, and the Executive Committee of the National Association of Supervisors of State Banks made the following statement of their examination and supervisory policy with special reference to investments in and loans upon Government securities.

1. There will be no deterrents in examination or supervisory policy to investments by banks in Government securities of all types, except those securities made specifically ineligible for bank investment by the terms of their issue.
2. In connection with Government financing, individual subscribers relying upon anticipated income may wish to augment their subscriptions by temporary borrowings from banks. Such loans will not be subject to criticism but should be on a short term or amortization basis fully repayable within periods not exceeding six months.
3. Banks will not be criticized for utilizing their idle funds as far as possible in making such investments and loans and availing themselves of the privilege of temporarily borrowing from or selling Treasury bills to the Federal Reserve Banks when necessary to restore their required reserve positions.

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March 2, 1945

MEMORANDUM TO BE USED AS A BASIS FOR
DISCUSSION WITH THE PRESIDENT

In Reorganization Plan III which the President submitted to Congress in the spring of 1940 and which was approved by an act of Congress dated June 4, 1940, he set up in the Treasury a Fiscal Service which would embody the functions of

- (1) the financing and fiscal activities;
- (2) the Office of the Treasurer of the United States;
- (3) the Bureau of Accounts; and
- (4) the Bureau of the Public Debt.

He stated in his report to Congress that in order to assure continued effective management of this important phase of the Treasury functions, he was placing the Fiscal Service under the supervision of a career official.

This position has not been filled since it was created on July 1, 1940 as it was created in the first instance with the understanding that D. W. Bell would fill it. Mr. Bell has, since January 1, 1940, occupied the position of Under Secretary and at the same time has administered the functions of the office of Fiscal Assistant with his other duties. The duties of Under Secretary have become so burdensome that it is deemed advisable to fill the position of Fiscal Assistant Secretary at this time. It is recommended, therefore, that Mr. E. F. Bartelt, Commissioner of Accounts, be appointed to the position of Fiscal Assistant Secretary with the understanding that whenever Mr. Bell leaves the position of Under Secretary he can be appointed to the position of Fiscal Assistant Secretary and Mr. Bartelt will likewise return to his position as Commissioner of Accounts.

DWB:NLE

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Since this is a position to be filled by appointment from the career service, it is subject only to the approval of the Secretary of the Treasury, but in view of the fact that the political position of Assistant Secretary of the Treasury was abolished to make a place for the Fiscal Assistant Secretary, it is only courteous that the matter be discussed with the President before the position is filled.

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Excerpt from Message of the President of the United States transmitting Reorganization Plan No. III
April 2, 1940

The functions brought together in the Fiscal Service are all closely interrelated and are essential parts of the general functions of financing and fiscal control. The internal organization of the Fiscal Service conforms to accepted principles of financial management and provides the framework for adequate internal controls. At the same time, under the proposed plan, these functions can be coordinated more effectively, duplications eliminated, and a more efficient service provided. To assure continued effective management of this highly important and technical phase of the Treasury functions, I am placing the Fiscal Service under the supervision of a career official. The plan, therefore, provides that the Fiscal Assistant Secretary will be appointed by the Secretary of the Treasury in accordance with civil-service laws and will perform his duties under the general direction of the Secretary. This is in accord with the policy of this administration of bringing higher administrative positions within the career service. The creation of the office of Fiscal Assistant Secretary will not increase the number of Assistant Secretaries in the Treasury Department since the plan expressly provides for the abolition of one of the three existing offices of Assistant Secretary.

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B
TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

March 2, 1945

TO Mrs. Klots
FROM Mr. O'Connell

Mr. Ernst asked me to remind you to let him know when the Secretary has spoken to Nathan Strauss.

Joseph J. O'Connell jr

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TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE March 2, 1945

TO: Secretary Morgenthau

FROM: Ted H. Gamble
Julian Street, Jr.

In reply to your memorandum on the Song Writers Luncheon tomorrow (Saturday) at 1:00 P.M., attached are an agenda and notes on the eleven song writers who will attend.

The purpose of the meeting is to enlist their aid for a Seventh War Loan transcribed series of fifteen-minute radio programs and to get their ideas for other ways in which they can be useful to the War Finance Program.

The attached agenda, on which Mrs. Morgenthau has been consulted, outlines the four principle topics which you may wish to mention in an informal talk.

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Song Writers Luncheon - March 3, 1945

A G E N D A

(Mrs. Morgenthau to preside)

1. Mrs. Morgenthau - Welcomes guests and introduces Secretary Morgenthau.
2. Mr. Morgenthau -
 - A. Thanks the composers of popular music for what they have done for the War Bond Campaign.
 - B. Explains that the War Bond Campaign is more than a selling program. It is an outstanding evidence of the unity of the American people.
 - C. Asks song writers present if they will not help the Seventh War Loan and suggests they cooperate with Treasury in forming a similar song writers' committee in Hollywood.
 - D. Points out need for new war effort songs and desire, if possible, for a new War Bond song.
3. Mrs. Morgenthau - Introduces Lt. Levy.
4. Lt. Levy - outlines plans for Treasury fifteen-minute transcribed series.

PLAN: Top name singer to interview top name composer. Orchestra to play medley three of his best known songs; one to be sung by vocalist. Program to wind up with new war song related to theme of patriotism or sacrifice. Transcribed programs to be sponsorable locally. Will be produced by outstanding radio writers and directors under Lt. Levy's direction.
5. Mrs. Morgenthau - Introduces Mr. Gamble.
6. Mr. Gamble - Explains importance of Seventh War Loan and contribution song writers can make - mentions War Bond songs written by Loesser (Road to Victory), Razaf (That War Bond Man) and Johnson (That's Why I Buy Bonds).
7. Mrs. Morgenthau - Thanks Mr. Loesser for his help in organizing meeting.

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8. Mr. Lowman - Replies for song writers.
9. Mrs. Morgenthau - Adjourns meeting to Projection Room at 2 P.M.

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SONG WRITERS LUNCHEON - SATURDAY, MARCH 3, 1945Data on Guests

(Note: Most of the song writers present are lyricists rather than composers.)

- * DOROTHY FIELDS - (Daughter of Lew Fields of Weber & Fields. Author of librettos for many musical shows including the current hit Up in Central Park, first libretto Lew Leslie's Blackbirds.)

Has written lyrics for following songs:

"I Can't Give You Anything but Love" (Blackbirds)
 "I Must Have that Man" (Blackbirds)
 "Exactly Like You" (International Revue)
 "On the Sunny Side of the Street"
 "Lovely to Look At" (film Roberts with Jerome Kern)
 "I Won't Dance" (film Roberts)
 "I'm in the Mood for Love"
 "The Way You Look Tonight"

- * JOAN WHITNEY - (Used to be popular singer. Sang at Mayflower Hotel in 1938. Has teamed up as lyric writer with ALEX KRAMER, composer, who is also guest at luncheon)

Has written lyrics for:

"My Sister and I"
 "High on a Windy Hill"
 "It's Love, Love, Love"
 "Gandy"

ALEX KRAMER - (Composer)

Wrote music to songs listed above.

- ** LEO BROWN - (Lyric writer with enormous list of hits to his credit. Wrote words for songs in Scandals, Flying High, Good News; Motion Pictures "Sonny Boy", "Sunny Side Up".)

Wrote words for:

"Last Night on the Back Porch"
 "Oh, By Jingo"
 "Annabelle"
 "Whose Issy Is He?"

- * Seated beside Secretary Morgenthau
 ** Seated beside Mrs. Morgenthau

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"I'd Climb the Highest Mountain"
 "Don't Bring Lulu"
 "Just a Memory"
 "Sonny Boy" (Sonny Boy)
 "You're the Cream in my Coffee" (Hold Everything)
 "I'm on the Crest of the Wave" (Scandals)
 "My Song" (Scandals)
 "Life is Just a Bowl of Cherries" (Scandals)
 "Button up Your Overcoat" (Follow Through)
 "If I Had a Talking Picture of You" (Sunnyside Up)
 "I Want to go Where You Go" (Good News)
 "Thank Your Father" (Flying High)

**FRANK LOESSER - (Writes Words and Music)

"Small Fry"
 "Two Sleepy People"
 "Jingle, Jangle, Jingle"
 "I Get the Neck of the Chicken"
 "Praise the Lord"
 "Private First Class Mary Brown" (This is the Army)
 "Let's Get Lost"
 "In My Arms"
 "What do You do in the Infantry"
 "Rodger Young"

Note: Loesser also wrote "Road to Victory" for the War Finance Campaign.

J. ROSAMOND JOHNSON - (Negro Composer and Lyric Writer)

"Underneath the Bamboo Tree"
 "My Castle on the Nile"

Note: Johnson wrote special Sixth War Loan song "That's Why I Buy Bonds".

ANDY RAZAF - (Negro Lyric Writer and Composer)

"Sposin"
 "Honeysuckle Rose"
 "Ain't Misbehavin"
 "Stomping at the Savoy"

Note: Razaf wrote words and music for Sixth War Loan song "The War Bond Man"

**Seated beside Mrs. Morgenthau

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JOE MEYER - (Composer)

Songs:

"California, Here I Come"
 "Clap Hands, Here Comes Charlie"
 "Crazy Rhythms"
 "I Wish I Were Teina"

HEUMAN HUFFELD - (Writer and Composer)

Songs:

"As Time Goes By"
 "When Tuba Plays the Rhumba on His Tuba"
 "Let's Put Out the Lights and Go To Sleep"
 "Sing Something Simple"

SGT. HAROLD HOME - (Writer and Composer -- Pins and Needles Luncheon Follies, Stars and Gripes)

Songs:

"Franklin D. Roosevelt Jones"
 "My Heart Sings"

ROBERT SOUR - (Writer and Composer)

"Body and Soul"
 "Practice Makes Perfect"
 "Walking by the River"

BOEING AIRCRAFT COMPANY

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SEATTLE 14, WASHINGTON

March 2, 1945

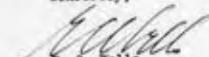
The Hon. Henry Morgenthau, Jr.
The Secretary of the Treasury
Washington, D. C.

Dear Mr. Morgenthau:

Thank you very much for your kind letter of February 21. I deeply appreciate having had the opportunity to participate in the February 18th program with you.

Thanks again, and best wishes for the continued success of your endeavors.

Sincerely,


E. C. Wells

Frank

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Mar 2 1945

My dear Mr. Grafton:

It has been encouraging to see the constructive way in which you have handled the Bretton Woods proposals. As usual, you have cut through the irrelevancies to the core of the subject, and you have made a rather complex subject understandable to the average reader. That is so very important, for the public must be brought to a full understanding of the vital issues which confront the world if we are to have real democracy in America.

We shall be glad to supply you with any available information on the subject which may be of use to you. If you should wish to talk with some of the experts on the subject in the Treasury or in the Department of State and other government agencies, I am sure that could be arranged either in Washington or in New York. Please call on us for any assistance that we can render to you and to The Post.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Mr. Samuel Grafton
The New York Post
New York, New York

RV:atch:JHRF:Eg
2/23/45

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MEMORANDUM FOR THE SECRETARY.

March 2, 1945.

Mail Report

The stepped-up pace of last week's mail continued through this week, with several current matters bringing in interesting comment. Reactions to the Treasury's support of the proposal by the Federal Reserve Bank to control inflation by taxing stock profits, etc., are given in a separate section of the attached abstract -- obviously, the score is against the Treasury. Correspondence about the Bretton Woods plans was pretty well limited to requests for further information or for simplified explanations, with only now and then an expression of approval or disapproval.

Further comments on the radio program "We, the People" were for the most part friendly, but only half of those regarding the address before the Council of American-Soviet Friendship were favorable. Four additional copies of the editorial "An Insult" by Benjamin de Casseres were forwarded, three endorsed by the senders and the fourth protesting it. The midnight curfew imposed by Mr. Byrnes provoked a few of the usual "no-more-bonds" refrains. The very recent picture of the four Marines planting the flag on Mt. Suribachi caught the attention of a number of persons who asked that it be used as a bond poster for the coming Drive.

Other mail, about both taxes and bonds, was of average volume and quite routine. There were but 3 demands for tax refunds, 5 bonds for redemption, and

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Memorandum for the Secretary.

March 2, 1945.

14 reports of delays in receiving bonds purchased by service men. Two donations were addressed directly to this office and 4 rather large ones were transmitted by the Navy.

The short month of February was also a low one in mail receipts forwarded from the White House. In all, 214 pieces of mail were received, 140 of which were rerouted within the Treasury, and 69 handled in the Correspondence Division.

L. L. Forbush

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Favorable Comments on Approval of
Federal Reserve Statement

N. M. Klein, Rafsklein Incorporated, New York City. I am in favor of your suggestion to freeze all real estate values and stock exchange securities until after the war. I am engaged in real estate work and see the evils of permitting runaway prices to prevail, with the real danger of inflation. * * * A ceiling should be put on everything. * * * If we are to hold labor to a pegged price, then it is only fair to hold capital to a pegged profit; otherwise, one or the other will tear away from its safe mooring. Inflation would be a major victory for our enemies, and we are getting closer and closer to it. As someone remarked, "Broadway is New Years every night, with spending at all-time high". If I, in my small way, can help, I would be most willing.

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Unfavorable Comments on Approval of
Federal Reserve Statement

A. Frank Greenhall, Rumson, New Jersey. You have indicated your approval of the proposal of the Chairman of the Federal Reserve Board to levy a prohibitive tax upon depreciation on farms, homes, and securities. This is most interesting to me as a home and security owner. There would be little or no incentive for me to attempt to improve the value of my property, nor would there be any value in using discrimination in the selection of an investment in a growing industry. Your motives are appreciated but the proposed method would do more harm than good.

Hugh W. Sanford, Fidelity Building, Knoxville, Tenn. The recent suggestion by Mr. Eccles, which I understand has been approved by Mr. Morgenthau, that something should be done to stop people from making money on the rise in the selling price of stocks has filled me with dismay, and I think has had the same effect on a great many other people in the United States. The psychology of the investor is being hammered into pessimism, it would seem, on every occasion when the investor has some reason for being slightly optimistic. * * * Just at the time when we had hopes that enough interest would be shown in the stock market to bring us back at least to the 1937 level, where we could get out without a loss and perhaps make a few pennies, we are informed that you two gentlemen are going to try to do something to prevent the stock market from going higher, and are ready to propose a measure by which the profit on increased values of stock will be very heavily taxed. This is quite contrary to what I regard as the wiser practice of England and Canada to place no tax whatever on capital gains, and it seems to be done with the idea of keeping people out of the stock market. * * * Personally, I think that all this is a great mistake,

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and I think that anything you gentlemen do to discourage the business man worse than he is already discouraged by what has already been done is a mistake. * * * Therefore, I hope that you gentlemen will reconsider the question of taxing capital gains, and instead of increasing the tax, I hope that you will follow the English and Canadian lead and cut out this tax altogether, which to my mind would be a far wiser course and would be for the benefit of the country in the long run. * * *

Henry A. Pierce, Jersey City, New Jersey. Really your office does the wrong things at the wrong time. I cannot understand your attitude toward the stock market at this time. As one who has saved a little money, I am naturally interested in conserving its value and not let it evaporate in inflation. I, like others, have invested in stocks with the idea of protection against this menace, which doubles daily, due to decisions -- or lack of decisions, taken by the Government. I once proposed to you the idea of a guarantee that all Government Bonds would be reimbursed at the dollar value of their origin of issue. If the average price of commodities has risen 10%, 20%, or 50%, such value will be added to the payment of the bond when turned in. This idea was turned down for some high-fangled reason. Now there is one of two things. Either the Government hold prices by O.P.A. on all commodities with the idea of controlling inflation -- which you now have the power to do -- or, you do not intend to keep down inflation and therefore want no strings tied around yourself in such guarantees, so you can permit inflation. As you turn down such a good idea, I assume you eventually might want inflation. * * * O.P.A. control of real estate is a necessity, I believe. The price of land is the basic value of all things. When it goes up, we have inflation. The stock market values are of no importance. * * *

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Tom Connally, Yonkers, New York. M. E. Eccles' suggested tax on "securities speculation" is highly discouraging to the American people who are looking for a safe place for their very hard earned reserve funds. I wish to make a counter suggestion and that is that we resolve to "throw overboard the Churchill-Roosevelt doctrine of unconditional surrender of Germany and Japan". Any sane man knows that this objective is costing us much more than its worth. Furthermore, you cannot deny that we are now fighting for Russia -- surely not America.

Robert S. Charlton, Brooklyn, New York. I am somewhat nonplussed by the proposals of Mr. Eccles, which seem to have your approval, to tax stock profits and to reduce the gold reserve held against the issue of paper money. First, if the gold reserve held against the issue of paper is to be reduced, what would that be other than inflation of a type we all are trying so hard to avoid? A tax on stock profits would simply curtail stock sales. With margin accounts buttressed at 50% where is the speculation? If the average trader can margin at 50%, he certainly can do the same at 75%, or even higher. The proposals seem to have been made without much practical sense. If common stocks can pay investors 6 and 7%, why should they buy Government Bonds paying less than 3%? * * * Let the market climb, I say, until there is a sensible relation between the prices of stocks and their yields, then we can sell more Government Bonds in competition. Just look at stock prices today and their yields against the same in 1937 and you will find not inflation but the exact opposite. There is not one of the leading industrial stocks which is not now undervalued in relation to its peacetime possibilities. * * *

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Comments on "We, the People" BroadcastFavorable

James Forsythe, The Bronx, New York City. I was interested in your address over the "We, the People" broadcast on the 18th. There were rates of interest on bonds you mentioned which puzzle me. I was speaking to a friend who claims the rate is 2 9/10%; you gave other figures. I could not make myself clear to him and it is likely I quoted you wrongly -- the spoken word over the radio is gone, unlike the press, it cannot be referred to. I would take it as a great favor if you will send me a copy.

Ira Platky, Atlantic Highlands, New Jersey. Would it interest you to know that your M.C. job on "We, the People", is considered by many as a "swell performance"? The show itself was well done, but your contribution should be a source of great satisfaction to you. I hope it may soon again be our pleasure to hear your dignified but thoroughly refreshing radio "work". With well wishes for your continued success.

Comments on American-Soviet Friendship AddressFavorable

Pfc. John J. Hastings, U.S.M.C.R., El Centro, Calif. As you can see from the enclosed editorial that great (?) American, Hearst, doesn't think much of your address on Washington's Birthday. May I, as one of the plain Americans, say I do not agree with his comments. Certainly the Russian Army has achieved great enough

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victories and lost enough good men that regardless of their political beliefs, they are entitled to our praise and respect. I have yet to hear the first Marine speak with other than admiration of the Red Army's exploits. * * * The Russian people and ours can be and must be friends if peace is to follow this war. I wish you success in your forthcoming talk. * * *

E. C. Byers, Teacher, William Penn Senior High School, York, Pennsylvania. Kindly send me 50 copies of your February 22nd address before the National Council of American-Soviet Friendship, if available, for our History and English Departments.

Unfavorable

Mrs. E. L. Crider, Pasadena, California. * * * I think the enclosed clipping is an insult to the memory of George Washington, whose birthday we revere. Wish we had more "American Firsters" like this writer. If we did, we would not be in this mess today, "Old Glory and Sickle and Hammer" -- well, that makes my blood boil, what next?

* * * * *

Comments on Detroit Address

Hume Wilson, Detroit, Michigan. Your scholarly speech at the Book-Cadillac here today was a real treat for me. At my idle moments I think of the great burden upon your shoulders during this tragic war, and I pray that the formula mentioned by you today will prevent future wars. * * *

D. E. Scott, Chicago, Illinois. If copies of your splendid address broadcast February 26 are available, please send me a copy.

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General Comments

John L. McMillan, Member of Congress, 8th District of South Carolina. * * * I have had numerous complaints from residents of my District because they were not permitted to purchase surplus war material just across the line in North Carolina. I will appreciate it if you will give me some justifiable reason as to why a rule or regulation of this nature was placed on the surplus war material. I think in a Democratic country a person should be able to purchase property from any Procurement Office in the United States if he has the purchasing price. I hope this rule or regulation can be regulated before it causes our Bureaucratic Government to receive more unfavorable criticism.

Senator Raymond E. Willis -- Indiana. * * * I am enclosing a Chinese bank note, which I wish you would return, and ask you if the fact that part of the wording on this note is in English, if there are any commitments on the part of our Government with respect to its solvency. Just what are, if any, the responsibilities of the United States, and what connections do we have with China which would impel that nation to use English in some of the printing on a note? * * *

Leslie E. Broome, Farm Adviser, Pulaski-Alexander Farm Bureau, Mounds, Illinois. Enclosed is a check for \$50.00 as a contribution which the donor would like to go for the purchase of records, cigarettes, and other things which the wounded men in hospitals need and would like to have. This money is being contributed by Mr. Arch Miller of Pulaski County, Ulin, Illinois. However, he cannot write and his

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business is handled by Mr. Ben Dexter, whose signature appears on this check. Both of these men are members of our Farm Bureau Organization and are good substantial men. Mr. Miller has two sons who are now somewhere in France, and he would prefer this money go to one of the hospitals in France, if at all possible. This money came from lunches served at a sale which Mr. Miller had at his farm. Therefore, in reality, of course, it has come from a number of people in his and surrounding communities and this is the way that he would like to have this handled. * * *

Rosenthal Brothers, Joseph Durbacher, Proprietor, Rising Sun, Indiana. We read in the Cincinnati Inquirer that the Procurement Division wants to buy some out-of-date clothing for needy people abroad from Wholesalers and Retailers. We made an offer as per enclosed copy, and received the enclosed answer. * * * Your offer must be rejected due to the fact that the quantity involved is too small to warrant consideration in this program. * * * We are willing to sell these clothes to reduced prices; if we cannot sell them to the Procurement Office, we have to sell them to some Wholesaler for a very cheap price, and he, in return, can sell it to the Office with profit -- at our cost. Do you think your Office is treating the small merchant fair? You want us who are called the backbone of the Country to buy bonds and pay all kind of taxes; we are not too small for this, and what treatment do we receive for it? The small merchant cannot buy any merchandise any more, and if there is a chance to realize some cash to bridge him over these troublesome times, he is turned down because the item is too small. We can assure you, Mr. Secretary, the item is not small for us; we bought bonds in every Drive, but if we cannot buy any new merchandise and cannot sell the old, we are unable to buy any more bonds, much as we hate to be forced to act this way. * * *

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Robert Sherman, President, Washington Industrial Union Council, Washington, D. C. Last evening Mr. Edward Bernstein of your Department gave a most informative and stimulating talk before our organization on Bretton Woods. The meeting was a Conference on Dumbarton Oaks and Bretton Woods for the purpose of informing our leadership on these important matters so they may function more effectively with their membership. We feel that you are doing a great service to the Nation in having such capable persons as Mr. Bernstein present the subject to the people.

David Greenberg, San Diego, California. On February 21 I walked into the Security Trust & Savings Bank, San Diego, California, and asked the teller to change a \$20.00 bill for four rolls of dimes. He refused to give me this service when I told him I did not have an account there, and referred me to the head cashier who, in turn, informed me that inasmuch as I had no account with their bank, it would be necessary to place a service charge for this accommodation. I have always been under the impression that there is never a charge for money exchange. " " "

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Unfavorable Comments on Bonds

E. W. Clark, President, United Home Bank & Trust Co., Mason City, Iowa. I presume I am just wasting my time in writing this letter as it will probably be consigned to the waste basket by some underling, but even if it should reach someone in authority, he probably would give it little attention as it comes from a small town banker in the Middle West who is not presumed to know very much about the affairs of finance and the State, and being from the Middle West, of course, is presumed to be complacent, not really knowing that there is a War. The mere fact that the Middle West has bought more bonds in accordance to its population than has the East; and the mere fact that thousands of its sons, brothers, and fathers have lost their lives or are now away in the service of their country does not seem to convince people that the Middle West is other than complacent. However, here goes -- I have read in numerous newspapers and magazines that the Honorable Secretary of the Treasury is considerably concerned because the banks seem to be buying the 2% War Bonds. It is the opinion of the powers that be that the rate of interest is too high and that similar bonds in the next Drive should only bear interest at the rate of 1 1/2% per annum. The fear being that because of the purchase of these 2% bonds by the banks, inflation may be the result. To a limited extent that might be true, but the danger of inflation that will be caused by the Government issuing 10-year 2% bonds rather than 10-year 1 1/2% bonds is so small as compared with the danger of inflation caused by many other agencies, such as these Government agencies that are continually being organized for the purpose of making large loans to farmers, to businessmen, manufacturers, and everyone else, and while they are making these loans that should legitimately be made through banks using up these large deposits, the money remains unloaned, and, of course, it is a constant temptation to the banker to

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buy anything that will, within reason, keep the money busy. * * * This present Administration has taken many wise steps to protect banks against any recurrence of the troubles following World War I, nevertheless, it is desirable and necessary that large reserves should be set up and if they cannot earn the money by buying the bonds, or because of undue Government competition in the banking business, they cannot set up these reserves. The FDIC cannot bear all the burden that will be theirs to bear if these reserves are not set up. Then too, there are retired people, widows, etc., who are dependent on the returns of their small amount of earnings to live. Because of so many various loaning concerns, the interest rates are down to a point where investments pay but little and where there are practically no loans to be made outside of Government Bonds, and if you cut down the interest rate on these, I do not know what these people will do, as some people barely get by now. I know that this is not a convincing argument to people with the weight of the Financial World on their shoulders, but nevertheless it is real to the common herd of bankers in the Middle West and I am inclined to think all over. I have heard a lot of them talk and they are not so hot about this idea of reducing the interest rate on 10-year bonds from 2% to 1 1/2%, simply because there is a demand for these 2% bonds by the banks and by investors generally. Well, I presume that this spasm will slip from my mind to the waste basket, but nevertheless, I will spend three cents to send it in.

International Association of Machinists, Local 1426, Sioux City, Iowa. (Telegram) Two years ago the union employees of Albertson & Company voted unanimously in favor of bond payroll deduction. Four months ago a signed majority carried favorable 5 to 1 for bond deductions. Still no cooperation on company parts. Suspect coercion and deliberate delay. Check immediately. Yours for Victory.

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Unfavorable Comments on Taxation

J. M. Miller-Aichholz, Danbury, New Hampshire. Several years ago, when I earned considerable more money than today, I purchased, in anticipation of my future tax liabilities, quite a few of your tax anticipation notes. I still have a few left, although they have reached their maturity. My tax this year was \$78.00, so I sent them a \$100.00 bond and asked them to hold the balance until the final tax for 1945 could be determined. The agent sent the bond back, quoting a ruling from your office that no bonds should be accepted in excess of the tax due. Now this seems unfair to me, as when I owe you money and pay you with a note, where you owe me money, it should be accepted and the balance refunded or credited, or there should be a way to have my bonds split into small denominations. Will you please let me have your opinion and advice on this matter?

Morris W. Lindquist, Detroit, Michigan. I am a married man with a wife and six children. Therefore, you will understand my need in the following. I filed my 1943 income tax return in January 1944, and found a sizeable refund due me. Due to cutbacks on the defense program, my pay checks have been rather small, and I have been unable to keep up my furniture payments. This furniture will be repossessed in 7 days unless my payments are made up. Now, in view of the fact that the Treasury Department owes me a refund from 1943 as well as 1944, I would like to know why I don't receive my 1943 refund. Some of my neighbors received their refund as early as last September 1944. * * *

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AA

March 2, 1945.

Memorandum

TO: Secretary Morgenthau
FROM: Mr. Gaston

The special investigation by Irej in Miami looks rather promising. He is working with Palmer, Chief of the Intelligence Unit at Atlanta, Collector Fahs and the Revenue Agent in Charge of the District and is also being assisted by the other enforcement agencies. They have listed a fairly large number of persons spending freely in Miami and are having their returns checked at their homes. Yesterday they gave out a story to newspaper reporters who have been hounding them as a result partly of Drew Pearson's broadcast last Sunday night. I think it will get a play and have a good effect.

One of the banks has informed them about an unusual transaction. A man who gives his name as Dr. Anselmo Alliegro of Havana, Cuba, opened an account in the First National Bank of Miami on December 15, 1944, with a deposit of \$4,000. Last Friday he made a cash deposit of 400 one thousand dollar bills. Most of the bills were new, were consecutively numbered and bound with currency straps. Alliegro was a member of the Cuban House of Representatives in the Machado regime, but fled at the time of the Batista revolution. Alliegro's current balance at the Miami First National is \$551,000. We are checking on the matter just on general principles.

MSG

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

FOR THE PRESS

For release in morning newspapers of
Saturday, March 3, 1945

March 2, 1945

STATEMENT BY MARRIEN R. BOGLES ON A CAPITAL GAINS TAX
TO CURB RISING PRICES OF CAPITAL VALUES

When questioned by members of the Senate Banking and Currency Committee last week as to what could be done to prevent further inflation of capital values, I reiterated my opinion that the most effective single instrument would be a wartime penalty rate on capital gains. Since the proposal, which was only briefly discussed before the Committee, has been widely misunderstood and misrepresented in some quarters, I feel that I should outline what I advocated and why.

I did not propose any change in the present capital gains tax. My proposal would apply only to the sale of capital assets (as defined under the present law) acquired during a period to be fixed by Congress. My suggestion was that this period be from January 1, 1945 until such time as inflationary dangers have passed, which might be two, or possibly three years after the war. This special wartime capital gains tax would not be superimposed upon the existing tax, but would apply only to assets purchased during this period. It would not apply to real estate, stocks or other assets acquired at any time prior to January 1, 1945. These assets, if sold, would continue to be subject to the existing capital gains tax. The special tax I have in mind would impose a 90 per cent rate on capital gains derived from the sale, within two years, of capital assets acquired during the specified period; thereafter it would diminish by 10 per cent, or more, annually until equal to the existing rate. Capital losses incurred on transactions subject to the special rate would be deductible against profits.

The special tax, like any other anti-inflation control, should be discontinued when the need for it no longer exists. Since the purpose of the special tax is anti-inflationary, revenue is not the objective and the more effective the tax, the less it would yield. However, such yield as resulted would be based on rates in line with those imposed under the wartime individual and corporate income tax structure.

The reasons for such a special capital gains tax may be summarized as follows:

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Yet these profits are just as much a result of war expenditures as are high individual and corporate incomes which are subjected to high wartime tax rates. The inequity of this situation is the more pronounced because the benefit of the tax differential accrues only to those in the higher income brackets. The smaller income taxpayers can derive no tax benefits from it. Large operators, however, -- so-called smart money -- are taking more and more advantage of the opening, and this is a principal factor at present in bidding up real estate, stocks and other capital values. It is not the bona fide investor or the small taxpayer who is applying this upward leverage to prices of capital assets. This is speculation -- not investment. It is speculation in basic essentials such as homes, or farms, or in stocks representing business investments. It adds nothing to national wealth. Such forms of gambling as betting on horse races or playing slot machines do little economic damage. But speculating in the things that people need and use, speculation that leads to disruption of production and employment, is the worst form of gambling.

4. The proposal I have in mind would simultaneously reach and discourage all such speculative transactions, whether in homes, farms, stocks or commodities, and whether based upon credit or cash -- and would do so without interference with normal, non-speculative transactions, whereas, if credit restrictions alone were applied, they would fall entirely to reach cash transactions for speculative purposes and would interfere with legitimate, non-speculative credit transactions. The bona fide investor would not be deterred either now or in the reconversion period by the proposed tax. For he puts his money into a farm, or into stocks of existing or of new enterprise for the purpose of obtaining current income and for long-range appreciation of values. It is the speculator, not the investor, who puts money into capital assets in anticipation of a quick rise in price from which a speculative profit can be realized through selling before the price breaks. However, should the investor be obliged or desire to sell while the wartime rate is still in effect, he would not be injured, since he had not purchased in anticipation of selling in order to make a speculative profit. In any event, under the proposed tax, he would be permitted to retain a profit of 10 per cent, or more, depending on how long he held the asset.

5. To the extent that the proposed tax would discourage surplus funds from going into speculative fields, to which they will be attracted so long as prices are rising, there will be that much more available to go into Government securities where they should go to help finance this war. It would appear from criticisms expressed by some of the financial press and market operators that they fear the tax would be effective in greatly reducing buying activity that might otherwise develop. That is the purpose of the tax. According to these critics, the proposed tax would dry up the market because it would deter holders of capital assets from selling. But it need not deter holders of assets acquired prior to the effective date of the tax from selling, because it would not apply to them. It would deter the buying and hence the bidding up of capital assets while the tax is in effect, and that is exactly the result desired. It is the only way to

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1. Capital values, as reflected in current prices of homes, farms, business properties and stocks, have increased sharply since this country entered the war, and are still increasing. If unchecked, this trend would undermine the entire price and wage stabilization program, with grave consequences to postwar reconversion. It would make war-financing problems more difficult and increase the cost of the war. It would make a mirage of the hopes of millions of war veterans who are counting on being able to obtain a home, or a farm, or to get started in business when they return from the front. Congress has encouraged this hope in the so-called G. I. Bill of Rights, and by providing dismissal pay and otherwise. Those on the home front have an inescapable obligation to take whatever steps may be necessary to protect the values of homes, farms and other necessities so that they will not be hopelessly out of reach of the veteran's purse. There are no war profits in that purse.

2. While other sectors on the home front have been protected by direct measures, such as rationing, allocations, price and wage controls, no effective controls have been applied to curb rising prices of homes, farms, stocks and other capital assets. The wartime expansion of liquid assets presents a vast and growing danger to those unprotected sectors. Currency, demand deposits and Government securities held principally by individuals and corporations are rapidly approaching 200 billion dollars and have nearly tripled since we entered the war. This huge inflation potential will continue to grow as long as deficit-financing continues. Unless effective action is taken to prevent these liquid funds from increasing, inflating capital values, it will become more and more difficult, if not impossible, to hold the line against inflationary price and wage increases. Veterans of the last war, especially farmers, have not forgotten the inflation and the consequent ruinous deflation resulting from failure to control a relatively small volume of liquid funds in the last war. The present volume of such funds is already four times as great as it was in 1920. The national debt is nearly ten-times larger today and is still growing.

3. The most serious gap in the line of defense against inflationary forces is the capital gains loophole in the wartime tax structure. While Congress has provided sharply progressive surtax rates, rising to a high of 91 per cent on individual incomes, and a maximum excess profits tax of 99 per cent levied upon operating profits of corporations, no corresponding curb has been put upon capital gains, which continue to be subject to prefer rates, with a 25 per cent maximum. This huge differential in favor of the capital gains tax benefits only the larger taxpayers. The bigger they are, the greater the inducement today to dispose of or refuse to put money into fixed interest-bearing obligations that return only a small yield and have little chance for a capital gain, and to put money instead into capital assets, which, when sold on a rising market, yield profits subject only to a capital gains tax of 25 per cent, or less.

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keep the prices of these assets from being bid higher and higher until the bubble bursts. Nothing would be a greater deterrent to postwar reconversion than such an inflationary rise in prices, which would inevitably be followed by a deflationary collapse. Hence nothing would do more to wreck postwar programs for full employment and economic stability on which a lasting peace depends.

6. The proposed tax is an essential wartime expedient, like price, wage and other direct measures of control that deal with the effects, not with the causes, of inflationary forces resulting from huge deficit-financing of the war. Had the public and hence the Congress been willing to deal with inflationary causes, deficit-financing would have been held to a minimum by far higher taxes and by far greater economy and efficiency in war expenditures. Some of us urged that course from the outset, but since it has not been followed, the only alternative is to deal with inflationary effects by such expedients as are necessary to hold the line so long as inflationary dangers exist. After reconversion, demand, which has so vastly exceeded supply in wartime, should be met by fully employing our manpower and material resources in peacetime production, and creation of further inflationary forces should be ended by greatly reducing public expenditures and by maintaining such taxes as are necessary to bring about a balanced budget.

I have received a few letters from civilians who fail to see why we should have either such disagreeable things as taxes sufficient to deal with inflationary causes or, alternatively, direct control measures necessary to deal with inflationary effects. On the other hand, I have also received a number of letters from men in the armed forces who hope, if their lives are spared, to buy a home or a farm. They do see, with a clarity that should be a warning, why those on the home front should do whatever is necessary to make this country's economic future secure, with all that portends for the peace of the world.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

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DATE March 8, 1945

TO Secretary Morgenthau

FROM Mr. Lee FC

SUBJECT: Exports of gold to China

1. Mr. Wang, in letter of February 26, 1945, attached hereto together with suggested reply, requests that the equivalent of \$47,500,000 of gold be exported to China. In addition, he asks for early advice on the progress being made on the minting of the \$100 million of gold tokens. In his letter of January 3, 1945, Mr. Wang requested 50 million of gold in addition to the \$100 million of tokens.
2. Since the situation in China has remained fundamentally the same and no change has taken place in the gold sales program, you will probably wish to continue the policy of permitting only small shipments of gold to China. It will be recalled that Ambassador Hurley agreed with you on the desirability of holding down gold shipments to approximately the same magnitude as in the past.
3. It is therefore suggested that arrangements be made with the Army to export to China during the next three months about 27 million of gold bars on account in the Federal Reserve Bank of New York, one-half of which would be gold acquired in payment of tin exports from China to the United States. Foreign Economic Administration has informed us that the export of gold acquired as payment for tin exports is essential to maintain tin production in China.
4. The suggested reply to Mr. Wang does not make any definitive commitments but, as soon as possible, we would inform his representatives orally that we have succeeded in making arrangements with the Army for the export of about 27 million of gold during the next three months.

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EXECUTIVE SUAN
National Government of China
Room 4201
Waldorf-Astoria Hotel
New York, N. Y.

February 26, 1945

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

Dear Mr. Secretary:

You will recall that on several occasions we have discussed the provision of gold for China, and that you kindly undertook to expedite this matter. Since shipments to China have been considerably slower than we feel necessary, I wish now to present the situation for urgent attention.

The chief present financial problem of the Chinese Government, as you know, is to finance its large and growing deficit. The Government must handle this deficit in such way that the inflation does not get out of hand — since if this took place, it would cause most serious consequences to the war effort of China and would be very harmful to the conduct of American operations against Japan in and from China. Moreover, if inflation should seriously accelerate, this condition would undermine China's economic structure, impair internal stability, make it much harder for China to reoccupy and restore the areas now in enemy hands, gravely hamper China's reconstruction and progress in the next few years, and make it much harder for China to play the part in stabilization and peace maintenance in the Far East which its Government and people wish to play and which is desired by the American Government and people.

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It is of vital importance, therefore, to reduce in every possible way the deficit financed through increase of note issue. For a little over a year, the Government has been selling gold to realize Chinese currency. In that way, we have sold from the latter part of 1943 to date over 300,000 ounces* (something over US\$30 million) -- which have realized around CH\$16 million. While exact figures are not at hand, available data indicate that this sum is equivalent to something like a sixth of the deficit in the period. The sale of gold has been most helpful, and has definitely prevented the inflation from attaining a higher level which otherwise would have been reached. It helps to check increase of the general price level by diverting to purchase of gold certain funds which otherwise would be used to buy commodities to be sold for higher prices.

The American Government, in order to help China, made available US\$200 million of gold out of the US\$500 million credit. Of this gold, the first instalment was US\$50 million. Unfortunately, deliveries of gold to China out of this US\$20 million have totalled only US\$7,476,066.00, including 40,000 ounces (out-turn being US\$1,399,947.99) delivered in New York to the Bank of England against a similar amount in India. Actual shipments to China out of this US\$20 million were only US\$3,876,118.12. Thus, shipments have fallen far short of what is needed. As a result, the Central Bank was obliged to substitute forward sales for spot sales. A black market for spot gold developed, which the Government could not control owing to lack of ready supplies. The black market price for gold has risen to around CH\$35,000 per ounce, whereas the spot price -- though no recent sales have been made -- remains CH\$20,000 per ounce. Because of lack of gold, the Government has had to print and import more notes than otherwise would have been needed, which adds to the inflation.

*The Chinese ounce in common use, called the tael or gin liang, is equal to 1,03471 Troy ounces.

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Also the Central Bank will not be able to meet its commitments for forward sales unless shipments are materially expedited. In this connection, I quote the substance of a telegram from the Bank received February 5:

"Forward delivery sales of gold for January were 61,720 taels, total undelivered up to end of January 229,220. Six months deposits (that is due July) were 225,501 taels. Our experience shows that shipments by boat take two months to arrive at Chungking. Therefore, we hope that arrangements may be made for at least four shipments right away. This will enable us to have the American bars shipped into 5 and 10 tael small bars, in order to pay the deposits due in April, May and June. Both forward delivery sales and deposits require supplies."

Under present conditions it is especially urgent to sell gold actively in China. In the past half-year the basic budgetary situation has become definitely more critical. Note issue has increased because of the program of reorganizing the Chinese Army, the operations of the American Army, and the outlay of the new War Production Board. At the same time, revenues have been cut by wide-spread military operations, and because the Government abolished certain taxes. My advisers from China state that the government expects to rely to a large extent upon sales of gold and of goods to hold the economic line. Since the first of this year prices have been rising more rapidly and the rising tendency is continuing, our experience lately has been that prices rise more rapidly in the first half of the calendar year. It is particularly important, when prices are actively rising, to be in position to sell gold to withdraw money from the market, thereby lessening the need for increase of circulating notes. The American Government has been concerned about China's inflation and for the present gold sales are the most effective means to combat it.

Furthermore, there is now an active demand for gold in China. If sufficient gold is available in China, the Central Bank of China will be in a position to raise its selling price for gold, thus getting back larger amounts of Chinese currency. Otherwise, however, the Bank cannot control the price of gold. If the price were to be raised without an adequate supply on hand, the

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black market would only be driven to a higher level -- with a bad effect on confidence and upon the general price level. As to price policy, we feel it is important to raise the price in the near future to substantially the present level of the black market (GH\$35,000 per ounce). Thereafter, our selling price will be governed by the demand for gold and the course of general prices.

In view of the urgent need for gold in China, we are most anxious to send forward at once by air the balance of US\$12,723,913.00 (say 364,000 ounces) of the US\$20 million, which is required at the earliest possible moment to meet near deliveries and to make spot sales. We would, therefore, appreciate your good offices in arranging with the American Army Air Transport Command for such shipment. Also we would like to have a further amount of say 500,000 ounces (US\$17,500,000) go forward as soon as practicable by air to enable the Central Bank of China to meet further near deliveries and to make spot sales. In addition, we would like to ship at once 500,000 ounces (US\$17,500,000) by sea to meet later deliveries. Thereafter shipments should be adapted to meet in order to avoid again running short of gold in China.

I fully realize of course that this sale of gold is a financial expedient which should not ordinarily be used, and it is only the present emergency that justifies this policy. We plan to taper off and discontinue the sale of gold after currency reform, especially cotton textiles, begin to reach China in good volume. It is the policy of the Chinese Government to obtain abroad and ship to China essential goods as rapidly as conditions of procurement and transport permit. In this way, the inflation will be checked most effectively -- first, by adding to the supply of necessary goods, and second, by realizing from their sale on the basis of current market prices large amounts of Chinese currency which can be applied to meet the deficit and thus obviate the need for relying to that extent on increased note-issue. The opening of the "Silk Road", together with the growing volume of air transport over the "ump and the progress of the oil pipe-line, greatly adds to the available capacity

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for sending supplies to China. Further, it is our intention to obtain and transport larger quantities of necessary goods as soon as sea communication with China is re-opened. Notwithstanding the urgency of military requirements, I feel that it is in the interest of the war effort of China and the United States to ship large quantities of such goods, because of the beneficial effect of this operation in retarding inflation and removing the threat of disorganized and extreme price rises which, if they occurred, would disrupt the Chinese war effort and also make it very difficult for the Chinese Government to afford to the guerilla armed forces the cooperation which they require and which China is anxious to give.

At present, a request from the Chinese Government to procure and ship to China about 20,000 tons of cotton textiles is pending before the authorities concerned. I very much hope that you will give your valuable support to this and other proposals for shipment of goods, in order that we may obtain the goods and the transport required.

I wish finally to refer to the gold tokens of 1 ounce, $\frac{1}{2}$ ounce, and $\frac{1}{4}$ ounce denominations to be made in the American mint, which you will recall we have discussed and issuance of which is in accordance with your ideas. The designs approved for these tokens were made with a view to commemorating cooperation between China and the United States. We are very anxious that these tokens be completed and shipped as soon as possible, in order to obtain the maximum benefit through broadening the market. Obviously, gold in the form of ordinary bars is not adaptable to ready distribution; whereas tokens such as these would be widely distributed among the public in China. It was stated last fall that it was expected that production of the tokens could be begun about the end of last December. I shall much appreciate early advice as to how the preparation of these tokens is progressing and how soon we may expect

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deliveries.

I shall much appreciate favorable action on these matters as soon as possible. I regret that I am temporarily unable to meet with you in person to discuss these matters, because of receiving medical treatment in hospital. I shall, however, delegate representatives to arrange details with the officers of the Treasury.

With personal regards and good wishes, I am

Yours faithfully,

W. H. King

copy shah
2/28/45

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 9, 1945

TO Secretary Department
FROM Mr. White *HW*

Subject: Proposed \$16 million Export-Import Bank loan to private Chinese firm.

1. The Export-Import Bank has under consideration an application from a Chinese private firm, the Sunll Chemical Industries, Ltd. for a loan of \$16 million to be guaranteed by the Chinese Government or an approved Chinese bank. The credits are to be used to finance U. S. dollar expenditures for construction and maintenance of chemical plants, mainly in the post-war period. Officials of the Export-Import Bank and State have already indicated their approval of this proposal.
2. In view of the fact that the loan is to be guaranteed by the Chinese Government, I propose to reply that Treasury does not feel the loan should be granted at this time and to suggest a re-examination setting forth some of our reasons.
3. The most important considerations involved are:
 - (a) The Chinese Government has ample U. S. dollar funds as well as Chinese indemnification. Moreover, U.S. dollars in any direct form can be purchased in the open market.
 - (b) Such a loan is premature. Practically no commercial exports can take place at present and most of the reported credit is admittedly to be used after the war.
 - (c) The granting of this loan could be discriminatory against those pro-American industrialists in China who are not in favor with the Chuan King Government and who therefore cannot get to the United States. The Government has appointed the President of the Sunll Chemicals, Mr. Sun Shun-tan, to represent China at the recent International Business Conference at New York and his company has received many governmental subsidies.
 - (d) The present political and military situation in China makes any private loan a very serious risk at this time.

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MAR 8 1945

Dear Mr. Effland:

This is in reply to your letter of February 26, 1945 attaching memorandum to the Board of Trustees of the Export-Import Bank recommending approval of a request from the Tugli Chemical Industries, Ltd., for a loan of \$15 million.

I feel that the loan should not be granted at this time and I am attaching a memorandum setting forth some of the reasons for this decision. I am therefore returning the original memorandum without my initials. Thank you for sending a copy for my files.

Yours very truly,

(Signed) H. D. White

H. D. White,
Assistant Secretary.

Mr. Richard W. Effland,
Secretary, Export-Import
Bank of Washington,
Washington 25, D. C.

Enclosures.

*OK.
H.D.W.*

158 DW/ers 3/2/45

TREASURY DEPARTMENT

239 ✓

INTER OFFICE COMMUNICATION

DATE Mar. 2, 1945

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

Subject: Negotiations with the French to induce them to provide special facilities for U. S. troops to offset the bad effect of high prices.

1. About January 15 we discussed with Mr. Valensi, French Treasury representative, the antagonism developing among the U.S. troops in France over the high prices prevailing for the things the soldier buys. We suggested that the French Government consider the possibility of providing services for American troops at special prices and to take other measures to alleviate the growing discontent of the American soldiers. Mr. Valensi cabled his Government to consider these problems.

2. On February 8, Valensi reported that the French Government had replied to his cable but evidently did not understand the problem. He planned to discuss the matter in Paris during the following week.

3. On February 27, Valensi returned to Washington and said that the French Government had given full consideration to the proposals but found great difficulties in taking action. However, the French Government was giving further consideration to the matter and would report its conclusions to Mr. Valensi.

I also asked Mr. Bonnet if he had discussed the matter in Paris and he said he had not, referring to conversations with Secretary Morgenthau and Mr. White as justifying his not having taken action himself in Paris.

4. Mr. Valensi promised to give the Treasury a full report on his discussions in Paris but we should take the next step only after he has given us his report which should be in the next few days.

copy of this to *Secretary*
T. G. Price
May

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 2, 1945

TO Secretary Morgenthau (For information)

FROM Mr. Coe f.c.

Subject: Loan for Greece

The Finance Minister and several other officials in Greece have several times mentioned to our representative, Patterson, their need for loans or credits. None of these requests is formal enough or well enough based to require any answer from here. They are but one of many signs that the Greek Government is confronted with problems which it does not yet know how to solve.

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EXECUTIVE OFFICE OF THE PRESIDENT

WAR REFUGEE BOARD

WASHINGTON 25, D. C.

OFFICE OF THE
EXECUTIVE DIRECTOR

March 2, 1945

My dear Mr. Secretary:

I am forwarding to you herewith the proposed minutes of the sixth meeting of the War Refugee Board.

The approval of these minutes will be on the agenda for the seventh meeting of the Board.

Very truly yours,


William O'Dwyer
Executive Director

The Honorable

The Secretary of the Treasury

Enclosure.

MINUTES OF THE SIXTH MEETING OF THE
WAR REFUGEE BOARD

Held in the Office of the Secretary of War, 3:15 P.M., Wednesday, February 28, 1946.

Present: Secretary of the Treasury Morgenthau (acted as Chairman)
Secretary of War Stimson
Acting Secretary of State Grew
Assistant Secretary of the Treasury Gaston
Assistant Secretary of War McCloy
William O'Dwyer, Executive Director, War Refugee Board
John Fehle, Assistant to the Secretary of the Treasury
George Warren, Special Advisor on Refugees to the Secretary of State
Florence Hodel, Assistant Executive Director, War Refugee Board

At the request of the Acting Chairman, the Executive Director explained that this special meeting had been called in order that the members of the Board might consider, in the light of all available facts, an application of the Vardi Hahatzala Emergency Committee of the Union of Orthodox Rabbis of the United States and Canada to remit \$937,000 to its representative in Switzerland, Isaac Sternbach.

The facts of the case were stated as follows: on February 7, there arrived in Switzerland 1210 Jews from the German concentration camp at Theresienstadt. The Swiss press carried notices that these refugees had been released as the result of personal negotiations with Himmler conducted by former Swiss Federal Councillor, Musy, at the request of the European executive council of the Union of Orthodox Rabbis of the United States and Canada. The latter organization is well known to the Board and the State Department and has carried on certain rescue and relief work under license of this Government through its representative in Switzerland, Isaac Sternbach. The Musy negotiations, however, were carried on without the full knowledge or approval either of the Board or the State Department. The Executive Director explained that this Government's facilities had not been used for the transmission of messages on these negotiations between the group in the United States and its Swiss representatives. It is possible that these negotiations were carried on through Polish channels. He stated he had asked the American group to furnish the Board with copies of all of these messages but to date this request had

not been met. He also stated that he had requested the group to cease using communication channels other than those of this Government.

Roswell McClelland, the Board's representative in Bern, has reported that Musy's reputation is that of a Maximilian on anti-communist grounds and that he is interested in obtaining a compromise peace for Germany. Musy is also concerned over the rehabilitation of his personal political reputation in Switzerland. He claims to have arranged for the release of the 1210 Jews with Himmler personally, supported by General Schellenberg, one of the top triumvirate under Himmler. Musy has stated that the group of 1210 is the first of a series of like convoys to follow at intervals of one week.

Further arrivals, however, were said to be conditioned on the deposit of 5,000,000 Swiss francs to an account in Musy's name at the Swiss National Bank, the funds to be supplied by Sternbach, the Swiss representative of the Union of Orthodox Rabbis. The reason for this payment is not at all clear. Musy has stated that the money would remain in Switzerland. The Board's representative, McClelland, has reported, however, that Musy's acceptance of money for himself would not be consistent with his desire to play the role of heroic rescuer and great humanitarian. Sternbach claims that the funds must be sent to him in order that the further release of Jews in Germany will not be forestalled.

The Executive Director explained that, while the information available does not clearly indicate the reason the funds are desired in Switzerland, it is conceivable that legitimate expenditures, such as transportation charges, maintenance and care of refugees, etc., might be involved in connection with the release of detainees from German territory. In view of the fact that there is no clear information concerning the desired use of the funds and since the failure to send the money to Switzerland might operate to interfere with the further release of Jews from German-controlled territory, the Executive Director recommended that the Board approve the issuance of a Treasury Department license permitting the remittance to be made to a joint account in a Swiss bank in the names of Isaac Sternbach and Roswell McClelland, provided that no expenditure or commitment for expenditure be made without the prior authorization of the War Refugee Board. It was also recommended that the Board be prepared to give consideration to requests for its approval of any payment for legitimate expenses involved in the release of detainees in the present case, provided, of course, detailed

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- 3 -

information were presented to the Board concerning the purposes for which such expenditures were desired to be made.

Secretary Stinson, stating that he was sure no one present wanted to benefit the enemy, raised the question as to whether or not this money might be desired for a ransom payment. He also inquired whether the Treasury Department under any circumstances would issue a license for the payment of ransom. The Secretary of the Treasury stated that the Treasury would not issue any license permitting a ransom payment.

Mr. Grew then raised the question as to whether or not the sending of the money from this country, even under the restrictions suggested, might in any way be misleading to the negotiators in Switzerland or to the Germans. The Executive Director explained that, since we have not been informed that conditions be desired for ransom and since it is intended that the money is attached by the Board absolutely forbidding its use for that purpose, the negotiators in Switzerland would be the misleaders if they had ransom in mind. In any event, he added that it is still desirable to permit the remittance because of the possibility that the mere presence of the money in Switzerland might facilitate further negotiations and might be needed for legitimate expenses.

It was then pointed out that our best information indicates that the Germans do not appear to be primarily interested in ransom now; that, in fact, a payment of \$1,000,000 would not appear to be of sufficient interest to one in Himmler's position. The real motive behind the release of these refugees appeared from recent cables read by Acting Secretary Grew to be a desire on the part of the Germans to gain favor in the eyes of the Allies.

After thorough consideration of all the facts in the case, Acting Secretary of State Grew moved that the Board approve the issuance by the Treasury Department of a license permitting the desired remittance to a joint account in the names of Isaac Sternbach and Roswell McClelland, provided that no expenditures or commitment for expenditure be made without the prior specific action of the War Refugee Board and provided that under no circumstances could any part of the money in question be used for the payment of ransom. Secretary Stinson agreed and Secretary Morgenthau, as chairman, stated his concurrence.

12"

EXECUTIVE OFFICE OF THE PRESIDENT
WAR REFUGEE BOARD

3/2/45
245

To: Mrs. Klotz 3400
 (1) (Name) (Rdg.)
 (2) (Name) (Rdg.)
 (3) (Name) (Rdg.)

The attached cables high-light the problems we are faced with in Switzerland concerning our proposed relief and rescue program. They were the subject of our discussion with you this noon and may be of interest to the Secretary if you have a chance to mention it to him this evening.

F. Hodel

From: (Date)
 (Name) (Rdg.)

240

C
O
P
Y

MES-1619

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

Bern

Dated March 8, 1948

Rec'd. 9:13 a.m.

Secretary of State,

Washington.

1345, March 8, 11 a.m.

FOR DEPARTMENT AND WRB FROM MOCLELLAND

Department's 819, February 23 and Legation's 1217,
February 24.

Following is preliminary answer to your 819.

From recent conversations with ICRC it can be definitely stated that it is not now necessary to ask Swiss Government to make food supplies for relief shipment to Germany available to ICRC.

80,000 - 2½ kilo WRB parcels have just reached Geneva from Toulon. This makes 180 tons of relief parcels.

ICRC's Division of Special Assistance which specializes in relief to unassimilated groups has adequate supplies on hand for all French and Belgian "Schutthaeflinge" in Germany.

ICRC has at least 80,000 tons of POW relief supplies warehoused in Switzerland at present moment, an amount considerably in excess of what can actually be shipped into Germany during coming months under prevailing transport conditions unless several hundred trucks become available.

A few days ago ICRC discussed exhaustively with competent Swiss authorities particularly from Swiss Army availability of motor trucks in Switzerland for ICRC shipments into Germany. These conversations revealed that total number trucks available to Swiss Army is only about 1,500, of which some 357 are already laid up for lack of suitable tires. Swiss Army has accordingly already been forced requisition private vehicle. As further example Swiss experienced greatest difficulty in equipping with tires twelve heavy duty trucks and trailer which were used some months ago to move Swiss food stuffs from Spanish border across France.

-2- #1345, March 8, 11 a.m., from Bern

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There is therefore very little prospect of Swiss being able furnish ICRC with trucks and certainly not unless tires are first supplied from outside.

For prisoners of war ICRC plan to send across Swiss border into Germany two initial convoys of ten trucks each. One convoy will go to Luebeck carrying mainly gas and oil to supply six trucks placed at disposal ICRC Berlin delegation by German authorities. These six trucks are now performing invaluable service delivering parcels to Allied POWs on roads and in assembly center that region. Second convoy will proceed to Munich area loaded with POW parcels.

It is not anticipated that Germans will make any difficulties for entry these two convoys which will leave on or about March 8.

I understand that if these first two convoys get off successfully SHAEF in France will agree to supply ICRC with further stocks of fuel to be brought up from Marseille in tank cars. If therefore adequate supply of fuel is available to ICRC it is assumed that truck delivery of POW parcels into Germany will be rapidly stepped up until majority of 100 American and Canadian Red Cross trucks available to ICRC in Switzerland are in use. In this event American Washington might find it possible to release four or five of these trucks to ICRC for carrying parcels to unassimilated groups in Germany.

Should sufficient trucks become available to move 180 tons of WRB Toulon parcels into Germany within next few weeks question of further supplies may arise. You might, therefore, also discuss with American question of their releasing from unused POW stocks in Switzerland 80 to 80 thousand parcels for WRB program. At this point it is not anticipated that Germans will object to use of five kilo parcels for unassimilated persons since there is no longer any question of using German postal service.

Limited amounts of certain essential medicines are available for purchase in Switzerland; and larger amounts could probably be secured against guarantees of replacements.

There is no (repeat no) clothing worth mentioning obtainable in Switzerland unless it be from American or other POW supplies concerning volume of which I am not informed. Any clothing parcels shipped into Germany will therefore have to come from outside.

ICRC is

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-3- #1345, March 2, 11 a.m., From Bern

ICRC is in principle quite willing undertake delivery relief supplies to any category of accessible "Schutzhaftlinge" provided committee is supplied with necessary transport equipment.

I have taken up question of ICRC organizing and effectuating removal of physically unfit detainees from Germany to Switzerland. I entertain, however, some doubt concerning feasibility this program. Outside of Masy affair, Nazis have displayed no willingness to release civil detainees unsuited for labor in general although such an eventuality is not excluded. I have asked Burkhardt of ICRC to bear this important request in mind in course of negotiations with Himmler and other German authorities which is hoped he will be able undertake in near future. I will inform board as soon as possible concerning this point.

Regarding Switzerland's acceptance of such additional groups of refugees as might be extricated by ICRC under this program this will be made subject of special conversations with Swiss authorities. It is my feeling that such discussions will have to be supported by concrete assurances of evacuation within a given time as well as granting of rapid import facilities to Switzerland for necessary supplemental food stuffs. Latter point will be discussed with Currie Mission.

HARRISON

BB

249

Jerusalem

Dated March 1, 1945

Rec'd 2:11 a.m. End.,

Secretary of State,
Washington.

44, March 1, 7 p.m.

Following message is from Jacob Griffel who requests paraphrase be sent through War Refugee Board to Union Orthodox Rabbis Rescue Committee, 132 Nassau Street, New York:

'Agency representative Lichteln Geneva cables Knapp release Theresin obtained from Himmler personally by Swiss right wing politician Masy who was sent Germany by Orthodox groups originally to trace Vittel group. In destitute condition but suddenly obtained release 1200 Theresin. More such transports promised but not arrived probably owing transport difficulties. German attitude result general situation Germany embarrassed by necessity constantly evacuating 100,000 prisoners of war civilian internees. In Theresin now large number prisoners of war. Rescue efforts can profit from situation in order to obtain large scale release of Jews. New plans presently discussed with official quarters here. Storch reports Swedish Government

COPY

250

- 2 -

Government promised again admittance all inmates Bergenbelzen and part Theresin, this report confirmed news message yesterday. This last possibility save Remnants who are in greatest danger immediate extermination unless evacuated to safety. Rest not, make every human effort utilize historic opportunity. Here chief Rabbi Rabbis rousing all sections local community this matter do likewise.*

PINKERTON

EDC

251

JB-1997

PLAIN

Paris

Dated March 2, 1945

Rec'd 12:25 a.m. 3rd

Secretary of State

Washington

905 Second

FOR HONOR LEAVITT AMERICAN JOINT DISTRIBUTION COMMITTEE

FROM JOSEPH SCHWARTZ

Regarding Mexican children emigration OGE here will not take any active steps select or transport children to Mexico or any other country without consulting us and giving us the opportunity of taking it up with other interested agencies. Wish point out also OGE will not as general policy emigrate children from France except for very valid reasons such as reuniting families, et cetera. Naturally we have long ago advised both International Redcross and Fieldman that we wish operate in our name and that Congress may not operate with our funds. Must again emphasize these difficulties cannot be cleared up until our representative admitted Bucharest and Sofia.

CAFFERY

JMS

252

CABLE TO AMERICAN LEGATION, BERNE, FOR CLEVELAND, FROM WAR REFUGEE BOARD

Please deliver the following message to Leon Hershfeld, 37 Quai Wilson, Geneva, from Kurt Grossman of World Jewish Congress:

QUOTE SINCE YOUR DEPARTURE RECEIVED ONE LETTER FROM YOU. SENT YOU THREE REPORTS NUMEROUS CABLES. FOLLOWED UP ATTENTIVELY EXCHANGE SCHEME. LAST TRANSPORT FROM BERGENSEN ARRIVED PARTLY NEW YORK PARTLY PHILIPPOVILLE ALGERIA. APPROACHED RED CROSS AND INC ASKING FOR INCREASED PROTECTION VIEW SITUATION WITHIN GERMANY. CABLED HIRSHER STORCH SUPPLY CLEVELAND SWITZERLAND ADDRESSES OF CONCENTRATION CAMP INDICATES IN ORDER THAT FOOD PARCELS BE SENT. ADVISE THAT HANS KLEB OTHERS BE ASKED GIVE ALL AVAILABLE NAMES TO MC CLEVELAND. FURTHER EXCHANGES IN PROSPECT. UNQUOTE

THIS IS NEW BERNE CABLE NO. 428

10:30 a.m.
March 2, 1945

253

CABLE TO AMERICAN LEGATION, BERNE, FOR CLEVELAND, FROM WAR REFUGEE BOARD

Please deliver the following message to Gerard Hegner, 37 Quai Wilson, Geneva, from Kurt H. Grossman of World Jewish Congress

QUOTE HAVE TAKEN UP MATTER OF TREATMENT OF EXCHANGERS IN SWITZERLAND. RESTRICTIONS ARE IMPOSED FOR SECURITY REASONS. IT IS RECOMMENDED BY OUR AUTHORITIES THAT IN FUTURE EXCHANGES JEWISH COMMUNITY SWITZERLAND MAKE ARRANGEMENTS PREVIOUSLY WITH SWISS RED CROSS FOR DELIVERY COMFORT ARTICLES AND CARRYING OUT OF OTHER MEASURES COMPATIBLE WITH SECURITY REGULATIONS. UNQUOTE

THIS IS NEW BERNE CABLE NO. 429

10:45 a.m.
March 2, 1945

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CABLE TO AMERICAN CONSULATE GENERAL, JERUSALEM, FROM WAF REFUGEE BOARD

Please deliver the following message to Dr. Judah Magnes from M. A. Leavitt of American Jewish Joint Distribution Committee:

QUOTE REGARDING LIRA DEPOSITS MADE BY ITALIAN REFUGEES NOW PALESTINE PLACING ARE PALESTINE TREASURY TO CERTIFY TO ALLIED COMMISSION NOWS THAT STERLING EQUIVALENT HAS BEEN REMITTED TO INDIVIDUALS SO THAT LIRA NOW PAYABLE JDC ACCOUNT HOIS.
UNQUOTE

11:00 a.m.
March 2, 1945

DCG-1305

PLAIN

London

Dated March 2, 1945

Rec'd 12:07 p.m.

Secretary of State,
Washington.

US URGENT
2154, Second

I feel compelled to point out that five months have elapsed since I first requested in my telegram No. 8362, October 5, instructions as to the payment of pounds 1944 as the share of the United States Government for 1945 administrative expenses of the Intergovernmental Committee on refugees and instructions as to the underwriting by the United States Government of one-half of pounds 2,000,000 the sum estimated necessary for 1945 IEC operational expenditure. My further telegram No. 11443, December 26 emphasized the necessity of receiving instructions as to the decision of the United States Government with respect to the 1945 operational expenditure in order that the IEC could make plans. My airmail despatch No. 20343 of January 12 requested authorization for the IEC to expend pounds 350,000 in France and pounds 69,000 in Belgium during the first six

-2-#2154, Second, from London.

first six months of 1945 and my airgram A-159 of February 17 requested authorization for IEC operational expenditure of pounds 200,000 in Spain and Portugal for the eight-month period May 1--December 31, 1945. These sums totalling pounds 619,000 are included in the pounds 2,000,000 requested for IEC 1945 operational expenditure. To date, however, I have received no instructions whatsoever in reply to my communications. One-third of the first semester of 1945 has already gone by and the IEC while going ahead with the necessary plans for this year is unable to act with any degree of certainty unless it knows the wishes of the United States Government in the premises. The British Government has given its approval in principle to the underwriting of 1945 operational expenditure. I urgently request the Department to expedite its decision in order that the present anomalous position of the IEC may be clarified.

VINANT

EB

257

JD
Distribution of true
reading only by special
arrangement. (SECRET-2)

March 2, 1945

4 p.m.

EMBASSY

LONDON

1595

The following for Himant from Department, Treasury
and War Refugee Board in WRS 48.

Reference your no. 1403 of February 8, 1945, con-
cerning negotiations for lives of 1500 Dutch Jews in
Germany.

This Government approves the continuing of these
negotiations and agrees that any money involved should
be paid to a blocked account or other satisfactorily
controlled account.

HEW
(acting)
(GLP)

WRS:HEW:MG DC SCE FEA FEA
2/22/45

258

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

Reference Department's No. of March , 1945.

Following is text of Treasury license No. W-2426 issued to Vaad Hatzala:

"You are hereby authorized, so far as Executive Order No. 6389, as amended,
is concerned, and notwithstanding General Ruling No. 11, to remit the Swiss
franc equivalent of \$937,000 to a banking institution in Switzerland for credit
to a joint account in the names of Isaac Sternbuch, representative in Switzer-
land of the Vaad Hatzala Emergency Committee of the Union of Orthodox Rabbis
of the United States and Canada, and Roswell D. McClelland, representative of the
War Refugee Board in Switzerland, provided the following terms and conditions
shall be complied with:

- (1) No part of the above sum shall be expended or
committed for expenditure except as authorized
by specific action of the War Refugee Board,
Washington, D. C.
- (2) Any withdrawal, transfer, or payment order against
the above joint account shall be signed jointly by
Isaac Sternbuch, representative in Switzerland of
the Vaad Hatzala Emergency Committee of the Union
of Orthodox Rabbis of the United States and Canada,
and Roswell D. McClelland, representative of the
War Refugee Board in Switzerland.

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

THIS IS WRS HEW CABLE NO. 430

5:00 p.m.
March 2, 1945

M

254

AM-1432

Distribution of
ture reading only by
special arrangement.
(SECRET 2)

Bern

Dated March 2, 1945

Rec'd 5:22 p.m.

Secretary of State

Washington

1346, March 2, Noon

FOR THE FROM SCHILLER

Department's 804, February 23.

In general it can be said that according to best available information, most "schists hasflinge" (SH) capable of physical labor are being worked by Nazis at a great variety of tasks more or less directly connected with Germany's war effort. It is impossible however to obtain any statistic on numbers actually engaged in what could be called "war work" (i.e. munition plants or war material factories). A large number of SH are being used literally as "slave labor" performing heavy physical work such as road building, debris clearing, digging of anti-tank ditches and like. Many women in Ravensbrueck for instance are engaged in reconditioning used clothing shipped from extermination camps in Poland. Jewish deportees who recently reached Switzerland from the Balkans had reported having worked at sewing German army uniforms and at making heavy wooden cases for machinery and like. Again at Bergenbelsen some categories of internees work while others do not.

At this time however a great many SH are inactive in terribly crowded assembly camps having been evacuated from previous camps and jobs in work.

In any special relief program for SH undertaken at this moment IHC plans deliver parcels insofar as practically possible only to ill and exhausted SH.

National groups mentioned in Legation's 1056 February 16, comprise Jews of respective nationalities.

HARRISON

RM

260

WH-1435

PLAIN

Lisbon

Unkited

Rec'd. March 2, 1945

5:38 p.m.

Secretary of State

Washington

474,

WHN 348, FOR REAS, 425 LAFAYETTE STREET, NEW YORK,
FROM DAVID, SCHMIDT, RECD.

Inform relatives United States of American all following people in nice health, asking financial help.
Galia George, 1800 Davidson Avenue, Bronx; Louis Szeosi, 32 Rue Verdi. Baron, 320 East 176 Street, Bronx, family Teitler, 8 Rue Angleterre. Max Bernklau, 2157 Wallace Avenue, Bronx, Fanny Bernklau, 6 Rue de France. Rosa Scharier, 1070 Sherman Avenue, Bronx, cousin Heinrich Scharif, Hotel Richelieu. Willi Marsak, care of Anstas-witz, 1459 Mythe Place, Bronx, sister Sara Humelfort, care of Colonge, 6 Passage Gioffredo. Helen Spitz, 516 West 49th Street, New York, cousin Alexander Dykstein, 7 Rue de Russie. Jenny Mintzhan, 20 West 118 Street, New York, Marie Mintzhan, 39 Rue Saint Philippe. Gudin Sommerfeld, care of Meier Reiner, 317 Greenwich Street, New York, Bela Anne Mariska, Leon Reicher, 1 Rue Gordon, parents, sister Maria deported, Rudolf Soberheim, 309 West 78th Street, New York and Flora Wenger and Adams, 2 East 86 Street, New York, Ernst Ilse Weager, 20 Rue Meyerbeer. Joe Osterweil, 644 Broadway, New York and Simon Offarans, 178 East 7 Street, New York, Emanuel Kohn, 5 Avenue Bellevue. Rosa Grosfeld, 152 West 72 Street, New York, mother Clara Gordon and sister Mira, 24 Rue Meyerbeer. Max Puchs, 247 West 30 Street, New York City, nephew Max Puchs, 20 Rue Dante. Arthur Jeller, 54 West 21 Street, New York, sister Sara Jeller, 70 Victoire Avenue. Jacques Lorber, care of Hiale 488 or 515 Fifth Avenue, New York, brother Oscar Lorber, Bristol Hotel, family deported. Harry Eisenkraft, 117 West 52 Street, New York, nephew Pepi Dienez, Regence Hotel. Sol Weiner, 240 West 98 Street, New York, cousins Abel Tina Spruch and Albert Volpati, 2 Rue Marechal Joffre.

Jochin Kaplaner,

- 2 -

Joachim Kaplaner, 1471 Boston Road, New York, brother
 Kaplaner Bernhard, Hermos Hotel, Hugo Rothschild Hsu,
 62 Elmhurst Avenue, Indhurst, Long Island, New York, cousin
 Siegfried Kaufmann, 7 Anatole France Avenue, wife Francisca,
 son Walter deported. Bernard Karnits, 8921 153 Street,
 Jamaica, New York, Elizabeth Rosenbaum, 1 Avenue des Fleurs,
 Harry Kosofsky, 34 Green Street, New York, brother Josef
 Kosofsky and family, 7 Rue du Petit Parc. Ludwig Kris,
 106 West 60 Street, New York, brother Stanislas Kris and
 Sabina, Herango Hotel. Leon Lustig, 37 West 76 Street,
 New York, sister Marie Seil, 26 Victor Hugo Boulevard,
 Andre Gloeckner, 15 Fifth Avenue, New York, wife Helene
 Gloeckner, Imperator Hotel. Goldman, 295 Central Park
 West, New York, Rosa Frika Janek Silberstein, 6 Rue
 Francois Grosso, Max deported. Armand Covo, Woodstock
 Hotel, 127 West 22a (East) Street, New York, Avram and
 family, 10 Tsarevitch Boulevard. Adolf Holstein, Gelstone
 Avenue, 208 Street, New York, Alex Meyer family, Pension
 Neu, 34 Acacias Avenue, Theodor Joseph Alfred deported.
 Howard Silbey, 536 West 113 Street, Apartment 62, New
 York, Siegmund Silberberg, Carabacel Hotel. Joseph
 Wilczek, 80 Wall Street, New York, Irma de Hippert, 2 Ter
 Rue Spitalieri, Charles deported. Emanuel Stern, 11 West
 30 Street, New York, mother Emma Stern, 28 Rue de Chateau-
 neuf. Sipeer Dressenport, 1333 Broadway, New York, Fanny
 Fred Gerson, 11 Rue Avenue des Fleurs.

Max Klein, Farthingdale, New York, nephew Schlama
 Klajnik, wife, two children, 24 Rue Ventiseles Cannes.
 Gerhard Chrasnowski, Milgrin State Hospital, Brentwood,
 L. I., Suffolk County, New York, father Paul Chrasnowski,
 Hotel des Colonies, Monte Carlo. Hermann Goldberg, 176
 West 95 Street, New York, family Henry Goldberg, Villa
 Vert, Cottage Beaulieu, Alpes Maritimes.

CROCKER

10-1555

PLAIN

Paris

Dated March 2, 1945

Rec'd 10:44 p.m.

Secretary of State,

Washington.

916, Second

DR. HARRY LEAVITT, AMERICAN JOINT DISTRIBUTION
 COMMITTEE, 1001 JOSEPH SCHEMATE.

"Suggest you contact Benjamin Brock and assign him
 Benck Italy. Could use additional three or four
 similar qualifications provided they have real possi-
 bilities development within reasonable time. Would
 assign one more to Benck balance Greenleigh. Believe
 neither Joseph Hysan nor Dr. Morris Davidson because
 of age or physical condition could meet requirements
 overseas employment this time. Therefore suggest neither
 be taken on. Have already advised you we have received
 twenty million francs from Universal".

CAPSLEY

262

263

DGO-1558

PLAIN

Bern

Dated March 2, 1945

Rec'd 10:58 p.m.

Secretary of State,

Washington.

1354

1945, Second

FOR HIM FROM MCCLELLAND

I have received considerable number of anxious requests from persons in Switzerland having relatives among recent Category F (repeat F) exchange asking how they can correspond with and receive news of letters welfare. Would accordingly appreciate any suggestions you might have to offer. As yet I have received no confirmation how many of this group were actually sent to Philippeville. Perhaps you could eventually send me list of those who arrived safe and sound in North Africa.

HARRISON

MMH

NOT TO BE RE-TRANSMITTED

264

COPY NO. 4SECRETOPTEL No. 70

Information received up to 10 a.m., 2nd March, 1945.

NAVAL

1. ENEMY ATTACK ON SHIPPING. 1st. A 7176 ton U.S. ship sunk by mine or torpedo North Ostend.

MILITARY

2. WESTERN FRONT.
 Southern Sector: Further progress made north and south Trier and advanced elements of 20 U.S. Corps are reported in southern outskirts city.
 South Central Sector: 1st U.S. Army continue advance and U.S. troops now reported within 7 Miles Cologne.
 North Central Sector: Considerable advances made by 9th U.S. Army and greater part Munchen-Gladbach now in our hands while advanced elements within two miles Neuss.
 Northern Sector: Steady progress by 1st Canadian Army continues.
3. EASTERN FRONT.
 Central Sector: On right flank further ground gained N.E. and north Neustettin. In south two further suburbs and ten blocks occupied in Breslau.
4. BURMA.
 Central Sector: Nyaungu bridgehead has been enlarged N.E. and south along east bank Irrawaddy where no report of contact with enemy. North of Mandalay our troops advanced five miles east and nine miles south against opposition.

AIR

5. WESTERN FRONT.
 1st. 612 Bomber Command aircraft (3 missing) attacked through cloud Mannheim (2039 tons) and synthetic oil plant Kamen (660 tons), escorted U.S. heavy bombers 1174 (9 outstanding but believed safe and 5 fighters missing) attacked railway centres in South Germany. Good results reported Bruchsel (304 tons) Heilbronn (283 tons) and Neckarslum (223 tons), while results other targets including Ulm (1183 tons) and Ingolstadt (541 tons) unobserved. 9 enemy aircraft destroyed by fighters. 427 medium bombers dropped 702 tons targets Central Sector with mainly unobserved results while 1538 fighters (14 missing) operated whole front destroying 22 enemy aircraft and large number road and rail vehicles.
 1st/2nd (night). 148 Bomber Command aircraft (without loss) despatched including 55 Berlin and 40 Erfurt.
6. MEDITERRANEAN FRONT.
 27th/28th (night). 79 Strategic Bombers obtained good concentrations railway centre Verona (253 tons).
 28th. 694 heavy bombers (11 missing) attacked railway targets Brenner Route (1594 tons).
 514 tactical aircraft (1 missing) successfully attacked communications and Army support targets while fighter bombers and fighters 96 attacked railway targets Alagenfurt with good results.

HOME SECURITY (Up to 10 a.m. 2nd)

7. ROCKETS. Thirteen incidents reported during period.