

DIARY

Book #32

March 24-26, 1945

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

March 24, 1945

TO Secretary Morgenthau
FROM Mr. DuBois

URGENT

Sam Lubell of Baruch's office called this morning and said that he understood that there had been some new developments on the German problem and that some document had been approved by the President; that Baruch was seeing the President at twelve o'clock today and would appreciate if possible seeing a copy of the document. I told him I would call him back after I had checked into the matter.

geo

3-24-45

Mrs. Klotz:

Secretary Morgenthau saw this urgent memorandum from Mr. DuBois this morning about 9:45 a.m. He said to tell Mr. DuBois that he should telephone Mr. Lubell and tell him that he could not get to Mr. Morgenthau — that Mr. Morgenthau was making recordings to be used for the opening of the Seventh War Loan.

I told Mr. DuBois the above over the telephone at 9:50 a.m.

PSM

*Do you think anything
more should be done?*
From: Mr. Fitzgerald

3/24/45

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not used by Secretary. Was prepared for closed circuit broadcast opening 7th War Loan Drive.

best #1
not used by Secy

3/24/45 4

My fellow Americans, this is the Seventh War Loan.

Six times in the past you have responded with the generosity which is inherent in our national tradition, but another part of our tradition is ^{good common} ~~have~~ sense.

We invest but we like to know why and so, as ^{your} Secretary of ~~your~~ ^{the} Treasury, (and it is important to remember that it is your Treasury, it is my ~~task~~ ^{job} to ^{explain to you} ~~tell you to what~~ how your dollars are spent to ~~use your investment in America will be put~~ win the war.)

Money means power and this nation's power must be behind its armed forces to the very utmost. The German terror fades, but even the most optimistic observer does not expect Japan to fall soon. Our enemy in the Pacific is not only a military one. The great distances are also against us. Shipping problems are tremendous.

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Advance bases cannot be built of patriotic thoughts. Concrete patriotism in the form of bonds becomes increasingly urgent. ~~The~~ Allied Military ~~Command~~ *LEADERS* estimates that years, not months, may lie before us.

To the Japanese, the outer Empire defenders are expendable. Iwo Jima represents only an outpost of the bristling inner Empire. Therefore, your all-out effort is needed to help shorten the struggle. Jeeps, half-tracks, rockets, trucks, mortars, airborne radar, hospital equipment, not to mention planes, ships, tanks, guns - these are but a few of the effective aids that your combined dollars purchase. At the same time, your extra dollars, so invested, reduce wartime inflation by maintaining a controlled purchasing power.

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This year there are to be only two War Loan drives - not three as in 1944. Only by increasing our investment in America, can we make two take the place of three. Our men overseas know we shall not hesitate to sacrifice in comfort what they sacrifice in blood. Most of them devote a portion of their paychecks to the purchase of War Bonds. Surely, on the home front we can do no less. How much you can afford - how many extra bonds you can buy are questions to which only one person has the answers. You! The bigger your individual quota, the quicker the victory. Money talks, but in a War Bond it sings.

*Draft^{#2} prepared by Mr. Fussell 3/24/45
but not used by AEC. 7*

My fellow Americans, this is the Seventh War Loan.

Six times, when your Government has asked you to lend it more of your dollars, you have responded, with the generosity that is part of the American tradition.

I am confident that you will respond to this new and greater call.

You know, as I do, the part that dollars play in war.

They buy the shells that pulverize enemy lines, before our infantry is called upon to advance.

They buy the ships that must transport these shells, and other supplies, across the Atlantic, and across the vaster Pacific.

They pay for the best medical and surgical service that any nation has ever given its armed forces.

Our men have won many victories but they know, as we do, that these victories are important only as steps toward our final objectives -- the winning of the war, the achievement of a lasting peace. That peace is yet to be won.

We still face fanatical enemies.

To the Japanese, human life is cheap. Every individual is expendable.

We have a different tradition. To Americans, every life is precious. Our dollars -- everything else we have -- are expendable to save lives.

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But as this Seventh War Loan is launched, Americans are not being asked to give dollars. They are being asked to lend their dollars to their Government so that our men, wherever they may be fighting, may have the best of everything that money can buy -- and so that our final victory, and a lasting peace, may come the sooner, and our men may come home.

And when they come home, let it not be to an America ridden by inflation.

It is part of our job to do our utmost to make America the land our men picture wherever they may be, in their thoughts of home.

This year there are to be only two War Loan drives -- not three as in 1944.

Only by increasing our investment in America can we make two drives take the place of three.

Our men in the armed forces look to us. Most of them, with much more modest incomes than ours, buy War Bonds and do not count it a sacrifice, but an investment in America.

They have a right to expect us to join with them as co-investors, to the full limit of our ability.

I know we are not going to let them down.

March 24, 1945

Working copy of a recording for a closed circuit broadcast to War bond workers in the field.

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Thank you , Ted. I'm sorry that we weren't able to visit you all again as we did in the last Drive. But I am glad that we can have this private chat. We have a big job ahead of us. We've got to sell 7 billion dollars worth of bonds to individuals. Four billions in E Bonds alone.

I've said "we". What I should say is "you". And by "you" I mean State Chairmen like Bob Moulton and Bill Crocker of California, Eugene Pulliam of Indiana, Win Denio of Massachusetts. I mean you men salesmen like Roy Custer in Little Rock, Arkansas. I mean you women in the field like Mrs. Reka Patrick in Reno, Nevada. I mean you children who've done such a wonderful job - like Nancy and Jean Sorenson out in the State of Washington.

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the capital
In ~~Washington~~ we can do a lot of things. We can make the posters. We can build radio programs. We can draw up ads. In other words, we can help you tell the story.

volunteer army
But - and that's a big but - you are the infantry. You're the people who have to do the final job, the main job. You're the people who make the sale. Just as our fighting men have a variety of equipment - grenades, rifles, bayonets - so have you. You have a variety of arguments. With many, you can impress them with the fact that we have two wars to fight - that the war against Japan has just begun. It's a big war. It will take years before final victory.

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With others, you can tell the story of the need for funds to care for our disabled, our wounded, our sick. And with still others, there are arguments on how War Bonds help avoid inflation, how War Bonds provide for every one's own future - education, new homes, jobs.

Your job is ~~the same as the soldier's~~. To get results. ~~Use any argument or all the arguments.~~
If we all do our part, we will not fail in the Mighty Seventh.

Pause
Now, ladies and gentlemen, the President of the United States.

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MAR 24 1945

The Seventh War Loan starting May 14th will be our most difficult drive to date. Americans, as individuals, are taking on their biggest quota -- seven billion dollars -- four billion dollars in E-Bonds alone.

We need the help of retailers more than ever before. No other group combines such a highly trained selling force with such well organized facilities for advertising and promoting War Bonds.

We are still faced with the problem of raising huge sums required for winning the war in the Pacific. War Bond dollars may aptly be described as Invasion Dollars, fighting side by side with our men as they inch their way to Victory on the far-flung battlefronts of the Pacific.

Your continuing effort to sell War Bonds and to dramatize the volunteers who sell them is greatly appreciated by your Government.

[Signed] Henry Morgenthau, Jr.

Henry Morgenthau, Jr.,
Secretary of the Treasury.

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March 24, 1945
11:00 a.m.

RECALLING TAYLOR & REPARATIONS

Present: Mr. White
Mr. Coe
Mr. C. S. Bell
Mrs. Klotz

H.M.JR: Good morning.

MR. WHITE: Good morning.

MR. COE: Good morning.

H.M.JR: What do you think of this gesture of mine to bring Bernstein and Taylor back?

MR. COE: I talked to--

H.M.JR: Have you talked to White?

MR. COE: No, I haven't talked to him.

H.M.JR: I asked you to. Is he hard to see?

MR. COE: Yes, sir.

MR. WHITE: I was wondering whether if we'll have the difficulties we have had in the past in bringing people back so you couldn't bring them back, if we might not wait another month or two and see if they get into Germany and see what's doing there.

H.M.JR: I disagree with you. The only question I had is when McCloy said he was going over whether this was sort of checking up on him. I would be perfectly frank upon it with McCloy.

MR. WHITE: Why not ask him if we should bring him back?

H.M.JR: I would rather bring him back now and let him go back with McCloy.

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MR. COE: I talked with Harold a little and with Joe. We thought McCloy would probably resent a request or at any rate not like a request to bring Bernstein back, because McCloy is thinking that he is going over there and is going to cover the field from Eisenhower down, and here the Treasury wants to bring one of his supporters back.

H.M.JR: I was worried about it.

MR. COE: But we didn't see any objection to bringing Taylor back, who can take the same thing to Bernstein.

H.M.JR: Yes, that's a better way.

MR. WHITE: I understand from you that Taylor wrote a letter saying he is stymied, but I didn't see the letter. Has the Secretary seen it? Did you tell that to the Secretary?

H.M.JR: Yes.

MR. COE: I mentioned it.

H.M.JR: I want one of our men to come back to get this story.

MR. WHITE: I agree with Frank. Taylor should come back. I believe Taylor is solely under your jurisdiction to come and go.

MR. COE: He is probably on the Continent with Rosenman, but we can send a telegram to both places.

H.M.JR: Rather than a telephone call, I would send a telegram to Ambassador Winant saying, "It is imperative that Taylor come back to America for a few days for a short conference on Treasury matters."

MR. WHITE: There's another possibility if you want to consider it. You remember that Rosenman was

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very good to have Taylor come back to write his report. Rosenman must be due back within a week or two, isn't he?

MR. COE: No. The last we heard from Taylor was March 10th, in which he said that Rosenman was due to go to the Continent shortly.

H.M.JR: I would send a telegram to Winant that we would like to have Taylor come back at once for a conference--Treasury business--lasting a few days.

MR. WHITE: Yes, as a matter of fact, I have some things I want to talk over with him on Bretton Woods and developments in England. Did I hear you say Winant was here?

H.M.JR: No. So, let's just get that started, see, because he can tell Bernstein. I think that's much better.

MR. WHITE: We would like to bring Patterson back. He is in Greece. Things are very bad there. He has been there long enough. It is not important enough to keep a man there except to get information about what is going on, and we would like to send him somewhere else more important.

H.M.JR: I am surprised you let a man go out of London for a couple of weeks with the War Refugee Board. Who have you got in London now?

MR. COE: Oh, we have Thomas.

MR. WHITE: I didn't even know about it, but that's all right.

MR. COE: As a matter of fact, I didn't either.

MR. WHITE: We have Kamarek.

MR. COE: We have Tomlinson.

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MR. WHITE: And Kamarek, both.

MR. COE: Snider is supposed to be there.

MR. WHITE: I thought Taylor was in London, Mr. Secretary, so even if I had known, I would have let him go as soon as he was in London, but you know Taylor is not in London.

H.M.JR: No. I just took it for granted he was on the Continent.

MR. COE: No. Taylor may be on the Continent, but he wasn't when that decision was made.

H.M.JR: Let's get that thing done. It is urgent, see? But you have the same trouble with the telephone. There is no record, see?

MR. WHITE: Well, a telephone call might upset somebody.

H.M.JR: I am sending for Charles Bell because I said I wanted to see the three of you.

MR. WHITE: May I get a word in before he comes, Mr. Secretary?

H.M.JR: Yes.

MR. WHITE: There is something being maneuvered you haven't heard about, on no basis at all. I can't quite see through the fog, but believe me there is a fog on something being maneuvered about assistants and so on, and so on.

H.M.JR: Assistants to who?

MR. WHITE: Administrative assistant to Coe, and I didn't know whether that is what he was going to see you about, but he has been after me and Coe and he is building up a case for something that I personally don't see so far the basis of, and so would you postpone any definite decision?

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H.M.JR: That's not what it is about.

MR. WHITE: I see.

H.M.JR: This originates with me.

MR. WHITE: Yes.

(Mr. C. S. Bell enters conference.)

H.M.JR: What I wanted to say so Charlie would know the previous conversation I had with Frank, is that I want Frank to get some more help, and Frank told me he didn't want to do it when he first came in. He didn't want to have people say he is trying to build up a big organization, but what I want is that Frank, if there are a couple of really able economists anywhere in Washington, I would very much like him to get them. That's all, and I want Charles to know that I was for it, and I am sure you are for it.

MR. WHITE: Oh, yes. You didn't get Pearl?

MR. COE: We couldn't get him. We couldn't get Salant because of salary. We couldn't match State's.

H.M.JR: I just want you to know this is something I am for and it goes back to the first few days you were here.

MR. WHITE: If there are good men to be had, he needs them.

H.M.JR: I think I wrote a memo and I think I suggested Angell as a possibility.

MR. COE: Well, we will go over--

MR. WHITE: Hasn't Angell got your job now?

MR. COE: I think Angell after his FEA tour, is very anxious to get back to Columbia.

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H.M.JR: Anyway, I am going away and I wanted to say to the three of you that if there are good people around, I want Frank to get them.

MR. WHITE: Yes, we have been trying to get a couple of good men.

H.M.JR: The thing that stimulated this, Harry, was your going to San Francisco.

MR. WHITE: He needs them anyhow.

H.M.JR: That's what brought this thing on, but if you are going to San Francisco, the responsibility on Frank is going to be even greater.

MR. COE: How long will you be there?

MR. WHITE: Not long. Don't pin me down. "Don't Fence Me In." He is carrying most of the load now, Mr. Secretary, and I think I know the answer myself, but one of the troubles is that any good men now are getting the top salaries here. State Department will get anyone--we have run up against that now. This is the third man we tried to get, but they can get eight thousand dollars a year over there, and that upsets our own apple cart here.

H.M.JR: Well, pay them. Do you want to know who wrote that last amendment to the thing yesterday, the thing that bothered me so much that came in after the President signed it?

MR. WHITE: We got it--Boettiger.

H.M.JR: Boettiger told me last night who wrote it. Boettiger did the maneuvering, but he didn't write it. Herbert Fels wrote it.

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MR. COE: Are they in touch with Herbert Feis?

MR. WHITE: He works for the Army.

H.M.JR: Herbert Feis wrote it. I thought that was very interesting.

MR. WHITE: Why don't they use him more?

H.M.JR: They are. I didn't think Boettiger wrote that. The fellow is Dean of the Buffalo Law School who did the work on that thing the night before, and he is Boettiger's superior and he is Head of Boettiger's section and he is former Secretary to Justice Holmes, but he is the man that drafted it and the last thing was Herbert Feis.

MR. WHITE: It sounds much more like Herbert Feis than Boettiger, but I was pleased to think Boettiger had drafted it.

H.M.JR: And the other thing that is very amusing, Boettiger thought I was an awfully good sport about the whole thing, that I was willing to accept it. If you can figure that one out, you're good. (Laughter) I am beginning to think there is something wrong with the document.

MR. WHITE: That you are willing to accept the document?

H.M.JR: No, he thought I was a terribly good sport. I was at the White House and after dinner he came over to me and talked to me for forty-five minutes. Henry Wallace heard the whole thing, so if Drew Pearson has it tomorrow night, don't worry.

MR. COE: Most people have Morgenthau ideas from Leon Henderson and some other people.

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H.M.JR: But he sat for forty-five minutes just bubbling over with enthusiasm--Boettiger.

MR. COE: So he is very happy.

MRS. KLOTZ: I think he is so mixed up.

MR. WHITE: After his talk with you in the anteroom.

H.M.JR: Yes, it's all wonderful. The thing he worried about was Clayton. He had this conference. I thought you would want to know who was behind the scenes working on it--Dean Howe and Herbert Feis, because that makes sense, doesn't it--Herbert Feis on that?

MR. WHITE: Yes, yes. I don't know much about his attitude, but it sounds more like him.

H.M.JR: Okay, that's all.

MR. WHITE: Is that--

H.M.JR: I wanted Coe to get more assistance.

MR. COE: Thank you very much.

H.M.JR: I have written the President of the United States a formal letter. It was delivered to him yesterday.

MR. WHITE: With the manuscript?

H.M.JR: No, just the letter, and I am waiting to hear from him.

MR. WHITE: Are you leaving tonight?

H.M.JR: It was delivered to him under favorable circumstances.

I will be here all day.

MR. WHITE: You'll be here all day?

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It is awfully hard to get good people because the State Department will pay anybody that money. They offered Angell a job. How much are they going to pay him?

MR. COE: I don't know, but when I had Angell they tried to get him and Burns, and they tried to get people from my staff.

MR. WHITE: And they have hit a top grade.

MR. COE: They have a Financial and Development Section with one hundred and fifty members.

H.M.JR: Where?

MR. COE: At State. That ignores the commercial policy people.

MR. WHITE: They have picked up everybody who is loose. They still don't do a good job.

H.M.JR: One hundred and fifty people under--

MR. COE: Collado, and he has the financial development which parallels a lot of our stuff.

H.M.JR: They tell me they have one hundred and fifty people at FEA.

MR. COE: Well, FEA is such a mixture, it is impossible.

H.M.JR: They kept saying yesterday that out of FEA will come suggestions for reparations.

MR. COE: Well, they are planning for Germany alone that FEA will have a staff of one hundred and fifty, while we've got three, but we are doing all right. I don't think we want that number.

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March 24, 1945

To: Mr. Collado
From: Mr. Cox

Will you please send the following cable from the Secretary of the Treasury to Ambassador Winant, personally, American Embassy, London, England:

U. S. URGENT

Secretary Morgenthau desires Taylor's most urgent return to Washington for special consultation on Treasury business. He is expected to remain in Washington for a few days only.

H01r 3/24/45

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March 24, 1945
11:15 a.m.

INTERNAL REVENUE

Present: Mr. D. W. Bell
Mr. O'Connell
Mr. C. S. Bell
Mr. Irely
Mr. Woolf
Mr. Fussell

H.M.JR: Where is Gaston?

MR. C.S. BELL: I don't think he is in this morning.

H.M.JR: Now, this memo, Joe, that you wrote for me is a very good one, see? I don't know whether you wanted me to say formally that I approve it. (Indicating inter-office memorandum from Mr. O'Connell to the Secretary dated March 21, 1945.)

MR. O'CONNELL: No, indeed! I didn't hear you say you would like it, but we were going ahead on the basis of the talk we had in your office the other day.

H.M.JR: Now, with all of this publicity--I mean, if you look at the notes of what I said, I simply said we were looking into this tax, see, and I take it the press came back to see you and built up a big story.

MR. IREY: Are you speaking to me?

H.M.JR: Yes.

MR. IREY: Yes, they came to see me, but I didn't build up a big story. They saw Perlmer, and this memo of Mr. Fussell's indicated that happened. They saw Perlmer of Public Relations. He, of his own accord stated these things that were in there.

H.M.JR: Following the Miami story?

MR. IREY: Following your talk here with the press. Shortly after that, the same day within an hour they saw Perlmer. What Perlmer told me was

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he happened to be over here. The newspaper men talked to him about it following their talk with you, and these things were said to him.

(Mr. Fussell enters conference.)

H.M.JR: Did Perlmer have yours and Shaeffer's approval on all of this stuff he has been giving out?

MR. C.S. BELL: No, sir. He gave it out and then cleared it with Shaeffer.

MR. FUSSELL: I think that's correct. I think he was down at the press room the time the boys came down there after the press conference. However, so far as I can find out, he didn't give out anything substantial other than what was in the Miami papers.

H.M.JR: I would say so, too. How come you took Perlmer with you to Miami?

MR. IREY: I was directed to do so by Mr. Gaston and Mr. Shaeffer. It was no suggestion of mine that he go.

H.M.JR: Well, you are all over the front page, and I hope you are going to make good now.

MR. IREY: I am not on the front page through any act on my part.

H.M.JR: Well, it's there anyway.

MR. IREY: I know it is.

H.M.JR: As I say, it is there.

MR. IREY: They come to see me, Mr. Secretary, and I tell them I won't talk to them, to talk to Public Relations, and Public Relations calls me up and tells me it is correct that I should see them. That's the routine followed in all of these things, and I would be very pleased to not see them, and I wish I could be directed not to.

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H.M.JR: I carefully talked before the press with these people, remember? We discussed what I should say and all I said was we started that investigation and--

MR. D.W. BELL: Looking into it, I think that is what you said, and you are very much interested, and thought you would have something later on and would let them know.

MR. IREY: I have always had the understanding that we are supposed to do what Public Relations tell us to do with respect to seeing these people, and I have followed that, but I would be very pleased if you would tell me not to see newspapermen.

H.M.JR: No, I am not going to give you a direct order. Mr. Fussell is running that shop.

MR. C.S. BELL: I think there is an order to that effect already that all releases to the press have got to go to Charlie Shaeffer.

MR. IREY: That's what I say.

MR. C.S. BELL: Before they are given out Charlie Shaeffer calls you up and says to see such and such a newspaper man.

MR. IREY: This fellow showed up in my office and I couldn't get Shaeffer or Fussell; they were both out of their office. I wanted to make sure whether he had sent him and finally I got Coffelt and learned from him.

H.M.JR: Whatever the circumstances were, I hope that you are going to produce something, because they certainly built you up as though you are going to do something.

MR. D.W. BELL: As I told you this morning, Joe and I have been talking about trying to get the Federal Reserve Banks do something to get us leads, and about

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your talk this morning, too, I have talked to Hap Young of Chicago, Ray Gidney of Cleveland, and Ralph Flanders of Boston about contacting some of the larger banks in their districts informally and asking them to furnish the Treasury names of any individuals that deposit or withdraw large sums of currency, with a view to getting leads to income tax evasion and black market operators. I told them that we would not in any way use the name of the bank that furnished the information; we would not use the individuals' name publicly except through a suit when we had a good case against him; and that it will always be treated as confidential; and they thought it was highly desirable and thought it better to go on an informal basis and not circularize banks, because if it did get out, it would dry up right away, but the three of them thought that the banks would cooperate on that basis. I also said that this was entirely tax evasion and black market operators, and we were not in any way just trying to get hoarders only.

H.M.JR: You told them that?

MR. D.W. BELL: Yes, I said we weren't after hoarders as such but after the fellow who hoards to evade taxes and that is all we want, and they thought that was important, too, from the bank's angle. As soon as I have talked to one more, I thought I would draft a wire along those lines.

MR. O'CONNELL: May I supplement that a little bit, because after I talked to you I talked to Joe Nunan on the phone last night, and he is having a meeting in New York with McQuillan and the collectors there, and he is going to try to get a chance to see Rounds and if not, he is going to try to do it tomorrow morning before coming back to Washington. We are having a meeting here Tuesday in Nunan's office and Wednesday morning with half a dozen of key special agents from other sections of the country who are being brought in for the purpose of laying out a program to them and getting it on the ball. That's about as quickly as we can do it.

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H.M.JR: Well, you see this thing has been handled-- anyone I have ever had anything to do with in Treasury, we usually have the facts first and then get publicity afterwards, but this thing has just been played up and there are a lot of people running to cover and questions--

MR. O'CONNELL: It would be better from that point of view if we had publicity later because we haven't been ready to follow--

H.M.JR: I read those Miami stories and don't see that they have served any purpose other than to scare people to cover. I don't see any purpose in the Miami stories. It seems to me that heretofore we had investigators go out and once they have a case that is finished and we have got something to talk about, then we can blow our horn, but this idea of beating around the bush through a newspaper and thinking we are going to get a case, I just don't understand. I am talking to you, Irely.

MR. IREY: I want to speak to you about that. I never have conducted investigations through publicity. I have tried to avoid it as much as I could. In the Miami case I was directed to take this Public Relations man with me and told that the purpose was to have him give out a story to the press when we got down there. I had nothing to do with it at all.

H.M.JR: It's too bad Mr. Gaston isn't here.

MR. O'CONNELL: Elmer is right.

H.M.JR: I am not questioning his veracity. I never have.

MR. IREY: You said you were talking to me and I am trying to tell you that that is not the way I do business.

H.M.JR: Well, it's the first I knew that. I never saw the Miami story. They didn't bring it to my attention until I inquired through Russell. What about this story

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in yesterday's papers? The fact that Perlmeter is down, there is all news to me.

MR. IREY: Copies of the story were sent to Washington to me.

H.M.JR: But I didn't get them, which is perfectly possible. There is no particular reason, but the other thing as long as we are on it, I wrote somebody a memo that these names came up I think on the 28th, and I was in New York a couple of days ago and they only reached McQuillan a couple of days ago.

MR. O'CONNELL: I sent you a note on that yesterday. The fact is those names went to McQuillan the 8th of March which is pretty good. They were out of here on the 6th or 7th of March and they had to do something with them here, and they had to look through all the Bureau's records involving those taxpayers here in Washington.

H.M.JR: My impression was--I think I was there Wednesday--was McQuillan had said he just got them.

MR. O'CONNELL: The letter went to McQuillan and was dated the 6th of March.

H.M.JR: You might inquire.

MR. IREY: We had to search files for returns here and that was quite a job.

H.M.JR: I think that is good, but I was there Wednesday, wasn't I?

MR. D.W. BELL: Yes.

MR. O'CONNELL: Yes, about the 20th.

H.M.JR: On the 21st, and he said he had just received them.

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MR. O'CONNELL: Well, he had them several weeks before that. I think they did very well on those in the Bureau, sir.

H.M.JR: Will somebody inquire?

MR. WOOLF: I checked with Mr. O'Connell yesterday and the letter was written March 8th. The letter was received from Mr. Irely on February 28th, and as Mr. O'Connell said, it took three or four days to check all the records in the Bureau to see whether returns might be there, and we wrote to various agents in charge.

H.M.JR: Why did McQuillan tell me he just received them?

MR. WOOLF: I don't know.

H.M.JR: Will you ask him?

MR. WOOLF: Yes.

H.M.JR: The thing which hasn't been answered in your memo--you suggested some one person be put in charge of this.

MR. O'CONNELL: That's right. That has not been answered and I personally believe--

MR. IREY: I think the Secretary directed Nunan to take personal charge.

MR. O'CONNELL: What I had in mind is, this is such a different operation from what we normally do there should be someone in Washington to devote full time to running this show, and have special groups working out in the field, directly responsible to him.

H.M.JR: You talked about some investigators, I think.

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MR. O'CONNELL: I don't think it should be an investigator. I mean, I think it should be someone who would be able to look at the picture a little more broadly than an investigator normally would. That is what I said in the memo. I did not suggest a man.

H.M.JR: When Nunan comes back--and Irely is correct that I did pin this on Nunan.

MR. O'CONNELL: Yes, but consistent with that I think there ought to be someone other than Nunan.

H.M.JR: I agree, but I would like to know who the person is so I can ride herd on him.

MR. O'CONNELL: I did not make a suggestion of any man because I think that it will require a little group thinking, Mr. Nunan, Mr. Irely, Mr. Woolf, and others. We are all involved in this program and we ought to get together and decide who should do it. It should be a full-time job. It should not be a job Mr. Nunan should be expected to handle personally in the sense I am thinking.

H.M.JR: I agree. I think it should be somebody, I don't know who, working under Nunan, to give it his exclusive time.

MR. D.W. BELL: Mr. Gidney of Cleveland suggested you ought to designate the very best and most tactful man in your district, and mentioned the secret service man he had met in Cleveland. He finds that he is very highly regarded, and is tactful, and he thought that anything he was interested in he would get full cooperation on. But he said he didn't know any others and that wasn't in any way a reflection on the others, but he said he would just mention that man because he would get full cooperation, because he seemed to have the confidence of the business community.

H.M.JR: Well, I think they have to work it out. We have Gaston in charge of all this coordination of all enforcement agencies. Irely is working under him and he

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is supposed to have a coordinator, and I think that when the thing gets going Irey ought to get out in the field himself and see that these people are doing the job. It would again be up to Hunan to direct you, but I don't think you can do it sitting here in Washington.

What about this case you told me about of Longchamps in New York?

MR. O'CONNELL: That was the reason I wanted that memo back because that is the only copy I have, the one I gave you, and I want to turn it over--

H.M.JR: Let me get it processed through my office just so they have a record.

MR. O'CONNELL: Yes, and I'll give it to you, Irey, so you can send it to McQuillan right away.

H.M.JR: We have had this unfortunate publicity and the sooner we can get some definite cases like Longchamps and other cases and show them they are not just doing it, the better.

MR. O'CONNELL: Oh, yes, we are on the spot now and we have to move more rapidly.

H.M.JR: You are on the spot, but cheer up, Elmer.

MR. IREY: You might be interested to know that this Longchamps has a restaurant in our Treasury Enforcement Building in New York on the first floor. All the rest is Treasury.

MR. D.W. BELL: That would be good, wouldn't it?

H.M.JR: You can start at the basement and work up.

MR. C.S. BELL: They charge thirty cents for a coca cola, too.

MR. IREY: The cheapest lunch is about two and one-half dollars.

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MR. O'CONNELL: Maybe they will reduce their prices.

H.M.JR: Well, they are on it. May I just glance at this a minute? But, Mr. Bell, let's keep this thing rolling. God, we are on the spot now and we have just got to make good!

MR. D.W. BELL: All right, I'll send my wire today to the banks.

(Secretary reads inter-office memo from Mr. Irey to the Secretary, dated March 21, 1945.)

H.M.JR: The point is this, I have to report something back to the President of the United States, and I would like to do it today, see? Is there anything--all I want to tell the President is, do we or do we not have an income tax case?

MR. O'CONNELL: We don't have an income tax case.

H.M.JR: We don't? Then, would you mind drafting a letter for me, for my signature, to the President which I would like to sign if I can by two o'clock, in which I say whether we do or whether we don't have an income tax case?

MR. O'CONNELL: You don't want to send him that?

H.M.JR: No.

MR. O'CONNELL: You don't want to send him that. I suggested to Elmer and he thought it was all right that we would send that to you with a short note for you to sign to the President saying--

H.M.JR: Well, the trouble is that I don't think it is fair to the President to make him read a long thing like this.

MR. IREY: We can take that Foreign Funds stuff out and that takes a page or so. We wanted you to know that, but it doesn't have to go to the President.

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MR. O'CONNELL: The only thing it shows is that the fellow made an awful lot of money in the past ten years dealing with the Chinese.

MR. IREY: And paid a tax on about one-fourth of it. We don't know how he made it. We started an effort to learn how he made it and were stopped by the War Department. They said the Secretary of War wanted to handle that himself.

I think it is all right here at the bottom or where it says in the memo addressed to you "...that a more adequate report on Mr. Pawley based on the information now available to us should be prepared at the earliest possible moment. In the meantime, I see nothing to do but wait." (Quoting from memo to the Secretary from Mr. O'Connell, dated March 8, 1945.)

MR. O'CONNELL: I think I can say that simpler in a letter to the President.

H.M.JR: It gets down to that.

MR. O'CONNELL: The report covers other things, too. The report you have refers to marital difficulties.

H.M.JR: Which the President knows about, and either the President or somebody else says that somebody, a Treasury man in Miami, is keeping company with his first wife. Have you heard that?

MR. IREY: No, I never heard that.

H.M.JR: He said the Secret Service. (Laughter)

MR. IREY: I'll be very glad to look into it if you want me to.

H.M.JR: I am not interested in the first Mrs. Pawley, and I don't think it is any of my business.

MR. IREY: The question was whether the man was a bigamist. We tried to cover that and showed he is not a bigamist.

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H.M.JR: I don't want to get into that. It is none of our business, is it?

MR. IREY: It wouldn't be if he is a bigamist.

MR. O'CONNELL: It depends on what we were asked to do. Herbert thought we were asked to make a character investigation of Pawley. If so, you look at his whole life and not only if he paid his income tax. That is in the nature of a character report, and it is a favorable character report.

MR. IREY: Yes. The only point is one we couldn't cover, and that was how he made his money in China--Pawley.

H.M.JR: Say this and attach it to it and maybe he will read it.

MR. O'CONNELL: I think it would be better to write a short note amounting to a clearance and say, "Attached is a little longer report if you would be interested in reading it."

MR. IREY: Let's cut out the Foreign Funds stuff.

MR. O'CONNELL: It's all right.

MR. IREY: That was within your own department. That's why I wanted you to know about it.

H.M.JR: I'd sent this but have a little covering letter saying practically what you said there at the end.

MR. O'CONNELL: Sure.

H.M.JR: That the President was interested and everything else.

MR. O'CONNELL: In his spare time he might read it.

(The Secretary hands the memo back to Mr. O'Connell.)

Advertising Agency Executives' Luncheon -- March 24, 1945.

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A G E N D A

(Mr. Thomas Lane to preside)

1. Mr. Lane - Introduces Mrs. Morgenthau.
2. Mrs. Morgenthau - Welcomes guests to our luncheon and introduces Secretary Morgenthau.
3. Mr. Morgenthau -
 - A. Thanks the advertising agency executives for what they have done in the past War Loans.
 - B. Points out the general problem of the 7th War Loan with particular emphasis on sales to individuals. Discusses how radio, particularly commercial radio, can do a job in support of the "E" Bond and individual Bond campaign.
 - C. Asks for continued cooperation as we are entering the 7th War Loan.
4. Mrs. Morgenthau - Adjourns the luncheon to the Projection Room.
5. Mr. Lane presides at the Projection Room -- introduces Mr. Ludlam.
6. Mr. Ludlam - Discusses "ONI -- all-out for the Mighty Seventh."
7. Mr. Lane - Introduces Mr. Gamble.
8. Mr. Gamble - Explains the importance of the 7th War Loan -- the variety of appeals that must be made to "sell" the buyers -- emphasizes the fact that we are doing two War Loans instead of three, and that radio's contribution must, therefore, be concentrated.
9. Mr. Lane - Discusses the general Advertising, Press, and Radio campaign. Again stresses the two loans instead of three in 1945.
10. Mr. Lane - Introduces Mr. Carr.
11. Mr. Carr - Discusses radio campaign details.
12. Mr. Lane - Introduces Lt. Levy.
13. Lt. Levy - Briefly describes transcribed plans and presents the picture, "Pury in the Pacific." After presentation of picture, Lt. Levy asks the group to serve as an executive committee of night-time radio; He asks them to pledge two War Bond shows for each network program

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during Seventh. He asks them to appoint a steering committee to line up all commercial shows to follow suit. In addition, he asks for four radio men to assist Julian Street. He discusses daytime serial committee. He discusses future meetings in New York.

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WOMAN SUNDAY MORNING, BROADCAST, MARCH 24, 1945

RALPH BUTLER, Supervisor of Daytime Radio, Young & Rubicam, Inc.

HARRY ACKERMAN, Vice President in Charge of Radio Production,
Young & Rubicam, Inc.

Rep Harrison	Fannie Hurst Presents
Two on a Glass	Bright Horizon
Belling Diamond	Paul Manning
Happy Island	Jayce Jordan, M.D.
World Today	Kate Smith Speaks
Kate Smith Hour	New Adventures of Sherlock Holmes
The Alrich Family	Dinah Shore Program
Great Moments in Music	Little Center
Alan Young Show	Adventures of Ozzie & Harriet
March of Time	Melody Roundup
Marion G. Hill	Duffy's Tavern
My Best Girls	George Burns & Gracie Allen
Mystery Theater	Those We Love
Inner Sanctum	

PAUL NICKENBACH, Vice President in Charge of Radio,
Radio, GMA & Radio, Inc.

Jack Carson	Bob Hope
City Service Concert	Key Kynde
Here's to Romance	Your Hit Parade

ARTHUR WEISS, JR., Vice President in Charge of Radio,
Radio, GMA & Radio, Inc.

Armstrong Theatre	Hour of Charm
Cavalade of America	Ign Harvey
Fashions of Nations	This Is My Best
Let's Pretend	Stop That Villain
Town Meeting of Air	

ROBERT D. VOELKE, Associate Radio Director,
Radio, GMA & Radio, Inc.

Breakfast at Sardi's	Jack Borch
Breakfast Club	Gilbert Martin News
One Man's Family	Irene Beasley

MARION CONNELLY, Administrative Assistant to Vice President in Charge of Radio,
Radio, GMA & Radio, Inc.

Fortia Faces Life	Women of America
Prudential Family Hour	Young Doctor Malone
Rose Marie	Hannell House
When a Girl Marries	Toastie Time

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CARLTON V. ALCOCK, Director of Radio
Radio, GMA & Radio, Inc.Theatre of Romance
Bill Stern Show

WILLIAM MASON, Vice President, Radio, GMA & Radio, Inc.

FRANK LYON, President, Radio, GMA & Radio, Inc.

EDMAN BROWN, Independent Producer.

Thin Man
Inner Sanctum

MISS TOLMY, Executive Assistant to Frank Mason, Radio, GMA & Radio, Inc.

David Harbo	Frank Page Farrell
Lova Lorton	Romance of Helen Frost
Backstage Wife	Our Gal Sunday
Stella Dallas	Second Husband
Loraine Jones	Amma
Young Widder Brown	Devlyn Vinters
Just Plain Bill	Valiant Lady

MERITT BARNUM, Vice President in Charge of Programs,
Radio, GMA & Radio, Inc.

Amos 'n Andy	Bob Burns
Aunt Jenny	Buckle or Nothing
Lionel Barrymore	Everything for the Boys
Big Sister	Kilary Queen
Major News	The Shadow
That Brewster Boy	

JAMES MANILLA, Program Supervisor,
Radio, GMA & Radio, Inc.

Boston Symphony	Right to Happiness
Breakfast at Sardi's	Need of Life
The Goldbergs	Gracie Radio Newspaper
I Love a Mystery	Truth or Consequences
Life Can Be Beautiful	

G.M. COTTINGTON, Director of Radio Department
Radio, GMA & Radio, Inc.Carnation Hour
Gabriel Heatter

PROCESSED FROM WASHINGTON AND WILL BE REPRODUCED

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Secretary Morgenthau
Mrs. Morgenthau
Mr. Ted E. Gable
Mr. Thomas H. Lane
Mr. Jack Delaney
Mr. Eugene Carr
Mr. Julian Street, Jr.
Mr. George Indlan
Sgt. J. A. O'Hara, USMC
Lt. (jg) David Levy, USNR

March 24, 1945
2:32 P.M.

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Miss Grace Tully: I got your package.

HMJr: You did?

T: You're an angel.

HMJr: (Laughs)

T: Thank you very much. I was so excited yesterday that all you got out of your mouth was "What's your favorite?" (Laughs) But I really was upset because I should have had that thing in while you were all there, but I really was upset because I usually try to follow through but I had asked them to let me know, and then it messed up everything. However, you did see it, did you? You went back?

HMJr: Why, - what's more, I swiped the copy.

T: The copy, I see.

HMJr: And then last night Boettiger was questioning me, you see?

T: Ahuh.

HMJr: And I was kidding him about having done this, cause I learned about it in the War Department.

T: Yes.

HMJr: And then it seems there was another memorandum where he said he had dictated -- or his wife had about --

T: The directive thing. Ahuh.

HMJr: Yes. And tried to examine me as to whether the President had that or not. And I said, "Well, I don't know, I was sure you had given it to him, but just when, I didn't know."

T: Ahuh.

HMJr: But he didn't have it when I was in there.

T: Ahuh. Well, he didn't. -- You know, I took it in, and then you went back, and I just wondered what

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T:(cont) happened -- if you got it all straightened out.

HMJr: You mean the one saying, "This should supersede March 10th?"

T: Yeah.

HMJr: Was that with the other one?

T: Yeah, that was with the other one. I had them both on the top of the envelope addressed to Grew.

HMJr: Well, of course, what had happened. I, on my own, asked the President to write in "This should supersede", and he did that, you see.

T: Yes.

HMJr: So that was done.

T: Yes.

HMJr: But it worked out --- how did the sense --- the way I would have like it.

T: Oh, good, and then that -- that didn't make any real difference --

HMJr: No.

T: I didn't think it did, although I didn't see the rest of it, and of course know nothing about it, really.

HMJr: No, it was good.

T: Ahuh.

HMJr: It was good, and from the President's standpoint, which, after all, is important, he now has something which represents how he feels.

T: Yes.

HMJr: And the other time they whipped something across his desk which was just what he didn't want.

T: Yes.

HMJr: And so, altogether, I'm very happy.

T: You think it has worked out satisfactorily all the way around?

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8 HMJr: Entirely.
T: Fien. Well, that's a relief.
HMJr: Now -- it's more than a relief. After all, what we are arguing about, as I told you, is the future of the world.
T: Yes. Well, that's very important, and it's very important that it should be done the way the President wants it done, and not too many people in on it with ideas that are not his ideas.
HMJr: That's right. I got in a letter yesterday asking him whether or not it was agreeable to him that I should go ahead the next two months and prepare a book on the economics of Germany.
T: Ahuh.
HMJr: He's got the letter.
T: Yes, sir.
HMJr: And I thought you might follow up to see whether you couldn't get an answer for me.
T: All right, fine.
HMJr: It was given -- put in his hands.
T: Well, I'll look in the box, and take it out and put it with the things and see if I can get an O.K. on it.
HMJr: Well, he may be awfully rushed today. Are you going up-country with him?
T: No, sir.
HMJr: Oh.
T: My Mother hasn't been very well, and I think I'll stay at home and be with --
HMJr: Oh, I'm sorry. Is Dorothy going?
T: Yes.
HMJr: Well, I think --- he's too rushed today, I wouldn't rush him, but if you could get him to do it at HYde Park.

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8 T: All right. Maybe that would be better --
HMJr: It would be nice --
T: -- because he still has the Governor-General and I think they are going down to the station and what not, so I may not see him until late this afternoon. It may be too late to take anything much up with him.
HMJr: Well, I'd let Dorothy handle it...
T: All right, fine. I'll remind her.
HMJr: in that good DuShess county fresh air.
T: (laughs) That will help.
HMJr: Right.
T: Are you going up to the country?
HMJr: No, Elinor and I are going this afternoon to Florida.
T: Oh, are you?
HMJr: Yep.
T: Oh, that's nice.
HMJr: And we'll let you take care of the world.
T: (Laughs) I'm sure I'll do that well. Well, goodbye, Mr. Secretary, and a million thanks to you.
HMJr: Right.
T: You are awfully sweet to think of me.
HMJr: Well, it is just a slight token.
T: Well, thanks so much, sir. I shall enjoy it.
HMJr: Bye.
T: Thank you, goodbye, Mr. Secretary.

March 24, 1945
3:46 P. M.

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HMJr: Cy, some weeks ago I asked you to look into the National City and Chase, I think, on their bond exchange transactions.

Cyril

Upham: Oh, yes.

HMJr: I never got a report out of you.

U: Oh, I gave one to Mr. Bell almost immediately.

HMJr: Well, it never got to me.

U: Well, I'll look into it, sir.

HMJr: What?

U: I gave it to him, I think it was the next day.

HMJr: Never got it.

U: Well, I'll get it for you right away.

HMJr: All right.

U: Surely.

March 24, 1945
4:30 p.m.

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BRETTON WOODS

Present: Mr. O'Connell
Mr. White
Mr. Bernstein
Mr. Luxford
Mr. Brenner
Mrs. Klotz
Mr. Fussell

H.M.JR: I don't see you walking on your toes, Mr. Luxford. Where is the great Feltus?

MR. WHITE: He has gone. He went to New York.

MRS. KLOTZ: Do you know Mr. Brenner, Mr. Morgenthau?

H.M.JR: Yes. You write some swell letters, Mr. Brenner. They are actually English. I am not used to that.

MR. BRENNER: (To stenotypist) Be sure you got that down.

MR. O'CONNELL: The rest of us may resent that.

H.M.JR: You may.

MR. WHITE: He is handing out a lot of applesauce and he hasn't anything left.

MR. O'CONNELL: Very little.

H.M.JR: I just gave Frank Coe a nice one; I thought he would appreciate it.

MRS. KLOTZ: This is really a very complete letter. Now, it is very funny--

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H.M.JR: Harry's invitation is, "I should like very much to go with you, but Mr. Luxford says he is busy so I can't come."

MR. WHITE: Will you get the letter to the Times before you leave, the long letter to the Times about Boothby?

H.M.JR: No, I had no letter.

MR. WHITE: I would like to have you sign it before you go. I think I sent it to Gaston, but I think he is out.

MR. BERNSTEIN: He wrote the letter.

MR. WHITE: Not the short one, no.

H.M.JR: You have got a limited amount of time. I don't know what you are going to do, but make up your minds.

(Mr. Fussell enters the conference.)

H.M.JR: Now look, you people, Luxford--this thing here--if you don't mind following up, Nunan tells me you can't break the bottles. That is, this bottle breaking business comes under you (O'Connell). Last Saturday they criticized us on the radio, so have another look at the thing. It doesn't seem to be quite clear, and it seems that right now with the shortage of labor and everything, we could ease up a little on that.

MR. O'CONNELL: I think we could. The memo you got from Nunan is not very clear.

MR. LUXFORD: I spoke to Joe about it.

MR. O'CONNELL: I will fix it.

H.M.JR: Will you?

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MR. LUXFORD: You don't want me to do anything on the other side of this thing?

H.M.JR: No, when we have got a good story, then we might get Drew Pearson and tell him we have done something. Wait until we have done it, and then--

MR. LUXFORD: So it is a clean job.

H.M.JR: As clean as it is usually.

MR. LUXFORD: All right.

H.M.JR: O.K. That is that.

And now, gentlemen, I am at your service.

MR. WHITE: There is a major issue that has cropped up as to strategy.

H.M.JR: Just remember you asked me to do two things yesterday, to call Green and Flanders. I missed Flanders, but I spoke to Ruml.

MR. WHITE: Both were good.

MR. O'CONNELL: What about Green?

MR. WHITE: The Secretary just called Green.

H.M.JR: Just this second--he said he was going to testify favorably. I just got him out of bed.

MR. WHITE: I'll let Luxford state the issue. It should be decided before you leave.

We are on opposite sides of the fence.

MR. LUXFORD: We went through a little appeasing, and Harry doesn't want--here is the story: The other day, a week ago, when Harry and I were up with these Republican Senators versus Burgess, Burgess at that point said, "I think we could accomplish a whole lot more around the table discussing it than in hearings towards adjusting our differences."

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H.M.JR: To whom?

MR. LUXFORD: To Harry and me.

H.M.JR: Burgess?

MR. LUXFORD: Yes.

MR. WHITE: I didn't hear it.

MR. LUXFORD: I heard it, and the other day--

MR. WHITE: I don't say he didn't say it; I say I don't remember or didn't hear him.

H.M.JR: You are not calling him a liar.

MR. LUXFORD: Not to my face. (Laughter)

The other day, apparently, he also sounded me and Bernstein out by saying, "I think we ought to sit down and talk about this a little bit." Now, here is what occurs to us: We do have some ground in the draft of the legislation where we could yield to them a little bit without hurting ourselves a bit. The Committee has asked Burgess to come back there with specific amendments he wants to make in the legislation. If he wants to talk to us, the Treasury doors are open.

(Secretary holds a telephone conversation with Admiral Brown.)

H.M.JR: O.K., where were we?

MR. LUXFORD: The two things particularly in my mind are A, that Burgess has indicated he wants to sit down, and B, he did two things when he testified. He said he would hold his nose, but he would take Bretton Woods, and he said he was in accord with the principles of the CED report.

Now, if he is going to go back and write the specific amendments they want to make, I think the time to, if we are

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going to do anything, is before he sticks his neck out in writing.

H.M.JR: Counsellor, I will give you a decision from the bench. I think that we should sit down with Burgess and I recommend that Mr. Daniel Washington Bell, if you like middle names, be present. See? And ask Bell what other banker. Now, I was in there the other day, and Tom K. Smith tells me that--Tom K. Smith is in charge for the whole country, and it is his responsibility to get a State Chairman of the ABA for each State to be State Chairman of ABA for war bonds. That is, he spent an enormous amount of time. I went in there, and he said, "Burgess wouldn't even talk to me. I am an outlaw because I have been working on Burgess to cut this stuff out, and I am entirely opposed--I made Burgess President of the ABA, and I am damn sick and sorry I ever did," and he is past president.

Now, I would ask Dan. He has got a lot of influence. He is from the Middle West, and he is for us. It would be good to have somebody like that there.

MR. LUXFORD: I would like to hear what he has got to say.

H.M.JR: He has a great responsibility, and that fellow has really worked hard for the Treasury, but I wouldn't leave a stone unturned to sit down with these fellows. And we have nothing to lose, except maybe a little pride.

MR. LUXFORD: That is what I meant.

MR. WHITE: It isn't pride; if it were pride, it shouldn't hold in the balance at all. The question in my mind was whether that should be the strategy, because I can't but believe that he would not go along with us to the extent that it is acceptable to us and that he will utilize that for his own purpose.

H.M.JR: He will go around telling everybody we won't sit down and talk it over.

MR. LUXFORD: That is right.

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H.M.JR: Maybe we could get Ned Brown to be there. He would be very useful, Ned Brown and Tom K. Smith.

MR. LUXFORD: You would like to have Tom K. Smith?

H.M.JR: If Bell approves. He said he is for this, and Tom Smith has a lot of influence, and don't forget he has got forty-eight fellows, each one a State Chairman for War Bonds. He has his own organization, in other words, you see, and these fellows are important fellows in the States. And I don't think Tom would lie to me. I would do it, and the worst that he can say is, "Well, we are trying to call the fight off."

MR. LUXFORD: There is nothing wrong in that. I would like to see him think he made a victory if he will go along.

H.M.JR: My horseback opinion is, he has talked to E.M. He has talked to you, but he doesn't like White. I don't know whether he likes me or not.

MR. BERNSTEIN: He doesn't like any of us, Mr. Secretary.

H.M.JR: I don't think he likes any of us, but that is neither here nor there. My answer to you is, make an honest effort. But I would have some help like Brown and Smith if Bell approved it. But I would surely have Dan Bell; he is right up to here (indicating) on Randolph Burgess. He will fight. He has got his belly full of Burgess, see!

MR. LUXFORD: I think Burgess thinks he has got a fight he can't win so he better get out of it.

MR. WHITE: What is your reason? I didn't have a chance to talk with Joe.

MR. O'CONNELL: I didn't think there was much to be gained, and there was too much risk of loss in doing it at this point. I didn't think there was any reason why we should sit down with Burgess at this point. Maybe he is ready to run, but he will be as ready to run after the recess when we come back again, and there may be a little pride in it as far as I am concerned. It may have been my emotional reaction.

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H.M.JR: All my pores are open, and I am fully sensitive to this thing, and I have a record of eleven years, and I have never quit in eleven years, and I am not ready to quit yet, but I think it would be good strategy in view of this thing that he cannot go around and say he made approaches to us and then nothing happened.

Now, one other thing--and one of you make this note-- I sat next to the President of the biggest bank in Philadelphia and asked him whether he would call a meeting of the bankers and come out publicly, and evidently they have. Now, I don't know whether it was a result of my asking this guy who was at Dave Stern's dinner.

MR. WHITE: You asked him to have a dinner, which he had, and I don't think he was--but I will find out and get the details. He was calling that dinner. He called me a couple times and said he wanted the Secretary to know he was calling this dinner, "Because I promised, and I am not going to have Burgess or the others down here at that dinner, because I told the Secretary it would be for information and not debate." He did have that.

H.M.JR: What's his name?

MR. WHITE: I wrote it down, but I don't have it with me. Williams--

MR. BERNSTEIN: Evan Randolph.

H.M.JR: It is twice as big as any other bank. Well, anyway, if he did do it--

MR. WHITE: I will find out.

H.M.JR: ...he should be thanked by me, and he might be an ally on this thing.

MR. BERNSTEIN: Mr. Secretary, I think we have reached the stage in our discussions with Burgess that you mentioned when Burgess was last here. He has had a chance to make a point for the record; everybody knows how he feels; the time has come to call off the fight before it gets so bad that we

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have international repercussions, and he may be content to do it. If he will agree to the articles of the agreement, we will take whatever we can get in legislation. That is reasonable.

H.M.JR: Look, boys--

MR. WHITE: That is all. We put it up to you. I still think he is a rattlesnake, but--

MR. LUXFORD: So do I.

H.M.JR: There is no disagreement. You are asking my advice to settle an argument, and--

MR. WHITE: The discussion is over; we presented both sides, and we got your decision; and if I had a great conviction that you were wrong, then I would argue more about it, but I haven't. Obviously there is good sense in what you are saying.

H.M.JR: Thank you, sir.

MR. WHITE: And there is some sense in the way I feel, but-- (Laughter)

H.M.JR: Now wait a minute. I am not through.

MR. WHITE: Oh, O.K. We are the only two fellows against it; the others are all strong on your side. We have given you our feeling, and our conviction isn't strong.

H.M.JR: You tell Gaston what happened here. (To Fussell).

MR. O'CONNELL: Treasury and Burgess continue to operate as a team.

H.M.JR: Tell Gaston, and Dan Bell. Act as a reporter if you don't mind. Give them a report Monday on what happened here, Mr. Fussell.

I saw the Speaker last night at dinner, and he said we were short two votes. Mr. Baldwin and a fellow up there--

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MR. O'CONNELL: Barry--

H.M.JR: And he said we may have to get it out--pass it with amendments. That is one of the things, you see. Now, you were going to see Mr. Hannegan.

MR. O'CONNELL: I have already.

H.M.JR: Would you mind giving me a report, if you please?

MR. O'CONNELL: I did tell you the day I talked to Hannegan. I talked to Hannegan, and he promised he would go to work on it. He didn't say exactly what he would do. Before that Nunan talked to Barry a couple of times without much success. I had him talk to him because they are very good friends. He is still on the fence, according to his own statement, but the most hopeful thing is, Hannegan, through Fitzpatrick or someone in New York, will be able to do something with Barry, and he promised to do everything he could.

H.M.JR: Do you think we should call up Hannegan and tell him?

MR. O'CONNELL: I don't think it is necessary.

H.M.JR: What?

MR. O'CONNELL: I don't think it is necessary. He is out of town.

MR. LUXFORD: I just got word that Wolcott is still on the fence and is looking for a compromise.

H.M.JR: Why don't I call up Wolcott and say I am going out of town and say something to him?

MR. LUXFORD: I think it would be a good idea.

MR. WHITE: A very good idea. We are bringing some pressure to bear on a couple Republicans.

MR. LUXFORD: Spence told me that Kilburn, a Republican, might be on our side. In fact, he was quite favorable.

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MR. O'CONNELL: Spence told me the same thing. I am going to talk to Kilburn Monday if he is here. I just discovered he is my Congressman.

MR. BRENNER: When Fraser was testifying Kilburn said Fraser was the man who knew most about the subject in the United States.

MRS. KLOTZ: That is a very hot letter to the editor of the New York Times.

MR. WHITE: May I say a word about that. Two letters were prepared, one a long letter, and one a short letter to Charles Mern. We think the short letter is of no value at all. The long letter would have value. We could use it either in the record, or if the Times prints it, fine. If they don't, we can make use of it. It states the whole case about Boothby and quotes the record, and so forth. So I think that Herbert preferred the short one, didn't he?

MR. BRENNSTEIN: No, I think he preferred the long one, and thought the Secretary might prefer the long one.

H.M.JR: I just wrote him a friendly letter from myself, told him all about the CED report. The editorials come out in a few days.

MR. WHITE: If that is the case, let's change a paragraph or two and the rest will be fine.

MRS. KLOTZ: You are losing time.

MR. WHITE: If he got this friendly letter, this--

MRS. KLOTZ: That is a very hot letter.

H.M.JR: I wouldn't write a hot letter.

MR. WHITE: We can change that.

MRS. KLOTZ: The last paragraph--when I read it--and also in the very beginning you are telling him it is terribly unfair.

You wanted to talk to them about Loth.

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H.M.JR: You are my liaison fellow (Luxford). I have agreed to talk in Baltimore, I think, on April 12. I am talking in New York on payroll deductions on April 9.

MRS. KLOTZ: The 10th.

H.M.JR: The 10th? And when I come back I would like a nice, smooth talk all ready for me for Baltimore by David Loth.

MR. LUXFORD: Loth, or Barth?

H.M.JR: Put him on the other thing, because he has got a labor angle, and they think he will put his heart in it.

MR. LUXFORD: Would you dictate a chit to her (Stenotypist) on Loth saying, "I am going to count on you?"

H.M.JR: No, but I will give a little chit to Fussell to give to Gaston.

MR. FUSSELL: Loth has raised his right hand in the presence of everybody here and sworn he will not prepare another speech.

MR. BRENNSTEIN: That was three weeks ago.

H.M.JR: Let Herbert take him on. Herbert will be back Monday.

MRS. KLOTZ: If he doesn't?

H.M.JR: It is up to them.

MR. WHITE: Do you have any hope at all, if you are going to be in New York, of having Sulzberger and his editorial staff there? Let's have a luncheon and see if maybe we can--

MR. LUXFORD: If we can bring them in there--

MR. WHITE: Have the Secretary ask him.

MR. LUXFORD: If Sulzberger will come without Hazlett you've got a chance.

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H.M.JR: He said he wanted me to answer.

MR. WHITE: If you ask Sulzberger, Sulzberger--

H.M.JR: I thought you said, "Why don't you let the Secretary answer?"

MR. WHITE: No, let him have Hazlett. We will let him have another go at him, and I don't know if it is feasible at all, but if we can get the Herald-Tribune, too, why maybe we can get--

MR. LUXFORD: The CED report--get him on that, and make that the basis of the luncheon.

MR. WHITE: We gave the CED report to the Philadelphia bankers, and it was amazing. I can't understand that.

H.M.JR: Here is what happened: We got so many approaches; our State War Bond Chairman had every single publisher there for lunch in connection with advertising, and he let me take--I am awfully tired. If I were going to do it, I would take the publishers of all papers on.

MR. WHITE: We have got nothing to lose, because they are against us.

H.M.JR: You have a couple of fellows like the editor of the New York Post who really knows this thing, see? I mean, what's his name?

MR. WHITE: Baker.

MR. BERNSTEIN: Thackrey.

MR. LUXFORD: You have so many against you up there it wouldn't be worth while. The Post and PM are on your side, and there are about one hundred and fifty of them against you. Take them one at a time.

H.M.JR: I haven't the time.

MR. WHITE: I think we can get them all together, and if we can't move them, we can shake them.

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MR. LUXFORD: Here is the paper, Scripps-Howard.

MR. BERNSTEIN: No papers.

MR. WHITE: The Times and the Tribune and the Sun.

MR. BERNSTEIN: I wouldn't try the Sun.

MR. WHITE: The New York Sun--we can shake them. In the interest of America it is not a partisan thing.

H.M.JR: You keep repeating that to yourself.

MR. WHITE: I will believe that after a while.

MR. LUXFORD: Pretty good Democrat, better vote for it.

The Chicago Sun called me up and said the Republicans are going to make a partisan issue of this. That is their information, and the only chance we have got of winning is to keep Baldwin and the other fellow from New York away.

MR. O'CONNELL: Away?

MR. WHITE: That is what he said.

MR. BERNSTEIN: Away from the Republicans?

MR. WHITE: Keep them from voting.

H.M.JR: Anything else?

MR. O'CONNELL: No, I think not.

H.M.JR: I am not going to hang on the phone, but I am going to call up every day.

MR. WHITE: The movie producers and the presidents of certain of the companies want to come down here. It is all right to have a meeting if Will Hays will come with them?

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H.M.JR: You didn't ask me. I never would have gone through Will Hays. Ted Gamble can get anything you want through moving picture theaters.

MR. WHITE: We wanted Will Hays because he is a Republican, and all that sort of thing.

H.M.JR: Anything you do on that you certainly ought to talk to Gamble.

(Secretary holds a telephone conversation with Congressman Spence, as follows:)

March 24, 1945
5:06 P.M.

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H.M.J: Hello. Henry Morgenthau speaking.

Spent Spence: Hello, Mr. Secretary, how are you?

H.M.Jr: Fine. I'm going out of town for a couple of days, and I didn't want to leave without saying "Hello", and tell you how much I admire the way you have been handling the committee.

S: Well, thank you very much. We're doing the best we can with some of the recalcitrant members, I think.

H.M.Jr: I know, but I think you have handled it in a masterly way.

S: Well, that's mighty nice, and I understand the United States Chamber of Commerce want to be heard.

H.M.Jr: Oh, really.

S: Mr. Eric Johnson.

H.M.Jr: I see.

S: And I said, "Well, you can be heard. We are going to let you be heard."

H.M.Jr: Well, you couldn't very well ----

S: Couldn't very well refuse him, could we?

H.M.Jr: No, no.

S: But we are not going to have any more hearings until after the recess now.

H.M.Jr: When do you ---- no more?

S: No, because they won't be there, you know. If we've got anybody there that wants to testify, they come there and testify before one or two members, they will go away feeling hurt. I think the thing to do is just to wait until --- it will be about the 10th of April.

H.M.Jr: I see.

S: I discussed it with the people in your Department, and they all seem to think that's all right. Then we'll put the pressure on then and see if we can't get it through.

H.M.Jr: Fine, and we are doing all we can on those two Democratic

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S: I know you are, and I think there are one or two Republicans that might be gotten. - Kilburn would like to go along with us if he can.

HMJr: Who?

S: Kilburn from New York.

HMJr: Oh, yes.

S: And O'Connell says he is his Congressman. He's from that district.

HMJr: Is that right.

S: Yes. It might be that we could do something with them.

HMJr: Well, we will find out how much influence O'Connell has in his own district.

S: Yes, we'll have to find out about that, and then we'll mark him up or mark him down -- as he performs, eh?

HMJr: You bet, you bet.

S: Then Berry -- I think I told them that Berry was up to see me and he said he thought one of the greatest experts on international exchange was a man named Hootney, connected with the foreign export of the General Motors.

HMJr: Yeah.

S: I'm trying to find out how he feels, because I thought if he was for us he would influence Berry. But nobody seems to be able to tell just where he is.

HMJr: No, well, he is a little dangerous. I've been up against him before.

S: He has probably guessed this because he comes from industry.

HMJr: I'm afraid so.

S: Well, we are going to get the bill out, you can bet on that.

HMJr: Good.

S: If they don't --- if they amend it in the Committee, we'll try and fix it up in the House.

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HMJr: Well, I'm sure -- now, there's nothing that will really be stirring until about the 10th. Is that right?

S: No, except you can work on these fellows in the meantime.

HMJr: Oh, we will.

S: Get the lines on them and see what influence can be exerted on them.

HMJr: Well --

S: Well, hope you have a good time, Mr. Secretary. I assure you that as far as I'm concerned that I'm in the work of the Lord, and I'm going to do all that I can to get it through.

HMJr: Well, we are very fortunate in having you as Chairman.

S: Thank you, Mr. Secretary.

HMJr: My regards to your good wife.

S: Ah, well that's -- my regards to yours.

HMJr: Thank you.

S: Goodbye.

HMJr: Bye.

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MR. WHITE: I called Clayton.

MR. LUXFORD: He is working hard.

MR. BERNSTEIN: Joe can't get this conference from Kilburn without promising to vote for him.

H.M.JR: As they say in England, better take a long week end and go home and fix your fences.

MR. WHITE: He is supposed to be a Democrat.

Mr. Secretary, I called Will Clayton up and asked whether he wouldn't have Eric Johnston to lunch, and he got busy right away and said he would this week, and invite some of us, and we will have a chance, maybe, to see what we can do with Eric Johnston, because it would be most unfortunate if he works against us.

H.M.JR: There is a fellow that comes right from Seattle.

MR. FUSSELL: Spokane.

H.M.JR: What could he do to help us, and who can we get to work on him from his home town? Think about it. Think what banker in his town would have some influence on him. See? Can you tell him? Think about it.

MR. FUSSELL: Yes.

H.M.JR: I appreciate your doing that stuff for me, but I am so tired I can't make a record.

MR. FUSSELL: Do you want us to do something further about getting one ready for you when you come back?

H.M.JR: You can make life miserable for Luxford and Bernstein and see that they have something for Baltimore.

MRS. KLOTZ: Mr. Morgenthau, may I make this suggestion? If Lota doesn't do it--and I don't know whom they are going

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to get to do it--couldn't we send it down to you so you wouldn't have to begin to do it when you get back?

H.M.JR: No, I will be back on Sunday.

MR. LUXFORD: They are better when they are late, anyway.

H.M.JR: No, no--Baltimore shipping--make it shipping.

MR. WHITE: I think that speech ought to be of a different character.

MR. LUXFORD: This is Dumbarton Oaks and Bretton Woods.

MR. WHITE: Thirty-five organizations are coming to support international cooperation; Bretton Woods and Dumbarton Oaks are two sides of it.

MR. LUXFORD: Acheson will be on the program.

H.M.JR: And put Congressman Baldwin on the program.

MR. LUXFORD: With Radcliffe, both of them?

MR. WHITE: Senators, too.

H.M.JR: Congressman Baldwin--oh, well, give him a speech and make him come through. He wouldn't dare stand up there--I got more out of old Bob Doughton when we went down to Winston-Salem and glorified Bob Doughton, and he has been my friend ever since. I would build the thing right around Baldwin.

MR. WHITE: Senator Radcliffe--

MR. LUXFORD: We need him, too.

H.M.JR: Do it for both, please.

Gosh, you are a tough crowd. Didn't I time my going away wonderfully? No more hearings until the 10th.

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MR. WHITE: Spence wants to go home; at least that is my impression.

H.M.JR: Who was that actress who said, "I want to go home?"

MRS. KLOTZ: Greta Garbo.

MR. LUXFORD: Have a good rest.

H.M.JR: Good night, boys.

March 24, 1945
4:35 P. M.

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William S.
Green: Hello.

H.M.Jr: Henry Morgenthau.

G: Yes, sir.

H.M.Jr: How are you?

G: Pretty well, thanks. How are you?

H.M.Jr: I'm all right, Mr. Green. The last time I talked to you, I arranged to send over several of our men to see you on Bretton Woods.

G: Yes.

H.M.Jr: And I wondered how good a job they had done.

G: Well, a very good job. I'm planning to get over before the committee this week.

H.M.Jr: Are you going before the committee?

G: Yeah.

H.M.Jr: Oh, fine. And I take it that you are for Bretton Woods.

G: Yes, I'll go over before the committee this coming week.

H.M.Jr: And I say, you'll give a favorable report?

G: Yeah.

H.M.Jr: Well, that will be most helpful.

G: All right, I'll be glad to do that.

H.M.Jr: I always remember the day you sat down here with us and the first broadcast we made on War Bonds, and how helpful you have always been.

G: Yeah. Well, I'm always glad to cooperate with you.

H.M.Jr: And that goes both ways.

G: Thank you.

H.M.Jr: Bye.

March 24, 1945
4:44

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HMJr: Hello.

Admiral Brown: Is Secretary Morgenthau there?

HMJr: He's speaking, Admiral.

B: Oh, Mr. Secretary, I have a memorandum which I have just gotten this moment from the President.

HMJr: Yes.

B: Directing me to take up with you a request from the Editor of the Chicago paper, Louis Ruppel, executive editor, about a group getting the group of Marines who took part on -- who hoisted the flag in that photograph in that now famous picture. He asked to have them brought over there to Chicago to take part in the bond sale, and the President said to ask you what you thought about that. I had previously told the President that I had discussed it with Vandergriff, and Vandergriff said from the standpoint of morale of the Marines, that he rather questioned the advisability of picking those people out rather than some of the men who had done more heroic fighting and bringing them back. However, if the President wanted it done, that he was only too glad to do it. Now, apparently, I think perhaps what the President wants to know from you is do you think it would help the sale of bonds, and do you recommend it from that standpoint?

HMJr: Well,---

I thought --- there's a little cross here -- doubling up, but that's all right. Grace Tully went over this whole thing with me two days ago.

B: You don't mean it?

HMJr: Yeah.

B: Well, this came from her and said ---

HMJr: And I told her to tell the President that if he thought well of it, we'd be very glad to have these four or five men who raised the flag come on. That my suggestion was that if the President was here, he was going to help me open the drive on May 13th. And I told her it would be nice to have them here at that time, and have some kind of a flag ceremony.

B: Yes.

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HMJr: At which the President will be present, and they could raise some sort of thing, but this idea did not originate with me, but we will be very glad to have them, very glad to have them for a month and let them travel around the country, and it would be definitely helpful.

B: Yes, I should think so. That picture, of course, has made a great hit.

HMJr: And, we've taken that picture and had a beautiful oil painting made of it and it is going to be the official poster for the 7th War Loan.

B: Well, that accounts for a previous note that the President put on which I hadn't understood - to the effect that he doubted whether he, the President, would be on hand on May 13th.

HMJr: Well, I just ---

B: This particular telegram didn't mention anything about May 13th, and I didn't quite understand what he meant.

HMJr: Well, the point is this. I asked him whether he would help us open the Drive. He had the other one, and I thought if he was going to do it, wherever he was - if he is in the country - then it would be nice to have these men and sort of go through the same sort of thing, you see.

B: Yes. Well, suppose I tell Vandergriff to have the men sent on. Then to whom should we look for instructions about how we want to use them.

HMJr: Theodore Roosevelt Gamble.

B: Theodore Roosevelt Gamble?

HMJr: Yes.

B: G A M B L E

HMJr: Yes, National Director of War Bonds.

B: Is he in your Department?

HMJr: He's Assistant to me.

B: I see, well, thank you, Mr. Secretary. I'll do that.

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HMJr: I got a scare when you called me.

B: Why?

HMJr: Well, the last time I got a call like that it was to let me know Bob's ship was sunk.

B: Oh, gosh.

HMJr: So I couldn't think it was anything else but that.

B: Well, I'm sorry to cause that.

HMJr: Well, that's all right.

B: How is he now?

HMJr: Well, he's all right. He was on Iwo Jima, and he is on the Harry F. Bauer.

B: Oh, really.

HMJr: We haven't heard a thing. I gather that now that they have announced the sinking of this aircraft carrier.

B: That -- I think there weren't any very serious losses.

HMJr: No.

B: It's my recollection that they cleared people out pretty well.

HMJr: But there were no other losses -- no destroyers at that time.

B: No, not -- I think not.

HMJr: Well --

B: We -- they had some sweepers or something, but I think they've made all the announcements. They certainly have all of the personnel.

HMJr: Right.

B: Yeah, Thank you, goodbye.

HMJr: Bye.

March 24, 1945
5:43 p.m.

Operator: Go ahead.

HM Jr: Hello?

Ralph E. Flanders: Hello.

HM Jr: Morgenthau speaking.

F: Yes, Mr. Morgenthau.

HM Jr: I just wanted to call you up and tell you how pleased I was with that report you got out on CED.

F: Well, we thought it was a constructive report.

HM Jr: Well, so did I, and I understand that you personally worked very hard on it, and I just wanted to tell you that I thought you did a swell job.

F: Well, many thanks for that. We think there is use for this for both the Bank and the Fund.

HM Jr: Well, I am glad to know it, and it was most encouraging, and I just wanted to let you know how I felt personally.

F: I appreciate it very much - your going to the trouble of calling me up on this. Well - we did put in a good deal of work on it and had both sides, and took several months on it. It wasn't a quick

HM Jr: I know that, and the next time you come to Washington, be sure to look me up because we have lots to do yet on Bretton Woods.

F: All right. Thank you.

HM Jr: Thank you very much.

F: Goodbye.

March 24, 1945
5:45 P.M.

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HMJr: Hello.

Col. John Boettiger: Hello, Henry.

HMJr: John.

B: Yes, sir.

HMJr: They have just handed me a release of a broadcast at 7 o'clock tonight by Murphy and Dunn on Postwar Germany, and it is terrible.

B: Really?

HMJr: Yeah, and what it looks like is, you see, they have been beaten, and now we have smoked out the people who are really fighting the President. I think it is outrageous.

B: For Heaven's sake.

HMJr: It's to be released at 7 o'clock tonight. Murphy and Dunn are going on the air on Postwar Germany.

B: They never cleared it over here, I'll tell you that.

HMJr: Well, now, they should have.

B: They should never give a thing like that out. I'm amazed at those people.

HMJr: Well, it's just that we have smoked the large fellows out.

B: Really.

HMJr: Yep. They've done it -- you see, they are licked and now they have shown their hand. They are trying to overthrow what was done yesterday. I think it is outrageous.

B: There's nothing that can be done about it, is there?

HMJr: No, nothing can be done except that it can be brought to the President's attention that these boys have at last shown their hands.

B: Well, --- I agree with you. I will do everything - ah - I can to bring it to his attention, of course, if -- you will probably see him before I do.

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HMJr: No, I won't because I'm leaving tonight in an hour and a half for Florida.

B: Well, so is he.

HMJr: But he is going North.

B: Yeah, I mean he is not going to the same place, but he is leaving.

HMJr: In an hour and a half?

B: No, no, no, but --

HMJr: He's not leaving until eleven.

B: But we have some guests tonight that you couldn't discuss it in front of.

HMJr: Well, I imagine -- mine came over the U P ticker, that is where I got mine from.

B: Oh, no.

HMJr: Yeah. I tell you what I'll do.

B: Did you get the text of it?

HMJr: No.

B: Off the ticker?

HMJr: Yes, most of the text.

B: Look, I'll get it off of the ticker over here right away.

HMJr: It came over 419 on the U P ticker.

B: 419 on the U P.

HMJr: Yep.

B: I'll get it right away, and if I have a chance -- Well, I'll make a point of getting up a little bit early --

HMJr: The importance is that you and I were sitting around last night, and who was the fellow -- now, I think they have hung themselves with their own rope.

B: I -- there is one of them that I have never had any use

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B:(cont) for at all.

HMJr: Doc?

B: The other fellow I like very much personally. He's charming and grand to be with, but I think he is just gullible more than he is devious and dirty.

HMJr: Yeah.

B: Well, I'll look at it right away, Henry, and thanks a lot for calling it to my attention, I'll do everything I can.

HMJr: Righto. I'll be seeing you when we get back.

B: Can you tell me how the paragraph that the President approved that came in late, was to be inserted in the peace? Do you know anything about -- was that discussed with him at all?

HMJr: I tell you -- exactly what happened -- I was out of the room. You see, it was brought in late.

B: Yeah.

HMJr: And so Dunn asked me about it. Hello?

B: Yes.

HMJr: Not Dunn, Grew.

B: Yes.

HMJr: --asked me about it on the phone, and I said why don't you just staple it on to the front page? You see?

B: Yes.

HMJr: Then it becomes a part of the document. He did it and they sent it over and then his secretary called us up and said they wanted to recall it and retype it and put it in somewhere else. That's all I know. That happened today. I don't know what you know.

B: Well, they -- Doc Matthews tells me that they had it inserted way at the end of the thing in a place where it was utterly incongruous.

HMJr: Now, my copy, as I remember -- just a minute, let me see -- Mrs. Klotz, let me ask you (talks aside)

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HMJr: She doesn't know, but the point was when Grew asked me I said, "This is to come at the end of page one." Hello?

B: Yes.

HMJr: And I said, "The easiest thing is just staple it right on to the front page."

B: Well, you had it right. It was to come at the end of Page One. I take it that I -- you see, I never saw the original.

HMJr: No -- it would come at the end of Page One because it preceded -- and in the memorandum it said just where it should come.

B: Yes.

HMJr: And I told Grew to staple it on with a couple of staples.

B: Well, then ...

HMJr: And I'm pretty sure that the one he sent to me was that way. Then they sent for it and recalled it this morning, and it is on it's way over here now.

B: In other words, they picked up the one they had sent to you, and you haven't got that anymore.

HMJr: They recalled it.

B: Yeah. Well, you haven't got it, then. I thought they might have cancelled it or something like that, but they actually took it back physically.

HMJr: They took it back physically.

B: Well, they had it in the wrong place, anyway, according to what Doc Matthews told me, they had it buried in the back end of the thing.

HMJr: Well, the way this little memorandum read it was absolutely in the right place, and when Grew said how should he handle it -- I'm repeating myself, I know -- I said, "It goes at the end of the bottom of Page One, so take a couple of staples and staple it right on there."

B: Well, that would have been all right if they had done it that way, but instead of that they must have put it on the

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B:(cont) bottom of Page Two according to what Doc told me.

HMJr: Sometime, you know, Grew doesn't hear very well.

B: Yes.

HMJr: But if he read the memorandum, it was clear enough!

B: Well, O. K., Henry, I'd better get down there and get that thing and have a look at it before I --

HMJr: O. K.

B: And, look, have a good trip and get a good rest.

HMJr: I need it.

B: (Laughs) So do I, I wish you would take me and Anna along.

HMJr: Well, if you change your mind, send us a wire and we'll get you a reservation.

B: You mean you can control it then?

HMJr: Oh, you mean at the hotel.

B: Oh, at the hotel -- I thought you meant on the railroads.

HMJr: No.

B: (Laughs)

HMJr: No, I didn't -- no, no, the Army controls that, you know.

B: (Laughs)

HMJr: I just meant at the hotel.

B: Yeah. All right, thanks, Henry, and do have a good trip, get a good rest.

HMJr: Right. Hello?

B: Yes.

HMJr: If there is any trouble where that thing goes, on the front page or otherwise, you get in touch with our people

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B: There won't be now, I'm sure. I haven't got the new one yet. They tell me in Grew's office that we can have it at five o'clock. I sent an officer over there at five o'clock, but he hasn't gotten back yet.

HMJr: Well, I understand it is to come back too, but they can't do any finagling. Mrs. Klotz just gave me - the attached paper; no I haven't got it, I thought I had it.

B: Ahuh.

HMJr: I haven't had it come in yet.

B: Well, there won't be any trouble about it because it was arranged for Grace Tully to call through and tell them exactly where it was to be and that's why they had to recall them.

HMJr: Well, they recalled all of my copies. O. K. if you get a chance you look at this thing, and I think you will be shocked.

B: All right, I will right away.

HMJr: All right, bye.

B: Bye.

March 24, 1945

Dear Mr. Williams:

My visit to Minneapolis was one to remember in many ways.

You convince me that you are a real judge of human nature, by the rightful importance you place upon the matter of a grandfather being presented to his granddaughter.

Beyond this there was the opportunity to do a real job for Bretton Woods and another in advance preparation for the Seventh War Loan, and I am glad indeed to learn from your letter of March 19 that you believe we have made progress in these directions.

I thank you for the copies of Commercial West, for the helpful way in which you have put the Treasury position before your readers and for remembering the personal factor, as well.

Please give Mr. Noright my good wishes, and thank him, also.

Sincerely yours,

(Signed) Harry Wornathaw, Jr.

Mr. Willis L. Williams, Editor
Commercial West
603 Second Avenue South
Minneapolis 2, Minnesota

HRF:vm 3/24/45

Commercial West

NORTH DUSTRIOT BANKER • MINNEAPOLIS BUSINESS • MONTANA BANKER

THOMAS A. BORIGHT • PUBLISHER

THE FINANCIAL WEEKLY OF THE WEST • 801 SECOND AVENUE SOUTH • MINNEAPOLIS 2, MINNESOTA

TELEPHONE ATLANTIC 1881

March 19, 1946

Henry Morgenthau, Jr.
Treasurer of the United States
Washington, D. C.

Dear Mr. Morgenthau:

Needless to say, both Mr. Boright, our publisher, and I enjoyed meeting and talking with you during your visit last week in Minneapolis.

We feel that you and your associates accomplished a great deal of good for the Bretton Woods pact, as evidenced by comment we have since heard from our bankers and other business leaders.

We have published in the March 17 issue of Commercial West, on page 9, an interpretative article concerning your visit which we trust correctly portrays your objectives, including that of the Seventh War Loan.

We are forwarding you under separate cover a copy of the March 17 issue and also of the March 10, on page 10 of which you will find a feature story on Granddaughter Joann.

With all best wishes, I am,

Very truly yours,

William A. Williams
WILLIAM A. WILLIAMS
Editor

WLM:RDP

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MAR 24 1945

Dear Mr. Crow:

Thank you very much for your kind letter of March 20, in which you enclosed a transcript of the remarks made at the luncheon on February 26.

I am returning the transcript with some minor corrections.

Sincerely yours,

(Signed) H. Mergenthau, Jr.

Mr. Allen B. Crow, President,
The Economic Club of Detroit,
1101-2 Washington Blvd. Bldg.,
Detroit 26, Michigan.

RB:ehb - 3/24/45



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THE SECRETARY OF THE TREASURY
WASHINGTON

Dear Mr. Crow:

Thank you very much for your kind letter of March 20, in which you enclosed a transcript of the remarks made at the luncheon on February 26.

It was a distinct pleasure to attend the luncheon given by the Economic Club of Detroit and we were very much impressed by the reaction of the members and their guests. May I again say thank you for all you did for us.

I am enclosing the transcript which you sent me with some minor corrections.

Sincerely yours,

Mr. Allen B. Crow, President,
The Economic Club of Detroit,
1101-2 Washington Blvd. Bldg.,
Detroit 26, Michigan.



The Economic Club of Detroit

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1001 1/2 WASHINGTON BLVD. BLDG.
DETROIT 26, MICHIGAN

March 20th, 1946

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

Dear Secretary Morgenthau:

Confirming our brief conference, following the notable addresses with which you and Congressman Jesse P. Wolcott, supported by Messrs. Harry D. White and Ansel F. Luxford, of your staff, favored those present at the luncheon held in your honor under the auspices of The Economic Club of Detroit in the Grand Ball Room of the Book Cadillac Hotel Monday noon, February 26th, the writer is handing you herewith a copy of the transcript of your remarks as prepared by our official stenographer.

Accordingly, we shall be pleased to have you edit the same and return to us so that we may prepare revised copies for distribution to our members and guests, to the librarians of the various universities of this area as well as those of the City of New York and of The National Association of Manufacturers who have made request for the same.

Upon receiving your revised transcript, we shall then be pleased to forward to you copies in the same form in which they will be distributed to our members together with newspaper references to this significant occasion.

We congratulate you upon the universally favorable comments which we have been receiving concerning the impression that you and the members of your staff made upon those present, for your very comprehensive, clear and challenging statement regarding The Bretton Woods Monetary and Financial Conference and of the necessity for us all to give you men the support which you will require if you are to insure the ultimate adoption of this further instrument in some form which will bring about an established world order and a lasting peace.

Having received from your office additional copies of -

THE BRETTON WOODS PROPOSALS
BRETTON WOODS AND INTERNATIONAL COOPERATION
BRETTON WOODS AND FOREIGN TRADE
BRETTON WOODS PLAN TO PREVENT INTERNATIONAL
FINANCIAL CHAOS

these also have been mailed to the 1500 leaders of management, labor, government and the armed forces included within our member-

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ship and we are confident that they will contribute very materially to bring about the understanding and cooperation which will make these measures most effective at the earliest possible date.

Trusting that you will feel free to make any comments and recommendations to us at any time whereby we may further extend and strengthen the service which we are endeavoring to render to the leaders of management, labor, government and the armed forces operating in this "Arsenal of Democracy", the writer remains

Very gratefully yours,

Allen B. Crow
President.

O:G

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MAR 24 1945

Dear Mr. Steel:

After spending an enjoyable afternoon with you and your colleagues on Wednesday, I heard your broadcast Wednesday evening and was delighted to find that you were telling the real story of Bretton Woods to your many listeners.

I earnestly hope that you will continue the fine work.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Mr. Johannes Steel,
Radio Station WJLB
New York City, N.Y.

RB:ec 3/23/45

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MAR 24 1945

Dear Dr. Kingdon:

I should like to express to you my appreciation of your recent remarks on the radio in connection with the Bretton Woods proposals. I am in complete agreement with you that these plans must be adopted if the United Nations are to establish a stable post-war world.

It was a pleasure to meet you in New York on Wednesday and I look forward to further meetings in the near future.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Dr. Frank Kingdon
Radio Station WJLB
New York City, N.Y.

RB:ec 3/23/45

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MAR 24 1945

Dear Miss Sergio:

It was a pleasure to hear your recent broadcast in which you stated that Bretton Woods offers the soundest foundation yet proposed for the post-war world. I hope you will find time in the future to keep your listeners posted on developments in connection with the Bretton Woods legislation now pending before Congress.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Miss Lisa Sergio
Radio Station WQXR
New York City, N. Y.

MB:ec 3/22/45

WEEKLY DIGEST OF RADIO OPINION

A condensation of views on important public affairs broadcast by professional radio commentators, occasional speakers and participants in forums and roundtable discussions.

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Vol. 8 No. 22

March 17, 1945

Did You Hear?

JOHN B. KENNEDY (NBC) says that dollar diplomacy grew out of the fear that the Mexican City government.

THOMAS FRANKLIN (Blue) declares that the Roosevelt bill would be a repetition of 1918. Your armies would be allowed to remain in place.

LARRY KIM (CBS) asserts that a coalition of New Deal Democrats and Republicans planned to force the labor draft bill through next V-E Day as part of the re-election campaign.

DWIGHT SCHUBERT (MBS) says the fight in the Rhine would be a real one.

NEWMAN THOMAS (CBS) declares that unconditional surrender must be absolute.

RAYMOND WALSH (WBMA) says a real strike was unlikely.

H. V. KALLENBORN (NBC) asserts that the United Mine Workers were practically being asked by the Government to vote for a strike.

FELTON LINDS, JR. (MBS) comments that Congress, by letting munitions legislation go into a long joint conference, might then kill the law.

EARL GROWIN (Blue) notes that the Bretton Woods debate was going to be a row between Wall Street and Main Street.

MORRIS BEATTY (NBC) says the first crash in Germany should appear at the top.

H. R. BACKHAUSE (Blue) asserts that although an investigation of other government agencies than CCC was hinted, it's unlikely Congress will do so.

J. RAYMOND WALSH (WBMA) asserts that the interests of the people and of our economy demand that the Government use its own name.

The contents of this issue of the *Weekly Digest of Radio Opinion* were compiled from 1573 programs, totaling 404 hours and 40 minutes of broadcasting time monitored from 6 p.m. March 9 until 6 p.m. March 16 in New York City, and from March 8 through March 15 in Los Angeles.

Listen, Adolf!

Here's some radio reaction to a recent proclamation by Hitler:

JOHN B. KENNEDY (NBC): No Adolf, you can bet there won't be a repetition of 1918. Your armies would be allowed to remain in place.

WILLIAM L. GILBERT (Blue): Hitler's proclamation was evidence of Germany's total breakdown. His decision to continue fighting makes certain the destruction of the Reich.

GABRIEL BEUTLER (MBS): Yes, Adolf, we are tired—tired of being forced to sacrifice our sons every 25 years to new wars made in Germany. And we're determined it won't happen again.

H. R. BACKHAUSE (Blue): It's evident there is no plan for setting up a German puppet government from which the United Nations would accept surrender.

CORRIE POSTER (MBS): If one reads between the lines of Hitler's speech he can find an allusion to a third war. Even if they lose the present war, Hitler says, the Reich can still rise from its ruins.

PAUL SCHUBERT (MBS): Hitler preaches a fight to the death, but there remains the question of whether he'll practice what he preaches. If he runs for his life, National Socialism will be as dead as was monarchism in Germany after the Kaiser abdicated.

BILL CANNONBUSH (Yankee): This is the last mad episode of the grandiosest hysterical man who promised the world a master race. Now he bequeaths it instead a murdered nation.

KALLENBORN WINS

H. V. KALLENBORN, of NBC, has been awarded the de Post award as the commentator of "most conspicuous merit" in 1944. WJLB, Detroit, was the award for the best large station and WTAF, Worcester, was named the outstanding small station.

A NOTCH TO LEFT

Britain, said Eric Sevareid (CBS), has moved a notch closer to the left during the war. Britons realize that private enterprise won't be able to make the grade without government help.

Toward V-E Day

Some forecasts... Germany's Equipment and Supply Problem... German Generals and Peace... A View for Strong Allied Propaganda... "Hard Peace" as Academic Question.

German Breakdown Soon

The end of the war in Germany depends, said William Gilbert (Blue), on how much military equipment the Germans can move into the inner Reich from Czechoslovakia, Slovakia and the Ruhr.

DWIGHT SCHUBERT (MBS) forecast the complete breakdown of Germany in April, though sporadic fighting will continue for some time.

ALICE HUGHES (WBMA) remarked that Hitler couldn't find a better time to quit than April. Easter is the symbol of peace. Von Rundstedt will very likely make his own bid for peace on behalf of the German generals in the West, asserted David Plummer (WBMA). The worst of the war criminals will fight on after the surrender.

Poison Gas?

Dr. Edward J. Rupp (WEVD) thought Hitler might try poison gas in a last-minute effort for a negotiated peace.

CORRIE POSTER (MBS) said it was futile to forecast the duration of the war in Europe. The surrender of the German people will be prevented, effected only through the total destruction of the German armies and the occupation of Reich territory by the Allies.

PAUL SCHUBERT (MBS) commented that the Germans didn't fight to the death at Stalingrad or in Tunisia, and it's doubtful they will now.

WALTER WINCHELL (Blue) asserted that the collapse of Germany would be the war—except for those who are not coming back.

FRANCIS ROBINSON (MBS) asserted that a good Allied propaganda campaign might be more effective than a military drive in getting the Germans to quit.

QUINCY HOWE (CBS) remarked that the question of whether Germany should get a hard peace had become largely academic. Our air forces have assured that the Reich will long lose the wars of war.

JOHN PAGE (KDTL), commenting on

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COMPLETE TEXT OF ANY STORY IN THE WEEKLY DIGEST IS AVAILABLE

the possibility of a junction between the Allied and Russian armies, said this could occur within a month on the northern plains of Germany, in Berlin, central Germany, or the area between Czechoslovakia and the French Vosges Mountains.

MARTIN AGRESTY (Blue) said reports that the Allies won't accept a separate peace on the Western Front infer that von Rundstedt has already made such an offer and been refused.

SYDNEY MOSLEY (MBS), won't be the signal for a landing rush into Germany. A strong east-west bridgehead must be built before the real push can begin.

CORRIE POSTER (MBS) thought that if the Germans could muster the strength for a Rhine counterattack they might push us back. It's a question of who can get stronger faster.

WILLIAM LANG (MBS) pointed out that although the end of the European war was definitely in sight, it's well to remember that victory depends on such factors as the final Russian offensive and good weather for Allied air power.

The Germans, commented George Brooks (WNEW), may be planning a general retreat into the Bavarian mountains. This would explain the reported appointment of Field Marshal von Model to succeed von Rundstedt as commander of the Western Front. Von Model organized the German retreat after Stalingrad, and also the withdrawal from France.

RAYMOND GRAY SWING (Blue) observed that all figures on German production of food, oil and munitions belied any long continuation of the war by the Nazis.

ECONOMIC ROYALISTS

Roosevelt's early attacks on economic royalists, asserted Quincy Howe (CBS), while championing the common man, may have been a ruse. Many people have failed to consider that the economic royalist and the common man were the same person in the Roosevelt perspective.

WEEKLY DIGEST OF RADIO OPINION

Food

World News Roundup (NBC) reported that a food war was brewing in Washington over food. The question is whether the State Department should use food as a political weapon at the peace conference, whether the Army should use it as a control on civilian morale, or whether it should be controlled for civilians.

Americans, said Raymond Gray Swing (Blue), should be told that the food situation in Europe was desperate and that it will get worse as we move into Germany. The people have a right to know the reasons for the sacrifices they'll be asked to make.

Feeding Germany's victims must be our first concern, asserted Corrie Poster (MBS).

Quincy Howe (CBS) declared that the British people were concerned over the new U. S. food controls, fearing that our shipments of meat may be limited.

Over the Rhine

Prospects

Another few weeks should see the major part of the Allies' task in Germany completed, thought H. V. Kallenborn (NBC). Then several more weeks will be required for mopping-up operations.

The optimists are talking about April 1 as the date the German war will end, said Morgan Beatty (NBC). The pessimists say by then who wouldn't know a silver lining if they saw one.

Richard Hackman (NBC) reported that the new 15th Army was undoubtedly Eisenhower's ace in the hole. It will be used for large exploitations. When we hear that it's gone into action, the news will be a tip-off as to where the commander had set his main line of action.

H. W. Chaplin (NBC) cautioned against being influenced by overoptimistic war reports so that home front efforts are lessened.

The big decision in Europe, said George Brooks (WNEW), will be reached after the Russian and Allied armies join in the heart of Germany.

German Strategy

Bill Costello (CBS) saw new indications that the Germans may be planning to let us through in the West, while beating off the Russians in the East. A strong hint in that direction is Goebbels' statement that the German generals won't follow a scorched earth policy in the West.

Harold Peters (Blue) London) commented on the difficulty of determining war aims of the average German. The Allies haven't time to sift Nazi Party workers from civilians.

J. Raymond Walsh (WBMA) thought Germany's armies might falter and finally quit.

World Politics

Our Foreign Policy

Quincy Howe (CBS) said that when FDR's foreign policy is compared with that of his predecessors it can be seen that he is moving into the post isolationist era. In the past few years, it has been said that the nation is in a better world, that we have concentrated on internal American unity, that Russia seems to be winning domination over Europe, and that Britain has expressed her intention of holding her colonies.

While Churchill and Stalin accepted Roosevelt's terms at Yalta, judging a free government for Germany, said H. V. Kallenborn (NBC), they apparently intended to interpret them in their own way. Russia's current action in that country seems to be the first violation of the Yalta agreements.

Americans, said Raymond Gray Swing (Blue), have misapprehensions as to what the world we can't wait out on world economy at all though it was a day, because we didn't have any of the resources. The only way to achieve peace is through agreement. We must meet our allies half way.

Newman Thomas (CBS) declared that destruction itself would be harmful if it gave the world an illusion of peace; the imperfections, with those of Yalta, are manifold. There won't be permanent peace unless we provide for independent self-government everywhere, purge the Axis states of bad leadership, guard against corruption. The unconditional surrender idea must be abandoned.

Raymond Gray Swing (Blue) asserted that reparations in kind would be just retribution for Germany. When the Germans have rebuilt what they destroyed they would go back home.

Corrie Poster (MBS) urged that there be no soft peace for her country.

Peace Feelers

Frank Slaughter (MBS) thought it likely that some sort of peace negotiations with Germany were in progress; however, in diplomatic such things are never done directly and reports would be officially denied.

Peace feelers made by the Germans at Stockholm should be studied, asserted Morgan Beatty (NBC). This is the time for such overtures and they will be more frequent.

Harry Jacob (WOW) said it was certain the Germans were plotting out peace bids. The fact that no war ends of the patents registered in Russia in the last six months are German-owned is an indication that the Reich is interested in quitting.

John Page (KDTL) asserted that we were witnessing another attempt to split the Allies through rumors that Hitler and staff were trying peace bids.

WEEKLY DIGEST OF RADIO OPINION

Home Front Bridgeheads

"Excessive rates in part due to the fact, and when they are to improve, some and discounting for others. As while the new is without light, people in home are seeing better bridgeheads in the home front. That effort is being made by his business in an unusual part of getting into the most profitable position to maintain prosperity. Organized labor is doing the most. But it is the CIO and AFL are dominating the U. S. Labor Board and trying to reach the Little Steel formula. It is simple enough to resort to legislative and condemn all sections of his business or condemn everything that organized workers do. But much of what back groups do is motivated by nothing more than the effort to get the greatest possible security."

—LEWIS, BROWN (MBS).

The Coal Miners

Labor Board

Asserting that the Government was virtually asking the mine workers to vote a strike, H. V. Kalbfleisch (NBC) said it was ironic that the National Labor Relations Board should order a huge sum spent to report such a vote. That's what we've come to in our vain attempt to make sense out of wartime labor relations.

Estelle M. Sternberger (WLIB), declaring that the Government would seize the coal mines as a result of the National Labor Relations Board decision, said there is an question but that a strike vote would be unanimously Yes. But the Government won't give the people the chance to vote Lewis, and will take over the mines before public opinion can turn completely against him. Should the Government do so, and raise mine wages along the Little Steel formula, it will be the beginning of nationwide pressure to increase pay.

J. Reginald Lewis (WBCA) said the wage question will be one of the biggest political issues, and that if Lewis breaks present wage controls it will undoubtedly be more than labor leaders can stand.

Coal and Hitler

The coal miners, commented Walter H. Beckell (Blue), should remember that without them our soldiers can't dig Hitler's graves.

Don Goodrich (Blue) thought the prospects of a peaceful settlement of the mine wage problem were growing dimmer.

Don Goodrich (NBC) thought Burke's action only inflamed the situation, showing that Burke was as stubborn as Lewis.

Irving T. MacDonnell (WEEI) said Senator Connally still had the idea it takes two parties to make a dispute. In Washington, it's inferred the Senator is wrong—there are parties who can create disputes without cooperation.

The Home Front

Labor

The most made by labor itself, programs has been demonstrated, said J. Reginald Lewis (WBCA). Among their deficiencies has been an unwillingness to back an labor turnover, as not can be their own administration support. Improvement of Labor.

Carl Brown (MBS) reported a growing cynicism among workers that fighting their war contracts also means the end of their jobs. Only Congress can reverse this.

Morgan Dunlop (NBC) asserted that major issues of governmental wartime powers in relation to labor-management disputes seemed unlikely, said Fall.

Estelle M. Sternberger (WLIB) thought the solution to the Detroit labor difficulty lay not in rules and formulas, but in the hearts of industrial men. It's a case of whether they want to produce more for the sake of an earlier victory, or whether they wish the maximum amount of money for a minimum of work.

Breton Woods

Breton Woods, in *Link Service* (WQXR) opinion, offers the best basis thus far for a sound post-war world. Another nations will be greatly influenced by our stand in this plan. They'll ask for a bill of rights and freedom of the press at the San Francisco conference.

Gabriel Heatter (MBS) declared that if Congress begins its look into the future by targeting the Breton Woods program with encumbering amendments, we can be sure it's the beginning of trouble and disillusionment. Other nations that approved the plan "as is" will take the amendments as indications of lukewarm faith in post-war unity.

Dr. Frank Kingdon (WBCA) stated that the plan must be adapted to its reality if we are to build a stable post-war world.

If we expect our export trade to help maintain our economy we must help the devastated nations of Europe regain their feet, said William Gulliver (Blue). This is one reason why the Breton Woods proposals are vital to the success of a world security organization.

The alternative to Breton Woods, said Earl Gohwin (Blue), is hunger, starvation and war. This is going to be a row between Main Street and Wall Street.

Miscellaneous Comment

The Supreme Court may be delaying its Montgomery Ward decision for two reasons, asserted Heatter. It realizes wartime precedents are always difficult after the war, and also that this is the period of adjusting the rights and privileges of labor and management.

James Strommen (NBC) thought Senator Taft's demand that MacArthur be returned to Washington to assume a high office might start a political battle in the capital. Up to now the conduct of the war

They Asked for It!

The time approaches when the hard service conditions that have gradually evolved from the Conference, Tehran and Crimea conferences will really go into effect... when we put to the test the theory that because all the major wars of the past century have originated in Germany the liquidation of Germany will lead almost automatically to the liquidation of war. Hitler, the man of all evil, is now damned and the German people, his accomplices, are doomed with him. Then comes Japan's turn. Her people live a similar fate... that question, however, remains unanswered. Where does the rest of us go from here? Perhaps the United Nations conference at San Francisco will come up with the answer.

—QUINCY HOWE (CBS).

has been left in the High Command, a policy that has well dividends. It should be continued; politics shouldn't enter into the direction of the war.

Willingness of the United States to participate in a "repacked" "freedom of the air" program, stated H. V. Kalbfleisch (NBC), indicates that we don't fear competition of foreign airlines.

Martin Agressky (Blue) said the most determined effort at character assassination we've seen in this war. It's actually a reopening of the Wallace squabble, with the issue New Dealism. The battle will continue as long as the President believes it's the Government's policy to serve the public.

PEACE TERMS

The Jews will be short in the treatment the Allies give Germany after the European war, said George H. Combs (WHN), and unexpectedly drastic terms might stir Japan to desperate acts. It might be well not to settle the peace obligations of Germany until the Japanese are defeated and forced to accept unconditional surrender.

EXPORT BUREAU

Martin Agressky (Blue) said the new Committee to Control Exports was organized to halt wasteful overlapping of functions, not to stop shipments of food and raw materials to our Allies.

CAMPAIGN EXPENSES

Richard Harkness (NBC) commented that it was plain the British "clean politics" law had been ineffective in limiting political expenditures when the Democrats and Republicans spent \$25 million in the 1944 campaign, whereas the act was intended to limit their spending to \$5 million.

Congress and Manpower

In Detroit

Polson Lewis, Jr. (MBS) said the Detroit labor shortage, which has been turned up since disarming facts for man agreement in force, one Packard plant was closed to operating at 70 per cent efficiency, another at nearly as low level. The best situated plant in making its a fixed price basis, business should satisfy the obvious question: "How come?"

Advocates of the manpower bill with teeth, asserted Richard Harkness (NBC), must remember that the control managers of the Packard plant said his factory was getting only 70 per cent efficiency from his workers. The U. S. Employment Service in Pennsylvania can't find jobs for war veterans. Where does that leave those who say there's a shortage?

Morgan Dunlop (NBC) observed that the Detroit shortage brought out Detroit's suggestion of the only solution, which behind the work to have not. But labor and management express a fear, but neither seems to want a draft.

Legislation's Prospects

Joe McCarty (CBS) thought the manpower bill had a good chance of being kicked out the window.

Dr. Frank Kingdon (WBCA) said everything in the manpower discussion was incidental to whether we were going all possible to help our fighting men.

Congress, observed Martin Agressky (Blue), may end up by having to manpower measure at all.

Left Kid (NBC) commented that there was a good chance Eisenhower would be in Berlin before Congress decided whether it wants manpower legislation.

Only a draft of labor from essential to essential jobs can meet the production emergency that will confront us within the next six months, said Leiford Stone (Blue). A "work or else" bill for the duration would in no way undermine our liberties. Various national groups are unwilling to make the sacrifices they would impose on others.

Bruce Shaw (Blue) said the Senate was avoiding the only vital issue before it — manpower.

Dr. Frank Kingdon (WBCA) declared that out of the most amazing of the current sensations against full employment was the Senator Taft-New York Herald Tribune charge that it is communistic. In other words, they say the people must decide to go hungry or into Communism.

PANTRY GUARD

Because we have been a little extravagant in serving our guests from our pantry, said H. B. Beckley (Blue), Economic Mobilizer Rhyms has been forced to set a guard over our storehouse in the form of Leo Crowley's new committee to control the export of food.

WEEKLY DIGEST OF RADIO OPINION

OUT ON A LIMB

A wholesale shakeup in our Pacific command is imminent. It appears Marshall will be appointed commander.

—Johnnie Steel (WBCA).

The WPS will exempt veterans from priorities so that they can go into business... Razing won't be resumed and the midnight curfew won't be lifted until all military demands in the Pacific are more than met.—Draw Pearson (Blue).

The Government will seize the coal mines as a result of the NLRB decision.

—Estelle M. Sternberger (WQXR).

Prime Minister MacKenzie King of Canada may be the chairman of the San Francisco conference.

—George H. Combs (WHN).

In Indo-China full-scale rebellion will come when the Allies get within striking distance.—Charles Hodges (MBS).

West Coast Comment

Ray Miller (KID) said the Nazis were preparing the German people for the end of the war in exactly the same way they prepared them for the beginning of it—by an amazing flood of double talk and pseudo-mysticism. Having failed to defeat the Allies in battle, they now believe they can defeat them merely by being defeated. They are threatening to leave a desperate, hungry, fanatical German populace on their hands in the occupied areas.

Mrs. James E. Sidney Wales (KROW) declared that of all the countries of Europe, with the exception of Switzerland, Sweden had the greatest opportunity to serve as the escape route of underground information from inside Germany.

Henry Fitzner (KXN) warned that there's no one excepting the war in Europe to be over soon. The Nazis cannot surrender, and they are Germany today.

Ray Miller (KID) asserted that an allied landing somewhere on the Asiatic mainland was coming sooner or later, and he thought it might be sooner.

Edward Jorgensen (KFI) said France's attitude indicated that she wasn't going to make any greater contribution to the peace than she made toward winning the war, with the likelihood she may become the parish nation of Europe and retard her own advance for many generations.

CHINA'S COMMUNISTS

Estelle M. Sternberger (WLIB) asserted that the U. S. Government wants to arm the Chinese Communists and then have them fight Japan.

Foreign Affairs

Rumors

We might as well expect the imitation to this last Russian withdrawal of the Moscow news on up a Communist government in Iran, said Gabriel Heatter (MBS). The same spirit of British anti-

—Johnnie Steel (WBCA).

—Johnnie Steel (WBCA).

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—Johnnie Steel (WBCA).

MAY 2 1945

Dear Mr. Denny:

As you prepare to observe the tenth anniversary of America's Town Meeting of the Air, may I express the confidence that the occasion will be a happy one. It should be.

In this fast moving world of ours, ten years means that your program has faced successfully the tests that confront any new idea. The Town Meeting has done more than survive; it has grown. And in these facts, I think, there is ground for optimism for all Americans and for the people of less happy lands.

We Americans continue to believe that talking things over is the best way of finding out who is right and who is wrong, or of reaching a workable compromise, when men of many minds are unable to agree on the best method of attaining an objective that all agree upon as desirable.

Radio discussion is playing a part of ever growing importance in helping Americans to separate the true from the false, to make up their minds on what is best for America. It offers an example, not only for the peoples of other nations, but for their governments. For in joint consultation and discussion lie the best hopes of states, no less than the best hopes of happiness for individuals.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Mr. George V. Denny, Jr., President
The Town Hall, Incorporated
123 West 43rd Street
New York 18, New York

HMF:vw 3/22/45

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MAR 24 1945

My dear Senator:

I am grateful for your invitation to appear before the Foreign Trade Subcommittee of the Senate Small Business Committee on April 17 to discuss the basic aspects of the national program for post-war international trade, with particular reference to the Bretton Woods proposals. My keen interest in the subject of the work of the Subcommittee makes it a matter of special regret to me that my present engagements will not allow my appearance at the time suggested.

I am hopeful, however, that we can arrange for the appearance before your Subcommittee of a Treasury representative, perhaps Mr. Harry White, or someone working closely with him on the Bretton Woods proposals. I am asking Mr. O'Connell to discuss the subject with you with that end in view.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Honorable Claude Pepper,
Chairman, Foreign Trade Subcommittee,
United States Senate,
Washington, D. C.

TJL:mv

12"

JOSEPH E. MORROW, CHAIRMAN
 ALLAN J. KLEINBERG, V. P.
 JAMES M. WELCH, V. P.
 DON KENNEDY, CLERK
 CLAUDE PEPPER, CLERK
 JAMES E. SCHWARTZ, CLERK
 WALTER M. SCHWARTZ, CLERK

HERBERT ANDERSON, EXECUTIVE SECRETARY

United States Senate

Special Committee to Study Problems of
 American Small Business

March 22, 1945

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

My dear Mr. Secretary:

As part of its investigation of expanded export-import trade as a factor contributing to the prosperity of American small business in the post-war years, the Foreign Trade Subcommittee of the Senate Small Business Committee will hold public hearings beginning April 16.

The general scope of the Subcommittee's interest and the phases of American international trade particularly to be studied are outlined in the enclosed preliminary report "World Markets for Small Business." As will be seen from this report, our interest in post-war foreign trade is two-fold. We wish to explore its possibilities not only as an avenue of direct opportunity for small concerns, but also as a means toward the attainment of a high level of business activity that will benefit all sections of our economy.

The Subcommittee would appreciate your appearing before us at the opening hearings on the morning of April 17 to give us the benefit of your views on the basic aspects of a national program for post-war international trade. More particularly, we should appreciate your discussing the implications of the Bretton Woods proposals for the small foreign trader and the financial aspects of foreign trade operation for smaller concerns. What measures, consummated or in progress, have been taken by the Government towards the accomplishment of the desirable foreign trade program and the assurance of small business participation? What further measures are required to that end?

I shall be happy to discuss with you any question you may have concerning the Subcommittee's program. Our staff also will be glad to cooperate with your office for this purpose.

Will you please let us have, by April 9, a copy of the statement you propose to make at the hearing?

I look forward with pleasure to seeing you.

Sincerely,

CLAUDE PEPPER
 Chairman, Foreign Trade Subcommittee

enclosure

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bank income is now subject to excess-profits taxation. Sample figures are in process of compilation but are not yet available.

2. Methods of reducing bank earnings

It may be desired either to reduce the present level of bank earnings or to avoid a substantial increase in future earnings. Some available measures are the following.

a. Tax measures

(1) The tax liabilities of banks could be increased if the tax exemption currently granted to State and municipal securities were removed. Legislation to accomplish this has been attempted before, most recently in 1942, without success.

(2) Even if tax exemption continues to be granted the tax liabilities of banks could be increased if bank expenses attributable to the earnings of tax-exempt income were disallowed as a deduction from taxable income. A method of allocating expenses as between these two classes of income was recommended to you in 1942. It was discussed in the Department and with representatives of the bankers. The bankers and Chairman Eccles opposed the measure and you decided not to recommend it to Congress.

(3) It has also been suggested that the excess-profits tax might be continued after the war with respect to banks. This would not reduce the present earnings level after taxes, but would largely reduce further increases. However, it would discourage expansion of private loans and would encourage banks to purchase fully tax-exempt securities instead.

(4) The excess-profits tax could conceivably be tightened on banks as compared to other industries, by reducing the excess-profits credit and increasing the rate. Both the economic desirability and political feasibility of such a step may be questioned.

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- 3 -

b. Non-tax measures

The earnings of banks subject to Federal regulation could be reduced if the banks were forced to replace some of their present holdings of Federal securities with lower interest-bearing Federal issues. This might be effected through a change in the reserve requirements, necessitating the holding of a volume of special, very low rate interest-bearing securities.

c. Combination of tax and non-tax measures

A plan has been suggested under which tax and non-tax measures would be combined to reduce bank earnings. Under this plan, a low rate interest-bearing short-term Government note would be issued, the interest on which would be subject to normal and surtax only. The present excess-profits tax would be continued with respect to banks and would apply to earnings other than the interest from these special notes. However, if the holdings of such notes by any particular bank amounted to more than a stated percentage of its deposits (65 percent was suggested), the bank would automatically become exempt from this tax. This plan would, therefore, force the banks either to accept lower earnings or to face higher taxes. It would encourage banks to enlarge their holdings of these notes while discouraging other loans and investments.

3. Remarks

This is only a preliminary memorandum. If you wish the matter explored further we shall be glad to do so. My present thought would be that the disallowance of expenses attributable to tax-exempt income is desirable and may well be politically practicable, that the repeal of the exemption of State and municipal bond interest is not politically practicable, and that the other tax measures mentioned for reducing bank income ought to be pretty carefully examined before being taken seriously as they might do unintended harm.

Roy Blough

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March 24, 1945

TO THE PRESIDENT:

Paul McNutt furnished me a copy of his letter of March 15, 1945, to you regarding the disagreement between the Treasury and the Federal Security Agency on the employee coverage definition in our respective regulations under the Social Security System.

For your information I am enclosing a copy of my reply sent to Paul under date of today. In view of the fact that the Ways and Means Committee recently voted unanimously to conduct a study of the whole Social Security program, I feel that there should be no change in our regulations until that study is completed.

DWH:NLN

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MAR 24 1945

Dear Paul:

I have your letter of March 15, 1945, enclosing a copy of your letter to the President concerning the coverage definition in the respective regulations of your Agency and this Department under the social security laws.

As you know, the Treasury has consistently supported expansion of the social security program and is greatly interested in securing as wide coverage as possible. I think it should be clear, therefore, that the disagreement between the two agencies, to which you refer, is not the result of differences in basic principle. It arises from differing interpretations of how broad a definition of employee the court decisions and the history of the social security legislation permit the Bureau of Internal Revenue to make.

The regulations of the two agencies adopted the same definition of employee in 1936. These regulations, you state, have been construed by most of the courts as embodying narrow common law rules. You propose so amending the regulations as to "make them better accord with the social and economic realities." You will recall that the Ways and Means Committee, when considering the Social Security Amendments of 1939, in commenting on a proposed expansion of the definition of employee stated:

"A restricted view of the employer-employee relationship should not be taken in the administration of the Federal old-age and survivors insurance system in making coverage determinations. The tests for determining the relationship laid down in cases relating to tort liability and to the common law concept of master and servant should not be narrowly applied."

In striking the proposal the Senate Finance Committee specifically said it would be "inexpedient to change

- 2 -

the existing law which limits coverage to employees." Faced with this mandate rejecting an enlarged definition, the Department has regarded its authority as so limited.

The Department has in no wise relaxed its efforts to obtain as broad coverage as possible within what it regards as the framework dictated by Congress. This is illustrated by the Department's urging a petition for rehearing of the denial of certiorari in the Beard case, which was filed on March 17, 1945 by the Solicitor General, subsequent to the date of your letter. The result reached by the Supreme Court may well resolve the issue, and I feel that no action should be taken pending the outcome of this proceeding.

In view of the definite action taken by the Congress in 1939, and the absence of a Supreme Court decision that a broader interpretation of employee is intended by the legislation, I have grave concern in the present situation about the possible implications of a change in the regulations by this Department. As you know, extensive revision of the social security program has been urged by the Administration and in Congress, and the Ways and Means Committee recently voted unanimously to conduct a study of the matter. Under these circumstances I think any action by this Department or your Agency on the narrow question discussed in your letter might have unfortunate consequences on the broader program.

I sincerely believe that our paramount objective should be cooperation toward effective action in revising and extending the social security program in the interest of the public generally.

Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Paul V. McNutt
Administrator, Federal
Security Agency
Washington, D. C.

CG:RUC:hds
3-23-45

FEDERAL SECURITY AGENCY

WASHINGTON

Zone 25

OFFICE OF
THE ADMINISTRATOR

MAR 15 1945

PERSONAL

Dear Henry:

I enclose a copy of a letter which I am sending to the President about the disagreement between your Department and this Agency concerning the coverage definition in our respective regulations under the Social Security System.

The problem, as you know, has to do with the coverage of workers such as insurance and other salesmen, taxicab drivers, lumbermen, fishermen, home-workers, and others whose working conditions are economically and socially those of employees but who are frequently classified under technical common law rules as independent contractors. I believe the enclosed copy of a letter to the President is self-explanatory and adequately sets forth the position of this Agency, which has been opposed by your Department, for the amending of the regulations to make them better accord with the social and economic realities of employment, the intention of Congress and modern judicial interpretation.

I would appreciate it if you would give this situation your personal attention. I hope that you will be in accord with the views of this Agency, which, as I understand, are concurred in by the Secretary of Labor and supported by the Solicitor General. Since the potential social security rights of more than a million workers are involved it is essential that this long-standing problem be resolved at the earliest practicable date.

Sincerely yours


Administrator

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



F-5
M-5
P-5

FEDERAL SECURITY AGENCY
WASHINGTON

MAR 15 1945

Dear Mr. President:

The Treasury Department and the Federal Security Agency are in apparently irreconcilable disagreement concerning the coverage definition in their respective regulations under the Social Security system. As the potential Social Security rights of more than a million workers are involved, the disagreement seems to be of sufficient importance to warrant submission to you.

The problem has to do with the coverage of workers, such as insurance and other salesmen, taxicab drivers, lumbermen, fishermen, homeworkers, and many others, whose working conditions are economically and socially those of "employees" but who are frequently classified under technical common law rules as "independent contractors." The present regulations of the two agencies, written in 1936, have been construed by most of the courts as embodying narrow common law rules, and thus as excluding from Social Security protection a large portion of the workers within this twilight zone.

We have long urged, and the Treasury Department has long opposed, amendment of the regulations to more than better accord with the social and economic realities. Recent court decisions have sharpened the issue but have not enabled us to resolve it.

In a decision last April under the National Labor Relations Act, which is not overshadowed by restrictive regulations, the Supreme Court adopted a broad interpretation of the word "employee" in the light of the social purposes of that legislation, and expressly rejected common law criteria as controlling. (National Labor Relations Board v. Hearst Publications, Inc.) The Government thereupon sought Supreme Court review in a Social Insurance case. Certiorari was denied. While no reasons were given for the denial, the most likely reason is that the present regulations were thought to preclude a broad interpretation of the Social Security tax provisions similar to that given the Labor Relations Act.

My informant with the Solicitor General stated. He expressed the opinion that the Treasury regulations and ours are narrower than the at large, are covering effective defense of Social Security coverage in the courts,

was ought to be amended. He subsequently reiterated his opinion in a letter to us in which he said:

"As you know, I believe that the courts have unduly narrowed the scope of this legislation, and have excluded from coverage many classes of workers which the legislation was designed, and should be construed, to reach. I do not believe that this restrictive judicial attitude has been called for either by the terms of the legislation or by those of the regulations. At the same time, the regulations in their present form have given some color of justification to the prevailing judicial attitude, in that they contain language which is at least ambiguous, and fail to speak with clarity and directness about what has been in fact the administrative position of the departments concerned. I do not suggest that in the initial stages of the social security program it could have been feasible to devise more satisfactory regulations; but I do believe that experience has shown the need for their amendment in order more fully to reflect the underlying objectives of the program. It is clear to me that maintenance of the regulations in their present form will impose an unfortunate and unnecessary stumbling block in the way of successful establishment of the program in the courts."

I enclosed a copy of this letter to the Secretary of the Treasury, but his General Counsel has advised us that the Treasury Department is still unwilling to amend its regulations.

The Secretary of Labor, concerned with analogous problems under the Fair Labor Standards Act, has expressed our views in our view.

The Social Security Board is prepared to amend its regulations at once to embody the views expressed by the Supreme Court in the Labor Relations act case. To do so without simultaneous amendment by the Treasury Department, however, even if it would not constitute a public airing of an inter-agency disagreement such as you have forbidden, would be contrary to the basic idea of a contributory social insurance system that the same rules govern liability to tax and entitlement to benefits. Independent action would give the people affected an unbalanced view.

The Treasury Department expresses doubt of its legal authority to amend its regulations. With all deference, I submit that the views of the Solicitor General are sufficient answer to this objection.

It is clear or even that, since Social Security amendments are frequently to be considered each by Congress, the problem should be dealt with by legislative classification. But I hope that Congress may bring these

border-line workers into the system next year is small comfort to those now reaching the age of retirement who, if our view is correct, have for the past eight years been earning wages in covered employment. The Social Security Board is faced, day in and day out, with the choice between paying benefits where no taxes are being collected or denying benefits where the Board and our General Counsel, with the concurrence of the Solicitor General on the broad issue, think that the law requires them to be paid. I do not believe that a prospect of legislative action excuses us from enforcing the present law in accordance with the intention of Congress, the economic realities of employment and modern judicial interpretation.

Respectfully

(SIGNED) PAUL V. MC NUTT

Administrator

The President
The White House
Washington, D. C.

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MAR 22 1945

My dear Judge Vinson:

In accordance with your recent conversation with Under Secretary Bell, I am sending today to the President for approval through the usual channels a proposed Executive Order transferring to the Reconstruction Finance Corporation control of the notes and securities of the Seaboard Airline Railway Company and the Seaboard-Bay Line Company now held by the Treasury Department.

These notes and securities were taken by the Government pursuant to section 410 of the Transportation Act of 1940, as amended.

As you know, the Seaboard has been in receivership since the early 1930's and is about to emerge from reorganization. The Government's claim in the reorganization including interest, amounts to approximately \$24,000,000 and this will result in the Government's having a substantial stake in the new company.

I understand that Mr. Frank C. Wright, Special Assistant to the Board of Directors, Reconstruction Finance Corporation, is conversant with this reorganization and will be able to bring you up to date on the details.

If the President approves the proposed Executive Order, arrangements will be made to turn over to the Reconstruction Finance Corporation the notes, securities, and files pertaining to this carrier.

Very truly yours,

(Signed) H. Morgenthau, Jr.
Secretary of the Treasury.

Honorable Fred M. Vinson,
Federal Loan Administrator,
Washington, D. C.

RMF:opr
3/20/45

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Through the Bureau of the Budget
Attorney General
Division of the
Federal Register.

My dear Mr. President:

There is forwarded herewith for your consideration a proposed Executive Order entitled "Amending Executive Order No. 8553, dated September 8, 1940, in respect of Bonds, Notes and Other Securities acquired on behalf of The United States under the provisions of The Transportation Act, 1940, as amended."

The purpose of this Order is to vest in the Reconstruction Finance Corporation control and authority with respect to notes and securities of the Seaboard Airline Railway Company and the Seaboard-Bay Line Company held by the Government. The authority intended to be transferred to the Reconstruction Finance Corporation is now vested in me by virtue of Executive Order No. 8553.

The Seaboard Airline Railway Company and the Seaboard-Bay Line Company are one carrier system. They are indebted

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to the Government to the extent of approximately \$24,000,000 by virtue of loans made pursuant to section 210 of the Transportation Act of 1920, as amended. This railroad system has been in receivership since the early 1880's and is about to emerge from a reorganization. The Seaboard system is the last major carrier in which the Treasury Department has an outstanding interest by virtue of section 210 loans. It is my understanding that the Reconstruction Finance Corporation is financially interested in many railroads, that it is actively participating in the reorganization and management of several roads and that it has on its staff several men who are experts in the railroad field. For these reasons, the transfer to the Reconstruction Finance Corporation of the control of the notes and securities of the Seaboard system is recommended.

Faithfully yours,

Secretary of the Treasury.

The President,
The White House.

HEP:OPF
3/20/45

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EXECUTIVE ORDER

ANSWERING EXECUTIVE ORDER NO. 8553, DATED
SEPTEMBER 6, 1940, IN RESPECT OF BONDS, NOTES
AND OTHER SECURITIES ACQUIRED ON BEHALF OF
THE UNITED STATES UNDER THE PROVISIONS OF THE
TRANSPORTATION ACT, 1920, AS AMENDED.

By virtue of and pursuant to the authority vested in me by section 213 of Title II of the Transportation Act, 1920, which section was added by the Act of August 13, 1940, 54 Stat. 708 (U.S.C. title 40, sec. 316), I hereby substitute the Reconstruction Finance Corporation for the Secretary of the Treasury as the agency authorized to sell, exchange, or otherwise dispose of, or to enter into arrangements for the extension of the maturity of, any bonds, notes, or other securities taken, sold, or exchanged in respect of loans made to the Seaboard Airline Railway Company and the Seaboard-Bay Line Company pursuant to the provisions of section 210 of Title II of the Transportation Act, 1920, in such amounts, at such prices, for cash, securities or other property, or any combination thereof, and upon such terms and conditions as the Reconstruction Finance Corporation may deem advisable and in the public interest. All moneys realized through the

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exercise of the authority conferred by this Order shall be paid to the Secretary of the Treasury for deposit to the appropriate account.

THE WHITE HOUSE

, 1945.

HEP:ep
3-20-45

109

EXECUTIVE ORDER

AMENDING EXECUTIVE ORDER NO. 8553, DATED
SEPTEMBER 6, 1940, IN RESPECT OF BONDS, NOTES
AND OTHER SECURITIES ACQUIRED ON BEHALF OF
THE UNITED STATES UNDER THE PROVISIONS OF THE
TRANSPORTATION ACT, 1920, AS AMENDED.

By virtue of and pursuant to the authority vested in me by section 213 of Title II of the Transportation Act, 1920, which section was added by the Act of August 13, 1940, 54 Stat. 788 (U.S.C. title 40, sec. 316), I hereby substitute the Reconstruction Finance Corporation for the Secretary of the Treasury as the agency authorized to sell, exchange, or otherwise dispose of, or to enter into arrangements for the extension of the maturity of, any bonds, notes, or other securities taken, held, or exchanged in respect of loans made to the Seaboard Airline Railway Company and the Seaboard-Bay Line Company pursuant to the provisions of section 210 of Title II of the Transportation Act, 1920, in such amounts, at such prices, for cash, securities or other property, or any combination thereof, and upon such terms and conditions as the Reconstruction Finance Corporation may deem advisable and in the public interest. All moneys realized through the

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exercise of the authority conferred by this Order shall be paid to the Secretary of the Treasury for deposit to the appropriate account.

THE WHITE HOUSE

, 1945.

HEP:apr
3-20-45

- 2 -

exercise of the authority conferred by this Order shall be paid to the Secretary of the Treasury for deposit to the appropriate account.

THE WHITE HOUSE

, 1945.

HEP:opr
3-20-45

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

March 24, 1945

TO Secretary Morgenthau
FROM J. W. Pehle

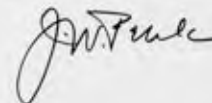
FOR YOUR INFORMATION

Attached is the report of the Mead Committee on the disposal of surplus property.

I think you will be interested in reading portions of the report. The report generally is very critical, particularly of the Reconstruction Finance Corporation and the Surplus Property Board. On the whole the Treasury Department is treated very well. Note for example, the marked paragraphs on pages 7 and 21.

In the Appendix to the report the Committee discusses the activities of the Worldwide Mercantile Corporation, which involved a Treasury Procurement employee named Ralph Hallenbeck. Hallenbeck resigned at our request in December. Also in the Appendix the Committee criticizes the flashlight battery matter, which had previously been a subject of hearings before the Committee.

I am also attaching certain pages in the Congressional Record for March 22, which discuss the Mead Committee report. You may be interested in the marked portions of this discussion.



Enclosures

CONGRESSIONAL RECORD—SENATE

MARCH 22

REPORT OF SPECIAL COMMITTEE TO INVESTIGATE THE SKILLED DEFENSE PROGRAM—DISPOSAL OF SURPLUS PROPERTY (REPT. NO. 118)

MR. HATCH. Mr. President, the Special Committee to Investigate the National Defense Program has been studying the disposal of surplus property for almost 3 years. We deem it appropriate at this time to report to the Senate. In particular, we believe that a most useful function will be served by comment on this subject, while the Surplus Property Board is still in the process of crystallizing its policies.

We hope that our report will not be charged with the burden of administration in the disposal of surplus property, which, indeed, is no light task.

Our report points out many defects. We do not, however, desire to be critical in the sense of disparaging those who have labored over the task of administering surplus property disposal. We fully appreciate the problems which they have faced and the difficulties of their endeavor. But the task lies before us. It must be done now and it must be well done.

We cannot afford to repeat the mistakes of World War No. 1, when the Government found the United States without any surplus disposal organization, but with warehouses filled. We have not yet disposed of all of the surplus which accumulated during the last war. Some of the 25,000,000 pairs of hobnailed shoes which were never used in that war were offered for sale by the Treasury Department's Procurement Division as recently as last December.

In that war the scandals and the investigations came after the harm had been done.

In this war it has been the purpose of our committee to anticipate the pitfalls which should be ahead. By investigating shams and mistakes wherever and whenever we could find them, we have learned most of the dangers to be avoided.

Before effective action can be taken for proper disposal of surplus an efficient directing organization must be set up. This organization must have competent personnel and an adequate budget. It must have the full cooperation of the Government agencies with which it is to deal.

The Surplus Property Act of 1944 will require the Board of the National Defense Program to be established. It will require amendment and revision. The act sets forth a number of policies to be pursued in the disposal of surplus. Of course, these policies are not all consistent with each other. There is no reason why they should be. For instance, the act requires in section 1A that surplus be disposed of in accordance with the most efficient use for war purposes, whereas section 2C requires that disposal be regulated for the purpose of encouraging and fostering post-war employment opportunities. Each of these policies has its proper application in a proper situation at the proper time.

The drafting of regulations framing the proper policies to be applied in various situations is a principal function of the Surplus Property Board.

The Board must also simplify the complex and overlapping array of disposal agencies which now confront not only the buying public but the selling agencies themselves. The Board must set up uniform rules for all disposal agencies and a single information center so that all persons seeking to learn about surpluses of any kind will be able to get the information in one place.

The Board and a special commission which has been set up for the purpose soon must arrive at proper policies for the disposal of surplus properties abroad. We must avoid a period of confusion at the end of the war. To do this it is necessary to plan now. Decisions must be made as to the items which will be dedicated surplus when the war in Europe ends and those which will be staged against Japan. Arrangements must be made to dispose of materiel which will be dedicated surplus.

Our surpluses can be a great national asset to relieve shortages which have plagued the civilian population and have hindered war production. They will bring the money for the return to a post-war economy. Property handled, they are a potent force for good.

The first of all surpluses must be disposed promptly. The Surplus Property Act has no authority to require the Government agencies to dispose of surplus. These agencies, therefore, must fully discharge their obligation of searching carefully among their inventories for those items which are in demand. In this war our surpluses are made useful now, while we are suffering many shortages, whereas, if delayed later, they may only serve to aid post-war markets.

Before I close, I desire to say a word about the abuses which the committee has investigated. Some of these are discussed in length in the report. They were not done because they serve as excellent examples of what could happen if our surpluses were not properly administered. They illustrate the dangers

of a system which permits persons to get inside information or special favors. They illustrate the dangers which follow from lack of constant vigilance by the surplus disposal agencies. They illustrate in some cases what will happen when unscrupulous or unscrupulous members of the population attempt to make money out of surplus. We have, from our discussions with the surplus disposal agencies, that they are determined to start every effort to prevent such occurrences in the future.

An organization and a system designed to give the widest publicity to every action taken and to give full and easy access to all information, so that anyone can learn with ease what surpluses are for sale and where, will go far to accomplish this end.

The Surplus Property Board can develop such an organization. The Board has been in operation only 2 months. It has found many obstacles in its path. But that is not strange.

But time is of the essence. The Board must act at once to avoid serious consequences from the long delays which may hamper the entire disposal program. I wish to emphasize this point, Mr. President. It is easy to criticize others. The procrastination cannot be laid at the door of the Board alone. Were we asking to find scapegoats, we would easily find many, including the Congress itself, which passed the Surplus Property Act of 1944 only after long delays.

The committee, however, is focusing on future action rather than upon failures of the past. We desire to aid and not to hinder the Surplus Property Board in its difficult task. And we have been spared every effort to expedite the completion of its organization and the drafting of its regulations.

Mr. President, I submit the report to the Senate.

The VICE PRESIDENT. The report will be received and printed.

Mr. MEAD subsequently said: Mr. President, I happened to be out of the Chamber earlier in the session when the distinguished Senator from New Mexico (Mr. Bacon), from the Special Committee to Investigate the National Defense Program, submitted a report on the disposal of surplus property. I desire now, Mr. President, to comment briefly on his report. I think it was a very valuable and a very scholarly report, and I recommend its reading to every Member of the Senate. In my opinion, each and every Member of this body will find the report not only interesting but instructive, and it will suggest the detailed information on the basis of which the committee has reached its conclusions.

The committee has not completed its study of this subject. We shall continue to follow the disposal of surplus, both in this country and abroad, for the purpose of assuring the American people that this important function is efficiently performed. We also intend to complete our study of the disposal of surplus properties. Members will recall that the report submitted today is the second in a series of three. The first dealt with the accounting of surplus. The one submitted by the Senator from New Mexico deals with disposal of surplus other than industrial plants. We are continuing our investigations into the disposal of plants, and when they have been completed we will report to the Senate.

I believe it appropriate also to mention that progress is being made both by the Surplus Property Board and by the individual disposal agencies in solving the problems discussed in the committee's report. The Surplus Property Board is expediting the completion of its regulations, and we expect that they will be published in the very near future. For they are essential as guides for the several agencies interested in the disposal of surplus properties.

The Reconstruction Finance Corporation has followed in the footsteps of the Treasury's Procurement Division in the streamlining the practice of widely advertising its sales and setting up an investigative division. The primary task is the integration of these activities among all the disposal agencies under the supervision of the Board.

It is also appropriate for me to state at this time, in view of the extended hearings which were held on the auditing method of surplus disposal, that the committee is not opposed to actions as such, but insists that they be used with great caution and with all proper safeguards.

We hope that the report submitted today will serve as a warning to anyone who contemplates in surplus property disposal. The committee intends to continue its study of the disposal of surplus properties, and we intend to inform the American people of our findings as we find them.

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79TH CONGRESS
1st Session

SENATE

REPORT
No. 110

INVESTIGATION OF THE NATIONAL
DEFENSE PROGRAM

ADDITIONAL REPORT
OF THE
SPECIAL COMMITTEE INVESTIGATING THE
NATIONAL DEFENSE PROGRAM

PURSUANT TO

S. Res. 71

(77th Congress; S. Res. 6, 78th Congress
and S. Res. 65, 79th Congress)

RESOLUTIONS AUTHORIZING AND DIRECTING
AN INVESTIGATION OF THE NATIONAL
DEFENSE PROGRAM

DISPOSAL OF SURPLUSES OTHER
THAN INDUSTRIAL PLANTS



MARCH 22 (legislative day, March 16, 1945.)—Ordered to be printed

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SPECIAL COMMITTEE TO INVESTIGATE THE NATIONAL DEFENSE
PROGRAM

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79TH CONGRESS }
1st Session }

SENATE

{ REPORT
No. 110

INVESTIGATION OF THE NATIONAL DEFENSE PROGRAM

MARCH 22 (legislative day, MARCH 19), 1945.—Ordered to be printed

Mr. HATCH, from the Special Committee to Investigate the National Defense Program, submitted the following

ADDITIONAL REPORT

[Pursuant to S. Res. 71, 77th Cong.; S. Res. 6, 78th Cong.; and S. Res. 55, 79th Cong.]

DISPOSAL OF SURPLUSES OTHER THAN INDUSTRIAL PLANTS

CONCLUSIONS AND RECOMMENDATIONS

1. The policies to be pursued in the disposal of surplus property have been set forth in the Surplus Property Act of 1944. It must be borne in mind that all of these policies cannot be enforced in any one disposal. Certain policies will apply to one situation and other policies to another, and the policies applicable to a particular situation will vary as the war draws to its conclusion.

2. Decisions with reference to the policies to be employed in particular types of cases must be made quickly. Certain general rules first must be set forth by the Surplus Property Board. This has not yet been done and it is long overdue. However, it should be appreciated that the Board itself has been in operation for only 2 months of the period of delay. The specific application of the rules and policies is the function of individual personnel in the disposal agencies. Such persons must be prepared to act promptly and the public must be willing to abide by honest decisions made after fair appraisal of the facts. Second guessing or carping criticism on a large scale would defeat this end.

3. Up to this point, the administrative organization for surplus disposal has been extremely confused. A multiplicity of agencies and even individual offices within each agency, as well as a multitude of war plants have been acting with practically no central control.

4. Prompt declaration and disposition of surpluses is essential. Large quantities of surplus are a constant threat to existing markets. This does not necessarily mean that surpluses must be dumped on the market with disastrous results, but it does mean that a definite policy of disposal on which the public can rely in the future must be announced and put into effect at once.

5. The disposal organization should be as simple as possible with the minimum number of disposal agencies operating under the Surplus Property Board. The Board should set up uniform rules and regulations and a single information center, so that persons seeking to learn about surpluses will be able to get all the information in one place. The effect of having a multiplicity of agencies is to make it easier for "insiders" and others with special privileges to operate.

6. Extreme care is necessary in choosing personnel. The opportunities for giving available information to favored persons in surplus a constant source of temptation to all persons engaged in surplus disposal. Both to prevent frauds and to instill public confidence, the Surplus Property Board should have and widely publicize an investigative department responsible directly to the Board and empowered to investigate all disposal agencies and all complaints dealing with surplus property. If complaints are vigorously investigated and publicly aired, the public will gain confidence not only in the investigative agency, but in the entire surplus disposal administration.

7. Immediate and wide publicity should be given to all actions, including offers for sale, sales, bids, and all other activities. Even when goods are offered only to a limited group, wide and unrestricted publicity should be given to the facts.

8. As a general rule, all sales should be open to all bidders, of every type and description. Exceptions to this rule would be set up, first in the form of priorities, such as priorities to governmental agencies, to veterans or to other groups, specifically designated in the act. It will, of course, be necessary to offer many items in lots larger than individual purchasers would desire, although the size of the lots should be sufficiently small to enable small business to participate fully. In this way, dealers and wholesalers will have every opportunity to purchase items for resale. But when it is feasible to offer merchandise in lots small enough to attract the ultimate consumer, there is no reason why such consumers should be barred from bidding, except when, for a specific reason, a special priority is deemed desirable. As in normal trade, prices could be made to vary, depending on the size of the sale, so that whole purchasers would receive the equivalent of wholesale prices.

9. If the preceding two recommendations are followed, various methods of sale could be employed fairly. Although the committee has had occasion to criticize the manner in which certain types of auctions have been held, it believes that the auction will have a place in the disposal picture. Farm auctions in particular have been conducted successfully in numerous localities. In urban areas auctions should be utilized with caution and closely supervised by disposal agencies.

10. Surpluses abroad should be disposed of expeditiously. To this end, policies should be formulated at once. Immediate action should be taken by the armed forces and other procurement agencies to determine procedures to be followed at the conclusion of the war in Europe. There need not be a period of confusion. Similarly, decisions must

be made at once as to the items which are to be declared surplus at this stage and those which will be utilized in the Pacific war. Pending the formulation of a policy with respect to bases and holdings abroad, individuals should not take action which will prejudice the position of the United States.

DISCUSSION

INTRODUCTION

For a period of almost 2 years, this committee has observed the disposal of surplus property.

It has investigated the actual functioning of such agencies as have disposed of surplus property and has had occasion to look into the specific facts concerning a number of individual transactions. Some of these have been brought to public attention. Others have been studied by the committee and referred to proper agencies for such treatment as each case warranted.

In addition, the committee has been in more or less constant touch with the various disposal agencies and has held a series of hearings with them for the purpose of determining their policies and of ascertaining what they were doing to carry out such policies. In this connection, the committee held open hearings during August of 1944 and, at various times subsequent thereto.

The committee's study of surpluses has been divided into three parts, upon each of which it is reporting separately. The first report, discussing the manner in which surpluses are accumulated, has already been issued (Rept. No. 10, pt. 20, 78th Cong., issued December 19, 1944). The present report deals with the disposal of surpluses other than industrial plants. A third report summarizing the committee's study of the disposal of industrial plants will be issued in the future.

This report is intended to summarize the results of our investigations to date. The committee will continue to observe the disposal of surpluses and it will continue particularly to focus a glaring searchlight upon all abuses which come to its attention.

EXPERIENCES IN WORLD WAR I

The armistice of November 11, 1918, found the United States without any surplus-disposal organization. Warehouses were filled. Railroad cars were en route to ports. Property accumulated at wharves.

The Quartermaster Department had 10,000 procurement contracts outstanding. Twenty-five percent of all the shells ordered for the war were manufactured after the signing of the armistice. Twenty days after the armistice, the War Department called 128 officers to Washington to consider a surplus-disposal program. Ten thousand people were put to work taking a physical inventory which was completed on January 10, 1919. Lists of surpluses were not completed until April 30 of the same year.

Among the surpluses which developed were 25,000,000 pairs of hobnailed shoes. Investigations showed that 35,000,000 pairs had been ordered for 4,000,000 soldiers. Some of these 1918 shoes were offered for sale in the Treasury Department's Surplus Reporter of

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December 26, 1944. One million horse covers, 2,000,000 feed bags, almost a million saddles and almost 3,000,000 halters were purchased. The military had only 86,000 horses at the start and comparatively few were purchased during the war. Practically all of this equipment became surplus and substantial quantities of it had to be removed from military warehouses in the present conflict to make room for modern material.

Most of North America remembers the floods of material which stocked the shelves of army-navy stores for many years after the end of the last war.

Nor did all of this confusion fail to produce scandals. The Acting Alien Property Custodian sold 4,767 chemical patents to his own company from the Government for less than 2 percent of their value. The head of the Veterans' Bureau, with authority to dispose of surplus, made a secret agreement to dispose of surplus to one firm at 20 percent of the Government's cost. There were no competitive bids and the results were fraudulent. Seventy-two thousand sheets which the Government was then buying for \$1.03 apiece were sold to this group for 20 cents. Towels costing 54 cents were sold for 3 cents. Eventually, the principals were brought to justice and found guilty, but the damage had been done.

Much Government surplus was simply ruined. Fifty-two thousand bales of Government cotton were allowed to rot at Nitro, W. Va. Millions of dollars' worth of property was exposed and ruined at Camp Jessup, Atlanta, Ga. In September 1919 over 11,000 Army cars were discovered to have been exposed to deterioration. Many of them had not even been started.

Surpluses abroad were largely abandoned. In many instances the quantities left abroad were far more than were needed for rehabilitation and they continued to glut markets for many years.

In summary, the history of surplus disposal in World War I is one of confusion, inefficiency, and dishonesty. These lessons undoubtedly had not been forgotten when the President early appointed a Surplus Property Administrator. The Congress passed a Surplus Property Act and has been investigating transactions to date. As a result of bringing the glare of publicity to certain transactions, and as a result of the care which is being exercised with respect to this subject at this time, it is entirely probable that we will avoid many of the errors of World War I.

On the other hand, the problems in this war are more complex. Procurement has been vastly more extensive. A great deal more of our total economy has been devoted to war production. A great deal more of our total war production has been shipped abroad. All of these conditions raise new problems. Some will undoubtedly prove to be pitfalls. However, we can attempt to avoid most of them by study and careful planning in advance.

INADEQUATE ORGANIZATION TO DATE IN WORLD WAR II

Surpluses began developing as early as 1943. Considerable quantities of outdated and obsolete material were permitted to accumulate in warehouses without any proper provisions having been made for their disposal. Later additional surpluses appeared as a result of contract terminations.

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Many of these surpluses were not declared as such. Some could not have been discovered due to a lack of a proper inventory system. The lack of such system was declared in a report to the Senate of the United States by the President on June 18, 1944. The committee has already commented on one extreme situation, a sale of new cutting tools in Detroit, that had cost the Government \$1,721,136 for \$36,924, reported in the committee's third annual report. It there appeared that no inventory was maintained, that such regulations as the War Department had were not in the hands of the officers who made the sale, and that the officers could not have understood the regulations even if they had seen them. The latter point was admitted by the judge advocates for the district in question.

The committee visited various depots and warehouses and learned that while considerable thought was being given by individual officers and officials to the problems of surplus disposal, the various groups were by no means in accord and were wholly without the benefit of any guidance through a coordinating central agency. They were unable to take action to move surplus inventories because they lacked instructions from their superiors.

Nine war agencies were in possession of surplus. These included the War Department, the Navy Department, the Reconstruction Finance Corporation and its subsidiaries, the Treasury Department Procurement Division, the Maritime Commission, the Foreign Economic Administration, the Federal Works Agency, the National Housing Agency and the War Food Administration. In addition, a great number of war plants were in possession of surplus accruing under cost-plus contracts and they were disposing of this in one way or another. A major problem concerned the deterioration of many spoilable items, either through failure to warehouse these properly, or in the case of more durable items, through neglect to protect them from the weather. The committee found a number of cases of foodstuffs which had been permitted to spoil and of machinery and materials left out in the open to rust over a long period of time.

Several of the agencies mentioned above attempted to make direct disposal of surplus with results which clearly illustrated the need for an over-all policy and a central administration. The Army Air Forces attempted to sell 500 tons of brass and steel scrap as salvage, despite the great shortage of such scrap. The War Department attempted to sell 65,000 pounds of khaki clothing as rag scrap. Both of these sales were called off after attention was drawn to them. One hundred thousand dry-cell batteries were sold at Ogden, Utah, for \$125. They had cost \$200,000 and the purchasers resold them to dealers for \$30,000. Many other items sorely needed were either sold at low prices to speculators or else stored in warehouses where they were of no use to anyone.

The committee has reviewed so many of these individual complaints that it would serve no useful purpose to reiterate them. It is expected that mistakes will be made even under the best administrative arrangements. The chief difficulty has been in the lack of proper organization and the failure first to set forth any policies and more recently the failure to set up working rules to apply these policies.

The committee commented on this situation in its third annual report and similar comments were made in the Borch-Hancock

report. As recommended in the Baruch-Hancock report, a Surplus Property Administrator was appointed. The Administrator undertook to regulate disposal policy and to set up disposal agencies. An organization was established to permit direct disposal of surplus property to be scrap or salvage by the agencies which possessed such surplus. The balance was to be sold through eight separate agencies designated as selling outlets. This plan was complicated, resulted in duplication, and in some instances resulted in sales being made by agencies not properly qualified to make them.

It has been difficult for prospective purchasers to find out when and where and under what terms the items were to be sold. It has been difficult for the Government to organize efficient selling forces. It has been equally difficult for small businessmen and for State and municipal governments to deal with these eight agencies.

The committee's hearings with these agencies indicated that their plans for selling surplus were incomplete and in considerable confusion. One of the most important plans, that for the sale of real estate, developed considerable opposition when it appeared that rural lands were to be disposed of by the Reconstruction Finance Corporation, rather than by the Departments of Agriculture and the Interior.

In the situation, the Congress passed the Surplus Property Act of 1944. Basically, this act sets forth underlying principles. It requires effective and intelligent administration.

Despite this, the Surplus Property Board was not completely appointed and confirmed until January 19, 1945, several months after the passage of the Surplus Property Act and it is still in the process of organizing. To date, it has not announced either a statement of policy or a plan of organization. Such delay may result in as chaotic a situation as we had at the end of the last World War.

The major handicap of the Board in organizing and carrying out its functions has been its budgetary limitations. Without adequate funds and authority to employ competent personnel beyond its present budgetary limitations, the Board feels that it will never be able to carry out the administration of the act as contemplated by the Congress.

The Board will probably be in a better position to make its case for a larger budget and staff after it has completed the drafting and issuance of its regulations and statements of policy. At this time the Board advises the committee that this process is under way and the regulations are in various stages of completion, some in fact having been completely drafted although not yet issued and the bulk being in various degrees of the formative stages. It is the committee's view that the Board must make every effort to formulate and issue specific regulations at the earliest possible date. A satisfactory over-all organization must be formed immediately. A sound plan for the speedy and equitable disposal of surpluses which will develop on contract termination is urgently needed. Similarly, the conclusion of the European war would point up the need for a working plan with reference to the disposal of surpluses abroad.

Presently, all owning agencies are permitted to directly dispose of surplus in nominal quantities not exceeding \$2,500; and of all their surplus designated as scrap or salvage; and of all their contract termination inventories. The Government cost of such disposals by the War and Navy Departments amounted to \$96,372,800 during January 1945, while the total cost of disposals by the selling agencies designated

by the Surplus Property Board amounted to only \$26,851,000. It should however be noted that a large part of the \$96,372,800 represents transfers to other Government departments and sale of surplus by terminated war contractors. At its best, that indicates that not more than a third of the current surplus is receiving any administrative supervision from the Surplus Property Board. In this connection, it appears that the War Food Administration does not regard its own surpluses as surplus within the 1944 act. The Surplus Property Board is not exercising any administrative supervision in the case, handling, and disposal of such War Food Administration surpluses. This is unfortunate, as basic policies for handling surpluses will apply to all commodities, including food.

It is absolutely essential that one agency dispose of or directly control disposal of all miscellaneous consumer goods. At the present time this is primarily but not exclusively in the hands of the Treasury Procurement Division, which is doing as good a job as can be expected under the circumstances. They have been forthright in admitting and attempting to correct their inevitable mistakes, and are intelligently attempting to solve their problems. There is no reason why other agencies should dispose of miscellaneous goods. The sale need for other agencies is in connection with specialized items, such as real estate, food, ships, industrial plants, and a limited number of other specific classes of surplus. To the extent that a ship, airplane, or plant is broken down, the miscellaneous goods within it should be sold by the single large disposal agency—which in the case of consumer goods is the Treasury Department Procurement Division. This does not require shipment of the goods to this agency. It does require that information be furnished it and that disposal action be in accordance with its rules.

Some order and uniformity should also be brought into the disposals by individual war plants, and by the armed forces at their local depots and stations. In the interest of speed, it may be desirable to permit such disposals to be made at the local level when the amount involved is relatively small. On the other hand, experience has shown that to date disposals of this type far exceed in quantity the disposals made by the regular selling agencies, as stated above. The local disposals should be brought under the direct supervision of the major disposal agencies. They should be handled in accordance with specific regulations of these disposal agencies and in similar fashion to the manner in which the disposal agencies handle like disposals. They should also be advertised in similar manner at the general clearing house for all disposals.

All of the agencies should operate directly under the organization and control of the Surplus Property Board. This organization should be closely knit, with direct administrative supervision, as well as over-all policy functions in the Board.

It probably would be impractical at this point to separate the various disposal agencies from the permanent organizations to which they belong. This is due to the fact that it would result in considerable administrative maladjustments at a time when able personnel is especially difficult to obtain. Experience may show, however, that the dual control over these selling agencies, first by the Surplus Property Board and second, by their permanent organizations may not work. It is worth trying at this time, but should definitely be regarded as in the experimental stage.

STERILE DISPOSAL IN OPERATION

Up to February of 1945, disposal of surpluses has been extremely slow. This is indicated by the fact that of \$1,389,371,000 of surplus declared, only \$188,067,000 had been sold. To some extent this is due to the fact that large quantities of surplus in the form of airplanes which are not easily salable have not been disposed of. The total cost of such airplanes is \$834,000,000, of which about two-thirds, being combat types, are unsalable. It is further due to the delay in organizing and putting into operation the surplus property disposal agencies.

Another serious obstacle to the administrative control has been sluggishness in reporting surplus. Some agencies have reported all surplus while others have held back all or part by claims that they were not within the act or that the property was merely inactive or stand-by or excess rather than surplus.

For example, as of January 31, 1945, the Board reported that property that had cost the Government \$2,560,000,000 awaited redistribution or disposal. But it then distinguished between what it terms excess and surplus property. By that process it permitted the War Relocation Authority, the War Relocation Administration, and the Defense Plant Corporation to hold and control approximately 53 percent of the property. The remaining 47 percent has been declared as surplus and assigned to six different selling agencies.

Tabulation reflecting the surplus property operations for 8 months ending Jan. 31, 1948

[illegible]

¹ Part of Treasury's forecast of government needs are in terms of unpayable value. Treasury has also signed an optional provision but is presently unable to submit its position because to the west bank of the Jordan.

The committee has found that most prospective surplus speculators in consumer goods are after excessive and quick profits. To date they have not been very successful.

For the 8 months up to January 31, 1945, 54.9 percent of the surplus property sold was consumer goods. But it should be kept in mind that this percentage of sales bears no relation to the surplus declared. Already, vast quantities of aircraft and related equipment, industrial and other real estate, capital and producer goods, ships and maritime

property, and foreign surpluses, as well as the consumer goods, have become surplus. As shown by the above tabulation, the total declared surplus amounted to \$1,389,371,000. The total sale of consumer goods was only 6.4 percent of the total declarations.

The major classes of consumer goods surpluses and sales may be indicated by the following examples expressed in dollars, as of January 31, 1945:

Classification	Revenue	Expend	Classification	Revenue	Expend
Motor vehicles and parts	43,395,000	24,405,000	Patented textile products	4,587,000	4,074,000
Aircraft, including fuel	12,108,000	7,796,000	Textile, dye and accessories	3,134,000	300,000
Chemicals	3,208,000	375,000	Textile machinery and equipment	2,265,000	983,000
Computation and related	8,233,000	3,081,000	Plastic and rubber goods	1,800,000	90,000
Mining and products	7,796,000	3,028,000	Commodity foodstuffs	1,560,000	645,000
Metals and metal products	5,574,000	804,000			
Rubber and products	3,014,000	3,739,000			
Misc. arms and equipment	4,905,000	3,687,000			

There is an increasing feeling among would-be purchasers of surplus that they must have some main track in order to acquire bargains readily available to the general public. This is due first to the fact that there are but very few such bargains available as contrasted to the great number of people who have organized corporations, syndicates, and firms for the purpose of dealing in surpluses. Several of these organizations which have come to the attention of the committee have so many participating members, all desiring large quantities of surplus, that they are unable to supply the demand. The many persons participating, although few realize it, do not hope for a satisfactory financial return in the transaction. They are not interested in the profit, but the many persons who buy large profits were made on each transaction.

It is due also to the fact that insignificant publicity was given to transactions with the result that many unsuccessful bidders felt that they have lost out only because of the successful bidder had influence. Finally, it is due to the fact that in some cases, persons with "connections" are able to obtain advantages over others. The committee has had before it a number of witnesses who maintained that after many months of attempting unsuccessfully to purchase Government surplus, they found it necessary and effective to associate themselves with some other person who apparently had the "connections" which would enable him to purchase such surplus.

It is entirely natural that Government officials should attempt to make the largest recovery for the Government in the sale of surpluses, consistent with other policies. However, in a great many cases, this recovery is purely theoretical. The cost of assembling, storing, and selling surplus properties is such that the net realization to the Government is bound to be very small.

Every effort should be made to minimize marketing costs. The committee has found too many instances of surplus goods being moved from one place to another for no reason. This is particularly true of materials which are surplus but have not yet been declared surplus. The aim must be to collecting points which have not even the advantage of being centrally located. Army Air Force surpluses, for example, are moved from the various regular depots to a single depot located in West Virginia, without any effort to dispose of them where

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they are found. Surplus should be as easily disposable in Memphis as in West Virginia. Even materials which are certain to be declared scrap, such as spare wing parts for obsolete military planes are first shipped to the central surplus depot. This unnecessarily places an additional burden on an already overloaded transportation system. It is possible for a central agency to make decisions about material on the basis of information furnished it, without the necessity of shipping the material itself.

In determining price policies, special consideration should be given to articles which are in great demand. After being used to fill priority needs of governmental agencies, local government and some types of institutions, these should be sold to the public at a reasonable price, comparable to retail prices for similar articles. If the Government's surplus are of a higher quality than the usual retail article, then the public should be made to pay the higher price.

If the goods are to be sold in large lots so that jobbers and wholesalers are to participate in the distribution, provision should be made so they can expect to make a reasonable profit. In cases where the public demand is great, there is no reason why the Government should not get as high a price as is consistent with a fair middleman's profit.

The real danger lies in articles of which the supply is not particularly short, but which dealers and others hope to pick up at very low prices for resale with large profits. If these are sold at prices substantially below those which can be competitively met by current producers, legitimate industry will suffer. This results in disturbing markets, in creating situations for profiteering, and in the Government's realizing little or nothing in excess of its liquidation costs. It will also result in economic disruption and unemployment.

In most cases, net financial return to the Government will be so slight that this consideration is less important than many of the other policies involved.

The policies set forth in the Surplus Property Act of 1944 will serve as an excellent guide to the surplus property agencies. These agencies must bear in mind that it is impossible to enforce each of these policies in every case. It is obvious that such could not possibly be intended. For instance, section II (a) requires that disposal of surplus be regulated to insure the most effective use of surplus property for war purposes, whereas section II (g) requires that property be disposed of to encourage and foster post-war employment opportunities. Obviously, these provisions require intelligent and careful administration.

To date, no administrative explanation of policies or of their application to specific cases has been made by the Surplus Property Board. This is undoubtedly due to the complete lack of satisfactory organization among the surplus disposal agencies to date. There is no integration. There is no set of guiding rules. There is no single place to which a prospective purchaser can go for information.

The first requirement, therefore, is that the agencies be organized in order to carry out the provisions of the act intelligently and efficiently. Probably, before this can be done, the Surplus Property Board must make some careful study of the policies set forth by Congress and must make some assessment of its own administrative intentions. The committee's studies indicate that probably the most important policy to be pursued is a policy of seeing to it that surplus properties are first distributed to war producers who need them.

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This, indeed, is the first policy set forth in the act. To date, there is no satisfactory mechanism to assure this result. Machine tools are being declared surplus and sold at the same time that the committee is being advised that war plants need similar tools and actually have them on order. Many find their way back to the Government after one or more purchases have made a profit on them. Vital tool steel and other materials are reported to be available as surplus and yet not available to those who need them. Much of this problem has to do also with the declaration of such surpluses as soon as possible. Surpluses lying in warehouses, undeclared, do nobody any good.

The second most important policy in the light of all circumstances appears to be to make surplus materials available to Government agencies, to local governments, and to certain types of institutions, such as hospitals, which have immediate requirements for them. Our civilian economy has been seriously impaired as the result of war production. Among the greatest sufferers have been local governments. These represent the people. Accordingly, the various States and their municipal subdivisions should have the privilege of obtaining surpluses which they need. Congress has made this priority second only to that of departments of the Federal Government.

Although the Surplus Property Act makes specific provision for disposal of surpluses to local governments and to nonprofit institutions, very little has been done to implement these sections. Obviously, the Board must first determine upon its policies. Once the policy is clearly determined, a definite administrative set-up can be put into operation in order to make this provision of the act to be enforced as written by Congress.

A general policy establishing the theory of a priority for local governmental agencies therefore will not help. Specific policies must be established concerning the manner in which surpluses will be brought to the attention of such governmental agencies and concerning the opportunity which they will have to acquire them. Complaint has rightfully been brought to the committee that surpluses are offered to local governmental agencies at prices above present market prices and then, after having been turned down, are sold at lower prices to private bidders. The committee also has referred to instances of disposals in which the property was not offered to governmental agencies. The Board must determine whether or not its policy is to enforce the language of the statute by establishing procedures particularly designed to put surpluses in the hands of local governments. It could continue legally to restrict the priority to the mere formality it is today. Such a result would be deplored by this committee.

We must be careful not to permit our war surpluses to become a liability. They can be a great national asset. Properly utilized they will help us win the war and they will help us through the difficult period of readjustment when many necessary articles will be scarce. They should not be allowed to glut post-war markets and create unemployment. Every effort and the greatest of ingenuity should be exercised to utilize those surpluses which would be apt to flood markets by placing them in the hands of those who ordinarily would not be post-war customers for them. There may be many such users, including charitable institutions here and the indigent both at home and in foreign countries.

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But to the extent that these surpluses cannot be so disposed of, careful consideration should be given to treating them like the many other war surpluses which are unsalable in a peacetime economy and which must, therefore, either be stored away by the Government or scrapped. According to Maj. Gen. Lewis Clay, at least 60 to 85 percent of all War Department purchases are armaments and munitions useless to a peacetime economy except as salvage. Their cost must be written off as part of the price of victory. To this price it may well be necessary to add the cost of usable surplus which, if sold, would impair our post-war economy. Such a decision of course, would be within the province of Congress.

ABUSES

The committee's policy has been to seek out and explore thoroughly as many specific disposal cases as possible for the purpose of ascertaining the types of abuses which would be likely to develop as the volume of disposals increases.

It has been the committee's opinion that by exposing these at an early date it would enable the agencies charged with the administration of the act to take steps to prevent their repetition. It has also been the committee's opinion that future abuses would be discouraged if those who contemplated them knew that they were likely to be exposed.

Several of the more important specific situations explored by the committee are discussed in the detailed appendices to this report. From these and other studies made by the committee, it is clear that vigilant investigation is necessary at all times.

The investigations which congressional committees can make will not be sufficient. They can explore cases which are typical or very flagrant, but the constant day to day investigation which is necessary is an administrative function which should be undertaken by the Surplus Property Board. An investigative staff should be set up responsible to the Board alone and operating independently of the other departments. Such organization would be analogous to the inspection staff at a manufacturing plant which will function efficiently only if it is completely independent of the production departments. The investigative staff should conduct spot checks of all agencies and all branches as frequently as possible, whether or not there is reason to suspect misdoing. It should properly and vigorously investigate all complaints and its findings should be made public so that everyone will know that there is an independent and fair agency in which they may bring their complaints. It is of as much importance to reassure the citizen who erroneously thinks he has been discriminated against as it is to seek out and bring to light the actual abuses.

It is necessary to employ the very best available executives to oversee each phase of the work. These executives will have to try deeply into the activities of their subordinates. They will not be able to sit in armchairs in ivory towers. Every effort must be made to weed out employees who appear to favor certain customers or to allow some purchasers to obtain advantages over others.

As in most other phases of Government activity, it will be necessary for those engaged in surplus property administration to follow the rather difficult course of conducting themselves in a manner beyond

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reproach, and yet acting expeditiously. To this end they will require the cooperation of all who may investigate or criticize their work. Honest mistakes must be expected. Because of the size of the job they will probably be numerous. In fact, some of the most flagrant situations which have arisen today in the disposal of individual lots of merchandise have occurred because of the lack of over-all rules and over-all supervision.

Inexperienced employees acting without the benefit of sufficient guidance as to policy must be expected, even in good faith, to make decisions which would be wholly improper if made by someone with a broad view of the factors involved in surplus-property disposal. Such employees must have proper guidance from their superiors as well as definite rules governing the policies applicable to each type of case.

Many of the abuses also result from the lack of a properly centralized organization. Prospective purchasers who seek inside information and special favors have been able to gain advantages in this way because of the complexity of the administrative organization and the failure to give full publicity to all acts. The disposal of any one type of property through several agencies creates a situation where purchasers will want to know in which agency particular articles are available for sale. Insiders will have this information. It may often be worth large sums of money. A multiplicity of agencies dealing with any single type of goods will also result in a variety of sales procedures. It is upon these things that special privilege thrives. The insider would gain little if all goods offered for sale were advertised widely in a single place. He would gain little if all persons seeking to purchase similar goods were given similar treatment in accordance with definite rules laid down by a single agency.

Of course, some abuses cannot be stamped out no matter how efficiently the disposal agencies are organized, and no matter how efficiently they conduct themselves. Speculators, profiteers, and even gangster elements have been attracted by the lure of large quick profits. They seek special favors. They operate in unbusinesslike and even unethical fashion. Their assets come from sources which cannot stand inspection.

It would be undemocratic to bar any large group of persons from purchasing surplus property. Moreover, it would be difficult to define such groups. Speculators, for instance, have frequently been criticized, but it is very difficult to state just what a speculator is, or to pick out those speculators who should not be permitted to purchase surplus property from the Government. It will, of course, be possible to place on a barred bidder's list specific individuals who have been found guilty of misconduct. All others will be discouraged from misconduct by an honest and over-vigilant surplus property administration. Should they not be discouraged, they will be thwarted by rules which will go as far as possible to guarantee all buyers an equal opportunity to bid on equal terms.

SURPLUS PROPERTIES ABROAD

In contrast to World War I, the completion of major hostilities of this war will find the United States with tremendous amounts of equipment, supplies, weapons, vehicles, and other movable property

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outside of our continental limits and outside of our Territorial possessions, and with fixed installations and investments in areas controlled by other nations.

These surpluses will arise not only from the activities of our own forces, but from the return of movable property furnished to our allies under the terms of the Lend-Lease Act, and from interests in installations erected or improved by our allies with lend-lease materials.

This is a problem without precedent in our national history, and its proper solution will be difficult.

For the purpose of investigating this problem in an area where it has already appeared the committee dispatched a subcommittee to north Africa and the Middle East in the latter part of December 1944 and the first part of January 1945. This subcommittee consisted of Senator James M. Tamm, of Delaware, and Senator Harold H. Burton, of Ohio. It reported to the United States Senate on February 15 and February 19, 1945. The report was ordered printed as Senate Document No. 9.

The subcommittee visited one Navy command—that of the Eighth Fleet—and three Army commands—the Mediterranean Base Section, the United States Army Forces in the Middle East, and the Persian Gulf Command. It found that relatively small amounts of surplus material are likely to be declared by our own forces in those areas since usable material for the most part is being disposed of advantageously as salvage. However, fixed assets consisting of military installations and communications and transportation facilities, representing substantial investments of taxpayers' funds, are now rapidly becoming surplus to military needs.

MOVABLE PROPERTY

The difficulties, peculiar to the disposal of movable properties abroad, noted by the subcommittee are:

1. The problem of warehousing, reconditioning, transporting, and other physical handling of surplus properties on foreign soil.
2. The policy with respect to preferences in disposal. Prospective users or buyers include our own Government, provided the material is worth the cost of shipment home, our nationals at home and abroad, educational institutions, missionary activities, and American business enterprises, the foreign government where the property is located, other foreign governments having interests in the area where the property is located, and foreign nationals. We must take care to avoid glutting foreign markets by foreign sales or disposals of quantities of material far in excess of rehabilitation needs abroad.
3. The problems of the terms of sale to foreign governments or nationals. Complications include foreign exchange, involving the question as to whether sales are to be made solely for dollars or for foreign currency where dollars are scarce.
4. Administrative problems, involving the maintenance of a staff of our own Government agents for handling disposals, or employing foreign governments or foreign nationals for that purpose.

Obviously many of the problems in foreign disposals are the same as those arising in domestic disposals. The Surplus Property Board

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should serve as a clearing house for making certain that agencies engaged in foreign disposals have the full benefit of the experience gained by disposal agencies in the United States and the techniques and methods they may develop. This will lead to uniformity in accounting methods and reports and avoid the confusion which might otherwise result from possible differences in procedure and lack of coordination due to the great distance from the United States at which foreign disposal agencies are required to operate.

FIXED INSTALLATIONS

The disposition of fixed installations and improvements abroad erected by our military forces raises even more difficult and fundamental problems, involving the determination of major policies with respect to our relations with foreign countries and our future objectives as to international security and trade.

Such fixed installations have entailed the investment of vast amounts of United States funds, both directly, through the expenditure of funds by our armed forces, and indirectly, through the use by our allies of materials derived from lend-lease.

Some of these installations are largely military in character and may have little or no post-war use for civilian activities, although they may very well be of use for any troops maintained in peacetime. Such installations are troop camps, hospitals, fortifications, repair facilities, prisoner-of-war camps, warehouses, open storage areas, etc. Other installations, however, consisting largely of transportation and communication facilities, may prove extremely valuable for civilian use. Examples of such installations are airports and aids to air navigation, port and dockage facilities and equipment, radio and telephone communication systems, highways and railroad trackage, facilities and rolling stock.

While the foregoing will become surplus to military needs as the war progresses, they might conceivably be very useful in carrying out a national policy with respect to our security and our commerce. The committee believes that to take the position that such fixed installations may be disposed of only for currency, and especially for American currency, would be to fail to realize the maximum from our investment in them, for the purpose of minimizing the cost of the war. First, the scarcity of dollars or other currency or goods which would be of interest to us might limit the field of possible purchasers of our interests to the extent that the market for their sale would be a poor one. Secondly, tangible property or intangible rights of a permanent nature might be much more valuable than any cash consideration. Even if surplus to our national needs, the fixed installation might have a value for the purpose of exchange for other facilities or rights in them, which would be useful to us.

The committee found a lack of adequate records on the cost of such installations abroad. A better job also could have been done in defining the interests in the properties we acquired and in recording them. The committee recommends that immediate steps be taken to inventory such assets abroad and clarify the interests we have acquired in them for the purpose of making possible a more intelligent and advantageous disposition of them. The committee also recommends that the underlying policies as to security and commerce be determined by

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the appropriate agencies so that the disposition of fixed installations, as well as surplus movable properties, may be a means of carrying out such policies. Pending such determination, our representatives abroad should refrain from actions which in effect amount to relinquishment of any rights or claims we may desire to assert in the future.

The disposal of all kinds of surplus property, and especially installations, will involve many problems of foreign policy, both political and economic. Foreign disposal agencies should therefore work in close collaboration with the State Department and our diplomatic missions abroad so that all foreign disposal operations will be consistent with United States foreign policy. The Surplus Property Board and the disposal agencies should exercise particular care in seeking the advice and assistance of the State Department in formulating their policies regarding the disposal of surplus property.

During the year 1944 the problem of foreign disposal came under the jurisdiction of the Surplus War Property Administrator as a part of his general responsibility for the disposal of all surplus war property. The State Department, the War and Navy Departments, and the Foreign Economic Administration, the agencies principally concerned with surplus abroad, were represented on the Advisory Board of the Administrator, and made up the membership of the Committee on Foreign Disposal, headed by Mr. Laurin Currie, of the Foreign Economic Administration. The Foreign Economic Administration by the regulations of the Administrator, was made the disposal agency for all surplus abroad.

A report was completed by the committee on foreign disposals in August 1944 and approved by the Administrator. In spite of frequent conferences, no steps were taken to carry out the recommendations contained in this report.

On December 3, 1944, pending the effective date of the Surplus Property Act in January 1945, the existing agencies were constituted the disposal agencies for foreign disposal. In carrying out this responsibility, the War and Navy Departments, with the approval of the State Department, set up a Joint Army-Navy Liquidation Commission.

The head of this Commission has only recently been appointed, Thomas B. McCabe, Maj. Gen. Donald H. Connolly as deputy, and Rear Admiral W. B. Young, as Assistant Commissioner. The Surplus War Property Board has recognized this operation. Civilian regional commissioners are expected to be appointed, with executive officers from either the Army or Navy, depending on which department is principally concerned in the area.

The committee believes this subject is one of major importance. It will devote a substantial part of its efforts to this investigation in the coming months and will report its findings to the Senate.

APPENDIX 1—SURPLUS LIQUIDATORS, INC.; DISPOSAL OF SURPLUS BY AUCTION METHOD

Early in November 1944, this committee learned that the Defense Plant Corporation had awarded a contract for the auctioning of a large quantity of Government surplus property. Inasmuch as this was one of the first large-scale auction sales of Government surplus during this present war, it was decided to conduct a complete investiga-

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tion into all phases of this type of auction. The Honorable Fiorello H. LaGuardia, mayor of the city of New York, advised this committee that he had commenced an investigation of the activities of Surplus Liquidators, Inc., which had been awarded this contract by the Defense Plant Corporation and he offered full cooperation to this committee in any investigation which the committee might undertake. Thereafter officials and employees of the city of New York, at the direction of Mayor LaGuardia, materially assisted in the investigation of this case.

This specific case is but a relatively small matter when compared with the vast surplus-disposal program. However, the committee believes it is a most significant case, particularly at this time when the Federal surplus-disposal program is getting under way. This case brings to light many of the abuses which must be guarded against if the disposal program is to be handled with maximum benefit to the American people.

FINDINGS

A contract was awarded by the Defense Plant Corporation to Surplus Liquidators, Inc., as auctioneer. Under the terms of the contract, the auctioneer was to sell at public auction, at sites to be determined, materials which had been declared surplus at seventeen Defense Plant Corporation plants, commonly referred to as placers, in the New York City area. These auction sales were held at Masspeth, N. Y., and Burlington, N. J., under the supervision of Defense Plant Corporation representatives. The Masspeth auction was held on November 29 and 30, and December 1 and 2, 1944. The Burlington sale took place on December 4 and 5, 1944. The surplus to be sold at both auctions originally cost approximately \$680,000. This surplus consisted of industrial type construction materials which included plumbing and heating supplies, electrical equipment, construction material, tools, hardware, iron and steel products, and lumber. Approximately 10,500 lots were offered at both sales. The Defense Plant Corporation inventory cost of materials which were moved to the site at Masspeth was \$500,000. The Defense Plant Corporation inventory cost of materials which were available for sale at Burlington was \$180,000. According to the information furnished by the auctioneer, the total confirmed sales at Masspeth, N. Y., were \$140,000 and at Burlington, N. J., \$25,000. Goods having inventory cost of about \$135,000 were not sold. These figures, however, are subject to a final audit which is now being made.

Background and organization of Surplus Liquidators, Inc.

Surplus Liquidators, Inc., was incorporated under the laws of the State of New Jersey in April of 1944.

The capital stock of the corporation is \$5,000, consisting of 100 shares of common stock, par value, \$50 per share. According to the evidence, these shares were acquired by the stockholders for cash, which was paid into the treasury of the corporation. The corporation had no other assets. Upon organizing the corporation, a small three-room office was rented at 1775 Broadway, New York, N. Y. The only furniture in the office consisted of a few desks, file cabinets, a typewriter, and some chairs, all of which were rented.

The president of the corporation and one of the principal stockholders, Jacob Goldberg, is an auctioneer. For many years he has been engaged in the salvaging, buying, and selling of distressed and other types of merchandise. More recently he has been associated in a partnership with his wife, and the partnership dealt in all types of merchandise, including machine tools, plumbing supplies, hardware supplies, and electrical materials. This partnership actively engaged in the purchase and sale of merchandise up to the time of the start of this investigation.

The other officers and stockholders of the corporation were engaged primarily in professions or businesses having no relationship to merchandising or auctioneering.

Immediately prior to the organization of the present corporation, the principals had made unsuccessful efforts under another corporate name to obtain contracts with various Government agencies. When they failed in their efforts, they dropped one of their associates and substituted in his place Herman Brandt. One of Brandt's principal functions was to assist in obtaining Government contracts.

Methods used by Surplus Liquidators, Inc., to obtain Government business.

Both prior and subsequent to the organization of Surplus Liquidators, Inc., the officers and stockholders individually and jointly attempted to secure contracts from various Government agencies having surplus properties for disposal. While engaged in these efforts to obtain Government contracts, they stressed benefits to be obtained by the auction method of disposing of surplus. Contacts with Government officials in Washington were made through letters of introduction and recommendation from various persons. In most instances, they used letters which had been obtained from Herbert Bayard Swope, who has been prominent in public affairs for many years and who then was a consultant in the War Department. Swope's daughter is married to Brandt's son. Swope wrote these letters after he had received a letter of high endorsement as to Goldberg from the chairman of the board of the American Radiator Standard Sanitary Corporation. The use of these letters apparently materially assisted the promoters of this enterprise in obtaining audiences with various high Government officials, and enabled them eventually to put themselves in a position to obtain their auction contract. Goldberg and his associates not only used these letters of introduction to their advantage, but in most instances of subsequent correspondence with the Government officials to whom they had been introduced, they kept reiterating the fact that prominent individuals had recommended and would vouch for them.

Awarding of auction contract to Surplus Liquidators, Inc.

In August 1944, after several months of negotiation with Defense Plant Corporation officials in Washington, Surplus Liquidators, Inc., convinced these officials that it should be given a contract for the auctioning of Defense Plant Corporation surplus in the New York metropolitan area. It may be stated at this point that during the time that the negotiations were being carried on between the Defense Plant Corporation and Surplus Liquidators, Inc., for the auction contract, the Defense Plant Corporation had been disposing of surplus construction materials through their field engineers. The field

engineers handled these sales by private negotiation and they were governed by directives from Washington under which it was necessary to obtain a certain minimum percentage of Defense Plant Corporation inventory cost. The engineers, under this system, would submit proposals to Washington for acceptance or rejection. When the field engineers in the New York metropolitan area learned that consideration was being given to the disposing of construction materials by the auction method, they were almost unanimous in their opposition to the auction method. It was their stated opinion that the system under which they were operating was the best method of disposing of these materials. This opinion was ignored. Although the minutes of the meeting at which this decision was made were furnished to Walter E. Joyce, who is in charge of surplus disposal for Defense Plant Corporation, he testified that he never saw them.

In the summer of 1944, and prior to the awarding of the auction contract under consideration, Goldberg visited the Cleveland, Ohio, area where he examined surplus construction materials for the Defense Plant Corporation with a view to ultimately auctioning these materials. While in Cleveland, he discussed this general subject matter with several of the Defense Plant Corporation's field engineers.

John Van Ginhoven, an acting division engineer of the Defense Plant Corporation, testified at this committee's public hearings that he met Goldberg at Cleveland, pursuant to instructions from supervisory officials in Washington. At that meeting, Goldberg discussed his plan of obtaining auction contracts with the Government to dispose of surplus materials and asked Van Ginhoven's assistance to bring this about. Van Ginhoven further testified that Goldberg said if he, Van Ginhoven, would render the necessary assistance in obtaining an auction contract, Goldberg and the corporation would hire Van Ginhoven at a salary of \$15,000 or \$20,000 a year. The salary would date back to the time that Van Ginhoven started to help Goldberg, and while Van Ginhoven was still on the pay roll of the Defense Plant Corporation. Van Ginhoven considered this to be an offer of a bribe and immediately brought the matter to the attention of his immediate superior. This superior corroborated the assertion that Van Ginhoven had told him of the incident. The superior and Van Ginhoven both testified that another Defense Plant Corporation engineer also reported to them that he received a similar offer. The latter engineer denied this upon examination before the committee.

Walter E. Joyce, Vice President of the Defense Plant Corporation, who was directly responsible for recommending to the Defense Plant Corporation board of directors the advisability of awarding the contract to Surplus Liquidators, Inc., testified that Goldberg's alleged improper offer to Van Ginhoven never came to his attention. Goldberg, himself, asserted at the hearing that Van Ginhoven's story was false.

In contemplation of awarding the contract, the Defense Plant Corporation instituted an investigation to ascertain the financial responsibility and qualifications of the Surplus Liquidators, Inc. According to the evidence, the Defense Plant Corporation secured reports from two commercial rating agencies on Surplus Liquidators, Inc. and the officers and directors of the corporation. These reports furnished very meager information. One of the reports indicated that most of the information was obtained through an interview with Jacob Gold-

berg. In this latter report, Goldberg was quoted as having stated that "the corporation was in the embryonic stage of setting up the necessary machinery and details to liquidate huge supplies of excess materials in behalf of the Government, located in various parts of the United States." In addition to these commercial agency rating reports, the Defense Plant Corporation obtained letters from references which had been furnished to the New York regional office of the Reconstruction Finance Corporation by Surplus Liquidators, Inc. When these letters were transmitted to Washington by Mr. T. J. Ahern, the regional manager of the Reconstruction Finance Corporation at New York, he called attention to the fact that it appeared from one of the letters, namely, the letter from Manufacturers' Trust Co., the banking reference, that "the subject purchases and sells for its own account." In this written report, Mr. Ahern further stated "as expressed over the telephone, it is our opinion that it would be far better to deal with one who merely sells, than with one who besides the selling, takes a position either for his or other accounts." After this unfavorable recommendation was received from the Reconstruction Finance Corporation in New York, Mr. Joyce, Vice President, Defense Plant Corporation, discussed the matter with Mr. Goldberg, and according to the testimony, Mr. Goldberg told him that since Surplus Liquidators, Inc., had been organized the corporation had not purchased anything for its own account and did not propose to do so, and a letter to that effect was submitted to the Defense Plant Corporation by Surplus Liquidators, Inc. These facts concerning the buying and selling activities of the corporation appear to be true.

However, Goldberg did not divulge to the Defense Plant Corporation the fact that his buying and selling business was conducted as a partnership with his wife, nor did the Defense Plant Corporation ascertain this fact as a result of its investigation. Thereupon, Walter E. Joyce, in a memorandum dated September 15, 1944, recommended that a contract be awarded to Surplus Liquidators, Inc. The auction contract between the Defense Plant Corporation and Surplus Liquidators, Inc., was actually dated October 13, 1944. It is to be noted that the memorandum makes no reference to the unfavorable recommendations of Ahern, New York regional manager of Reconstruction Finance Corporation, nor does it disclose that the Defense Plant Corporation field engineers in the New York area were almost unanimously opposed to selling this type of material by the auction method. When asked why he did not include in his memorandum, the adverse criticism from the New York regional manager of Reconstruction Finance Corporation, Mr. Joyce stated that he disclosed this information orally to the board of directors of the Defense Plant Corporation, which made the final decision as to the awarding of the contract.

The higher officials of Defense Plant Corporation were invited to testify if they desired, but none sought to avail himself of this opportunity.

Although Goldberg boasted of his experience in dealing in surplus with the War Department after the last war, apparently no efforts were made by the Defense Plant Corporation to ascertain whether his dealings with that Department were satisfactory. From the evidence which was developed at the hearing concerning Goldberg's

record in the disposal of surplus after World War I, it is the feeling of this committee that if a complete investigation had been made by Defense Plant Corporation, the contract herein would not have been awarded.

It is refreshing to note that subsequent to the disclosure by this committee in the instant case, the Secretary of the Treasury, on February 6, 1945, announced the establishment of an Office of Investigations and Complaints in the Treasury Procurement Division to handle complaints and alleged irregularities in the disposal of surplus property by the Treasury Department. In addition he established a special investigative unit to handle field investigations for the Procurement Division. Furthermore the Treasury is issuing public releases from time to time setting the total value of sales of consumer goods by the Treasury's Office of Surplus Property. These releases also list a description of the articles sold to individual buyers, the amount of the purchase, and the names and addresses of the purchaser. This action by the Secretary of the Treasury should have a beneficial effect and assist materially in avoiding abuses, although it is only a beginning. The investigative function should be handled by the Surplus Property Board, and should be responsible to the Board rather than individual disposal agencies.

Irregularities in preparation and conduct of auction.

Failure to maintain proper inventory records.—In the negotiations leading up to the disposal of these surplus materials, it was the intention and understanding between Defense Plant Corporation and the auctioneer that when the materials to be auctioned were moved from the respective planters to the auction site, the auctioneer in lotting the materials and giving them lot numbers for catalog purposes, would retain for identity purposes the original Defense Plant Corporation planor inventory number of each lot. The reason for this system was to afford a check on the items to be sold, in order that a computation could be made as to the price obtained at the auction sale as compared to the original Defense Plant Corporation inventory cost. However, when the materials were delivered to the auction site at Masspe, N. Y., and were lotted and tagged, the auctioneer failed to list in the catalog or on his master sheets the Defense Plant Corporation planor inventory number of the article. The auctioneer in the catalog and auction master sheets, merely listed the planor from which each lot originated, but as above stated, failed to include the planor inventory number of the individual lots. This matter came to the attention of Don F. Brown, the Defense Plant Corporation official in charge of the direct supervision at the auction site, but he did nothing about it. The materials that were picked up at the various planters were trucked by private trucking concerns to the auction site at Masspe. The auctioneer signed receipts for the materials at the planters but the Defense Plant Corporation supervisory officials failed to have the materials checked in when they were delivered by the trucks at the auction site. This matter likewise was called to the attention of Don F. Brown, but he did nothing about it, and when it came to the attention of the auctioneer, he advised the Defense Plant Corporation officials that he would not be responsible for the loss of any materials between the time they left the planters and delivery at the auction site. Thus, the failure of the auctioneer to retain

the inventory numbers of the materials delivered from planters and the negligence of the Defense Plant Corporation supervisory officials in checking in the materials delivered at the auction site make it a practical impossibility to ascertain now if all of the materials received from the various planters ultimately were offered for sale. Furthermore, it is now most difficult to make a worthwhile analysis as between Defense Plant Corporation inventory cost and auction sale price of any particular item.

Inadequate publication of sales.—Under the terms of the contract the auctioneer was to prepare circulars, catalogs, and newspaper advertisements of the sale, under the supervision of the Defense Plant Corporation. The sale was advertised in newspapers throughout the country. In addition, printed folders or circulars in the extent of 15,000 were mailed from the office of Surplus Liquidators, Inc. The mailing list was secured in a haphazard manner by reference to the classified telephone directories of some of the larger cities in the country. These circulars were merely four-page announcements of the sale, containing very general information as to the type of materials which would be sold at auction. The catalogs, under the terms of the contract, were to be printed, but instead of printing catalogs, the auctioneer prepared mimeographed catalogs which set forth the lot numbers and description of the article to be sold at auction. As a result of the newspaper advertising and the mailing of the circulars, numerous inquiries were received by Surplus Liquidators, Inc., asking for more detailed information concerning the materials to be sold at auction. It was disclosed upon investigation that few, if any, catalogs were mailed by Surplus Liquidators, Inc., the excuse being offered that it would cost too much for postage. This was no excuse, because under the terms of the contract the Defense Plant Corporation was to reimburse the auctioneer for postage expended for this purpose. In this regard it should also be pointed out that complete catalogs were not available for prospective buyers until the last day of public inspection at Masspeth, only 3 days before the sale. It may also be pointed out that the auctioneer was so ill equipped to compile these catalogs that the details were thrown upon the office staff of the Reconstruction Finance Corporation in New York City. The net result was that although the sale was advertised in newspapers throughout the country, interested persons were deprived of sufficient information as to what was being offered for sale. This procedure undoubtedly limited the number of prospective customers who attended the sale.

Careless appraisal methods.—The contract further provided that the auctioneer was obliged to furnish an appraisal of the articles being offered for sale to serve as a guide to the Defense Plant Corporation in accepting or rejecting bids as the lots were offered. The original failure to include the planor inventory number in conjunction with the new lot number of articles offered at auction precluded the filing of the Defense Plant Corporation inventory cost for each lot on the master sheets. To recapitulate, it was the intention to list on the auction master sheets the Defense Plant Corporation inventory cost of each lot supplemented by an appraisal of each lot by the auctioneer. That system would have furnished definite information to the Defense Plant Corporation supervisory officials as each lot was being offered for sale, of the Defense Plant Corporation

inventory cost and the appraisal, in order that they might accept or reject bids. A new system was thereupon necessary but the new system can best be characterized as "haphazard" and no uniformity was used in the appraising of items. For example, some types of material were appraised according to the current replacement cost of such articles new and other types of material was appraised at current jobbers' catalog costs. Furthermore, the Defense Plant Corporation hired expert appraisers to appraise some items but their appraisals did not meet with the approval of the auctioneer, with the result that the auctioneer refused to accept these appraisals, but used other appraisals obtained by him. In this particular case the concern which furnished the appraisal to the auctioneer was a big buyer at the auction sale and purchased some of the very items which the firm had appraised.

Lack of audit control.—Another glaring error was the failure to set up a proper audit-control system. Although the evidence reveals that prior to the execution of the auction contract, Surplus Liquidators, Inc., had recommended to the Defense Plant Corporation that the agency utilize a certified public accountant for audit purposes, the Defense Plant Corporation never set up an adequate audit system. The Reconstruction Finance Corporation in New York City had indicated a willingness to provide the Defense Plant Corporation with an adequate auditing staff to supervise this auction sale. However, the Defense Plant Corporation did not set up any audit control of this sale, either at Masspeth or Burlington. The private auditor and employees of Surplus Liquidators, Inc., handled all of the auditing in connection with the sale and delivery of materials at the auction and the officers and employees of Surplus Liquidators, Inc., kept exclusive control of the Government moneys taken in at the auction sale. In this regard, it should be noted that at no time from the beginning of the sale to the close of the public hearings in this case on February 14, 1945, did the Defense Plant Corporation make any check of the upward of \$160,000 of Government money which had been taken in at the sales. Surplus Liquidators, Inc., did set up special bank accounts for these Government funds. However, on at least one occasion, moneys were taken from these funds for the private use of Surplus Liquidators, Inc. In that particular case, \$2,500 was drawn out of the proceeds of the auction sale and credited to the private account of Surplus Liquidators, Inc., to be used in its own business. In addition, the accountant for Surplus Liquidators testified that disbursements were made out of the proceeds of sale for "coffee and sandwiches and other expenses." This practice of making direct disbursements out of proceeds of sale was in violation of the contract, which set up a procedure for the payment of reimbursable expenses incurred by the auctioneer. Under the procedure hereinabove explained whereby the auctioneer and its employees had exclusive control of the records of sales and of the proceeds of sales and whereby the Defense Plant Corporation at no time had a complete independent record of the sales and of the proceeds thereof, it would be very difficult, if not impossible, to have a true and correct audit made of the entire sale. By reason of the committee action in securing the books and records in the custody of the auctioneer, as full and complete an audit as is possible under the circumstances is now being made by the Defense Plant Corporation. That such an audit was

not contemplated by the Defense Plant Corporation prior to the committee action is clear from the evidence.

Unsatisfactory auction and sales records.—The auction master sheet is the most important auction record. This master sheet lists each item offered for sale by lot number and sets forth the planor from which the item was received, a description of the item, the grade or condition thereof, the quantity of items in a single lot, and the appraisement of the lot. While the auction is in progress the auctioneer or one of his assistants, immediately after a sale is made, also lists the name of the purchaser and the purchase price of each lot on the master sheet. Sales invoices and all other data concerning the auction are made up from the master sheet. Under the terms of the contract the auctioneer was to furnish two sets of the master sheets to Defense Plant Corporation at least 5 days prior to the sale. This provision of the contract was violated by the auctioneer and he neglected, failed, and refused to furnish two such sets of master sheets. As a result of the failure of the auctioneer to comply with the terms of the contract in this regard, the Defense Plant Corporation employees found it necessary to prepare their own master sheets from the auction catalog for use at the sales. Under the system devised by the auctioneer, an employee of his accepted the cash deposits from successful bidders and gave receipts therefor, and the auctioneer himself, or one of his employees, wrote the name of the purchaser and the bid price on his own set of master sheets. Defense Plant Corporation employees, either through inexperience or lack of ability, were not able to record all of the bid prices on Defense Plant Corporation master sheets and were unable to record the names of the purchasers. It was further ascertained that the auctioneer refused to make his master sheets and other records available to Defense Plant Corporation employees from day to day, and this, together with the incompleteness of the Defense Plant Corporation records, put the Government representatives in a position of having no complete record of the sales. However, on January 5, 1945, when the Defense Plant Corporation was officially notified of this committee's investigation of the instant case, they made a last-minute effort to complete their set of master sheets. At that time they ordered Defense Plant Corporation employees to the offices of the auctioneer's accountant and those employees worked until 3 a. m. on the morning of January 6, 1945, attempting to complete a set of the Defense Plant Corporation master sheets by copying from the auctioneer's master sheets. It should be noted that all of the sales invoices were made up by the auctioneer from his own master sheets prior to January 5, 1945, and the Defense Plant Corporation had no complete records available by which it could verify those invoices. As a matter of fact, this committee's investigation developed a great many discrepancies between the information appearing on the auctioneer's master sheets, the information contained on Defense Plant Corporation master sheets, and the invoices. In numerous instances it was found that certain lots were invoiced to a purchaser at a given price, although the auctioneer's master sheet reflected that the same lot was sold to some other purchaser at a higher price. No plausible explanation has ever been received from the auctioneer or from the Defense Plant Corporation for these serious discrepancies in the master sheets and invoices.

Irregular auction practices.—The committee found numerous irregularities in the actual conduct of the auctions by the auctioneer. Much of the bidding was done by signals between the bidder and the auctioneer, such as a wink of the eye, a nod of the head, a shrug of the shoulders, a motion of the finger. This method of bidding at times created considerable confusion. On one occasion a plain-clothes man of the New York City police department pickpocketed a man, who was assigned to the Maspeth sale for the protection of the public, wiped his brow and the auctioneer, taking this as a signal of a bid, knocked down the lot to him. This method of bidding by signal with the countenance and cooperation of the auctioneer, was improper and should not have been permitted by the Defense Plant Corporation supervisory officials at the sale. In other instances the evidence disclosed that lots were knocked down to people who had made no bid, while in some cases lots were knocked down to one bidder while other persons were still attempting to bid on the lot. Another improper practice indulged in by the auctioneer was the hiking of bids, i. e., the last oral bid would be \$25 and the auctioneer would announce that he had a bid of \$30 where actually no such bid was heard. All of these improper practices resulted in much dissatisfaction on the part of prospective purchasers and led to considerable bickering and squabbling between the auctioneer and the persons present at the auction. An auctioneer in the employ of the city of New York attended the sale at the instructions of Mayor LaGuardia to observe the auction with a view to ascertaining if there were any violations of city ordinances. In his report to the mayor, this auctioneer in summarizing his opinion of Goldberg, states:

In my opinion this auctioneer conducted this sale in an unethical, tyrannical, unfair, unreasonable, and impractical manner. His demeanor as an auctioneer was in my opinion, to say the least, stupid and arrogant.

Each day the auction sales were started in the morning hours at Maspeth, N. Y., and Burlington, N. J., and the auctioneer carried the sales into unreasonable hours, running beyond 9 p. m. several days at Maspeth and on the final day at Maspeth until 3 a. m. Sunday morning, at which time only 14 buyers were present. In the city of New York, where the Maspeth sale was held, it is a violation of law to conduct public auction sales after 5 p. m., and this violation was called to the attention of the auctioneer and the Defense Plant Corporation representatives by New York City license inspectors. Notwithstanding such warning and notice, the auction was continued after legal hours. At Burlington, N. J., a 3-day sale was scheduled; however, the auctioneer finished in 2 days, concluding the sale at 11 p. m. on the second day. This practice of holding the auctions until unreasonably late hours apparently discouraged legitimate bidders, as is indicated by the few persons who remained at the Maspeth sale on the last day, as well as at the Burlington sale.

Under the terms and conditions of sale the auctioneer was required to demand cash or certified check for 25 percent of the bid price. In many cases this requirement was waived by the auctioneer, although he had no authority to do so. This practice opens the door to favoritism and cannot be condoned.

Improper acceptance of bids by the Defense Plant Corporation.—The terms and conditions of sale which were incorporated in the contract further provided that the Defense Plant Corporation reserves the

right to reject any accepted bid within 48 hours after the acceptance of the bid by the auctioneer. The failure of the Defense Plant Corporation to carry out this provision of the contract resulted in a most serious situation. There is evidence that the Defense Plant Corporation failed to set up any machinery or make any plans for the carrying out of this important contract provision. As a matter of fact, Don F. Brown, the Defense Plant Corporation official charged with the direct supervision of the auction sales, testified that the Defense Plant Corporation supervising employees had forgotten there was such a provision in the contract until 3 or 4 days after the last auction sale. On December 13, 1944, 7 days after the auctions had been completed, Defense Plant Corporation representatives, after reviewing the results of the auction sales, decided that a great many lots had been sold at auction for prices which were too low. Inasmuch as the 48-hour period for rejection of these poor sales had long passed, the Defense Plant Corporation sought legal advice from Reconstruction Finance Corporation attorneys in New York to determine what action they could take at that late date. Reconstruction Finance Corporation attorneys after conferring with Defense Plant Corporation attorneys in Washington advised the Defense Plant Corporation representatives that inasmuch as no action had been taken to reject the poor sales within 48 hours, they were now legally estopped from rejecting any sales made at the auctions. The Defense Plant Corporation officials, finding themselves in a position where they had to accept a number of bad sales, got together with the auctioneer and decided that an additional 20-percent payment should be demanded from those purchasers who bought lots at prices considered by the Defense Plant Corporation to be inadequate.

The evidence is conflicting as to whether the auctioneer or the Defense Plant Corporation initiated this scheme. It is, however, a fact that the auctioneer did make demands for an additional 20 percent from many of the purchasers and made the representation that if the additional 20 percent was not paid the Defense Plant Corporation would reject the sale. It is clear that the Defense Plant Corporation officials had knowledge of and condoned this practice and only stopped it after complaints were received from dissatisfied purchasers. As a result of this scheme some of the buyers paid the 20 percent under protest, others, aware of their legal rights, refused to pay it, and some of them who paid the 20 percent were subsequently given a refund in the same amount by the auctioneer. The Defense Plant Corporation officials in public hearings on this case, admitted that this illegal assessment of an additional 20 percent on some purchases was not a good policy and was a mistake on the part of the Defense Plant Corporation.

At the Burlington, N. J., sale several competitors got together and agreed not to bid against each other, pooled their interests and bought some 700 lots which were bulked together, for which their bid of \$14,000 was accepted by the auctioneer. These buyers agreed that the materials purchased were to be divided amongst them. After their bid was accepted, the buyers decided they had made a bad bargain, appealed to the auctioneer and to the Defense Plant Corporation representative to return their \$2,200 deposit. Under the terms and conditions of sale if the purchaser failed to pay the balance of the purchase price, the deposit was to be forfeited as liquidated damages

and the bidder thereupon lost all right, title, and interest in the property. Notwithstanding this provision of the terms and conditions of sale, the Defense Plant Corporation authorized the auctioneer to refund the deposit and the refund was made.

Unauthorized negotiated sales.—Another serious irregularity was the fact that during a period of several weeks after the auction sales had been concluded, the auctioneer disposed of considerable Defense Plant Corporation property by means of negotiated sales. Some of these sales were of lots which were passed and not sold at auction but still remained at the auction site. In many instances these materials were disposed of at prices less than the appraised prices. In addition, some of the lots which were knocked down to buyers at auction were thereafter sold by negotiation to other parties at prices lower than the original bid price. Although the auctioneer had no right or authority under the contract to make these negotiated sales, such action was approved by the Defense Plant Corporation employees directly in charge at the auction site. Such approval by the Defense Plant Corporation employees was beyond their power.

Irregularities in auction sales records.—When the buyers closed out their purchases by making the payment for the balance of the purchase price and accepted delivery of materials the Defense Plant Corporation employees of necessity had to rely upon the information furnished by the auctioneer as to the name of the purchaser, the price, and the quantity, because the Defense Plant Corporation had no complete independent record of these transactions as heretofore stated. In a spot check made by members of the committee staff, a great many discrepancies have been uncovered in the handling of these details. This spot check revealed that in some cases lots which were knocked down on the auction block were ultimately invoiced and delivered to the successful bidder at lower prices. In other cases the lots were invoiced and delivered at lower prices to someone other than the successful bidder. Additional discrepancies will be shown upon completion of the Defense Plant Corporation audit in this case.

False percentage of recovery.—It was urged both by the auctioneer and the Defense Plant Corporation that the auction method in this case was in the nature of a "guinea pig" to ascertain whether this method is proper for the disposal of this type of material. In that connection, in all the negotiations leading up to the auction contract, it was the intention to judge the final results by comparing the amounts realized at the sale with the original Defense Plant Corporation inventory cost. This was commonly referred to as the percentage of recovery.

As has been previously explained, as a result of the method of letting employed by the auctioneer the original Defense Plant Corporation inventory cost of specific items was unascertainable. When the bidding was completed at the auction sales and before the sales were confirmed, the auctioneer submitted figures to show the percentage of recovery made by him at these auctions. Subsequent thereto various estimates of the percentage of recovery were made both by the auctioneer and the Defense Plant Corporation. Because of the method used by the auctioneer in letting the goods whereby the original Defense Plant Corporation inventory cost was unascertainable, the lack of a uniform accounting system, the unsystematic method of appraising merchandise and the discrepancies in the sales

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records, it was found that the computations relative to the percentage of recovery made by the auctioneer and the Defense Plant Corporation varied from 52.3 percent to as low as 32.1 percent. It is hoped by the committee that when the final Defense Plant Corporation audit is made, a true percentage of recovery can be ascertained.

Sale of critical war materials.—In an effort to ascertain whether critical materials sold at these auctions were properly channelled in the war effort, the committee analyzed several of the individual-lot sales. In the cases analyzed, articles sold at auction promptly found their way into the hands of contractors for use on Government-financed war projects at a greatly increased price. Thus, we find one Government agency disposing of property as surplus at the very time the same material is urgently needed in the performance of war contracts. This permits speculators to reap a large profit at the expense of the taxpayer. It was also learned upon investigation that the sale of some of this critical material was subject to War Production Board Priority Regulation No. 13. The Defense Plant Corporation failed to make provisions for compliance with War Production Board Priority Regulation No. 13 in the sale of these materials at auction. No satisfactory explanation was given to the committee for this failure. A few test cases were checked by the committee with War Production Board representatives and it appears that War Production Board Priority Regulation No. 13 was in fact violated. Inasmuch as several thousand lots were sold at the two auctions, it is probable that many similar violations existed.

Local governments precluded from bidding.—The city of New York was interested in purchasing a great deal of material offered at these auctions but due to restrictive provisions in the terms and conditions of sale the city was precluded from making bids. Hon. Fiorello H. LaGuardia, mayor of the city of New York and president of the United States Conference of Mayors, advised that the terms and conditions of these auction sales prevented the city of New York and many other local governments from participating in the distribution of Government surpluses as is provided in the Surplus Property Act of 1944. It has come to the attention of this committee that, since the public hearings in this case, the Reconstruction Finance Corporation has relaxed some of the restrictive sales provisions, thereby materially assisting local governments in the acquisition of Government surpluses.

Qualifications of auctioneer.—Prior to the time any official notice was given that the instant case was being investigated, Surplus Liquidators, Inc., was attempting to secure auction contracts with the Procurement Division of the Treasury Department. As a result, the Treasury Department called on the Defense Plant Corporation to express an opinion as to its experience with the firm. A memorandum was prepared under date of January 5, 1945, by Mr. B. H. MacNeal, Assistant Chief Engineer of the Defense Plant Corporation, with the assistance of Don F. Brown, at the request of Mr. Joyce. This memorandum while mildly critical of some of the dealings with the auctioneer, toned down the criticisms by attributing the shortcomings of the auctioneer to inexperience with governmental requirements. The memorandum concluded with the following recommendation:

As you know, this auction was in the form of an experiment for the Defense Plant Corporation. With the ability that Mr. Goldberg's firm has demonstrated

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due to thorough and experienced knowledge of merchandising, and their own familiarity with governmental requirements, I believe they are well qualified to handle auctions of this type expeditiously for Government agencies.

The Defense Plant Corporation had official notice of the commencement of this investigation on the very day that memorandum had been prepared. Mr. Joyce advised the committee that this favorable recommendation was never transmitted to the Treasury Department. He further stated the Defense Plant Corporation is now of the opinion that the auctioneer "is not a first-class auctioneer" and that his recommendation for the awarding of the contract was an error in judgment. In addition, he admitted that the instant auction sales were not a success and that the type of material offered did not lend itself to the auction method.

CONCLUSIONS

1. Decisions as to the proper methods for the disposal of surplus were entrusted by the Defense Plant Corporation to persons poorly qualified by training and experience in this field. Furthermore, it appears that the representatives of Surplus Liquidators, Inc., relied in the main upon contacts to secure the contract.

2. The disposal agency in this case failed to make a thorough investigation of the financial responsibility, organization, ability, and past activities of the auctioneer and corporation employed. Had a proper investigation been made in this case the contract would not have been awarded.

3. Procedures for a strict inventory and audit control of the surplus property and proceeds of sales were not established by the disposal agency. The mere furnishing of a bond, fidelity or performance, or both, by the contractor, is not adequate protection for the Government, in the absence of a sound inventory and control system.

4. The auction contract in this case was not carefully drawn to protect the Government's interests. The contractor's performance thereunder was not strictly supervised by qualified Government personnel. The auctioneer in this case violated the terms of the auction contract and conducted the sale in an unprofessional and unsatisfactory manner. The Defense Plant official in immediate charge of the supervision of these sales was negligent and inefficient in his supervisory responsibilities. Had he properly exercised his authority he could have prevented most of the abuses in this case. In addition, other Defense Plant Corporation supervisory officials were negligent and inefficient in protecting the interests of the Government in allowing these conditions to exist. The urban auction method of disposing of Government surpluses is open to abuses and Government disposal agencies using this method should give careful consideration to the selection of auctioneers and must carefully supervise such auctions.

5. Regulations of the Office of Price Administration and the War Production Board, designed to control the proper utilization of critical war materials, were ignored by the Defense Plant Corporation. Such practice permits the diversion of critical war materials into the hands of speculators and black marketeers, thereby impeding the war effort.

As stated at the beginning of this report, the purpose of the committee investigation in this case was to make inquiry into the urban auction method of disposing of Government surpluses. It is not the

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intention of the committee to condemn urban auction sales as such, although it is clear that urban auctions should be utilized only in those cases where the abuses can be avoided. If an urban auction is properly advertised and properly conducted, the buying public will have an opportunity to participate along with professional buyers in the purchase of Government surplus. The decision as to specific methods to be utilized in the disposal of Government surplus rests with the disposal agencies and the Surplus Property Board. However, it is expected that they will avoid the errors and irregularities brought to light as a result of this investigation and that every effort will be made to prevent abuses in the disposal methods employed.

APPENDIX II--ACTIVITIES OF WORLDWIDE MERCANTILE CORPORATION

In September 1944 the committee held hearings on activities in the field of surplus property of the Worldwide Mercantile Corporation. The matter was brought to the committee's attention by Mayor Fiorello H. LaGuardia, of New York, who, with the New York City Police Department and Department of Purchase, furnished invaluable aid in the investigation.

PERSONNEL AND ORGANIZATION

In 1943 a friendship was formed, by reason of a common association in the offices of the International Bidding Machine Co. in New York, between Allen T. Floyd, who had previously been employed by the Office of Price Administration and the War Production Board, Richard Hawkie, a former employee of that company who had resigned to join the staff of the New York office of the War Production Board at an earlier date, and Ralph Hallenbeck. Soon after that time Hallenbeck also left this employment to go to work for Albert Terry Fayhe, who owned a business known as Consolidated Industries, with offices at 225 Broadway, New York. At a later date Hallenbeck joined the staff of the Procurement Division of the Treasury Department in Washington. In mid 1943 Hawkie introduced Floyd to Albert N. Orsler, who had previously told Hawkie that he had recently formed but not yet incorporated the Worldwide Mercantile Corporation, with offices at 295 Madison Avenue, New York, for purposes of post-war importing and exporting. Hawkie's introduction was made, according to Floyd, with the express purpose of effectuating a possible business joinder between Floyd and Orsler, the latter of whom described falsely his own "experience" in the import-export field in the Orient, representing to the two other men that he had at one time operated branch importing offices in Japan and China, stating that he sold that business for more than a million dollars. Orsler also displayed impressive contracts which he had recently negotiated whereby farmers' unions in Liberia, Nigeria, the recently negotiated whereby farmers' unions in Liberia, Nigeria, the Gold Coast, and the Ivory Coast (the latter a part of French West Africa) promised to sell their products—mainly palm oil and coconut oil—exclusively through Worldwide. The sale value of these contracts—if any—was for post-war business.

At a later date Hallenbeck introduced Terry Fayhe to Floyd and Orsler and the three discussed the possibilities of Worldwide's dealing in surplus property during the period of time remaining from that

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date until the end of the war, when importing could be begun. It was agreed that this would be profitable. Fayhe had incorporated his own company, and it was decided that Consolidated Industries, Inc., which had rented facilities at Dolgeville, N. Y., for manufacturing wooden bomb cases under a War Department contract, would share with Worldwide Mercantile Corporation a suite of offices at 295 Madison Avenue, New York. The plans for the group with the aid of Benjamin Cooper, a lawyer. At the time of the incorporation of Consolidated Industries, Inc., Fayhe allegedly had no idea of the possible post-war business which the company might pursue.

In the meantime, in the offices of Milton Saxe, a "business friend" with offices at 512 Fifth Avenue, Fayhe had met one Irving Wexler, whose background he allegedly did not know at the time of their first meeting. Wexler, whose best-known alias is "Waxy" Gordon, has a 30-year-old criminal record for picking pockets, assault and robbery, violation of the income-tax law (as a result of which he still owes the Government over \$3,000,000) and violation of Office of Price Administration rationing regulations. He was notorious as a New York bootlegger during the prohibition era. After Fayhe learned of this record and of Wexler's widespread acquaintance among brewers, he allegedly sought him out a second time at Saxe's offices and, according to his testimony "engaged" him as an employee of Consolidated Industries, Inc., to obtain from these brewers post-war contracts to manufacture wooden cases for beer bottles. That is Fayhe's and Wexler's story.

Wexler at that time started an almost day-to-day occupation of the offices which Worldwide and Consolidated shared. He attempted to maintain in the committee's hearing that his entire time had been occupied with the business of Consolidated. When forced on cross-examination to admit that much of his time was spent on surplus disposal matters, he claimed that this was done gratuitously, with no expectation of compensation. It must be remembered, in connection with his disclaimer of a financial interest in Worldwide, that the Government could seize any such capital as partial satisfaction for the unmet income-tax judgment of more than \$3,000,000 (including interest since 1931) which it holds against him. Wexler has stated that he thought this judgment could be settled for a comparatively small sum—perhaps \$15,000—which he asserts he could raise without trouble.

Fayhe, Orsler, and Floyd gathered into Worldwide a group of associates for the exploitation of surplus property, including Herman Schuss (who maintained he was only "using Worldwide's office"), William Ristig, a reputable Washington lawyer, Charles Schuss & Co., and Clarence W. Gossler, a former employee of Sears, Roebuck & Co., who had attempted without success to buy Government surplus property for his own account in Washington. Ristig resigned his connection with the company when he learned the true nature of the business from the firm whereby in H. Gordon Fisher entered into a contract with the firm whereby in effect he obtained a stock of surplus goods for them from the U. S. Commercial Company, a Foreign Economic Administration subsidiary in which Fisher had a friend who was in charge of the sale. Worldwide financed this purchase in part. Neither Orsler, Schuss, nor

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Wexler had any apparent source of income. None of them maintained any bank accounts. Fisher opened his account only after signing his contract with U. S. Commercial Company for the surplus. Schuss had a criminal record, having been sentenced in 1922 on a charge of conspiracy to terms (which were at least partially served in the Federal penitentiary at Atlanta) of a year and a day and 2 years and a day.

FINANCING

On July 3, the Worldwide Mercantile Corporation was incorporated under New York law with a capital of \$10,000, which was contributed by Fayhe, who was made treasurer of the corporation. After the receipt of the papers of the incorporation, the application for which previously had been filled out in the "dummy" names of Benjamin Cooper and some of his relatives, Orsher was made president, Floyd, vice president, and Schmidt, secretary. Fayhe allegedly received the money he contributed to the firm in the form of a personal loan from Samuel Lazar, a resident of Philadelphia. Lazar later loaned Fayhe \$5,000 more for the venture. Lazar is characterized by the Philadelphia police as having been "in conflict with law-enforcement authorities for many years."

More money for the business was allegedly obtained from J. Arthur Kennedy, owner of the Brooklyn trucking firm of Danville & Kennedy. The committee has been asked by Kennedy to believe he had known Fayhe "for the last 20 years or so" in and out of the old Abeam Club in New York. He claimed that the acquaintance had been only casual. Fayhe testified separately, however, that he had spent 14 of the years since 1922 in Europe, and that he had arrived back in the United States in 1936. It is stated by both that a few days before August 9, 1944, Fayhe telephoned Kennedy at his warehouse in Brooklyn and made an appointment for a personal meeting on August 9 at that warehouse. Coming alone to Kennedy's office at that time, he is stated to have asked that Kennedy lend him, for 30 days, the sum of \$25,000, allegedly saying that he needed it in cash because "he wanted to go down to Washington to pick up his (warehouse) receipts." He stated that it was necessary to do this immediately, so that there was no time to put through a check. This explanation of the need for cash is not convincing. The evidence is clear that the loan had been arranged in detail weeks before the cash changed hands.

Kennedy delivered the money in five hundred and one thousand dollar bills to the Worldwide offices, admittedly making no investigation of the corporation and accepting no security for the loan, which he maintains was a personal one to Fayhe. He states that he did not maintain Wexler until the day of his delivery of the money, but this statement is weakened by the allegation by Fayhe that on the afternoon he went to Kennedy's Brooklyn warehouse to negotiate the loan he did not know where it was located and was driven by automobile to the location by one who did know, one R. B. Kanterowitz. Kanterowitz is a friend and associate of Wexler's. The circumstances under which Kennedy, who is widely known in the New York area as a shrewd businessman, allegedly loaned \$25,000 of his own money without security to a casual acquaintance in his club without substantial investigation of the alleged use to which the money was to be put, are

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peculiar in and of themselves. The fact that Kennedy refused to voluntarily testify before the committee on the subject when requested by telephone to come to its hearing room in the United States courthouse in New York, and further avoided service of a committee subpoena in two later occasions, is also relevant.

On the other hand the circumstances surrounding the company's financing indicate that Wexler was financing the business. He claims to be destitute and dependent on friends. But he lives well on apparently no means. He admitted on cross-examination that he had referred to the surplus business of Worldwide as his business but attempted to explain that he was only boasting, despite the fact that he told this to his accountant whom he sought to engage for the business. His admissions as to his many activities on behalf of the firm came after he originally denied any such activities at all. Each admission came grudgingly after his originally poor memory was refreshed by confrontation with facts.

SUSPECT TRANSACTIONS

One of the first ventures in which the Worldwide group engaged was the purchase of a quantity of small boxes, warehoused in Seattle, Wash., from the Procurement Division of the Treasury Department, for which Worldwide paid approximately \$400. They were sold to Sears, Roebuck & Co. in Chicago for \$1,300 and were shipped directly to Sears without passing through the hands of the Worldwide group. According to Fayhe himself, this contract of sale was negotiated on the part of Treasury Procurement by Ralph Hallenbeck, Fayhe's friend and former employee. Under cross-examination, Fayhe admitted that he was "well acquainted" with Hallenbeck, that he had known him for 3 years, and that he saw him frequently. Hallenbeck resigned from the Treasury in December 1944. Forty-five invitations to bid on the boxes had been issued by Treasury Procurement. Worldwide, which did not receive an invitation wired its bid to the Treasury, addressed to Hallenbeck's attention. This bid exceeded the highest bids received from any other bidder.

The quantity and variety of items in which the Worldwide group dealt or tried to deal during the month of August and the early weeks of September is astonishing and revealing. These items, which Worldwide attempted to purchase from many Government agencies included:

Sheet aluminum	Electrical equipment
Automobiles	Fiber wood
Barbed wire	Hot-water heaters
Bicycles	Insulating boards
Blankets	Kidney
Bottles	Lawnmowers
Buses	Lumber
Brushes	Machinery
Buckles	Marine radio setting
Burners, lamp	Mattresses
Cane, gasoline	Mills
Cases	Milling machines
Ceramics	Motorcycles
Cerco	Napkins
Copper screening	Nylon duck
Criton	Outboard motors
Cups and saucers	Packings
Drums, 55-gallon	Tightline

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in Washington on behalf of his clients. Fisher testified before the committee that Markman would "tip" off Fisher as to the existence of possible business.

The contract of purchase, "negotiated" by Fisher with Markman and signed on August 3, 1944, did not commit Fisher immediately to pay \$122,373.88 for the goods contained in the program. Rather, it called for the deposit with U. S. Commercial Company by Fisher of \$10,000,¹ and for his immediate payment of such goods as he desired, at the rate agreed upon in the contract, whenever he requested that the goods in question be withdrawn from the warehouses where they were located. Under the contract, Fisher would call for the release from a warehouse of specific quantities of named items, for which it was apparently contemplated by the contracting parties he would already have commitments. When each demand was made, the contract provided that he would make full payment for the goods released. Fisher agreed to pay in full for the goods by December 2, or to forfeit his \$10,000 and the remaining goods. U. S. Commercial Company was also given the right to repossess without or with process of law such remaining unsold merchandise for which releases had been issued.

Fisher and Markman arrived at the unit prices of the individual items apparently without regard to their true value. The buyer arrived at a cost figure, which he bid so that he could resell at a profit. The two of them then sat down and, in Fisher's words, "rearranged the unit prices."

Before he had negotiated the contract with Markman, Fisher told Terry Fayle that these goods were to be available. He had allegedly met Fayle some 6 months previously—

through George Divergent . . . a man in the woodworking business, someone here in New Jersey,

whom he had met around the Hotel Roosevelt, where Fisher lived in Washington. This contract provided for the sale of the U. S. Commercial Company goods to Worldwide, for \$212,167.12,² which would net Fisher a large profit whenever Worldwide procured purchasers of the goods, but within a shorter period of time than Fisher had to pay the Government. Fayle had deposited a check for \$5,000 with Fisher, who endorsed it over to U. S. Commercial Company as a part of his original deposit. Fisher admitted quite frankly that he had no funds to make this deposit or any of the other payments which he made from time to time during August and September on the goods he desired released. He described the method of financing the transaction as "promoting the deal, purely and simply." The method was to sell the goods before he purchased them.

Markman was instructed not to release the goods to Fisher before payment was made but he gave Fisher 10 releases dated August 3, 1944, apparently at the time of the signing of the contract (although he has maintained in conversations with his superiors in the Foreign Economic Administration that the releases then dated were held until a later date), which enabled Fisher to "promote" the early stages of the transaction. These releases are accounted for in two invoices and gave Fisher title to the following goods:

¹ This figure was to include with U. S. Commercial Company all of his left work in the goods were taken up by Fisher.

² This figure included the goods ultimately sold to the French.

INVESTIGATION OF THE NATIONAL DEFENSE PROGRAM 37

Release No.	Description	Species	Quantity
476	Leaky burners and radiators	SPR. 10.	4,000
477	Leaky burners	SPR. 10.	4,000
478	Leaky burners	SPR. 10.	4,000
479	Leaky burners	SPR. 10.	4,000
480	Leaky burners	SPR. 10.	4,000
481	Leaky burners	SPR. 10.	4,000
482	Leaky burners	SPR. 10.	4,000
483	Leaky burners	SPR. 10.	4,000
484	Leaky burners	SPR. 10.	4,000
485	Leaky burners	SPR. 10.	4,000
486	Leaky burners	SPR. 10.	4,000
487	Leaky burners	SPR. 10.	4,000
488	Leaky burners	SPR. 10.	4,000
489	Leaky burners	SPR. 10.	4,000
490	Leaky burners	SPR. 10.	4,000
491	Leaky burners	SPR. 10.	4,000
492	Leaky burners	SPR. 10.	4,000
493	Leaky burners	SPR. 10.	4,000
494	Leaky burners	SPR. 10.	4,000
495	Leaky burners	SPR. 10.	4,000
496	Leaky burners	SPR. 10.	4,000
497	Leaky burners	SPR. 10.	4,000
498	Leaky burners	SPR. 10.	4,000
499	Leaky burners	SPR. 10.	4,000
500	Leaky burners	SPR. 10.	4,000

Fisher sold the machetes, covered by Releases 486, 487, and 488, to Shuman Nalls & Co., Washington, D. C., receiving in payment therefor a check in the amount of \$5,310.40. With an introduction by Shuman Nalls & Co., he opened a checking account at the Hamilton National Bank, in Washington, depositing \$500 in cash and the Shuman Nalls check for the machetes. He admitted in his testimony that he had put only this \$500 into the venture to that date (September 19), and had paid more than \$50,000 under the contract for goods released to him.

It has already been stated that Markman maintains he did not give the August 3 releases to Fisher until he received payment therefor at a considerably later date. This is controverted by the fact that the warehouses in question received these releases on the following dates:

Company	Release Nos.	Date received
C. G. Ruckelshaus Warehouse Co., Brooklyn, N. Y.	476, 477, 478, 479, 480, 481, 482, 483, 484, 485, 486, 487, 488, 489, 490, 491, 492, 493, 494, 495, 496, 497, 498, 499, 500	Aug. 1
Leaky Burners & Radiators Co., Philadelphia, N. J.	476, 477, 478, 479, 480, 481, 482, 483, 484, 485, 486, 487, 488, 489, 490, 491, 492, 493, 494, 495, 496, 497, 498, 499, 500	Aug. 1
Leaky Burners & Radiators Co., Jersey City, N. J.	476, 477, 478, 479, 480, 481, 482, 483, 484, 485, 486, 487, 488, 489, 490, 491, 492, 493, 494, 495, 496, 497, 498, 499, 500	Aug. 1
Shuman Nalls & Co., Washington, D. C.	476, 477, 478, 479, 480, 481, 482, 483, 484, 485, 486, 487, 488, 489, 490, 491, 492, 493, 494, 495, 496, 497, 498, 499, 500	Aug. 1
The Hamilton National Bank, New York, N. Y.	476, 477, 478, 479, 480, 481, 482, 483, 484, 485, 486, 487, 488, 489, 490, 491, 492, 493, 494, 495, 496, 497, 498, 499, 500	Aug. 1
Shuman Nalls & Co., Washington, D. C.	476, 477, 478, 479, 480, 481, 482, 483, 484, 485, 486, 487, 488, 489, 490, 491, 492, 493, 494, 495, 496, 497, 498, 499, 500	Aug. 1

¹ Postmarked "Washington, D. C., 10 p. m., Aug. 19."

The remainder of the deposit which was due under the contract Fisher made by drawing a check on his new account in the amount of \$5,000. Worldwide apparently paid him for a large quantity of the goods covered by the August 10 invoice, and he deposited \$10,670.55 on August 11. A large portion of his funds had thus been exhausted within a week after the signing of the contract by his making the full deposit and paying for the goods covered by the August 10 invoice.

Fisher had not yet paid for the machetes covered by the August 8 invoice, however, although he had already sold and received full payment for them. His bank account would not support another large check, so he evidently made payment by giving Markman a post-dated check, dated August 28, in the amount of \$5,001.60. According to Foreign Economic Administration records, this check was received in the office of the U. S. Commercial Company treasurer on August 29, and went through the clearinghouse to the Hamilton National Bank by August 30, by which time the Fisher account had

38 INVESTIGATION OF THE NATIONAL DEFENSE PROGRAM

been replenished. On the back of the check, No. 140, Fisher or Markman had noted "Payment in full. Machetes (68905) #127-17. Invoice 2/8/44." This, it would seem to the committee, is promotion of the first water.

Fayhe and his Worldwide associates succeeded in finding a market for these items (some of them covered by the August 10 invoice, and some by other later invoices), selling a portion of them to such companies as H. P. Innis & Co., New York, N. Y.; I. and J. Block & Co., New York, N. Y.; Weinberger Drug Stores, Cleveland, Ohio; Sears, Roebuck & Co.; Montgomery Ward & Co.; W. T. Grant & Co.; S. Kahn & Sons, Washington, D. C.; and the Hocht Co., Washington, D. C. Some of the orders from these companies were allegedly displayed by Fayhe when he negotiated the \$25,000 loan from Kennedy on August 9. But certainly it was not necessary to pay in cash, as Fayhe told the committee nor was cash required, as alleged by Fayhe, because there was not sufficient time to obtain and clear a check. The loan had been arranged a considerable time in advance of the actual passing of the cash.

The assumption of responsibility by U. S. Commercial Company to see that—

the material is not sold through operators but through regular channels of distribution,

and the promise by Fisher in his contract to purchase that he would—offer this merchandise first to regular wholesale and retail merchants in the United States in accordance with all Office of Price Administration and governmental regulations,

unless this was "impossible," are worthy of note here. Certainly the Worldwide group, which Fisher had in mind when he negotiated the contract and which Markman admitted having discussed with Fisher was neither a "regular channel of distribution" nor a "regular wholesale or retail merchant."

An example of the profit made before the surplus goods reached a regular channel of distribution can be found by tracing the chain of sale of a part of the 7-quart cast-iron pots. Fisher purchased this item from U. S. Commercial Company for \$1 apiece, and sold 20,000 of them to Worldwide at \$1.24. The latter sold the same quantity of these items to Sears, Roebuck & Co. at \$1.55. The two middlemen thus made a 55 percent profit.

The committee condemns the decision adopted in this case, that the stock pile of incentive goods had to be sold in one lot. Many excuses, most of them meaningless, were offered for this policy—that it was "more advantageous," that U. S. Commercial Company "had no organization to sell it," and that "a better price could be obtained with this method." But if the program had been sold "item by item," as opposed to "by lot," it is obvious that a better price for the program as a whole would have been obtained. With respect to the 7-quart cast-iron pot, an item which was allegedly thought by Markman to be difficult to sell, for example, the Government would have obtained \$49,000 more by selling directly to Sears, Roebuck & Co. Very little more organization, if any, would have been required, since Markman had little trouble in handling all the numerous bids for the original program, and since withdrawals of the various lots of goods did not all come at the same time even under the method adopted by U. S. Commercial Company for selling to Fisher.

INVESTIGATION OF THE NATIONAL DEFENSE PROGRAM 39

CONCLUSIONS

1. Worldwide Mercantile Corporation was organized for the purpose of dealing in Government surpluses by a group who sought to make quick, easy profits. The group included a number of persons who had neither visible means of support nor assets, and whose backgrounds were questionable.

2. One of the principals in the group, Irving Wexler, alias Wasay Gordon, notorious racketeer with a long criminal record, denied any connection with the surplus-property business. But the record indicates that he was actively engaged in it.

3. The method of financing was unorthodox and could not be satisfactorily explained under oath. Some of the money undoubtedly came from racketeering sources. Twenty-five thousand dollars was contributed in a cash transaction which could not be satisfactorily explained. Wexler denied any financial interest, but the committee is of the opinion that the unexplained cash transactions were for the purpose of concealing the true financing of the business.

4. The group obtained surplus property as a result of contacts with persons in Government office who were favorably disposed to them. It appears that Worldwide Mercantile Corporation and its associates were unduly favored in some of these transactions.

5. While the activities of the group were ended before they had had an opportunity to purchase much Government surplus, it appears that they were able to sell at high profits to legitimate business organizations many items which these organizations should have been able to purchase directly.

APPENDIX III—DISPOSAL OF SURPLUS REAL ESTATE

The methods to be pursued in the disposal of surplus real estate were the subject of bitter controversy among the executive agencies. The entire question was finally resolved by the Congress in the Surplus Property Disposal Act. This occurred after this committee had heard testimony on the question for several days.

The Surplus Property Administration, set up by Executive order, placed the disposition of all real estate owned by the United States Government in the hands of the Reconstruction Finance Corporation. This was done after consultation with a group of representatives of various Government agencies, excluding, however, the Department of Justice. The head of the Lands Division of the Department of Justice, who was probably the best-informed person in the country on the subject, was not consulted, and took sharp exception to the final determination.

Up to March 16, 1945, the United States had acquired for war purposes 8,963,522.45 acres and 26,250 parcels (not measured in terms of acres) at a cost of \$576,849,574.66. In addition to this there were pending additional acquisitions of 18,121,851.94 acres. The total cost of this latter acreage is as yet unknown since the transactions are incomplete, although most of this acreage is actually in use by the United States. The total of 27,085,374.39 acres acquired and being acquired, however, includes about 13,000,000 acres which already belonged to the United States but which were included in the condemnation cases to extinguish outstanding private claims. There is also a considerable amount of property which was leased and which is not here considered. For the most part the leases are terminable

40 INVESTIGATION OF THE NATIONAL DEFENSE PROGRAM

on short notice and will not become disposal surplus. There has also been acquired for nonwar purposes during the past few years close to 8,000,000 acres and nearly 5,000 parcels (not measured in terms of acres) which, of course, are not expected to become surplus.

Much of the land which has been acquired has already served its purpose. Many of these leases have been returned to civilian use. Many huge tracts of swamps will soon have served their purposes in our training program. In fact, many parcels, the total amount being undeterminable, have already been declared surplus.

The forces of war moved so swiftly and, fortunately, so much faster than the processes of the law, that there are already several examples of properties listed as surplus although the condemnation proceedings for the takings of these properties has not as yet been finished. As a result the Government has tracts of land acquired by condemnation proceedings not yet completed, while on the other hand the identical tracts of land are up for sale.

In this state of affairs a committee was formed to advise the Surplus Property Disposal Administrator on the disposal of agricultural lands which were being declared surplus. Prior to that, arrangements had been made for the Maritime Commission to dispose of such lands as were property, for the Housing Administration to dispose of plant sites, acquired for housing, and for Defense Plants to dispose of plant sites. There was little question but that the above designations were generally desirable provided parcels were listed in a single central place. Some question, however, arose as to the disposition of the remaining lands, loosely classified as agricultural items.

These lands include forest, mineral, grazing, and miscellaneous types of acreage as well as agricultural lands. The committee set up to advise the Administrator on the disposition of these lands did not include a representative of the Department of Justice. When the head of the Lands Division of the Department of Justice inquired as to the reason for this, he was told that the Administrator did not know there was a Lands Division in the Department of Justice. The advisory committee, however, was headed by the head of the Lands Division of the War Department, an individual who formerly had been an attorney in the Lands Division of the Department of Justice. The advisory committee's first report concluded:

It was the sense of the committee that, generally speaking, agricultural and forest lands should be disposed of by the Department of Agriculture; grazing and mineral lands and related lands, by the Department of the Interior; and miscellaneous properties by the Public Buildings Administration.

The only two dissenters were the War Department and the Housing Agency. All other agencies agreed with this plan. Nonetheless the committee was reconvened shortly after and informed that the Administrator was not satisfied with the report because he felt that one agency rather than two or three agencies should handle the disposition. The committee finally reported that its opinion was divided between the Department of Agriculture and the Reconstruction Finance Corporation. The Administrator chose the Reconstruction Finance Corporation.

It appears, from correspondence between the Administrator and the head of the Lands Division of the Department of Justice, that the Administrator did not have before him the original report of the advisory committee. Even after having been advised by the Assistant Attorney General of the conclusions in the original report the

INVESTIGATION OF THE NATIONAL DEFENSE PROGRAM 41

Administrator took the position that he would rely on the information given him by the chairman of his committee and would not review his decision. The matter was closed and real estate in the broad classification of "agricultural lands" was assigned for disposition to the Reconstruction Finance Corporation. The disposal program was set up to operate through the 22 offices of the Reconstruction Finance Corporation with the intention that these operate through local real-estate agents.

This entire arrangement seemed unsatisfactory to this committee. The Reconstruction Finance Corporation has neither the facilities nor the experience to deal with farmers at their own level in anything like the manner in which it could be accomplished by the Department of Agriculture, with its offices running into almost every county in the country. Nor has the Reconstruction Finance Corporation the broad approach and fundamental knowledge of policy considerations to dispose of grazing and mineral lands in anything like the fashion in which the job could be done by the Department of the Interior.

Nor does it appear why these lands should be sold through real-estate agents so long as buyers are readily available. The disposition of these lands is an important function bearing strongly on the future of our country. This task is not within the field of real-estate agents, although they perform most useful functions in their normal fields. Those in charge of the sales should be public servants acting without any consideration of commissions to be earned.

The Surplus Property Act of 1944, enacted after the committee's hearings brought these facts to light, establishes policies which will result in fair distribution of surplus lands. It is of course essential that the Surplus Property Board administer the act so as to preserve its spirit. If this is done, lands now in the hands of the public will be distributed for the best public good with proper preferences to those who originally owned the land, to veterans, and to bona fide farmers who expect to cultivate the land and to operate it for a livelihood.

APPENDIX IV—EXPERIENCES IN DISPOSAL OF BATTERIES

Despite the clear wisdom of the Baruch-Haagwerk recommendation that all sales be conducted in a "goldfish bowl," there have been negotiated and secret sales.

The committee recently stopped one such attempt. The Army Signal Corps procures all batteries of various types for the armed forces. Due to an unexplained change in requisitions from overseas, a temporary surplus of a superior type of flashlight batteries developed. These batteries might have depreciated for military use if they had been retained for a long period by the Signal Corps. They were needed for civilian use. With the approval of the War Production Board, it was determined that over 22,000,000 of the batteries should be sold, and current manufacture be continued for future needs. Since then the War Department has again changed its requirements and has withdrawn about 10,000,000 batteries from sale.

In a preceding section an earlier negotiated sale of 100,000 batteries at Ogden, Utah, has been mentioned. That sale was negotiated for \$125, and the purchasers immediately resold the batteries for \$30.00. The committee was assured that such a performance would not be repeated. But the first move of the War Department in the disposal of the 22,000,000 flashlight batteries was to urge a secret sale by the

Tuesday was a holiday.

in taxing to make profitable deals.

retailed at 10 cents.

Deals with Treasury Procurement.

Hissides¹⁸ were engaged in deals involving the batteries.

for civilian use.

he deplored.

then as follows:

Treasury disposal of surplus flashlight batteries

Number sold	12,678,821
-------------	------------

for Signal Corps use. 2 386 727

¹ This includes the transfer value to other Federal agencies, \$41,000; and \$1,000 of those which the Treasury Department is paid, through its Customs office, do not appear to be included in reported numbers.

from the data furnished. The Treasury makes the following statement of the results:

items which certified that they normally bought at wholesale and the 90-cent value is those items which would not be at wholesale.

sales are recorded in the Treasury report:

[illegible]

A Note on Authors

PUBLISHED REPORTS

The Special Committee Investigating the National Defense Program, United States Senate, pursuant to Senate Resolution 71 (77th Cong.), authorizing and directing an investigation of the national defense program.

Report No. 480 (77th Cong., 1st sess.):

- Part 1—Aluminum.
- Part 2—Camp and Cantonment Construction.
- Part 3—Priorities and the Utilization of Existing Manufacturing Facilities.
- Part 4—Statement of Committee Policy.

Report No. 480 (77th Cong., 2d sess.):

- Part 5—Annual Report of Committee Investigations.
- Part 6—Light Metals, Aircraft, and Other Matters.
- Part 7—Rubber.
- Part 8—Conversion to War Production Program of War Production Board.
- Part 9—Conversion Program, War Production Board. (Accompanied by 8.)
- Part 10—Investigation in Connection with Senator Albert H. Chandler's Swimming Pool in Kentucky.
- Part 11—Manpower.
- Part 12—Shipbuilding at the South Portland Shipbuilding Corporation.
- Part 13—Gasoline Rationing and the Fuel Oil Situation.
- Part 14—Lumber.

Report No. 10 (78th Cong., 1st sess.):

- Part 1—Barns.
- Part 2—Farm Machinery and Equipment.
- Part 3—Interim Report on Steel.
- Part 4—Second Annual Report.
- Part 5—Renegotiation of War Contracts.
- Part 6—Labor.
- Part 7—Concerning Faking of Inspections of Steel Plate by Carnegie-Illinois Steel Corporation.
- Part 8—Shipbuilding and Shipping.
- Part 9—Conducting War Programs.
- Part 10—Aircraft.
- Part 11—Comparative Merits of Rayon and Cotton Tire Cord.
- Part 12—Outline of Problems of Conversion from War Production.
- Part 13—Transportation.
- Part 14—The Canal Project.

Report No. 10 (78th Cong., 2d sess.):

- Part 15—Investigations Overseas: Section I—Petroleum Matters.
- Part 16—Third Annual Report.
- Part 17—Magnesium.
- Part 18—Merchant Shipping.
- Part 19—Dean General Hospital.
- Part 20—Accreditation of Surgeons.

MAR 24 1945

My dear Mr. Grew:

In reply to your letter of March 21, 1945,
inviting me to nominate an official of the
Treasury Department as a technical adviser to
the Delegates to the San Francisco Conference,
I am nominating Mr. Harry D. White, Assistant
Secretary of the Treasury.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

The Honorable Joseph C. Grew,
Acting Secretary of State.

HDM:ls
3/24/45

DEPARTMENT OF STATE
WASHINGTON

February 11, 1945

My dear Mr. Secretary:

Consideration is now being given to the selection of technical advisers to the Delegates to the San Francisco Conference. In this connection I should appreciate it if you would be so good as to nominate, at your earliest convenience, an official of your Department, of the rank of Assistant Secretary or Under Secretary, for consideration as a technical adviser.

Sincerely yours,



Acting Secretary

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

ADDRESS OFFICIAL, DOMESTIC COURTESY TO
THE SECRETARY OF STATE
WASHINGTON, D. C.DEPARTMENT OF STATE
WASHINGTON

MEMORANDUM FOR THE PRESIDENT

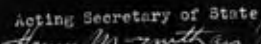
Subject: Proposed Lend-Lease Arrangements
with Belgium and the Netherlands

We have been discussing lend-lease and reciprocal lend-lease with representatives of Belgium and the Netherlands. Having signed the M-C agreement with France, we feel that political considerations make it desirable to have agreements on similar lines with Belgium and the Netherlands. In each case the gold and dollar position, the future balance of payments, and the volume of reciprocal aid would be taken into account.

We have worked out a Belgian-Luxembourg proposal of a relatively smaller amount than the French agreement. The proposal contemplates \$325 million for the remainder of the calendar year and follows in general the pattern of the recent French agreement, with no item for transfer of title to ocean shipping. We are also examining proposals for the Netherlands. In each case the nature, extent and duration of lend-lease will be determined by the contribution which such aid will make to the prosecution of the war and we shall provide for periodic review of the program in the light of the changing war situation. Consideration is also being given to an arrangement with Norway.

If you approve, we shall immediately move forward with the representatives of Belgium and the Netherlands and possibly Norway looking towards early conclusion of such arrangements.

We do not intend to conclude any of these agreements until Congress has approved the extension of the Lend-Lease Act.

 Acting Secretary of State

 Secretary of the Treasury

Foreign Economic Administrator



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March 24, 1945

Memorandum for Mr. Coe:

When signing this memorandum to the President, the Secretary said he wants to make sure that this is in tune with what Dean Acheson said when he testified before the Committee on long-term loans.

A. M. Chauncey

Treasury Department
Division of Monetary Research

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Date March 24, 1945 19

To:

From:

MEMORANDUM FOR THE FILES

The memorandum to the President on the Belgian lend-lease has been checked against Dean Acheson's testimony before the Congressional Committee on Bretton Woods of February 28. The memorandum to the President is consistent with Dean Acheson's testimony.

Frank Coe *FC*

TREASURY DEPARTMENT

120

INTER OFFICE COMMUNICATION

DATE March 22, 1945

TO Secretary Morgenthau (Urgent - Action)

FROM Mr. Coo *FC*

Clayton spoke to you yesterday about these proposed lend-lease arrangements with Belgium and the Netherlands. Since then the memorandum has been redrafted in accordance with our suggestions and we recommend that you sign it today.

FBA wanted the last paragraph, because obviously they are afraid that action before passage of the Act might raise further objections on the bill. We are doubtful of this paragraph, but think that since it is a statement of fact as to what FBA and State intend to do that you are safe in signing it.

Read by Mr. Coo
Ministero delle Finanze
IL MINISTRO

March, the 24, 1945

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My dear Mr. Secretary of the Treasury,

I am much obliged and honored for your kind words on my work.

You can be sure, Sir, that I am putting all my efforts to improve the financial situation of my country and to give my contribution for the establishment of a democratic and peaceful Italy.

Dr. Tasca, who takes care with so great sympathy and understanding of our problems and of our needs, will give a great help in the establishment of these friendliest and closest ties between the new democratic Italy and the old democracy of the United States, which was and is the aim of every sincere democrat.

Sincerely yours

Antonio Persico

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Rome, March 27, 1945

The Honorable,

H. Morgenthau, Jr.,

Secretary of the Treasury,
Washington.

Sir:

The Italian Minister of Finance has
requested the transmittal of the enclosed
letter.

Respectfully yours,

Henry J. Tasca

Henry J. Tasca
U. S. Treasury Representative
Rome, Italy

123

March 24, 1945.

Dear Mr. Miller:

Your letter of March 22 has been
received in this office during the
Secretary's absence. You may be sure
that I shall be glad to bring the
letter and its enclosure to Mr. Morgen-
thau's attention as soon as he is
again at his desk.

Sincerely yours,

(Signed) H. S. Klotz ✓

H. S. Klotz,
Private Secretary.

Mr. C. W. Miller,
Director, Planning &
Airframe Supply,
British Air Commission,
1785 Massachusetts Avenue,
Washington 6, D. C.

GEF/abs

Attachment in diary



BRITISH AIR COMMISSION

1785 MASSACHUSETTS AVENUE
WASHINGTON 6, D. C.

TELEPHONE DECATUR 9000

PLEASE QUOTE

REFERENCE NO. 453/22/DPAS

March 22, 1945

The Honorable The Secretary of Treasury
The Treasury Department
Washington, D.C.

Dear Sir:

It appears from recent telephone conversations with Mr. Shaeffer that you no longer require copies of our special monthly Statement D-55, Locations of Oceanic Flight Delivery Aircraft.

Attached is a copy of our monthly Statement G-30-IV which we shall continue to send regularly in lieu of D-55 since we believe it will adequately meet your requirements.

Yours very truly,

C. W. Miller
Director
Planning & Airframe Supply

hd

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EXECUTIVE OFFICE OF THE PRESIDENT
WAR REFUGEE BOARD

INTER-OFFICE COMMUNICATION

DATE March 24, 1945

TO Secretary Morgenthau

FROM Miss Hodel

For your information

Since General O'Dwyer's conference with you on Thursday, March 22, when he reported to you concerning his efforts to obtain an allocation of prisoner of war stocks for War Refugee operations, General O'Dwyer has decided not to press on this point at least until there are no more War Refugee Board parcels in Switzerland. Mr. Ryan of the American Red Cross, whom Mr. Basil O'Connor asked to call the General on this matter, is strongly opposed to any allocation to the War Refugee Board from prisoner of war stocks in Switzerland.

Meanwhile, the General is pressing for completion of the packaging and shipping of an additional 600,000 food packages from this country which has been approved by the Blockade authorities. It is hoped that under present plans, these additional packages will begin to be shipped from the United States in about 60 days.

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March 24, 1945

My dear Mr. President:

I am sending you herewith a most interesting cable from Mr. McClelland, representative of the War Refugee Board in Switzerland; also a one-page digest of this cable. Mr. Burckhardt, who is mentioned in this cable, is president of the International Red Cross.

Sincerely yours,

The President,

The White House.

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March 24, 1945

Secretary Morgenthau

Miss Nodel

For your information

The attached cable has just been received from Mr. McClelland reporting on Burckhardt's visit with the German authorities.

The main points in the Burckhardt report are as follows:

1. International Red Cross delegates will be permitted to be stationed in major camps for Schutzhaftlinge (political deportees) and prisoners of war to supervise relief distributions;
2. The Germans are willing to allow deliveries of relief by truck to political deportees irrespective of nationality or race;
3. The Germans have agreed in principle to allow evacuation of women, children, elderly and ill people irrespective of religion or race;
4. International Red Cross is planning to utilize returning prisoner of war relief trucks for evacuations.

McClelland suggests that the War Refugee Board's most effective contribution to this double program of relief and evacuation will be (a) obtaining trucks and tires, and (b) organizing the evacuation from Switzerland of those refugees who are non-repatriable in Europe.

(Signed) Florence Nodel

FM:hd 3/24/45

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Bern,
TO: Secretary of State, Washington
DATED: March 22, 1948
NUMBER: 1727

CONFIDENTIAL

RE URGENT

McClelland sends the following for O'Dwyer, WRS, and the Department.

I refer herewith to the Legation's telegrams of March 6 and March 21, Nos. 1481 and 1487 respectively.

It has unfortunately not been possible for me to report sooner on results of recent discussions with German authorities by ICRG President Burekhardt, because of illness.

Burekhardt first met with Kaltenbrunner of SS on March 12 in the Vorarlberg region between Swiss border and Innsbruck. A personal letter was sent by Himmler stating that he was prevented by military duties from being present and delegating to Kaltenbrunner full power.

On March 13 conversations were continued in Kreuzlingen, Switzerland, with Kaltenbrunner plus Serber, Director of Foreign Political Institute of Foreign Ministry, and Windecke of German PD, and on March 14 with Serber alone in Zurich. For some months now Serber has been in Switzerland and appears to be one of Ribbentrop's special contact men.

The main concession obtained from SS, as Burekhardt explained the matters, is permission for delegates of ICRG to be stationed in all major camps for both "Schutthaeflinge" (SH) and POWs to supervise personally distributions of relief. SS laid down one condition which was that such representatives of ICRG not circulate particularly back and forth to Switzerland but that they remain in these camps until the end of the war. Since certain numbers of SH are being worked in War Industries, this restriction is presumably on the grounds of military security.

On the 21st of March, Burekhardt of ICRG reported to me that the choice of appropriate delegates for these camp posts

was being actively pursued by the committee, and they will be despatched as rapidly as possible into Germany.

There is willingness on the part of SS to allow deliveries of relief of all types by truck or other means of transport to SH irrespective of nationality or race. It was requested by SS that any such relief distribution should be conducted discreetly, especially any relief given to marching columns along the roads, in view of difficulties of food supply situation for the Germans themselves.

With respect to evacuation of SH, final detailed authorization covering specific persons whom ICRG will be permitted to evacuate has not been obtained from Berlin as yet, although the SS agreed in principle to allow the exit of women, children, elderly and ill people irrespective of religion or race. An answer is expected by ICRG by the 26th or 27th of March.

It was suggested by Burekhardt of ICRG that, in view of danger of approaching front, inmates of women's concentration camp of Ravensbrueck be among the first evacuated. This camp is located on the main highway to Neustrelitz approximately 70 kilometers north of Berlin and contains at least 20,000 women of principally Hungarian (Jewish), Polish, Norwegian, Belgian, Czech, Dutch, French, Russian and other nationalities, and it is definitely one of the bad camps.

It was stated by the Germans that transportation for any such evacuations would not be supplied by them. Consequently, it is planned by ICRG to utilize returning POW relief trucks, although this will be a difficult and inadequate method of effecting evacuation, especially persons who are ill.

The use by ICRG for evacuees of parcel ships returning from Lubeck to Oetoberg was not favored by the Germans who stated that these waters were thickly mined and that they did not wish to be held responsible for sinking any ships loaded with evacuees.

The possibility of sending sanitary blocked train to Ravensbrueck from Switzerland if and when final authorization for the evacuation of this camp is given by the Germans, is still being discussed with the Swiss authorities by ICRG, although the Swiss are both reluctant to release such transport equipment and doubt that train could get through under the present chaotic state of German railroads which are being constantly bombed.

130

- 3 -

With respect to the question of evacuation of SH in general an attempt was made by Kaltenbrunner to create the impression that SS had really been only an executive organ throughout the past years of mass arrests and deportation of civilians to Germany from occupied countries and SS would be willing to allow useless SH to leave Germany now that food and housing situation was growing difficult within Germany.

It appears that Buehhardt of IGRO is working on some special scheme for evacuation of French SH who are to be exchanged for German civilians held by the French (I understand mainly Baltic Germans taken in Alsace region by the French). It is reported that French authorities are prepared to furnish 100 trucks to carry out this plan.

As soon as information regarding identity of first groups of SH whose evacuation will be permitted by the Germans is obtained from IGRO, I will report to WRS promptly.

In summing up, War Refugee Board can contribute to this double relief and evacuation program most effectively by (1) obtaining as many tires and trucks as possible, and (2) organizing and placing into operation mechanism for evacuating from Switzerland such SH groups who may arrive here and who are non-repatriable in Europe for the time being.

HARRISON

DC/L: JMS:AN
6-25-45

131

Rome

Dated March 24, 1945

Rec'd 10:30 a.m.

Secretary of State.

Washington

786g March 24, 9 a.m.

TO LIAISON JIC FROM SCHWARTZ 18

Regarding budget for March feel deeply gratified that you are able to appropriate \$900,000 through Switzerland and that actual remittance for March will be \$1,000,000. Our recommendation was based on your repeated insistence that budget for first two months must be reduced by 20% which was also the burden of Liddar's message. Glad find this was evidently an error.

KIRK

ER

132

March 24, 1945

4 p.m.

AMEMBASSY

LONDON

2308

Harrison is expected to arrive London evening of March 26 and earnestly hopes you may be able to attend meeting 100 March 27 with him (reference Embassy's 2936 March 21).

Department is full accord with British suggestion contained your 2732 March 16 and agrees that 100 should press other government members for contributions this year.

GRW
(Acting)
(GRW)

WRB:OLW:EG
3/24/45

BC

133

EX-567

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

ROME

Dated March 24, 1945

Rec'd 10:24 a.m.

Secretary of State,

Washington,

787, March 24, 9 a.m.

TO MOSES LEWITT FROM JOSEPH SCHWARTZ 19.

Group of 891 left for Palestine and expected to arrive March 25. Will send on all financial and other data soonest.

KIRK

RR

Miss Chumney (for the Soc'y), Cohn, DuBois, Gaston, Hodel, Hutchison, McCormack, O'Dwyer, Files

134

FEB-572

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

Rome

Dated March 24, 1945

Rec'd 10:29 a.m.

Secretary of State,

Washington.

785, March 24, 9 a.m.

TO LEAVITT JDC FROM SCHWARTZ. 17

Regarding proposed franc transaction with Universal
no urgency at this time for additional francs unless
basis can be considerably more favorable than proposed
Nevertheless if you are convinced that license cannot
be (*) and if better basis absolutely impossible would
advise be accepted.

KIRK

REP

(*) Apparent omission.

135

LCH-573

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

Rome

Dated March 24, 1945

Rec'd 10:25 a.m.

Secretary of State

Washington

784, March 24, 9 a.m.

TO LEAVITT JDC FROM SCHWARTZ 16

Have received information that Gertrude Pinsky
is anxious to work in France instead of South Americas.
Greenleigh is very anxious to have her and if it
is in accordance with her wishes would strongly
recommend that you undertake necessary steps for
her immediate transfer.

KIRK

BB

136

March 24, 1945

6 p.m.

AMLEGATION

KINK

1206

The following for Harrison and McClellan is WEB 476.
Board has been advised that SHARP is of the opinion
that April 15 is earliest possible date for movement of
two groups of refugees from Switzerland to UNRRA camps.

ORNY
(Active)
(ORNY)

WEB:DOV:EG
3/24/45

137

EX-567

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

None

Dated March 24, 1945

Rec'd 10:24 a.m.

Secretary of State,
Washington.

787, March 24, 9 a.m.

TO MRS LEAVITT FROM JOSEPH SCHWARTZ 19.

Group of 891 left for Palestine and expected to
arrive March 25. Will send on all financial and other
data soonest.

KINK

NR

138

CORRECTION

DSH

March 24, 1945

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

Telegram 1754, March 24, 11 a.m., from Bern reading

"FOR INFO FROM McCLELLAND Department's 1083, March 16"

should be numbered 1765 according to advice from Bern.

DIVISION OF CENTRAL SERVICES

CAD

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

139

CABLE TO AMERICAN EMBASSY, LISBON, FROM WAR REFUGEE BOARD

Please deliver the following message to Harold Trobe

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

QUOTE ASK SALLY MAYER CABLE US NAME JEWISH RELIEF
COMMITTEE BUDAPEST OR RELIABLE INDIVIDUALS THERE
TO WHOM CONSIGNMENT MEDICAL SUPPLIES CAN BE SHIPPED
STOP REMITTED SALLY MAYER \$500,000 SECOND HALF MARCH
OF WHICH \$100,000 FOR SHANGHAI. UNQUOTE

THIS IS WFO LISBON CABLE NO. 160

9:30 a.m.
March 24, 1945

140

CABLE TO AMERICAN CONSULATE GENERAL, JERUSALEM, FROM WAR REFUGEE BOARD

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

QUOTE: APPROVE YOUR AND PASSMAN REQUEST \$100,000 MONTHLY FOR PACKAGE SERVICE FOR FIRST QUARTER. RATHER THAN INCREASE OUR APPROPRIATIONS WE SUGGEST PROVIDING ADDITIONAL \$150,000 FROM APPROPRIATIONS APPROVED FOR POLAND FIRST QUARTER 1945. DURING LAST QUARTER 1944 WE APPROPRIATED FOR LIBERATED POLAND \$450,000 AGAINST WHICH EFFECTED PAYMENTS TOTALING APPROXIMATELY \$327,000 AS FOLLOWS SWEDEN FOR PURCHASE FOOD AND MEDICINES \$45,000 THESPIAN BULK SHIPMENTS \$275,000 INCLUDING \$175,000 TRANSMISSION PASSMAN REQUESTED HIS CABLE 324 MISCELLANEOUS \$7,000. AGAINST BALANCE \$123,000 PLUS \$100,000 UNSEPT BALANCE APPROPRIATION POLISH GOVERNMENT FOLLOWING COMMITMENTS INCURRED FOR PURCHASES UNITED STATES AND CANADA CLOTHING \$104,000 TOOLS \$50,000 FOOD FURNISHED BYE MILK \$272,000 SOAP \$14,000. THEREFORE FEEL WE CAN REDUCE 1945 POLISH APPROPRIATIONS FROM \$700,000 TO \$550,000 FOR FIRST QUARTER AND STILL HAVE SUFFICIENT COVER IMMEDIATE FORGESSABLE REQUIREMENTS DO YOU AGREE. REFERENCE PASSMAN'S LETTER FEBRUARY 18 PROPOSING CONTINUATION PARCEL PROJECT SAME DATE FOR 1945 WE SUGGEST YOU CONSIDER POSSIBILITY GRADUAL REDUCTION THIS PROJECT SUBSTITUTING BULK SHIPMENTS TO LOCAL COMMITTEES WHICH MAY NOW BE ORGANIZED BY POLISH JEWISH COMMITTEES IN MOSCOW FOR VARIOUS LOCALITIES ASIATIC RUSSIA FURTHERMORE AS RUSSIA RETURN THEIR HOMES POLAND JEWISH RELIEF COMMITTEES WILL BE ORGANIZED AND COULD HANDLE DISTRIBUTION BULK COMMODITIES. KNOW YOU AVOID LARGE COSTS CUSTOMS DUTIES WARRANT FULL EXPLORATION THIS POSSIBILITY. UNQUOTE

9:30 a.m.
March 24, 1945

141

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

Board has been advised that SHALF is of the opinion that April 15 is earliest possible date for movement of two groups of refugees from Switzerland to UNRRA camps.

THIS IS WER BERN CABLE NO. 476

9:30 a.m.
March 24, 1945

142

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

Reference Department's 1149 of March 21, 1945 (WHR 467).

Following is text of amendment dated March 22 to license No. W-2426 issued to Vaad Hahatsala Emergency Committee:

"Pursuant to the recommendation made to this Office by the War Refugee Board, license No. W-2426 is hereby amended so as to provide that, solely with respect to the sum of 1,000,000 Swiss francs remitted under this license on March 10, 1945, expenditures may be authorized by Mr. Roswell D. McClelland, as the representative in Switzerland of the War Refugee Board, for such expenses as transportation, documentary fees, food, and other supplies and services."

THIS IS WHR BEEN CABLE NO. 477

9:30 a.m.
March 24, 1945

143

Bern

Dated March 24, 1945

Rec'd 9:35 a.m.

Secretary of State

Washington

1754, March 24, 11 a.m.

FUR WHR FROM MCCLELLAND

Department's 1083 March 16

Concerning shipment of our 234,328 WHR parcels at Goteborg IGBC recently informed me that on March 16, two railroad cars containing 5,400 WHR parcels each left Goteborg for women's concentration camp at Ravensbruck and on March 17 two more railroad cars left for Hamburg-Moengamme concentration camp containing 4,800 packages each. This makes total of 20,400 parcels which have gone forward lately.

When Kubovitski of World Jewish Congress was in Switzerland early in March he informed me that Storch WJO man in Stockholm was requesting funds to purchase additional foodstuffs in Sweden to send to Jewish inmates in Germany having been able forward his original stock to Bergen-Belsen and Theresienstadt. Since we had a large unused stock of WHR parcels in Goteborg which was not moving it seemed unnecessary to me that WJO should have to purchase still more food. I therefore offered Kubovitski to release 40,000 WHR "K" parcels to WJO in Sweden for delivery to Jewish detainees particularly in Bergen-Belsen through the satisfactory shipping channels which Storch seemed to have worked out with Swedish WJOA. On March 16 accordingly with my approval IGBC Geneva wired their Goteborg man authorizing him turnover 40,000 parcels to WJO. In interest of getting as many WHR parcels into Germany as rapidly as possible this appeared to me recommendable move of which I hope you approve.

HARRISON

JWS

144

Bern

Dated March 24, 1945

Rec'd 9:35 a.m.

Secretary of State

Washington

1754, March 24, 11 a.m.

FOR MRB FROM MCCLELLAND

Department's 1083 March 16

Concerning onshipment of our 224,328 WRB parcels at Goteborg IGBC recently informed me that on March 16, two railroad cars containing 5,400 WRB parcels each left Goteborg for woman's concentration camp at Ravensbruck and on March 17 two more railroad cars left for Habsburg-Wuergasse concentration camp containing 4,800 packages each. This makes total of 20,400 parcels which have gone forward lately.

When Kubowitzki of World Jewish Congress was in Switzerland early in March he informed me that Storch WJC man in Stockholm was requesting funds to purchase additional foodstuffs in Sweden to send to Jewish internees in Germany having been able forward his original stock to Bergen-Belsen and Theresienstadt. Since we had a large unused stock of WRB parcels in Goteborg which was not moving it seemed unnecessary to me that WJC should have to purchase still more food. I therefore offered Kubowitzki to release 40,000 WRB "K" parcels to WJC in Sweden for delivery to Jewish detainees particularly in Bergen-Belsen through the satisfactory shipping channels which Storch seemed to have worked out with Swedish IGBC. On March 16 accordingly with my approval IGBC Geneva wired their Goteborg man authorizing him turnover 40,000 parcels to WJC. In interest of getting as many WRB parcels into Germany as rapidly as possible this appeared to me recommendable move of which I hope you approve.

HARRISON

JMS

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

145

CORRECTION

March 24, 1945

DSH

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

Telegram 1754, March 24, 11 a.m., from Bern reading "FOR MRB FROM MCCLELLAND Department's 1083, March 16" should be numbered 1765 according to advice from Bern.

DIVISION OF CENTRAL SERVICES

C.D

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

G.T.P.

SECRET

OPTEL NO. 95

Information received up to 10 a.m. 24th March 1945.

NAVAL

1. MEDITERRANEAN. 17th - 21st. French cruiser and Allied destroyers have shelled Genoa San Remo and other targets in Gulf Genoa. 21st/22nd (night) M.T.B. mined and sank Northern Adriatic with 7 of crew missing.
2. Enemy attack on shipping. 10th a merchant vessel (3656) New York to Durban torpedoed and sunk west of Ascension.
3. Anti-submarine operations. 23rd. A Canadian frigate picked up 33 U-boat survivors off Lough Foyle in area where another Canadian frigate rammed periscope on 20th.

MILITARY

4. WESTERN FRONT. Southern Sector: Right flank 7th U.S. Army still meeting strong German resistance North Lauterburg but further west enemy front has collapsed, Pirmasens captured and further contacts made with 3rd U.S. Army. On north side bulge this area 3rd U.S. Army has taken Annweiler and Landau while further north enemy offering some resistance east Neustadt and in streets Ludwigshafen. Otherwise west bank of Rhine clear of all but isolated enemy pockets from Mainz to Mannheim with organized resistance having ceased former town on 22nd. Press reports state elements 3rd U.S. Army have crossed Rhine this area.
Central Sector: Remagen bridge head extended by 1st U.S. Army, in south across River Wied to Nieuwied in face light resistance, while in north another stretch of River Sieg reached despite encountering strong resistance.
5. EASTERN FRONT. Northern Sector: Severe fighting continues N.E. Braunsberg while further west Russians have captured Zoppit between Danzig and Gdynia.
Central Sector: Some advance made in area west of Katowice and north of Ratibor.
Southern Sector: Germans admit evacuation of second of bridgeheads which previously gained on north bank River Drava.
6. BURMA. Central Sector: Capture of Myingyan and airstrip now complete while further north Mandalay City clear of Japanese with exception small number west Fort Dufferin which being mopped up.
Northern Sector: Our troops now twelve miles S.E. Mogoke and 10 miles S.W. Haipaw in face enemy opposition.

AIR

7. WESTERN FRONT. 23rd. Lancasters 104 (missing 2) dropped 630 tons (including five 22,000 pounders) on railway bridge Bremen while 9 attacked railway bridge Ban Oeynhausen (S.W. Hanover) and 77 Wesel. U.S. Heavy Bombers 1187 (outstanding 11) dropped 2931 tons on 13 railway centres N.W. Germany in clear weather. SHAEF (Air) medium bombers 1065 (missing 1) dropped 1567 tons with good results on communication targets mainly in Northern Sector while fighters and fighter bombers 3500 (missing 16) operated battle areas inflicting enemy aircraft casualties 22 in combat. Fighter Command Spitfires 132 attacked rocket targets while Coastal Command Mosquitoes left 2 medium-sized vessels burning in Statlandet (Norway) area.
8. MEDITERRANEAN FRONT. 21st/22nd (night) Liberators dropped 208 tons railway centre Novska (60 miles S.W. Zagreb).
22nd. Escorted U.S. heavy bombers 743 (missing 24) attacked various targets including oil refineries (557 tons) at Ruhland (30 miles North Dresden) and Kralupy (60 miles N.W. Prague) with good results. While other targets included rail centres Vienna and Salzburg. Tactical aircraft 1000 (missing 2) operated North Italy, South Austria and Yugoslavia.
9. HOME SECURITY (Up to 7 a.m. 24th.)
Flying Bombs. 23rd/24th (night) 2 plotted. 24th, unreported.
10. Rockets. 23rd/24th (night) 2 plotted. 24th, unreported.

COPY NO. 4

OPTEL NO.

SECRET

Information received up to 1000 a.m. 25th March, 1945.

NAVAL

1. Home Waters. 23rd/24th (Night). A British Frigate sank 1 midgeat U-boat and probably sank another N.E. Ostend.

MILITARY

2. WESTERN FRONT
Southern Sector. U.S. 7th Army made steady progress along while front and advances made to within 1 mile of Rhine at point 7 miles South Gernersheim, while enemy resistance west of Annweiler now eliminated. Elements 3rd U.S. Army crossed Rhine in area Oppenheim (South Mainz) on 22nd and by 24th had 1-2/3rds divisions across river with bridgehead 8 miles wide and 5 miles deep.

Central Sector. Remagen bridgehead expanded to East and south while Neuweid now captured.

Northern Sector. 24th. After heavy aerial and artillery preparation 9th U.S. and 2nd British armies assisted by 2 airborne divisions attacked across lower Rhine in area between Bess and Orsoy. Crossings everywhere successful and ground forces have linked up with airborne forces N.W. Wesel. Advances up to 3 miles East of Rhine made by ground forces, while airborne forces captured 5 bridges across River Issel (North Wesel).

3. EASTERN FRONT.
Northern Sector. Further advances made West and South Danzig.

Central Sector. Neisse and Leobschuetz in Silesia captured.

Southern Sector. Advance of 44 miles on 60 mile front made North of Lake Balaton.

4. BURMA.
Central Sector. Our troops now 8 miles North Taungup.

Central Sector. Our forces now 2 miles N.W. Kyaukan, while further north Monglong (70 miles N.E. Mandalay) occupied without opposition.

AIR

5. WESTERN FRONT.
23rd/24th (night). Bomber Command despatched aircraft 460 (missing 2), including 218 Wesel (1,049 tons) and 65 Berlin (missing 2). SHAEF (Air) aircraft 1,586 (missing 52) with 1,346 gliders carried out airborne assault across Rhine. Further aircraft 929 (missing 3) dropped 1,315 tons on Northern Sector, while fighters and fighter bombers 4,400 (missing 25) supported operations all sectors and scored 2412:28 on ground. Bomber Command heavy bombers 511 (missing 5) attacked troop concentrations Gilsbeck (548 tons) railway centre Sterkrade (534 tons) and oil targets Dortmund (424 tons) and Bottrop (429 tons).

U.S. escorted heavy bombers 1,451 (outstanding 8) dropped 3,371 tons on 17 airfields N.E. and West Germany and Holland and Liberators 240 (missing 23) dropped 520 tons supplies on airborne forces North Wesel, while fighters 1,330 (outstanding 9) scored 53:013 in combat.

Fighter Command Spitfires 111 attacked railway communication West Holland.

24th/25th (night) Bomber Command despatched aircraft 146 (without loss) 67 Berlin, 68 Bomber support and 11 other missions.

-2-

6. MEDITERRANEAN. 22nd/23rd (night) Liberators successfully attacked railway centre Villach (182 tons) 23rd. Escorted Heavy bombers 681 (missing bombers 14 and fighters 1) attacked oil refineries Ruhland (381 tons) and Kagram (139 tons) 3 railway centres (442 tons) and tank factory (390 tons) in Austria, with mainly good results. Tactical aircraft 1,000 operated successfully North Italy and Yugoslavia.
7. BURMA AND SIAM. 22nd Liberators dropped 107 tons on Burma/Siam railway and 40 tons on Bangkok/Chieng Mai railway with good results.

HOME SECURITY.

- 8(up to 7 a.m. 25th). Flying Bombs - 24th. 1 additional incident reported.
9. Rockets.- No incidents so far reported.

ADOL NO.

148-A

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Date

TO Secretary Morgenthau

March 26, 1945

FROM Joseph J. O'Connell, Jr.

MA

I called Senator Pepper this morning, and advised him that we had sent our report on Mr. Pawley to the White House, indicating its general tenor. He expressed himself as being very much pleased with the way we had handled the matter, and wanted me to convey to you an expression of his appreciation.

Joseph J. O'Connell Jr

✓
149
david hendrines broekman

March 26th 1945

My dear Mr Secretary.
Thank you so much
for your kind letter.
The boys have made their
decision and I am dismissed
as of this week.
If I can be of any help
in the future please feel
free to call on me.
My personal pride does not
count, what is more important
is that every step taken,
shall be the best one
for the war-efforts.

With many thanks
Respectfully
David Hendrines

TREASURY DEPARTMENT

150

INTER OFFICE COMMUNICATION

DATE March 26, 1945

TO Secretary Morgenthau

For Information

FROM Mr. Coe *FL*

British and French Treasury representatives have given us copies of the new Anglo-French financial agreement. Messrs. Lee and Valenzi said they would be glad to discuss the new agreement with you if you so desire. It is clearly regarded as very important by both governments.

This agreement settles the many outstanding financial questions between the two countries going back to 1939. It supersedes all outstanding financial agreements between the two governments, including the Simon-Reynaud Agreement of 1939 and the various earlier agreements with de Gaulle.

The important points are the following:

- (1) The French will refund to the British \$150 million and will waive all claims arising from the transfer of the French munition contracts to the British in June 1940.
- (2) As the above sum is paid over by the French the British will deliver about \$180 million worth of goods. This is outside of mutual aid and will be surplus war stocks for which the British are, in effect, getting paid in dollars.
- (3) The French will get a net credit of 60 million pounds usable in the sterling area. The terms of settlement are such that the French will pay gold to the British at the end of the year. This will probably amount to \$130 million or more.
- (4) All other claims and counter-claims arising out of the war are offset or waived including claims arising from private balances blocked or vested during the war in the two countries.
- (5) There is a "Bretton Woods" clause providing that if the two governments adhere to an international monetary agreement they shall review the provisions relating to settlements between the franc area and the sterling area with a view to making necessary amendments.
- (6) Practically complete freedom of payment within the two areas is provided for residents of the respective empires.



TREASURY DEPARTMENT
WASHINGTON 25



March 26, 1945

To: Secretary Morgenthau
From: J. W. Pehle

The following is a summary of significant developments in the Surplus Property and Procurement offices for the week ending March 10, 1945:

Surplus Property:

During the past two months there have been several instances in which the Navy has purchased medical supplies from manufacturers although comparable supplies were available as surplus. As a result, a procedure has been developed whereby the Navy will check our surplus medical lists before placing orders with manufacturers. We are now arranging to provide the Navy with 9,700 graduated glass measuring devices which they were preparing to purchase from the Armstrong Cork Company at the same time we were offering to sell that firm 12,000 of the same.

Pursuant to an emergency request by the Smaller War Plants Corporation, several hundred rubber boots, raincoats and rain hats were supplied from surplus for use in connection with the recent Ohio River flood. We also authorized the Atlanta and Fort Worth offices to lend to the Corps of Engineers any surplus property that they might require to fight floods in the Lower White and Arkansas River Basins.

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- 2 -

Collaboration with the Army in advance of publication of the Surplus Reporter resulted in the Army's withdrawal of 73 items of wearing apparel before publication. It is believed that this procedure will minimize, and possibly eliminate, withdrawals after the issuance of the Reporter. We are considering the feasibility of expanding this procedure to other commodities and federal agencies.

A statute requires that all articles containing wool be labeled as to percentage of wool and whether the same is virgin, reprocessed or otherwise. Surplus army clothing is not so labeled and the Federal Trade Commission has taken the matter up with us. A study indicates that to check through army records and locate individual manufacturers to determine the wool content of any particular lot would be impracticable. The Federal Trade Commission is therefore taking under consideration the advisability of requiring purchasers of surplus woolen goods to label the same, prior to resale, in such a manner as to indicate that the articles are surplus war property and that the wool content is unknown.

Our disposal policies and programs with respect to farm equipment were canvassed with and explained in detail to representatives of the War Food Administration, the Department of Agriculture and the Retail Farm Dealers Association. Four spot sales of construction and farm equipment were held in Oklahoma and two were held in Texas, all of which proved successful. A synchronized spot sales program has been formulated for regular spot sales of construction machinery and agricultural equipment throughout the United States.

After discussions with representatives of the Army, Reconstruction Finance Corporation, and Treasury regional officers concerning the disposition of materials located at the Keystone Ordnance Works, the Army proposed that, regardless of the various types of goods, one agency accept the responsibility of disposing of the entire lot. Consideration is being given to this proposal by the other interested agencies.

- 3 -

With regard to our proposed program to utilize an advertising agency for space advertising or sales of surplus property, we conferred with Messrs. Gamble and Lane of the War Finance Division, and procedures for selecting an advertising agency are being developed.

A detailed report of our flashlight battery sales program was prepared and transmitted to various Congressmen who had received complaints from trade associations in several parts of the country. The report showed that these complaints were based on inadequate knowledge of the distribution objectives accomplished by our program.

Following complaints received from retailers, our fixed-price policies with regard to furniture sales were discussed with the National Retail Furniture Association. The Association has been requested to submit its suggestions in writing and further consideration will be given to the procedure.

We assisted a representative of Forbes Magazine in securing information for an article to appear in that publication concerning surplus property.

With further regard to our export problem, we have placed the matter before the Surplus Property Board, suggesting that some one coordinating agency should be designated to give authoritative decisions to the disposal agencies regarding sales for export.

The Army has asked us whether we will undertake the disposition of property acquired by the Army under reverse Lend-Lease, pursuant to arrangements with the supplying countries whereby the net proceeds are to be turned over to the supplying countries and applied to United States indebtednesses for reverse Lend-Lease.

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- 4 -

A Space Control Committee has been organized by the Surplus War Property Administration to facilitate cooperation between various agencies in handling problems of storing surplus property. A contract form on a "cost-plus-a-fixed-fee" basis has been introduced for use by all agencies in contracting for the operation of storage facilities for surplus property, and is now being improved and amended.

A proposed recommendation for submission to the Surplus Property Board has been prepared, requesting the amendment of the Surplus Property Act to empower the United States to obtain injunctive relief against persons who pretend to falsely represent the United States as a disposal agent or who misrepresent the property offered for sale as Government surplus property, when actually it comprises contract termination inventories, rejects, overage, or which may never have been the subject of a Government contract.

Procurement:

Purchases for the week amounted to \$17,855,760.64, including \$17,800,000 for Lend-Lease (schedule attached) and \$55,760.64 for regular purchases.

Lend-Lease carloadings for the week totaled 2,817 cars.

Unusual requisitions for the week included 190,392 pairs of men's rubber boots and 3,000,000 pairs of shoes to be used by UNRRA in liberated areas; 98,400 handkerchiefs and 113,250 men's and boys' suits for Algeria, Tunisia and Corsica; and 3,000 tons of brass cartridge discs to be used by the U.S.S.R. in the manufacture of small arms ammunition.

Unusual purchases for the week included over 5,000 feet of heavy chain to be used in the United Kingdom for drag line buckets in surface coal mining, and 100,700,000 matches, urgently needed for lighting and fire in Morocco.

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- 5 -

An order was received to furnish supplies to the Philippine Government for rehabilitation purposes.

The Price Adjustment Board disposed of four 1943 cases and four 1944 cases.

Australia was to supply the U. S. Armed Forces with 300,000,000 pounds of flour, for shipment of which the Australian Government had contracted to purchase 3,500,000 paper bags. Due to the severe drought in Australia, the wheat crop has been reduced and the potential amount of flour is far less. The contract, therefore, has been cancelled.

A contract was prepared between the Chrysler Export Corporation and the United States Government for the maintenance of Dodge trucks in China and the training of Chinese personnel to undertake such maintenance. The costs of this operation are to be borne by the United States and China, with the contractor operating on a non-profit basis.

Arrangements are being made to acquire food for the War Refugee Board for delivery to refugees in enemy territory.

A petition for intervention in the 1945 rate hearings of the Potomac Electric Power Company was served upon the company and filed March 7, 1945. This petition states, among other points, the substantial interest of the United States as a consumer which pays in excess of \$5,500,000 in rates and that because of the stay heretofore entered, any adjustment should be retroactive to March 1, 1945.

Because of the difficulty in obtaining the necessary additional machinery for operation, the Army has postponed the effective date of its taking over the Buford, Georgia, Shoe Reconstruction Plant from April 1, 1945 to June 1, 1945.

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- 6 -

Administration:

We are continuing our efforts to secure adequate space in Philadelphia for our new regional office.

The Executive Officer and the Deputy Director for Operations of the Office of Surplus Property are visiting our San Francisco region to review the administrative and operational programs in that region with a view to making necessary improvements.



LEND-LEASE
TREASURY DEPARTMENT, PROCUREMENT DIVISION
STATEMENT OF ALLOCATIONS, OBLIGATIONS (PURCHASES) AND
DELIVERIES TO FOREIGN GOVERNMENTS AT U. S. PORTS
AS OF MARCH 10, 1945
(In Millions of Dollars)

	Total	U. K.	Russia	China	Administrative Expenses	Miscellaneous & Undistributed
Allocations	\$5977.1 (5957.6)	\$2626.0 (2626.0)	\$2457.4 (2457.4)	\$ 172.9 (172.9)	\$16.6 (17.4)	\$700.2 (682.1)
Requisitions in Purchase	\$ 138.6 (147.6)	\$ 21.5 (27.1)	\$ 20.9 (25.7)	\$.2 (.2)	-	\$ 96.0 (94.5)
Requisitions not Cleared by W.P.H.	\$ 132.7 (124.4)	\$ 26.7 (17.6)	\$ 40.9 (43.6)	\$ 1.9 (.5)	-	\$ 63.2 (62.7)
Obligations (Purchases)	\$4733.9 (4716.6)	\$2000.4 (2000.7)	\$2084.2 (2071.0)	\$ 104.9 (104.9)	\$17.2 (16.9)	\$437.2 (434.1)
Deliveries to Foreign Governments at U. S. Ports*	\$3054.5 (3018.1)	\$1626.7 (1619.2)	\$1340.5 (1311.6)	\$ 26.4 (26.4)	-	\$ 60.9 (60.9)

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

Note: Figures in parentheses are those shown on report of March 3, 1945.

Treasury Department
Division of Monetary Research

Date March 26, 1945 156

To: Secretary Aargentham

I think you will be interested
in glancing at this letter, especially
pages 2, 3 and 4.

U.D.W.

MR. WHITE
Branch 2056 - Room 214-1/2

Strictly Confidential
Letter VI

American Embassy,
Chungking
February 19, 1945

Dear Mr. Winter:

I have been in conference with the Army people during the last few days, and their latest figures on U. S. Army expenditures in the last quarter of 1944 entail some revision of the preliminary figures though they do not substantially change the picture. The Army Fiscal Officer is preparing the detailed reports in Kuning in accordance with the decisions reached here. The latest gross figure (it might more aptly be called gross gross figure) is CN\$6 billion of direct advances to the U. S. Army and CN\$3.9 billion for expenditures by the Chinese Engineering Commission for the U. S. Army. This latter figure is misleading, as the Engineering Commission includes items of expenditures for which we are explicitly not responsible, the reason for this peculiar procedure being that in order to get the money from the Ministry of Finance for the cost of land for airfields, overhead, etc. it has to say that the money has been requested by the U. S. Army; that is a legal fiction between the U. S. Army and the Commission and shows how things have to be done in China. After deducting the items for which we are not responsible, we get a real gross figure of CN\$3.4 (approximately) for Engineering Commission expenditures, or a total gross figure of CN\$9.4 billion for the last quarter of 1944.

After deducting taxes paid in the last quarter, expenditures on services and goods for the Chinese Army and on items for which the Chinese are responsible under Reverse Lend-Lease, we arrive at a net figure of under CN\$8 billion. After deflating this net figure to allow for the rise in prices in the last quarter as compared with the previous quarter, we arrive at an adjusted figure of slightly under CN\$6 billion.

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From this CN\$6 billion, we deduct an item of over CN\$600 million, representing our expenditures on liquid fuel for moving Chinese troops in the period prior to the 4th quarter. In my opinion, this procedure is perfectly defensible, as there is no conceivable reason why we should have to pay in U. S. dollars for this item; true, it is unfortunate that the Army did not give us this detail earlier, but now that we have it there is no reason why we should not use it. The transportation of Chinese troops in China should not be allocated to U. S. expenditures, and Kung will be on very weak ground if he contests this deduction. In effect, he would be claiming that since they got away with a swindle earlier before it was detected, it is a fait accompli we should not try to rectify. The Chinese bargaining position is simply not strong enough to enable them to get away with that kind of argument.

After this deduction is made, the final adjusted figure arrived at for the last quarter of 1944 is CN\$5.3 billion, which is just over 60% of expenditures in the third quarter of 1944. Taking the figure of US\$40 million as our payment for the third quarter, we would be justified in offering the Chinese between US\$30 and US\$40 million for the last quarter. My suggestion would be that we make an initial offer of US\$30 million a month and a final firm offer of US\$40 million for the whole quarter. This offer is not ungenerous to the Chinese and is thoroughly justifiable on economic grounds. And most important, in view of the very rapid rise in prices and consequent sharp increase in U. S. Army CN expenditures which is already taking place, unless we get a reduction in our US dollar payment for the 4th quarter, we shall find ourselves paying exorbitant sums in U. S. dollars for our CN expenditures in 1945.

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As already mentioned, the Army Fiscal Officer is preparing detailed accounts to send to Washington and has promised me that he will instruct the Army to turn over a copy to the Treasury.

The Army's statement of its direct expenditures, i.e. not including expenditures by the Chinese on the Army's account and at the Army's request, for the period February 1944 - January 1945 includes a number of items for which the Chinese should be responsible. In particular, there is a sizeable item of CN\$698 million spent in the period before the 4th quarter on cooking and mess equipment for which the Chinese should be responsible under the exchange of letters between the Secretary and Kung. What happened was that the Chinese organization responsible for looking after our Army's food and lodging ran out of funds, and as we needed the equipment we paid for it. While it is true that the equipment is now our property, we were certainly grossly overcharged for it (it is notorious that the Chinese organization handling the feeding and lodging of our troops is riddled with squeeze), and we should not lose if it were turned over to the Chinese organization and we were allowed a deduction for it. The Army does not feel strongly about claiming a deduction for this item. But should Kung boggle at the deduction of over CN\$600 million for transportation of Chinese troops before the 4th quarter of 1944, I should not hesitate to throw this item of CN\$698 million at him. He must allow at least one of these deductions. If he refuses the first, which will already put him in a difficult position, his case for refusing the second is correspondingly weakened.

This item of CN\$698 million can thus be utilized as an ace up our sleeve should Kung kick up too much fuss at the reduction in our U.S. dollar payment for the 4th quarter.

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The Army is planning to build 7 airfields in Sian, work on 5 of which will start fairly soon. This is a military secret. The estimated total cost of these airfields is CN\$10 million, but if the work is carried through, the cost will surely be greater. Prices in Sian are already greater than in Chungking or in Chengtu and will undoubtedly increase with the new construction activity.

An enclosing a couple of statements on the recent Kuomintang - Communist Party negotiations. The official Kuomintang statement is disingenuous, since it does not even mention that at the last minute the Generalissimo withdrew the mild concessions T. V. and Wang Shih-chieh had been working on and only offered a Political Consultative Committee without any power. Service's memo contains the full story, but nevertheless the official Kuomintang and Communist Party statements may be of some interest to you. Ludden of the State Department has prepared a memo on his observations and impressions of a Communist base area. The history of this memo throws light on how the Embassy has to function under Hurley. Ludden naturally wanted to turn his memo over to the State Department as well as to the Army. But Ludden, knowing what had happened to other people who had criticized the Kuomintang and advocated utilization of the Communist military strength against the Japs, didn't dare turn his memo over to the Embassy, as at the least Hurley would bawl Hell out of him. He has therefore waited until his own return to Washington, where he intends to turn this and other memos over directly to the State Department. Incidentally, you might like to meet him and hear his impressions at first hand.

More and more Americans are beginning to talk of the resemblance between the Kuomintang and the Polish Government in London. While there

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is one important difference - the Kuomintang has much more power to do harm, unless the Kuomintang becomes more realistic, this reassurance will tend to increase. We, together with the British, did our best to save the Polish Government in exile. But to no avail. For it proved incapable of either saving itself or of allowing itself to be saved by outside friendly parties. Should this lesson be lost on the Kuomintang, it should not be lost on us.

There are strong rumors that T. V. is planning to visit to Moscow in the hope of pulling a De Gaulle. If this rumor is true, the chances of T. V.'s succeeding are exceedingly remote given the present drift of Kuomintang policy. In this respect Sun Fo is much more intelligent and realistic than T. V. Sun Fo believes that Russia will enter the Far Eastern war and that the present state of the Chinese internal political situation will prove a serious complication to the waging of the war. He does not believe that a real rapprochement between China and Russia is possible until the internal situation in China is clarified (in which he agrees with Henry Wallace and the State Department). He also believes that the Kuomintang's intransigence with respect to the internal situation is due to its belief that it has our unconditional support. He thinks that if we sent some arms to the Communist without asking the Generalissimo, the Generalissimo will change his whole line and very quickly come to an agreement with the Communists and other opposition groups.

It should be stressed that the Kuomintang policy is becoming more and more unrealistic. The Generalissimo thinks that he is getting stronger internally, whereas actually he is getting weaker. He also thinks that he needn't come to a fundamental understanding with Russia and that he can swindle them into accepting a formal rapprochement

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(if he finds this necessary) on a mistaken analogy with De Gaulle. He thinks he can get almost anything he asks for from us. Finally, he has already appointed Governors of Canton and Swatow and started them on their destination in the expectation of an American landing on the South China Coast in the very near future. This is very characteristic. He has not initiated any military preparations for the landing he expects but is instead concentrating on the political exploitation of an event he is doing nothing to facilitate.

Hurley and Wedemeyer are leaving for home in the next day or two. While I don't want these letters to degenerate into a Hurleiad, I cannot resist mentioning the following items to illustrate how Hurley functions.

- (a) The political officer of the Embassy tells me that he has just read Hurley's record and documentation of the Kuomintang-Communist Party negotiations. Characteristically Hurley only made this available to the Embassy at the very last minute. The Embassy man tells me that the record shows that not only did Hurley not contribute to the attainment of a compromise but that he actually impeded it. At one stage, the distance between the two parties was not very great and the Kuomintang was willing to forego raising the question of the status of the Communist armies, a most ticklish issue under the best of circumstances. At this point, Hurley advised the Kuomintang to make political concessions in exchange for control of the Communist armies, advice which the Kuomintang all too readily accepted. Needless to say, it didn't help matters.
- (b) Wedemeyer asked Washington to give him General MacClure as his Chief of Staff. MacClure has a distinguished record in the South Pacific.

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He and Colonel Barrett (who was head of the Observer Mission to Yenai until Hurley had him removed) started working on hypothetical plans for supplying the Communist should our Army decide to co-operate with them. (The word hypothetical must be stressed; they made no recommendations, they were merely preparing for hypothetical contingencies.) When Hurley discovered this, he hit the ceiling. He publicly bawled hell out of MacClure in the presence of officers of the Chinese Army in a way in which decent people wouldn't use on their office boys, cursing and stamping and threatening to have MacClure shot if he came into conflict with him again. He then had MacClure and Barrett transferred to Kunming and MacClure demoted from the position of Chief of Staff. In addition, Barrett was due for promotion to a Brigadier-Generalship, a promotion he richly deserved for his work at Yenai, but Hurley obstructed this promotion.

- (c) A member of the Embassy staff prepared a memo for Hurley on a very delicate subject. The former Governor of Sinkiang who is now Minister of Agriculture had thrown many thousands of people into jail under mere suspicion of being opposed to him during the course of his tenure of the Governorship. These innocent people are still languishing in jail in spite of the former Governor's removal. The memo recommended that Hurley should orally take up the question of the desirability of their release with the Chinese authorities should a favorable opportunity present itself. Obviously, the whole question is very ticklish; it is the kind of issue which can

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only be taken up orally and not in writing. Nevertheless, Hurley ordered the author of the memo to send it directly to T. V. without any change. When the author of the memo pointed out that he should at least take his name off the memo and put in Hurley's name instead Hurley disagreed and insisted that it be sent to T. V. as is. The memo thus went to T. V., who of course showed it to the Generalissimo. The Generalissimo can now ask for the guy's recall any time he wants to on the ground that he was trying to interfere in Chinese internal affairs.

The first story indicates Hurley's crass incompetence for the fulfillment of his mission, the second a rather nasty streak of viciousness, and the third his hopeless lack of tact when it comes to diplomacy.

Wedemeyer, by the way, disagrees with Hurley's policy. Among his intimates, he has stated that he won't trust Hurley with military secrets, as Hurley is likely to spill them to T. V., for whom Wedemeyer doesn't have much use. He has also stated that he would like to use the Communist troops in North China against the Japs but that he won't do or say anything which will bring him into open conflict with Hurley's explicit policy of unconditional support of the Kuomintang. This is very strictly *entre nous*, but apparently he intends to talk to Marshall and, should the occasion arise, to the President in this vein.

I don't know whether Hurley is coming back - at the time of writing the betting on the Embassy staff is that he won't, the grounds for this optimism being that he is getting bored with China. But if he does, I am beginning frankly to doubt the advisability and desirability of keeping a Treasury representative here. Hurley's presence here renders the usefulness of a Treasury representative in Chungking highly questionable,

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as it is almost impossible to function in a meaningful way with such a bull in a China shop around. I must again repeat that Hurley will talk in a plausible way to the Secretary and you, if he has occasion to see you. He will be critical of the Kuomintang and T.V., etc. but his record will belie such words. He has a good "front" and may fool some people in Washington. If you have any doubts on this score, you should speak to Ludden about Hurley; also to John Carter Vincent, whom the Embassy boys have kept informed. Ludden will have no hesitation in opening up, for the Embassy staff's cup of bitterness has been filled to overflowing. Some of them are even beginning to talk of getting out of the Foreign Service if Hurley remains.

With best wishes and kindest regards to your wife and children.

Yours sincerely,

(signed) Sol Adler.

P.S. This may be a good time to visit India now that I have finished helping the Army to get its data into shape and that things are quiet in Chungking again. I shall cable you accordingly and shall wait for your reply before doing anything in case some question comes up during the negotiations on which you may want further details.

The American correspondents here have no illusions about Hurley. One or two have tried to get their impressions through in their articles, but rather guardedly and cautiously. And no wonder, since he tried to have at least one of them removed.

Am also enclosing a little memo I have prepared on "Present Kuomintang policies - Its implications for the United States and the United Nations".

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Verbal Statement by Wang Shih-Chieh, Minister of Information
at Chinese Government Press Conference, February 14

(This statement was released only to foreign correspondents
and was not allowed to be published in the Chinese press.)

For the past fortnight the Government representatives, of whom I am one, have been conferring with the Communist representative, Mr. Chou En-lai, in Chungking. The government proposed to make a number of important concessions, which include among other things the following:

1. Recognition of the Chinese Communist Party as a lawful political party.
2. Inclusion of representatives of the Communists and representatives of other political parties in the Executive Yuan with a view to forming a sort of wartime cabinet.
3. Inclusion of high-ranking Communist officials among members of the National Military Council.
4. Setting up a committee of three to consider reorganization of the Communist Army and the question of their supplies. In this Committee the Government and Communist representatives to be on equal footing, and possibly an American Army officer to preside.

However, the Communists considered these proposals unacceptable to them. They rejected them. The Communists brought forth a proposal to convene a conference of all political parties. It is in compliance with the general idea of this request that the government has again consented to convene a conference comprising representatives of the Kuomintang, the Communist Party and other parties, as well as some non-partisan independent leaders, to consider interim measures for political and military unification pending convocation of the National Congress.

Mr. Chou is returning to Yenan with these government proposals to consult his Party. As to the final outcome, I shall make no forecast. I should like to add that in the course of the negotiations we appreciated the disinterested and friendly effort of the American Ambassador, General Hurley, in bringing the two sides together, and in having created a better atmosphere of discussion.

Question: Will this inter-Party conference have power to make decisions binding on the Government?

Answer: When decision is reached by procedure agreed upon, the government will be bound.

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Chou En-lai's reply to Dr. Wang Shih-chieh's Statement
(February 14, 1945)

The representative of the Government, Dr. Wang Shih-chieh's statement at the press conference for the foreign correspondents on Wednesday is not frank and (is) unfair. For he only mentioned the so-called concessions from the Kuomintang side in the Kuomintang-Communist negotiations without explaining under what conditions or prerequisites will these concessions be made. First, in the negotiations the National Government demands that the Chinese Communists should give over all the troops under their leadership to the control of the Military Council of the National Government; that is to say, to turn over to be under the control of the Kuomintang, for the National Government is a Government of one-party rule by the Kuomintang. Second, in the negotiations the Kuomintang obstinately insisted that the one-party dictatorship will not be concluded at present.

Because of these two conditions or prerequisites all these concessions become either impractical or meaningless. Even more, they are not concessions but conditions hampering and detrimental to the forces of the war of resistance. To speak concretely, these mean first, there will be no legal status for the Chinese Communist Party if its troops are not given over to the Kuomintang Government; second, the members of the Military Council have never met and have no power whatsoever; third, the so-called war cabinet under the party-ruled Executive Yuan has no power for final decisions of policy; fourth, one-party rule will not be abolished and the military policy of excluding others will not be changed, under which condition formation of the joint committee of three to discuss the reorganization of Communist troops is still the same as giving over the Chinese Communist troops to the Kuomintang Government. However, on the basis of achievements in fighting against the Japanese, it is not the Chinese Communist troops that should be reorganized but the Kuomintang troops. When these are made clear it will be understandable why I, representing the Chinese Communist Party, refused the whole proposal of the National Government. This is one side.

On the other side, the more important reason is, the National Government has refused our proposal of establishing a democratic coalition government, a united high command in order to unite all the armed forces, and to change political, military, economic, cultural, and other policies. We have also proposed to the National Government, the Kuomintang, and the Chinese Democratic Federation to call an Inter-Party Conference to discuss and decide how to put an end to one-party rule, how to reorganize the Government into a democratic coalition government, and to draft a common political program - so that after it is agreed upon the plan of establishing a democratic coalition government can be realized.

The reply of the National Government is a conference advisory in nature; and its main content, which they figured out beforehand, is to

be the maintenance of one-party dictatorship and the opposition to democratic government. Thus I must return to Yenan to report to the Central Committee of my party.

As to our hope that the National Government will first release patriotic political prisoners, annul all decrees suppressing the people, stop all activities of the special service agencies, withdraw all troops surrounding the Shensi-Kansu-Shinghai Border Region and attacking the Eighth Route Army and the New Fourth Army, the Government authorities have not accepted. Such is the main content of the negotiations between the two parties in the past few months.

As to the American Ambassador General Hurley's enthusiastic help and continuous efforts in the negotiations during the past few months, we take this chance to express here our thanks.

Chungking, February 15, 1945

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(Feb. 19, 1945)

To: Mr. H. D. White
From: S. Adler
Subject: Present Kuomintang Policy - Its implications for the United States and the United Nations.

I. Present Kuomintang Policy

A. Internal. The Kuomintang's internal policy is actuated primarily by one motive and objective, the preservation and, if and when possible, the consolidation of its own power and the exclusion of all other groups from power. The Generalissimo's conduct in the recent Kuomintang-Communist Party negotiations, his studied neglect of the liberal groups both within and without his own party, in fact his whole history demonstrate conclusively that he has no intention of parting with any of the power he has concentrated in his hands, even though current developments are bringing about a disintegration of that power and promoting the growth of serious rivals. He is gambling that he will get all the internal and international breaks. He hopes that these breaks will enable him to emerge politically unscathed from the threats to the maintenance of one-party dictatorship and militarily strengthened so that he can at the opportune moment wipe out all opposition, by force if necessary.

The state to which Kuomintang internal policy has reduced China in the military, political, and economic spheres is too notorious to require elaboration. It is directly responsible for the fettering of China's war effort. It is reducing China to the level of a third-rate power. It is accentuating internal disunity and dissensions to the point which retards the unification and modernization of China and renders civil war increasingly probable. It is creating an alarming economic situation which may end in disaster.

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B. External. The Kuomintang's external policy, no less than its internal, is also a gamble based on the assumption that it will get all the breaks. What are the breaks it is hoping for?

1. That the United States will defeat Japan in a relatively short period of time, preferably without Russian participation and without large-scale action by American land forces in China.
2. That the United States will continue to support the Kuomintang unconditionally; that it will train a sufficient number of Kuomintang divisions to make the Kuomintang the preponderant internal military force; that, as a result of the speedy defeat of Japan without large-scale military action in China, this military force will emerge relatively intact from the war ready for immediate internal use, if necessary.
3. That if Russia does participate in the Far Eastern War, a clash of interests will develop between the United States and Russia which will enable the Kuomintang to save its bacon.
4. That in any case there is a deep-seated conflict of interests between the United States and Russia which the Kuomintang can exploit for its own purposes.

All these four breaks are necessary for the Kuomintang's survival on its own terms. It is its confidence in 1 and 2 which creates its belief that it need not reach a compromise with all the opposition groups and that it can defer a solution of the internal political problem until the favorable opportunity when it can impose its own settlement. At the

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same time, its belief in a deep-seated Russo-American conflict gives the Kuomintang leaders an otherwise inexplicable sense of self-assurance with respect to our attitude to them. They feel that we have no choice but to support them because of this assumed conflict with Russia. Without this assumption it is impossible to understand either the Kuomintang's generally cavalier attitude toward Russia - an attitude infinitely more cavalier than any adopted either by us or by the British - and the Kuomintang's specific reaction to the news of the Crimea Conference. This attitude is all the more astonishing in view of the demonstrated military might of Russia and of the equally demonstrated military feebleness of the Central Government. But this is not the only example of the Kuomintang's lack of realism. This memorandum is concerned not with the causes but the implications and results of this lack of realism.

II. Implications of the Kuomintang's policy for the United States.

A. Military. The Kuomintang as a result of the fact that its main drive is the perpetuation of its own power has done and intends to do as little fighting as it possibly can against the Japanese. If it succeeds, this will inevitably mean the prolongation of the war and the loss of more American lives than would otherwise be necessary. As a corollary, it will mean an increase in the difficulties attendant upon the routing of Japan as a land-power.

B. Political.

1. The Kuomintang's success will make the task of establishing stability in the Far East - a prime American long-term interest - incomparably more difficult. Even if its success is attainable, it will

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only be at the cost of a long period of internal disorder which will weaken China, render it less of a counter-balance against Japan, facilitate the resurgence of a nationalist and expansionist Japan, and curtail our Far Eastern markets.

2. The Kuomintang has a vested interest in the existence and exacerbation of bad relations between us and Russia. It is not the purpose of this memo to formulate our long-term policy vis-a-vis Russia. But:

(i) Whatever our long-term policy is going to be, we should determine it ourselves. It is clearly much more important than our long-term policy vis-a-vis China, which latter is only one, and by no means the most important, consideration in its determination. We cannot and must not let the Kuomintang decisively influence it. We must determine it of our own volition and on our own initiative. There is no other question of foreign policy, perhaps not even the question of our relations with England, which looms so large or is so pregnant with consequences for the future of the American people. Therefore, it is a question which the American people must answer itself without benefit of the Kuomintang's influence or advice.

(ii) Whatever our long-run interests, our short-run interests demand cooperation and collaboration with Russia, not only in Europe but also in the Far East. The trend of the Kuomintang's policy is to intensify frictions between us and Russia and thereby render harder the political pacification of Europe and the winning of the war in the Far East.

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III. Implications of Kuomintang Policy for the United Nations.

The interests of the United States, at least in the short run, demand the strengthening and extension of the unity of the United Nations in the military, political, and economic spheres. This unity is bound to be subjected to stresses and strains as a result of inevitable frictions, potential, no less than actual, between us and Russia, between England and Russia, and between us and England. Therefore statesmanship requires the multiplication and consolidation of the unifying factors and interests and the reduction and weakening of the divisive factors and interests among the United Nations. This process must of course be multilateral.

It must be emphasized that the Kuomintang as a result of its policies and drives has become a divisive factor among the United Nations. As such it is acting against our best interests, against the achievement of a speedy victory, and against the establishment of world peace. In this respect, as perhaps in others, the Kuomintang resembles the Polish Government in London. There is one important difference, however, because the Kuomintang is more powerful than the Polish Government in London, its capacity to do harm is much greater. Unless the Kuomintang becomes more realistic, this resemblance will tend to increase. The United States and England did their best to save the Polish Government in London, but to no avail. For it was incapable both of saving itself and of allowing outside friendly parties to save it. If this lesson should be lost on the Kuomintang, there is no reason why it should be lost on us.

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EXECUTIVE OFFICE OF THE PRESIDENT WAR REFUGEE BOARD

INTER-OFFICE COMMUNICATION

DATE March 26, 1945

TO Secretary Morgenthau

FROM Miss Hodel

For your information

I send you herewith copies of two cables which we have just received from Mr. McClelland indicating that the bottleneck on the delivery of our food packages is beginning to be broken. The following items are of particular interest:

1. 1,170 War Refugee Board parcels and other relief supplies were to go forward on March 23 by railway cars from Switzerland to the concentration camp at Theresienstadt.
2. 4,900 War Refugee Board parcels are expected to leave Switzerland shortly on railway cars destined for Vienna.
3. 10,800 War Refugee Board parcels left Goteberg, Sweden, on March 16 for the women's concentration camp at Ravensbrueck (near Berlin).
4. 9,800 War Refugee Board parcels left Goteberg, Sweden, on March 17 for the concentration camp Neuengamme near Hamburg.
5. Six 12 ton trucks have been rented by Mr. McClelland from private concerns in Switzerland and will be available next week to start transporting War Refugee Board supplies.

Theresa Hodel

DEPARTMENT
OF
STATE

INCOMING
TELEGRAM

DIVISION OF
CENTRAL SERVICES

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DIVISION OF
CENTRAL SERVICES
TELEGRAPH SECTION

RS-554

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

132477 11 AM 10 52 Bern
Dated March 24, 1945

Rec'd 9:35 a.m.

Secretary of State

Washington

1754, March 24, 11 a.m.

FOR WRB FROM MCCLELLAND

Department's 1083 March 16

Concerning onshipment of our 224,328 WRB parcels
at Gotoborg ICRC recently informed me that on March 16,
two railroad cars containing 5,400 WRB parcels each
left Gotoborg for women's concentration camp at
Ravensbrueck and on March 17 two more railroad cars
left for Hamburg-Nuonamme concentration camp con-
taining 4,800 packages each. This makes total of
20,400 parcels which have gone forward lately.

When Kubowitzki of World Jewish Congress was in
Switzerland early in March he informed me that Storch
WJC man in Stockholm was requesting funds to purchase
additional foodstuffs in Sweden to send to Jewish in-
ternees in Germany having been able forward his original
stock to Bergen-Belsen and Theresienstadt. Since we had
a large

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-2-#1754, March 24, 11 a.m. from Bern

a large unused stock of WRB parcels in Gotoborg which
was not moving it seemed unnecessary to me that WJC
should have to purchase still more food. I therefore
offered Kubowitzki to release 40,000 WRB "K" parcels
to WJC in Sweden for delivery to Jewish detainees
particularly in Bergen-Belsen through the satisfactory
shipping channels which Storch seemed to have worked
out with Swedish YMCA. On March 16 accordingly with
my approval ICRC Geneva wired their Gotoborg man
authorizing him turnover 40,000 parcels to WJC. In
interest of getting as many WRB parcels into Germany
as rapidly as possible this appeared to me recommendable
move of which I hope you approve.

HARRISON

JMB

DEPARTMENT
OF
STATE

INCOMING
TELEGRAM

DIVISION OF 179
CENTRAL SERVICES
TELEGRAPH SECTION

EK-466
Distribution of
true reading only by
special arrangement
(SECRET W)

Bern

Dated March 23, 1945

Rcd'd 9:50 p.m.

Secretary of State,
Washington.

1740, March 23, 6 p.m.

FOR WRB FROM MCCLELLAND.

Department's 1090, WRB'S 455 March 16.

Efforts to secure trucks here and move WRB parcels
from Switzerland in collaboration with ICRC'S Division
of Special Assistance (DSA) for unassimilated persons
are now meeting with small success.

Six twelve-ton trucks are being rented from private
concern and will be available next week to transport
relief supplies including WRB supplies to Buchenwald
and Vienna area exclusively for civil detainees.

We were also able assist Sternbuch of Union Rabbis
rent four trucks commercially which will leave next days
for Bergen Belsen with Jewish Easter bread and other
relief supplies.

Prior such trucks is very high--one franc eighty
per kilometer plus stiff insurance charges but we felt it
worthwhile.

As reported in Legation's 1687, March 21 YMCA has
ceded

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

180

-2-#1740, March 23, 6 p.m., from Bern.

ceded twelve wood burning trucks now in Germany to ICRC'S
DSA. These trucks have not been located in confusion but
they ought begin turn up next week.

French Government has sent 100 new three-ton Renault
trucks to Geneva for ICRC'S use. French are quite willing
that eight or ten if not more be used exclusively for
deliveries to their civil detainees if fuel can be made
available. French, however, can send little or no fuel
themselves and present SHAEF deliveries are solely for
shipments to POWS.

On March 23 or 24 one railway car containing 1170
WRB parcels and other relief supplies from Union Rabbis
and JDC will go forward to Theresienstadt and two other cars
containing 4,900 WRB parcels plus JDC material will be
shipped to Vienna area. We sincerely hope they will get
through.

More trucks can be rented in Switzerland if tires can
be obtained; and I shall, of course, discuss this possi-
bility with SHAEF. I understand that AMCROSS plans ship
tires to Toulon for Switzerland on next boat. Could you
not squeeze in a few WRB tires for ICRC--DSA?

HARRISON

BB

181

Paris

Dated March 26, 1945

Rec'd 9:37 a.m., 27th

Secretary of State

Washington

1451, March 26, 10 p.m.

FOR G DWELER RRB (REPEAT RRB) FROM HARR AND KATZKI
(REPEAT KATZKI)

He arrived afternoon March 24, started negotiations with Brigadier General Gill and G (repeat G) -4, March 25. Latter familiar views War Department through telegrams. He stated that it was now necessary clear matter Army G (repeat G) -1 for integration their program which he plans to do today. He will advise you of developments. McClelland has not yet arrived. Please advise families of our safe arrival.

CAPPERY

BB

182

SS-1069

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

Chungking via Navy
Dated March 26, 1945
Rec'd 10:30 a.m.

Secretary of State,
Washington.

501, March 26, 10 a.m.

FOR COMMERCE.

With reference last paragraph telegram 76, March 10, FEA states no
production taxes and export duties currently levied on strategic ma-
terials now being shipped or likely to be shipped to United States.

ATCHINSON

JGB

ef:copy
3-27-45

183

ASB-1185

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

Jerusalem

Dated March 26, 1945

Rec'd 6:18 p.m.

Secretary of State,

Washington

50, March 26, 3 p.m.

Following message is from Eliahu Dobkin, Jewish agency, who requests paraphrase be delivered to Arish Tartakower through War Refugee Board:

"Reference your March 9. No difficulties anticipated for transportation clothing from Palestine for Bulgaria. Please cable whether clothing referred to in your telegram can be transferred Palestine and if so, when. Also cable meaning WB. Have called you re Freudiger March, 16."

PINKERTON

LIS

184

EUN-1142

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

Lisbon

Dated March 26, 1945

Rec'd 4 p.m.

Secretary of State

Washington

654, March 26, noon

Conference held by Saly Mayer with Intercross representatives from Zagreb and Bratislava. 2,000 Jews still hiding Bratislava being aided by them. Fairly good food situation. (This is WRS 368 JOC 202 for Leavitt from Harold Trobe.) Returning Red Cross representative furnished by Saly with 100,000 Swiss francs.

Monthly budget Swiss francs 20,000 being used to assist 1,600 in Zagreb. Situation in general fairly good. Have stocks of clothing and food.

CROCKER

DU

185

CABLE TO AMERICAN EMBASSY, ROME, FROM THE WAR REFUGEE BOARD

Please deliver the following message to Mr. Matteo Matteotti
International Rescue and Relief Committee, via Aurora 31, Rome, from
the International Rescue and Relief Committee:

QUOTE RECEIVED AND ANSWERED YOUR LETTER ALSO JUST
TRANSMITTED FIFTEENTHousand DOLLARS STOP CLOTHING
SHIPMENT LEFT MIDDLE FEBRUARY CONTACT EDWARD HARR
AMERICAN REFUGEE FOR ITALY ROME STOP CONTACT BISHOP
P. HUGHS ROME AND STAYS LOCQUAITE VIA BARRABA
CHIANI 67 ROME FOR NUMBER LITHUANIAN REFUGEES IN
ITALY COME NUMBER OF STUDENTS AND REES OF ALL
STOP CABLE REPLY THESE CHARGES. UNQUOTE

10:20 a.m.
March 26, 1945

186

CABLE TO AMERICAN EMBASSY, PARIS, FOR ROWELL MCKENLAND FROM WAR
REFUGEE BOARD

Reference your No. 1739 from Bern of March 25. Katski is
entirely at your disposal. Any arrangements you make with him
will be satisfactory to Board.

2:55 p.m.
March 26, 1945

187

CABLE TO AMERICAN EMBASSY, LISBON, FROM THE WAR REFUGEE BOARD

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

QUOTE ACCORDANCE SCHWARTZ CABLE MARCH FIRST WE REMITTED
\$8,000 OUR LONDON ACCOUNT FOR JEWISH COORDINATING COMMITTEE
THE HOLLAND. ADVISE LINDBER. UNQUOTE

THIS IS WFO LISBON CABLE NO. 161

2:50 p.m.
March 26, 1945

188

NEW-1132

PLAIN

Rome

Dated March 26, 1945

Rec'd 3:55 p.m.

Secretary of State

Washington

800, Twenty-sixth, 6 p.m.

TO MORRIS LEAVITT, JOINT DISTRIBUTION COMMITTEE,
NEW YORK, FROM RESHIE, ROSE 20.

Have requested military permission for Benjamin
Brook.

KIRK

125

NOT TO BE RE-TRANSMITTED

SECRET

COPY NO. 4

OPTEL No. 97

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

NAVAL

1. HOME WATERS. 25th. Two Beaufighters sank Midget U-boat off The Hook. A Motor Launch mined and sunk off Walcheren from which no survivors. 25th/26th. Considerable E-boat activity southern area North Sea.

MILITARY

2. WESTERN FRONT. Southern Sector: All enemy resistance now cleared west Rhine except three small pockets between Mannheim and Karlsruhe. On 3rd U.S. Army front Oppenheim bridgehead reinforced by armour which reported to have taken Darmstadt and Ebenhausen, reached Schaffenburg (20 miles S.E. Frankfurt) and crossed River Main 6 miles south of town, while further north second crossing of Rhine made in Boppard area. Central Sector: In Remagen bridgehead 1st U.S. Army made further progress S.E. and N.E. where advances of 2 to 4 miles made. Northern Sector: 9th U.S. and 2nd British Armies continue to expand combined bridgehead which now 25 miles long and 6 miles deep; opposition in south light but strong in north, while firm contact now established between all ground and airborne troops, with Dinslaken, Wesel, Haffen and Rees captured.

3. EASTERN FRONT. Northern Sector: S.W. Konigsberg Russians report Heiligenbeil (6 miles N.E. Braunsberg) captured, while further west suburb of Danzig captured and Oliva midway between this town and Zoppot taken. Southern Sector: In Hungary advances of 20 miles made in Esztergom area, while further south Varoslod (20 miles west Szekesfehervar) taken.

4. BURMA. Central Sector: 22nd/23rd. After attack on our positions Meiktila beaten off infantry and tanks pursued enemy southwards and inflicted losses in severe fighting 6 miles to south.

AIR

5. WESTERN FRONT. 25th. 566 Bomber Command escorted aircraft (4 missing) dropped 2179 tons on Hanover, Munster and Osnabruck. 243 U.S. escorted heavy bombers (5 bombers, 1 fighter missing) dropped 561 tons on 3 underground oil depots N.W. Germany where all attacks made visually with good results and enemy suffered 7,1,7 aircraft casualties. 767 SHAEF (Air) bombers (1 missing) dropped 1062 tons communications and other targets battle area with good results while 4233 fighters and fighter bombers (31 missing) operated same area destroying or damaging 158 locomotives, 204 tanks and AFVs and 4500 road and rail vehicles, while enemy aircraft casualties were 18,0,0 in combat and 21,2,32 on ground. 101 Fighter Command Spitfires (1 missing) attacked communications Holland. 25th/26th. 10 Bomber Command aircraft (without loss) were despatched including eight Berlin.

6. MEDITERRANEAN. 23rd/24th. Liberators attacked railway centre (120 tons) St. Veit (S. Austria). 24th. 662 heavy bombers (10 missing) attacked tank works Berlin (318 tons), two airfields in S. Germany (502 tons) and railway centre (145 tons) in Czechoslovakia. 1081 tactical aircraft (8 fighters missing) attacked railway and other targets N. Italy when enemy suffered 31,0,1 on ground and 16,9,5 in combat.

HOME SECURITY (Up to 7 a.m. 26th)FLYING BOMBS. During period 14 plotted.ROCKETS. 25th/26th. Seven incidents reported.