

DIARY

Book 686

December 21-26, 1943

- A -

Book Page

Agriculture Department	
See Procurement Division: Surplus Property	
Alvord, Ellsworth C.	
See Foreign Funds Control: Patenotre family	
Appointments and Resignations	
Jordan, Joseph A. (Chief, Employee Relations Section):	
"Who's Who" prepared by Thompson for HMJr - 12/21/43...	686 40
Automobile Workers of America, United	
See United Automobile Workers of America	

- B -

Bolivia	
See Latin America	

- C -

Correspondence	
Mrs. Forbush's mail report - 12/24/43.....	280
Currency	
See Occupied Territories	

- D -

Deferments, Military	
Nappi, Domenick	
Tidball, Lewis C. (Bureau of Mint)	
Deferments granted - 12/23/43.....	164
Dudley, Private Edward	
See Financing, Government: War Savings Bonds (4th War Loan Drive)	

- E -

Elliott, Harriet	
University of North Carolina-HMJr correspondence concerning return to college - 12/22/43.....	142
Engraving and Printing, Bureau of	
Wage increase demands discussed by HMJr, Bell, Thompson,	
Gaston, Wilson, and Hall - 12/23/43.....	213
a) Thompson memorandum.....	222

- F -

Financing, Government	
War Savings Bonds	
4th War Loan Drive: Private Dudley's manuscript praised by HMJr - 12/23/43.....	161
Foreign Funds Control	
Patenotre family: <u>Philadelphia Record</u> payment, Laval funds, etc., discussed by Treasury group - 12/21/43.....	6
a) Alvord's (Ellsworth C.) connection discussed	

Horses

See Procurement Division

Jordan, Joseph A.

See Appointments and Resignations

Latin America

Bolivia: Coup d'etat reviewed in White memorandum -  
12/22/43..... 686 104

Lend-Lease

Weekly report - 12/22/43..... 152  
(See also Book 687, page 38 - 12/28/43)

Transfer to United States of investments in United States  
enterprises held by nationals of the countries receiving  
assistance: Crowley-Congressman Voorhis-HMJr correspondence -  
12/23/43..... 247

United Kingdom

Reduction in Dollar Balances

See also Book 676

Items to be furnished the British Empire for cash  
(i.e., capital goods suggested for removal from  
Lend-Lease) - Cox memorandum - 12/23/43..... 243

- a) HMJr suggests to White further breakdown in  
items and amounts for a memorandum to be  
presented to FDR - 12/28/43: Book 688, Part II -  
page 227

Conference; present: HMJr and White - 12/31/43:

Book 687, page 114

- a) Draft prepared in Alien Property Custodian  
considered: Book 687, page 123

- b) Proposed memorandum for FDR: Book 687, page 124

Conference; present: HMJr, Crowley, Acheson, Rostow,

Currie, Cox, and White - 12/31/43: Book 687, page 128

- a) Factors resulting in increase in United Kingdom  
gold and dollar assets: Book 687, page 172

Conference; present: HMJr, HM, III, and White - 12/31/43:

Book 687, page 182

- a) Revised draft of memorandum for FDR considered

- 1) "Head-on" between FDR and Churchill to be  
prevented at all costs: Book 687, page 187

- b) Memorandum as agreed upon by Cox and Currie:

Book 687, page 190

- c) Hull's supplementary memorandum to FDR: Book 687,  
page 198

Hull's memorandum to FDR discussed by HMJr and Crowley -  
1/1/44: Book 689, page 38

- a) Treasury memorandum to FDR to make clear - after  
FDR has OK'd principles involved that Treasury  
will continue to discuss with British items to  
be discontinued - 1/3/44: Book 689, page 200

Aircraft despatched, weeks ending December 7 and 14 -

British Air Commission report - 12/21/43..... 97

- M -

Book Page

Mules  
See Procurement Division

- N -

Nappi, Domenick  
See Deferments, Military

- O -

Occupied Territories

Currency

Type discussed in proposed joint memorandum to FDR  
from State, Treasury, War, and Navy - 12/23/43..... 686 253

Paul opinion that Allied armies have legal authority  
to issue currency in connection with operations in  
France, Belgium, etc., charging costs of occupation  
to liberated territories - 12/23/43..... 256

Italy: Navy asked to recall Southard (Lieutenant Commander)  
to discuss financial and accounting matters - 12/23/43.. 252

a) Navy acquiesces..... 279

(See also Book 688, page 45)

- P -

Patenotre family

See Foreign Funds Control

Philadelphia Record

See Foreign Funds Control: Patenotre family

Post-War Planning

Currency Stabilization

U.S.S.R.: Urgency of mission coming from U.S.S.R. for  
discussions discussed by HMJr and Soviet Embassy -  
12/23/43..... 173, 211

a) Ambassador reports three members about to  
leave Moscow via Teheran - 1/3/44: See Book 689,  
page 119

Procurement Division

Surplus horses and mules reported by War Department  
Agriculture Department informed - 12/22/43..... 150

HMJr, Sullivan, and Mack discuss - 12/23/43..... 200

a) Mack's program for disposition of surplus live  
stock

- S -

Southard, F. A. - Lieutenant Commander

See Occupied Territories: Italy

Surplus Property

See Procurement Division

- T -

	Book	Page
Thomas, R. J.		
See United Automobile Workers of America		
Tidball, Lewis C. (Bureau of Mint)		
See Deferments, Military		
Tollaksen, Leslie B. - Lieutenant Commander, USCGR		
See also Book <u>662</u>		
HMJr-Chalker conversation concerning improvement - 12/21/43.....	686	49

- U -

U. S. S. R.		
See Post-War Planning: Currency Stabilization		
" War Production Board		
United Automobile Workers of America		
Thomas (R.J.)-Treasury correspondence concerning taxation of back pay - 12/21/43.....		78,233
United Kingdom		
See Lend-Lease		

- W -

War Production Board		
U. S. S. R.: Report covering five months, ending November 30, 1943, on production performance against materials and equipment commitments of Third Protocol - 12/21/43.....		83

December 21, 1943  
9:30 a.m.

GROUP

- Present: Mr. Gaston
- Mr. Paul
- Mr. Sullivan
- Mr. White
- Mr. Smith
- Mr. Thompson
- Mr. Blough
- Mrs. Klotz

H.M.JR: I don't know whether you are going on the Hill, Randolph, or not.

MR. PAUL: There is supposed to be a formal meeting this morning.

H.M.JR: You ought to have front-row seats when Drew Pearson testifies.

MR. PAUL: I didn't know he was going to testify until just now.

H.M.JR: You got my memo on Drew Pearson?

MR. SMITH: No.

MR. PAUL: Do you think I should go up there?

MR. SMITH: It hasn't come in yet. Shall I go get it?

H.M.JR: Let me check. The girls were to distribute it as fast as it came in.

(Mrs. McHugh enters the conference.)

H.M.JR: Do you know where to locate the Meltzer report?

- 2 -

MRS. McHUGH: It <sup>was</sup> in the suitcase.

(Mrs. McHugh leaves the conference.)

H.M.JR: What about that package of cigarettes?

MR. PAUL: No, the bet is off, isn't it?

H.M.JR: Technically it was supposed to be somewhere in here, but Miss Chauncey went through there. That isn't like Chauncey.

Well, you boys did a very good job for the Treasury. I liked it. I am ready to get a blast back again.

Mr. George said he would take care of me today.  
(Laughter)

MR. PAUL: He did?

H.M.JR: Oh, yes, in the paper. He simply said that I didn't know anything about renegotiation and hadn't the slightest idea what it was all about, but he would take care of me today. I would rather have it in tomorrow morning's paper after they have gone home. Then he would say that I had waited until they went home. I don't know how you feel, but I like it.

MR. PAUL: I want to go up there.

H.M.JR: You might go up there to defend the honor of H. Morgenthau, Jr.

MR. WHITE: I heard a radio comment last night; I think it was the fellow who speaks at five minutes of nine. That is the only one I listen to. He said that Congress has been given, I think, a good send-off by Secretary Morgenthau's angry retort that we would be better off not to have any tax bill than the thing that is thrown together by Congress. I don't think I have all the exact words, but something close to that.

H.M.JR: "A good send-off"?

- 3 -

MR. WHITE: A send-off, and a good-send-off.

H.M.JR: That is all right.

MR. GASTON: I think it is good.

MR. PAUL: Guffey called me yesterday. He was one of the main supporters of these renegotiations. He said, "I hear you fellows disagree with us pretty badly."

We went into it and discussed it quite a while. I told him I thought that was the worst mistake I ever knew the Senate Finance Committee to make. We talked quite a while about it.

We also talked about the liquor business. He said he was going away today and he wanted to talk it all over. He said maybe he was wrong, and he wanted to talk it all over about Christmas day or the next day when he gets back.

MR. GASTON: Who is this?

MR. PAUL: Guffey. He was next to George and Taft leading the fight for these amendments.

H.M.JR: I sent you a memo asking you to call Forrestal to find out what he and George talked about for an hour.

MR. PAUL: I am suspicious of that. I just noticed that in the paper. I told you I was a little worried about him.

H.M.JR: I will tell you why I am extra suspicious. At Cabinet Knox said, "What do you think of cutting this off at the 1st of July?"

I said, "It would be terrible."

MR. PAUL: It would be a compromise that isn't any compromise. You would be getting nothing.



- 4 -

H.M.JR: I think my suggestion that you call Forrestal-- it may take the girls longer than I thought to get these memos typed. I only got in at twenty-five after nine. Are you on a basis so you can't call him?

MR. PAUL: Oh, sure, I can.

H.M.JR: Find out what he is talking about. Then maybe you and Bob Patterson better get together and give him the works.

MR. PAUL: I think I will call Patterson first.

MR. SULLIVAN: It might be helpful if you tell me about that. I may have to see Knox later in the morning on something else. I would want to be up to date.

H.M.JR: Well, I will tell you--it was a good suggestion that I see the President. I think it is all right.

You know what I told them, don't you? When I went off the record I said they would either spend the rest of their life before Congress or in jail.

They said, "Oh, oh, we will use that."

I said, "No, that is off the record."

Then the other thing which Herbert wanted me to use--but I was so tired after having an hour with the President that I just didn't know whether I would get away with it--was to say that my good friend Leon Henderson said that this isn't a tax bill, that this is an appropriations bill. Now I wish I had used it.

MR. PAUL: Cooper was in quite a while yesterday. He said he was not going to vote for the bill. He wants a speech written that he doesn't use the same phrase, but this phrase, "This is not a revenue bill; it is a relief bill."

- 5 -

H.M.JR: Of course, my attack isn't going to please Forrestal, because that isn't the way they would do the thing. Arthur Krock has done it three times for Forrestal now, and this is going to upset Arthur Krock terribly, that he and I are on the same side of the fence.

MR. PAUL: I talked to Krock the other day.

MR. GASTON: It is worth noticing that the best story, the one that the Times plays, is the AP story. That is going to get real circulation.

H.M.JR: Well, the idea that I had when I wrote Blough a letter yesterday morning was--the thought that I wrote in the thing is, this will go out and be something for the Congressmen when they got home for Christmas. And this is my Christmas present to Congress.

MR. SULLIVAN: I think it is an excellent idea. I think they are going to get a very cool reception back home on this business.

MR. GASTON: This isn't an Arthur Krock column or a Drew Pearson column; this is the AP story of the day on the tax bill, and it goes everywhere.

H.M.JR: Well, the Washington Post has Associated Press; somebody might look for the UP to see how they did it, will you?

MR. GASTON: It is a very well handled story by a young fellow named Kovacic, who is covering the Treasury now.

MR. PAUL: He is the AP man.

H.M.JR: Herbert?

MR. GASTON: I haven't anything, except Cy Upham has drafted a letter in response to a request from me--Congressional committee--for the Comptroller to tell them whether he had a policy of opposing branch banking and on what it was based,

- 6 -

and especially whether this policy was aimed at the Transamerica Corporation.

H.M.JR: Who asked them?

MR. GASTON: A Congressional committee. He had drafted a letter after talking to me, and I should have it on my desk now, but it isn't there. I think it would be a good idea for you to see the letter before it goes out.

H.M.JR: I see.

MR. GASTON: So I will send it in.

H.M.JR: For those of you who get the New Republic, I recommend Helen Fuller's article called "Inflation Family Tree" in the December 20th issue particularly.

MR. PAUL: There is a nice play in there at Johnson.

H.M.JR: I was interested in my friend Babcock, and E. R. Eastman, tying them up with Gannett. The American Agriculturist is Gannett's farm paper.

What else, Herbert?

MR. GASTON: I think that is all.

(The Secretary leaves the conference temporarily.)

(Mrs. McHugh enters the conference temporarily and hands Mr. Smith memo from Secretary Morgenthau to Drew Pearson dated December 21.)

H.M.JR: Did I hear you say Patenotre?

MR. GASTON: Yes, Drew Pearson has been digging up in his reply to George a lot of stuff on Alvord as well as George. Somehow he had gotten hold of Alvord's connection with the Patenotre case and the fact that we had started action on that case. He came in to see

- 7 -

Elmer Ireys to try to get some confirmation of details, and Elmer was quite shy and immediately brought him up to see me.

He told me what he knew, and I said, "Well, Drew, I am afraid we can't confirm any of that. You know the limitations we are under. All I can say is that you do get around."

MR. PAUL: He asked me about it, and I simply referred him to the public record. That is all I knew about it.

H.M.JR: Do you know, Harry, it was the transfer of the funds from this country to Patenotre that started this whole sort of Foreign Foreign Funds Control? We found there were a couple of million dollars--ten or fifteen million dollars that left this country, I don't know when, in payment to the Patenotres for this Philadelphia paper. As a result of that, that was the first case we have had; it started the whole business on the question of Foreign Funds Control.

MR. PAUL: I don't understand it.

MR. WHITE: No.

H.M.JR: I didn't say you said so, I say so; I am just saying, do you remember that?

MR. WHITE: I don't remember. All I remember is that that is not what started it, but I think that is what gave it its first peg.

H.M.JR: Impetus--maybe that is correct, but it was the first case that we had.

MR. WHITE: I think that is true.

H.M.JR: And it started us on the whole business.

MR. PAUL: There were lots of those cases, Mr. Secretary. I know all about this case and lots of others that have been litigated, exactly the same, money leaving the country. It happened in 1930, ten million dollars in payment to the Philadelphia Record.

- 8 -

H.M.JR: No, I am talking about this; it was the first came that came to my attention.

MR. PAUL: That is something different.

H.M.JR: And this stimulated the whole question of Foreign Funds Control.

MR. PAUL: But that is another Patenotre situation.

H.M.JR: I am talking about the leaving of this country, the money to pay the Patenotres in the Philadelphia Bulletin.

MR. PAUL: I am talking about it, too. That left in 1930 and went to Canada.

H.M.JR: Yes, but we didn't find out about it until somewhere between '35 and '37; that is what I mean.

MR. GASTON: That Canadian transaction was the sale, and the question was the taxability.

H.M.JR: I handled the investigation of it myself.

MR. GASTON: The question was the taxability of that sale.

MR. PAUL: I have been working on it for months, also.

H.M.JR: I am going back long before you were in the Treasury.

MR. PAUL: So am I. I am going back to the year of 1930.

H.M.JR: You weren't here then.

MR. PAUL: I can go back to it in our records. We have the Canadian Bank records.

H.M.JR: We are talking about the approach.

MR. PAUL: Well, it doesn't matter, anyway.

- 9 -

H.M.JR: No, that is what I think.

MR. SULLIVAN: Carried by a vote of ten to nothing.  
(Laughter)

H.M.JR: You are talking about the suit, aren't you?

MR. PAUL: Yes, but I am talking about the money to pay, just as you are, just as you spoke about it.

MR. GASTON: That wasn't immediately transferred, Randolph. I mean, it didn't immediately go across.

MR. PAUL: It went across in 1930, and was paid in Montreal. And immediately this son turned around and paid it to his mother.

H.M.JR: Yes, but who discovered that?

MR. PAUL: Foreign Funds, I think, dug it up.

H.M.JR: I don't think Foreign Funds existed.

MR. PAUL: I don't know who dug it up.

MR. GASTON: I know as to the tax features of the case; I know who dug that up; that is Riley Campbell.

H.M.JR: I think you will find it was reported by the Federal Reserve.

MR. PAUL: Who?

H.M.JR: The Federal Reserve reported the thing, I think, in Philadelphia.

MR. PAUL: It looks very bad for Alvord in that picture, if we could only prove it, because this is what Drew knows about: There is a charge in the pleadings, as a matter of public record, that Alvord signed and falsified a false affidavit on which they entered into a closing agreement in 1930.

- 10 -

MR. GASTON: The way we got on to that was that when John Wiley came over here and asked us to cooperate with him on the Laval Funds Case. We arranged to put Riley Campbell to work on some records over at the Bureau of Internal Revenue, and Riley Campbell was on that for a while and then we took him off because we didn't see any particular reason why we should have the S.S. in this proposition, but in the meantime, going through those Patenotre records he came up with the conclusion that we had an important tax case there, and that is how this present claim originated.

H.M.JR: Yes, but how is he going to tie up--let's say Alvord is a crook. I don't know, but let's say he is. How is he going to hang that on George?

MR. GASTON: Oh, that is Drew Pearson's trouble, not ours.

H.M.JR: But how is Drew Pearson going to tie the two things together?

MR. PAUL: I don't know.

MR. GASTON: He just wants to show what kind of a critter Alvord is, that is all. He wants to aggravate the libel.

MR. PAUL: One way I think he has of tying them together is to compare the exact phraseology in their speeches.

H.M.JR: Was it you who told me he had a man up there for two weeks in the Library of Congress?

MR. GASTON: You know, when the newspaper gets a very dangerous libel suit filed, the first question is whether you have an adequate defense. If you haven't an adequate defense, the next thing is to get the dirt on the claimant. I think that is the principle on which Drew was operating here.

MR. PAUL: The suit for the Readers Digest--that was a regular technique.

- 11 -

H.M.JR: Herbert?

MR. GASTON: While we are here, I wonder if it would be all right with you if I take next week off to rest?

H.M.JR: That is a very good idea.

MR. PAUL: I hope you get it off, Herbert.

MR. SULLIVAN: George Vournas, who is the President of Ahepa, was in to see me yesterday.

H.M.JR: Of who?

MR. SULLIVAN: That is the American Hellenic Association. I thought you knew him. He is the President of that Association, which last year raised fifty million dollars in war bonds. He has been overseas three months with Donovan's outfit, but he is back here now.

He had an operation at Walter Reed, and he finds that he has been assigned to work that is quite unimportant. The Ahepa drive is for a hundred million this year. He thinks that he could be of very great service to us in that drive if the Army were to order him on that. I tried to reach Ted last night, and couldn't. He is out of town today. I will speak to him about it tomorrow, but I think he will talk with you about it.

From what I know of the organization, and from what I know of George, I think that he might be very helpful to us.

Harold Graves and I met yesterday afternoon with Mr. Bowles over at OPA.

H.M.JR: Congratulations.

MR. SULLIVAN: It was quite a struggle.

H.M.JR: Incidentally, how are you feeling?



- 12 -

MR. SULLIVAN: I have been feeling fine. I woke up at four this morning and wasn't able to get back to sleep, but I haven't any fever at all. I think I will get away with it.

He said that he didn't know what thinking they had been doing on consumer rationing of liquor, but he could assure me that if it was seriously being considered he would resist it to the very limits of his energy.

H.M.JR: He would resist it?

MR. SULLIVAN: That is right.

I explained to him what we were after, with the facts in the situation, that we would have to make a report from you, and we would talk it over with the people who had been doing the thinking about it, and he said that that was quite all right.

H.M.JR: Excuse me, but why is he so violently opposed to rationing?

MR. SULLIVAN: Because he is so short-handed in administering the present rationing. He said that every time they take on something extra they have to lessen the work they are doing on the commodities that are already subject to rationing.

He said they only have twenty-three hundred inspectors, and there is some doubt as to whether or not he can get by on his present appropriation.

We also talked about increasing the already existing liaison work between Alcohol Tax Unit and their fellows over there, and meetings are being set up for all of that.

I had lunch with the Apostolic Delegate yesterday. He wanted me to extend to you his great appreciation for all the work you have been doing.

H.M.JR: Was it a good lunch?

MR. SULLIVAN: Yes, it was. It was rather hurried because I had to go over to Bowles'. I raced through in

- 13 -

about an hour and a half.

H.M.JR: How many wines?

MR. SULLIVAN: Only two. One wine, and a sherry before.

H.M.JR: You are kind of slipping. (Laughter)

MR. PAUL: Yes, I think I had three up there.

MR. SULLIVAN: You gave me a letter from the Forestry Service. I have that with a memorandum if I can give it to you afterwards.

H.M.JR: Sure.

MR. GASTON: Oh, he had some talks with these OPA people on these black market things. We suggested at that time, oh, a couple of months ago, on the liquor black market we could perhaps do something. They told us they weren't interested in the liquor black market, but there were others they wanted our help on.

H.M.JR: You fellows might be thinking--if they don't come along, I may have to say something publicly.

MR. SULLIVAN: I don't think you have to. He indicated yesterday a very sincere desire to cooperate.

H.M.JR: But on the rationing I was thinking one of the simplest ways would be to simply say, "Effective the first of January, depending upon the supply, that each family--not each book, but each family--is entitled to, say, one quart a month or something like that." Do you go along on that?

MR. PAUL: I would be like you, probably, I would have to resort to my capital. (Laughter)

MR. SULLIVAN: Incidentally--

- 14 -

H.M.JR: That is a regular answer.

MR. SULLIVAN: I asked Mr. Blough to work with us on that end.

MR. GASTON: Harry Anslinger was down on a trial of a narcotics case in Greenville, North Carolina. He went in a liquor store to ask about whisky. The cheapest thing was six dollars and ninety-five cents a quart. He said, "Is that the OPA ceiling price?"

The clerk said, "No, we don't handle any OPA stuff; we have exclusively black market stuff."

He went to several liquor stores in Greenville, and the proprietors told him, "We handle only black market stuff."

MR. SULLIVAN: I went into a liquor store here about three weeks ago to get some brandy for Christmas presents. They had some perfectly horrible stuff at thirteen and sixteen dollars and fifty cents.

H.M.JR: A bottle or case?

MR. SULLIVAN: A bottle.

Then I recognized a familiar bottle. I said, "What is that?"

He said, "Oh, you don't want that."

I said, "Let me take a look at it." It was Grand Almanac, which is the best brandy, over twenty years old. I asked him how much it was, and he said, "Six, sixty-five, but you don't want that. This here is wonderful."

I said, "I see you have three of those."

He said, "Yes."

I paid twenty dollars a bottle for that last year.

- 15 -

I said, "I will take those three."

He did them up, and I paid for them. He said, "Sh, that is the only brandy we have an OPA ceiling price on."

H.M.JR: Well, I am a little impatient, maybe unjustly so, with this committee I appointed to handle liquor officially.

MR. SULLIVAN: Or, officially impatient.

H.M.JR: Well, that is distinguishing as to how you handle it in your right hand, Harry--right hand.

MR. WHITE: I was immersed in something else.

H.M.JR: Well, anyway, I think we ought to have another meeting maybe pretty soon.

MR. SULLIVAN: I am getting one of the group this afternoon, so different people who are working on different parts of this can make reports of progress. Then I will know better after that how soon we can have a meeting.

H.M.JR: I am just thinking out loud. I don't see why we couldn't, for instance, if Chester Bowles is so busy, get a story on these stores of how they handle black market stuff exclusively.

MR. WHITE: Why try to prevent the price of liquors from rising in the black market? It is an extra contra-inflationary device.

MR. SULLIVAN: You would be surprised how many people in the Alcohol Tax Division don't agree with you.

MR. GASTON: That is the OPA position. They agree with you, frankly.

MR. SULLIVAN: The fact remains, Harry, that so far as the ordinary fellow in this country is concerned, there

- 16 -

is nothing more you can do for his morale than make sure he can get hold of a bottle of liquor at a reasonable price.

H.M.JR: What is the difference between your statement and Chester Davis', who believed the way to increase production and fight inflation was to just let the price of agricultural commodities rise?

MR. WHITE: There is a fundamental difference. One difference is that I presume as far as the production of alcohol is concerned, you don't want to stimulate that, and that is taken care of through other methods. So far as agricultural commodities are concerned, the necessary vital cost of living, it is all-important. Liquor is a luxury.

MR. SMITH: That is a fine statement from you, Harry, after you ripped the scalp off that barmaid in Land's End for charging forty cents for a glass of beer. You delivered a whole speech on the British workingman.

MR. WHITE: Beer! We are talking about brandy, twenty-year old brandy.

H.M.JR: And that was Harry's money.

MR. SMITH: No, he was talking about the workingman in Great Britain. He wasn't worried about himself.

MR. PAUL: That is the way you always talk when you are worried about yourself. The workingman--

H.M.JR: Well, the fact remains, I want to get this before you people. Don't forget that I still say this is heading right up to where we were back in prohibition, complete disregard for the law. And I am still interested-- even though the fellows enjoy paying sixteen dollars for a bottle, and so forth, I don't agree with Harry at all.

MR. SULLIVAN: I don't either.

H.M.JR: And I am looking to you two fellows, plus Hannegan (Gaston and Sullivan)--I would like to get a report.

- 17 -

MR. SULLIVAN: You will.

H.M.JR: I would like to get it this year.

MR. SULLIVAN: You will.

MR. GASTON: There is one danger of this situation that is of concern to the Alcohol Tax Unit, the entry of all these racketeers into the black market. It is a menacing thing for us, looking forward to the time when the restrictions on raw materials will be off and they will be back well entrenched in the game. The thing that is stopping moonshine right now is the lack of materials.

The OPA regulation of the raw materials--that is the only thing that is stopping moonshine, and when that is off, with all these racketeers in the game we are going to be up against a tough situation.

H.M.JR: Let me ask you a question which I want a legal answer to. You go into a store and the fellow says, "I only handle black market stuff." That fellow has a twenty-five dollar license from the Federal Government which permits him to be in business. Now, if he is selling openly, can we revoke his Federal license?

MR. SULLIVAN: No, it isn't the license; he has merely paid a tax. That is one of the things we are having drafted as legislation to cure that. If he is a wholesaler, then we can suspend him.

H.M.JR: But what if he is a retailer?

MR. SULLIVAN: You can't touch him.

MR. GASTON: If he violates our regulations we can suspend him, can't we? That is, if he sells non-tax-paid liquor, but these fellows are all selling tax-paid liquor so the serious question is whether we can disturb his--

MR. SULLIVAN: We went through that fairly thoroughly.

H.M.JR: The answer is, the way it is now, you can't do anything.

- 18 -

MR. SULLIVAN: No, and that is why in the memorandum I gave you--one of the projects is the review of our existing authority.

MR. SMITH: Joe said you could. They were awarded that license on the basis that they would obey all the laws.

MR. SULLIVAN: That is on wholesalers; he is talking about retailers.

MR. SMITH: Oh, I see.

H.M.JR: Whom did you say--Joe?

MR. SMITH: O'Connell.

MR. GASTON: There is a possibility there, I think.

H.M.JR: If you are bored, Harry, I will change the subject.

MR. WHITE: I am not bored. One of the important arguments you have advanced is it creates a disrespect for the law, which I think is a strong argument against it. But from the little I understand, you are creating your own evaders by setting the ceiling. If you didn't have the ceiling, you wouldn't have the evaders; or if you didn't have evaders you wouldn't have the racketeers, would you?

MR. GASTON: You are arguing against the ceiling. We will take that up next.

MR. BLOUGH: I agree with Harry to this extent, that either you think enough of this to have rationing, or you let the ceiling go; you can't do both. I think there is a middle ground there.

H.M.JR: Well, I am serving notice on my committee. I am getting impatient.

MR. SULLIVAN: All right.

H.M.JR: Anything else?

MR. SULLIVAN: The reason I am not disturbed is we have something brewing that is pretty good.

MR. GASTON: Distilling!

- 19 -

H.M.JR: I am asking to see you fellows at three. Were you told to be here at three?

MR. SULLIVAN: No, sir; not yet.

H.M.JR: Will you? I am seeing McConnell at that time, I think, three o'clock. All right, three o'clock. That is on Procurement.

MR. SMITH: We got the report back from Wilmington on redemptions. It is very good. There is a lot in it, but the main thing is that three-quarters of the people - two-thirds of the people - who have redeemed bonds in the average-income class have no other savings of any kind, and ninety-two percent of the poorer people who have been redeeming bonds have no savings of any kind, other than bonds. And according to these records, seventy percent of them are redeemed for sickness, and the rest of the redemptions - the bulk of them - are pretty good.

H.M.JR: What are you going to do about it.

MR. SMITH: Put out a story on redemptions that will wrap up this and the earlier Likert survey. There will be a memorandum to editors explaining the whole thing.

H.M.JR: Are you going to put it in my mouth or not?

MR. SMITH: Yes, a memorandum to editors from you, explaining the whole redemption situation.

MR. SULLIVAN: Last spring at a meeting across the hall one day I suggested a comparison of bond redemptions with defaults in life insurance in the lower bracket, and defaults on conditional sales. Somebody was going to make that study. I have never seen it, but if you had it I think it would be helpful on this story.

MR. SMITH: As a matter of fact, this points out that people will take their savings first, then they will take their bonds, and only after a struggle will they take their life insurance; a comparison between savings accounts and bonds.



- 20 -

The point we are trying to prove, or that is proved by all of this, is that people are using bonds the same as a savings account. In other words, they are putting all their savings into that. When they get into any kind of a spot, even for Christmas shopping, they cash a bond the same as the savings bank. The only difference is that people now have bonds who never had savings.

MR. WHITE: Then you must not borrow from banks because that makes their assets more liquid. Is that the argument?

I think it is better to use John's theory, because the one you are using, aside from its soundness, is a little bit dangerous when taken together with a lot of statements that the Treasury has made previously against the desirability of borrowing from banks.

Whereas, if you can show life insurance policy, then you can say, "Look at these life insurance policies which people give up with great reluctance, and yet they are forced by circumstances to redeem" - so and so.

MR. GASTON: This has implications as to taxes.

H.M.JR: May I just say something? I would field-test that with the half dozen of the more important State chairmen before it goes out.

Herbert?

MR. GASTON: They ought to look into income levels and family status. It has tax implications. If it is general it might indicate that they are taxed as heavily as they can stand. It would be an argument against our tax recommendations.

But if you find that those people who are forced to redeem their bonds are within the exemption limits that we propose on income taxes, then we have got something pretty good.

- 21 -

MR. PAUL: And above the Victory Tax.

MR. SMITH: Well, that is a different study. That is the proportion of redemptions to the proportion of sales. This is just redemptions.

MR. GASTON: If you just showed the income - if you can show the family income and family status in that connection--

MR. SMITH: Then it is all over; it doesn't follow. The status of these redeemers goes all the way from upper income down to the very poor, and the very poor are not redeeming as badly as the middle income.

MR. GASTON: Do you have the income status of these people?

MR. SMITH: Yes.

MR. GASTON: Well, that is all you need.

H.M.JR: Now may I go ahead?

Blough?

MR. BLOUGH: I haven't anything. I think, though, we ought to begin to think about the Budget Message and whether we are going to be in "sweet peace" with the Budget bureau this year.

H.M.JR: "Sweet peace" - that is a new one!

MR. SULLIVAN: It is with the Budget!

MR. GASTON: The Budget Message is probably being drafted right now.

MR. BLOUGH: It has been through two drafts right now.

H.M.JR: Let Danny Bell - that is his particular exclusive headache. When will he be back?

- 22 -

MR. THOMPSON: Thursday.

MR. BLOUGH: The quarrel has always been in the tax part.

H.M.JR: I know, but let Danny front on that. He will be full of vim and vigor when he comes back.

MR. BLOUGH: Fine. I am just bringing it up so it will come to your attention.

H.M.JR: You are right, but will you walk in and see him when he gets back?

MR. PAUL: After you called me I called Long yesterday afternoon. I don't know whether he was very astute or very dumb, but I told him things weren't clear to us in that paraphrase, that I would like to send Luxford over, which I did. He agreed to it. We got one cable and we are getting another one.

H.M.JR: I don't have to do anything on that this morning?

MR. PAUL: No, I expect we will have a little this morning. I was very dumb.

H.M.JR: You were very dumb?

MR. PAUL: I acted dumb and casual to him.

H.M.JR: Well, after you get the final one, will you let me know and I will have a little meeting with you fellows?

MR. PAUL: We may have it now. I will have to check.

H.M.JR: Will you?

MR. PAUL: I think maybe I ought to drop up at the Committee meeting for awhile.

- 23 -

H.M.JR: I think you should. Do you want to go now?

MR. PAUL: I think Roy and I should.

H.M.JR: All right.

MR. PAUL: As soon as I get back I will give you a buzz.

H.M.JR: And defend my honor up there, please - to the last drop of blood.

MR. BLOUGH: Our blood, or your blood? (Laughter)

H.M.JR: Yours, of course!

(Mr. Paul and Mr. Blough left the conference.)

H.M.JR: Harry?

MR. WHITE: I have three matters: One, we received a reply which is the second reply to a second cable from China turning us down on our request that we be permitted to purchase foreign exchange at one cent. The Army authorities were in yesterday to see me again - Colonel Foster and his assistant, who are in charge. They are putting great pressure on us. I asked for another week before they tackle their proposal of trying to get some money for nothing, which they dislike and we dislike.

H.M.JR: Whom did you ask to wait a week?

MR. WHITE: Colonel Foster, who is representing Colonel Somervell.

H.M.JR: For your information, the President said he would send my memorandum to him on Chiang Kai-shek as written, direct, the whole memorandum. So that is going to bring it to a head.

MR. WHITE: Well, it won't bring this particular point to a head, I don't think.

- 24 -

H.M.JR: Sure it will. One of the two suggestions is that we go ahead and buy in the black market for gold up to the amount of our expenditures - one of the two recommendations is--

MR. WHITE: Yes, it may. He may answer that or he may not. I was wondering whether we shouldn't send another cable.

H.M.JR: No. You tell the Army this is on a level now between the President and Chiang Kai-shek, and they should keep their G.I.'s on.

MR. WHITE: Hold everything until we hear the response from the cable.

H.M.JR: And, incidentally, I told your boys to have a report for me - one of these jewelers bars down here from the Mint - five-ounce jewelers bar - I also told them to cable to England for one of the English ones. It is one and seven-eighths.

MR. WHITE: We had investigated that and were preparing, some time ago, something that wouldn't be a coin but something like it, that might have some Chinese on one side, and you thought it might have America on the other. We have asked them for a design. They presented a design, so we dropped that, temporarily. We can pick that right up - the making of a coin which would be about an ounce or two ounces.

H.M.JR: But ask Bernstein what I told him. He may have gone ahead with it. There is a five-ounce jewelers bar which is stamped.

MR. WHITE: That is pretty high size. It would take a wealthy man to buy it there.

H.M.JR: But they are getting a four-ounce bar. I would pursue that.

MR. WHITE: They are not selling much.

- 25 -

H.M.JR: I would pursue it.

MR. WHITE: All right.

H.M.JR: Tell the Army to mark time. I am amazed the President took our suggestions as is.

MR. WHITE: Yes, I wish we had known ahead of time he was going to do it, because I think we would have done a better job. Some of the things here are a little weak. I mean, it is weak from the point of view - it is strong from the point of view of turning them down; it couldn't be stronger from that point of view. It is a little bit weak from the point of view of the explanation of inflation, and so forth. But it is all right.

H.M.JR: I think it was a damned good memorandum.

MR. WHITE: Well, it was a good memorandum for your purpose, but I don't think it was the best memorandum for the purpose of sending to Chiang Kai-shek.

H.M.JR: I was amazed the President took it. And I was very pleased inasmuch as he was sending it, that I had said about how much I admired China, and all that.

MR. WHITE: Maybe that might have also helped to make up his mind to send it.

H.M.JR: I wonder if he is going to send it as his own memorandum.

MR. WHITE: I would never have put that in the memorandum.

H.M.JR: The flowers and bouquets?

MR. WHITE: Yes, this almost sounds as though you expected him to send it.

H.M.JR: I was a little self-conscious about it. In a memorandum to the President I said, "...my great admiration" - and so forth and so on. Very flowery - very oriental.

- 26 -

But I don't know whether he sent over the name of Roosevelt, or whether he said to Chiang Kai-shek, "I am enclosing a memorandum from my Secretary of the Treasury."

MR. WHITE: I don't think he would send it over his name, because he probably would prefer that somebody else got the blame for some of these statements.

H.M.JR: I have got two presents up at the house I haven't seen, one from K'ung and one from T.V. Soong. Maybe I will get a cable, "Please send the present back."

MR. GASTON: One of the people on the radio had some remarks about how K'ung had won out in the contest with T.V. Soong about who would be the acting president when Chiang was in Cairo.

H.M.JR: I think you may any day read that K'ung, while escaping, was shot and died, because in this memorandum where - you see, they ask for this billion-dollar loan. In my memorandum to the President I quote from the very recent letter from K'ung that says everything is lovely - even though inflation is everything we thought.

So I think you may any day see that while walking from his home to the Ministry, K'ung accidentally slipped and broke his neck.

MR. WHITE: That is the amazing thing about this memo which seems to have been drafted with the forethought, which I know the boys didn't have, that it was going to be sent to Chiang Kai-shek, because in it there is this lengthy quotation of almost a paragraph.

H.M.JR: That was put in by me.

MR. WHITE: Which makes this a valuable document to send to Chiang Kai-shek, because he himself has said that your efforts are helping to stop inflation, so he is in kind of a box.

- 27 -

H.M.JR: You read the memorandum the boys brought to me?

MR. WHITE: They read it to me over the phone.

H.M.JR: Then read the one that went, which is quite different. This is what he called "unadulterated Morgenthau":

All right.

MR. WHITE: There arose, as a result of that exchange of cables between--

H.M.JR: Do you know why Harry sits way over there? He thinks he is getting a cold and doesn't want me to get it.

MR. WHITE: It is more than a suspicion, now. It is a certainty.

The funds accruing to Italy now, as a result of remittances that are about to be sent, and other resources, shall be conserved for a source of claims of all the United Nations, not only the United States. And in this message in which the British are mentioning this fact, they also have one sentence by implication - include the resources that Italy had before.

In other words, the importance of this document lies in this statement. Then I will make it simpler. It seems to be that England is taking the position that all the foreign assets of enemy countries, which exist in the United States and elsewhere, shall be conserved for future claims of all the United Nations.

We have to answer that cable because it deals with Italian resources. We are objecting to that on the grounds that the question of resources which are here - which have been here - are a matter for United States policy, which has not yet been determined, and we don't want it included on discussions on this matter.



- 28 -

H.M.JR: Well, look at the plants in Germany - American-owned plants. Certainly we have money. I have always felt that the money here would go for our own U.S. claims first, and not for the whole United Nations.

MR. WHITE: Well, at any rate, it hasn't been decided.

MR. SULLIVAN: Can't get away with anything else.

H.M.JR: Not with our Congress.

MR. WHITE: Then the position we are taking--

H.M.JR: Yes, you had better let me see that answer before you let it leave the Treasury, will you, Harry?

MR. WHITE: All right, yes.

H.M.JR: Have you got the answer?

MR. WHITE: Yes.

H.M.JR: How long is it?

MR. WHITE: Seven pages.

H.M.JR: I will take the spirit of it.

MR. WHITE: It won't take long.

The spirit is that we say no, that no policy has been determined. Now, if it will come to further issue, we will bring it back to you again.

There was a meeting yesterday at which McCloy was reporting his experiences in relation to A.M.G. operations and relations with England, and so forth.

H.M.JR: I saw him coming out of the room with the President. He said, "All I want to tell you, I have been over every track that you have been. I just followed your footsteps."

- 29 -

MR. WHITE: It sounded that way. The only difference between his recital of things as he found them and, I think, we did, was that the Italians were a lot hungrier and he also said that things were going very badly in Italy, very badly indeed.

H.M.JR: The fight, you mean?

MR. WHITE: No, the civilian situation. But one thing he mentioned, which is not quite pertinent, and which I want to raise with you, is this Allied Advisory Mission which had been established by Hull at the Moscow conference in London has been assigned, it is not clear by whom, but apparently by that same conference - the task being of considering the question of reparations, and they have set up a subcommittee to either explore or make recommendations. I am raising the question at this time - do you want the Treasury to get into that subject, to be prepared for that subject.

If you do, I think we had better start something now.

H.M.JR: Sure. In seven pages, my answer is yes.

MR. WHITE: Good. All right.

H.M.JR: Don't you want to tell us a little about what McCloy told you?

MR. WHITE: Yes. I didn't see anything, particularly, that should be confidential from this group, though they were very fussy about it. They had the British there.

H.M.JR: Well then, you certainly can tell us.

MR. WHITE: I should say, yes. The particular points of interest were that he didn't go to Teheran. He was not taken along.

H.M.JR: I asked the President. He wasn't with the President at all; just ran into him at Cairo. He was on his own trip.

- 30 -

MR. WHITE: That was not the impression I got.

H.M.JR: I asked the President point blank. I said, "Was McCloy with you on your trip?" He said, "Oh, no, I just happened to bump into him in Cairo." And the very fact that he came in to report to the President yesterday confirms that.

MR. WHITE: That was not the impression I got. The information we got was that he went to the President to discuss some of these monetary matters which the President didn't get to in his earlier discussions with him. But he was not at Teheran.

H.M.JR: He went to Europe, or went to see the President?

MR. WHITE: Went to see the President to discuss French monetary problems which he said he did not get to with the President. One of the points of some importance was the establishment of a Civil Affairs Committee in London, which was supposed to have the final say on the operations with respect to liberated countries, and so forth.

H.M.JR: I had an opportunity yesterday with the President to do as nice a job as I have ever done on George Harrison.

MR. WHITE: Well, it was very timely, from things I heard.

MR. GASTON: Oh, good.

H.M.JR: I was with the President an hour yesterday, and I started with '32, right down to date. I had all the time I wanted, and if I say it myself, I did a good job. I did a good job.

MR. SULLIVAN: That is life insurance Harrison.

MR. GASTON: Yes, among other things.

- 31 -

H.M. JR: But also the Financial Adviser to Mr. Stimson.

MR. GASTON: The ex-President of the Federal Reserve Bank of New York.

MR. WHITE: What is the more specific question raised?

H.M. JR: I raised it. It was on my agenda, so if and when it comes up--

Then he said, "Who do you want?" I said, "Lauch Currie or Jim Landis," and the President said, "Well, I think Lauch Currie has been puttering around here long enough."

For God's sake, don't repeat this. This is much more important than China. "He was one of my six silent men. He has got a lot of odd jobs. This would be a very good job for Lauch Currie. Lauch Currie would be fine."

So I said, "Well, he has all the technical training. He would work well with the Treasury. We could surround him with three or four men - we have to advise him. It would be most pleasing to the Treasury."

I had a chance to explain about General Hildring's fine attitude toward Treasury and State, and that - this was something - the President didn't know who Hildring was. I explained to him who he was - what his job was.

I said, "If a man like Currie was in, it would be pleasing to Hildring and to us. We could work it out."

"Well," he said, "it is about time Lauch had a regular job."

MR. GASTON: Is this for London?

- 32 -

H.M.JR: So don't anybody let poor Lauch down. He thinks he gets twenty-one guns every time he moves from one country to another.

MR. WHITE: That is good. Were you very specific about the Army - because we ought to include in that Economic Adviser to the Advisory Commission, because the Advisory Commission is now taking up all the problems with respect to the enemy countries and France, but none of the other liberated countries and reparations.

In other words, it is beginning to grow so we ought to lump the two together.

Are you waiting, then, to hear?

H.M.JR: I am waiting for Stimson to make a move.

MR. WHITE: Supposing he doesn't.

MR. GASTON: It will go to the President's desk, in any event.

H.M.JR: The way it is now, Stimson certainly, having waited two weeks to say he is taking it up with the President, isn't suddenly going to appoint somebody.

I saw McCloy and McCloy said he would call me and come over to see me. If Mr. McCloy comes over, I will now say, "My candidate, and my only candidate for this thing is Lauchlin Currie."

MR. WHITE: That is very good.

H.M.JR: It would just burn poor Lauch - "Lauch has been puttering around Washington long enough."

MR. WHITE: Well, it is true. I wouldn't say that it is most likely Lauch's fault, either.

- 33 -

H.M.JR: But I had plenty of time. The President was keenly interested.

The memoranda that you gave me were helpful. I was saturated with the stuff. I have been very lucky on being able to get my stories over to the President.

MR. WHITE: In retrospect, though, that is the best way to have handled it.

But from what I have heard dropped here and there, the memorandum about what they are trying to do in London and the reparations would have fallen on very fertile soil, because apparently things didn't go too well between Churchill and the President.

I can't quite put my finger on it. One of the things with respect to this Civil Affairs, which I was leading up to, was McCloy saying that the Army did not want those decisions made in England - to formulate a procedure in which they could have their committee, but their findings would be relayed back here, and then commented upon, and then go to the Combined Chiefs of Staff.

That was finally satisfactory to Eden.

H.M.JR: Why don't I do this, because I am getting tied up so fast; why don't I have my office call him up and give him a choice of two different times tomorrow morning?

MR. WHITE: For McCloy? I think it will be interesting to hear what he is going to say.

MR. WHITE: Then I won't say any more about it.

There is something else that I learned that you may be interested in discussing with him.

(Mrs. Klotz enters meeting)

H.M.JR: Everybody has been awfully talky--I haven't said a word!

MR. WHITE: I am going to prove it now!

H.M.JR: You need an opera glass to see Harry - he's sitting way over there.

MR. WHITE: The United States Army has contracted for 975,000 tons of flour to go to Italy. It is going to cost seventy-five million dollars. Well, anyway, it is going to cost seventy-five million dollars. And they are going to send it over in the next six months.

H.M.JR: Seventy-five?

MR. WHITE: Seventy-five--and England has not sent any coal to Italy. She has finally refused. I think that situation bears looking into. Now, I don't know at what point you want to hit it.

H.M.JR: Can I interrupt you again--for the first time today? There are two things that Oscar Cox is working on for me. He is going to give me a statement as to what things England is going to begin to pay for in cash, which formerly she has gotten under Lend Lease.

Number two, he has promised to give me in a day or so--again, at my suggestion--he has enlarged the thing--if we want to use economic pressure on the Argentine, the things that England and ourselves are now buying--wheat and other things--where else we could get them. He believes that if we showed England where else she could get them, she'd stop buying. He is working on that, too. That all bears into this other thing. We asked him to do it on the Argentine.

Also--this is very much in the room here--General Strong is much interested in the Argentine situation and that Bolivia thing, both. I got the President to say he'd

send for Hull and General Strong in the case of Bolivia, and then ask all about the Argentinians.

MR. WHITE: Did you have a chance to read that fellow's testimony?

H.M.JR: Not yet, but I have started the thing.

MR. WHITE: Are you going to be present at that meeting?

H.M.JR: I hope not, because I said to the President, "Please use Bolivia as an excuse, so Hull won't smell Morgenthau." I have had so many things that I had to take immediate action on that I haven't done any reading, other than the things that have had to be done as of the minute. I have never been so pressed.

MR. WHITE: When you get around to it, it is not hard reading.

H.M.JR: It is just that I haven't been able to read anything, because I have been so pressed.

MR. WHITE: Well, do you feel you want to get in at all on this question of the Army continuing to spend money for six months? Is there any responsibility at all? I don't see any responsibility for the Treasury, but there may be.

H.M.JR: Yes, on this basis: I want to get in on whether I feel that England isn't doing its share.

MR. WHITE: Well, that is very true with respect to Italy, so far.

H.M.JR: I mean, I'd like to get in it from that angle.

MR. WHITE: From that angle it would have to wait.

H.M.JR: Wait a minute. Following up what I told Halifax, if we are going to do this thing, instead of doing it, sliding into it and buying seventy-five million dollars worth of wheat for the Italians and simply letting the English get away with it because we are out-traded, I would turn around and say, "Now, look, England, we are going to pay for all the wheat in Italy to help you on your sterling situation. Now, this is the first thing we are doing; so stop beefing about this sterling debt of yours.



We are going to do this thing to help you out--in other words, where we meet you in third countries." See?

MR. WHITE: Well, there is some tie-up on that.

H.M.JR: In other words, not slide into this thing, because they just outsmarted us. If we are going to do it, anyway, well, then, let's get some benefit out of the thing and say to England, "Look how wonderful we are. We are helping you out now. You have got to spend less sterling in the Argentine for wheat. We are spending dollars and sending all the wheat. This is the first thing. This is the beginning of a new policy to help you out."

MR. WHITE: I am not sure how we are helping them out--you mean, they would otherwise have to buy the wheat from Argentina?

H.M.JR: They'd have to spend \$37,500,000 worth of sterling in the Argentine for wheat, if they went fifty-fifty.

MR. WHITE: Yes, but I didn't think we were going to forego that. We are going to demand that in any case, because we find wheat in addition to that -

H.M.JR: Let me put it this way: If, instead of letting the English out-trade us, with the result that we have to send all the wheat, we find we are going to have to do it, anyway, let's capitalize it.

MR. WHITE: I see your point, but perhaps I haven't made it clear that in addition to this seventy-five million dollars worth of wheat we are also buying some in the Argentine, about which there is a difference of opinion.

H.M.JR: If the United States is buying any wheat in the Argentine, it ought to stop today.

MR. WHITE: Well, I think we better get into this, because not only are we buying wheat in the Argentine, but we are buying wheat in Canada because we were short here; and we were short here because we were sending wheat to Italy. Now, that is the story I got from the fellow who is head of the Food Board.

H.M.JR: You had better talk with Oscar, who is in on

this thing. He is red-hot and he is smart. I'd say, Oscar and Lauch. Oscar is making a world study as to where the United Nations can get supplies which they are now getting from the Argentine, from some other place. We are together. We are just approaching it from a little different line. Let's tie the whole thing up and let some central brain look at the thing--or let a combination of brains look at this thing.

MR. WHITE: All right.

H.M.JR: And I would much rather build up the Canadian dollar balances, if I am reading your mind, than let it go to the Argentine.

Now, Oscar and I agreed that if the United States Government would say, "From today on, United Nations, stop buying from the Argentine," overnight the Argentinian government would collapse. And Oscar is ready to go to town on this thing. We are not apart.

Now, somebody ought to tell you so you can get the whole picture and get the benefit of these things.

You can see who is doing the talking! (To Mrs. Klotz)

There is some bill or something on to remove the duty on wheat from Canada, to bring Canadian wheat and feed in, for ninety days; so if you don't know about it, let Gaston or somebody tell you about it--the whole picture.

MR. WHITE: Now, there is one further comment. I wonder whether we can wind this thing up temporarily.

H.M.JR: So that I will stop talking?

MR. WHITE: No, so that we can go forward on the subject.

One of the things that you may want to do will be much simplified if a prior decision is made with respect to the major matter which is now before you to take up with the President, which I postponed with regard to Stettinius on the dollar balances; because if that fails, then there are a lot of things we can be tough on. If that is accepted, then we don't very much care what the others do, because it is an overall control.

H.M.JR: I didn't get to it, because frankly I forgot it. I was taking an hour of the man's time, and the fellow was very nice with me while his secretary was standing there with his mail. But I'll have another chance. The fact that Stettinius is sick--I have still time to get in my two-bits of poison on the English dollar balances.

MR. WHITE: Then what we'll do is some exploratory work to get some more facts without raising any questions.

H.M.JR: All right. Anything else?

MR. WHITE: That is all.

MR. THOMPSON: You may have noted that the President has indicated that the Department be closed two hours early on Friday--3:30, instead of 5:30.

H.M.JR: I also saw that somebody had frowned upon some of the departments closing for half a day Christmas.

MR. THOMPSON: Yes, there was some criticism of that.

H.M.JR: Who?

MR. THOMPSON: Personnel Counsel, Mr. McReynolds, said we had probably violated the President's orders.

H.M.JR: What was done on that?

MR. THOMPSON: "Mac" told me that he thought you were doing what you should do.

H.M.JR: And what did "Mac" do, personally?

MR. THOMPSON: I guess he wasn't here at all! He said he thought you did exactly right, but there should be a formal order. There was no formal order.

H.M.JR: Now what do you want to do?

MR. THOMPSON: Two hours on Friday.

H.M.JR: On Christmas?

MR. THOMPSON: The day before Christmas.

MRS. KLOTZ: They are entitled to it. Everybody is tired.

MR. GASTON: 3:30 Friday.

(The Secretary takes a private telephone call)

MRS. KLOTZ: Mr. White had to leave to get ready for an eleven o'clock meeting.

MR. THOMPSON: You asked me about Joe Jordan, of the Personnel Division.

H.M.JR: Oh, I was just curious.

MR. THOMPSON: I will give you a memorandum after the first of the year on it.

H.M.JR: All right.

12/21/43  
~~111~~ 40

STATEMENT SHOWING BACKGROUND OF JOSEPH A. JORDAN

Joseph A. Jordan was appointed in the Division of Personnel as Chief, Employee Relations Section, by transfer from the Farm Credit Administration, where he had occupied positions of Senior Attorney and Principal Attorney prior to his transfer to the Treasury. His work in the Farm Credit Administration consisted in part in handling legal matters connected with the organization and operation of Federal Credit Unions and general administrative matters, including personnel. From July until November, 1933, when Mr. Oliphant transferred to the Treasury, he worked directly with Mr. Oliphant. Mr. Jordan was President of the Farm Credit Administration Credit Union for seven years. He also took an active part in the organization and development of the Farm Credit Club (a social and recreational activity) and was President for one year.

His earlier experience includes the practice of law for four years in Atlanta, Georgia, and employment as Assistant Chief Investigator in the Bureau of Efficiency from 1929 until the Bureau was abolished in 1933.

He served as a commissioned officer in the First World War, and was a member of the American Expeditionary Forces in France.

*J. A. Jordan*

Randolph Paul  
The Secretary

December 21, 1943

I see by the papers that Jim Forrestal spent one hour with Walter George yesterday. If you think well of it, I suggest you call up Forrestal and try to find out what happened and let me know. *Finished*


## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION


DATE

December 21, 1943

TO Secretary Morgenthau  
FROM Randolph Paul



Following your memo of this morning, I  
called Jim Forrestal. The conversation is covered in  
the transcript attached.



Mr. Paul called Undersecretary Forrestal at 11:30 Dec. 21, 1943.  
(KFA)

Paul: I thought I would call you. I saw you had a conference with George and just to keep ourselves all together we wanted to see what was going on -- whether you made any progress.

Forrestal: He is such a polite old fellow you never know. He didn't seem to have any strong convictions about this. The main thing I talked about was the re-opening of the closed cases. I talked on the standard commercial stuff. The impression I got out of it was that he doesn't ... he hasn't any real violent feeling on the thing.

Paul: Oh, Jim! Ask Kenney about it. The way he acted all through the hearing.

Forrestal: He said what he would like to do is - during the holiday - get two or three of his Committee. Said he couldn't operate with twenty people sitting around. Made him nervous. Lost the thread of conversation, and he was hopeful during the holidays he would be able to sit down and get this thing straightened out.

Paul: Maybe he is reacting to the newspaper and column pressure.

Forrestal: That certainly has something to do with it. I said on the question of re-opening of old cases I told him as far as we were concerned we had only about four which were unilateral cases, and rest I thought were generally on basis of mutual agreement, and he said he had talked with Doughton and Doughton did not think it was a sensible provision and it got in the House bill without his knowing it and he was for taking it out, and I gathered from what George said so did he.

Paul: I just wanted to tell the Secretary. He seemed very interested.

Forrestal: As a matter of fact, I have asked Kenney what we would settle for -- what are the main things.



- 2 -

- Paul: I don't think we should settle for the cutoff date of July 1.
- Forrestal: It is just getting the men to run this thing. You have to have the combination of somebody who has some business experience and then doesn't let the fellow get away with it and that kind of fellow will not come down here now.
- Paul: That is largely true, but I think business has just got to get alive to the proposition that it musn't let this minority group put it in the position of getting undue profits out of war. After the war we are going to continue the unfortunate thing that has been going on in the past. I would like to get a crowd of business men in a room and put that proposition to it. As Eugene Meyer said to me the other day: "It is Wilson v. Wilson."
- Forrestal: Wilson of General Motors isn't against renegotiation.
- Paul: I don't think General Motors is doing badly, but ... Well, I will tell the Secretary and if you find there is any place I can help ... Several Senators have been talking to me and one of them, McKellar, wants a lot of help. O'Mahoney called me the other day. He wants some material. Another one was Joe Guffey who was on the other side. He is kind of troubled and wants to get together and have a regular session after he comes back.
- Forrestal: He is conditioned by his constituent, Mr. Budd. I don't give a damn about him except for his vote.
- Paul: He has a vote.
- Forrestal: As far as his influence is concerend, it is nil. Thank you very much, Randolph.

December 21, 1943  
2:32 p.m.

Operator: Go ahead.

HMJr: Hello.

General Strong: Mr. Secretary.

HMJr: Speaking.

S: I was sent for --- as you wanted me this morning.

HMJr: Yes.

S: I had quite a talk over there in the presence of Mr. Hull.

HMJr: Yes.

S: And the Great White Father seemed very much interested.

HMJr: Good.

S: And he intimated that he thought the time had come for reexamination of the whole question.

HMJr: Yes.

S: With the idea of cracking down pretty hard.

HMJr: Wonderful.

S: And he directed Mr. Hull to take the matter up with you and have a discussion....

HMJr: Yeah.

S: ....apparently from the ground up on the whole matter of policy.

HMJr: Well, that -- but the Great White Father was quite insistent, huh?

S: Yes, he was.

HMJr: Did....

S: Now, after that meeting -- just as I came out....

HMJr: Yeah.

S: ....I talked to Mr. Hull and we had quite a discussion as to the possible effects....

HMJr: Yeah.

S: ...upon other countries there and as to the effectiveness of what amounts to a financial and economic blockade.

HMJr: Yeah.

S: The question came up as to whether our buddies across the water would come in with us or not.

HMJr: Yeah.

S: I suggested to the Secretary that I thought that that could not be expected without a very great deal of missionary work and even then it was doubtful.

HMJr: Yeah.

S: But I did express to him my rough opinion that we could make the thing at least 80% effective....

HMJr: Yeah.

S: ....even though the people across did not come in with us.

HMJr: Yes.

S: So I think that gives you sufficient background for what will undoubtedly be a call that you will probably get later in the day.

HMJr: Well, I've been working on a plan with some of the people over in Crowley's organization and we will have it in a day or so....

S: Uh huh.

HMJr: ....whereby we can make it almost impossible for England to say, "No" -- not to go along with us....

S: Fine.

HMJr: ....in the Argentine.

S: Fine.

HMJr: And I ought to have that in a day or so.

S: Fine.

HMJr: And the way the President put it up to Hull, could Hull in any way smell Morgenthau?

S: Uh -- no, I don't think he could.

HMJr: Or did it just seem like a natural?

S: Well, it seemed to be a natural because -- because of the, very largely the -- well, I won't say largely, but I think one of the factors in it was the -- my pointing out that a new -- a brand new situation had -- existed as a result of this Bolivian business....

HMJr: Fine.

S: ....which would become extremely serious as far as the State Department was concerned....

HMJr: Yeah.

S: ....providing it ultimately drew Chile in the picture and for which there is a fair probability.

HMJr: Right.

S: And that was the thing that seemed to intrigue Number One, and that was the basis for what ultimately was his idea we'd better clamp down on everything. He asked me what -- asked me about the source of our knowledge of the funds there, the Nazi funds particularly, or Nazi-controlled funds.

HMJr: Yeah.

S: And I pointed out that so far there were restrictions really on only two banks and the rest of them were free to do what they pleased.

HMJr: Yeah.

S: And I suggested that it might be the time for all-out action.

HMJr: Wonderful. Well, I -- I just feel that we're about a year and a half behind times but there's still time to pick these things up.

S: Uh huh.

HMJr: And -- did -- was Hull at all apologetic?

S: No, he was very much worried.

HMJr: He was worried?

S: He was worried.

HMJr: He was worried. Well....

S: He was not only worried, but I think he was a little bit unhappy.

HMJr: I see. Well, anyway, it looks as though we're going to get action.

S: Well, I hope so.

HMJr: Well, thank you so much.

S: Not at all, Mr. Secretary.

HMJr: Thank you.

December 21, 1943  
3:23 p.m.

Operator: Go ahead.

HMJr: Hello.

Adm.L.C.  
Chalker: Good afternoon, Mr. Secretary.

HMJr: How are you?

C: Very well, thank you.

HMJr: Admiral, I just had the pleasure of seeing Tollaksen.

C: Oh, yes, sir.

HMJr: And My Heavens, how that man has changed for the better.

C: Well, I'm glad to hear that.

HMJr: I never would have recognized him, and he's a new man. And I want to thank you for having made it possible for him to get this treatment.

C: Well, we're very glad to have done that, Mr. Secretary.

HMJr: And if you didn't mind either talking or having someone look at him, I would be inclined to give that fellow another chance.

C: Well, we'll be very glad to do that, of course.

HMJr: Because he certainly -- his whole attitude has changed and he's lost all his nervousness. He looks you squarely in the eye. He wants to do something to help the war and if there was some place at sea where, under a capable officer, he could have another chance to make another trip and see how he behaves, I'd do it.

C: Well, I'll take that up. I was talking with the -- Dr. Michel the other day about his case and asked him to get me a final report on that, that I hadn't heard anything for some time and he said that he would do that.

HMJr: Well, if I'm any judge of human beings, there's been a complete change for the better in Tollaksen and I think it's worth giving the fellow another chance at sea. That's where he wants to go.

C: Well, we will -- we will certainly be glad to do that, I know. I'll -- is he ready to be -- to leave now? Do you know?

HMJr: Well, I really -- I didn't ask him but he said that his whole ambition is, you know, to do something -- to fight.

C: Yes, sir. Well, I think that was the trouble -- was just his mental attitude for one thing.

HMJr: Well, could -- if you talked with him for five minutes and I think the reconstruction of a human being is worth that, you know. I think you'd be convinced yourself.

C: Yes, sir. Well, we certainly will make every effort to give him a chance to go to sea, not only go but have a chance to make good.

HMJr: To stage a comeback?

C: That's it.

HMJr: And as they say, surround him with -- give him the kind of chance that he could make good.

C: Yes, surely.

HMJr: And, if you didn't mind letting me know what you decide to do.

C: Yes, sir. I'll be very glad to.

HMJr: Evidently, this doctor I sent him to is -- was very helpful.

C: I'm very glad. He certainly is indebted to you for the suggestion because....

HMJr: You may have....

C: ....we knew nothing about him at that time.

HMJr: You may have other cases and you may want to use him for other men. I say you may want to....

C: Yes, sir, we will certainly keep him in mind on that because the other doctors have not been particularly helpful on it. They had practically given up.

HMJr: Well, this Dr. Silberman evidently did a job and you must have other cases like it and you may want to try him again.

C: Yes, I'm quite sure we have.

HMJr: Well, I appreciate the cooperative spirit and I just hated to see Tollaksen go to pieces.

C: Well, I did. I've always been fond of him and of his family and I -- I was very sorry when this whole thing turned out the way it did.

HMJr: Well, he's always looked up to you as his ideal officer.

C: Well, that's very nice. I'm glad if I've been of any assistance to him.

HMJr: Well, thank you and if, and when, and what happens I would be -- appreciate your keeping me posted.

C: Yes, well, I'll surely do that.

HMJr: Thank you.

C: Thank you very much, sir.

HMJr: All right.

C: Good bye.



December 21, 1948  
3:30 p.m.

CONTRACT TERMINATIONS

Present: Mr. Sullivan  
Mr. O'Connell  
Mr. McConnell

MR. O'CONNELL: I saw your name in the New York Times this morning. It read very well.

H.M.JR: Oh, on the front page? I have been waiting for Senator George to come back at me. He hasn't yet, but I imagine he will.

I thought the people back home might like to know what the Secretary of the Treasury thought about the tax bill. What I told him was--they haven't printed it--I said, "It seems to me that the businessmen haven't learned anything."

Then I told them off the record, "They will spend most of the time before Congress or in jail." I said, "You can't print that, but it is true, you know, and I just can't see why some businessman out of the wilderness doesn't raise his voice and say, 'I don't want to make any money out of the war.'"

MR. SULLIVAN: Joe was saying that the newspaper fellows are looking for a new angle on this. If you are going to take a shot at it, there is one other thing that will have to be delicately handled. When this war ends you will have six times as many veterans as you had after the last war. The number of totally or partially disabled veterans will be many times the number in the last war. And the amount of compensation that we would all agree would be reasonable would amount to a staggering figure. There will be other demands that aren't so reasonable. Those will be made at the time this very thing is subject to the post-war investigations, and no

- 2 -

member of Congress who has voted to repeal renegotiation will be in a position to resist any kind of a demand.

H.M.JR: Well, I can think about it. This is enough; I just wanted to get off one. I haven't had a press conference in three weeks. That will hold them for a while.

Now, you and I have been kind of shadow boxing on appointments. I gather you have been living across the street most of the time, and I have invited Mr. Baruch and Mr. Hancock here for lunch tomorrow. I don't know whether they are coming or not. It is down tentatively.

I will start with you. Just where are we at as of today in the Treasury versus the other people?

MR. McCONNELL: There hasn't been very much controversy, Mr. Secretary. I thought that you might like to have a general idea of the scope of the problem and the nature of it, and what has been done in an effort to solve it. By and large I have a feeling that they have made very good progress. Hancock has done a good job. He has good men; they have arrived at the proper solution for a number of these problems. The uniform termination article is practically complete.

H.M.JR: Talk a little louder.

MR. McCONNELL: The uniform termination article is practically complete. There may be some changes that still have to be made, but the bulk of them, I think, are pretty well completed.

On the policy for--also the cost policy under that termination article, I think, has been concluded. The policy as to the disposal of surplus was reopened again this morning; as of last night, however, that statement of policy was fairly complete. Now, that is quite a lot done, I think, in the short time that Hancock and Mr. Baruch have had this in hand.

As I look around that board, I think it is competent to handle these matters. The one thing that concerns me

- 3 -

most is that we miss some very important aspects of the problem; we don't see them as they are presented, but when it becomes generally known--generally understood--there will be criticism. I don't know whether that amounts to much or not in these things that have gone ahead. But there are so many angles to the whole problem that they are very easy to miss. I can give you two examples on that. The question of profit on the uncompleted portions of a contract which has been terminated, either armistice day or during the war, was set by the drafting committee at six percent of the cost of goods in process and raw materials after paying the contract price on completed articles.

Well, on the face of it, that looked like a fairly reasonable amount until Clayton and perhaps myself pointed out that six percent should never be allowed on the raw materials that the contractor has bought and done nothing to in the way of processing them. So first the board determined upon a six percent ceiling in leaving it to the discretion of a negotiator as to what he could get under that six percent, or was proper under that six percent. Then at a subsequent meeting they put a two percent ceiling on the raw materials. Well, that six percent probably amounts to six hundred million dollars in the total termination. Now, the total of all claims may amount to fifteen to eighteen billion dollars. That is a very rough figure. It should be refinanced. It should be better determined, I think, from the standpoint of the Treasury as to what flow of money would be occasioned by these settlements, and that flow would probably move pretty fast, within two or three months after general terminations. Some large part of that amount, whatever it is, will go into contractors hands. That was determined by a rough spot sampling of some of the larger contractors at luncheon in New York a week ago Monday. There were twenty billion dollars of prime contractors at the lunch. General Carter of the Army asked a number of them to estimate their claims on termination, multiplying that estimate by the known total amount of war production. He came to the conclusion that some place between fifteen and eighteen billion dollars would reasonably represent the total of contract termination of claims.

- 4 -

Now, of that total of fifteen to eighteen billion dollars, nine to eleven billion dollars is in work in process and inventory. Six percent of that amount is six hundred million dollars, in that order.

MR. SULLIVAN: I would like to suggest, Mr. Secretary, that not only to help Bob in his work but also for your financing that it would be very helpful if Lindow or some of the other boys would refine that figure, because if there are any large sudden terminations in contracts, the demand might change your financial picture.

H.M.JR: Haas has done that all.

MR. McCONNELL: I talked to Lindow about it. He didn't know about it.

H.M.JR: Haas does. Bell knows about it. It doesn't make much difference. The way we do the financing, the most they figured on payment out from the Treasury was four billion dollars.

MR. McCONNELL: Four extra?

H.M.JR: The way we do it the thing sounded silly. It doesn't make any difference. We are carrying a figure in our mind; Bell has it four billion dollars.

MR. McCONNELL: Well, I cite that primarily to illustrate.

H.M.JR: But that doesn't mean that they shouldn't be honored. I wish somebody would see just how far Bell has gone. But he has it very definitely in mind.

MR. McCONNELL: By the way, I have written you a memorandum on that subject.

H.M.JR: Do you mind sending a copy to Dan Bell?

MR. McCONNELL: I will do that.

H.M.JR: In our financing it sounds silly, but one or two billion dollars over a period of a couple of months doesn't make any difference.

- 5 -

MR. SULLIVAN: I just wanted to make sure.

H.M.JR: Carrying a balance of ten billion dollars-- we are trying to keep a working balance up that high against any contingency. So as far as we are concerned--I am not brushing it aside--if there is something to it, send it to Dan Bell, will you?

MR. McCONNELL: I will.

Now, the other things that I think the Treasury will be concerned with--

H.M.JR: It sounds silly, but it isn't.

MR. McCONNELL: The eighteen billion dollars looked like a large figure, especially as it is going out in a short time.

H.M.JR: They figure we will get that in this Fourth War Loan.

MR. McCONNELL: The other thing that I have emphasized this morning, the disposal of surplus policy statement, the statement of policy for the disposal of surplus, actually tied up the contractor for sixty days so he couldn't re-convert inside of sixty days. So I think the change will be almost essential.

What worries me, Mr. Secretary, is some of those things are going to slip by, and the best fellow over there for catching those is Will Clayton, I think. He has a very keen eye for that sort of thing. Now, there is going to be a problem.

H.M.JR: You say you have written me a memorandum-- where is it?

MR. McCONNELL: On the way.

There are some problems coming up.

H.M.JR: One thing before you get into that, will you tell me where the Procurement Division of the Treasury

- 6 -

stands right now and where it fits into the pattern?

MR. McCONNELL: Well, I know no more other than that memorandum of about a week ago.

H.M.JR: That you wrote?

MR. McCONNELL: Well, today Hancock said that we are going to see the President just as soon as he has the first available minute on the central agency.

MR. SULLIVAN: That conflicts a little bit with what he told me. He said that that matter would be passed upon by the Byrnes committee, and that there would be full opportunity for the independent agencies to talk it out, either this week or next.

H.M.JR: The point is this: And this is the only reason, the main reason why I am pressing. If Treasury Procurement is going to have a piece in this, then we have to build up our people. If we are not going to have it, then the sooner we know it, the better. That is one of the things I wanted to ask them tomorrow. I can get people to help. Where is that list?

MR. SULLIVAN: I have it on my desk.

H.M.JR: Do you mind asking for it?

(Mr. Sullivan requests list from his office.)

H.M.JR: If we are going to do this thing, I want to begin by getting a lot of stuff over here.

MR. McCONNELL: War--that is also in War and Navy's and everybody's mind.

H.M.JR: But they have held it down?

MR. McCONNELL: I am surprised at what Hancock told Joe. He said again today that he was waiting to see the President.

- 7 -

MR. O'CONNELL: In seeing the President, they must be going to see him to get his approval of something. They are not going to ask the President whether he wants to use the Procurement Division or RFC. It won't go to him that way, would it?

H.M.JR: No.

MR. McCONNELL: He is in front of the George committee, sir, or at least he was to be at three.

H.M.JR: Well, that will be the answer. Is Baruch up there too?

MR. McCONNELL: I think so. I think both were asked to appear.

MR. O'CONNELL: On the Post-War Committee; not Senate Finance.

MR. McCONNELL: Did you notice that bill of Patman's that was put in yesterday?

H.M.JR: I heard about it.

MR. McCONNELL: That is the only new thing I know of.

H.M.JR: Well, as I say, we ought to know. Will you (Sullivan) tell Cliff Mack tomorrow morning without fail that I want on my desk a list of things which have been thrown at him in the last thirty days, on one page?

MR. SULLIVAN: Yes, sir.

H.M.JR: Surplus material.

MR. SULLIVAN: You mean primarily from Army or Navy?

MR. O'CONNELL: The biggest things that have come to him.

H.M.JR: Yes, what has been thrown at him, let's say, since the first of December.

- 8 -

MR. SULLIVAN: Yes, sir.

MR. McCONNELL: He hasn't inventoried that, has he?

MR. SULLIVAN: He will know what the Secretary wants.

MR. O'CONNELL: He will know the items, not the details.

H.M.JR: Seventy thousand automobiles, or how many trucks--I want to keep it since the first of December what has been thrown at him, the amount, from what department, and the approximate value. So I can just show it and say, "Well, here this thing is. Shall we go ahead? Shall we expand, or shall we contract? What the hell should we do?"

MR. McCONNELL: That is very important.

H.M.JR: I just can show him in the last twenty-one days, this is what--but tell him I want that, John. No monkey business.

MR. SULLIVAN: There won't be.

H.M.JR: He ought to be able to get it off in an hour. Give it to Fitz, and Fitz will give it to me.

MR. McCONNELL: Shall I go on?

H.M.JR: If you please.

MR. McCONNELL: Very few options will be exercised on plants and equipment from these fellows who were at that meeting Monday. They may exercise a few of the smaller items, especially if it is closely tied into their plans. But the disposition now is not to exercise any option.

MR. O'CONNELL: You mean the Government will acquire that material?

MR. McCONNELL: Yes, the contractor will not take it over. The price is too high, probably.



- 9 -

MR. SULLIVAN: There is something else in there. If they don't exercise it at once and it is a drug on the market, they can get it a little cheaper than the option price, eventually. I think they have that in mind.

MR. McCONNELL: Now, Mr. Secretary, have you any ideas on severance pay of the war?

H.M.JR: No, I haven't thought about it.

MR. McCONNELL: I don't know where it belongs or who makes the determination, but there will be a problem. As they are cancelling now, they are disallowing all severance pay costs.

H.M.JR: The Government?

MR. McCONNELL: Yes, even though severance pay is a part of the agreement between the contractor and the union.

(Miss McCathran entered the conference and handed Mr. Sullivan a list of names.)

MR. O'CONNELL: That is not illogical, although it may not answer the question, because severance pay in part is to take care of the period of unemployment, and there shouldn't be any period of unemployment with respect to labor at this time.

H.M.JR: (Quoting from news release of December 21.)  
"The Senate Finance Committee, in a last-minute change, reinstated in the new tax bill repricing under war contracts as a means of recouping high war profits.

"The Committee, which last week eliminated repricing entirely from the bill, reversed itself as it read the final draft of the bill today.

"The Committee also cut proposed taxes on cosmetics from 25 to 20 percent, lopping an estimated \$17,100,000 from the bill's new revenue yield.

"As it stands now, the bill will yield about \$2,275,600,000, the Committee said." What does that mean, repricing?

MR. O'CONNELL: That is a red herring. They did throw back into the bill one of the minor matters that we objected to.

- 10 -

H.M.JR: "Taxes on cosmetics from 25 to 20 percent"-- if anybody had any sense--my God!

(The Secretary held a telephone conversation with Mr. Fred Smith.)

H.M.JR: He says one Senator was friendly to the tax bill.

Go ahead, please.

MR. McCONNELL: The largest question which hasn't been grappled with yet by the board is the question as to how to proceed, whether on a contract basis of two hundred fifty thousand prime contracts in existence or whether it should be done on an over-all plant or company basis. The question of doing it, I think, the mechanics of doing it on an over-all basis is much better. The job can be done in a much better form.

In the last analysis also it seems to me that each company, each settlement has got to be done leaving a company with X dollars profit or two X dollars profit at the end of the period. It is also my feeling that most of these, especially the larger companies, do not want to show extraordinary or unconscionable profits during the war period, that the final determination may be in comparison to the balance between December 1, 1941 with the end of the war.

Now, if they do it on a contract basis, I have a feeling it will cost the Government a good deal more, that it is almost unworkable because of the large number of contracts, and because of the still greater number of sub-contracts. But to get around that, you have to go behind the legal instrument, which is the contract, down to the subcontractor's claims. There is no use whatsoever limiting the prime contractor to six percent profit when a subcontractor has put in a claim which acknowledges a fifteen or twenty percent profit. That problem is still to be determined. I understood today, however, that the Navy Department had just about come around to the belief that it would have to be done on an over-all company basis.

- 11 -

MR. SULLIVAN: Just like renegotiation.

MR. McCONNELL: It is exactly the same.

H.M.JR: My own feeling on this, as long as you put it up to me, is just a horseback opinion on the dismissal wage--somebody has to pay these people a decent dismissal wage; and if I had to give a horseback opinion, I would let the company do it and charge it up to the Government, in view of the fact that the Government has no policy.

MR. McCONNELL: Well now, Hancock has a different idea. His feeling is, you have a fifty billion dollar inflation pressure here, that whatever you do in adding to the already high wage scales by a dismissal wage, will increase that.

H.M.JR: If you don't mind my being a little vulgar, "Let the sons-of-bitches starve"--that is Hancock.

MR. McCONNELL: Oh, I don't know.

H.M.JR: Well, why not?

MR. SULLIVAN: No, I don't think that is so at all, Mr. Secretary.

H.M.JR: What is it, just discharge them and don't give them any pay?

MR. SULLIVAN: That isn't it at all. You have one thing that is very pressing here. You have another thing in this dismissal pay, which is a very complicated thing. I don't think you should hold up contract termination pending the solution of dismissal pay. That is a problem by itself.

H.M.JR: When is somebody going to take an interest in the worker?

MR. SULLIVAN: But they are all along.

H.M.JR: Are they just going to lay these fellows off?

- 12 -

MR. SULLIVAN: No, we are not saying that at all.

H.M.JR: But who is going to give them whatever-- how many weeks are they talking about?

MR. SULLIVAN: There are all different kinds of proposals.

H.M.JR: All right, let's say it is a month, just for example. It is as good as any, isn't it? Do you know what they are talking about?

MR. McCONNELL: Well, they are talking from two weeks to a month, some place.

MR. O'CONNELL: The maximum is six.

H.M.JR: Let's say as a unit--it doesn't make any difference whether it is a month, or whatever it is. I take it that the companies, if they can't deduct it as an expense, won't give them any dismissal pay.

MR. McCONNELL: A great many companies have agreements with the unions now on dismissal pay.

H.M.JR: Are they going to do it if they can't charge it out?

MR. McCONNELL: Oh, yes; they are under obligation.

H.M.JR: Then what the hell has inflation to do with it?

MR. SULLIVAN: A few companies--

H.M.JR: They are going to do it anyway, so the inflation thing is just a phoney.

MR. SULLIVAN: I never heard it until this minute.

H.M.JR: But it is just a phoney. If they have a contract that they have to give a man a month's pay, they are going to do it.

- 13 -

MR. SULLIVAN: That is all there is to that.

H.M.JR: And whether it is inflation or not inflation, they are going to do it anyway.

MR. SULLIVAN: I don't see any inflation in dismissal pay if they are out of work, because they will spend the money on cost of living.

MR. O'CONNELL: It is as inflationary as any payment, and probably more. If the fellow is not working, he is not producing.

MR. SULLIVAN: It is in lieu of what he would have earned and not in addition.

H.M.JR: If the company has a contract, I take it they will live up to their contract and pay the fellow.

MR. McCONNELL: Right, but I don't think that is the majority of the companies.

H.M.JR: Anyway, when they tell me in order to keep down inflation--I don't believe it. I am just talking here. You are here in my office, and I don't expect you to repeat what takes place in my office. I mean, we understand each other.

MR. McCONNELL: I was just trying to think what a month amounted to.

H.M.JR: Again I am telling you we have done work on it.

MR. SULLIVAN: Yes, we have.

H.M.JR: My recollection was that a dismissal pay of a month would cost the Government--I don't know how we arrived at it--around five billion dollars. I have been doing work on this thing, so you understand me, see, so that you can keep the profit system going, keep this kind of government, which I would like to do. The only way you can do that is to treat the working man fairly. You

- 14 -

are asking these fellows to stick at their jobs, not to leave them, not to go to peacetime jobs and everything else. And I say it is the Government's responsibility, because they are asking them to stick by their guns. We should find some way to ease these people into peacetimes. And in the final analysis, I am saying I don't think it is fair to ask the company to do it. I happen to know the picture of Bell Aircraft. They have eight hundred million, I think, contracts, and a working capital of around five million dollars. I think it is something like that. Maybe it is eight million, but the comparison is so ridiculous. I may be off a million or two million dollars.

When I talked to them--I talked this dismissal pay with them, and when you talk to Larry Bell, who came up through the ranks, why with about four or five days dismissal pay out, according to his thinking, and his working capital is gone. But the thing that gets me all the time is that people see the thing so close they can't read. I hold the thing like that; I can't read (gesticulates). We have to do something for the workmen in order not to have bloodshed in this country.

When I see these figures which Nelson and Stacy May gave me, that they are only going to dismiss two hundred thousand soldiers a month, taking how many years to do this thing and how long the contracts--I got all these figures from Stacy May, how much we should be prepared; they are crazy, because the Congress and the people are going to have the soldiers jobs faster. I went all through this thing, as to what Nelson and the Army and the General Staff think. I have been all through this. But if you can get anything out of me or if there is any way you can represent me, give a little bit more thought to the workmen.

In the long run, we keep the same kind of thing going; they have got to take care of the working men. I don't care what the cost is. And I don't think it is fair to ask the Larry Bell's and all these other companies who are doing such vital work now to draw on their working capital to do this thing.

- 16 -

I take it you came in here to ask me what I think. Now I am telling you what I think. I don't ask you to agree with me, but at least the purpose is to check with me occasionally where I stand.

MR. McCONNELL: Exactly. I haven't any conviction on that. In General Aniline we had a severance pay arrangement--

H.M.JR: Excuse my language.

MR. McCONNELL: By reason of the severance pay agreement with the union we got better workmen. With better workmen we made lower prices, that is, in the cost of the finished article.

Now the only place the severance pay comes up in my mind as to whether the Government pays it or somebody else, is in the cancellation of the contract where there isn't a finished article and part of the cost of that contract is the question of severance pay.

H.M.JR: And I will tell you one of the things that griped me: Twice last week he loved it so much--Arthur Krock--twice he had to say it last week that I said that human beings couldn't be dealt with as commodities. Sure I said it, and I thanked Arthur Krock and B. M. Baruch for bringing it up. I mean, sure, I still say the same thing. They are not commodities; you can't buy and sell human beings. Oh, it makes me sick.

MR. McCONNELL: I didn't see that.

H.M.JR: He repeated it twice; he loved the thing, how Baruch had done this and I did this, playing the two of us against each other. But what the hell! I have been here ten years; I can take it.

Anyway, I hope that somehow or other some one will work out a severance pay, and I don't think it is fair to ask the companies to do it.

- 16 -

MR. SULLIVAN: Amen! And you don't want to restrict it to those fellows who just happen to be working in war plants on war contracts, and that is why I am against trying to do it piecemeal here. It is a job that has to be done for all the people in the country, Mr. Secretary.

H.M.JR: I am going to have to stop now. Again, we will say, these slightly emphatic conversations are for the benefit of the four of us only. But here are the kinds of people that Nelson suggested I get hold of for Procurement. (Hands list to McConnell.)

MR. SULLIVAN: Depending on the scope of our work.

H.M.JR: I am not going to call up these people and say, "Do you want to come to the Treasury?" and find a week later that I have nothing to do. They are good types of fellows. Aren't they the kind?

MR. McCONNELL: Sure.

MR. SULLIVAN: Sure.

H.M.JR: Certainly among that crowd you can get two or three of them.

MR. McCONNELL: You may have to get more than that.

MR. SULLIVAN: For each classification you will need a man of that calibre.

H.M.JR: Right. Well, thank you very much.



December 22, 1943

Fred Smith  
The Secretary

All of the newspaper clippings I saw yesterday were Associated Press. I wonder if United Press sent out a story on my Monday Press Conference. If they did, would you please let me see it? I spoke to my son, Henry, in Columbia, South Carolina, and he said the paper there carried it on the front page and it read very well. You would be interested in Henry's comments. He said the story was the kind of a story that a local newspaper can carry.

*Done*

December 21, 1943

Fred Smith  
The Secretary

I see by the papers that Drew Pearson is going to testify before Senator George. I wish you'd send up the same man out of Shaeffer's shop who covered Berkshire, and let him cover this thing and then come down and tell us all about it.

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 21, 1943

TO Secretary Morgenthau

FROM Mr. Shaeffer *C.P.S.*

The Drew Pearson hearing was postponed due to the absence from the city of the columnist. The Committee is now in Executive Session.

Senator Barkley was asked by newspaper representatives when he appeared in an anteroom if Mr. Morgenthau's statement on the tax bill would have any effect on the Committee's plans. The Senator replied that he did not know; that the matter had not been mentioned thus far.

December 21, 1943. ~~XXXXXXXXXX~~MEMORANDUM

TO: Secretary Morgenthau  
FROM: Mr. Gaston

Roy Blough reports that at the executive session of the Senate Finance Committee today Senator George said that he was going to issue late this afternoon a reply to your statement of yesterday. References were made to your statement both by George and by Byrd. George during the hearing said that in view of the position taken by the Secretary of the Treasury they ought to give careful consideration to the retroactive provision regarding sub-contractors. Mr. Surrey said he didn't think the Treasury had taken a position on that particular feature. George said "Oh yes, the Secretary took a position on it yesterday." He added that he didn't think the Secretary of the Treasury knew the least thing about re-negotiation, but anyway he had taken a position on this.

Senator Byrd interjected to say that he thought it was very unfortunate that you had issued a statement at this time just when the Committee was engaged in consideration of the bill and that he thought your action "despicable."

George then added that since the Hendersons, the Pearsons, the Winchells and the Secretary of the Treasury had been complaining about this and other provisions he thought the Committee ought to examine them with care. He added that he thought it wrong that the departments, including the Treasury, should be feeding out information to the press attacking the Committee's position.

*M.G.*

Original of this memo turned over to  
Dr. Haas.

December 21, 1948.

Secretary Morgenthau

R. E. McConnell

I gave a luncheon in New York on Monday, December 13, at which representatives of the Baruch Unit, the Navy and the Army were present. Also, the vice presidents or comptrollers in charge of contracts of six companies who had a total of nearly \$20 billions of war contracts on their books.

General Carter asked several of these gentlemen to estimate their total claims which may result from termination of contracts if all contracts were cancelled at once. Using these estimates as a rough spot sample, he figured the total claims from all contractors might amount to \$15 to \$18 billion. Of this amount, \$9 to \$11 billion is the cost of work in process and raw materials inventory.

The rate of payment authorized by the contracting agencies is, of course, difficult to estimate. Every effort will be made, however, to get substantial payments into the hands of contractors in the first few months after cancellations.

It may be possible for the Statistical Division to refine this estimate in order to determine the rate of outflow of funds from the Treasury for this purpose.

REM:oda 12/21/48

December 21, 1943  
4:20 p.m.

General Greenbaum: ....people who have charge of the thing and here is the story that I get there.

HMJr: Yeah.

G: These tanks have been selected by the team of ordnance specialists that we have over there.

HMJr: Yeah.

G: And, including the one British tank, and they were all earmarked and selected for a special purpose. The British tank was to be shipped to England.

HMJr: Yeah.

G: And the others over here.

HMJr: Yeah.

G: And each one, in turn, they have a special reason for its selection. It wasn't any arbitrary thing just doing that, and then the instructions are given to earmark them or tag them for bond purposes and they came over, including the British tank which had to be shipped back to the British because they still wanted it and so we had to shoot that back. So I can assure you it wasn't just a casual and arbitrary kind of a thing. And that's Number One. Number Two is: as the result of your efforts in the Third War Loan, you know, we still -- we got over then and got -- you got some of them up in New York.

HMJr: Yeah.

G: A lot of stuff we got back we did not -- you did not use.

HMJr: I see.

G: Now, those, and some of them were pretty big stuff and there was a problem of transportation....

HMJr: Yeah.

G: ....but Colonel Gough of our shop is working with your people....

- 3 -

HMJr: Good.

G: ....and there's a helluva lot of that stuff that you can have, all of which was earmarked for exhibition purposes.

HMJr: Wonderful.

G: So there'll be a lot of that stuff available to you.

HMJr: Good. Now, let me ask you just a -- I've had a very, very fine letter from Stimson again giving us everything in the War Department that we asked for for the Fourth War Loan.

G: Good.

HMJr: So he's come through 100%.

G: Fine.

HMJr: And I understand that the old man is very, very tired.

G: Yes.

HMJr: And I've heard that, in fact, he told me so himself. But I asked him for a letter and he came through with a beautiful letter on the Fourth War Loan so we're all set.

G: Well, that's good.

HMJr: But I'm glad -- how did they happen to get these particular tanks? I thought they were just going to pick us up some odds and ends, or the pieces.

G: I think the confusion was, you apparently asked for stuff over there.

HMJr: Well, I simply said if they could send us some tanks -- there was a lot of kidding about it, you see?

G: Apparently, at Eisenhower's headquarters -- isn't that where it was?

HMJr: No, it was -- it was this General -- oh, I don't know the man who accompanied me. He's first deputy command. He got interested and then General Clark got interested and then General Patton, and each one said they'd pick me up a couple of tanks.



G: Well, I think that they thought that you wanted some special tanks of this, that and the other, and so they....

HMJr: No.

G: What the result of the thing was that it came from a pretty high quarter over there....

HMJr: Yeah.

G: ....that they should -- the first tanks going out should go to you.

HMJr: Well, I think....

G: It wasn't done by the exhibition -- in other words, these technical guys had taken out of their hands, which they shouldn't have....

HMJr: No.

G: ....things that they'd carefully picked.

HMJr: I think there was a mix-up because, for instance, both Patton and Clark said, "Well, we've got some down on the beaches. We haven't paid any attention to them and if we can salvage them, we'll let you have them." And that's what they were talking about.

G: Well, it looks to me as if General Clark or someone pretty high up gave orders there that tanks going back to the U.S. should go to you.

HMJr: Well....

G: No one interfered with that and these ordnance boys over there just got their prize babies nipped from under them.

HMJr: Well, there was a mix-up. Nobody's hurt.

G: No. It's too bad, though because....

HMJr: All that I was afraid of was that this was a concerted effort to....

G: Well, as I told you, it sounded that way on the face of it and I saw these papers and looked into it and he never even heard of it. I'm positive of it.

HMJr: Well, I appreciate all the trouble you've gone to.

G: Well, I wanted to get it straight.

HMJr: And the Army and the Treasury are again working side by side. Did you see my statement in the Times today?

G: I certainly did and everyone has been talking about it.

HMJr: They liked it?

G: Oh, it was something. (Laughs)

HMJr: What?

G: Certainly, it's the tops of all.

HMJr: Well, what I said was -- and then I told them they couldn't use it -- I said, "They'll spend the rest of their days on the Hill or in jail." And then I cut out the, "Or in jail".

G: Yeah.

HMJr: But I think it'll help.

G: Oh, that was fine.

HMJr: George is going to blast me but I can't help it.

G: Well....

HMJr: But I want -- I thought this would be a Christmas present to the Congress.

G: Yeah, it's a good thing for them. Are you going to be around for Christmas or are you going to the farm?

HMJr: We're going to the farm Thursday.

G: Good for you.

HMJr: Thank you so much, Eddie.

G: Okay. Lots of good luck to you and Ellie.

HMJr: God bless you.

G: Good bye.

December 21, 1943  
4:56 p.m.

78

HMJr: Hello.

Operator: Mr. Thomas, Detroit.

HMJr: Go ahead.

Operator: There you are.

HMJr: Hello.

R. J. Thomas: Hello, Mr. Morgenthau?

HMJr: Talking.

T: This is Thomas speaking for the auto workers.

HMJr: Hello, Thomas.

T: How's everything?

HMJr: Oh, could be lots worse.

T: Yes? Well, say, what I'm calling you about....

HMJr: Yes.

T: We had a -- we have a -- had a case here in our Union where there were a lot of workers in the Ford Motor Company received back pay last year when we signed that original contract.

HMJr: Yeah. Somebody sent me that today.

T: Oh, you got the letter, did you?

HMJr: I got the letter today.

T: Well, I sent it down. I want to talk to you about that.

HMJr: Yeah.

T: Because Vandenberg even claims that he's in favor of this amendment in the law....

HMJr: Yeah.

T: ....and he claims or that Committee claims that somebody from your office....

- 2 -

HMJr: Yeah.

T: ....put the screws on the thing.

HMJr: Well, you don't believe that?

T: Well, I don't know. That's the reason I called. I don't think you did....

HMJr: Well....

T: ....but just wondered if there's anybody from your office that could have done that job.

HMJr: Well, I'll tell you. I only saw the letter within the last half hour.

T: Uh huh.

HMJr: And I turned it over to one of my best men.

T: Uh huh.

HMJr: And we'll look into it and either he or I will call you back. The man who's looking into it -- his name is Joe O'Connell.

T: Joe O'Connell?

HMJr: Yeah.

T: Okay, I wish you would.

HMJr: Well, you'll hear from one or the other of us.

T: Now, look. On that other thing that I asked you about....

HMJr: Yes.

T: ....on that Brewster thing, you know....

HMJr: Yeah.

T: I've never got a report from that fellow yet. You told him to give me a report on it.

HMJr: Yeah, because the answer is I haven't got one either.

T: Uh huh.

HMJr: But all I can say to you is I did have a progress report.

T: Uh huh.

HMJr: Not a finished report, but as far as the boys have gone, nothing bad has shown up.

T: Uh huh.

HMJr: See?

T: Uh huh.

HMJr: The report is not finished but as far as they have gone, they have turned up nothing which amounts to anything.

T: Uh huh.

HMJr: But that's for you only.

T: Yeah.

HMJr: I don't want that to go beyond you.

T: Well, I just wanted to protect myself. That was all.

HMJr: No, well just -- so far they haven't found anything that amounts to anything. But that's definitely only for you. Hello?

T: Hello.

HMJr: That's only for you.

T: Yeah. I understand that.

HMJr: But on the other matter -- on this Ford worker business, the rest of it, I'll turn that over to O'Connell.

T: Well, my secretary tells me here now that the House -- some of the Committees from the House and the Senate are conferring on the thing right now.

HMJr: Yes. Well....

- 4 -

T: The House voted for it and the Senate knocked it down.

HMJr: Now, look, you wouldn't mind waiting a minute and if O'Connell is in, let me switch you over to him?

T: Okay, I'll wait.

HMJr: Oh, or better yet to Paul if he's in. I don't know whether he's in. Let me just see if Paul -- Will you wait a minute?

T: Yeah.

HMJr: Just stay on.

Operator: Operator.

HMJr: Keep Mr. Thomas on. Is Mr. Paul in his office?

Operator: I'll see.

(Pause)

Operator: Here's Mr. Paul.

HMJr: Hello. Hello.

Randolph Paul: Yeah.

HMJr: Randolph on this phone is R. J. Thomas, President of the Automobile Workers.

P: Yeah.

HMJr: And he's talking about something on the Hill and would you please talk with him and see if we can do anything to help?

P: Yeah. Just a minute I'll get (Aside: Will you tell Stanley to call me back in just a second there? Or I'll call him.)

HMJr: Mr. Thomas, are you on? Hello, Thomas? Thomas?

Operator: Operator.

HMJr: Where's Mr. Thomas?

- 5 -

Operator: Right here. There you are.

HMJr: Thomas.

T: Yeah.

HMJr: I'm turning you over to Mr. Paul, our General Counsel.

T: Okay.

HMJr: You tell him what you've got on your mind.

T: Okay.

25

December 21, 1943.

Dear Mr. Turner:

On behalf of the Secretary, I am acknowledging your letter of December 20, which transmitted a copy of Mr. Donald H. Nelson's regular monthly report to the President on production performance against materials and equipment commitments of the Third Russian Protocol. Mr. Morgenthau much appreciates receiving this current information.

Sincerely yours,

**(Signed) H. S. Klotz****H. S. Klotz,  
Private Secretary.**

**Mr. Robert C. Turner,  
Acting Director, Foreign Division,  
War Production Board,  
Washington, D. C.**

GEZ/dbs



## WAR PRODUCTION BOARD

WASHINGTON, D. C.

December 20, 1943

IN REPLY REFER TO:

Mr. Henry Morgenthau  
Room 280  
Treasury Department  
Washington, D. C.

Dear Mr. Morgenthau:

I am transmitting for your information a copy of Mr. Donald M. Nelson's regular monthly report to the President on production performance against materials and equipment commitments of the Third Russian Protocol.

Sincerely yours,



Robert C. Turner  
Acting Director  
Foreign Division

Attachment



WAR PRODUCTION BOARD

WASHINGTON, D. C.

December 16, 1943

**SECRET**

Disclosure Prohibited Under Espionage Act

IN REPLY REFER TO

My dear Mr. President:

Attached hereto is a tabulation showing the progress made during November, and during the five months ending November 30th, towards fulfillment of Third Protocol materials and equipment production programs for the Union of Soviet Socialist Republics. There is also attached a brief table indicating changes in the stocks situation.

In November, there was added to the Russian program an important quantity of metallurgical equipment, including a thirty-two inch rail and structural mill, a forty-six inch blooming mill for use with the rail mill, a fish plate and tie plate installation, coilers for strip, and miscellaneous equipment for blast furnaces, coke ovens, and coke plants.

It is anticipated that the rail and structural mill, with the accompanying blooming mill, will prove of great value to the USSR. The total cost of the project is about \$14,000,000. Production of the blooming mill is expected to be completed by July-August, 1944, and of the rail and structural mill by late 1944 or early 1945.

The rail mill will have a rated capacity of approximately 800,000 net tons of rails or structural shapes per year. Placing the mill in operation should, therefore, offset the inability of the USSR to secure an adequate supply of rails and accessories from this country and the United Kingdom because of shipping limitations.

Other parts of the Soviet Program are proceeding smoothly. In the case of certain types of industrial equipment, some difficulties are being experienced because of the present shortage of bearings. We are also finding it necessary to refuse to accept some requisitions for equipment to be delivered during the Third Protocol

**SECRET**

Disclosure Prohibited Under Espionage Act

**SECRET**  
Disclosure Punishable Under Espionage Act

period because the requisitions in question were not received sufficiently early to be worked into production schedules. Neither of these developments is seriously affecting the general progress of the program, however.

Respectfully yours,

/s/

Donald M. Nelson

The President  
The White House  
Washington, D. C.

Attachments

**SECRET**  
Disclosure Punishable Under Espionage Act

**SECRET**  
Declassify Pursuant to the Espionage Act

STOCKS HELD IN TREASURY AND ORDNANCE WAREHOUSES  
AND DEPOTS ON USSR ACCOUNT a/

(Short Tons)

<u>Item</u>	<u>As of June 30</u>	<u>As of Oct. 31</u>	<u>As of Nov. 30</u>
<b>I. <u>Materials</u></b>			
Aluminum	274	601	806
Nickel	47	X	X
Molybdenum	0	744 b/	0
Copper base alloys	17,588	8,599	8,930
Magnesium	154	0	0
Zinc	0	0	0
Copper Products	3,482	3,071	2,271
Ferro-Alloys	4,362	2,754	849
Steel	408,325	241,142	173,184
Copper Wire and Cable	43,323	58,767	48,056
Paper Products	2,471	2,910	2,585
Wire Cloth	81	71	85
Other Materials	6,522	4,488	3,532
<b>Total Materials</b> (Excluding Chemicals)	<b>486,629</b>	<b>323,147</b>	<b>240,298</b>

**II. Industrial Equipment**

Machine Tools and Forging Presses & Hammers	26,960 a/	55,686 d/	49,749 a/
Power Equipment	9,773	20,107	19,747
Industrial Boilers	6,309	14,590	12,718
Misc. Electrical Equip.	4,183	7,331	8,164
Electric Furnaces	2,013	4,336	4,964
Oil Refinery Equipment	12,259	4,348	4,111
Tire Manufacturing Plant	2,244	1,553	1,153
Aluminum Mill	331	950	496
Various Indust. Machinery, n.e.s.	28,784	38,194	36,578
Bearings	99	457	299
Graphite Electrodes & Related Products	861	1,015	762

**SECRET**  
Declassify Pursuant to the Espionage Act

**SECRET**  
 Disclosure Prohibited Under Espionage Act

- 2 -

<u>Item</u>	<u>As of June 30</u>	<u>As of Oct. 31</u>	<u>As of Nov. 30</u>
<b>II. Industrial Equipment (Cont'd)</b>			
Abrasives	972	590	449
Instruments & Laboratory Equip.	701	869	564
Misc. (Incl. Treas. Procured Machine Tools)	734	2,146	1,471
<b>Total Indust. Equip.</b>	<b>96,223</b>	<b>152,172</b>	<b>141,225</b>
Tires and Tubes	4,575	2,470	2,044
<b>Grand Total Excl. Chemicals</b>	<b>587,427</b>	<b>477,789</b>	<b>383,567</b>

X - Less than 1 S.T.

- a/ Excludes materials and equipment in transit or at seaboard.
- b/ In transit
- c/ Stocks as of June 30, 1943
- d/ Stocks as of Oct. 30, 1943
- e/ Stocks as of Nov. 30, 1943

**SECRET**  
 Disclosure Prohibited Under Espionage Act

(SUMMER DELIVERY DATA SUBJECT TO REVISION)

**SECRET**

Business Practices Only - Exempt from GDS

Pro- tocol Item No.	Item	Unit	3rd Protocol Production Program	Made Available at Mill in U.S.A. Nov. 30, 1943	Made Available at Mill in U.S.A. July 1, 1943 - Nov. 30, 1943	Percent of 3rd Prot. Program Completed as of Dec. 1, 1943	Ratio of Actual Deliveries to Prot.Sched. (Prot.Sched.=100)	Balance to be Produced as of Dec. 1, 1943 To Complete 3rd Protocol Prod. Program	Comments
<b>NON-FERROUS METALS</b>									
3	Aluminum (Ingot and Fabricated)	S.T.	35,760	8,786	38,466	108	257	(2,706 Kesses)	Aluminum shipments to date consist of 1,164 S.T. rod; 554 S.T. hard tubing; 10,058 S.T. hard sheet; 18,290 S.T. primary ingot; and 8,400 S.T. secondary ingot.
4	Nickel								
A	Pig Nickel	S.T.	3,600	1,100	2,600	72	171	1,000	Includes shipment on U.S. account of 800 S.T. from U.K. stocks.
B	Nickel in Metal Scrap	S.T.	274	0	50	18	43	224	The 274 S.T. shown as the Third Protocol production program is the quantity selected by the U.S.S.R. out of a total of 600 S.T. originally offered.
C	Nickel in Steel and Other Non-Ferrous Products	S.T.	2,400	212	1,015	42	100	1,385	Contained nickel deliveries to date consist of 615 S.T. in steel; 183 S.T. in nichrome wire and strip; 192 S.T. in cupro-nickel strip; and 25 S.T. in various other products, including pure nickel products.
5	Molybdenum	S.T.	4,000	958	2,423	61	145	1,577	Molybdenum shipments have been accelerated in order to assist the U.S.S.R. in expediting its alloy steel production.
6	Copper, Electrolytic	S.T.	(121,400)	(11,315)	(40,204)	(33)	(79)	(81,196)	Electrolytic copper figures refer to copper contained in various materials requiring copper which are being supplied the U.S.S.R. Deliveries to date include 25,400 S.T. contained in copper base alloys; 5,043 S.T. contained in copper goods and tubes; 95 S.T. contained in bismetal; and 8,666 S.T. contained in wire mill products.

**SECRET**

Business Practices Only - Exempt from GDS

Protocol Item No.	Item	Unit	3rd Protocol Production Program	Made Available at Mill in U.S.A. Nov. 1, 1943 - Nov. 30, 1943	Made Available at Mill in U.S.A. July 1, 1943 - Nov. 30, 1943	Percent of 3rd Prot. Program Completed as of Dec. 1, 1943	Ratio of Actual Deliveries to Prot. Sched. (Prot. Sched. x 100)	Balance to be Produced as of Dec. 1, 1943 To Complete 3rd Protocol Prod. Program	Comments
<b>NON-FERROUS METALS (Continued)</b>									
7	Copper Base Alloys	S.T.	107,520	12,402	38,265	36	86	69,295	November shipments of copper base alloys reflect an acceleration to eliminate the deficit accumulated in the July-September period.
8	Magnesium	S.T.	4,032	336	1,600	42	100	2,352	
9	Zinc	S.T.	13,440	1,120	5,600	42	100	7,680	
11	Copper Goods and Tubes	S.T.	15,000	1,368	5,044	34	81	9,956	The Third Protocol provides that up to 269 S.T. of special non-ferrous wires may be ordered. Until the present, however, only 73 S.T. have been requisitioned. The Third Protocol production schedule is, therefore, limited to this amount. Deliveries to date include .2 S.T. of tungsten alloy wire; 1.6 S.T. of constantan wire; .2 S.T. of nichrome wire; 17.4 S.T. of aluminum and chromel wire; 14.5 S.T. of monel, everdur and beryllium bronze wire; 4.5 S.T. of enameled manganese wire; 14.6 S.T. of polythene wire; and 1.1 S.T. of round manganese wire.
29	Special Non-Ferrous Alloy Wires	S.T.	73	18	54	74	176	19	
30	Nichrome Wire	S.T.	538	46	229	43	102	309	
94	Cobalt	S.T.	80.5	0	80.5	100	120	0	The production program shown is for the first half of the Third Protocol period; the ratio of actual deliveries to the Protocol schedule has, therefore, been adjusted to take this into account. The October shipment completed the full Protocol offering.
Total Non-Ferrous Metals (Including Item 6, Copper, Electrolytic)		S.T.	186,717.5	25,740	95,506.5	51	121	91,711	

Pro- tool Item No.	Item	Unit	3rd Protocol Production Program	Made Available at Mill in U.S.A. Nov. 1, 1943 - Nov. 30, 1943	Made Available at Mill in U.S.A. July 1, 1943 - Nov. 30, 1943	Percent of 3rd Prot. Program Completed as of Dec. 1, 1943	Ratio of Actual Deliveries to Prot.Sched. (Prot.Sched.=100)	Balance to be Produced as of Dec. 1, 1943 To Complete 3rd Protocol Prod. Program
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FERRO-ALLOYS

17	Ferrosilicon	S.T.	-	0	0	-	-	-
18	Ferrochrome	S.T.	-	0	0	-	-	-
55A	Ferromolybdenum	S.T.	1,120	560	560	-	-	560
56	Ferrovandium	S.T.	224	146	146	-	-	78
57	Ferrotungsten	S.T.	840	0	0	-	-	840
Total Ferro-Alloys			S.T.	-	706	-	-	-

Ferromolybdenum, ferrovandium and ferrotungsten have been scheduled in the quantities shown as substitutes for an equivalent tonnage of ferrochrome and/or ferrosilicon. Except for this, Third Protocol ferrosilicon and ferrochrome offers (754 S.T. of ferrosilicon and 446 S.T. of ferrochrome per month) are still considered inactive.

ALLOY STEEL

16	Polished Drill Rods	S.T.						
B	High Speed	S.T.	96	6	48	50	119	48
C	Other Alloy	S.T.	85	1	26	58	138	19
17	High Speed Tool Steel	S.T.	4,480	726	3,205	72	171	1,275
18	Tool Steel	S.T.						
B	Alloy X1P	S.T.	672	73	365	54	129	307
C	Alloy X13W	S.T.	672	43	341	51	121	331
D	Other Alloys	S.T.	4,850	824	3,056	63	150	1,794
19	Cold Finished Bars	S.T.	11,200	1,637	5,907	53	126	5,293
20	H.P. Alloy Bars and Billets	S.T.	57,267	7,490	28,853	43	108	38,414
21	Stainless Steel	S.T.						
A-3	Sheets and Strips	S.T.	3,007	304	1,665	55	131	1,342
C	Bars	S.T.	756	85	297	39	93	459
24	Steel Wire	S.T.						
A	Ball Wire	S.T.	1,344	116	878	65	195	466
B	Alloy 232	S.T.	1,344	196	442	40	95	802
D	Other Alloy	S.T.	0	0	191	-	-	(191 Excess)



Pro- tocol Item No.	Item	Unit	3rd Protocol Production Program	Wade Available at Mill in U.S.A. Nov. 1, 1943 - Nov. 30, 1943	Wade Available at Mill in U.S.A. July 1, 1943 - Nov. 30, 1943	Percent of 3rd Prot. Program Completed as of Dec. 1, 1943	Ratio of Actual Deliveries to Prot.Sched. (Prot.Sched.=100)	Balance to be Produced as of Dec. 1, 1943 To Complete 3rd Protocol Prod. Program	Comments
<b>ALLOY STEEL (Continued)</b>									
27	Steel Alloy Tubes								
A	1 1/2 Cr. - 1/2 Ni.	S.T.	994	113	504	41	121	490	
B	1/2 Cr. - 1/2 Ni.	S.T.	8,625	489	3,725	43	102	4,900	
C-E	Carbon .05 Moly., Fine Sizes	S.T.	0	0	9	-	-	(9 Excess)	
F	N.N. Ball Bearing Tubes	S.T.	5,376	752	2,133	40	95	3,243	
28	Stainless Steel Wire	S.T.	1,747	232	873	50	119	874	
29	Special Alloy Wire	S.T.	784	0	465	59	140	319	
	<b>Total Alloy Steel</b>	S.T.	<b>113,259</b>	<b>13,087</b>	<b>53,083</b>	<b>47</b>	<b>170</b>	<b>60,176</b>	
<b>CARBON STEEL</b>									
101-F	Balls, Accessories and Other Railway Material	S.T.	-	27,984	111,564	-	-	-	
10	Commer Clad Strips (Bimetal)	S.T.	-	0	0	-	-	-	
16A & 16B	Plain Carbon Tool Steel and Drill Rod	S.T.	-	756	3,604	-	-	-	
19D	Plain Carbon Bullet Core	S.T.	-	1,375	9,861	-	-	-	
24	Tinplate	S.T.	-	3,536	17,698	-	-	-	
	Other Carbon Steel	S.T.	-	4,691	23,298	-	-	-	
	<b>Total Carbon Steel</b>	S.T.	<b>145,397</b>	<b>38,342</b>	<b>166,045</b>	<b>48</b>	<b>114</b>	<b>179,352</b>	
<b>MEDICALS</b>									
46	Phenol	S.T.	-	0	1,796	-	-	-	} Production programs for phenol, ethylene glycol, methanol and ure- tropine are being modified in the light of the stocks situation and realistic Soviet needs.
48	Ethylene Glycol	S.T.	-	725	1,000	-	-	-	
45	Methanol	S.T.	-	0	0	-	-	-	
46	Urotropine	S.T.	-	2,318	2,318	-	-	-	

**SECRET**

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- 5 -

Pro- tocol Item No.	Item	Unit	3rd Protocol Production Program	Made Available at Mill in U.S.A. Nov. 1, 1943 - Nov. 30, 1943	Made Available at Mill in U.S.A. July 1, 1943 - Nov. 30, 1943	Percent of 3rd Prot. Program Completed as of Dec. 1, 1943	Ratio of Actual Deliveries to Prot.Sched. (Prot.Sched.=100)	Balance to be Produced as of Dec. 1, 1943 To Complete 3rd Protocol Prod. Program	Comments
<b>MEDICALS (Continued)</b>									
61A1	Glycerine	S.T.	6,720	0	7,189	107	255	(469 Excess)	Includes 5,332 S.T. shipped from the U.K. on U.S. account.
61A7	Castoric Sols	S.T.	30,330	2,565	18,581	46	110	21,739	
3AA	Ethyl Alcohol	S.T.	107,520	28,806	74,665	69	164	32,855	
61A5	Acetone	S.T.	5,137	0	657	13	31	4,480	The production program has been adjusted to take into account the failure of Soviet representatives to requisition acetone for delivery during the first four months of the Third Protocol period. Except for the 657 S.T. delivered in July against an old requisition, the obligation to supply 2,240 S.T. between July 1 and October 31 is considered cancelled. During the remainder of the Protocol period production is scheduled to average 560 S.T. per month.
61A	Other Chemicals	S.T.	12,096	896	2,588	21	50	9,508	
	Total Chemicals	S.T.	-	35,312	108,794	-	-	-	
<b>MARINE AND SUBMARINE CABLE</b>									
1	Marine Cable	Km.	784	1	170	22	52	614	Because of excessive stocks, the Third Protocol production schedule of marine and submarine cable has been reduced from a total of 1,800 Km. to a total of 1,103 Km.
2	Submarine Cable	Km.	319	0	119	37	88	200	
	Total Marine and Submarine Cable	Km.	1,103	1	289	26	60	814	

**SECRET**

Reproduction Prohibited Without Authorization

93

Regraded Unclassified

Pro- tocol Item No.	Item	Unit	3rd Protocol Production Program	Made Available at Mill in U.S.A. Nov. 1, 1943 - Nov. 30, 1943	Made Available at Mill in U.S.A. July 1, 1943 - Nov. 30, 1943	Percent of 3rd Prot. Program Completed as of Dec. 1, 1943	Ratio of Actual Deliveries to Prot.Sched. (Prot.Sched.*100)	Balance to be Produced as of Dec. 1, 1943 To Complete 3rd Protocol Prod. Program	Comments
<b>POWER AND RELATED CABLE</b>									
73	Insulated Cable and Wire (Copper Content)	S.T.	-	1,137	7,408	-	-	-	Because of excessive stocks, the Third Protocol production schedule of power and related cable has been reduced from 41,516 S.T. copper content to 21,000 S.T.
74	Nere Cable and Wire (Copper Content)	S.T.	-	278	740	-	-	-	
	Total Power and Related Cable	S.T.	21,000	1,415	8,148	41	96	12,412	
<b>MISCELLANEOUS MATERIALS ITEMS</b>									
80	Sheet Fiber	S.T.	1,000	235	1,221	122	290	(221 Excess)	To date no requisitions have been submitted by Soviet representatives.
81	Parchment Paper	S.T.	1,680	0	0	0	0	1,680	
82A	Condenser Paper	S.T.	73	0	0	0	0	73	Because of delays in the submission of requisitions by Soviet representatives, production of condenser paper cannot be scheduled to begin before January 1, 1944. Because of a difficult supply situation, deliveries after January 1 will have to be limited to the average monthly amount originally offered in the Protocol (12.2 S.T.). The total Third Protocol program has consequently been reduced from 146 S.T. to 73 S.T.
83B	Cigarette Paper	S.T.	336	0	0	0	0	336	To date no requisitions have been submitted by Soviet representatives.
85	Other Materials and Their Products	\$	5,000,000	-	-	-	-	-	

Protocol Item No.	Item	Unit	3rd Protocol Production Program	Made Available at Mill in U.S.A. Nov. 1, 1943 - Nov. 30, 1943	Made Available at Mill in U.S.A. July 1, 1943 - Nov. 30, 1943	Percent of 3rd Prot. Program Completed as of Dec. 1, 1943	Ratio of Actual Deliveries to Prot. Sched. (Prot.Sched.=100)	Balance to be Produced as of Dec. 1, 1943 To Complete 3rd Protocol Prod. Program	Comments
<b>INDUSTRIAL AND RELATED EQUIPMENT</b>									
15A	Coated Carbide Tips and Blanks	\$	3,000,000	164,448	911,232	30	71	2,084,768	Deliveries of a number of industrial equipment items are behind schedule because of the long cycle required for production after placement of orders and, as pointed out previously, orders in these cases have been presented only recently or are still in process of being presented. With one or two exceptions, notably bearings, shipments of industrial equipment are taking place in accordance with planned schedules, i.e. schedules which will make possible meeting all offers to the U.S.S.R. insofar as the U.S.S.R. has taken advantage of the offers through submission of requisitions.
15B	Small Cutting Tools	\$	15,000,000	922,068	4,360,906	29	69	10,639,094	
15C	Measuring Tools	\$	3,000,000	108,891	514,114	17	40	2,485,886	
57B	Abrasives Products	\$	4,000,000	390,178	2,147,080	55	131	1,612,920	
57	Machine Tools	\$	120,000,000	7,092,200	53,007,290	44	105	66,792,750	
53	Electric Furnaces	\$	12,000,000	153,906	2,024,135	17	40	9,975,865	
54A	Rolling Mills and Equipment	\$	16,000,000	152,383	693,800	4	10	15,306,200	
54B	Presses, Forges, Hammers and Related Equipment	\$	30,000,000	2,000,550	11,234,650	37	88	16,765,350	
54C	Wire Drawing Equipment	\$	2,000,000	0	23,757	1	2	1,976,243	
55	Various Industrial Equipment	\$	120,000,000	16,898,638	68,235,102	57	136	51,764,898	
56	Control Inst. and Testing Machines	\$	1,700,000	97,267	507,370	30	71	1,190,630	
59-70	Anti-Friction Bearings	\$	15,000,000	917,158	4,169,101	28	67	10,830,899	
111	Black Signal System	\$	14,591,500	1,007,404	1,265,659	9	21	13,325,841	
140	Power Equipment	\$	75,000,000	3,794,779	27,741,390	37	88	47,258,610	
	<b>Total Industrial and Related Equipment</b>	\$	<b>431,291,500</b>	<b>33,697,010</b>	<b>177,075,946</b>	<b>41</b>	<b>98</b>	<b>294,215,954</b>	

Pro- tocol Item No.	Item	Unit	3rd Protocol Production Program	Made Available at Mill in U.S.A. Nov. 1, 1943 - Nov. 30, 1943	Made Available at Mill in U.S.A. July 1, 1943 - Nov. 30, 1943	Percent of 3rd Prot. Program Completed as of Dec. 1, 1943	Ratio of Actual Deliveries to Prot.Sched. (Prot.Sched.=100)	Balance to be Produced as of Dec. 1, 1943 To Complete 3rd Protocol Prot. Program	Comments
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MISCELLANEOUS EQUIPMENT ITEMS

67A	Abrasive Grain	S.Y.	4,000	565	2,228	56	133	1,772	
68A	Graphite Electrodes	S.Y.	5,757	721	2,578	45	107	3,179	
68B	Other Graphite Goods	S.Y.	1,691	116	551	33	79	1,140	
68C	Graphite Powder	S.Y.	1,120	200	917	82	195	203	
78	Tires, Tubes, Other Rubber Products (Rubber Content)	S.Y.	40,320	3,069	15,974	40	95	24,346	
82	Metallic Cloth and Screen	\$	1,000,000	6,432	170,842	17	40	829,158	
94	Emergency Equipment	\$	25,000,000	-	-	-	-	-	

The U.S. has offered to supply up to \$25,000,000 of Emergency Equipment provided the Soviet Government certifies the need for particular items totaling this amount, and provided specifications are acceptable to the U.S.S.R. So far, few requisitions have been placed under this category.

War Production Board  
 Foreign Division  
 Review and Analysis Branch  
 December 15, 1943

**BRITISH AIR COMMISSION**

1785 MASSACHUSETTS AVENUE  
WASHINGTON, D. C.

TELEPHONE HOBART 9000

NOTE

REF NO.....

With the compliments of British Air Commission  
who enclose Statements Nos. 115 and 116 -- Air-  
craft Despatched -- for the weeks ended December  
7th and December 14th respectively.

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

December 21, 1943.

Aircraft Despatched from the United States  
Week Ended December 14th, 1943

<u>TYPE</u>	<u>DESTINATION</u>	<u>ASSEMBLY POINT</u>	<u>BY SEA</u>	<u>BY AIR</u>	<u>FLIGHT DELIVERED FOR USE IN CANADA</u>
<u>CONSOLIDATED</u>					
Liberator B VI	M.E.	M.E.		1	
Liberator B VI	India	India		2	
Liberator GR VI	W. Africa	W. Africa		2	
Liberator GR VI	India	India		1	
<u>BEING</u>					
Catalina IV	U.K.	U.K.		1	
<u>DOUGLAS</u>					
Nakota III	U.K.	U.K.		5	
Nakota III	M.E.	M.E.		3	
Nakota III	India	India		1	
Nakota III	S. Africa	S. Africa		1	
<u>WENN MARTIN</u>					
Baltimore IV	M.E.	M.E.		1	
Baltimore V	M.E.	M.E.		17	
<u>NORTH AMERICAN</u>					
Mitchell II	U.K.	U.K.		3	
Mustang	U.K.	U.K.	4		
Harvard	M.E.	Alexandria	13		
<u>VEGA</u>					
Ventura	Canada	Canada			2
Ventura GR V (a)	M.E.	M.E.		11	
Ventura GR V	S. Africa	S. Africa		9	
<u>NOORDUYN</u>					
Harvard	U.K.	U.K.	22		
Harvard	India	Karachi	5		
<u>LOCKHEED</u>					
Hudson V	Canada	Canada			1
<u>BY THE</u>					
Beech C-45B	Canada	Canada			3
<u>GRUMAN</u>					
Hellcat	U.K.	U.K.	5		
Tarpon	U.K.	U.K.	1		
Tarpon	India	Mombasa	2		
Willet	Ceylon	Colombo	2		
<u>VULTEE</u>					
Vengeance	U.K.	U.K.	6		
Vengeance	Australia	Sydney	4		
Vengeance	India	Karachi	5		
<u>REPUBLIC</u>					
Thunderbolt	India	Karachi	2		
<u>FAIRCHILD</u>					
Argus	India	Karachi	2		

**NOT SECRET**

STATEMENT NO. 116  
(cont'd)

<u>TYPE</u>	<u>DESTINATION</u>	<u>ASSEMBLY POINT</u>	<u>BY SEA</u>	<u>BY AIR</u>	<u>FLIGHT DELIVERED FOR USE IN CANADA</u>
<u>WINSON</u> Reliant	U.K.	U.K.		2	
<u>BOUGHT SIKORSKY</u> Corsair	Ceylon	Colombo		5	
Total:			80	58	6

(a) Including one exported to M.E. December 5th reported late and excluding one erroneously reported exported in Statement No. 113.

Note: In Statement No. 115 two Liberators GR VI reported exported to U.K. should read 1 to U.K. and 1 to India.

Movements Division  
British Air Commission

December 18, 1943.

mmh



STATEMENT NO. 115

Aircraft Despatched from the United States  
Week Ended December 7th, 1943

<u>TYPE</u>	<u>DESTINATION</u>	<u>ASSEMBLY POINT</u>	<u>BY SEA</u>	<u>BY AIR</u>	<u>FLIGHT DELIVERED FOR USE IN CANADA</u>
<u>CONSOLIDATED</u>					
Liberator BVI	M.E.	M.E.		5	
Liberator BVI	India	India		2	
Liberator GR VI	U.K.	U.K.		2	
Liberator GR VI	W. Africa	W. Africa		2	
<u>BEECH</u>					
Beech C45 B	Canada	Canada			2
<u>DOUGLAS</u>					
Dakota III	U.K.	U.K.		8	
Dakota III	M.E.	M.E.		6	
Dakota III	India	India		3	
<u>GLENN MARTIN</u>					
Baltimore V	M.E.	M.E.		25	
Mariner GR I	U.K.	U.K.		5	
<u>NORTH AMERICAN</u>					
Mitchell II	U.K.	U.K.		10	
Harvard	Ceylon	Colombo	1		
Harvard	S. Africa	Capetown	15		
Mustangs	U.K.	U.K.	22		
<u>VEGA</u>					
Ventura	Canada	Canada			5
Ventura GR V	U.K.	U.K.		1	
Ventura GR V (a)	M.E.	M.E.		13	
Ventura GR V (a)	S. Africa	S. Africa		4	
<u>GRUMMAN</u>					
Martlet	U.K.	U.K.	6		
Martlet	Ceylon	Colombo	1		
Tarpon	Ceylon	Colombo	12		
Tarpon	S. Africa	Capetown	3		
<u>CURTISS</u>					
Seawew	U.K.	U.K.	1		
<u>FAIRCHILD</u>					
Fairchild C62	N. Africa	Algiers	10		
Fairchild C61	M.E.	Alexandria	10		
Fairchild C61	India	Bombay	8		
<u>FINSON</u>					
Reliant	Ceylon	Colombo	3		
Reliant	U.K.	U.K.	5		
<u>HOORDUYN</u>					
Harvard	U.K.	U.K.	34		
<u>VULTEE</u>					
Vengeance	U.K.	U.K.	13		

(a) Including one exported Nov. 25th which was not reported in time for inclusion before. TOTAL: 144      86      7

Movements Division, British Air Commission.  
 December 13, 1943.

Treasury Department  
Division of Monetary Research 101

D Date.....12/21.....19

To: Mr. White

From: Mr. Taylor

Subject: Collaborationists in French Africa

1. Reported that French police have arrested  
Pierre Boisson - ex-Governor, West Africa  
Pierre Flandin - ex-French Premier.  
Marcel Peyrouton - ex-Governor, Algeria
2. Comité has placed under control all newspapers and periodicals published prior to November 8, 1942. Inquiries into newspaper attitudes to Allied cause will be studied.

(News ticker, December 18 and Dec. 20, 1943)

ALGIERS--AUTHORITATIVE SOURCE SAID THAT FRENCH POLICE HAVE  
ARRESTED PIERRE BOISSON, FORMER GOVERNOR GENERAL AND HIGH COMMISSIONER  
OF WEST AFRICA, PIERRE FLANDIN, FORMER FRENCH PREMIER AND MARCEL  
PEYROUTON, FORMER GOVERNOR GENERAL OF ALGERIA.

12/20--GE1047A

ALGIERS--THE FRENCH COMMITTEE OF NATIONAL LIBERATION PLACED "UNDER  
SEQUESTRATION" ALL NEWSPAPERS AND PERIODICALS PUBLISHED IN NORTH AFRICA  
PRIOR TO THE ALLIED LANDINGS NOV. 8, 1942.

THE ALGIERS COMMISSARIAT OF JUSTICE SAID THE ORDER, WHICH WILL  
AFFECT A DOZEN NEWSPAPERS, WAS DESIGNED TO "FACILITATE THE TASK OF  
INQUIRING INTO THE ATTITUDE OF CERTAIN PUBLICATIONS TOWARD THE FRENCH  
ALLIED CAUSE BEFORE THE ALLIED LANDING."

12/18--GE914A

CONFIDENTIAL

103

WAR DEPARTMENT  
WAR DEPARTMENT GENERAL STAFF  
MILITARY INTELLIGENCE DIVISION G-2  
WASHINGTON

December 21, 1943.

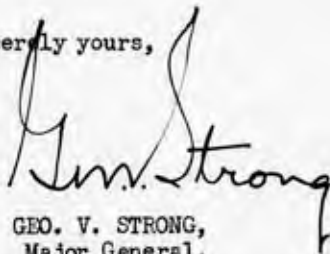
The Honorable,

The Secretary of the Treasury.

My dear Mr. Secretary:

The situation with regard to the blocking of the two Argentine banks is reported to remain unchanged at this time.

Very sincerely yours,



GEO. V. STRONG,  
Major General,  
A. C. of S., G-2.



CONFIDENTIAL

Treasury Department  
Division of Monetary Research

104

Date 12/22/43 19

To: Miss Chauncey

The Secretary may be interested  
in glancing at this.

H.D.W.

MR. WHITE  
Branch 2058 - Room 214½

# TREASURY DEPARTMENT

105 ✓

## INTER OFFICE COMMUNICATION

DATE Dec. 21, 1943.

TO Mr. White

FROM Mr. Ness *N.*

Information

These aspects of the coup d'etat in Bolivia, some of which are reported in the Times this morning, are significant:

I. Nature of the Revolutionary Group. The MNR (Movimiento Nacional Revolucionario) is a national, totalitarian party with pro-Axis leanings. It opposed the Bolivian declaration of war; its official newspaper has until recently been on the proclaimed list; and its adherents include persons associated with the late pro-Nazi President, Germán Busch. The leaders include members of the army (majors, as compared with Argentina's colonels). The party is pro-Argentine, and Victor Paz Estenssoro, the civilian chief, returned ten weeks ago from a visit to that country. It is a minority party, though powerful. It was some time ago reported to have 7,000 affiliates.

II. Organization of the Government. Paz Estenssoro has taken a subordinate office, the Ministry of Finance (in which he was undersecretary in 1932, 1935 and 1937), and the Presidency has been given one of the military men: Major Gualberto Villarroel. The Ministries of Foreign Affairs, Interior, and National Economy have been assumed by, respectively, José Tamayo, Major Alberto Taborga, and Gustavo Chacon. I have no information on any of them, but it may be significant that Interior is headed by an army officer.

III. Record of the MNR. On the face of things the MNR is not to be identified as rightist. It is nationalist. It has sought an outlet to the sea (long a national aspiration) and has in the past used this issue against Penaranda. It speaks of "Bolivia for the Bolivians," and has consistently condemned the big mining companies. Paz Estenssoro's Chamber of Deputies speeches on the Catavi mine murders forced the Penaranda cabinet to resign in September. MNR has, finally, berated the Government for its handling of the U.S. purchase contracts.

The new Government assumes office with protestations of United Nations and hemisphere cooperation (much as did the Ramirez group in Argentina) and with assertions that it will "give back the people their civil rights." I think we are entitled, however, to misgivings. The party is totalitarian, pro-Argentine (as Argentina is now governed), pro-Nazi, anti-American, and it is a military government. I predict that if, as seems probable, it manages to stay in office it will go the way of the Ramirez regime. Any overt acts of rapprochement with that Government will, of course, constitute evidence of such a trend.

(Translation)

MINISTRY OF FINANCE, PUBLIC CREDIT,  
INDUSTRY AND COMMERCE

NATIONAL PALACE,

Republic of El Salvador, C.A.

San Salvador, Dec. 21, 1943.

Concerning: International Stabilization  
Fund and Bank for the  
Reconstruction and Develop-  
ment of the United Nations.

The Honorable Secretary of the Treasury:

I am honored to reply to your worthy communication of November 22, with which were received the Proposed Plan for an International Stabilization Fund and the Preliminary Plan which relates to the establishment of the Bank for Reconstruction and Development of the United Nations.

The documents mentioned are presently being translated and upon completion, they will be submitted to the study and consideration of a commission of experts of the Department of Finance. As soon as this work is finished, the Secretariat under my direction hopes to be able to expound its point of view upon these important economic projects of the post-war.

I am pleased to take advantage of the opportunity to reiterate to you the assurances of my high consideration and esteem, signing myself your most obedient servant,

(Signed) RODRIGO SAMAYOA

~~XXXXXXXXXXXXXXXXXXXX~~

Honorable Henry Morgenthau, Jr.,  
Secretary of the Treasury,  
Washington, D. C.  
UNITED STATES OF AMERICA.

JVL-rab

Trans.:CC  
Copy: imc 12/30/43

NOT TO BE REPTRANSMITTEDU.S. SECRETCOPY NO. 12BRITISH MOST SECRETOUTCL. No. 416

Information received up to 10 A.M. 21st December, 1943.

1. NAVAL

On 18th/19th 2 destroyers off CORSICA were attacked by United States motor torpedo boats and subsequently by other coastal craft: one of the destroyers was possibly torpedoed. On the same night British coastal forces operating from VIS ISLAND, YUGOSLAVIA, sank Siebel ferry, an escort vessel and 2 E-Boats. French Destroyer badly damaged by torpedo South Indian Ocean when on escort duty has arrived safely DIEGO SUAREZ.

2. MILITARY

Italy to noon 20th. 8th Army Canadian troops have considerably improved their positions in the coastal sector. In the centre 8th Indian Division advanced further through difficult country and in spite of strong opposition.

5th Army The enemy launched a strong counter-attack in the PIZZOLA area and recaptured the SAN MICHELE PASS. Further South Moroccan Division and a United States Division each captured a hill feature during local advances. VANDRA, to the West of MONTE MAGGIORE is reported clear of enemy.

3. AIR OPERATIONS

Western Front 20th. 467 escorted Fortresses and Liberators attacked BRAMM with generally good results dropping 1,036 tons. Bombers and fighters each report 21 aircraft destroyed for loss of 21 Fortresses and 9 fighters. 121 Bombers, fighter-bombers and fighters attacked Military constructions in the PA DE CALAIS, enemy casualties 8.1.4. Ours 3 aircraft missing.

20th/21st. 827 aircraft despatched:- FRANKFURT 650 (40 missing and 4 crashed), MANHEIM 54, LIEGE 16 (1 missing) DUISBURG 5, LEVERKUSEN 5, Sea-mining 23, Leaflets 43, Intruders 23 (2 enemy aircraft destroyed over EASTERN GERMANY), anti-shipping 7. Thin cloud over FRANKFURT and preliminary reports indicate markers somewhat scattered; nevertheless considerable fires seemed to be taking hold towards end of attack. 5 enemy aircraft operated over South East England: no incidents of importance reported.

Southern Germany and Austria 19th. Escorted United States heavy bombers operating from North AFRICA dropped 261 tons on LANSBUCK railway centre and 85 tons on the GESSERSCHNITZ FACTORY at AUGSBURG results concealed by clouds. enemy casualties in the air reported 7.23.4. Ours 4 bombers missing.

Italy 19th. 144 medium bombers (1 missing) and 15 fighters attacked railroads and dumps behind the battle area. Spitfires scored 6.1.2. for missing.



December 22, 1943  
10:50 a.m.

Randolph

Paul: We got a call this morning from Collado....

HMJr: Yeah.

P: ...asking us to watch Bolivia movements of funds which -- and we told him we'd been doing that for a couple of days.

HMJr: Yeah.

P: Collado also said that conditions have changed now and he had given up any idea of any partial freeze on Argentine and the situation was apt to break very soon. In other words, I think they are just about to yield to us.

HMJr: Yeah.

P: I wanted you to know that in case....

HMJr: It's too much, Randolph; too much in one week.

P: Yeah. Well, I have talked to Fred this morning.

HMJr: Fred who?

P: Fred Smith.

HMJr: Yeah.

P: Giving him the facts on the George statement of this morning.

HMJr: I haven't seen it.

P: Oh, my God. I wondered why you didn't call me at eight o'clock.

HMJr: There was no newspaper -- I didn't get the newspapers today.

P: Well, George has got a blast against you.

HMJr: Against me personally?

P: Well....

HMJr: I mean, my name?

P: Yeah. Sure. He says for one thing, you don't know anything about renegotiation. You're perfectly ignorant about it.

HMJr: Yeah.

P: And a real long blast he's got. It's in the Times.

HMJr: That's all right. I've been out looking at airplanes.

P: Well, I query whether you want to....

HMJr: Well, as....

P: ....reply.

HMJr: ....as I understand, Gaston says I wrote him a letter on it once.

P: Oh, sure. But there's more to it than that.

HMJr: Ah.

P: I've gone over the whole picture with Fred.

HMJr: Good. Good.

P: All right.

HMJr: Good. Okay.

# George Assails Morgenthau On Tax Bill

## Treasury Head 'Knows Nothing' of Law on War Contracts, Senator Says

By the Associated Press

Senator George (Democrat) of Georgia last night issued a scathing reply to Secretary Morgenthau's criticism of the new tax bill and particularly its war contract renegotiation law amendments, declaring:

"Mr. Morgenthau knows nothing about the Renegotiation of Contracts Act and less about how it is actually administered."

George, chairman of the Senate Finance Committee which completed work on the \$2,275,000,000 bill yesterday, said he had "no apology" for the failure to reach Morgenthau's goal of \$10,500,000,000 additional revenue.

### Social Security Tax Defended

Further, he defended the proposed freeze of Social Security tax rates at 1 per cent each on employers and employes throughout 1944, saying there is no justification for increasing the rates at this time.

Morgenthau told a press conference Monday that the amendments to the renegotiation law proposed by the Senate committee would open the door to "truly extortionate profits" by war contractors.

George called a press conference to reply.

He declared Morgenthau's denunciation of the renegotiation sections came "with exceeding bad grace"; that the Secretary had "failed to take a position on renegotiation and had offered no suggestions or recommendations."

"Mr. Morgenthau not only has failed to take appropriate steps to protect the revenue," George said, "but has been of no help at all to the Finance Committee concerning renegotiation since it was absorbed into the revenue law."

Morgenthau had been particularly critical of amendments which exempt from renegotiation all contracts for "standard commercial articles," and the retroactive exemption of subcontracts where the

goods do not enter into the final product.

Said George: "The committee believed that with more than two years having passed since Pearl Harbor, the procurement officers of the Army, Navy and other departments should be able to make ordinary contracts for standard articles and certainly should be able to protect themselves on the price."

He said the subcontract exception was made retroactive "largely because we could not get any accurate information from the Treasury with regard to any possible refunds that might be made."

George offered this explanation of why the Treasury's \$10,500,000,000 tax increase goal was not achieved:

"The Treasury proposed to raise a large part of this additional revenue by relieving from all taxes 11 million present taxpayers and also to reduce the tax burden on a million or two more, shifting the load over to individual taxpayers with earnings of \$3500 and up."

"The Treasury has consistently opposed any defensible savings program and has likewise consistently opposed suggestion of a sales tax."

"On the contrary, the only suggestion made by the Treasury thus far, aside from the one mentioned above, is a spending tax that would be imposed on what the taxpayer spends, with very heavy excise taxes on many products, articles and services, and with high taxes on incomes."

### Spending Tax

"A spending tax did not commend itself to the committee and I dare say would commend itself to few thoughtful men and women in the country."

Senator George referred to frequent criticisms of the committee's Renegotiation Act revision by Drew Pearson, in his Merry-Go-Round column when he said:

"It would be well for the Treasury and for other departments of the Government, before giving out information to their henchmen, to await final action of the committee before passing on anything about the tax bill."—Editor's note.

The Senate Finance Committee put the finishing touches on the new tax bill yesterday and estimated prospective additional revenue under the measure at \$2,275,000,000 a year.

### Field, Exceeds House Bill

One of the last acts of the committee was to trim away a potential \$17,100,000 annually by making the cosmetics tax 20 instead of 25 per cent. The present tax is 10 per cent of the retail price.

The bill would bring in about 125 million dollars more than the form in which it passed the House.

In a last-minute change, the committee restored a repricing formula to apply to contracts for future delivery of war materials. Whether the addition would meet some of Secretary Morgenthau's objections to the bill was not apparent immediately. The Treasury head has said the war contract renegotiation changes previously voted "hold the seed of a national scandal."

Under the new section, when the secretary of one of the Government departments contracting for war material decided that a price was unreasonable or unfair, he could set what he thought was a fair price, by order. If the contractor did not agree to its fairness, he could sue the Government in the appropriate court for the difference, in much the same manner as land condemnation suits are handled.

*So in the*

*Editor's note*

## Patterson Says Profiteering in Arms Continues

Reports Some Who 'Holler'  
Against Renegotiation Are  
Getting a Profit of 50%

From the Herald Tribune Bureau

WASHINGTON, Dec. 21.—Profiteering in war industries is still fairly widespread, Robert P. Patterson, Under Secretary of War, declared today, adding that it would be worse were it not for the war-contract renegotiation program which he heads.

"We are doing our best to prevent profiteering," he said. He declared there has been no trouble with a large majority of contractors, but charged that some of those who "holler the loudest" are making as much as 50 per cent net work profits, "yet they kick because they have to renegotiate somewhat."

"I think the renegotiation law as it stands today is opposed by only a small minority of industry," Mr. Patterson said. He asserted, however, that some companies have "stalled and stalled."

In no case, he said, was there a company that was left after renegotiation with less than a fair profit.

As a result of many complaints to Congress from industry, the War Department's contract renegotiation program was investigated by three different Congressional committees, Mr. Patterson said, and in all three "they came to the conclusion we were doing a good, fair job and there was nothing to the complaints."

Mr. Patterson acknowledged that the renegotiation contract board may have permitted industries generally to make too much money on their war contracts. He smilingly conceded there was a possibility of future censure from Congress on this.

Mr. Patterson, discussing the case of the Timken Detroit Axle Company, said a new contract was in process of negotiation. He said that Willard F. Rockwell, Timken official, had charged that the War Department was threatening to cancel a Timken contract with the Ordnance Department.

Mr. Patterson explained that the company had made an annual average of \$2,000,000 in profits. In 1942, he said, the company had income profit before taxes which was nearly twenty times the average annual profits from 1939 to 1940, which represented a 33 per cent profit mark-up on volume of sales, and that after taxes—and before renegotiation—it made about \$5,000,000, which, Mr. Patterson said, represented two and one-half times its profits on average earlier years after taxes and a 33 per cent profit on the net book worth of the company. "That showed," Mr. Patterson said, "that he (Rockwell) had not been robbed."

Mr. Patterson revealed that the Timken Company now had all the work it could handle and that, to supply the required amount of axles for the War Department, it proposed to subcontract to Standard Steel Spring Company, its "know how," including designs, drawings and manufacturing assistance. However, Timken demands an initial unit price of \$2,500 for the lighter axle and \$3,500 for the heavier ones, Mr. Patterson said, adding that Timken has been selling the same items produced in its own plants for \$1,525 and \$2,184.25, respectively, before adjustment as the result of renegotiation.

Major General Lucius D. Clay, Director of Material, Army Service Forces, said today that the War Department and the Timken Company have agreed, after ten days of renegotiation, to produce a new contract that would eliminate all the provisions to which exceptions were made in the original Timken contract.

file 22, 1943

by Herbert Gastorn

The Chairman of the Senate Finance Committee in an interview with newspaper men has criticized the statement I made on Monday with respect to the Committee's action on the pending revenue bill. The newspapers represent him as objecting to my making public comment before the Committee had completed action.

My own opinion is that a revenue bill in this stage of the Nation's history is not a private matter and that every effort ought to be made to keep the people informed currently on the probable effect of decisions being made.

Mr. George is quoted as saying that "Mr. Morgenthau knows nothing about the Renegotiation of Contracts Act and less about how it is actually administered."

This seems to me at best a somewhat inadequate response to my specific criticism of amendments the Senate Committee has proposed to make in that Act. If I am ignorant of the provisions of the Act and of what the Senate Finance Committee is proposing to do with it, it would seem quite possible that others are ignorant too and that the Chairman of the Committee owes some fuller explanation to the public of what has been going on in the Committee's sessions than has yet been made.

*The Treasury Department has been concerned in the administration of the Act from the start, although other departments of the Government have greater responsibilities in the administration of the Act than has the Treasury Department.* The bulk of war material contracts are made by the Army, the Navy and the Maritime Commission. The Procurement Division of the Treasury Department is

and in the interest of <sup>113</sup>  
orderly procedure before  
~~the committees, it was decided~~  
that

relatively a minor purchaser. For that reason other departments, particularly the <sup>armed</sup> Services, ~~have been somewhat~~ <sup>have been</sup> more active in presenting to committees of the House and Senate the joint objections of all the interested agencies to the crippling limitations which both House and Senate Committees seem bent on imposing on renegotiation. However, it is clear beyond the shadow of a doubt that the Treasury has heretofore definitely and unequivocally placed itself on record before the Senate Finance Committee as to each of the major issues, either in its representatives' direct testimony or by definite <sup>or stating</sup> statements that the Department joined with the other agencies in objecting to these changes.

But the Treasury has another interest which compelled me to speak out in plain language after it appeared that the joint representations of all the Government departments and agencies directly concerned with the renegotiation process were to be disregarded by the committee. That interest is the protection of the public funds. As Secretary of the Treasury I could not be excused for failing to lift my voice in protest against any proposal that held the prospect of forcing the Treasury to make unwarranted and inequitable payments.

The amendments tentatively approved by the Senate Finance Committee in my opinion definitely held that prospect. I do not believe these amendments have the approval or support of any representative number of war contractors, <sup>For them</sup> ~~for whom~~ the Renegotiation Act and their individual renegotiation agreements stand as protection against future charges that they have

- 5 -

forced the Government in an hour of great national need to pay them unreasonable and excessive prices for the indispensable materials of war. I think the Committee has been too easily persuaded by the appeals of an unreasonable and unrepresentative few.

It is unfortunate that in his reference to the Treasury's revenue proposals Senator George addressed himself more to the materials of controversy than to the facts. ~~The Treasury is accused~~ The Treasury is accused of seeking to lighten the tax burden on low incomes, "shifting the load over to individual taxpayers with incomes of \$3,500 and up."

The fact is that, of the Treasury's proposed \$6.5 billion increase in individual income taxes, more than half would have come from incomes of \$5,000 a year or less and more than a fourth from incomes of \$3,000 a year and less.

It is true that the Treasury proposed to relieve 9 million present taxpayers, not from "all taxes" as Senator George says, but from direct Federal taxes on income. These 9 million are exclusively heads of families earning less than the exemption proposed by the Treasury (\$100 a year plus \$500 for each dependent.) They are subject to tax because their income is above the flat \$324 Victory tax exemption. To keep these 9 million on the tax rolls prevents simplification of the entire income tax system and the income tax returns for 50 million taxpayers. To collect less than

- 4 -

\$500 million from the 9 million least able to pay, the tax bill as it stands, would complicate the collection of \$17 billion.

In terms of the impact of all taxes, not just the income tax, the Treasury proposals would not reduce the tax burdens of the 9 million taxpayers relieved of income taxes. When the excise tax increases proposed by the Treasury are taken into account, these taxpayers would pay fully as much under the Treasury proposals as they would under present law. In view of the heavy impact of indirect taxes, the Treasury did not and does not believe that a man and wife with a net income of less than \$1100 a year (about \$21 a week) ought to be required to pay Federal income tax besides.

The substance of the matter with respect to the revenue provisions of the bill now pending is that the Committee has not sought means of raising additional revenue to meet the Nation's needs, but has sought excuses for not raising it.

In spite of the discouraging record I must still express the hope that the Congress will take new thought and address itself to this urgent task.



TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

DATE

December 22, 1943

TO Secretary Morgenthau

FROM Fred Smith FS

Shaeffer says it would be very helpful to some of our newspaper men to know by tonight whether or not there will be a press conference tomorrow. They are a little upset at the two last-minute cancellations we had previous to the last conference. If it is possible for you to decide, will you let us know one way or the other.

If you have a conference, you will have to be prepared to meet the George diatribe, and in this connection I would suggest that you read the first three pages of the statement that I prepared today, which says in effect that most of business, along with Patterson and ~~Telch~~, believe, with you, that the renegotiation act should be left as it is, and not emasculated.

I see by the papers that Chairman George of the Senate Finance Committee disapproves of my recent statements concerning the renegotiation amendments in the Committee's tax bill. What I said was that their proposed emasculation of the present law holds the seeds of a National scandal.

I should like to take this opportunity to reaffirm this opinion, and to assure the public that nothing done by the Senate Finance Committee at the last minute removes this danger. The minor change just made in the amendment is not vital. It does not in any sense close the door to exorbitant war profits, which Senator Walsh, of George's Committee, said today would "shock" the American people.

I am certain that the majority of business men stand with me in my position on the Renegotiation Act. As Under Secretary of War Robert Patterson said yesterday, those who "holler the loudest" are making as much as fifty per cent profits, "yet they kick because they have to renegotiate somewhat." The vast majority of American business men are patriotic, are doing their utmost to cooperate in winning the war, and are not worried about finding ways to make unwarranted profits. These men realize the almost

impossible hurdle that would face them in the period of reconstruction if public opinion should turn against them and hurl at them the epithet "war profiteers". For this reason, they resent reneging on the part of other business men just as bitterly as do any of the rest of us who want to protect the profit system.

I say "leave the renegotiation act alone." If Senator George doubts my position, that is it. Leave it alone. It is doing a good job. The War Department points out that three different Congressional Committees have investigated it, and have come to the conclusion that the War Department is doing a good, fair job.

I have just one interest in taking so adamant a stand against the invitations to war profiteering contained in the Senate Finance Committee's amendments: that is the interest any good American has in protecting the ten million soldiers who will have given up their incomes, their homes, their families, and sometimes even their lives to fight for the kind of a life that we want. I sincerely believe that every judgment we make should be made in the interests of these men, and upon the fact that we are at war, and war is

~~Laughter~~

- 3 -

tough. That is why the Administration originally asked for ten billions in new taxes. In my message to the Senate Finance Committee, I said:

"If we pay in taxes any less than we can now afford to pay, we shall be unfair to those who must face the accumulated bill after the war has been fought and won. We shall be doing a particularly great injustice to the men who are fighting our battles on foreign soil. We shall not only be asking for ten million members of the Armed Forces to give the most important years out of their lives to fight the war. We shall also be requiring them as a large body of future taxpayers to pay in taxes after the war what we could and should have paid while they were fighting."

Since the Senate does not see fit to levy the taxes which we can afford to pay -- including taxes on such items as soda-pop and candy, or adequate taxes on tobacco, and cosmetics which by no stretch of the imagination can be considered essentials of life -- I believe our obligation to protect taxpayers against profiteering costs of war is doubly important.

I should like now to reply categorically to Senator George's statements; as reported in the press.

Rec 7 20 1942  
by Fred Smith

120

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- 4 -

(1) Senator George told his press conference: "Mr. Morgenthau knows nothing about the renegotiation of contracts act and less about how it is actually administered."

Renegotiation of contracts has been part of the regular business of the Treasury's Procurement Division since October, 1942. We have had first-hand experience with it. Aside from this, we have had a representative on the Renegotiation Board, handling war contracts with the Army and Navy, since its inception. Most of the meetings of the Board, (consisting of business men as well as representatives of Government Departments) have been held in the Treasury Department.

(2) Senator George reported that he had "no apology" for the failure of his committee to reach the Administration's goal of 10.5 billion dollars in additional revenue.

I asked for no apology. I had suggested to the Senate Finance Committee, on behalf of the returning soldiers who will have to foot most of the bills of the war anyway, that they raise as much money as



( possible. I did not draw any stipulations as to how the money should or should not be raised. I did not present a blue print to the Senate Finance Committee, because I thought it was of more importance to get the money than to get it in any particular way.

An apology for inadequate taxation to pay a larger part of the costs of war while we can afford it may be asked for at some future time by the taxpayers.

(3) Senator George, on behalf of his Committee, defended the proposed freeze of Social Security Tax returns of one per cent each on employers and employees throughout 1944, saying that there is no justification for increasing the rates at this time.

In view of the fact that both employees and employers are far better able to pay additional Social Security Tax during our present period of prosperity than they have ever been in the past, this hardly seems an adequate reason.

(4) Senator George stated that I had "failed to take a position on renegotiation and had offered no suggestions or recommendations."

- 6 -

The Senator seems to have forgotten that he requested the Treasury to take a position and to offer recommendations on the twenty-six basic points concerning the renegotiation act which were under consideration by his committee. A position and recommendations were taken on each of these twenty-six points, and are recorded in document number \_\_\_\_\_ entitled \_\_\_\_\_ which was published by the Public Printer for the convenience of George's Committee. I am glad to say that the Committee took some of these recommendations. Most of them they ignored. This same procedure was followed in the use of suggestions and recommendations from the War and Navy Departments, the results of whose experience are included in the same pamphlet.

(5) The Senator reported that I have "been of no help at all to the Finance Committee concerning renegotiation since it was absorbed into the revenue law."

I can only say that I have given all the help that I have been asked to give. The Treasury's legal

department is constantly working on the problems involved in renegotiation. I might say, however, that the Treasury Department, like the War and Navy Departments was "included out" of the discussions of many of the Senate Finance Committee's executive sessions.

We, and representatives of these other departments, were informed by Senator George that the Senate Finance Committee was going to write the bill, and that our representatives were to speak when spoken to, were not to express opinions on policy, and were to furnish information when asked for it.

(C) George pointed out that "the committee believed that with more than two years having passed since Pearl Harbor the procurement officers of the Army, Navy and other departments should be able to make ordinary contracts for standard articles and should be able to protect themselves on price."

In time of war when we are faced with securing proper equipment in double quick time -- and cost can not be a factor -- it seems strange to issue the old "let the buyer beware" warning. Mr. Patterson

- 8 -

pointed out yesterday that one standard article -- an axle -- was being sold to the Government by the Timken Detroit Axle Company for \$1,525 to \$2,184.25; and that the same company insisted upon a price of twenty-five hundred dollars to thirty-five hundred dollars for the same article to be built by subcontractors. He also pointed out that it was necessary to make a contract because the war required the axles, and an effort to adjust (renegotiate) the price is being made, successfully. Under the proposed Senate amendment, the War Department would be stuck.

(7) Senator George said that subcontract exemption was made retroactive "largely because we could not get any accurate information from the Treasury with regard to any possible refunds that might be made."

Such information was asked of the Treasury, and all that we had was supplied. But ninety per cent of such information necessarily would have to come from the War and Navy Departments, where the renegotiation is being handled. We have no way of knowing whether or not the Committee requested information of the proper departments.

- 9 -

(8) Finally, Senator George attempted to explain that the Senate Finance Committee did not propose greater taxes because the Committee did not like the Treasury's suggestions as to how the money might be raised. In explaining this, he expressed disapproval of the spendings tax which was not even suggested, although it has been hailed as a solution to our present tax difficulties by several writers and observers in the public press.

I will not criticize the Senate Committee for the inadequacy of its tax bill. I think, however, that it is distressing that we can not be more realistic when we face the most crucial point in our entire existence. It is true, of course, that people do not like to pay ~~taxes~~ taxes and nobody likes the people who assess taxes -- I am certainly more aware of that than anyone else, having spent twelve years as tax collector.

But this is war.

Since I started this press conference, literally hundreds of American, Russian and British soldiers have

- 10 -

died on the battle field, and perhaps thousands have been wounded or lost. It is very sobering to think about it. It is particularly distressing when you see lobbyists on the Hill manoeuvring, (and quite successfully) to lift tax burdens from the shoulders of the very people who, by all reason, should pay it in times like these -- the producers, for example, who are making more money than ever, and whose products are not vital necessities of life.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

## DATE

December 22, 1943

TO Fred Smith  
FROM The Secretary

All of the newspaper clippings I saw yesterday were Associated Press. I wonder if United Press sent out a story on my Monday Press Conference. If they did, would you please let me see it? I spoke to my son, Henry, in Columbia, South Carolina, and he said the paper there carried it on the front page and it read very well. You would be interested in Henry's comments. He said the story was the kind of a story that a local newspaper can carry.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE

December 22, 1943

TO Secretary Morgenthau

FROM Fred Smith *FS*

Fred Warner, who usually covers the United Press for the Treasury, has just changed his job and now works for the United States News. The new UP man is not very smart. He completely muffed your Monday press conference, and sent out no story at all. Shaeffer has had at least one complaint from a UP subscriber, checking up to find out whether there was even a UP man here.

We went in search of the UP story yesterday, and this is what we found.



December 22, 1943  
11:14 a.m.

Howard A.  
Craig: General Craig, Mr. Secretary.

HMJr: Oh, good morning.

C: Good morning, sir.

HMJr: I wanted to get word to the Air Force, particularly to General Arnold that I had a great morning this morning over at Bolling Field.

C: Well, that's splendid.

HMJr: I asked for General Arnold, then General Giles, but I'm ever so much obliged for the opportunity.

C: All right.

HMJr: And I congratulate the Air Corps on the new types of planes they've got.

C: I'll certainly give that word to General Arnold.

HMJr: Tell....

C: He'll be very gratified.

HMJr: Tell him it was most encouraging.

C: Yes, sir.

HMJr: Most encouraging.

C: All right, sir. I'll give that message to the General when he comes in.

HMJr: Thank you.

C: You're welcome.

December 28, 1943  
11:28 a.m.

HMJr: Leo.

Leo  
Crowley: Hello. How are you?

HMJr: Fine. Look, Leo, I got this message just a little while ago from the President's office that he wanted to see me and Acheson on the 29th on English dollar balances. And if I couldn't come, I should designate somebody. See?

C: Yeah.

HMJr: Well, I can't be here on the 29th and I called up Miss Barrows and said, "Now, look, this is very important. It's so important that when Mr. Stettinius was sick we called off the meeting."

C: That's right.

HMJr: I said, "The people that should be there are Crowley, Stettinius, Acheson and myself and I can't designate anybody to represent me."

C: That's right.

HMJr: I said, "It's been going on since January so I don't see why the President can't wait until the 31st when I will be back."

C: That's right. I agree with that 100%.

HMJr: See? So I -- evidently somebody's already gotten to him and Hull had lunch with him yesterday so I don't imagine it takes much guessing.

C: That's right.

HMJr: Now, would you mind telling Oscar to tell Stettinius for me, who has left his apartment -- I tried -- tell Oscar -- do you mind doing it or would you rather have me do it direct?

C: No, no. I'll be glad to do it.

HMJr: Well, tell Oscar to tell -- I tried to get Stettinius at his apartment but he had left for the country and I want him to know that -- this message and I'm insisting that he be there and

HMJr:  
Cont'd

that I said that unless we all four could be there, the President should wait until Stettinius got well.

C: That's right. I agree with that.

HMJr: And if Oscar wouldn't mind telling Stettinius that I did it -- because it looks to me as though Acheson was trying to run around -- make an end run around Stettinius.

C: That's so. Well, I told Oscar this morning, confidentially, that Ed picked a convenient time for to take that cold.

HMJr: Yeah. Do you think so?

C: Well, I mean -- I meant that rather jokingly but as far as our whole program is concerned, he certainly gave them a chance to work on the President before we got a chance to talk to him.

HMJr: Well, I think I stopped it, and I'm going up to the country with the President and I think I may have a chance to do a little whispering in his ear.

C: Fine. And I'll get hold of Oscar and I will do it myself with Ed as far as that's concerned.

HMJr: Any way, just let Ed know that I tried to get him at his house. He'd just left there and that I'm going to try to hold the ball until he's well and until we, all of us, can go together.

C: Fine and dandy. I'll do that.

HMJr: And then, we ought to have a meeting before we go over with the President so we don't have a free-for-all there.

C: Well, I'm -- I think this, that we can get Ed to go along with us pretty well, but I'm -- as far as we're concerned, both of us....

HMJr: Yeah.

C: ....there's no disagreement on our part anyhow.

- 3 -

HMJr: Well, why don't I suggest that we meet here at my office on the 31st at 10:00 o'clock.

C: That will be good. Be very good.

HMJr: I'll get that out.

C: That will be very good.

HMJr: How's that?

C: Fine.

HMJr: Because the President will never see us before 10:00 o'clock.

C: That's right. That's right.

HMJr: This thing kind of annoys me, you know, that Acheson....

C: Well, of course, you know what he did. He went to Hull and Hull went over there and had lunch and sold the President on the thing.

HMJr: Yeah.

C: What they do, of course, on the Treasury and they do on S.E.A.

HMJr: Yeah.

C: They try to run around us all the time.

HMJr: That's right.

C: Have a nice few days' rest now and I'll get in touch with Oscar right this moment.

HMJr: I thank you.

C: Thank you.

December 22, 1943  
12:10 p.m.

HMJr: ...at the White House called me up to say that they wanted me over there on the 29th with Dean Acheson to talk about the English balances.

Harry White: On the 29th?

HMJr: Yes. So I told them I was very sorry; that I couldn't come and the President could wait two days until the 31st when I was back and I wanted Stettinius and Crowley and Acheson and myself.

W: Well, don't you think you'd better have a meeting before then with....

HMJr: I called a....

W: ...the group?

HMJr: I called it for 10:00 o'clock on the 31st.

W: Oh, that's the same day in the morning?

HMJr: The first time I can do it.

W: I see. And, hello?

HMJr: Yeah.

W: Have you reason to believe that they'll postpone that meeting?

HMJr: The chances are nine out of ten.

W: They will?

HMJr: Yeah.

W: I see. All right, sir.

HMJr: Good.

W: Okay.

December 22, 1943  
2:39 p.m.

General  
Arnold:

Hello.

HMJr:

Welcome back to U.S.A.

A:

Thank you very much. I understand that you went over this morning and saw our show and was very pleased with it.

HMJr:

Well, I was more than that, I was thrilled.

A:

Well, I -- I went over with it -- was over there later than you were. I didn't know when you were going over.

HMJr:

Yeah, but -- and I wanted to tell you people I appreciated so much an opportunity to see it. I think that B-29 looks wonderful.

A:

Doesn't it though?

HMJr:

And that plane with that 75 millimeter canon and some of those newer ones and I was very much encouraged and I just wanted to tell you so. And also, your people, while you've been gone, in the Air Room there, General Giles and others, have been very kind to me.

A:

Well, I think that's fine. I'm tickled to death that they have. And I was hoping that you would make full use of it.

HMJr:

Well, I'm going home for Christmas and when I come back, maybe you can come over and have lunch with me.

A:

I'll be delighted.

HMJr:

I'll look forward to seeing you.

A:

Thank you.

HMJr:

Good bye.

December 22, 1943  
2:45 p.m.

HMJr: Should you or I call up Lauch Currie and tell him I recommended him to the President for this job?

Harry  
White: Why, it would be nice if you called him.

HMJr: I'll make it.

W: Though I could do if you don't like.

HMJr: I'll do it. I hope to see you. I hear what you've got is not pressing.

W: No, it's not pressing.

HMJr: I'll try to work you in before five o'clock.

W: Okay.

HMJr: All right.

December 22, 1943<sup>139</sup>  
4:43 p.m. ✓

HMJr: Lauch, I thought you'd like to know that I recommended to the President, and this is for your ears only, that you be the top Economic, Financial and what-have-you for United States Government and Army in England.

Lauchlin Currie: Well, well.

HMJr: And the President was -- liked it very much.

C: Well, that's awfully good of you, Mr. Secretary. I appreciate it very much.

HMJr: Well....

C: I do -- I do have a job, you know.

HMJr: I know, but the President seemed to think that this would be more important, but I wanted to tell you anyway, and Harry knows about it.

C: I'm awfully appreciative. I....

HMJr: But....

C: I'd like to know a lot about it, of course.

HMJr: Well, I think Harry could tell you more than I could.

C: All right.

HMJr: But the Army still ~~hasn't~~ asked me. They keep shoving people at me all the time and I keep saying, "No". So, I decided I'd get a man that they couldn't say, "No" to.

C: Well, I do feel I have an uncompleted job here, Mr. Secretary.

HMJr: Yeah.

C: It's pretty....

HMJr: Well....

C: ....a pretty awkward job.



HMJr: I'm being selfish.

C: (Laughs)

HMJr: So you wait and see what the President does.

C: Fine.

HMJr: But I thought I ought to at least warn you.

C: Well, I'm very appreciative and thank you so much.

HMJr: It's an awfully important job, Lauch.

C: Well, I'll talk it over with Harry.

HMJr: Yeah.

C: And see what I can learn about it.

HMJr: It's really going to settle the financial future of Europe.

C: Now, now, now, now.

HMJr: What?

C: Now, now.

HMJr: Yeah, yeah. Definitely. Definitely.

C: Do you think any man is going to do that?

HMJr: What?

C: Do you think any man is going to do that?

HMJr: Well, he can do it against us.

C: (Laughs)

HMJr: Just the way they tried to do in '33 at the London Economic Conference.

C: Yes.

HMJr: I mean, they did it up to the point where the President had to torpedo it, and what I want is to keep that from happening again, and so does he. He's very keen on this.

- 3 -

C: I'm very interested and very flattered and I certainly will....

HMJr: He considers it of first importance.

C: Is that so?

HMJr: Yeah.

C: Well, that's....

HMJr: He considers it absolutely of the first importance. He says it's more important than China or anything else.

C: Well, I'll -- let me talk it over with Harry.

HMJr: Do that, will you?

C: Yeah.

HMJr: Okay.

C: Thank you so much.

HMJr: All right.

C: All right, thanks.

December 22, 1943

My dear Mr. Graham:

Pardon my delay in answering your letter of December 14th. Miss Elliott was on a tour for us on the West Coast and I wanted to have a chance to discuss this matter quite thoroughly with her.

First of all, I should like to thank you and Dean Jackson for having loaned Miss Elliott to us during the critical months through which we have had to work to stabilize our War Financing Program. I know that you will be happy to learn that she has rendered a real service to her Government through assisting us in getting women really interested not only in investing in War Bonds, but in helping in important field work in the promotion of the sale of bonds in this country.

When you know that in many of our big War Plants fifty percent of the employees today are women and when you stop to examine the manpower problems so far as War Bond work is concerned, you know too that the help we are now receiving from women as a result of Miss Elliott's efforts, is indispensable to our program.

It is true, as you say, that Miss Elliott has been able to organize most of the States and I might add that it is also true that she has built a very good organization here in Washington for carrying on this work. She has, however, been the guiding spirit of this whole phase of our program and it is as a result of her own personality and efforts that much of it has been made possible. Realizing all this and yet not wanting to be selfish or unfair in trying to keep Miss Elliott on a full time basis, I would like to suggest that if it is agreeable with the College that Miss Elliott return to Greensboro but that we keep her on a consultant basis

- 2 -

with her headquarters at Greensboro and have her come to Washington a couple of days every month to see that her program is being well carried on. If she could do this and if she could spend a little longer period of time during the three drives that we plan to conduct this year, then I believe it would be possible for us to protect and preserve the equities that she has built.

Again I want to thank both you and Dean Jackson for your fine cooperation and to urge you to let us continue to have the benefit of Miss Elliott's help on the basis that I have suggested. I trust that you will find it possible to be this generous to the Treasury.

With kind regards.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Frank P. Graham,  
National War Labor Board,  
Department of Labor Building,  
Washington 25, D. C.

TRG:DFT

144

Draft as dictated by the Secretary

December 21, 1943

My dear Mr. Graham:

Pardon my delay in answering your letter of December 14, but before doing so I wanted to have a chance to discuss it with Miss Elliott who has been on a tour to the West Coast for us.

In the first place, may I thank you and Dean Jackson for having loaned Miss Elliott to us for as long as you have. I think you will be happy to know that she has rendered a real service to her Government through assisting us in getting women really interested in investing in War Bonds. As you know, in many war plants there are as many as 50 per cent of the employees today who are women so that women's role is much more important today than it has ever been before.

It is true, as you say, that Miss Elliott has been able to organize most of the States and I have this suggestion to make, and I don't want to be selfish in trying to keep Miss Elliott out full-time. Would it be agreeable to the College to let us have Miss Elliott for 6 weeks full-time before any drive? At present, we are planning three drives a year. Besides that, have her come up once a month for several days. In this way Miss Elliott could continue to supervise the very important work which she has started and at the same time I should think that she could render a service to the College. Our Fourth War Loan Drive starts on January 18 and we could release Miss Elliott by February 15 when the Drive closes, and then you could have her undivided services, with the exception of a couple

-2-

of days a month in the Treasury, up to sometime in April.

I hope that you will think that this is an equitable division of Miss Elliott's valuable time and that the University will continue to be generous to the Treasury.

With kind regards,

Yours sincerely,

Mr. Frank P. Graham,  
National War Labor Board,  
Department of Labor Building,  
Washington 25, D. C.

NATIONAL WAR LABOR BOARD

DEPARTMENT OF LABOR BUILDING  
WASHINGTON 25, D. C.



December 14, 1943

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

Dear Mr. Morganthau:

I have talked with Dean Harriet Elliott with regard to the situation at the Women's College. The administrative head of the college, Dean W. C. Jackson, is strongly of the opinion that Dean Elliott should go back to the Women's College at Greensboro. I think that she should come back at once, or at the earliest possible moment. I saw him personally my last weekend at Chapel Hill. On the basis of his representations and analysis I am convinced that the college needs her now most urgently.

I understand that 46 of the states are organized, and Miss Elliott's work is well organized and has gathered momentum which will carry it forward. I also understand that she has an organization of able women Lieutenants and that one or two of them are capable of carrying on her great work.

Dean Jackson makes the point that she has been away from the college now between two and three years, and in view of the great need of her, will render a great service to the State and the Nation at the Women's College. I am, therefore, joining Dean Jackson in representing this matter to you.

With deep appreciation of your own great service to our Nation in this critical hour, and with best wishes to you and Mrs. Morganthau, I am

Sincerely yours,

A handwritten signature in cursive script that reads "Frank P. Graham".

Frank P. Graham

RECORDS SECTION  
OFFICE



THE SECRETARY OF THE NAVY  
WASHINGTON

December 22, 1943

My dear Henry:

Thank you for your letter of December 20 commenting in such generous fashion on the Navy's sale of bonds.

I am directing that this letter of yours be photostated and circulated generally in the various Departments and installations of the Navy. I am sure that it will be very helpful in the future sale of bonds in this Department. I thank you for writing it.

Yours sincerely,

*Frank Knox*

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

12/21/43

SURPLUS PROPERTY REPORTED TO THE  
PROCUREMENT DIVISION BY THE WAR DEPARTMENT  
FROM DECEMBER 1 TO DECEMBER 21, 1943, INCL.

<u>COMMODITY</u>	<u>QUANTITY</u>	<u>ESTIMATED VALUE</u>	<u>IN THE PROCESS OF DECLARING</u>
Horses	2,299	\$ 68,970	
Hides	253	22,770	
Harness	22,000 sets	889,247	
Smoke Pots	108,000	1,620,000	
New Cars	6,483	5,500,000	
Trucks			10,500
AC Buttons	8,733,450		
Clothing & Shoes	181,900	352,700	
Sandbags	3,900,000	400,000	
Gauze, Bandage	24,790 pkgs.	2,479	
Burn Ointment	7,683 sets	2,100	
Cement	15,000 bags	7,500	
Colos & Scabbards		28,000	
Electrical & Plumbing Supplies & Material	190 page (no values listed on declaration - listing to be appraised)		
Earplugs			4,000,000 sq. ft.
Construction Equipment			3,600 pieces
Butyl Alcohol	45,313 gals.	51,656	
Drill, Cotton	65,000 yds.	18,411	
Bars, Steel	589 lbs.	468	
Tool, Steel	200 lbs.	150	
Fire Repair Material	3 lots	18,153	
Caustic Soda	670 STN	30,150	
<b>TOTAL</b>		<b>\$ 9,012,754</b>	<b>10,000,000 approx.</b>

In addition to the foregoing, normal surpluses are being declared directly to our eleven Regional Offices.

*Clifton E. Mack*  
Clifton E. Mack  
Director of Procurement

DEC 22 1943

My dear Mr. Secretary:

Due to the frequent changes made necessary as a result of the progress of the war, the War Department is declaring substantial quantities of many different types of commodities to the Procurement Division of the Treasury Department, as surplus to the needs of the Army.

Recently we were informed that there would be declared approximately 22,000 horses and mules. In addition to these, it is expected that there will be various commodities, such as equipment and hand tools, that would be very useful to our farmers.

The Procurement Division has been assigned the responsibility of effecting the proper and expeditious disposition of such property and it is felt that the Department of Agriculture could be of considerable assistance to the Treasury Department in accomplishing our objectives of effecting widespread distribution with regard to farm needs in the most advantageous and expeditious manner.

It is suggested that a representative of your Department be appointed as a liaison officer to work with the Procurement Division in the developing of our distribution of the particular types of property that would be applicable to the agricultural industry.

In this connection, it will be appreciated if the appointed member of your organization will arrange to

- 2 -

discuss this subject with Mr. Clifton E. Mack, Director of Procurement, for the purpose of establishing such liaison.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

The Honorable

The Secretary of Agriculture

12/21/43



TREASURY DEPARTMENT  
PROCUREMENT DIVISION  
WASHINGTON 25

OFFICE OF THE DIRECTOR

December 22, 1943

**SECRET**

MEMORANDUM TO THE SECRETARY:

There is submitted herewith the weekly report of Lend-Lease purchases.

There has been added to the Russian Shipping Program for the month of January an additional 14 vessels which will increase the tonnage by 102,000 tons.

*Clifton E. Mack*  
Clifton E. Mack  
Director of Procurement

LEND-LEASE  
 TREASURY DEPARTMENT, PROCUREMENT DIVISION  
 STATEMENT OF ALLOCATIONS, OBLIGATIONS (PURCHASES) AND  
 DELIVERIES TO FOREIGN GOVERNMENTS AT U. S. PORTS  
 AS OF DECEMBER 15, 1943  
 (In Millions of Dollars)

SECRET

	<u>Total</u>	<u>U. K.</u>	<u>Russia</u>	<u>China</u>	<u>Administrative Expenses</u>	<u>Miscellaneous &amp; Undistributed</u>
Allocations	\$3975.7 (3976.6)	\$1978.1 (1978.1)	\$1558.8 (1558.8)	\$109.8 (109.8)	\$10.6 (11.0)	\$318.4 (318.9)
Purchase Authoriza- tions (Requisitions)	\$3315.9 (3306.6)	\$1729.2 (1724.2)	\$1325.9 (1323.1)	\$44.1 (44.1)	- -	\$216.7 (215.2)
Requisitions Cleared for Purchase	\$3240.9 (3242.1)	\$1693.1 (1691.1)	\$1295.3 (1298.5)	\$44.0 (43.8)	- -	\$208.5 (208.7)
Obligations (Purchases)	\$3094.5 (3074.8)	\$1649.7 (1645.1)	\$1255.5 (1242.6)	\$43.9 (43.7)	\$8.9 (8.9)	\$136.5 (134.5)
Deliveries to Foreign Governments at U. S. Ports*	\$1546.2 (1527.6)	\$1055.5 (1046.7)	\$448.3 (439.2)	\$20.1 (20.1)	- -	\$22.3 (21.6)

\*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 December 8, 1943.

## EXPLANATION OF DIFFERENCES

Decreases in Allocations are a result of adjustment of funds to Services and Expenses to cover funds transferred in error to Administrative Expenses, also the revocation of Allocation by authority of Federal Economic Administration.

Reductions in Requisitions Cleared for Purchase are caused by adjustment of requisitions to actual contracts.

155 ✓  
JAW  
UNITED KINGDOM TREASURY DELEGATION

BOX 680  
BENJAMIN FRANKLIN STATION  
WASHINGTON, D. C.

REFERENCE:

4-D

TELEPHONE EXECUTIVE 3030

22nd December 1943

My dear White:

Lord Halifax does not wish to trouble Mr. Morgenthau with a letter, knowing how busy he is, and so he has asked me to request you to be kind enough to give the following message to the Secretary. The Chancellor of the Exchequer has told Lord Halifax that the question of our dollar balances was discussed between the President and Mr. Churchill and has explained that he (the Chancellor) suggested to the Prime Minister that this should be done in advance of the Secretary's conversation with Lord Halifax.

Sincerely yours,

*S. D. Waley*

S.D. Waley.

Mr. H.D. White,  
United States Treasury,  
Washington, D. C.



NOT TO BE RE-TRANSMITTEDCOPY NO. 12BRITISH MOST SECRETU.S. SECRETOPTEL No. 417

Information received up to 10 A. M., 22nd December, 1943.

1. NAVAL

A French sub-chaser, escorting one of H. I. Submarines capsized and sank off ST. ALLANS HEAD yesterday. Six survivors so far. An M.T.B. captured two German schooners north of HVAR ISLAND, ADRIATIC, on 19th and took them into BARR. 12 prisoners taken.

2. MILITARY

ITALY. To noon 21st. 8th Army. Canadian and Indian troops made further advances after hard fighting.

5th Army. French troops improved their positions.

3. AIR OPERATIONS

WESTERN FRONT. 20th/21st. FRANKFURT. 981 tons H.E. and 1,089 tons incendiaries dropped including 300 4,000 lb. bombs. Clouds en route and to some extent over objective. Bombing scattered at first but concentration improved later. One very large explosion reported. Heavy A/A, moderate search-lights hampered by cloud, many fighter flares and night fighters active.

MANNHEIM. 210 tons dropped. Built up area clearly seen by light of flares. Good bombing concentration, smoke to 12,000 feet.

21st. 81 Medium and 148 Fighter Bombers attacked military objectives in North East FRANCE. Enemy casualties 8, 2, 4. Ours - 8 Fighters missing. 21st/22nd. Aircraft despatched - DUISSELDORF 9, COLOGNE 5, Leaflets 4, Intruders 4. Three enemy aircraft flew over LONDON and T/A ES ESTUARY to the BEDFORD and COLCHESTER areas. No casualties from bombing reported, but two fatal from A/A fire in LONDON area.

ITALY. 20th. 325 Fighters and Fighter Bombers attacked objectives in the battle area and near RO ME. Five aircraft missing.

BULGARIA. 20th. 37 escorted Liberators dropped 89 tons on SOFIE railway centre. Enemy casualties 9, 3, 4, for one Liberator and three Lightnings missing.

GREECE. 20th. 109 escorted Fortresses effectively attacked LIMNISI airfield. Enemy casualties 19, 3, 3, for three Fortresses and six Fighters missing.

December 23, 1943  
9:00 a.m.

## GROUP

Present: Mr. Bell  
Mr. Gaston  
Mr. Paul  
Mr. Smith  
Mr. Thompson  
Mr. Elough  
Mr. Gamble  
Miss Michener  
Mrs. Klotz  
Mr. White

The reason I got you all out of bed was I was busy and wanted to have a chance to see you. I was particularly pleased at the way the papers handled this tax story. And by good luck, I think, after consulting with Gaston and Smith and discussing the thing it turned out that we were right to do nothing.

MR. PAUL: Did you see this morning's Post?

H.M.JR: Yes, and the follow-up story which was written on the Treasury. I was very proud of it, Albright's story.

MR. GASTON: Yes, I read it yesterday.

H.M.JR: The Times had a two or three column editorial. Krock goes into it. The heading was "Too Much Name Calling," but he doesn't mention anybody's name.

I just want to be sure that we are all together on the team and that nobody, through ambition, tries to stimulate the thing. The thing is rolling beautifully, and I think all our way.

MR. GASTON: Yes, it is rolling fine now.

- 2 -

H.M.JR: The thing is to leave it alone.

MR. GASTON: Walsh was particularly good yesterday.

H.M.JR: So if you all agree, I would let it roll on its own. If anybody disagrees, I wish you would say so.

MR. PAUL: Well, Leon Henderson is going to call me tomorrow. He wants to know about some stuff.

H.M.JR: What do you suggest, Herbert?

MR. GASTON: I would give Leon Henderson all the facts he wants on the thing. I think I would discuss the situation pretty freely with him.

H.M.JR: That is all right, but I didn't want anything to come out, "Treasury officials say--"

MR. PAUL: You can't prevent that. That comes out whether you say it or not, some times.

H.M.JR: Well, the thing is rolling beautifully. Have you got anything new to give Leon?

MR. PAUL: I don't know. Fred had one idea that I was going to talk with him about.

MR. SMITH: It is a little late now; that is the trouble.

H.M.JR: Will you tell them in the press room, Fred, to let her roll?

MR. SMITH: I think that is true.

MR. PAUL: I had a talk with Patterson. He was here until about six-thirty last night. He thinks there ought to be another meeting of that committee group to organize all this work, publicity, and seeing Senators, and so forth, next week. He also is going to suggest to Byrnes that Byrnes put on another meeting so as to solidify the party line. He has the same worry we have.

- 3 -

H.M.JR: Good.

MR. GASTON: There is just one thing that may come up. Now, you have opened up interest in this thing pretty thoroughly. Some of the newspapermen who are a little bit ignorant about it may want to ask about these different provisions and what they mean. I think if they ask that, we ought to tell them, read them over to them and tell them what we think the prospects are.

MR. PAUL: I don't think the stuff will keep going without some push.

H.M.JR: Let me make myself clear.

MR. GASTON: I think I understand you very well; you don't want us to go out and stimulate any new high-pressure stuff.

MR. SMITH: As coming from the Treasury.

H.M.JR: No, I don't want to stimulate anything where "Morgenthau calls and says to George, 'I don't like your mother, and I don't like your face.'" I don't want anything personal as between the Treasury and George.

MR. PAUL: Do you see any objection where it can be done?

H.M.JR: To go after George personally?

MR. GASTON: No, just discussion of the details of the law, especially if the fellows want to know what this and that means.

H.M.JR: What I was trying to get over--and I will do it once more: The discussion yesterday--should I, as Secretary of the Treasury, answer Walter George? The decision was made, no, and I want to keep to that decision. I want everybody to do everything possible to stimulate interest of the public in renegotiation.

- 4 -

MR. PAUL: I agree with you completely on that basis. I didn't understand.

H.M.JR: I gathered that neither you nor Gaston did.

MR. PAUL: Because I am afraid it will die.

H.M.JR: Do I make myself clear?

MR. PAUL: Yes. Well, I wouldn't have thought of the other, anyway.

H.M.JR: The only reason I raised it is, Gaston and Smith say you fellows should have asked George.

MR. PAUL: Yes, but not in that spirit, anyway, of name calling.

H.M.JR: Well, the papers have picked it up. We have gotten an awfully good break, I think.

MR. SMITH: Yes, very good.

H.M.JR: I want to, if anything, increase the tempo of the interest in renegotiation, and you have to watch the Navy and Baruch. Didn't Baruch and Hancock say yesterday, "Well, I hear they have done something to take care of you"?

MR. SULLIVAN: Baruch said that. He thought that the amendment that they put in the last minute cured the situation.

H.M.JR: Harry, you didn't hear me. I told the rest. You didn't read Sulzberger's story on Yugoslavia. If you didn't, I strongly recommend it.

MR. WHITE: I read most of it; I have the rest home.

H.M.JR: If that doesn't get the Pulitzer Prize, I will be surprised. As a matter of fact, what's-his-name at ten o'clock thought it was the best story of the year.

-5-

MR. PAUL: Swing.

MR. GASTON: Raymond ex-Gram Swing.

MR. SULLIVAN: Really?

H.M.JR: Has he dropped the "Gram"?

MR. GASTON: He sent out this invitation to the committee organizing the dinner - Freda Kirchwey - it was just Raymond Swing, not Raymond Gram.

H.M.JR: Well, anyway, are we all together on that?

MR. PAUL: Yes.

H.M.JR: The other thing -- I did read this thing this morning, and I am just as enthusiastic as you are. This is the opening program for the Fourth War Loan. The reason I am so enthusiastic is that the fellow agrees with me. (Laughter) I think he is wonderful; I want to give it back to you personally. (Refers to manuscript on Fourth War Loan)

MR. GAMBLE: All right, sir.

H.M.JR: I would be very glad to take as much part in it as you fellows want, because that fellow is an artist. Incidentally, what is the man's name?

MR. GAMBLE: Private Ed Dudley. He is in the army. He was a top radio producer before he went in the Army. This is not Norman Corwin; this is another man.

H.M.JR: Can't we get Private Dudley detailed to us?

MR. GAMBLE: We have him detailed to us for this; he is at Yale, and is doing that job for us from there.

H.M.JR: Yale?

MR. GAMBLE: Yes, and they are assigning him to this job. The Army has all these radio producers and special

- 6 -

service people that they have put together in some big school.

H.M.JR: Can't he come a little closer than Yale?

MR. GAMBLE: Yes, they will permit him to come to New York to work on this, and we expect to have him here some day this week.

H.M.JR: That fellow is a breath of fresh air. I might even use him for myself. But I will do just as much as you want me to do--you talked about whether I would be willing. You can use me on that kind of a script. Don't you like it?

MR. SMITH: It is awfully good. That is not what worries me. He has an awfully big order there.

MR. GAMBLE: This fellow was a top radio producer before he went in the Army.

H.M.JR: Now, do you think at four o'clock you could give us Tarawa? At that time we could hear--"Let's Not be Too Beastly to the Germans."

MR. GAMBLE: Let's make it four o'clock.

H.M.JR: If anybody here is interested, it is the uncensored script of the Marine's film of Tarawa.

MR. GAMBLE: Noel Coward is doing the Treasury Star Parade for us.

MR. SULLIVAN: Four?

H.M.JR: Do you have something?

MR. SULLIVAN: No, I would like very much to see it.

H.M.JR: Excuse me, that was a breath of fresh air, that script.

MR. GAMBLE: Coward didn't like the idea of using Kostelanetz and so forth, so he wants to--

- 7 -

H.M.JR: Oh boy! This being a movie producer is something.

MR. GAMBLE: He is willing to do a fifteen minute transcription for us, the Treasury Star Parade. He will play his own accompaniment.

In addition to this "We Must all be Beastly with the Germans," he has a little poem that he wants to do, an Air Force poem that he has written, and another song, "London Pride." He would like to do the two songs and this recitation and work it into a fifteen minute Treasury Star Parade.

H.M.JR: One of them is beautiful. Listen, he is one of the top producers of the world, so anything he wants to do, let him do it.

MR. GAMBLE: I thought I would let you know, because he didn't like the Kostelanetz--we had to brush him off.

H.M.JR: Another good idea of mine gone down the sewer.

MR. PAUL: We have a very important matter to take up with you today, Mr. White, and Mr. Pehle.

H.M.JR: Are you fellows ready?

MR. PAUL: Well, we think you ought to hear about it before you get away--new developments, very important.

H.M.JR: Good or bad?

MR. PAUL: I think they are very good.

H.M.JR: How will three o'clock suit you?

MR. PAUL: Any time you say.

H.M.JR: Well, this morning is tighter than a drum--that is, Joe, DuBois, and Luxford--that crowd?



- 8 -

MR. PAUL: Yes, but I want to have Harry White in this one.

H.M.JR: I don't mind. Three o'clock, Harry. Will you let the rest of them know?

MR. PAUL: Yes.

MR. THOMPSON: I have two deferment cases here, both technical men, pre-Pearl Harbor fathers. One is thirty-seven, and the other is thirty-three.

MR. GASTON: One is thirty-seven and has four children.

H.M.JR: Domenick Nappi, thirty-seven, with four children. (Signs deferment request for Mr. Nappi)

(Mr. Bell entered the conference)

H.M.JR: Hello.

MR. BELL: Sorry to be late, but I didn't get up in time.

H.M.JR: Welcome back. You are just in time to take over. As a matter of fact, the purpose was to bring you up to date this morning.

MR. BELL: Good.

H.M.JR: Lewis C. Tidball--he is thirty-three and has two children. What does he do?

MR. THOMPSON: He is Assistant Superintendent of the Coining Department in the Philadelphia Mint. They are on a twenty-four hour basis, and they have to have a technical man.

(The Secretary signs deferment request for Mr. Tidball)

MR. BLOUGH: I don't think I have anything.

- 9 -

MR. PAUL: I told you about the session with Patterson.

H.M.JR: Yes. Well, I am all for that.

(Mrs. Klotz entered the conference.)

MR. PAUL: I put you up yesterday as pretty strongly irreconcilable.

H.M.JR: I won't be here next week because my son Robert is getting married next week. They keep changing the date about every day, but he has only two weeks left; about ten days are gone. He went to see his Captain, and he said--this Captain said to him: "Well, Bob, the Navy gave me thirty days in which to get married, and I wasted one week getting acquainted with my wife." So as a result they have decided to get married one day earlier, either on the 29th or 30th. So I am going up tonight, off the record, with the President. That is the easiest way I can get transportation.

I don't think I will be back until either the 30th, or 31st, so you (Bell) can take over, young fellow.

Mr. Gaston is to be home next week, and is to be left alone.

MR. GASTON: Thank you.

MR. PAUL: If the meeting comes up--

H.M.JR: If the meeting comes up, I would like Mr. Bell to go. I would like him to be brought up to date, and I think the easiest way would be if you would have who bring him up to date?

MR. PAUL: Joe or me.

H.M.JR: That is the only really important thing.

MR. PAUL: There is a memorandum on it, Dan.

- 10 -

MR. BELL: Where is the meeting?

H.M.JR: At Jimmy Byrnes' office.

Harry?

MR. WHITE: There are several things--

H.M.JR: You are going to get your day in court; so if you want to wait--

MR. WHITE: I said there are several things. I could either raise them now or get the papers.

H.M.JR: Are you ready for your nine-thirty meeting?

MR. WHITE: Yes, but I think you want a few minutes before that.

H.M.JR: Yes, I am going to stop at twenty-five after. Have you got my memorandum to the President for Chiang Kai-chek?

MR. WHITE: Yes. There were several other things. If I get a few minutes later in the day, I will bring them up.

H.M.JR: If this next doesn't run too late--he won't stay half an hour.

MISS MICHENER: I have nothing, Mr. Secretary.

H.M.JR: What is the matter with Mr. Haas?

MISS MICHENER: He is still trying to get over the flu.

H.M.JR: Tell Tickton I will do my best to see him today on production figures. What are you boys going to do with figures on redemptions?

MR. SMITH: I am waiting for a further breakdown of the figures; and as soon as I get that, we are going to write a memorandum from you to the editors. I am

- 11 -

going to turn it over to Ted, and Ted is going to send it out after it satisfies them. If they think it is all right, then we will let it go.

H.M.JR: Either your suits are shrinking, or you are putting on weight, young fellow.

MR. SMITH: I think it is a little bit of both.

H.M.JR: Washington agrees with you.

MR. SULLIVAN: I called Walters yesterday and learned that he has not retired. He is Vice President. He was home, and they said he was seriously ill, so I did not call him at home. I thought I might call Donald Nelson and ask him about it, and then follow him up next week when he is feeling better.

You wanted to see the programs in the original sales of various types of equipment, and Cliff has the program for the disposition of horses and mules and harness.

H.M.JR: Could you stay after that liquor conference?

MR. SULLIVAN: Yes, sir. Now, what do you want at that one?

H.M.JR: I want to know what you fellows have done in ten days, a progress report, young man.

MR. SULLIVAN: Sure, I will be glad to give it to you.

H.M.JR: You are wreathed in smiles.

MR. SULLIVAN: Have you read the papers?

MR. GASTON: You saw the story about New York.

H.M.JR: You think it better because the Astor Hotel called you up and said, "There are a thousand cases of liquor over here?"

- 12 -

MR. SULLIVAN: No, I think they did very good work once they got the tip.

H.M.JR: I have a couple of suggestions.

MR. SULLIVAN: Swell. But I understood Johnson was coming to the meeting.

H.M.JR: Oh, the liquor meeting. (Secretary checks attendance at liquor meeting with Mr. Fitzgerald - Mr. Gaston, Mr. Sullivan, Mr. Ireys, Mr. Hannegan, Mr. Smith, Mr. Berkshire)

MR. SULLIVAN: That is all right. I wondered last night. It didn't make sense to me. Ten-thirty - aye, aye, sir.

MR. GASTON: I haven't anything.

H.M.JR: Sometime during the day I will see you. (Bell) Did you have a little rest?

MR. BELL: Yes. I got tired of loafing.

H.M.JR: Were you in North Hampton?

MR. BELL: Most of the time.

H.M.JR: How is your nice daughter?

MR. BELL: She is fine, and appreciated your nice note. It was very cold up there.

H.M.JR: But you really loafed?

MR. BELL: Yes, I didn't do anything. I got up at nine thirty and ten o'clock, and went to bed early. The town close up, you know, at nine-thirty, so I really got rested. That was the trouble this morning; I have gotten in the habit of sleeping until nine o'clock and didn't get up.

I had lunch with Peter Odegard on Friday, and dinner with him Monday night. He has the cutest kid I think I have ever laid eyes on - Tommy.

H.M.JR: Well, the Army had me over yesterday at Bowling Field. I saw the new B-29, which is something. It is the most amazing ship.

- 13 -

MR. PAUL: Patterson was telling me about it.

H.M.JR: Also the other ship which carries the seventy-five millimeter cannon.

MR. WHITE: A-51?

H.M.JR: They say five thousand yards, I guess. They can shoot with the accuracy of a gun emplacement.

MR. WHITE: Is that the A-51?

H.M.JR: No, I think it is either the Douglas or the North American.

MR. GASTON: North American B-26, I think. The Ordnance--

H.M.JR: Or the B-25.

MR. GASTON: The Ordnance people were pretty much annoyed. They had done that whole development and were keeping it hush-hush, and then the Army Air Corps came out with a story taking credit for it.

H.M.JR: A funny thing happened about this show yesterday. When I was at the Air Room I said, "I want to see the B-29--the one with the cannon."

They said, "Fine, we will have it here today."

I said, "If you don't mind, you should tell Mr. Stimson. He may want to see it, too."

As a result they brought in these twelve planes and made a kind of a party out of it, very interesting.

MR. GASTON: You succeeded in getting Stimson in to have a look at it?

H.M.JR: Well, they did this two years ago: They brought planes from all over America for me, and Stimson heard about it and was sore, and he got there at the same time I did. He was sore about it. So I thought this time--

- 14 -

after all, you don't have to be hit over the head more than twice. But the result is that they really keep moving ahead all the time.

The Douglas people have a new bomber; it is a small bomber. It can carry the same bomb load as a B-17 and can mount fourteen fifty-calibre guns if they want.

MR. GASTON: They didn't have that plane here, did they?

H.M.JR: Yes, they did.

MR. GASTON: That is what they have been telling me about for the last year.

H.M.JR: They have kids there that look to me like twenty-five or twenty-six, full Colonels, flying these planes, but that is in the room.

O.K.

## Conference in Secretary's Office

December 23, 1943

9:30 A.M.

Present: Secretary Morgenthau  
General Somervell  
General Clay  
Mr. White

General Somervell stated that when he had been in China a couple of months ago he had discussed with Chinese Minister of Finance, Hung, a plan for obtaining 80 additional Chinese yuan as a contribution of the Chinese Government to the Allied war effort for every 20 yuan the United States purchased at the official rate. That procedure would enable the Army to obtain yuan at one cent each, and enable them to go ahead with their airport building and other programs without paying absurd costs. General Somervell stated that the Army's objection to any lend-lease in reverse arrangement by which the Chinese would build the airports (which he said they must have built by April) was that if the Chinese paid the contractors they could not get the work done as quickly because the Chinese were very slow in their payments to the contractors. If they wanted best results they would have to pay the Chinese themselves and at present rates of exchange the airports would cost fantastic sums.

The Secretary replied that Generalissimo Chiang Kai-shek had requested the President for a billion dollar loan to help combat inflation and for post-war reconstruction purposes, and that the President had referred the matter to him (the Secretary) for comment and that the Secretary had submitted to him a memorandum objecting to such a loan being made at this time. The Secretary handed General Somervell a copy of the memorandum to read. The Secretary said that he was aware of the needs of the Army and had spoken about the matter to the President and he felt that nothing should be done until the President had received a reply to the cable which the President had sent to Generalissimo Chiang Kai-shek. The Secretary said he appreciated the urgency of the Army's needs but thought that in view of the negotiations it would be better to postpone any further decisions or discussions for at least a week. The Secretary said he would let General Somervell know the moment he heard from the President.

The Secretary also added that it was of course up to the Army to do anything they wished but that they ought to let the Treasury take care of the question of exchange rate and getting the foreign exchange. General Somervell replied that he would be very happy to have the Treasury help and added that it was his understanding that his people were working closely with the Treasury. Mr. White confirmed that fact. White remarked that it might be necessary to put through the arrangements which General Somervell had discussed with Hung if the



- 2 -

other alternatives were not available. He said that the procedure by General Somervell had serious difficulties and should be adopted only if all other methods of obtaining a reasonable rate had failed. General Somervell agreed that it would be preferable to be able to buy the yuan we needed at the one cent rate. If we could do that it would not be necessary to make any of the other arrangements.

The General agreed that they would wait until they heard from the Secretary inasmuch as the Secretary had indicated he would expect a reply in the near future.

General Somervell also mentioned what the Treasury thought of Edward Acheson as a financial adviser to General Stillwell. The Secretary replied that he was embarrassed by having his advice asked after the particular persons had been approached. He mentioned the difficulty on that score that he was having with Secretary Stimson on the appointment of the top financial position in London and said that that matter would have to go to the President for settlement. He replied that Acheson was not, in his opinion a competently trained man for that job and that he would not be up to the caliber of British and Chinese men on the financial front that he would have to deal with. He said that we had a Treasury man, Adler, there who could devote some time to assisting General Stillwell but that if he wanted a first-rate man to be able to give General Stillwell full time aid that we might be able to send him Bill Taylor who had been in China and who knew the Far East and who would be able to advise Stillwell on all financial, monetary and economic matters.

General Somervell and Clay both expressed concern that they had selected Acheson but they were afraid they had gone too far to withdraw easily. They said they might try to find a way out but they feared the arrangements had proceeded too far. They thought maybe they could send him and Taylor as well. The Secretary said that he wouldn't think of sending Taylor if Taylor would be subordinate to Acheson. He replied "On no, Acheson would be subordinate to Taylor." The Secretary said under those circumstances it might be all right.

General Somervell wanted to know whether General Carter had asked us about Taylor. I said no but even if he had I don't think we would have sent him because it was our thought that Stillwell wanted a man who knew foreign exchange who could help him in technical matters connected with the acquisition and use of foreign currency. I said if that was all there was to it I was sure Acheson could do the job satisfactorily at least after he had a little more experience in the field. I said that from General Somervell's remarks that what Stillwell wants is a financial adviser who would be able to represent him and advise on all economic and financial matters of policy and that he would have to deal with British and Chinese similar representatives then Taylor was the man he ought to have and not Acheson.

H. D. White

December 23, 1943  
10:29 a.m.

173

HMJr: Hello.

Operator: Ambassador Gromyko has not returned from Cuba.

HMJr: Let me talk to his Secretary. Will you please?

Operator: Go ahead.

HMJr: Hello.

Ambassador  
Gromyko's  
Secretary: Secretary Morgenthau, good morning.

HMJr: Yes. Good morning.

S: Can I help you?

HMJr: I'm sure you can.

S: Yes.

HMJr: This financial mission....

S: Yes.

HMJr: ....from your government to our government to discuss the plan on stabilization of currency and the World Bank....

S: Yes, plan of stabilization....

HMJr: Of currencies.

S: Yes.

HMJr: And the World Bank.

S: Currency and World Bank.

HMJr: Yes. We -- I got word from Mr. Hull, when he was in Moscow that the Russian Government was going to send a mission....

S: Yes.

HMJr: ....to consult here with us the way practically all the other United Nations have.

S: Yes.

HMJr: Well, time is passing and I was wondering whether Ambassador Gromyko couldn't get off a message to Mr. Molotov and ask him when is the mission coming?

S: I see.

HMJr: It's something that I'm very much interested in.

S: Yes.

HMJr: And could you see that some kind of message was gotten off to Mr. Molotov?

S: I see. Well, I will be very happy to pass it on for you, Secretary Morgenthau, and I wonder if -- won't you hold on just one moment? I'll see if, perhaps, Mr. Bazykin can help you.

HMJr: Thank you.

S: Oh, no -- just a moment -- I don't believe he's here. Hold on, thank you.

(Pause)

S: No, I'm awfully sorry, Secretary Morgenthau, he is not here.

HMJr: Oh.

S: And was not expected until this evening.

HMJr: Well, if you want any details as to what it's about, Dr. Harry White....

S: Yes.

HMJr: ....can give you all the details that you want.

S: At the Treasury?

HMJr: At the Treasury.

S: Uh huh. Dr. Harry White will give further details.

HMJr: That's right.

S: Uh huh. Well, Secretary Morgenthau, I wonder if I might have this message -- bring this message to -- before Mr. Bazykin and perhaps he can call you. He is expected back tomorrow morning....

HMJr: Well....

S: He will be returning from New York.

HMJr: Well, unfortunately, I will not be here but Dr. White will be.

S: Dr. White?

HMJr: Yes.

S: All right. Then he can contact Dr. White.

HMJr: If you please.

S: And thank you very much.

HMJr: Thank you.

S: Good bye. Hello. Hello.

HMJr: Yes.

S: Would you like -- shall I leave word for the Ambassador to call you when he returns?

HMJr: Not if -- I don't think that is necessary. Just -- what I would like is a message to go forward to inquire when is this financial mission coming?

S: Coming to U.S.A?

HMJr: If you please.

S: I see. Very well, then, I shall bring it to Mr. Bazykin's attention.

HMJr: Thank you.

S: Thank you for calling. Good bye.

December 23, 1943  
10:30 a.m.

BLACK MARKET LIQUOR

Present: Mr. Sullivan  
Mr. Gaston  
Mr. Smith  
Mr. Irey  
Mr. Hannegan  
Mr. Berkshire

H.M.JR: Listen, if you fellows think you are going to go all around the Hotel Astor and pick up a thousand cases here and five hundred here, what good does it do me?

MR. GASTON: We were just talking the other day in meeting about sending out a letter to Hiram Walker and Seagram and the rest of them saying that we would like some samples.

H.M.JR: My God! I have been here ten years and I haven't learned yet how to get a little something on the side.

MR. HANNEGAN: I said, "I think I can show this to the Secretary and the whole thing is over with." St. Louis said the whisky black market is smashed.

H.M.JR: That is St. Louis.

MR. HANNEGAN: Well, that is the right kind of publicity for us.

H.M.JR: Can somebody in five minutes give me a condensed version of what has happened? Berkshire?

- 2 -

MR. BERKSHIRE: Following our--

H.M.JR: Make it snappy, will you?

MR. BERKSHIRE: Mr. Secretary, following our meeting the other day, we called in ten of our district supervisors in those districts where we were satisfied that the greater part of the black market activities was in effect. Those men stayed here two days. We sat in all-day sessions. Part of the time Mr. Hannegan was with us. They know, and if they hadn't already known, they know today what the Secretary of the Treasury wants.

Now they have gone back to their districts. We followed that with another letter with specific instructions, as to approach.

H.M.JR: Excuse me, I think there should have been a story that these fellows were in here and this is what I wanted, see, Fred?

MR. SMITH: There was a story.

MR. BERKSHIRE: Mr. Perlmeter sat in that meeting, Mr. Secretary. It appeared in all of our papers.

H.M.JR: I never read anything that I wanted.

MR. IREY: Maybe I can get it right quick. You had us in here sometime before that meeting and we immediately called our men together at that time and told them we wanted them to get some action at once. They had been working for a period of thirty days before we called them in at that meeting. All the supervisors except the men on the West Coast were brought in. We said, "We want some action right now. You have been working for thirty days - so that the public and the rest of the people will know that the Treasury Department is on their toes and we are not waiting for some other committee, or some Senate group to do our work for us."

So immediately we discussed the problems in the

- 8 -

various districts and decided that we would take advantage of every possible law that we could - whether OPA, or what it was, any law that we could take advantage of.

They have gone out in their districts and every morning there is an item in every paper all over the country showing the results of our work. We are really getting results, and they have been working for thirty days.

H.M.JR: But there is no place showing I took an interest in this thing.

MR. SULLIVAN: I haven't seen your name.

H.M.JR: I haven't seen anywhere that Morgenthau is the fellow that put the turpentine under the tail.

MR. HANNEGAN: I called Perlmeter down and said, "You get all of this information together. Sit in at this one conference and bring it over there to the Treasury Department, because I think there should be a statement worked up that the Secretary can issue that could go out all over the country. Let them know that we are beginning to show results."

It was necessary for us to work under cover to get this information, but we have been on our toes and doing this for sixty days. Now, this is the result of our efforts.

MR. SMITH: John and I had talked three or four days ago about getting a complete memorandum to editors on the whole thing and what you were doing and why you were doing it, and what the situation was. But we have got to get some material for that.

H.M.JR: Haven't got it yet. Now, all right - let's say that you boys have been good. I'm from Missouri, see? But let's say, for argument's sake, it has been good.

- 4 -

MR. HANNEGAN: We will agree to that. We have been doing a good job.

H.M.JR: I am not sold, but there is nobody who will boast more when he is sold. This is the idea I had. This is why I really kind of called you fellows together. After Sullivan told me about the reluctance of Chester Bowles to do anything on rationing - what would you people think if we took this position with Chester Bowles, that we are not going to sit here and have the public think that the Treasury - this is the Treasury's responsibility, because after ten years we have built up a good attitude toward law enforcement, and done a good job on law enforcement. And the people have it all mixed up in their minds. Therefore, I should say to Chester Bowles, "Either you put in rationing or you should admit that you can't handle it, and therefore, take the ceiling price off liquor. And if you don't do one or the other, I am going to publicly say that this thing is a scandal and lay it right on your doorstep. I am damned tired of having people talk about bootlegging in terms of selling non-tax-paid liquor. Do one or the other; either ration the thing or take the price off."

Why, the whole thing that is wrong when you look at it a little bit objectively is, he says he doesn't want to ration. All right, he puts the ceiling price on, which he can't enforce, which breeds disrespect for the law. Now, that is what I am worrying about.

All right, if he can't enforce it, let him take the ceiling off. What the hell, supposing a bottle of liquor does go to thirty dollars; it takes that much more money out of circulation.

MR. SULLIVAN: Then nobody except the people with money will be getting any liquor.

H.M.JR: Well, they are not now. Listen, fellow, if these stories are right that you have got to pay sixteen dollars to get a quart - the thing I have been consistent on, the thing that bothers me is that we are breeding



- 5 -

again a whole generation of people who are going to have a disrespect for law. Then the next thing you have is prohibition.

Now, again, let's go on the assumption that you people are doing everything you can. He is not. It is all mixed up in the people's mind. I don't want you to say yes or no now, but think about it. He should do one or the other, or else I publicly will lay it on his doorstep.

MR. SULLIVAN: There are several in this group who support that position, Mr. Secretary. I think that Harold Graves and Bob and Stewart all felt that price ceilings should be taken off.

H.M.JR: Oh, excuse me, I forgot about Graves this morning. Will you tell him it was just an over-sight?

MR. HANNEGAN: Yes, sir.

H.M.JR: It was. What did you say?

MR. SULLIVAN: Harold and Bob and Stewart support your position that the price ceiling should be taken off.

H.M.JR: Or rationing?

MR. HANNEGAN: I support the position there should be rationing but I question the advisability of taking the ceiling off. I don't think that will help the situation. At least the whisky will not then be black market whisky, but the price will remain as high as it is now or maybe higher, and then you will have the usual cry from the labor unions, and so forth, that you have done something that makes it harder for the poorer people to get a bottle of whisky.

H.M.JR: But I am perfectly willing to talk to the labor unions in advance. You can say this - if a laboring

- 6 -

man wants to pay twenty or twenty-five dollars, he would rather pay it and feel he is not breaking the law. The prices now are so exorbitant that it is what used to be a pretty good weekly wage for a lot of people - one quart.

MR. HANNEGAN: I agree right now that you should do something about the OPA, because we are now getting information from them as to violations of the OPA ceiling, and we are taking action on it. We are doing all the enforcing of their violations. They are not doing anything about it.

H.M.JR: Well, I would like you people to think this thing over. I am not asking you to decide now, but to talk it over. I will be back in four or five days. Let me know. In the meantime - do you want to be excused? (To Gaston)

MR. GASTON: No, this is a little note you may be interested in. (Mr. Gaston hands the Secretary a note)

H.M.JR: Then, in the meantime, get this stuff to Fred Smith, see?

Excuse me. (The Secretary reads note given him by Gaston)

I wouldn't hold them up now if they are ready to go on a flight.

MR. GASTON: When would you--

H.M.JR: Who is commanding?

MR. GASTON: He is a pilot, also.

H.M.JR: (Over phone) Get me Commander Hesford at the Coast Guard.

(To Gaston) It slipped your memory, originally?

- 7 -

MR. GASTON: I am not quite sure, but I think I mentioned it to Waesche the second time.

H.M.JR: Well, now, are you getting any help from outside of other Treasury agencies on this thing - the enforcement?

MR. HANNEGAN: Only Elmer's group.

MR. IREY: Taking over character investigations.

MR. HANNEGAN: Taking over men that were working on character investigations. We have had discussions about that and given them to him to the extent that he needs them. We have seventy-five alcohol tax agents on that. It is a question of how many he needs.

H.M.JR: You are giving him back his own men. You are not very generous.

MR. IREY: Well, it is his own men that we have, principally.

H.M.JR: All right. Well, if you don't get all you want, holler.

Now, what about that Walter George and his thirty-nine counties?

MR. SULLIVAN: That letter will be over here this noon.

H.M.JR: What is it, roughly?

MR. SULLIVAN: He complains that liquor is being sent into the dry towns and sold at black market prices.

H.M.JR: What can we do about that?

MR. SULLIVAN: Stewart's boys are working on it.

MR. BERKSHIRE: Same problem we have everywhere - no different.

- 8 -

(The Secretary held a telephone conversation with  
Commander Hesford, as follows:)

December 23, 1943 184  
10:48 a.m.

HMJr: Hello.

Comdr. A. J. Hesford: Good morning, Mr. Secretary. Hesford speaking.

HMJr: Good morning. Hesford, I don't want to interfere with a flight if these -- the men -- McCaffery is about to take off.

H: It wasn't an urgent flight, sir, and....

HMJr: No, no.

H: ....there wasn't any reason at all why McCaffery can't postpone it. I've been -- I got in contact with him over at the field, sir.

HMJr: No, I'll tell you what you do. Are they still over at the field?

H: Yes, they are, sir, and they are standing by.

HMJr: Well, you tell them this for me, will you? You know them very well.

H: Yes, sir.

HMJr: That I -- somebody has forgotten and, as a matter of fact when Admiral Waesche was here, I told Admiral Waesche myself, please to have the four of them come over and I wanted to say, "Thank you", to them for what they've done.

H: I see.

HMJr: Evidently the Admiral must have forgotten. Now, some other time when they're available, I do want them to come over to see me, but you let them stay over at the field and I'll do it some other time.

H: Very well....

HMJr: But the whole -- all I wanted to do was just to say, "Thank you", to the four of them but I don't want to bring them back from the field.

H: All right, sir.

HMJr: Will you?

H: Yes, sir.

HMJr: But when I first made these arrangements, whenever it was, two or three weeks ago, I did mention it to the Admiral and it must have slipped his mind.

H: Oh, I'm --I'm certain that he'd be -- he'll regret that he has forgotten it.

HMJr: But you tell McCaffery for me, will you?

H: I will, indeed.

HMJr: And the next time they're in town be sure that they look me up and tell them I wish them all a Happy New Year, a Merry Christmas and the same to you.

H: Thank you very much, Mr. Secretary. Same to you, Sir.

HMJr: Good bye.

H: Good bye.

- 9 -

H.M.JR: They are over at the field. I won't call them back.

MR. SULLIVAN: They are citing either one or two wholesalers in Georgia today.

H.M.JR: Let me tell you what I want. Let's go in and clean up the State of Georgia and the State of North Carolina, and then we will get an indictment on seventy-five people. Bob Doughton came in here and said, "My God, you arrested nothing but Democrats. You have got to call them off."

Let's go down to Georgia and clean it up. Let's make a special drive on Georgia right away. George is after me. He called Sullivan "Mr. Sullivan" so he is after him.

So let's go down and show George we can turn his State upside down on the liquor business. Pour the men in there and go to town. Mr. George lives in a town called Vienna. It is spelled V-i-e-n-n-a. For God's sake let's go into Vienna and see what is doing in there.

MR. GASTON: Vienna - Athens - New York--

H.M.JR: Let's go down to Georgia, particularly, and see what they are doing down there. Let's make damn sure that they are not breaking the Treasury laws.

MR. HANNEGAN: There are some cases pending down there now.

H.M.JR: We will show Walter George. Most likely lock up most of them who will be his friends. He has complained. Let him have it. No fooling, now, Berkshire--

MR. BERKSHIRE: I understand, Mr. Secretary.

- 10 -

MR. GASTON: I agree with you that this thing is no good. This enforcement gag is no good from the standpoint of the public. It will enable us to lay our hands on some of these ex-bootleggers and worry them a little bit. But as far as the ultimate result is concerned, it isn't any good. Without rationing the dealers are going to do their own rationing, and in most cases it is going to be done by the money-on-the-side basis. It isn't any good.

H.M.JR: So I say, you fellows think it over. When I come back, let's have another talk.



AT:L:VB

DEC 23 1943

My dear Senator:

In your letter of December 20, 1943 you refer to me a letter from the Solicitor General of the Atlanta Judicial Circuit, Atlanta, Georgia, dated December 5, 1943, and express the hope that some administrative remedy may be found to prevent the abuses of which the Solicitor General complains.

Briefly, the Solicitor General complains of inferior, misbranded liquors being shipped into the 128 dry counties of Georgia for the purpose of violating the ceiling prices. This information he states was obtained from Mr. Eugene Cook, State Revenue Commissioner. He also asks if legislation may not be sponsored to end federal "licensing" of liquor dealers in the dry counties.

I note your conclusion that adequate legislation could not be secured to prevent the abuses pointed out, and that you have advised the Solicitor General accordingly. I assume you had in mind, in so writing the Solicitor General, the letter to you from the Commissioner of Internal Revenue dated December 6, 1943 (copy attached) explaining that the federal government does not license liquor dealers, that it merely collects a tax from those engaging in that business and issues receipts.

It is a violation of the Federal Alcohol Administration Act to ship in interstate commerce liquors labeled otherwise than as provided by certificates of label approval issued by

*Enclosure: CC of ltr to the Senator from Harold H. Graves dated 10/6/43  
Returned ltr from John S. Coyline to the Director.*

- 2 -

the federal government. Failure to secure such certificates or to conform with their requirements, when secured, are violations of that Act. The Bureau of Internal Revenue, through the Alcohol Tax Unit, has already begun investigation of this matter. The District Supervisor of that Unit at Atlanta is being instructed to contact Mr. Cook. You may rest assured adequate steps are being taken to suppress these violations. The Bureau has also provided for closer inspection of distilled spirits at the point of bottling, and importation, to prevent the distribution of inferior spirits.

It is believed that the principal objective of the Solicitor General is to find a means of preventing wholesale liquor dealers in wet counties channeling substantial quantities of taxpaid distilled spirits into dry counties in the black market. As already suggested, this is an enforcement, not a legislative, problem. The Bureau of Internal Revenue, through the Alcohol Tax Unit, is utilizing all available investigative personnel in assisting the Office of Price Administration in suppressing black market operations in taxpaid spirits. You can expect some productive results in your State in the immediate future.

Very truly yours,

Secretary of the Treasury

Honorable Walter F. George,  
United States Senate.

ccc

AT:L:CMF

DEC 6 1943

My dear Senator:

Reference is made to your letter of December 2, 1943, attaching a telegram addressed to you by Mr. Sam Moss, Managing Editor of The Augusta Herald, Augusta, Georgia. You requested that I consider the subject matter of the telegram and advise you in the premises.

Mr. Moss' telegram reads as follows:

"Senator Walter F George

"Please have Internal Revenue Department offer satisfactory explanation as to why in dry states and dry counties bootleggers are allowed to purchase immunity from federal prosecution through tax stamps which are in effect licenses to violate laws of the state so long as you pay off Uncle Sam. In other words, no matter that they are called, the Treasury is in effect letting the Government be bribed to let people alone if they will pay off to Uncle Sam officially.

"Should the sale of these stamps be refused in spots where it is illegal to sell beers, wines and liquors, the added fear of a federal crackdown would be a powerful incentive.

"Kindly inform me whether this is a law or whether it is a policy inaugurated by some of the bureaucrats.

"The Augusta Herald by Sam Moss Managing Editor."

The specific answer to the question propounded in the last paragraph of the telegram is that the practice complained of arises out of the law, as will appear from the following discussion. It will also appear from such discussion that the practice could be utilized by state officers to the advantage of their states and the citizens thereof.

- 2 -

Our files indicate that many persons under a misapprehension of the nature of the receipts issued by Collectors of Internal Revenue upon payment of special occupational taxes imposed by law often mistakenly refer to them as "licenses." This error is made more often when referring to receipts issued to retail liquor dealers upon payment of the special occupational taxes imposed by law upon them than when referring to receipts issued upon payment of other occupational taxes.

Section 3250 of the Internal Revenue Code provides that liquor dealers, brewers, rectifiers, and manufacturers of stills shall pay certain special occupational taxes. Section 3253 of the said Code provides that any person who carries on any business named in Section 3250 of the Code and willfully fails to pay the special tax required by law shall be subject to a fine of not less than \$100 nor more than \$5,000, and imprisonment for not less than thirty days nor more than two years.

Congress has from time to time for many years imposed special taxes upon persons engaging in various businesses for the purpose of raising revenue, and large sums have been raised through the imposition of such taxes. Liquor dealers have had to pay special occupational taxes since 1868, and Congress has in the past imposed such taxes on the following, among others, for the privilege of engaging in business: brokers, pawnbrokers, ship and customhouse brokers, proprietors of theatres, museums, concert halls, circuses, and shooting galleries, as well as manufacturers and dealers in oleomargarine, filled cheese, and narcotics. A number of these special taxes are still in force, among them the tax on liquor dealers.

An inspection of the stamp issued to a liquor dealer upon payment of the special tax will show that the printing is mostly in black ink and that the legend "THIS IS A TAX RECEIPT - NOT A LICENSE" is conspicuously overprinted in red ink, followed by this statement, also printed in red:

"The payment of any tax imposed by the internal revenue laws for carrying on any trade or business shall not be held to exempt any person from any penalty or punishment provided by the laws of any state for carrying on the same within such state, or in any manner to authorize the commencement or continuance of such trade or business contrary to the laws of such state."

- 3 -

Special tax stamps are not licenses in any sense of the word, but are SPECIAL TAX STAMPS and are so marked. They do not authorize the doing of business in any state or municipality contrary to the laws thereof, and are but evidence that the persons possessing the same paid the special tax required by the United States Government of persons engaging in the particular business.

Payment of a special tax does not exempt any person from any penalty or punishment provided under the law of any state for carrying on a business within a state contrary to the laws of the state, or in places prohibited by municipal laws. This is specifically provided by Section 3276 of the Internal Revenue Code, reading as follows:

"The payment of any tax imposed by the internal revenue laws for carrying on any trade or business shall not be held to exempt any person from any penalty or punishment provided by the laws of any State for carrying on the same within such State, or in any manner to authorize the commencement or continuance of such trade or business contrary to the laws of such State or in places prohibited by municipal law; nor shall the payment of any such tax be held to prohibit any State from placing a duty or tax on the same trade or business, for State or other purposes."

The value to state officers of collecting special occupational taxes and issuing receipts (special tax stamps) therefor arises in this way. Section 3275 of the Internal Revenue Code requires the keeping by each collector of a list of names of persons who have paid the special tax within his district. The statute reads as follows:

"Each collector shall, under regulations of the Commissioner, place and keep conspicuously in his office, for public inspection, an alphabetical list of the names of all persons who shall have paid special taxes within his district, and shall state thereon the time, place, and business for which such special taxes have been paid, and upon application of any prosecuting officer of any State, county, or municipality, he shall furnish a certified

- 4 -

copy thereof, as of a public record, for which a fee of \$1 for each one hundred words or fraction thereof in the copy or copies so required, may be charged."

The maintenance by the federal government of such a list should be of inestimable value to state enforcement officers. By reference thereto they may quickly discover the persons who are probably engaged in the liquor business in violation of state laws, thus having readily available a source of information which they otherwise would not have.

So much for the requirements of the law that the tax must be collected. The next question propounded by Mr. Moss is whether the issuance of the special tax stamps is required by law. The answer to this will be found in Section 3273(a), Internal Revenue Code, as follows:

"The Commissioner is required to procure appropriate stamps for the payment of all special taxes imposed by law, including the tax on stills or vorns; and the provisions of section 2802(a) and of sections 3300, 3301, and 3302, and all other provisions of law relating to the preparation and issue of stamps for distilled spirits, fermented liquors, tobacco, and cigars, shall, so far as applicable, extend to and include such stamps for special taxes; and the Commissioner shall have authority to make all needful regulations relative thereto."

The stamps when issued are required to be conspicuously posted in the dealers' places of business. Section 3273(b), Internal Revenue Code, reads as follows:

"Every person engaged in any business, avocation, or employment, who is thereby made liable to a special tax, shall place and keep conspicuously in his establishment or place of business all stamps denoting the payment of said special tax."

It is the duty of Collectors of Internal Revenue and their deputies, in their respective districts, to collect all taxes imposed by law, however the same may be designated. It

- 5 -

has been held by the courts that the duty of a Collector is purely ministerial and he is vested with no discretion. If a Collector fails to collect a tax, he is liable, among other things, to a penalty in the amount of the tax not collected and is guilty of a felony. Consequently, a Collector of Internal Revenue may not refuse to issue a special tax stamp upon receipt of proper application therefor and correct remittance for the tax.

Refusal to accept the tax, or to issue the stamps, as suggested by Mr. Moos, must be authorized by law, i.e., an amendment to existing law specifically forbidding the acceptance of the special tax or issuance of the stamps, or authorizing the refusal to accept the tax or to issue the stamp, or both, in respect of a business which is unlawful in the place wherein it is proposed to carry on such business.

It is no longer a violation of federal law to deal in liquors. If the special tax is eliminated in respect of carrying on a business in violation of state law, the power of the federal government to punish the person who carries on his business in violation of state law for willful failure to pay the special tax would likewise be eliminated. If, while retaining the tax in such cases, collectors should be forbidden to issue the special tax stamps, then the liquor dealer could not be penalized for failure to conspicuously display the special tax stamp in his business premises as now provided for in Section 3274 of the Internal Revenue Code. The lot of the state enforcement officers would be altered for the worse, it seems, under such an amendment as discussed herein.

The unlawfulness of a liquor dealer's business under either state or federal law should not excuse him from payment of the tax imposed upon liquor dealers who operate lawfully. This idea was forcefully expressed by the Supreme Court (speaking by Mr. Justice Holmes, in the case of United States v. Sullivan, (1927) 274 U.S. 259) in these words:

"We see no reason \* \* \* why the fact that a business is unlawful should exempt it from paying the taxes that if lawful it would have to pay."

In the case of United States v. Constantine, (1935) 296 U.S. 283, Mr. Justice Roberts said, at page 293:

"\* \* \* The United States has the power to levy excises upon occupations, and to classify them for

- 6 -

this purpose; and need look only to the fact of the exercise of the occupation or calling taxed, regardless of whether such exercise is permitted or prohibited by the laws of the United States or by those of a State. The burden of the tax may be imposed alike on the just and the unjust. It would be strange if one carrying on a business the subject of an excise should be able to excuse himself from payment by the plea that in carrying on the business he was violating the law. The rule has always been otherwise." (Underscoring supplied.)

There is no federal tax law authorizing [Federal] prosecution for selling liquors within the boundaries of a state. Therefore, no immunity from prosecution is purchased by the bootleggers of a state through payment of the special taxes, as is alleged by Mr. Moss.

It is believed that the taxing of liquor dealers, in addition to furnishing the government with a large source of revenue, should aid rather than hinder enforcement of state laws.

A copy of this letter is enclosed for your convenience, and the telegram addressed to you by Mr. Moss is returned.

Very truly yours,

(Signed) Harold N. Graves

Acting Commissioner.

Honorable Walter F. George,  
United States Senate,  
Washington, D. C.

Enclosure #65  
vk



6972

SENATOR JOHN H. HANCOCK  
SENATOR H. LA FOLLETTE, JR., IOWA  
SENATOR H. WOODRUFF, MISSISSIPPI  
SENATOR A. H. REEVE, ILL.  
SENATOR GEORGE L. DUFFEL, N.J.  
SENATOR J. H. HANCOCK, CONN.  
SENATOR A. W. WYATT, MISSOURI  
SENATOR THOMAS H. CLARK  
SENATOR A. H. REEVE, ILL.  
SENATOR D. HALLINAN, CALIF.

United States Senate

COMMITTEE ON FINANCE

December 20, 1943

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

My dear Mr. Secretary:

I enclose letter from the Solicitor  
General of the Atlanta Judicial Circuit, Atlanta,  
Georgia.

From this letter you will note that a large  
quantity of liquor, inferior in quality, is reaching  
the dry counties in Georgia. A legislative remedy  
is sought but I have advised the Solicitor General  
that, in my opinion, adequate legislation could not  
be secured to prevent the abuses pointed out. I am  
bringing the matter to your attention in the hope  
that some administrative remedy may be found.

Sincerely yours,

Walter F. George

JOHN A. BOYKIN  
SOLICITOR GENERAL  
ATLANTA JUDICIAL CIRCUIT  
312-318 COURT HOUSE  
ATLANTA, GEORGIA

TELEPHONE  
WALNUT 8310

ADAMS  
EDWARDS STEPHENS  
G. H. B. L. BRAW  
J. E. ANDERSON  
QUINCY W. WINDOLF

December 3rd, 1943.

Hon. Walter F. George,  
United States Senator,  
Washington, D. C.

Dear Senator:-

I know that you are quite busy with matters perhaps more important than the subject matter of this letter.

Recently I conferred with Mr. Eugene Cook, State Revenue Commissioner, and today Mr. Cook conferred with the Grand Jury, regarding the violation of the Liquor Control Act in the 122 dry counties in Georgia. He finds, and so do I, that a flood of misbranded liquors are being ~~sent~~ into Georgia, the purpose of which is to violate ceiling prices. These misbranded liquors have had no price ceiling set upon them because no such brands were known at the time of price fixing. We find that a large portion of these misbranded liquors are even unfit for consumption.

The State Chemist has analyzed three of these brands and found that they are misbranded, and that neutral spirits have been added.

A flood of this liquor is going into the dry counties and the inducement seems to be that the dealers are

ASSISTANTS  
 EDWARD C. STEPHENS  
 J. WALTER MCGRAW  
 E. E. ANDREWS  
 QUINCY B. WARD

JOHN A. BOYKIN  
 SOLICITOR GENERAL  
 ATLANTA JUDICIAL CIRCUIT  
 312-318 COURT HOUSE  
 ATLANTA, GEORGIA

TELEPHONE  
 WALNUT 8310

Page 2 - Hon. Walter F. George, December 3rd, 1943.

getting larger prices for these spurious brands when they are sold in dry counties than could be obtained in the local market.

Mr. Cook finds, and so do I, that the Federal Government is impeding rather than helping to enforce the prohibition law in dry counties, for the reason that they license anyone who will pay the license fee to sell in these dry counties.

It occurred to Mr. Cook, and also to me, that some amendment should be made to the law forbidding the Federal Government to license any person either to sell, or have on hand ~~for the purpose to sell~~, any intoxicating liquors in dry counties. The present law limits a person, in a dry county, from possessing more than a quart of whiskey per month, but the information we have is that these dry counties are being flooded by cases of liquor rather than a quart per month.

I am writing to inquire of you whether it would be possible to get through Congress some law which will prohibit the licensing by the Federal Government of anyone to sell whiskey in any dry county in the United States. Certainly there should

JOHN A. BOYKIN  
SOLICITOR GENERAL  
ATLANTA JUDICIAL CIRCUIT  
312-318 COURT HOUSE  
ATLANTA, GEORGIA

TELEPHONE  
WALNUT 8310

ASSISTANTS  
EDWARD A. STEPHENS  
J. WALTER LICHAW  
E. E. ANDREWS  
QUINCY D. ARNOLD

Page 3 - Hon. Walter F. George, December 3rd, 1943.

be cooperation between the Federal Government and the State authorities in an effort to force people to conform to local laws and not make it impossible for local authorities to enforce such law by licensing the sale of liquor where such liquor is prohibited.

You are doing a wonderful job in Washington and your friends and I are proud of you and wish to commend you for the many contributions which you have made to our government during this period of peril.

When you get time, kindly let me hear from you.  
With kind personal regards and best wishes, I am,

Very sincerely,

  
Solicitor General.

JAB:b

December 23, 1943  
11:00 a.m.

DISPOSITION OF SURPLUS COMMODITIES, PROCUREMENT

Present: Mr. Sullivan  
Mr. Mack

MR. MACK: We have now twenty-three hundred horses, and two hundred and fifty-three mules, but we expect about twenty-two thousand. And our thought is that the sales should be by auction, generally speaking, with certain exceptions.

We have been working with a man who is a consultant for the War Department, Finney.

H.M.JR: An auctioneer?

MR. MACK: No, he is a horse man. He is Secretary of the Maryland Horse Breeders Association; he has a pretty good background. He is to be assigned to work with us to the extent we may need him.

Now, there are about eleven hundred of these horses at Fort Robinson in Nebraska. Because that is up in plain country and the circumstances are such, the horses are poor quality, and it seems better to sell those by the competitive method rather than the auction procedure.

But there are over a thousand that are at Front Royal, Virginia, that we are ready to go ahead with on auction right away, if that meets with your approval.

H.M.JR: Yes. The only thing is you can't get those auctions down to where they are doing some farming like in Florida, some place where they are using horses now. I mean, you get a fellow who wants some horses--he is not going to come up to Front Royal; it is a hell of a place to get to. I have been there.

- 2 -

MR. MACK: That is right. We talked particularly to Finney, the consultant, on that, and he seems to think that that, of course, is a handicap, but that you couldn't profitably move these kinds of horses very far. He said when you move them more than a hundred miles it runs into too much money.

H.M.JR: But the Virginia market is just flooded with horses. Nebraska is all right; it is the middle of the farm country. But I wouldn't hold an auction--

MR. SULLIVAN: Most of those horses in Nebraska are all dun.

MR. MACK: A good part of them are suitable only for packers and--

H.M.JR: But how about these at Front Royal?

MR. MACK: The ones at Front Royal run a little better in quality.

H.M.JR: Couldn't you move those, oh, a couple of hundred miles south? Why don't you ask the Department of Agriculture where on the Atlantic Coast they want some horses?

MR. SULLIVAN: Where is the horse center in the South, Atlanta?

MR. MACK: Of course, it would be scattered all up and down the coast. Now, we do have certain sales with the Coast Guard coming up, along the coast, North Carolina, and so forth, but Front Royal--

H.M.JR: That is a hell of a place.

MR. MACK: It is; that is true.

H.M.JR: Ask the Department of Agriculture where at this time of the year would be the best place to sell some horses. Whatever they say--I will go by what they say.

- 3 -

MR. MACK: All right.

H.M.JR: I know Front Royal, and I know how hard it is to get there, and I don't think you are going to get many bidders.

MR. MACK: That is right.

Now, in northern Nebraska we have already started to get prices from dealers, and the War Department seems to think they are pretty good prices so we are ready to go on that.

H.M.JR: That is competitive bidding, but Front Royal will be auction. Ask the Department, and let them say where. My guess is it will be three or four hundred miles south.

MR. SULLIVAN: How about harnesses?

MR. MACK: We spoke of the harnesses briefly the other day. We have been working with OPA on civilian requirements. The best plan seems to be to try to get them back in the hands of the manufacturers. We are getting information now from manufacturers on their sales; so if there is an excessive demand, we will see that there is as even distribution as we can get.

H.M.JR: Will you sell those by bids?

MR. MACK: Negotiated sales on the basis of OPA ceilings.

MR. SULLIVAN: Do you want to leave those plans with the Secretary?

MR. MACK: Yes. (Hands the Secretary document entitled "Program for Disposition of Surplus Live Stock," copy attached.)

H.M.JR: Thank you.

MR. MACK: We will go ahead on northern Nebraska, and on Front Royal we will talk to Agriculture to find out if it would be advisable to move.

- 4 -

H.M.JR: O.K. All right.

MR. SULLIVAN: Walters is out, very bad. Donald said he was an excellent man and he would have recommended him, but he knew about that condition. I thought I would call Hancock and see if he had any other suggestions in view of that.

H.M.JR: I would look at some of those that Nelson-- I don't want Hancock to put a man in here--get one who would be good.

MR. SULLIVAN: There is Hughes and Wieboldt. I thought I might try to get them down next week.



## PROGRAM FOR DISPOSITION OF SURPLUS LIVE STOCK

204

PRESENT AND INDICATED SURPLUS: There have been declared to us for disposition 2,299 horses and 253 mules by the Quartermaster Corps, Remount Service, as no longer suitable for military use, valued at \$68,970 and \$22,770 respectively. We are advised by the Remount Service that there will be a total of 22,000 declared in the near future.

CONDITION: Approximately one-half of the horses and all of the mules declared to us thus far are suitable for light work and the balance are suitable only for packers.

PARTICIPATION WITH OTHER GOVERNMENT AGENCIES: We have discussed with Mr. Arthur B. Thatcher of the Office of the Secretary of Agriculture, the present situation and scope of this program and he is working very closely with us on it. There are no price controls or other clearances required from other Government agencies.

SPECIAL COMMENTS: We have arranged with the War Department to have Mr. Humphrey S. Finney, who is an expert on horses and mules and now serving as a consultant for the War Department in that capacity, to be available to us in the same capacity to the extent desired. This program has been discussed with him in detail.

RECOMMENDED DISPOSITION: It is recommended that live stock be disposed of by auction sale except in the instances cited below:

1. Where the declared quantity does not warrant the expense of conducting auction.
2. In the case of blood stock suitable for breeding purposes.
3. Where geographical location does not lend itself to auction sale. (For example: A substantial quantity of surplused horses and mules will be located in northern Nebraska and Oklahoma and the circumstances indicate that competitive bidding may be more advantageous than auction sale, depending, of course, upon season, type of animals, etc.)

Prior to holding auction sales, prospective bidders will be furnished with all pertinent information regarding the proposed sale by the methods indicated below:

1. Circulation of dealers, breeders, associations, farm bureaus, state agricultural colleges, packers, farmers, riding academy owners and other known interested individuals.

-2-

2. By appropriate newspaper advertising.
3. By notice of sale to be placed on Post Office bulletin boards.
4. By furnishing notice of sale to County War Boards of the Department of Agriculture.

In the case of small quantities and blood stock, it is recommended that sales be consummated by sealed bids or by negotiation as conditions require.

Clifton E. Mack  
Director of Procurement

Approved:

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12/21/43

PROGRAM FOR DISPOSITION OF HARNESS

PRESENT AND INDICATED SURPLUS: There have been declared to us by the Quartermaster Corps, War Department, approximately 2800 sets of harness, with military strappings, estimated to have a present value of \$981,995.00, located at Jefferson Depot, Jeffersonville, Indiana, for the most part, and various other military stores. We have no information at the moment as to any possible further surpluses.

CONDITION: The harness which has been declared to us is all surplus from World War No. 1, but for the most part is suitable for civilian use after reconditioning by stripping military strappings, replacement of faulty parts, restitching and general overhaul.

PARTICIPATION WITH OTHER GOVERNMENT AGENCIES: We have been working very closely with the Office of Civilian Requirements and the Textile, Clothing and Leather Division of the War Production Board, to determine the most effective disposition of this surplus harness, who strongly recommend that it be sold to the harness manufacturers for reconditioning and disposition through regular trade channels. We have worked with the Office of Price Administration and as a result, price ceilings have been established for sales to manufacturers. We have advised Mr. Arthur B. Thatcher, Office of the Secretary, Department of Agriculture, relative to this surplus so that he may in turn advise the farm bureaus or others interested as soon as this program is approved.

SPECIAL COMMENTS: We are now obtaining information from the harness manufacturers as to their sales for the past year to provide a basis for allocation if their requests exceed the supply. We believe that manufacturers who buy harness under this plan should be urged to recondition and put into channels for use as promptly as possible the finished product so that it will be available for spring use.

RECOMMENDED DISPOSITION: It is recommended that this harness be sold to manufacturers at the price ceilings established by the Office of Price Administration for reconditioning and distribution through the regular commercial channels.

Clifton E. Mack  
Director of Procurement

APPROVED: \_\_\_\_\_

December 23, 1943  
11:31 a.m.

207

HMJr: Hello.

Ted  
Gamble: Hello, Mr. Secretary.

HMJr: Listen.

G: Yes, sir.

HMJr: I have just read the first part of my talk to  
the retailers.

G: Yes.

HMJr: And if you don't mind my saying so, you're  
completely off the beam or the speech is. I'll  
make it impersonal, see?

G: (Laughs)

HMJr: Impersonal, see?

G: I do.

HMJr: I don't know how much you had to do with it.  
If you aren't -- Smith's here and he's listening  
on the loud speaker and so is Madam Klotz.

G: Yes.

HMJr: But nobody else is in the room.

G: Well, I only had one thought which I expressed  
and that was that fortunately in most of your  
talks you have been a few weeks and sometimes  
a few months ahead of most people in Government.

HMJr: Yeah, but you've got me a few years.

G: Well, I didn't want to do that. I just suggested  
to Fred that if there's some way that we could  
subtly and cleverly....

HMJr: No, you're -- it's much too previous. Take  
Uncle Henry's word for it.

G: All right.

HMJr: And don't let that get into your copy. That's  
the purpose of this call.

G: Well, it is not in our copy. You can be sure of that.

HMJr: Well, don't....

G: We're playing it on a ten year basis.

HMJr: Well, I'm so far out in advance on that thing that I never could catch up with the Russians.

G: Well, we were just thinking of....

HMJr: No.

G: ....your position and your....

HMJr: No. It's the wrong one. Take it from Uncle Henry.

G: All right, sir. Well, we'll stand revision.

HMJr: What.

G: We'll stand revised.

HMJr: No, on this thing I know what I'm talking about.

G: Yes.

HMJr: And don't let it get into your copy.

G: Well, it is not, sir. You can be sure of that.

HMJr: Now....

(Remainder of conversation not recorded.)

Treasury Department  
Division of Monetary Research

209

**D**

Date \_\_\_\_\_ 19

To: Miss Chauncey

Mr. White does not think this  
requires an answer.

L. Shanahan

MR. WHITE  
Branch 2088 - Room 214½

Telephone  
number 9121

Cable Address 210 ✓  
"Soyuzpurchas Washington"

*Самое учтенное Сопыноуаз Кавуцуу*  
*Сопы С.С.Р. б. С.Ш.А*

*The Government Purchasing Commission*  
*of the Soviet Union in the U.S.A.*

December 23, 1943

3355 16<sup>th</sup> Street, N.W.  
Washington, D. C.

My dear Mr. Morgenthau:

Permit me to express my sincere thanks for the cordial reception accorded to Mr. Lukashev and to me during our visit to your office this morning, and my appreciation of the many courtesies extended to us.

I look forward to a continuation of the most pleasant and gratifying relationship with you and your associates which was enjoyed by my predecessor, General Belyaev.

Very sincerely yours,

*L. Rudenko*

L. G. Rudenko  
Lieutenant General  
Chairman

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

December 23, 1943 211  
3:09 p.m.

Operator: Go ahead.

HMJr: Hello.

Vladimir  
Bazykin: Mr. Secretary?

HMJr: Yes, please.

B: This is Bazykin speaking.

HMJr: How do you....

B: How do you do?

HMJr: How do you do?

B: Mr. Secretary, I was told that you are -- that you would like to know when our financial experts come.

HMJr: That's right.

B: At the end of last month....

HMJr: Yes.

B: ....November, I know that our Government asked to get priority for them....

HMJr: Yeah.

B: ....to travel on and told the State Department....

HMJr: Yes.

B: ....but from that time we have received no word. I'll be very glad to communicate with Moscow and to find out.

HMJr: Would you do that?

B: Yes. I'll be very glad to do so, but is it important for them to come by a certain date or do you just want to know when they are going in general?

HMJr: Well, if -- the point is, when Mr. Hull was in Moscow, he spoke to Mr. Molotov about this.

B: Yes.



HMJr: And Mr. Molotov said that he would be glad to send these people to take part in these discussions.

B: Yes.

HMJr: Well, now, time is passing. If we're going to do anything, we have to get legislation....

B: Yes.

HMJr: ....through Congress, so I would say it's a question of 'The sooner, the better'.

B: I see. I'll be very glad to communicate and as far as I get any answer, I'll be very glad to inform you.

HMJr: I'd appreciate that.

B: Thank you very much.

HMJr: Thank you for calling.

B: Good bye.

December 23, 1943  
4:00 p.m.

WAGE INCREASE DEMANDS  
Bureau of Printing and Engraving

Present: Mr. Bell  
Mr. Gaston  
Mr. Thompson  
Mr. Wilson  
Mr. Hall

H.M.JR: I unfortunately haven't had a chance to study this thing. The only thing that hit me was that you fellows didn't give them overtime.

MR. THOMPSON: They want, on top of overtime, a basic wage increase; so-called white-collar employees of the Government are getting, through the medium of overtime pay, an increase of twenty-one and six-tenths percent up to twenty-nine hundred dollars worth of salary. The union employees get thirty percent. On top of that they want basic increase - wage increases as high as thirty.

MR. HALL: Fifteen to thirty.

MR. THOMPSON: They don't want to treat this overtime as a pay raise.

H.M.JR: They want the basic pay and the overtime?

MR. THOMPSON: That is right, a basic increase and overtime pay on top of that.

H.M.JR: Could we give them the basic pay?

MR. THOMPSON: The other by law. Yes, we wouldn't have to have legislation.

- 2 -

(Mr. Bell entered the conference.)

H.M.JR: They want both.

MR. HALL: An increase in basic pay and the overtime.

MR. THOMPSON: It is most unreasonable.

MR. HALL: The same principle was turned down by the Public Printer and later confirmed by the Joint Committee on Printing.

H.M.JR: I just thought what they wanted was normal overtime - time and a half for overtime.

MR. THOMPSON: Getting thirty percent now.

MR. HALL: Fifteen percent for night work that the white-collar workers do not get.

H.M.JR: That they got years ago.

MR. HALL: They are still getting that, but white-collar workers do not get it.

MR. BELL: How much did they get before Pearl Harbor?

MR. HALL: Plate printers were earning thirty-four hundred dollars a year before Pearl Harbor. They are now getting on day work, forty-eight hundred dollars a year, and on night work, fifty-five hundred dollars a year.

MR. BELL: Quite an increase in two years. This Committee in Congress has already affirmed the decision of the Public Printers with respect to the printers in the Government Printing Office. Before they made that decision they called, as I understand it, the Treasury Committee up and talked to them to get their attitude.

- 3 -

MR. WILSON: Of course, our rates have always followed G.P.O. rates; they have been the same for years.

H.M.JR: Does G.P.O. have a night differentiation?

MR. WILSON: Yes, sir; fifteen percent.

H.M.JR: Who went first on that?

MR. HALL: The Government Printing Office, many years ago.

H.M.JR: Well, I can't get excited about that. All these things--

MR. GASTON: Does the War Labor Board undertake any jurisdiction over Government employees at all?

MR. WILSON: They would be required to approve this increase when recommended.

MR. GASTON: I was going to say that certainly we couldn't make any such increase without going before the War Labor Board. I should think, in view of the precedent, we should deny it and let them appeal to the War Labor Board.

MR. WILSON: We feel, under the wage stabilization program, these people are not entitled to the increase, because there is no inequality between rates in the Government and those on the outside.

MR. GASTON: The Congress has expressed themselves pretty freely.

MR. WILSON: That is right.

MR. HALL: There is a copy of the hearings held before them - quite a conglomeration of record - the reports that were prepared for the Committee.

- 4 -

Civil Service Commission looked into this thing and couldn't give a clearance.

MR. THOMPSON: I have never seen a case that was with less merit. There is just no merit in this at all.

MR. BELL: We have given them more than they have ever gotten in their lives. As a matter of fact, they got twenty-one hundred and thirty-three.

MR. HALL: Thirty-four hundred before Pearl Harbor; now forty-eight hundred.

H.M.JR: Most of those I am giving exemptions to are getting fifty-six hundred.

MR. HALL: Night men.

H.M.JR: Most of them - fifty-six hundred.

MR. HALL: Never earned so much money in their lives before. I might make this suggestion, Mr. Secretary: William Green designated a Committee to negotiate these rates through the Treasury. When it is announced that they are going to be turned down, undoubtedly William Green will call to see you. I was wondering whether it might be a good suggestion that the decision be given to William Green.

H.M.JR: In advance; yes, I think so. Who will give him that?

MR. THOMPSON: He might not get in the picture otherwise.

MR. WILSON: They have asked us to notify Mr. Haggerty who is chairman of that committee. He is a member of the War Labor Board.

MR. HALL: They will want to talk with the Secretary about it. Mr. Green will get in the picture sooner or later.

- 5 -

MR. BELL: You don't mean give him a decision before the Secretary approves it?

MR. HALL: No, after the Secretary approves it. The Secretary will tell Mr. Green rather than have his decision go to them and then have Mr. Green appeal.

H.M.JR: I think we ought to make our decision on the merits. Nobody seems to feel but what they are well paid with this thirty percent, now?

MR. THOMPSON: That is right.

MR. HALL: There isn't any question about that.

MR. GASTON: They are getting treatment at least as favorable--

MR. HALL: More; they are better off than other Government employees.

H.M.JR: How about in private industry?

MR. WILSON: American BankNote Company pays rates somewhat higher. Under our law, as far as plate printers are concerned, it directs the Secretary of the Treasury to fix the rates not to exceed rates usually paid. It doesn't direct that you meet the maximum rate which is paid by the BankNote Company. They are higher than the rates of the Bureau of Engraving.

MR. GASTON: How much higher?

MR. WILSON: On a basic forty-eight-hour week, there isn't a great difference.

MR. GASTON: We have much better continuity of employment.

MR. HALL: And better relief regulations.

- 6 -

MR. WILSON: Basic rate for engravers, we pay a top of ninety-four dollars a week; they pay one hundred and thirty dollars to their highest.

MR. HALL: There is something you can't appraise; that is, the individual skill of a banknote engraver.

H.M.JR: Anyway, let me ask you another thing - unless somebody else wants to talk in favor of this - I raised a point, I don't know that I got an answer. It was discouraging. Somebody told me that a certain thing - I don't know whether it was a bond - they do twenty-three hundred in eight hours and then they stop; they do it in seven and a half hours and they stop. What was that, bonds?

MR. THOMPSON: On the plate printing, yes; twenty-two hundred impressions. Mr. Hall feels that it would be unfortunate to raise with William Green any question about plate printers not producing up to full capacity.

H.M.JR: Why?

MR. GASTON: That memorandum on top there deals with that subject (referring to memorandum from Mr. Thompson to the Secretary, dated December 7, 1948, attached).

H.M.JR: Why shouldn't one man produce twenty-five hundred and maybe another fellow twenty-one hundred? Why should they do twenty-three hundred and then stop?

MR. BELL: Don't you feel they have an agreement among themselves in the union that whenever they get to a certain level they stop?

MR. HALL: They have that. They have a tacit agreement among themselves, not only among plate printers, but printing press men, as well, in the Bureau and in the Government Office, and all printing establishments. They get together and decide what they consider a fair day's work. You can't break

- 7 -

that down. They can find a thousand reasons why they can't do any more work. They can throw their presses out of adjustment.

MR. GASTON: That is their stint. When they have a certain stint to do and stop when they are through, they crowd right along and do that stint. If you said, "You can't do that, you have to keep working all day"-- But they won't do any more. They do the twenty-three hundred and no more.

MR. HALL: It is universal. I have endeavored to break that down by discussing the matter with presidents of unions. They themselves express disapproval of the principle of that thing. They say they can't break it up. And yet I think they are cooperating.

H.M. JR: How are you going to be on the Fourth War Loan? You are going to need, what?

MR. HALL: We will give you all you want. We are all right on that.

MR. BELL: we were talking this morning about going to a nine-hour day. We can't get any more plate printers.

H.M. JR: They do twenty-three hundred - how many will they do in a nine-hour day?

MR. BELL: Then they will get time and a half. They will increase it an hour, won't they? They want the nine-hour day because that gives them more money.

MR. GASTON: They will give you at least a proportionately better product.

MR. HALL: The Committee will work it out in proportion and give us that many more sheets. They will spread that work over the nine hours. That is the way it is done in every manufacturing plant in this country.



- 8 -

And the moment you try to break it down they charge you with impairing the health of the individual and lowering the efficiency, and breaking down the morale, and all that sort of stuff.

MR. GASTON: Is it a pretty fair day's work - you think? They crowd along a little more steadily than they would?

MR. HALL: I have to say yes to that, Herbert, because we are guaranteed a certain amount of work; whereas, under any other plan you get the high and the low. You might average the same thing over a period of time.

MR. GASTON: It just amounts, practically, to a contract. They agree to turn out so many sheets for so much, and that is what they do.

H.M.JR: Out of these various incentive plans for airplanes, and so forth - we are on war work when we do War Bonds. Some of these people should get ambitious.

MR. HALL: The plate printers did; they stepped up their production. They took on two hundred more sheets because of emergency. That is mentioned in that memorandum.

H.M.JR: They did do that?

MR. HALL: Yes.

H.M.JR: I am glad to know that.

MR. THOMPSON: Of course, the young, active plate printers can do four or five thousand sheets a day; they aren't allowed to do it.

MR. HALL: They can't keep that up.

MR. THOMPSON: They are all doing twenty-three hundred sheets, so if you have some doing more, you have a higher average.

- 9 -

MR. BELL: It might be rather difficult, if you put them on nine hours, to do three or four thousand steadily - if you put them on a nine-hour shift.

MR. HALL: Yes.

H.M.JR: All right, gentlemen. O.K. (The Secretary signed the recommendations of the Treasury Department Wage Board that the wage demand of all unions be disapproved, dated December 7, 1943.)

I have disapproved the request of Trade Unions in the Bureau of Engraving and Printing for increases in basic pay.

DEC 7 1943

Secretary Morgenthau

Mr. Thompson

Employees in the Bureau of Engraving and Printing belonging to trade unions requested increases in basic pay ranging from 13.6 percent to 30 percent. The Treasury Wage Board, consisting of Mr. Wilson, Director of Personnel, Mr. Hall, Director of Bureau of Engraving and Printing, and Mr. Slindes, Administrative Assistant to the Treasurer, has disapproved these wage increase requests.

Through the medium of an overtime pay bill, which increased the working hours for Federal employees from 40 to 48, Congress provided for pay raises for such employees. Non-trade union employees generally, in the professional, clerical, and custodial grades, receive increased pay of 21.5 percent under the overtime pay bill, whereas trade union employees receive 30 percent increase in pay. These trade union employees, therefore, are already receiving a pay increase 8.4 percent greater than that given to the non-trade union employees of the Government. The trade union employees contend that this 30 percent is pay for overtime work and that they are entitled to a raise in their basic pay rates to meet the increased cost of living. However, as I have pointed out, Congress did not provide for increases in basic pay to meet the increased cost of living but it did provide for increased pay for that purpose on the basis of overtime and it seems idle to argue that because of the basis fixed by Congress for increased pay

- 2 -

the trade union employees have not had a raise in wages to meet the increased cost of living. Actually they have had a 30 percent increase in wage income, but what they are asking for is basic wage increases from 13.6 percent to 30 percent, on top of which they would also receive the 30 percent overtime. If granted such increases, they would be receiving as high as 60 percent in gross increase in pay.

The action of the Wage Board in denying these requests for increases in basic wages is sound and in keeping with action taken by the Public Printer in disapproving similar demands for wage increases in the Government Printing Office. The Congressional Joint Committee on Printing, headed by Senator Hayden of Arizona, also turned down the demands of the Government Printing Office employees on appeal from the decision of the Public Printer.

Mr. Hall is of the opinion that William Green will appeal to you in the hope of obtaining a reversal of the action of the Treasury Wage Board.

WHT:aja

MEMORANDUM FOR: Mr. V. H. Thompson  
Administrative Assistant to the Secretary

The Treasury Department Wage Board has had under consideration for several months a number of requests for increases in compensation for certain occupational groups in the Bureau of Engraving and Printing. These groups, together with the approximate amounts of increases requested, are given below:

Group A

Trades and crafts employees, including electricians, machinists, plumbers, plate makers, steam fitters, painters, carpenters, bookbinders, sheet metal workers, engineers, masons and photo lithographers, represented by the Allied Trades Committee appointed by American Federation of Labor President William Green. Increase in compensation requested - 30%.

Group B

Printing pressmen in the Surface, Numbering and Offset Sections, represented by Printing Pressmen's Union No. 1. Increase in compensation requested - approximately 16% from \$1.32 per hour to \$1.55.

Group C

Hand compositor-proofreaders, represented by Columbia Typographical Union No. 101. Increase in compensation requested - 13.6% from \$1.32 per hour to \$1.50.

Group D

Plate printers, including those in the Proving Room, rotary press plate printers, those engaged in revenue and postage stamp work, and foremen of plate printers, represented by the International Plate Printers, Die Stampers, and Engravers Union Local No. 2. Increase in compensation requested - 15%.

Group E

Bookbinders, represented by the Journeyman Bookbinders Union of the District of Columbia, Local No. 4, and also the

- 2 -

Allied Trades Committee, mentioned in Group A. Increase in compensation requested - approximately 19% from \$1.26 per hour to \$1.50.

Group F

Engravers, represented by the Bank Note Engravers Guild Local No. 32. Increase in compensation requested - 30%.

As the rates of pay in question are not fixed by statute, any adjustments are subject to the national wage stabilization policies established by the Congress, the President, and the National War Labor Board. This being the case, whatever increases the Department might propose for employees in these occupational groups would have to be approved by the National War Labor Board, in accordance with the policy stated in Executive Order No. 9250, which directs that Agency not to approve increases in the wage rates prevailing on September 15, 1942, unless such increase is necessary to correct maladjustments or inequalities, to eliminate substandards of living, to correct gross inequities, or to aid in the effective prosecution of the war. Inasmuch as the factors pertaining to the elimination of substandards of living and aid in the effective prosecution of the war are clearly not involved in the subject appeals, the Wage Board has dismissed them without consideration. Our attention has, therefore, been confined to the question as to whether or not wage increases in these cases are necessary to correct (a) inequalities or gross inequities, or (b) maladjustments.

The phrase "inequalities or gross inequities" has reference to manifestly unjust differences in prevailing wage rates. In its statement of policy dated November 6, 1942, the National War Labor Board interprets this phrase as follows: "The wage rate inequalities and gross inequities which may require adjustment under the stabilization program are those which represent manifest injustices that arise from unusual and unreasonable differences in wage rates." Your Committee has considered these requests for increased compensation in terms of this statement of policy and has concluded that there is no sound basis for granting the requests. It does not appear to the Committee that the present rates are unreasonable, unusual, or represent manifest injustices.

The term "maladjustments" has reference to the relationship between wage levels and increased costs of living. Although we realize that in general overtime work should not be used to offset inadequate basic rates of pay, nevertheless, in view of the fact that for the present emergency 48 hours has been established as a basic work week, it appears to us to be just and reasonable to consider the earnings of these groups of employees on the present 48 hour basis in comparison with their

earnings on the 40 hour basis that existed prior to November, 1942. The average increase in earnings among the employees in the trades in the Bureau that has resulted from an increase in the work week from 40 to 48 hours is \$800 per annum. This represents an increase of 30% in earnings, and compares favorably with the increase in the cost of living over the 1935-1939 level, which is shown by the index published by the Department of Labor as being approximately 25.7%.

The idea that earnings on the basis of the 48 hour work week should be given consideration in the cases before the Board is strongly supported by the provisions of the act approved May 17, 1943 (Public Law 49, 78th Congress) which provides an adjustment to Government employees generally to meet the increased cost of living. The basis for the increased pay under this act is overtime compensation for employment in excess of 40 hours in any administrative work week. There appears to be no reasonable basis for holding that Government employees generally may be required to work overtime and that the overtime pay shall be considered as an offset to the increased cost of living, while at the same time contending that the employees in the trades and crafts in the Bureau of Engraving and Printing should be treated preferentially by ignoring the increased earnings on the 48 hour basis and by giving them increases in basic rates of pay. In other words, there appears to be no reason why employees in the trades and crafts in the Bureau of Engraving and Printing should not be compared with all other employees of the Government service, as they enjoy the same privileges as to annual leave, sick leave, retirement, and permanent, regular employment.

The Wage Board recognizes that in the case of certain trades, such as electricians, machinists, plumbers, steam fitters, painters, carpenters, and others differences in rates do exist between those paid in the Bureau of Engraving and Printing and those paid in private industry. As employment in these trades has tremendously increased because of the demand in war industries, the prevailing rates outside of the Government have increased more than the increase in cost of living. This has been brought about by the great demand for workers and not because of any studied plan of compensating the persons in these trades for the increased cost of living. The Board feels that it must assume that such conditions are temporary and are not to be used as a reason for increasing basic rates of pay in those particular trades in the Bureau.

Certain other differences between rates paid in the Bureau of Engraving and Printing and on the outside have been pointed out to the Wage Board. These, however, are offset by other factors. For example, rates in the newspaper publishing business in this city are higher but they are offset by the fact that shorter hours are worked and therefore the total wages earned are less than in the Bureau of Engraving and Printing.

Conclusions

The Treasury Department Wage Board feels that there is no mal-adjustment between the present earnings of the employees in the Bureau of Engraving and Printing who are in the occupational groups listed in this memorandum and the present cost of living. It, therefore, recommends that no action be taken at present to grant increased compensation to them. The Board also feels that any permanent adjustments in the basic rates of pay for these occupational groups should await the end of the present war, when wages, living costs, and employment will be stabilized on a permanent peace-time basis.

Signed/ T. F. Wilson  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Approved:

Administrative Assistant  
to the Secretary



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

228  
*Revised*  
DATE

December 23, 1943

TO Secretary Morgenthau

FROM Fred Smith *FS*

Concerning the attached story: I have had it checked pretty thoroughly, and find out these facts:

(1) These are the first checks to go to farmers from the punching machines instead of check-writing machines, in Chicago.

(2) When the blanks for these machines were made, it was decided, apparently by Danny Bell, to leave off any sort of identification except the Federal Reserve symbols.

(3) I asked why they couldn't make special blanks for special accounts, and they reported that this is impossible because the accounting office keeps its records by the serial numbers of the checks, which must be kept consecutive, regardless of what accounts are involved.

(4) The checks involved in the story are for AAA payments. The Department of Agriculture had counted on the county agent to inform the farmers concerning the checks, but in a great many cases they apparently fall down.

(5) At least partially due to our investigation, the Department of Agriculture and the Treasury's Disbursing Group have gotten together and are now planning to insert a ticket with each check that will explain what it is for. Agriculture will prepare the inserts, and we apparently have machines to insert them with the checks at no added expense. If this proves to be practical, we will have a story out on it. Dillon, of Public Relations will follow it up.

TO:

Mr. Smith

229

Amgr says:

"What's the

Answer"

?

12/23/43  
1:54

From: Mr. FitzGerald

DEC 23 1943

Manna From Morgenthau

## U. S. Checks Puzzle Farmers but They're Cashing Them

By DANIEL M. KIDNEY

Thousands of Government checks have been sent to farmers, without explanation, from the Treasury's Chicago disbursement office. Officials here are busy trying to answer the question, "How come?"

Farmers have written to senators and congressmen calling them "gift checks." Agriculture officials think maybe they are AAA payments, but are not sure. They have taken the matter up with the Treasury, but Treasury officials tell them their Chicago machines are turning out millions of checks and they have no facilities for informing each recipient what his check is for. They are certainly AAA checks, however, the Treasury said.

Farmers in Grant County, Indiana, have complained to Sen. Raymond E. Willis (R., Ind.), member of the Senate Agriculture Committee, about getting these mysterious checks, and several other senators and congressmen have received similar complaints.

Many farmers also have written to the Agriculture Department about them.

### ONE SAMPLE

Here is a sample letter to Sen. Willis:

"Many gift checks have been received in Indiana and

we presume every county in the United States has received the same thing. There was no letter accompanying these checks and no receipt was demanded in return.

"Now farmers as a rule are not demanding or asking for these gifts, and they figure they will have to aid in paying it back in the near future. Also, farmers are wondering where this money is coming from with the nation so heavy in debt."

For the most part the farmers are cashing the checks for Christmas, despite their worry regarding them, according to another letter which reads in part:

"Some farmers receiving such checks were amazed and have asked what they were in payment for. Finally they decided they might as well cash them for they would have to pay it back in high taxes next year.

### ARE THEY SANE?

"We all know that money does not grow on trees, and it will have to come out of our tax money, social security, bond sales or from some invisible source.

"If an individual would conduct his business in such a manner people would at once question his sanity."

Agriculture Adjustment Agency officials say the checks are probably for 1942 parity payments. They cite a sample letter sent out last July which should have been received by the farmers explaining the checks.

Herbert Gaston.  
The Secretary.

December 23, 1943

I have already asked twice that my former crew on my former plane come in to see me so that I could say, "Thank you," to them. I really would like to do it today. I asked Admiral Waesche once and then I asked you, and now I'm asking the third time. Please see, if they are around town, that they come in to see me. - *Fitzgerald is following up.* -

Randolph Paul  
Joe O'Connell

December 23, 1943

The Secretary

I'd like to know what's been done about the letter from Mr. Thomas on the tax case. I'd like to have a letter prepared in answer to the one I received and in Mrs. Klotz' hands not later than two o'clock today, if you please. If this is not clear ask me on the telephone. *Jane*

DEC 23 1943

Dear Mr. Thomas:

Mr. Paul has reported to me that in your telephone conversation he advised you that nothing could be done about the subject matter of your letter to me of December 17th until after the Congressional recess, but that in the meantime he would be glad to discuss it with you or your representatives. I understand that Mr. Paul explained to you some of the considerations involved in the House "back-pay" provision.

As Mr. Paul advised you, there are two possibilities in connection with the current revenue bill you may wish to consider:

- (1) An amendment may be presented on the senate floor, and
- (2) The House conferees may stand by this provision of the House bill in conference.

Mr. Paul, as he has stated, would be very glad to have you come in and talk with him if you so desire.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Mr. R. J. Thomas,  
President, International  
Union, UAW-CIO,  
411 West Milwaukee Avenue,  
Detroit, Michigan

MEP/kfa 12/23/43

26 Oliver  
INTERNATIONAL UNION OF AUTOMOBILE · AIRCRAFT · AGRICULTURAL IMPLEMENT WORKERS  
of AMERICA (UAW-CIO)



INTERNATIONAL HEADQUARTERS · 311 WEST MILWAUKEE AVENUE · DETROIT, MICHIGAN

R. J. THOMAS  
INTERNATIONAL PRESIDENT  
GEO. F. ADDES  
INTERNATIONAL SEC. & TREAS.

RICHARD T. FRANKENSTEIN

WALTER P. REUTHER

December 17, 1943

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

Dear Mr. Morgenthau:

I am deeply concerned over a matter that has just been brought to my attention.

In 1941, after many years of struggle, our Union entered into a collective bargaining contract with the Ford Motor Company. In pursuance of an agreement we made with the company at that time, approximately 4,000 employees who had been discriminatorily discharged by the company during the previous four years were re-hired. The company also agreed to pay backpay to these employees in an amount to be determined by the National Labor Relations Board or, in certain disputed cases, by an arbitrator.

Under this agreement the company has paid out approximately \$2,600,000.00 to these employees. However, after the money had been paid, the employees found that they were required by the Treasury Department to pay an income tax on this backpay at the high rate in effect during the year in which they received the money rather than at the

Henry Morgenthau, Jr.

#2

September 17, 1943

relatively low rates in effect during the years for which it had been computed. On the other hand the company received relief from the high tax rate by reason of the fact that it was able to deduct the backpay paid to these employees from its net profits as operating expenses during the year in which their tax would have been the highest.

In an effort to find some remedy for the injustice created by this situation, our union instituted a test case which was heard by Judge Arthur Lederle in the Federal District Court of Detroit. Judge Lederle, although recognizing the injustice of the situation, concluded that the backpay constituted wages and was taxable under the income tax laws as of the year received. However, following his decision, he directed a communication to Congressman Dingell of Detroit, a member of the House Ways and Means Committee, supporting an amendment to the income tax laws under which backpay so received would be taxed at the rates existing during the years in which it was paid. I enclose a copy of Judge Lederle's letter.

Some years before, an amendment had been adopted by Congress whereby a certain class of taxpayers, particularly lawyers, who received a fee in one year which they had earned for work performed over a period of three years or more, could pay tax on this fee at the rate in effect during the years when the work was done. We sought to have this amendment construed



Henry Morgenthau, Jr.

Page #3

September 17, 1943

to apply to the workers who had received back pay. Your department finally ruled, however, that it could not be applied but was intended to cover classes of taxpayers other than workers, such as lawyers, auditors, etc.

However, representatives of your department agreed that it seemed unfair to exclude workers who had been discriminatorily discharged in violation of the law, from the benefits of this amendment.

It was with a view of remedying this injustice that Congressman Dingell introduced an amendment to the current tax bill. This amendment is now included as Section 113 of the Tax Bill of 1943. Section 113 was adopted by the House Ways and Means Committee and by the House of Representatives. However, after the bill had been referred to the Senate Finance Committee, the union was advised that objections had been raised against it and that this section had been eliminated by the committee. Upon inquiry as to the nature and source of the objections, I was amazed when Senator Arthur Vandenburg, a member of the Senate Finance Committee, told us that the Treasury Department had been instrumental in having this section eliminated. In a letter which Mr. Richard T. Leonard, Director of the National Ford Department of our Union received today, Senator Vandenburg states "I fully

237  
Henry Morgenthau, Jr.  
#4  
September 17, 1943

Understand how you feel about Section 113 of the pending  
tax bill. The Senate Finance Committee eliminated this  
section at the instance of the Treasury Department."

I am sure that you personally are unaware of  
any action of your department intended to effect the elimination  
of this amendment. The injustice to these and other similarly  
situated workers has been recognized and commented upon by  
Federal Judge Lederle, Congressman Dingell, Senator Vandenburg  
and by ranking employees of your own department. I am at a  
loss to understand the motive behind this action by your  
department. If a similar provision is desirable for lawyers,  
auditors and other professionals, why should workers be  
subjected to the present unjust application of the law?

It has always been customary for corporate and  
other wealthy taxpayers to obtain Congressional relief from  
unjust or inequitable operation of the tax laws. I am  
informed that in numerous cases the Treasury Department has  
sponsored or endorsed such legislation, and undoubtedly  
properly so. However when workers, for the first time so far  
as I know, ask Congress to correct an unjust application of  
the tax law against them, it is disheartening to find that  
your department should be found in opposition.

Mr. Henry Morgenthau, Jr.  
Page #5  
September 17, 1943

I urge you to give your personal consideration to this matter. It not only affects a large number of workers who were discriminated against by their employer, and are now discriminatorily dealt with by an unjust tax law; it also raises the question as to whether workers can obtain the same kind of corrective legislation from Congress that professional people, corporations, and wealthy taxpayers have been able to obtain in the past.

Inasmuch as early action is expected on the tax bill by the Senate Finance Committee as well as by the Senate, I would appreciate it if you would give your earliest attention to this matter.

Very truly yours,



R. J. Thomas, President  
International Union, UAW-CIO

rjt:mar  
ucpwa26cio  
enclosure

COPY OF LETTER SENT BY ARTHUR F. LEDERLE, UNITED STATES  
DISTRICT JUDGE FOR THE EASTERN DISTRICT OF MICHIGAN  
ON JULY 9th, 1943 TO CONGRESSMAN JOHN D. DINGELL:

"I am enclosing herewith a copy of my findings of fact and conclusions of law in an income tax case that was tried before me. I am confident that I properly applied the present law to the facts in this case, but I stated in open court that I thought it was rather unfair and suggested that the remedy was to apply to Congress to change the law if that was advisable. At the request of Mr. Morton Eden, attorney for plaintiff, I am sending this to you.

/s/ Arthur F. Lederle  
District Judge

AFL/t

240

Prepared by War Department



CONFIDENTIAL

242 ✓

December 23, 1943

Jack McCloy told me yesterday that for over three months all planning between Great Britain and ourselves has been stopped over a jurisdictional row between the two countries. He said he saw Anthony Eden in Cairo and convinced him that the thing should be done with the McCloy Committee here in Washington and then after he agreed to that, Eden backed down because, he said, London didn't want it. And McCloy said, "Who could be there in London who could talk with both Eden and Churchill away?" So the thing is still blocked or stymied. I told him about my troubles with Mr. Stimson and said that I would be glad if he would pick the thing up again and if he wanted recommendations, we were ready to make them, though I didn't name any names.

Copy to Mr. Harry White.

FOREIGN ECONOMIC ADMINISTRATION  
WASHINGTON 25, D. C.

243 ✓

*Finished*

December 23, 1943

Dear Secretary Morgenthau:

Here is the information that you asked me about  
the other day.

It is the roughest of rough estimates. It may  
possibly be that if these capital goods are taken off  
lend-lease, the British may not buy as much of them. This  
would, of course, throw the estimates 'way off.

Sincerely yours,

*Oscar Cox*

Hon. Henry Morgenthau, Jr.

The Secretary of the Treasury

Enclosure



ITEMS TO BE FURNISHED THE BRITISH EMPIRE FOR CASH

Effective November 15, 1943, the following categories of items, heretofore obtained on requisitions filed with the Lend-Lease Administration, will be furnished to the British Empire only for cash (preferably through ordinary commercial channels unless in special cases procurement difficulties necessitate the use of lend-lease cash reimbursement procedure):

- (a) Projects of a permanent nature;
- (b) Machine tools;
- (c) Materials and equipment for the production and refining of petroleum, excluding drum sheets and pipe lines for direct military use;
- (d) Industrial equipment;
- (e) Portable electric and pneumatic tools.

The following are rough estimates of the dollar values of the above categories, for the year 1944, with the exception of projects of a permanent nature for which no estimates have been made because of the nature of the problem. The values do not include cost of items already on order, except as noted.

Millions of Dollars

(b) Machine Tools, Presses and Wood Working Machinery	30.0
(c) Petroleum Equipment	14.0
(d) Industrial Equipment	125.0
Includes mining, construction, transportation (locos and rolling stock), power generating, rolling mill and foundry equipment; also cranes, hoists and bearings. The mining equipment includes \$17,000,000 for U. K. coal mining and \$3,000,000 for Empire metal mining, already on order.	
Food Machinery	0.8
Pulp, Paper, Printing Machinery	0.2
Textile and Leather Machinery	<u>1.0</u>
Total	127.0
(e) Portable Electric and Pneumatic Tools	<u>7.0</u>
Grand Total	178.0

ADDITIONAL ITEMS FOR THE BRITISH EMPIRE  
ON WHICH THERE HAS BEEN DISCUSSION

Millions of Dollars

The following are rough estimates of the dollar value, for the year 1944, of additional items for which the British might be required to pay cash. The estimates are exclusive of items which would be procured through the War Department:

Agricultural Machinery	14.8
Automotive Equipment	12.7
Replacement Parts for above	17.5
Business Machines	11.0
Woodpulp	9.0
Paper	25.0
Aluminum	24.0
Tobacco for Armed Services	<u>65.0</u>
Total	179.0

DOLLAR VALUE OF ALL REQUISITIONS APPROVED  
FOR THE UNITED KINGDOM AND BRITISH EMPIRE, BY MONTHS  
1943

April	176,295,720
May	216,220,337
June	999,427,429
July	106,203,234
August	86,446,242
September	199,180,809
October	98,040,117
November	84,331,306
	<hr/>
Total	1,966,145,194
Monthly Average	245,768,149

Data for the first three months are not available.

DEC 23 1943

25

Dear Mr. Crowley:

This is in reply to your letter of December 10, 1943 requesting comments on an inquiry dated November 29, 1943 which you received from Representative Voorhis concerning arrangements for the transfer to the United States of investments in U.S. enterprises held by nationals of the countries receiving lend-lease assistance.

It is suggested the inquiry be answered somewhat along the following lines.

The only commitment made to date concerning repayment for lend-lease assistance being extended by the United States is that contained in Article VII of the Master Lend-Lease Agreements. This Article provides that in the final determination of the benefits to be provided to the United States by the recipient government in return for lend-lease aid furnished, "the terms and conditions thereof shall be such as not to burden commerce between the two countries, but to promote mutually advantageous economic relations between them and the betterment of world-wide economic relations." Although discussions have begun as to how to carry out this arrangement, details have not yet been worked out.

As you are undoubtedly aware, the vast bulk of the assistance being extended to our Allies is being extended to the British Empire and the U.S.S.R. Of the \$12 billion of lend-lease goods exported through August 1943, roughly \$5 billion were shipped to the United Kingdom, \$3 billion to other parts of the British Empire and to the Near East, to a large extent also on British account, and \$3 billion to the U.S.S.R. The only other areas which have received over \$100 million of lend-lease goods are China, the French areas and non-British Latin America and, in the case of the latter two, partial reimbursement is being made under existing arrangements.

The investment of Russians in American enterprises is estimated by the Department of Commerce to be negligible while those of British nationals have been substantially reduced since the outbreak of war. As shown by the attached table, the British estimated that as of September 1, 1941 they held available for sale only \$267 million of U.S. securities of which only \$105 million were then believed to be readily marketable and some of these have since been sold. Of the remaining \$1 billion of U.S. assets estimated by the British Government

- 2 -

as held by the residents of the United Kingdom at that time, \$500 million have been lodged with the E.F.C. against the loan extended to the British Government in July 1941 which, under the terms of the loan, will not be fully repaid until July 1, 1956, \$200 million represents the value of branches in the United States of British insurance companies the earnings of which have also been assigned to the E.F.C. loan and \$290 million represents the value of trusts in the United States held for United Kingdom beneficiaries.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Leo T. Crowley, Administrator,  
Foreign Economic Administration,  
Room 414,  
National Press Building,  
14th & F Streets, N.W.,  
Washington, D.C.

Enclosure

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

DEC 10 1943

The Honorable

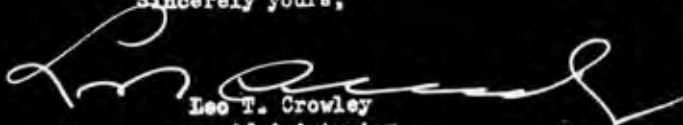
The Secretary of the Treasury

My dear Mr. Secretary:

I am attaching a copy of a letter received from Congressman Jerry Voorhis concerning the transfer to the United States of interests in United States corporations held by nationals of nations receiving lend-lease aid.

I would appreciate any comments you may wish to make so that my response will fully represent the Administration's views in this matter.

Sincerely yours,



Leo T. Crowley  
Administrator

Enclosure



COPY

November 29, 1943.

Honorable Leo T. Crowley  
Administrator  
Foreign Economic Administration  
Washington, D.C.

Dear Mr. Crowley:

I am writing to ask what arrangements, if any, are being made in connection with the lend-lease program for the transfer back to the United States of such bonds and other certificates of ownership in American corporations now held by nationals of the nations receiving lend-lease.

It would appear to me that we have here an excellent opportunity to restore control of American industry to American hands and that there is no reason why payment in this manner could not and should not be made for a portion of what we are sending abroad.

I would be very grateful indeed for any information you can give me along this line.

Sincerely yours,

JERRY VOORHIS

CONFIDENTIAL

BRITISH GOLD AND DOLLAR EXCHANGE ASSETS  
AS OF SEPTEMBER 1, 1941

(Except where otherwise indicated, the figures below were obtained from the British Government)

(In Millions)

## AVAILABLE DOLLAR ASSETS

1. <u>Gold</u> .....	\$ 151
(In addition, the British hold \$105 million of gold borrowed from Belgium. This gold is not included in the British assets since it involves a definite gold liability of like amount.)	
2. <u>Official dollar balances</u> .....	54
3. <u>U. S. securities</u> .....	167
Readily marketable.....	\$105
Other.....	62
(Of the \$105 million of readily marketable securities over \$30 million is composed of some 1,100 stocks in small holdings, which could not be immediately mobilized.)	
Total - available dollar assets.....	\$ <u>372</u>

## OTHER DOLLAR ASSETS

1. <u>Private dollar balances</u> .....	\$ 310
(This is taken from U.S. Treasury data. The British state these private balances are at a minimum necessary to the conduct of business and thus not available to the Government.)	
2. <u>Assets pledged against R.F.C. loan</u> .....	500
U.S. securities.....	\$205
Direct investments.....	295
(Against \$145 million of securities, the British in August received an initial payment of \$100 million from the R.F.C.)	
3. <u>Branches of British insurance companies</u> .....	200
(The earnings of these companies are assigned to R.F.C. loan)	
4. <u>Trusts in U.S. held for U.K. beneficiaries</u> .....	290
(These trusts are established under United States law and hence the assets may be unavailable to the British Government. Together with the direct investments pledged or to be pledged against the R.F.C. loan, including branches of British insurance companies whose earnings are assigned to R.F.C. loan, and with Viscose and Brown and Williamson, they account for the estimate of \$900 million submitted to Congress in January. There are in addition some small investments in U.S. enterprises which, because of their size, the British regard as virtually unsaleable.)	



DEC 23 1943

My dear Mr. Secretary:

During my recent trip to Sicily and Italy, I had an opportunity of reviewing with the officers in charge the outstanding financial and monetary problems confronting the Allied Forces in the area. Conditions change rapidly, however, and quite recently in Sicily and Southern Italy, control over civilian government, including financial institutions, has been restored to the Italian Government. It is our understanding that the Allied Military Government has been confined to the forward areas and the responsibility of negotiating with the Italian authorities now rests with the Allied Control Commission.

We have received some information as to the significance of these changes in the fiscal and monetary fields. It is difficult, however, at this distance, to weigh these factors accurately. It is my thought that it would be advisable to recall one of the officers concerned to Washington to report personally on financial and accounting matters relating to the Allied Military Financial Agency, an agency of the Allied Military Government, of interest to your Department and to the Treasury.

I would request, therefore, that your Department consider the desirability of causing to be returned to Washington immediately Lt. Commander Southard, now assigned to A. M. F. A. to report on its activities and present status.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

The Honorable,

The Secretary of the Navy.

HT:Dr1 -12/22/43

253 ✓

Treasury Department  
Division of Monetary Research

Date Dec. 23, 1943

To: Miss Chauncey

The Secretary signed the original of this memorandum and copies have been sent to Mr. McCloy to be taken up with the Secretaries of State, War and Navy.

H.D.W.

MR. WHITE  
Branch 2058 - Room 214½

MEMORANDUM FOR THE PRESIDENT

It is essential that a decision on the type of currency to be used by the Allied armies in the invasion and the liberation of France be made immediately. This matter has been under consideration for a long while and it is our joint recommendation that the following inscriptions should be used on the notes, subject to your approval.

On the face of the note would appear the inscription "Republique Francaise" together with the inscriptions "Emis en France" and "Series de 1944". The face would also carry the denomination of the note in French.

On the reverse side of the note there will be a French flag in full color and grouped about the flag the three words, "Liberte", "Fraternite", and "Egalite".

The issuing authority would be the Allied Military Commander. This fact would appear in the appropriate public notices but would not appear on the currency.

In the event you deem it inadvisable to use the term "Republique Franciase", this designation could be eliminated

- 2 -

from the face of the note.

It is also recommended that the French Committee of National Liberation be permitted to place an order in this country for French currency, of their own selected design. The finished currency would then be kept in the custody of the U.S. Treasury to be released to a French Government whenever the American and British Governments so decide.

\_\_\_\_\_  
Secretary of State

\_\_\_\_\_  
Secretary of the Treasury

\_\_\_\_\_  
Secretary of War

\_\_\_\_\_  
Secretary of the Navy

WHT:HDW:gra  
12/22/43

258  
Ding to be white  
to read & return  
to files of Genl Counsel

Secretary Morgenthau

DEC 23 1943

Randolph Paul

Attached is an opinion which I have signed concluding that Allied armies have the legal authority to issue Allied Military Currency in their operations in France, Belgium, etc., and that we may charge the costs of occupation to the liberated territories.

You will find this opinion significant in connection with the pending negotiations with Belgium regarding the terms upon which Belgium will furnish us with the local currency needed for our operations in Belgium. In any such policy discussions, it is important to bear in mind the following:

(1) The United States is under no legal obligation to compensate Belgium for local currency furnished in connection with the liberation of Belgium; and

(2) Historically, and under international law, a strong case can be made out for the proposition that the United States is entitled to full compensation from the countries liberated to cover all of our costs in such areas. (We have a long list of illustrations extending from biblical days to very recent years on this subject.)

(Initialed) R.E.F.

APL:LCA:msu  
12/23/43

Secretary Morgenthau

DEC 23 1943

Mr. Paul

Re: Authority to establish military government in "Allied" territory recaptured from the enemy, to issue military currency and to place on such territory the costs of occupation.

In connection with the Allied invasion of Sicily and Italy, consideration was given to a number of problems relating to the legal aspects of certain financial, economic and fiscal activities of the Allied Military Command. The memoranda exploring these subjects dealt with the authority, under established principles of international law, of occupying armies to assume powers of government over enemy territory.

It was shown that the text writers, the courts and the usage of nations, recognized that the military occupant of enemy territory possessed all the powers of a de facto government and that the commander, not only had the right and power to perform all the acts necessary to govern the area, but also the duty and responsibility of exercising those powers to assure the normal functioning of the area to the extent consistent with his own military requirements.<sup>1/</sup> Also, it was shown at length that the issuance of military currency is an appropriate and accepted device to be utilized by the occupant in support of military operations and as a means of maintaining the economy of the area.<sup>2/</sup>

The problem to be discussed in this memorandum is twofold: 1) to what extent, if any, is the right to set up a military government and to issue military currency restricted or modified by the fact that the area over which control has been obtained by force of arms is not an enemy area in the conventional sense, but is an area such as France or the Netherlands which constitutes enemy territory only because it

<sup>1/</sup> 2 Oppenheim, International Law (8th Lauterpacht ed. 1940) 356-59; 2 Hyde, International Law (1922), 261-86; 1 Moore, International Law Digest, (1908) 42-51; 7 Ed. 287-315; Hall, International Law (8th Higgins ed. 1924) 553-76; Lawrence, The Principles of International Law (7th Winfield ed. 1923) 408-30; Birkhimer, Military Government and Martial Law (3rd ed. 1914) 21-369; Spaight, War Rights on Land (1911), 250-318; Colby, Occupation under the Laws of War (1928) 25 Col. L. Rev. 145.

<sup>2/</sup> Memorandum of Sept. 24, 1943, re "Opinion on the Legality of the Issuance of AMG Currency in Sicily".

- 2 -

has been conquered and is occupied by a common enemy; and  
 2) may the costs of occupation be placed upon such occupied territory. <sup>3/</sup>

The discussion here has been couched in terms of the ultimate incidents of the burden of occupation costs rather than in terms of the redemption of the particular currency issued. This was done because the question of occupation costs is the broader one and encompasses, among other things, the redemption of the particular currency used during the occupation. In the final analysis the ultimate burden of the occupation does not depend on the nature of the currency employed or upon who redeems such currency, but depends rather on other broad policy determinations. In view of the fact that ultimate costs can be controlled in other ways, it is more helpful to speak in terms of the obligation to pay occupation costs than in terms of the redemption of the occupation currency issued which is merely a mechanism or vehicle for shifting temporarily a portion of such costs.

On the basis of the analysis of the applicable principles of international law as found in texts, cases and in past dealings between nations it is submitted that the questions posed above may be answered as follows:

- 1) The right to establish a military government possessing the power to issue military currency in Axis occupied "Allied" territory is as broad and plenary as the right to set up such a government in the territory of the enemy proper; and
- 2) Where there is a right to occupy there is the right to assess the costs upon the territory occupied irrespective of whether the particular territory is owned or merely controlled by the enemy.

The foregoing answers are premised on the basic assumption that under international law the Allied Military authorities have the "right" to invade and occupy Axis held "Allied" territory. The soundness

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<sup>3/</sup>

Although technically a distinction may be made between an area whose government-in-exile is fully recognized by the United States and Great Britain, such as the Netherlands, and an area whose government is only partially recognized by the United States and Great Britain, such as Metropolitan France, this distinction has no effect on the rationale or conclusions reached in this memorandum.



- 3 -

of this assumption may not be seriously questioned. It is fundamental that a belligerent in wartime may seek out the enemy and occupy territory controlled by the enemy, irrespective of whether such territory was owned or merely controlled by the enemy and regardless of whether such territory was the enemy's homeland or merely former territory of the belligerent or its allies which had been seized by the enemy during the course of the war.<sup>4</sup>

The theoretical explanation of this universally accepted doctrine revolves about the concept of "region of war", which region is said to be "that part of the surface of the earth in which the belligerents may prepare and execute hostilities against each other."<sup>5</sup> Discussing the extent of the region of war, Oppenheim states:

"The region of war depends upon the belligerents. For this reason, every war has its particular region, so far, at any rate, as the territorial region is concerned. For besides the open sea, and all such territories as are yet not occupied by any State (which are always within the region of war), the particular region of every war is the whole of the territories and territorial waters of the belligerents. . . ." (Underlining supplied.)<sup>6</sup>

It will be noted that under the foregoing concept practically all of Europe would be part of the "region of war" and thus subject to belligerent occupation.

Moreover, neutral countries whose territory is violated become at once a part of the region of war.<sup>7</sup> Rodick in his treatise entitled

<sup>4</sup> 1 Hyde, *op. cit.*, *supra*, footnote 1, sec. 596, p. 191. 2 Oppenheim, *op. cit.*, *supra*, footnote 1, sec. 71, pp. 188-91.

<sup>5</sup> Oppenheim, *op. cit.*, *supra*, footnote 1, sec. 70, p. 187.

<sup>6</sup> *Id.*, sec. 71, p. 188.

<sup>7</sup> As rationalized by Hyde:

"If a neutral possesses neither the power nor disposition to check warlike activities within its own domain, the belligerent that in consequence is injured or threatened with immediate injury would appear to be free from the normal obligation to refrain from the commission of hostile acts therein. . . ."

"The obligation towards the neutral not to undertake such a movement would, for the time being, be inapplicable, by reason of its own weakness or indifference."

1 Hyde, *op. cit.*, *supra*, footnote 1, sec. 597, pp. 788-789. See also Edmunds, The Lawless Law of Nations, (1926) pp. 400-401.

- 4 -

The Doctrine of Necessity in International Law states the proposition quite forcefully. He declares:

"Thus, for example, if a belligerent violated the territory of a neutral, and if the neutral were unable to prevent the violation, or expel the belligerent, the other belligerent might enter the territory and take steps to prevent the violation from operating to his military disadvantage."<sup>8/</sup>

Assuming the right to occupy, the points below discuss and develop the principles and precedents underlying the above stated conclusions.

- I. The Right to Establish a Military Government Possessing the Power to Issue Military Currency in Axis Occupied "Allied" Territory is as Broad and Plenary as the Right to set up such a Government in the Territory of the "Enemy Proper."

From a realistic and practical viewpoint, it would seem clear that the allied commander, as a matter of military necessity, must subject a reoccupied region to military law. Communications and lines of supply must be secured. Railways, highways, telegraph and telephone systems and public utilities must be made subject to military control. Lodging may have to be supplied for the troops. If supplies run short, food and equipment must be obtained.

The allied commander's decisions, economic as well as military, must not be questioned during the initial stages of the invasion and conquest of enemy-occupied territory. Complete military control will be as essential in the conquest of enemy-occupied territory as it is in enemy territory proper.<sup>9/</sup> In both cases, economic decisions are

<sup>8/</sup> Hodiek, The Doctrine of Necessity in International Law (1928), p. 109.

<sup>9/</sup> The concept of "enemy" and "enemy territory", as developed in the economic field by Congress and administrative agencies, includes, within the meaning of these terms, areas occupied by the enemy and persons residing in such areas. See sec. 2 of the Trading with the Enemy Act, as amended, U.S.C. title 50, app., sec. 2; par. 2 of General Ruling No. 11 issued by the Secretary of the Treasury, to whom the President's authority under secs. 3(a) and 5(b) of the Trading with the Enemy Act, as amended, was delegated by Ex. Order No. 8389, as amended, and No. 9195. See also: Paragraph 3 of Communications Ruling No. 1, issued by the Director of Censorship, to whom certain of the President's powers under sec. 305, title III of the Act of December 16, 1941, U.S.C., title 50, app., sec. 618, was delegated by Ex. Order No. 8985.

- 5 -

closely related with the military progress of the invasion and conquest.

International law, in accepting the doctrine of military necessity, draws no distinction between the invasion of enemy territory proper, such as Italy, and "Allied" territory occupied by the enemy. It recognizes that limitations on the authority of the military commander might equally endanger military success in both situations. "Allied" enemy-occupied territory may be as well or better mobilized to resist invasion than enemy territory proper.

The fundamental reasons advanced by the international law writers as bases for the establishment of a military government of belligerent occupation apply as cogently to the instant case as to one of occupation of enemy territory proper. The first of these is succinctly phrased by Hall, who writes:

"... the rights of occupation may be placed upon the broad foundation of simple military necessity."<sup>10/</sup>

The Supreme Court states similarly:

"Martial law is the law of military necessity in the actual presence of war."<sup>11/</sup>

If military necessity demands, many of the attributes of a belligerent military government may be exercised in other than enemy territory. Thus, for instance, the international law writers state that military necessity may authorize the exercise of such rights in neutral countries in those situations in which the belligerent has a right to occupy the neutral country.<sup>12/</sup>

In neutral Korea during the Russo-Japanese War of 1904-1905, the Japanese seized control of the telegraph system and Russian State-owned

<sup>10/</sup> Hall, *op. cit.*, *supra*, footnote 1, p. 559.

<sup>11/</sup> United States v. Diebelman (1875) 82 U.S. 520, 526.

<sup>12/</sup> 2 Oppenheim, *op. cit.*, *supra*, footnote 1, sec. 71, p. 191. See also: 2 Fauchille, Droit International Public (Paris 1921) par. 1207, p. 251; Spaight, *op. cit.*, *supra*, footnote 1, p. 345; Ariga, La Guerre Russo-Japonaise, (Paris 1906), pp. 55-56.

- 6 -

property and suppressed anti-Japanese espionage activity. During the same war, the Japanese exercised the right of requisition in neutral Manchuria.<sup>13/</sup>

The second reason advanced by the international law writers as a basis for the establishment of a military government of belligerent occupation is phrased by Oppenheim as follows:

" . . . The occupant has the duty of administering the country according to the existing laws and existing rules of administration; he must insure public order and safety. . . ."<sup>14/</sup>

Spaight confirms this dual justification for a military government of belligerent occupation:

"The occupant's rights are double-based, resting on necessity for providing some established government in a country which is shut off from its ordinary fount of justice and spring of administration and secondly on the military interests of the occupying belligerent himself. He assumes the reins of government because, otherwise, government there would be none, and such a condition of things would be an evil both for himself and for the population."<sup>15/</sup>

The same reasoning that supports the establishment of a military government of belligerent occupation in enemy territory proper also supports its establishment in "Allied" territory from which the enemy

<sup>13/</sup> Takahashi, International Law Applied to the Russo-Japanese War (1908), pp. 280-281; Ariga, op. cit., supra, footnote 12, p. 397; Lawrence, op. cit., supra, footnote 1, pp. 424-428; 2 Fauchille, op. cit., supra, footnote 12, par. 1174, p. 241. 2 Oppenheim, op. cit., supra, footnote 1, p. 547, footnote 4. For discussion of allied occupation of neutral Greece in World War No. I see Villari, The Macedonian Campaign (London 1922), pp. 25, 32, and 36; Rodiak, op. cit., supra, footnote 8, pp. 113-115; 2 Garner, International Law and the World War (1920), pp. 241-255; for discussion of United States occupation of neutral Luxembourg in World War I, see 2 Hyde, op. cit., supra, footnote 1, sec. 887, pp. 790, 791; and for discussion of United States occupation of eastern Siberia from 1918 to 1920, see Gabriel, American Experience with Military Government (1945) 27 Amer. Political Science Review 417, 421 et seq.

<sup>14/</sup> 2 Oppenheim, op. cit., supra, footnote 1, p. 545.

<sup>15/</sup> Spaight, op. cit., supra, footnote 1, p. 322. See also 2 Oppenheim op. cit., supra, footnote 1, sec. 168, p. 339.

- 7 -

has been ejected by force of arms. The security of the invading troops is endangered as much on the invasion and reoccupation of "Allied" territory under the control of the enemy, as it is during the invasion and occupation of enemy territory proper. Therefore military necessity requires that the commanding general act energetically to protect his troops. Furthermore, the duty of the commanding general to insure public order and safety is certainly as great in friendly territory rescued by force of arms from the enemy, as it is in enemy territory proper. The lack of realism in any other conclusion is clearly recognized by Ariga, whom Spaight quotes as authority for the following statement:

"The right of an army . . . to promulgate martial law and to establish military tribunals applies not only to an army operating in a hostile country, but also to one operating in a neutral or an allied country which circumstances have made the theater of war; for two reasons. First, an army must be in a position to safeguard itself by having suitable laws for that end in force; secondly, even if the existing laws are sufficient, the local tribunals may not wish, or may be unable, to apply them for the protection of the occupying troops. It was for this reason that Japan established and enforced martial law in Manchuria (a province of a neutral country, China), and in Korea (an allied country)." (Underlining supplied.)<sup>16/</sup>

The military occupation of the South by the Union troops during the Civil War raised many legal problems closely related to the ones being considered in this memorandum. The objective of the Federal Government in the Civil War, as stated by the Supreme Court is similar to that of the United Nations on the eve of the invasion of Nazi-occupied "Allied" territory.

"The object of the National government, indeed, was neither conquest nor subjugation, but the overthrow of the insurgent organization, the suppression of insurrection, and the re-establishment of legitimate authority. But in the attainment of these ends, through military force, it became the duty of the National government, wherever the insurgent power was overthrown, and the territory which had been dominated by it was occupied by the National forces, to provide as far as possible, so long as the war continued, for the security of persons and property, and for the administration of justice.

"The duty of the National government, in this respect, was no other than that which devolves upon the government

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Spaight, *op. cit.*, *supra*, footnote 1, p. 243.

- 8 -

of a regular belligerent occupying, during war, the territory of another belligerent. It was a military duty, to be performed by the President as commander-in-chief, and intrusted as such with the direction of the military force by which the occupation was held."<sup>17/</sup>

The Supreme Court has frequently sustained the legality of the Union military occupation of the South. In so doing, it recognized the principle that in time of war a military commander in national territory occupied by insurrectionists has powers similar to those of a military commander invading or occupying territory of a foreign enemy.

In New Orleans v. Steamship Company, the Court, in sustaining the validity of a lease of New Orleans property executed during the period of military occupation by an official appointed by the Military Governor of the area, stated:

"Although the city of New Orleans was conquered and taken possession of in a civil war waged on the part of the United States to put down an insurrection and restore the supremacy of the National government in the Confederate States, that government had the same power and rights in territory held by conquest as if the territory had belonged to a foreign country and had been subjugated in a foreign war. In such cases the conquering power has a right to displace the pre-existing authority, and to assume to such extent as it may deem proper the exercise by itself of all the powers and functions of government."<sup>18/</sup>

In the Civil War cases the Supreme Court upheld the establishment of a military government of belligerent occupation in the South on the same two international law principles justifying its establishment in a foreign enemy's territory, namely military necessity and the duty of insuring public order and safety in the reoccupied area.<sup>19/</sup> The

<sup>17/</sup> The Grapeshot (1869) 9 Wall. 129, 132.

<sup>18/</sup> (1874) 10 Wall. 387, 393-394. See also Dow v. Johnson (1879) 100 U.S. 188; Coleman v. Tennessee (1878) 97 U.S. 509, 517.

<sup>19/</sup> The degree of hostility of the local population to the occupying forces is only one factor to be considered by a commanding general in determining whether military necessity requires a military government. Thus, irrespective of the temper of the residents of the occupied territory, military government may be necessary because of the proximity of the actual combat area. Similarly, small organized hostile elements in an otherwise friendly population may also make military government a necessity. It is notorious that Norway has its Quislings, France its Laval and Deriots, Belgium its Degrelles.

essential circumstances being present, the same result attaches. The identical principles justify the establishment of a military government of belligerent occupation in "Allied" areas recovered in battle from the enemy.

Once a military government has been established in reoccupied "Allied" territory, the question arises as to the legal authority for the continued existence of such a military government. Such a government may continue until the circumstances justifying its establishment cease to exist. Both the international law writers<sup>20</sup> and the Supreme Court<sup>21</sup> agree on this principle.

As stated by Hurdiner:

"The experience of the United States Government, therefore, but adds to the evidence derivable almost universally from the history of other nations, that military government ceases at the pleasure of him who instituted it upon such conditions as he elects to impose, and that its termination is not in point of time coincident, either necessarily or generally with the cessation of hostilities between the contending belligerents."<sup>22</sup>

As it is the responsibility of the Allied commander to determine whether circumstances require the establishment of a military government, so is it his responsibility to determine whether these circumstances continue to exist. Moreover, his decision cannot be questioned by the courts.<sup>23</sup> This is only natural, as he is responsible for the ultimate success of the military operation, which may be endangered by a breakdown in the civilian economy behind the combat zone. Any other rule might have disastrous consequences. Therefore it is for the Allied commander to determine whether the moment for the termination of the military government in a particular area has arrived.

<sup>20</sup> Spaight, *op. cit.*, *supra*, footnote 1, p. 321; McGuire, The Law of Civil Government in Territory Subject to Military Occupation by the Military Forces of the United States. (2d ed. 1902) p. 15; Hurdiner, *op. cit.*, *supra*, at footnote 1, p. 388.

<sup>21</sup> See Cross v. Harrison (1883) 16 How. 164, 184-186. In New Orleans v. Steamship Company (see *supra*, p. 3) the lease whose validity was sustained by the Court was extended more than three years after military government had been instituted in the area in which the property was located.

<sup>22</sup> *Op. cit.*, *supra*, footnote 1, p. 388.

<sup>23</sup> See Neely v. Henkel (No. 1) (1900) 180 U.S. 109, 134.

- 10 -

From the foregoing discussion it is quite evident that a military government may be established in "Allied" territory recovered by force of arms from the enemy as well as in enemy territory proper. Manifestly, all the rights, prerogatives, duties and responsibilities which are inherent in the very nature of a "government" apply to the de facto government set up by the military high command. As an incident to the exercise of its governmental powers such a government may issue military currency when such action is deemed necessary for the support of military operations and the maintenance of public order and safety in the area.<sup>24/</sup>

II. Where There is a Right to Occupy There is the Right to Assess the Costs<sup>25/</sup> upon the Territory Occupied Irrespective of Whether the Particular Territory is Owned or merely Controlled by the Enemy.

The statements of international law writers and jurists and the practice of nations demonstrate clearly that throughout the history of international relations, the costs of an occupation, which is itself justified, may be assessed against the occupied territory. Although this basic principle is practiced universally and is deeply rooted in historical precedent, it is less a rule set down as a guide for the conduct of international relations than it is a description of the actual conduct of nations which has been approved by the jurists and writers and sanctioned by time honored practice.

<sup>24/</sup> See memorandum of Sept. 24, 1943, re "Opinion on the Legality of the Issuance of AMG Currency in Sicily".

<sup>25/</sup> Article 49 of the Hague Convention of 1907 provides:

"If, in addition to the taxes mentioned in the above Article the occupant levies other money contributions in the occupied territory, this shall only be for the needs of the army, or of the administration of the territory in question." (Underscoring supplied.) (2 Hallay, Treaties (1910) 2269, 2269).

Although the language of the Convention is not clear on what constitutes the needs of the Army, some light is thrown upon the subject by the Versailles Treaty which indicates at least what the Allied nations interpreted as being properly included in occupation costs. The relevant provision of the treaty states:

"There shall be paid by the German Government the total cost of all armies of the Allied and Associated Governments in occupied German territory from the date of the signature of the Armistice of November 11, 1918, including the keep of men and beasts, lodging and billeting, pay and allowances, salary and wages, bedding, heating, lighting, clothing, equipment, harness and saddlery.



- 11 -

In studying the various types of occupation it will be noted that whatever rationale the courts or writers employed to justify the imposition of costs upon the occupied territory, the results form one harmonious pattern based on the concept that if there is a right of occupation, there is a right to occupation costs.

#### A. Belligerent Occupation of Enemy Territory.

The largest group of cases which fall within the pattern are those involving belligerent occupations of enemy territory in war time. For the purpose of this memorandum it is unnecessary to dwell upon the different bases upon which various writers support the right to assess occupation costs in such cases. What is significant is the universal acknowledgment of the fact that the belligerent enemy has the right to both occupy and impose occupation costs upon territory subjected to his control.

25/ continued;

armament and rolling stock, air services, treatment of sick and wounded, veterinary and remount services, transport service of all sorts (such as by rail, sea or river, motor lorries), communications and correspondence, and in general the costs of all administrative or technical services, the working of which is necessary for the training of troops and for keeping their numbers up to strength and preserving their military efficiency." (Art. 249 of the Versailles Treaty, 3 Malloy Treaties (1925) 3329, 5439.)

Further light is cast on the proper scope of occupation costs in the commentaries of certain international law writers. Westlake (International Law, Part II, 101) indicates that occupation costs should include only the expenses incurred in the occupied area and should not permit levies for the purpose of acquiring commodities in the invader's own country. Provisions for the Army made at home should be borne by the occupant out of his own general resources. Hyde (*op. cit.*, supra, footnote 1, p. 371) expresses a similar thought when he declares that the occupant ought not to be permitted to make levies for the purpose of minimizing the financial burden of the occupying country or to meet the expense of operations undertaken outside of the occupied district. The only official or rather semi-official comment on what constitutes the needs of the Army within the meaning of the Hague Convention is found in the Report to the Convention from the Second Commission on the Laws and Customs of War on Land, wherein it is stated that it was forbidden to levy contributions for the purpose of "enriching oneself."

From the foregoing it may safely be assumed that at the minimum occupation costs include all the expenses of the Army incurred in the occupied area during the period of occupation.

- 12 -

In cases of belligerent occupation the right to shift the burden of occupation costs to the territory occupied is well settled law which has been expressly recognized in the United States. In a special message to Congress on February 10, 1848, dealing with the Mexican War, President Polk said:

"No principle is better established than that a nation at war has the right of shifting the burden off itself and impose it on the enemy by exacting military contributions."<sup>26/</sup>

Further, the right of an occupying force to collect taxes and duties from the occupied country has been supported by the Supreme Court in Seely v. United States, in which the Court held:

"Upon the occupation of the country (Porto Rico) by the military forces of the United States, the authority of the Spanish government was superseded, but the necessity for a revenue did not cease. The government must be carried on, and there was no one left to administer its functions but the military forces of the United States. Money is requisite for that purpose, and money could only be raised by order of the military commander. The most natural method was by the continuation of existing duties. In adopting this method, General Miles was fully justified by the laws of war."<sup>27/</sup>

Finally, the established right of a belligerent occupant to levy occupation costs was codified in the Hague Convention Respecting the Laws and Customs of War on Land, 1907.<sup>28/</sup>

Article LIII of this Convention authorizes an occupant to take possession of state funds, cash and realizable securities in enemy territory and also of state stores, supplies, and movable property which may be used for military operations. Article XLIX authorizes the levying of money contributions in occupied territory for the needs of the occupying army and the administration of the occupied territory.

<sup>26/</sup> 7 Moore, op. cit., supra, footnote 1, p. 285.

<sup>27/</sup> (1900) 182 U.S. 222, 230.

<sup>28/</sup> References in this opinion are to the Annex to Convention IV which was concluded October 18, 1907, ratified by the Senate March 10, 1908, ratified by the President February 23, 1909, and proclaimed February 28, 1910. 2 Malloy Treaties (1910) 2269, et seq.

- 13 -

B. Belligerent Reoccupation of Territory Recovered by Sovereigns.

Another well-known application of the general rule that where there is a right to occupy there is a right to occupation costs may be found in the cases involving belligerent reoccupation by the sovereign of territory controlled by insurrectionists. Such cases occurred in connection with the recapturing of certain territory in the south during the Civil War. In the case of How vs. Johnson, the Supreme Court stated in unequivocal terms that New Orleans (part of the United States) was to be considered occupied enemy territory. Speaking of the question of the proper law to apply during the period of such occupation, the Court declared:

"The question here is, what is the law which governs an army invading an enemy's country? It is not the civil law of the invaded country; it is not the civil law of the conquering country; it is military law, -- the law of war \* \* \*" (Underscoring supplied.)<sup>29/</sup>

Although the question of occupation costs as such was not in issue in the Civil War cases, the Court nevertheless indicated its opinion that the general rule of occupation costs was applicable. In New Orleans v. Steamship Company, the Court stated:

"In such cases the conquering power has a right to displace the pre-existing authority, and to assume to such extent as it may deem proper the exercise by itself of all the powers and functions of government. It may appoint all the necessary officers and clothe them with designated powers, larger or smaller, according to its pleasure. It may prescribe the revenues to be paid and apply them to its own use or otherwise." (Underscoring supplied.)<sup>30/</sup>

The above cases are significant in that they both are expressions of what the United States Supreme Court considered the applicable international law in connection with the status of reoccupied or recaptured territory. In the above cases, United States Courts held that United States territory occupied by the Union Armies could be treated in the same way as strictly enemy territory. It would seem that United States Courts would hold, a fortiori, that the same rule applies where the territory involved is that of a third country.

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<sup>29/</sup> (1879) 100 U.S. 155, 170.

<sup>30/</sup> (1874) 20 Wall. 367, 394.

- 14 -

It is interesting to observe that although the situation described in this category of case is closely related to the reoccupation of Allied territory, the reasoning and language of the courts' are precisely that used in the strictly "enemy" cases. However, more important than the rationale, for the purpose of the thesis herein developed is the fact that in this type of case also, there is both the right to occupy and the right to occupation costs.

C. Belligerent Reoccupation of Territory Recovered by Ally of Sovereign.

It will be noted that the belligerent reoccupation of enemy occupied Allied territory is in the category under which would fall such cases as the liberation of France or the Netherlands from German control. This type of occupation is another illustration of the principle that where there is a right to occupy there is the right to occupation costs.

The obligation of the occupied area to bear the costs of the occupation where the occupant was a friendly or allied nation has been recognized from the very incipience of international law and from the earliest thinking on such problems. The rationale behind this allocation of financial responsibility appears to be based on the fact that the government of a country which liberates the territory of its ally from enemy occupation is entitled to occupation costs as a reimbursement for the expenses it has incurred quite apart from any right which may be derived as a result of its conquest of the area.

Grotius discovered in Genesis<sup>21</sup> the earliest known precedent for the theory that an ally is entitled to reimbursement for his costs and expenses. He relates that when Abraham returned to Sodom as victor over the five kings he brought with him spoils captured from the enemy. Among these were goods and prisoners which had been seized by the enemy from the King of Sodom who was Abraham's ally. Citing the disposition of this matter as a precedent on the question of whether anything may be deducted from that which is restored to an ally after re-capture from the enemy, Grotius states:

"Again we are not to attribute to any other cause the arrangement which the king of Sodom proposed to Abraham, that he should restore the prisoners but keep the other things for himself in return for his toil and danger. Abraham, however, being a man not only of pious but also of a lofty mind, wished to take nothing at all for himself; but from the things that were recovered . . . as though by his own right he gave a tenth to God, deducted

the necessary expenses, and desired that a share be assigned to his allies." (Underlining supplied.)<sup>52/</sup>

The same reasoning was subsequently expanded by later text writers into the following general principles:

"When the restoration of the property or territory which has been in the captor's possession is accomplished by a party other than the owner, the service of restoration should receive proper acknowledgment as in other cases of services."<sup>53/</sup>

Another case which is valuable as a historical precedent and particularly as an indication of the proper principle of international law applicable to situations such as that under discussion is found in the controversy between Portugal and the Netherlands which arose out of the war with Spain. During the war the Netherlands occupied certain former Portuguese colonies which had been seized by Spain. At the termination of the war the Netherlands refused to restore these colonies. Ultimately the matter was disposed of by an agreement which returned the colonies to Portugal and reimbursed the Netherlands for its expenses.

Dykerhoek, vis Chief Justice Marshall described as "a jurist of great reputation,"<sup>54/</sup> disapproved of the attitude which had been adopted by the Netherlands Government in the following language:

" \* \* \* When Portugal was restored, her king was entitled to resume possession of places which her allies had taken from the enemy, saving the right of the States-General (the Netherlands) to place a claim for expenses incurred in the occupation \* \* \* " (Underlining supplied.)<sup>55/</sup>

<sup>52/</sup> Orestes, De Jure Belli ac Pacis (1848 ed.) Book II, Chapter XVI, sec. 5 (translation of Carnegie Foundation, No. 3 of the Classics of International Law.)

<sup>53/</sup> Wilson and Tucker, International Law (9th ed. 1985) p. 200. Wilson and Tucker assume that where the liberator is an ally, the obligation of the liberated territory will probably be spelled out by the terms of the alliance.

<sup>54/</sup> The Governor Exchange v. McFadden (1612) 7 Cranth 116, 144.

<sup>55/</sup> Dykerhoek, Questions Juris Publice, Libert Due (1787 ed.) Chapter XVI (translation of the Carnegie Foundation, No. XIV of the Classics of International Law.)

- 16 -

Vattel is in complete accord with Bynkershoek. In considering whether a subjugated State may revolt against its conqueror and reassume its former governmental authority, he states:

"If the subjugated State has not yet accepted its new condition of subjection, if it has not voluntarily submitted, and has merely ceased to resist from lack of power, if its conqueror has not put aside his sword in exchange for the sceptre of a just and peaceful ruler, such a State is not really subdued; it is merely conquered and oppressed, and when delivered by the army of an ally, it unquestionably returns to its former condition. (sec. 207) Its ally does not become its conqueror; he is a liberator, whom the State is merely under the obligation of recompensing." (Underscoring supplied.)<sup>36/</sup>

Wheaton in his History of the Law of Nations<sup>37/</sup> quotes this statement of Vattel with approval.

A more recent writer, Rivier, supporting the same doctrine, gives a sound if somewhat different theoretical explanation of the principle that the liberated country should bear the expenses of liberation in his Principes du Droit des Gens<sup>38/</sup>. Referring to the liberation of an occupied State by a non-allied third power, Rivier writes:

"The liberating power has, moreover, a right to an indemnity; or at the very least to reimbursement for its expenses in accordance with the analogy of the administration of a business."

"The right of a third power which has liberated a territory could be brought under the doctrine of quasi-contract."<sup>39/</sup>

<sup>36/</sup> Vattel, Le Droit des Gens, ou Principes de la Loi Naturelle, Appliqués à la Conduite et aux Affaires des Nations et des Souverains (1758) Book III, Chapt. XIV, Sec. 215 (Translation of the Carnegie Foundation, No. 4 of the Classics of International Law). See also: Ayala, De Jure et Officiis Bellicis et Disciplina Militaria (1881 ed.) Libri III, Chapt. 6, par. 38.

<sup>37/</sup> 1845 ed. p. 490.

<sup>38/</sup> 2 Rivier, Principes du Droit des Gens (Paris 1896) pp. 343-347.

<sup>39/</sup> Id. at pp. 40-41.

- 17 -

An excellent illustration of the fact that the various theories are freely used to support the right to occupation costs, is the case of the United States forces occupying Cuba. In that case the Cubans fought side by side with the United States troops; and both the President and the Congress of the United States made it perfectly clear that this country was not at war with the Cubans and that our forces were an army of liberation.<sup>40/</sup> Three days before the declaration of the existence of a state of war with Spain, a joint resolution passed by Congress and approved by the President declared the freedom and independence of the Cubans.<sup>41/</sup>

Nevertheless, on the question of the right to occupation costs for United States troops in Cuba, President McKinley outlining the conduct which the military forces occupying Santiago de Cuba in the Spanish-American War were to observe, significantly applied to the friendly Cubans the rules applicable to occupied enemy areas.

"While it is held to be the right of the conqueror to levy contributions upon the enemy in their seaports, towns, or provinces which may be in his military possession by conquest, and to apply the proceeds to defray the expenses of the war, this right is to be exercised within such limitations that it may not savor of confiscation. As the result of military occupation the taxes and duties payable by the inhabitants to the former government become payable to the military occupant, unless he sees fit to substitute for them other rates or modes of contribution to the expenses of the government. The moneys so collected are to be used for the purpose of paying the expenses of government under the military occupation such as the salaries of the judges and the police, and for the payment of the expenses of the Army." (Underlining supplied.)<sup>42/</sup>

Moreover, the propriety of the President McKinley approach was considered and the foregoing statement was quoted with approval by the Supreme Court of the United States.<sup>43/</sup>

Thus, it is quite evident that there is a respectable body of text writer authority and some case precedents for holding that non-enemy

<sup>40/</sup> See Encyclopedia Britannica (14th ed.) p. 840; and Neely v. Henkel (No. 1) (1900) 180 U.S. 109, 116-118-125.

<sup>41/</sup> 30 Stat. 788.

<sup>42/</sup> 7 Moore op. cit., supra, footnote 1, p. 263.

<sup>43/</sup> MacLeod v. U.S. (1912) 229 U.S. 416, 426.

- 18 -

territory recaptured from the enemy by a third party is liable for the occupation costs. What is more significant than the authorities cited is the fact that there is no international law authority in contravention of the views expressed. The factual situation is an unusual one and in the absence of precedents, cases or text writer authority to the contrary, reliance must be placed upon the experts in the field, both ancient and modern, who, having considered the question, reached the conclusion that under international law the occupied territory was liable for the occupation costs of an allied government which had driven the common enemy from the territory.

Not only is this result the only one that is consistent with the authorities on the subject but it bears out a principle to which no exception has been found: where there is a right to occupy, there is a right to occupation costs.

#### D. Non-belligerent Military Occupation.

Non-belligerent military occupations are those which take place, often on a friendly basis, and always at a time when the occupant and the territory to be occupied are, at least, technically at peace with one another. Such occupations may take place either at the express request of the occupied territory or without its consent as in the case where the occupation is for the purpose of enforcing provisions of a treaty or recovering a debt. This type of case which is distinguishable from the belligerent occupation, with which this memorandum is primarily concerned, is especially valuable in supporting the thesis that where there is a right to occupy there is a right to occupation costs.

There is hardly a more effective argument in support of the proposition that a lawful occupant is entitled to occupation costs than the argument that not only are the theoreticians in agreement but that during hundreds of years nations throughout the world have entered into covenants and treaties which expressly stipulated that the costs of occupation were to be borne by the occupied territory. This constitutes the recognition, in actual practice, that assessing costs against the occupied territory is the proper method of handling the question of occupation costs and that such allocation of financial responsibility is in conformity with the standards by which international relations are governed.

In his book entitled Des Occupations Militaires<sup>44/</sup> Robin makes an exhaustive study of non-belligerent military occupations. Under a chapter headed "Who is to Bear the Burden of Maintaining the Army of Occupation" he states:

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<sup>44/</sup> Robin, Des Occupations Militaires En Dehors des Occupations de Guerre. (1941 translation of the Carnegie Foundation.)



- 19 -

" \* \* \* in the majority of the treaties \* \* \* the cost of maintenance of the occupation forces is, in general, charged against the occupied country. And we find this rule sanctioned not only in the case of the most recent occupations, but also in those we have encountered in examining the ancient law on the subject." (Underscoring supplied.)<sup>45/</sup>

He states further:

"Thus we see that it was only by exception and because of special circumstances that treaties placed the burden of maintenance of the occupation forces on the occupant. In principle (and we have explained why this is so) maintenance falls upon the occupied state." (Underscoring supplied.)<sup>46/</sup>

After reciting instances from antiquity, the middle ages and modern times, the author continues:

" \* \* \* in the numerous occupations which followed each other in the course of the nineteenth century, with the exception of those which disguise cessions of sovereignty, it has been an almost uniform admitted principle that the maintenance of the army of occupation is incumbent upon the occupied country. We may cite particularly in this connection the treaties of May 16, 1796, and of February 21, March 26 and August 19, 1796, between France and the Batavian, Cisalpine, Roman and Helvetic Republics; the Treaty of March 26, 1801, between France and the Kingdom of the Two Sicilies; the Franco-Prussian convention of September 8, 1806, concerning the occupation of fortified towns along the Oder, the Treaty of November 26, 1815, between France and the Allied Powers; the conventions of February 2 and July 24, 1821, relative to the occupation of Naples and Piedmont by Austria; the Treaty of July 10, 1849, between Denmark and Prussia concerning the occupation of Schleswig by Swedish troops; the Convention of April 22, 1850, between Austria and Tuscany, for the purpose of regulating the terms of the occupation of the Tuscan Duchy by Austrian troops, following the restoration of the Grand Duke in 1849; the Convention of Miramar (April 10, 1864) between France and the Mexican Empire; the Preliminaries to the Peace of Versailles of February 26, 1871, between France and Germany (Art. 4); and the Russo-Turkish Treaty of San Stefano concluded

<sup>45/</sup> Id. at 207.

<sup>46/</sup> Id. at 266.

- 20 -

March 5, 1878 (Art. 8), which provided for the occupation of Bulgaria by the Russians." (Underscoring supplied.)<sup>47/</sup>

Certainly, the fact that the vast majority of treaties which dealt with the subject placed the costs of occupation upon the occupied territory is persuasive as indicating that type of term or condition in a treaty is accepted as the usual and customary way of dealing with the problem. If nations agreed to such terms it can hardly be argued that imposition of such terms by an occupant in the absence of an agreement is a violation of the standards and practices of international conduct. In fact, the consistent practice of nations indicates that such a provision is declaratory of the law of nations.

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In summary it may be noted that the rule of thumb that with the right to occupy goes the right to occupation costs is not limited to belligerent occupations in time of war, but is a standard of conduct which has been recognized and practiced in military occupations of all kinds, for many centuries.

(Signed) Randolph PAW

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<sup>47/</sup> Id. at p. 261. It may be noted that the author concludes in the face of this wealth of precedent that in certain instances costs should be borne by the occupant in the absence of an agreement, because the occupant could, if it had desired, obtained such an agreement from the occupied country.

HEM:CMCN:MJM:HEM:icj  
12/17/43

NOT TO BE RE-TRANSMITTEDCOPY NO. 12BRITISH MOST SECRETU.S. SECRETOPTEL No. 418

Information received up to 10 a.m., 23rd December, 1943.

1. NAVAL

On 18th one of H.M. Submarines sank a 250 ton barge off TOULON. Between 11th and 18th, Polish submarine off LERINOS sank a 4,500 ton ship, 4 schooners in convoy, a caique and probably sank a 4,000 ton ship believed Bulgarian U.S. SALMAN.

2. MILITARY

ITALY. To noon 22nd, 8th Army, Continued fierce fighting in coastal sector where Canadians gradually forced back enemy. 8th Indian Division made good progress.

5th Army, Moroccan Division gained a hill feature. active patrolling U.S. and British sectors.

3. AIR OPERATIONS

WESTERN FRONT. 22nd. 570 Fortresses and Liberators escorted by 33 squadrons of U.S. Fighters were despatched, 222 bombers attacked OGNADBUCK dropping 514 tons; German fighter reaction moderate to strong. 194 attacked TUNSTER dropping 402 tons. German fighter reaction weak to moderate. Results in both cases unobserved owing to cloud. 21 bombers and 4 fighters missing. 539 escorted medium, light and fighter bombers were sent to attack military constructions in Northern FRANCE - 4 fighters missing. 79 R.A.F. and 207 U.S. medium bombers abandoned task owing to bad weather, a few Mosquitoes and about 100 Typhoon bombers made low level bombing attacks. No air opposition, but intense light A/A.

22nd/23rd. Aircraft despatched - Military construction, Northern France 50; FRANKFURT 9, DOWN 2; seaming 17; leaflets 23.

ITALY. 21st. 71 Warhawks and 72 Invaders attacked objectives in the battle area. 24 Mitchells bombed ...

THE SECRETARY OF THE NAVY  
WASHINGTON

December 24, 1943

My dear Mr. Secretary:

I wish to acknowledge your letter of  
December 23.

I am very glad to comply with your  
request for the recall of Lieutenant Commander  
Southard in order that he make the report you  
desire. I am today directing the Chief of the  
Bureau of Personnel to take the necessary  
steps to accomplish this end.

Yours sincerely,

*Frank Knox*

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

## MEMORANDUM FOR THE SECRETARY.

December 24, 1943.

Mail Report

The nearer the holidays, the lighter the mail! Correspondents have been in a more amiable mood this past week than for some time. In keeping with the Season, their Government received more than the usual number of gifts -- both bonds and cash.

The subject of taxes went almost without comment. There were scattered objections to increased rates, as well as an approval or two of the Treasury's program. There were a few unfavorable comments on the declaration of estimation, and still come protests against use of the word "Demand". Several of these enclosed an article from The New Yorker on the relation of the taxpayer to his Government.

Bond mail was little changed from that of previous weeks. Much of it concerned the 3½% Bonds 1944-46 that have been called. An editorial in a Philadelphia paper asking for a \$10 non-negotiable bond prompted a number of endorsements.

Only 54 bonds were submitted for redemption. News reports of increased cashing throughout the country brought a number of suggestions for curbing the practice. As a rule, these writers thought bonds should be made non-redeemable, or should not be cashed except in cases where extreme necessity could be proved. However, a number also wrote that the inflexibility of the rules as to borrowing often made it necessary to sell outright rather than get a loan for a short time.

From personnel of the War Department there were only 12 complaints about undelivered bonds, and other reports about delays were infrequent.

*J. S. Forbush*

General Comments

Mrs. Kathryn L. Hohl, Sand Springs, Okla. I have your letter before me, dated December 19, 1942, in which you acknowledge receipt of payee's letters to me, dated January 22, and February 2, 1942, and which, after making photostat copies of, you returned. This is the last word on the claim for the proceeds of that check that I have heard from your office. I have gone through all my correspondence with you and the other Government offices, and find nothing of later date. It seems to me that some action should have been taken on this matter before this, or that I might have been notified that no action is being taken at this time, and the reason for that decision. Your last sentence is: "The matter is receiving attention and you will be further advised in due course." \* \* \* I know you will be interested to learn that I now have received a letter from Major George M. Hohl, Japanese Prisoner of War, interned at Zentsuji Prison Camp, Island of Skikoku, Japan, and in which was enclosed his subsistence check referred to in the above letters, of which you have photostat copies. I am enclosing a photostat of the original check, showing his endorsement to me. "Pay to the order of Kathryn L. Hohl, George M. Hohl". This is his handwriting and his signature. As this check is now over the one-year limit in time, after date of issue, I am presenting it directly to the Secretary of the Treasury with request for payment. I am not enclosing the original check because I haven't heard from you concerning the last check I wrote you about. \* \* \* (1942)

Payson Davidson, N.Y.C. \* \* \* President Roosevelt's trip to foreign countries is the greatest and most courageous journey ever done by any one, and we all pray for his safe return. I do hope the President will run again. \* \*

- 2 -

Raymond S. Blunt, Certified Public Accountant, Chicago, Ill. We have recently had occasion to lean very heavily upon Mr. Porter Linder and his staff in the local Salary Stabilization Unit. I wanted you to be informed that I have been very favorably impressed with the fine personnel, and especially with their patience in counseling with those who are troubled with reference to the application of the Salary Stabilization Act. \* \* \* You are to be congratulated upon your ability to instill in the hearts of these men a true appreciation of their responsibilities and at the same time temper their opinions so that the public in general appreciates their responsibilities as good citizens. I thought you would not object to having a word of appreciation added to the letters of criticism which are too frequently addressed to our Governmental representatives. \* \* \*

Allen Sinsheimer, Executive Director, National Association of Retail Clothiers and Furnishers, Chicago, Ill. \* \* \* My son, who has been overseas in the U. S. Army for many months, before leaving made arrangements for the purchase of a Bond each month and for the deposit of a part of his salary in the bank where he maintains his account here in Chicago. No Bonds have been received for several months. No money has ever been deposited in the bank for him. Since he writes and asks us to purchase things for him with the money that has been deposited, and there has been no deposit, a rather embarrassing situation has developed. To whom shall an inquiry be properly addressed?

Franklyn Hobbs, Economic Advisor, The Business Foundation, Chicago, Ill. On pages 114, 141, 165, 230 to 237 of our new book, "Gold, the Real Ruler of the World", we have quoted you. \* \* \* Your own great speech on Gold could have been a more powerful influence had it reached millions instead of thousands. We have quoted that speech liberally. \* \* \*

- 3 -

Marshall Beymer, The A--C--Devices Company, Chicago, Ill. Copy of letter addressed to Robert Beatty, Deputy Director, WPB, Washington, D. C. \* \* \* No one among the so-called "smaller business men" wants any preference above the War demand, and no one will so immediately and completely sacrifice his own interest as that aforesaid party -- in spite of the notions of all New Deal bureaucrats that everybody but those selected by the White House Inner Circle is a crook, a thief, and a potential traitor, and to decide that he is guilty or, if there is a good provable possibility that he is not guilty, to so tangle him up in red tape that they can apply their \$10,000 fine or ten years in jail. \* \* \* I am convinced that unless the Governmental policy is radically changed and quickly, small business houses, who normally are the very greatest source of revenue for taxes, and most efficiently "milked" by the Government will cease to be a source of taxes, not only from its activities, but also from a wage income employees tax, and any budgetary plans by the Treasury won't be worth a damn, because the payor simply has not been allowed to earn the income and profit to pay any tax. I need 25 lbs. of casting, secondary aluminum ONLY. I know where it is right now -- over 1,000 lbs. available -- we are trying to be honest -- most men will simply take the chance. Shall WE? Think shortly you had better start building more and bigger jails -- you and OPA -- to house the people whom you are making crooks out of.



- 4 -

Unfavorable Comments on Bonds

A. Edwin Larsson, Secretary, Massachusetts Press Association, Boston, Mass. The AP carried an article in which you were quoted as stating that the proposed Government expenditure of \$15,000,000 for War Bond advertising in the weeklies and small dailies of the country would not help sell War Bonds. We in Massachusetts would like to have this statement confirmed by you. If the statement is true, then we have all been guilty of taking money under false pretenses. You have burdened us down with great volumes of advertising mats which you have asked us to run in our papers, and to be sponsored by local business establishments. If you feel that these ads do not help in selling War Bonds, then there certainly is no valid reason why private business concerns should underwrite them any more than that the Government should underwrite them. If these ads are worthless, why waste valuable paper in flooding the weeklies of the country with mats and stories? Frankly, we can see no difference between paying for Government ads soliciting WAC recruits and paying for Government ads to stimulate the sale of War Bonds. \* \* \*

L. Benjamin King, Secretary-Treasurer, McNabb Grain Company, McNabb, Ill. In reply to your letter of December 11, I can't see that the situation has changed one iota in regard to the Bonds that I sent in to have changed. I would like to have you take a few minutes and think this deal over. You can easily see that it cost me \$194.00 -- \$144.00 interest and \$50.00 for the two months that it took to make the change. It should not have taken some clerk over twenty minutes to make the whole transaction. I am known as just an ordinary citizen -- not a millionaire by any means. I don't believe you would like a deal like this, but if this is the way it is going to end, I certainly am done with trying to help the War, which I know is wrong, but I can't, under these circumstances. \* \* \*

- 5 -

Favorable Comments on Taxation

E. T. Laughlin, Loudonville, N. Y. I have sometimes not been entirely in favor of some of your tax ideas, but nevertheless, I am writing this letter as I do believe the real sound thinking American is 100% for you. It is to be regretted that the majority of Democrats and Republicans do not realize that heavy taxes right now are the only solution not only of inflation, but also of the lightening of the burden which we will later have to assume in paying off our debt. Tax while the pockets are full, and not when they are empty. Whatever can be done to cut down on expenditures without hindering the War effort will be greatly appreciated by all good citizens. We must do all we can to protect the credit of our Government. Our boys returning after the war should not have to assume the tax burdens which should be taken care of at this time. I do hope our good President will stand faithfully by you. Let us all do our part, our boys are doing a wonderful job. With my best wishes and the hope that you will eventually get your tax legislation. \* \* \*

- 6 -

Unfavorable Comments on Taxation

Mrs. Laverne Shearer, Seattle, Wash. As one of the little people who is trying to help win this war, and who is getting darned tired of being pushed around, I am writing to ask if you and your experts can't figure out some way to simplify this income tax business. It is enough to give a person the screaming meanies -- even your own Collectors of Internal Revenue can't agree on the answers -- and yet you thrust this thing on the harassed people in this country who are bombed and blitzed daily in their effort to get to work and home again, to get their food, to do their part in the war, and are trying to live up to all the screwball rules and regulations that a bunch of crackpots in Washington spend all their waking hours thinking up. Look at the Bonds we could have bought with all the money we spent running to Certified Public Accountants last September 15. Here in Seattle they set up special offices in vacant stores on our busy avenues, and people streamed into them by the hundreds. And these were people with good average intelligence -- they could estimate their earnings and profits but they couldn't figure out how to put them on Uncle Sam's "work sheet" and figure the tax due. \* \* \*

NOT TO BE RE-TRANSMITTEDCOPY NO. 12BRITISH MOST SECRET  
U.S. SECRETOPTEL No. 419

Information received up to 10 a.m., 24th December, 1943.

1. NAVAL

A large escorted ship proceeding eastward from BOULGONE was unsuccessfully attacked in low visibility by coastal craft in the STRAIT OF DOVER last night. Casualties in our craft included 5 killed. 8 E-boats intercepted early this morning by one of H.M. Destroyers and 2 gun boats off LOMBESMINE. The encounter was inconclusive. Another of H.M. Destroyers was mined off YARWOUTH last night. Tugs are going to her help.

2. MILITARY

ITALY. To noon 23rd. 8th Army. Canadians have entered ORTONA and have a firm hold on most of the town. Further left Indian troops are well across the ORTONA-ORSOGNA Road, have captured VELLANI and are moving on towards the River ARIELLI.

5th Army. U.S. troops have captured two more heights east of ACQUA FONDATA but a few miles further south a heavy German counter-attack drove them from another hill feature.

3. AIR OPERATIONS

WESTERN FRONT. 23rd. A total of 194 medium, light and fighter bombers dropped about 150 tons on military constructions in north east FRANCE with good results. 32 Thunderbolts bombed an airfield in HOLLAND. 2 light and 1 fighter bomber missing.

23rd/24th. Aircraft despatched - BERLIN 379, AACHEN 12, DUISBURG 9, LEIPZIG 7, Intruders 14, leaflets 7. Details BERLIN raid not yet available. 17 aircraft missing.

ITALY. 22nd. 36 light and 247 fighter bombers (4 missing) attacked objectives in the battle area.

U.S. SECRET  
BRITISH MOST SECRET

OPTTEL 420

COPY NO. 12

Information received up to 10 A.M. 25th December, 1943.

1. NAVAL

One of H.M. Destroyers arrived safely at Yarmouth in tow yesterday.

One or more R-boats were seriously damaged during the attack on the large ship in the channel 23rd/24th; 4 of our motor torpedo boats were also seriously damaged.

Early yesterday morning a United States destroyer (24 years old) was torpedoed and sunk north east of the Azores. There are 56 survivors. Same evening one of H.M. destroyers was torpedoed in the same locality. She is reported in no danger of sinking. Casualties very light.

An Italian tank landing craft was mined in Bastia Harbour on 23rd.

2. MILITARY

ITALY To noon 24th. Eighth Army,

In coastal sector intense fighting continues. Indian troops have made substantial progress.

Fifth Army

Active patrolling on whole front. Two more Hill Features captured. Garigliano again flooded in places.

3. AIR OPERATIONS

Western Front. 23rd/24th. Berlin.

1,216 tons dropped including 670 tons H.E., 546 tons incendiary and 269 4,000 pound bombs. Much cloud en route and a fair amount over the city. Sky markers well placed and bombing although scattered at first became more concentrated later. Two areas of fire caused which gradually merged into a large conflagration. Many explosions reported, one especially violent. Heavy A.A. moderate, Light A.A. intense and mostly directed at flares. Searchlights hampered by cloud. Enemy fighters late coming into action. 15 bombers missing.

24th.

658 escorted Fortresses and Liberators bombed 24 military constructions in the Pas De Calais area dropping 1,535 tons with generally good results and no casualties. 135 medium and fighter-bombers also effectively attacked the same objects dropping 120 tons. 59 escorted Mitchells and Bostons attacked similar objectives in the Cherbourg Peninsula dropping 91 tons with good results. 12 Typhoon bombers successfully attacked 2 airfields in Brittany. 8 Halifaxes attacked 2 probable blockade runners escorted by destroyers 160 M. north west of Finisterre obtaining a direct hit on one and a very near miss on the other.

24th/25th.

35 Halifaxes went seaminging.

Italy. 23rd.

102 Marauders attacked railway objectives on the Franco-Italian Riviera dropping 130 tons.

NOT TO BE RE-TRANSMITTEDCOPY NO. 12BRITISH MOST SECRET  
U.S. SECRETOPTEL No. 421

Information received up to 10 A.M., 26th December, 1943.

1. NAVAL

H.M. Destroyer reported torpedoed in OPTEL 420 has now been sunk by our forces. One of H.M. Trawlers escorting outward convoy off THE HEBRIDES was lost yesterday due to an explosion from unknown cause. One of H.M. Submarines sank a 3,000 ton ship southeast of LEMNOS on 9th.

2. MILITARY

ITALY. To noon 25th. 8th Army. Heavy fighting continued 24th in ORTONA area in spite of bad weather which hampered operations. In the central sector our troops re-organised on ground gained during previous 24 hours.

5th Army. U.S. troops cleared more places on the mountain northwest of VENAFRO.

3. AIR OPERATIONS

WESTERN FRONT. 25th. In the early morning further attacks were made on the convoy of one or probably two blockade runners in the BAY OF BISCAY; a large fire was seen amidships in one ship. It is believed that one blockade runner reached the GIRONDE this morning. Typhoons destroyed a F.W. 200 near LORIENT.

AEGEAN. 24th. Allied aircraft destroyed five caiques and set fire to six others.

SECRETARY'S OFFICE

330 DEC

RECEIVED