

DIARY
Book 861
July 1-3, 1945



THE UNDER SECRETARY OF THE TREASURY
WASHINGTON



July 1, 1945

TO THE SECRETARY:

Except where a different time is expressly prescribed by law, the various annual reports required to be submitted to the Congress by the heads of departments shall be made at the commencement of each regular session and shall embrace the transactions of the preceding year (U.S.C., Title 5, Sec. 106).

The Annual Report of the Secretary of the Treasury is required by U.S.C., Title 5, Sec. 262, which reads as follows:

"The Secretary of the Treasury shall make the following annual reports to Congress:

First. A report on the subject of finance, containing estimates of the public revenue and public expenditures for the fiscal year then current, and plans for improving and increasing the revenues from time to time, for the purpose of giving information to Congress in adopting modes of raising the money requisite to meet the public expenditures.

Second. * * * *

Special reports are required of the Secretary of the Treasury by U.S.C., Title 5, Sec. 242 from time to time when requested by either branch of Congress, or which shall appertain to his office. It is assumed that this is the section under which a special report for the period ended June 30, 1945 would be made. This law reads as follows:

"The Secretary of the Treasury shall, from time to time, digest and prepare plans for the improvement and management of the revenue, and for the support of the public credit; shall superintend the collection of the revenue; shall, from time to time, prescribe the forms of keeping and rendering all public accounts and making returns; shall grant, under the limitations herein established, or to be provided, all warrants for moneys to be issued from the Treasury in pursuance of appropriations by law; shall make report and give information to either branch of the legislature in person or in writing, as may be required, respecting

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"all matters referred to him by the Senate or House of Representatives, or which shall appertain to his office; and generally shall perform all such services relative to the finances as he shall be directed to perform."

sub B
Under Secretary
of the Treasury

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JULY 1, 1945

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LONDON 24 1

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342 MADISON AVENUE NEWYORK

THANKS CABLE JUST FINISHED INSPIRING HELPFUL HOUR WITH
DR WEIZMANN CONFIDENTIALLY FOLLOW UP ON SCHWARTZ
EARL HARRISON

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July 2, 1945
9:15 a.m.

GROUP

Present: Mr. D. W. Bell
Mr. Gaston
Mr. Lynch
Mr. White
Mr. Bartelt
Mr. Haas
Mr. Gamble
Mr. C. S. Bell
Mr. Pehle
Mr. Luxford
Mr. Coe
Mr. Fussell
Mrs. Klots

MR. GASTON: I haven't anything.

H.M.JR: Lynch?

MR. LYNCH: I have nothing, sir.

H.M.JR: Ed, I don't think I'm going to see Mr. Edson. I don't like this idea--if I give him some information, the next person can do the same thing.

MR. FUSSELL: I don't think it is a good policy.

H.M.JR: I don't want to talk about the night preceding Mr. Roosevelt's death.

MR. FUSSELL: Do you want to have somebody talk with him?

H.M.JR: You.

MR. FUSSELL: All right.

H.M.JR: Of course, if it were someone like Drew Pearson, I could tell him whom to see, but Peter Edson--I don't know where to send him. (Laughter)

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MR. LUXFORD: He works on the other side of the street, anyway.

MR. GASTON: Sometime it would be good to include him in some party here. He is not a bad fellow. He is a very able fellow.

(Secretary holds telephone conversation with Mr. McKellar.)

MR. COE: Mr. Secretary--

H.M.JR: Just a minute. I want to clear this up. Hold it.

(Secretary holds telephone conversation with Miss Roberta Barrows.)

I'll tell you what happened. I asked if I could either see or talk with the President.

(Mr. Gamble enters the conference.)

Good morning, Ted.

MR. GAMBLE: Good morning, Mr. Secretary.

H.M.JR: I spoke to him and reported to him just what we had done and gave him the whole story, the silver business and everything else, and he said, "Now, do you want me to send for any Senator? Do you want me to send for Radcliffe, or the Oklahoma fellow, the Arkansas fellow--Fulbright?" I said, "No, it's not necessary." "I'll send for anybody. You just tell me what you want, and I'll do it." Then I said, "No, I don't think it is necessary." I gave him this schedule that the hearings would be concluded today or tomorrow. The bill would be introduced on the 9th. Again he said, "Do you want me to do anything?" I said, "No, I think everything is all right." Then I put in a call right away to Biffle, and I wanted him to know what I had said to the President. I also

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told the President about Murdock, and he said, "You can include me and say that I am backing you. I approve what you have done on the silver business. I am with you; I'm right back of you. I approve what you have done."

I found that Biffle was on his way to the White House. Fortunately, the people over there seem to like me, so they said they would get Biffle before he got to see the President. They did, and Biffle said, "When did you get this word that the bill was going to be introduced on the 9th?" I said, "I didn't get it direct. I got it second-hand." He said, "Well, it has been changed, and now that the public hearings are on--" I got him to repeat it three times. He knew what he was talking about, but I didn't. He said that while the public hearings are on they don't want this thing to be discussed on the floor. But when they go into executive session--did I say that, "When they go to executive session?"

MR. D. W. BELL: No, you didn't mention executive session.

H.M.JR: Didn't I?

MR. D. W. BELL: You mean executive session on the charter, then they can discuss the Bretton Woods proposal.

H.M.JR: Yes. Didn't I say that?

MR. GASTON: No.

H.M.JR: Do you think that is important? The main thing I said--

MR. PERLE: How long will the public hearings last?

H.M.JR: Four or five days. Biffle said, "Look, Mr. Morgenthau, I am going to try to change Barkley back," and I didn't want to put that into it, but I also didn't want to say to the President, "Can you do anything to help me?" But this is the time to do it, see?

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MR. WHITE: There is some additional information I could give you unless you have talked to Dean Acheson.

H.M.JR: I talked to him.

MR. WHITE: Yesterday?

H.M.JR: I talked to him Saturday night at nine o'clock.

MR. WHITE: That's curious. I don't understand, because he and Vinson just told me that--Dean Acheson said that Barkley was going to put it in the ninth, that they had arranged to have it in afterwards upon the request of Vandenberg, who was doing it because of Taft.

H.M.JR: I got that. All that antedates this, you see?

MR. WHITE: Maybe I didn't understand. I thought Barkley had changed his opinion in the direction you wanted.

MR. GASTON: No, the other way.

H.M.JR: No, the way you put it is what I reported to the President around four o'clock, see? Then I talked to Biffle, and Biffle said that is the way it was, but it isn't that way any longer, see? He said the way it is now that while the public hearings are on they are going to postpone the introduction of Bretton Woods. You know on this very tight schedule, if they postpone it, it will be only for four or five days, and the next thing they will say is, "We guess we better wait," and the first thing you know it is out of the window.

MR. LUXFORD: That is Taft's scheme.

MR. GASTON: It is obvious that Bretton Woods is to be sidetracked to let the charter go through.

MR. WHITE: They are fighting for a delay, and I guess they feel that a lot of Republicans, if they vote

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for the charter, can vote against Bretton Woods and not be regarded as isolationists.

H.M.JR: Anyway you look at it, it is bad.

MR. WHITE: I think so, and Taft tried to get Wagner to agree to that at the meeting. He asked him to postpone it and Wagner at that time refused.

Are you going to call Wagner?

H.M.JR: Just on this one thing. I don't want to mention anything except getting the bill introduced. All I want to do is get the bill introduced on the ninth.

MR. WHITE: It might make it easier if you say--

MR. LUXFORD: This will help on that score.

H.M.JR: What is it, Harry? (Mr. White hands Secretary letter addressed to Mr. White from Col. Bernstein concerning Senator Wagner's son.) I don't want to take this from you. You have arranged it, so I'll let you get the kudos out of it. I don't want to take that away from you. Thank you just the same. You did it. You get the credit for it. Thanks for the offer, but I'll let you get it. That will please him. (Hands letter to Mr. White.)

But this is a serious business.

MR. WHITE: Oh, yes.

H.M.JR: I don't think anybody can handle this but the President.

MR. WHITE: I think so, because Taft has apparently been very effective. Burgess is spending all his time around town with him. I don't know if he is still here.

H.M.JR: If they get this thing postponed while they have public hearings on the Hill, I think we are sunk.

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MR. WHITE: The House is going to adjourn. Isn't that what Joe told us? If there is a slightest chance of that, that won't be taken up for a couple months.

H.M.JR: The President is opposed to any amendments, and he will send for anybody who wants to put in an amendment. All I have to do is tell him.

MR. WHITE: Does Wagner know that?

H.M.JR: He will know it after this morning.

MR. WHITE: Then Dean Acheson told you the success he had with Fulbright?

H.M.JR: But it wasn't a success, though, according to him.

MR. WHITE: There I got a very funny story then.

H.M.JR: Did you talk to him yourself?

MR. WHITE: I got the story from Bernstein. He talked to Bernstein.

H.M.JR: I talked with Bernstein, and I wasn't satisfied. I don't mean that I wasn't satisfied with Bernstein, but I wasn't satisfied with what he told me. So I called Acheson.

MR. WHITE: Both Fulbright and Radcliffe are satisfied that it will go right through without amendments. They merely want something in the report. That's what I got.

H.M.JR: No, no. I talked to him. Acheson is in a very peculiar frame of mind. I can't interpret it, but Acheson has changed. Take it from me. Something has happened. He isn't as friendly to us as he was.

MR. LUXFORD: He is working for another boss.

H.M.JR: Something has happened to Acheson. You can't count on Acheson.

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MR. LUXFORD: He lands on his feet.

H.M.JR: Acheson may be sore at me because I talked to Clayton about this British business, and Clayton did not go on the Hill. He sent Acheson. Clayton promised me he would go, but he didn't. But something has happened. There are a lot of things I don't know, but I know human beings, and something has happened.

No. The two people we can count on are the President and Biffle, and evidently the President leans very heavily on Biffle. I have been urging you people to see more of Biffle, but I haven't had any success, but I have been doing it. I mean, the answer is he sends for Biffle as soon as he gets in to tell him what the score is.

But I'll take care of the White House, and I'll take care of Biffle, or they will take care of me, one way or the other.

MR. LYNCH: I haven't anything, sir.

H.M.JR: Tom, in this batch of cables which came in from the Collectors, I asked Pehle to read them over. Pehle eventually sent me a memo which I will let you see.

MR. PEHLE: I sent copies around. I sent one to Joe.

H.M.JR: In those one Collector said he sent some very good cases up here and he never heard about them.

MR. PEHLE: Several did that.

H.M.JR: And have a look at the bunch of cables that came in. If they don't mention them, have the Collector wire back and say, "Well, what cases?"

MR. LYNCH: Yes.

H.M.JR: And then I think that as a result of that, you might get the Commissioner to send a wire to them or tell them he would like to know of any important cases

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which they have sent up to the Bureau which they haven't heard from, see? I mean, that they don't feel there is any action on, will they please list them.

MR. LYNCH: Yes.

MR. GASTON: You mean prosecution cases?

H.M.JR: Yes.

MR. GASTON: They come not from the Collectors, but from the Special Agents in Charge.

H.M.JR: I can't help it, Herbert. These are telegrams from the Collectors of Internal Revenue complaining that they have cases up here and they haven't heard about them. I don't know where they come from.

MR. PEHLE: The main point was if they could take one of the several good cases they have pending and crack it, they could get the kind of local publicity that we want.

MR. GASTON: That the Agents had pending.

MR. PEHLE: The cases are Treasury cases. The Agents may make them, but they are Treasury cases.

H.M.JR: Anyway, these telegrams were from the Collectors, weren't they?

MR. PEHLE: Yes.

MR. GASTON: They would know about cases in their own territory.

H.M.JR: Would you mind seeing that a telegram like that goes out, and find out what cases they are talking about, and send another telegram asking them if they know of any others. Would you do that, please?

MR. LYNCH: Yes, sir. You have the cables?

MR. PEHLE: Yes.

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H.M.JR: You two fellows collaborate, will you?

MR. PEHLE: We will.

H.M.JR: Ed Fussell?

MR. FUSSELL: Nothing else, sir.

H.M.JR: Ted?

MR. GAMBLE: Did Mr. Bell talk to you about the Brazilian Government wanting some help? They want a war loan expert.

D.W.BELL: They want to float an internal loan. The State Department sent a letter over here to you asking for an expert.

H.M.JR: For spring or summer or fall or winter?

MR. GAMBLE: They will take him when we can send him. The letter sounded as though they would like to have help as soon as possible.

H.M.JR: Are you an expert?

MRS. KLOTZ: That's right.

MR. WHITE: Winter is good down there.

MR. D.W.BELL: You mean winter here.

MRS. KLOTZ: I'll go in the summer if you don't mind.

MR. GAMBLE: I suppose we ought to find someone to send down to them, Mr. Secretary. They want--I gathered from the letter that the thing they want help on is not a fiscal expert, but they want someone that will help them get together a promotional campaign for the country, help promote the sale of securities. I might get together some names and submit them to you and Dan.

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H.M.JR: Lynch, when you do this telegram show it to Mr. Gaston and maybe he can collaborate so I can get results. Would you do that, Herbert?

MR. GASTON: Surely.

H.M.JR: The results I want are to see if there are cases which have been sent in from the field which are sticking, see? If you would see to it--

MR. GASTON: Yes.

H.M.JR:..so I get the results I want, see?

MR. LYNCH: Yes, sir.

H.M.JR: Will you collaborate on that, please?

MR. GASTON: Surely.

H.M.JR: Well, I wouldn't strip myself.

MR. GAMBLE: No. I thought we might take somebody from out the country and send him to them, somebody that has had some experience with us, not one of our staff here.

Our French material is all being sent today.

H.M.JR: Has Forbes Watson left?

MR. GAMBLE: He leaves tonight. Our material all leaves tonight or tomorrow, early tomorrow morning, for Paris.

H.M.JR: Is anybody else going besides Forbes?

MR. GAMBLE: I have one man over there now, Shelton. Adams is going with Forbes. Adams is coming back after he gets Watson started. Watson will stay presumably for sixty days.

H.M.JR: Anything else?

MR. GAMBLE: That's all I have, Mr. Secretary.

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H.M.JR: John?

MR. PEHLE: I saw Schmidt yesterday.

H.M.JR: Yes, and I disagree with some people, I don't know who.

MR. PEHLE: You saw him?

H.M.JR: Yes, and the order I gave to him very directly was he was to go up there and give testimony that he had accumulated while he was in the Treasury, and that he should be in Mr. McCloy's office at nine o'clock this morning to consult with Mr. McCloy and try to get the War Department's permission to do it, because, after all, he is in the War Department. I gather that White felt that way, too.

MR. WHITE: Well, I thought he could refer to the fact that he was getting a lot of very valuable information and then they'd ask him for it and he would say it is the War Department's, and that he can't give it to them. That is what I suggested.

H.M.JR: I differ with you.

MR. GASTON: He is working for the War Department now?

H.M.JR: Yes, definitely. He was a subordinate of Colonel Bernstein's, and I felt that I couldn't call up McCloy and ask him to send a subordinate over here and have that fellow use that technique.

MR. WHITE: Maybe McCloy will give him that much permission. I can see where they wouldn't want him to give any papers in until they have examined them, but I didn't see any harm in his referring to the fact that they are getting excellent results.

H.M.JR: If they did that, that would force his hand in an embarrassing manner and he would release the stuff is the way I got it.

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MR. WHITE: Not that. The committee was to ask the War Department is the way I thought.

H.M.JR: Well, anyway.

MR. PEHLE: I haven't anything else.

H.M.JR: Mr. Coe?

MR. COE: Kung's office telephoned a few minutes ago to say he is coming in to see the President this morning and would very much like to see you sometime between ten and eleven. I think he is due to leave for China in the next day or so.

H.M.JR: Yes.

MR. COE: He may raise the issue of the bills.

MR. WHITE: He certainly is. On the telephone Saturday he was very insistent, so I am certain that that is one of the main reasons he wants to see you. He said he'll take less. He would take marked bills, as long as he gets them.

H.M.JR: Well, unfortunately, my whole schedule is tied up this morning.

MR. COE: Can you see him this afternoon?

H.M.JR: Yes. I can see him this afternoon if he insists. I'll put him down for three o'clock. I can't refuse to see him.

MR. WHITE: His chief request will be that.

H.M.JR: What?

MR. WHITE: His chief request will be that. He's got to go home with some currency.

H.M.JR: Sure. Instead of bringing them fountainpens or something, he is going to bring them currency.

MR. WHITE: He'll take smaller denomination bills.

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He will take less. He will take marked currency if you want a special mark on the currency.

H.M.JR: Were you in on this?

MR. D.W.BELL: I was in when you made the decision that you wouldn't give him any bills. That is all I know.

H.M.JR: Are you with me?

MR. D.W.BELL: I don't know, I had a little difficulty in seeing how you could refuse him unless you invoke some of your Foreign Funds authority which you haven't done. I think you are in a little difficult position. You can say no, and that is all there is to it, but you are in a little difficult position.

H.M.JR: Well, the only thing difficult is it doesn't make sense to me.

MR. D.W.BELL: No, it doesn't make much sense, but after all, it is his money.

H.M.JR: No. it is my money considering the people.

MR. D.W.BELL: Well, I take it he would take the money. It is bank credit.

MR. WHITE: That money is his.

MR. D.W.BELL: It belongs to the Central Bank, the credit.

H.M.JR: I am not questioning the ownership. I am questioning taking United States currency. Look, let's not argue. I am perfectly willing to tell him no.

MR. D.W.BELL: It would have to be a straight no.

MR. WHITE: It is a little unwise. It is not important, but I think that if he is willing to take less, you ought to let him have something.

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MR. PEHLE: If anybody else can take United States currency, why can't they?

H.M.JR: They can't take a million dollars worth of currency out of this country.

MR. PEHLE: Mexico could.

H.M.JR: No. Isn't it two dollar bills still?

MR. WHITE: Only two dollar bills, and that has been changed.

H.M.JR: How did you do the two dollar bill thing to Mexico?

MR. WHITE: We had an agreement with them for an equal objective. It wasn't over their objections.

H.M.JR: Has that been changed?

MR. D.W.BELL: They changed it now I think.

MR. WHITE: Yes. I think we decided to change it.

MR. D.W.BELL: They relaxed it some in the last three months.

H.M.JR: How did you do that two dollar currency thing?

MR. WHITE: With Mexico's acquiescence and her approval we worked out a position which was mutually satisfactory.

MR. PEHLE: They took all the bills out of circulation in Mexico, and that hasn't been done in China. It's difficult.

H.M.JR: Let them have some gold seal currency.

MR. WHITE: That would be a satisfactory way of getting out of it.

MR. D.W.BELL: You mean yellow seal?

H.M.JR: What?

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MR. WHITE: I would. I would give him a couple million dollars, five million.

MR. D. W. BELL: I think you have done it.

MR. WHITE: If you can give him five million dollars worth of gold currency, you will satisfy him.

MR. PEHLE: Is that all he wants?

MR. WHITE: He wants ten, but he said he would take less. He will be delighted to get five.

MR. PEHLE: That isn't an important issue.

MR. WHITE: What is the issue?

MR. PEHLE: I say it is not important whether China gets five, or I don't see that it is important.

MR. WHITE: I don't think so, but it would make the Secretary feel better.

H.M.JR: Tell me why they should take five million dollars worth of currency to China.

MR. WHITE: I can give you a reason. He says they absolutely have to get some currency in order to give the Armies some, and that the gold that they are getting is-- they won't get enough gold in time to buy new currency. He got a cable from Chiang Kai-shek. They want it in order to buy currency to give the soldiers. That is the one he makes a lot of. So he has a nominal reason, and the only way you can turn that down is by saying we don't believe it. And what for? I mean--

H.M.JR: Well, I might consider delivering it to him in Chungking.

MR. WHITE: As long as he gets it--he is in a hurry. I asked him why he didn't raise that question before instead of waiting until the last minute and putting the heat on. He said he just got a cable from Generalissimo. He had no idea he wanted this. He got a letter from Generalissimo that they couldn't get enough cash, and they are going to use this to get more cash and bring down the premium.

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H.M.JR: What can they use it for?

MR. WHITE: They sell it and are getting fifteen hundred Chinese yuan for a dollar. He is hoping to bring that down; it is too high. That will give them a lot of yuan and cash they will turn over to the Army. The Army is constantly needing that cash.

H.M.JR: What happens to the U. S. money?

MR. WHITE: It goes out into circulation, and some of it will seep through to occupied areas.

MR. LUXFORD: I don't see how you can stop him, Mr. Secretary. The way he had me on the hook, Mr. Secretary, as I told him--

(Secretary holds a telephone conversation with Senator Wagner.)

H.M.JR: It is worse than I told it to you. He was with Barkley Saturday night, and it is indefinitely postponed.

MR. WHITE: That sure is a one-man victory for Burgess.

MR. LUXFORD: That is a deal.

H.M.JR: It is indefinitely postponed. He said he was with him Saturday night. They are going to sit and wait and see, and Connally is in the thing, too. How are you coming on the Kung business? Did you get this thing finished?

MR. WHITE: Well, he wants to know the reason, and I gave him the reason we have not been permitting any U. S. currency outside. I explained that when our troops went

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we especially prepared marked currency to distinguish it from the blue, and he said, "I will take the specially marked currency, mark it any way you like. I will take gold seal or any other."

I said, "That wouldn't be quite the same thing."

He wanted to know why, and I got out of it, but not very gracefully.

H.M.JR: How about getting up some marked currency and delivering it to the Ambassador and then let the Ambassador deliver it over there. The thing that worries me is whether the ten million dollars is going to go to his safe deposit box here.

MR. WHITE: We can make certain that the money leaves after he leaves. We can say we will mark and box the currency and ship it on the very next plane that comes, and we can make sure that that doesn't go with him without telling him so, because it does take time to mark and box that much money; and if it is going to be specially marked currency, we haven't got it too handy so that that can easily be arranged.

MR. GASTON: You can quickly find out if it is in circulation over there, after it got over there, whether it gets into circulation after time has elapsed.

H.M.JR: Have you got the yellow seal?

MR. D. W. BELL: Yes.

H.M.JR: Deliver it to Hurley, and let Hurley--

MR. WHITE: We can consign it, and notify him so that--

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H.M.JR: Why can't we consign it to Hurley?

MR. D. W. BELL: You can tell him to give the order to the Federal Reserve Bank in New York to pay the Treasury for it as soon as it is available, and we will ship it on the first plane following him that is available and consign it to the Bank of China and get a receipt back. But tell him to get the order in New York to pay for it as soon as it is available, in four or five days.

MR. WHITE: We can make it our special business to follow it up and see that it arrives safely.

H.M.JR: O.K. I will talk to him, and you be here when he comes.

MR. WHITE: If that is the case, I don't know if there is any use in making it five or ten--give him ten.

H.M.JR: I don't think he will want it.

MR. WHITE: Well, I think that would be perfectly all right.

MR. COE: I will get the message through.

H.M.JR: George?

MR. HAAS: I have nothing this morning.

H.M.JR: George, fix me up an area map on employment and unemployment. I would like to have the map that comes out once a month by areas.

MR. HAAS: Employment figures, yes.

H.M.JR: Go back to January and give me a figure for each month selecting different areas so I can see what happens. Show where they are laying them off.

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MR. WHITE: We can get some spot checks, Mr. Secretary if you don't want to wait a month on some of the areas. I think both the CIO and the AF of L have information which comes in very quickly.

H.M.JR: Do that, and then besides that, get the number of people getting unemployment insurance. I would like to have that by areas, see.

MR. HAAS: Yes.

MR. D. W. BELL: You mean unemployment compensation.

H.M.JR: Yes.

MR. D. W. BELL: That was very small last year, fifty or sixty million dollars.

H.M.JR: I was talking to Paul Fitzpatrick of New York, the State Chairman, and the thing he worried most about in connection with the '46 election is this unemployment thing. He said that as far as he was concerned or anybody else was concerned if that thing grows and isn't handled, it is good-bye '46, and I think it would be very interesting to see in what areas it is. Then I can do a little checking and get Gaston and Hannegan to do a little political work, you see, on the Democratic-Republican Congressmen and run a quite separate pencil political map against that.

MR. GASTON: Yes.

H.M.JR: And I just want to play with that myself. You see what I want?

MR. HAAS: Yes, sir.

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MR. D. W. BELL: The States withdrew last year sixty million, and this year seventy million dollars. Last year in June it was five million dollars, and this year it is eight million dollars.

H.M.JR: Well, if you will look--I think he said he had thirty thousand people drawing compensation in Buffalo alone.

MR. WHITE: There is quite a lag in that, isn't there, Dan?

MR. D. W. BELL: Oh, no, the money goes to the States, and they spend it.

MR. WHITE: You can't tell from that. That is not an indication of sharply growing unemployment.

MR. D. W. BELL: No, I think that is the reaction immediately when the States get the money to spend for unemployment.

MR. HAAS: There is very complete data on social security, but there is a big lag.

H.M.JR: Get into it, will you, George, and put it up in the chart room. If there is too much of a lag we will stir up something.

MR. WHITE: That is a very fruitful source. It might be very helpful.

H.M.JR: I thought so.

MR. GASTON: The employment bureau should be useful, too, the Federal Employment Service.

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H.M.JR: Excuse me, Herbert.

MR. GASTON: You might get something from the Federal Employment Service. They have a number of jobs on their rolls, and they are looking for people.

H.M.JR: I'll bet nobody has a map looking toward '46. He said he wouldn't want to run for any office if there are forty or fifty thousand people drawing unemployment compensation in Buffalo next fall. He said there were one hundred thousand.

MR. HAAS: That will be all.

H.M.JR: And if either the CIO or the AF of L have some stuff, get in touch with them.

MR. HAAS: I can check all the sources.

H.M.JR: This is important. It pays to get around with these politicians a little. The interesting thing is that is what Fitzpatrick was interested in, and he said when you try to do something or get something done you are up against a stone wall.

Bartelt?

MR. BARTELT: The tax refund program, Mr. Secretary, is progressing a little ahead of schedule. We have made over five million payments, and they are running now about a million and seventy thousand a week. I think we will complete the program about two weeks ahead of time, around October 1.

The other thing I want to mention is that the Treasury Department employees are over their Seventh War Loan quota.

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H.M.JR: Wonderful! Congratulations!

MR. LUXFORD: I have nothing.

H.M.JR: I want to see you (Luxford) alone after this. He is not going to get scolded.

MRS. KLOTZ: He is going to get killed. (Laughter) I don't know, I am just being funny.

MR. WHITE: He shouldn't protect me too much; I must take some of the blame.

H.M.JR: How do you know what it is?

MR. WHITE: I have a faint idea.

MR. GASTON: I was half asleep. When he suddenly started talking about Orvis Schmidt I woke up immediately. (Laughter)

H.M.JR: We have got a lot of bright boys around here. (Laughter)

Do you want to stay?

MR. WHITE: No, I just-- (laughter) I would rather not; I would rather get it by indirection.

MRS. KLOTZ: Remote control.

MR. WHITE: Did you promise Doctor Kung--I gather you would let him have a stenotype copy of meetings he has attended here.

H.M.JR: Yes.

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MR. WHITE: Well, we have edited it as much as is necessary, I think, but I mean without--I will glance through it and see whether it is all right. This is so unusual a thing, and once you start this--

H.M.JR: No, we did that before.

MRS. KLOTZ: We did it up at Bretton Woods.

H.M.JR: I have got to do it, but I haven't time to read it.

MR. WHITE: Well, we have gone over it. It is ready for your signature.

H.M.JR: All right.

MR. WHITE: This is something that has no importance aside from general interest. (Hands Secretary document on Japanese psychology.)

MRS. KLOTZ: You can't make any more promises on that; it is impossible. Really it is a terrific job. This was an awful job.

MR. WHITE: To copy it?

MRS. KLOTZ: No, you see, the books are all bound.

MR. WHITE: Oh, well, it was a mechanical job.

MRS. KLOTZ: That is what I mean, it is really terrific.

MR. WHITE: I think it is safe, but there is some--if we edit it any more, it would be--we tried to maintain its original form.

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John Pehle turned over to me a study made by some institution on Japanese character structure, and I strongly recommend that we have a little free time for discussion. It is very unusual and very revealing. I would like to pass it around to the staff, and I am sure Mrs. Morgenthau would like very much to read it.

MR. D. W. BELL: Unread reading material

MRS. KLOTZ: It is terrific.

MR. WHITE: There is an article that will interest you in Foreign Affairs by Jake Viner on Germany. I think it is perfect portrait of Jake Viner. He is shrewd, and carefully analytical on the minor points; it meets the minor points head-on. The major issues are left in the background, obfuscated.

H.M.JR: How do you spell it.

MR. WHITE: Spell it. Throw a lot of dust in your eye--o-b-f-u-s if you are serious. Obfuscation is quite an art.

H.M.JR: Any relation to applesauce?

MR. WHITE: Oh, no. It may have a little mixture of applesauce to help hide the dust, but not a great deal. I think you will be interested in reading it. There is a good deal of acute observation there, and a good deal of the middle-of-the-road, but it is of interest only because as I read it, I couldn't get a more perfect portrait of the man himself.

H.M.JR: As one of his admirers, I will read it. You are recommending it to me as one of his greatest admirers.

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MR. WHITE: I am one of his greatest admirers. I admire Viner's good qualities, and he has some very excellent ones, but I am aware that in my judgment he has some major shortcomings I thought you would be interested in seeing.

H.M.JR: Do you have anything else, Mr. White?

MR. WHITE: We are supposed to go up there this morning and finish.

MR. COE: There are still a number of matters hanging over from that conference the other day which you--

H.M.JR: Frank, if White is up on the Hill, I may have time. You and I can do it. At least I will try to do it.

MR. D. W. BELL: We will release the usual year-end financial statement tomorrow morning. Fussell has suggested I see the press boys right after it is released to answer any questions.

H.M.JR: Yes.

MR. D. W. BELL: George Haas will almost hit the bulls-eye this year on the estimates.

H.M.JR: Good.

MR. D. W. BELL: They will be counted in hundreds of millions. They may be a couple hundred millions off, but that is a fractional percent.

MR. HAAS: We are very lucky, Mr. Secretary.

H.M.JR: I compliment you. Will you see that George gets the "First Class Order of the Bulls-Eye?" (Laughter)

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MR. D.W. BELL: Yes.

H.M.JR: With diamonds.

MR. HAAS: If it's not that good, next year we'll stop mentioning it.

MR. CASTON: He gets a citation, doesn't he?
(Laughter)

MRS. KLOTZ: I never know whether that is good or bad.

MR. D.W. BELL: The Budget Bureau was very good on expenditures.

H.M.JR: Good.

MR. D.W. BELL: That's all I have.

H.M.JR: If you see the President, give George a little pat on the back.

MR. C.S. BELL: Here is a summary of the new pay bill in the event you will want to see some of the questions. That's about all I have this morning. (Hands Secretary summary of the new pay bill.)

H.M.JR: If there is nothing else, Mr. Luxford and I will go into--

MR. LUXFORD: ...an Executive Session. (Laughter)

July 2, 1945
9:22 A. M.

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HMJr: ...speaking.
Senator McKellar: McKellar.
HMJr: Good morning.
M: I've got to go over to the White House, -- I'm called up there at 10.
HMJr: Yes.
M: I wonder would it be all right if I dropped by your place as I come on back.
HMJr: Definitely.
M: All right, I'll see you later.
HMJr: I'll be always glad to see you.
M: All right.

July 2, 1945
9:25 A.M.

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HMJr: Hello.
Miss Roberts Barrows: Hello, sir.
HMJr: Good morning. How are you?
B: All right, sir.
HMJr: Roberts, got a pencil and paper?
B: Yes, right in front of me.
HMJr: I want this memorandum to be sure to get to the President before he sees the Big Four this morning, see?
B: All right, sir.
HMJr: Are you ready?
B: Yeah.
HMJr: For the President.
B: Yes, sir.
HMJr: After I talked to you on the telephone yesterday afternoon...
B: Yes.
HMJr: I talked with Mr. Biffle, who informed me that Senator Barkley had changed his attitude in regard to the introduction of Bretton Woods, and that Senator Barkley's proposal was that while they were discussing the San Francisco charter -- oh, not discussing, while they were having public hearings of the San Francisco Charter they would hold off the introduction of Bretton Woods. I urged on Mr. Biffle that the Senate go forward with its original plan to introduce the Bretton Woods legislation in the Senate on the 9th. And he told me that he would try and convince Senator Barkley to go back to the original plan.
I would greatly appreciate it if the President would do what he could with the leaders of Congress in urging them to have the introduction of Bretton Woods on the 9th of July as originally scheduled.
B: All right.

HMJr: O. K. ?
 B: Yes, sir.
 HMJr: And if he could just have a minute or two to read that.
 B: All right, we'll see that it gets to him.
 HMJr: If you please.
 B: Yes, sir, right away.
 HMJr: Thank you.
 B: All right, sir.

July 2, 1945
9:50 A. M.

Senator Wagner: Hello.
 HMJr: Bob?
 W: Yes, Henry.
 HMJr: How are you?
 W: Tired.
 HMJr: (Laughs) Well, I can join you in that.
 W: Oh, gosh. Well, you are a young fellow.
 HMJr: Yeah, I know.
 W: I'm not.
 HMJr: Bob, I was talking yesterday - first to the President - I brought him up to date on Bretton Woods.
 W: Yes.
 HMJr: And he was very pleased the way the thing had been handled, see?
 W: Yes.
 HMJr: And I also told him about Murdock, and he said what I had done met with his entire approval.
 W: Yeah.
 HMJr: And he was very pleased with the way you've been handling things. Then I was telling him about the thing - amendments, and he said, "No amendments." Hello?
 W: Yeah.
 HMJr: And he said if Wagner or you want me to see anybody, I'll be very glad to see anybody that Wagner or you want me to see.
 W: Yeah.
 HMJr: So I said I don't think that that is necessary at this time. Do you agree with me?

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W: Yeah. Now here is what we are up against now, Henry. You know, they should have told you what happened at the meeting of the Foreign Relations Committee.

HMJr: Yeah.

W: They are insisting that nothing happen while the Charter is being - while they have hearings and not until the whole thing is over. Well, I protested, and the only one with me though was Barkley, and I wondered - what happened was that Vandenberg, and all the Republicans signed right along with them.

HMJr: Yeah.

W: And undoubtedly, they are trying to hold this thing up.

HMJr: Yeah.

W: And our fellows didn't straighten out at all. Damn it, because Connolly didn't either. You know, he wants to keep along with the crowd.

HMJr: Yeah.

W: So Barkley took the position that he wasn't prepared simply to say nothing will take place. We talked about Bretton Woods because I brought up Bretton Woods, and he said let's wait a little while and see what will happen. And it seems to me that if the hearings don't arouse particularly, why we ought to have some work done right in the Senate. So we are in that -- it may be late, I don't know, but we've just got to be as decent as we can about it, and I thought I had better talk to the President about it too.

HMJr: Well, I think -- I heard this late yesterday. This is the version I got yesterday, see?

W: Yeah.

HMJr: That while they were having open hearings on the Charter, they would postpone Bretton Woods, but as soon as they went into executive session they would introduce the Bretton Woods legislation. I got that from Biffle.

W: Well, he is not accurate.

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HMJr: He's not accurate?

W: Not quite accurate on that.

HMJr: You mean that they are going to postpone this indefinitely.

W: Not indefinitely, but until after the Charter is disposed of. But I talked to Barkley Saturday evening about it, and we decided let's just wait this thing is apt to fade -- you know what I mean. As soon as that situation arises we will insist on going on with Bretton Woods.

HMJr: Well, I think....

W: What Vandenberg and a couple of the others said - well they want to be there when Bretton Woods, because they have got a number of questions they want to ask about it, and they can't do two things - same old story.

HMJr: Well, I think that we can get some help from the President to have it introduced on the ninth.

W: Well, introduced - to be introduced before them.. I know I'd be

HMJr: I mean start the discussion.

W: Well, it would be fine if we can do that.

HMJr: Well, the way he talked yesterday - he said that anything he could do to help, he would.

W: Yeah.

HMJr: I know he is meeting with the Big Four this morning..

W: Yes, I know.

HMJr: And I'm going to try and find out what happened - if they discussed Bretton Woods, see?

W: I rather think they did because in the first place when - while we were talking down at the Foreign Relations, I sent a little note over to Barkley because he was down a ways and said be sure and stick to Bretton Woods, and he did pretty well. But we'll see what they do today.

HMJr: And if you hear anything will you let me know?

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W: Yeah.
HMJr: And if I hear anything I'll let you know.
W: Let me know.
HMJr: Will you?
W: All right, Henry.
HMJr: Thank you.

July 2, 1945 37
10:47 A.M.

Mr. Dan Bell: ...under Bartelt.
HMJr: Bartelt.
B: Yeah.
HMJr: Have you any objections if I talk to him about some of these War Savings Stamp books cut at Chicago?
B: No, but I've got the story.
HMJr: Yeah.
B: Ted been asking you to get that credit?
HMJr: Yeah.
B: Well, I think it is a terrible mess. I can tell you we've got hundreds of mail sacks out there full of these things, all under Rotary lock. If they are opened they have to be opened in nomination with Post Office and Treasury and then have to be relocked, and if there are any shortages we never could go back on the Post Office.
HMJr: Well, I tell you, Dan. The heat's got me and I feel very badly and very low, see?
B: Yes.
HMJr: Is this Eddie Bartelt?
B: Yeah.
HMJr: Can I at once find out if he is the Assistant Secretary?
B: Well, that is a bad way to put it - sure you can.
HMJr: (Laughs) Don't take me too seriously, but this comes under him.
B: That's right.
HMJr: Well, if it does I'm going to send for him unless you tell me that you mind.
B: No, no, go ahead. I looked into it Saturday - he wasn't here. Now whether he has the memorandum or not I don't know. But there is a memorandum on it which I had Saturday and sent back.

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HMJr: Well, if you have no fear....
B: And if you would let him look into it fresh.
HMJr: Well, if you have no objection I'm going to send for him.
B: O. K.
HMJr: Thank you.
B: All right.

July 2, 1945
11:12 A. M.

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HMJr: Hello.
Mr. Matthew Connolly: Hello.
HMJr: Morgenthau, Jr.
C: How are you this morning?
HMJr: Oh, all right. Look, Connolly, I talked to the President yesterday, and he said if there was anything he could do to help me on Bretton Woods to let him know.
C: Yes.
HMJr: Well, the thing is getting worse and worse.
C: Yes. I think he took -- I know he took that up with the Big Four this morning.
HMJr: Did he?
C: What he told them, of course, I don't know.
HMJr: Well, I wondered if you could slip me in there for three minutes, a minute and a half is all I want.
C: Yes, sir.
HMJr: And just to find out before he goes up on the Senate, where I stand.
C: Well, let me check on what he told them, and that might give you the answer.
HMJr: Supposing you do that. And would you let me know?
C: Yes, sir, I'll call you.
HMJr: I thank you.
C: Right.

July 2, 1945 46
12:16 P.M.

Mr. Luxford: Hello, Mr. Secretary.

HMJr: Yes, Lux.

L: I'm back in the Treasury and can talk a little more freely. There was a bunch of reporters in the office up there. Things went very well this morning. Ratcliffe didn't cause any trouble. Fulbright didn't cause any trouble.

HMJr: Yeah.

L: They went right down the line. Now when I called you Harry had just completed his testimony, and they said they wanted to talk a little bit alone.. the committee. About five minutes thereafter they adjourned, and we were told they are reconvening at 3:30 today to discuss ~~Tobey's~~ amendments in principle. They are not going to discuss any language but just the principle behind this amendment. They told us that they would not vote on any amendments at that time. That is we can't go in there like we did at the House, and participate in the executive session. We'll be right outside. But the theory is that they will just discuss them and then they will have an opportunity to talk with us before they meet again tomorrow, at 10:30. Now Tobey when he left - he left a little earlier than the others, said that he had called the White House and also had Barkley and urged them to put this Bretton Woods before the Charter if at all possible, that he was pushing awful hard on that. We spoke to Wagner for a few minutes and he is now most anxious to get this thing ahead of the Charter. So I think you've got a backfire that is beginning to operate.

HMJr: Well, I know he mentioned it this morning to the Big Four.

L: Good.

HMJr: I'm trying to find out what has happened and they told me they would let me know.

L: Good.

HMJr: The memorandum I sent to the President this morning was

L: It was exactly accurate.

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HMJr: Did you read it?

L: No, but I know it was accurate because I followed it as you gave it.

HMJr: Oh, you were in the room.

L: Yes.

HMJr: It was all right what I said - I've got it here before me. Lux, I said, well anyway if you were in the room you heard me.

L: Yes. Tobey said that there is no doubt but that the Republicans are playing the game to defeat Bretton Woods by getting it behind the Charter. That is definitely their game.

HMJr: But Tobey called the White House?

L: Yes, sir, and he called Barkley too. He told him the same thing. So he is in there pitching for us.

HMJr: Well, the President is staying up for lunch at the Senate, and Biffle is in pitching for me.

L: Ahm. (laughs)

HMJr: Biffle has promised to do what he could.

L: But the three boys, Ratcliffe, Wagner and Fulbright were all good this morning for us on this British problem.

HMJr: They were?

L: Yeah. I hope it continues.

HMJr: I told you I was going to wait.

L: (laughs) I remembered that. That is always the benefit of having the second guess.

HMJr: Well, the old man hasn't been around here for 12 years for nothing.

L: Well, I agree with you 100%, Mr. Secretary. All right, I'll report again after 3:30.

HMJr: All right, thank you.

July 2, 1945
2:08 P.M.

✓
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HMJr: Hello.

Senator Wagner: Hello.

HMJr: Henry talking.

W: This is Bob Wagner.

HMJr: Yeah.

W: I think we are to report the bill tomorrow.

HMJr: Good.

W: I've talked it out with a few, and the President, of course, is anxious to go on too. I've talked it out with some of our fellows - Democratic fellows, and I think we'll get on around the 16th, while the hearings are going on, we'd have the bill.

HMJr: Oh.

W: That's what they've been kicking about, you know. They wanted us to wait until they got through with the Charter.

HMJr: Yeah.

W: Which would be a hell of a thing. Hello?

HMJr: Yeah.

W: So we are going to get in while the Charter is on, while the hearings are on.

HMJr: Well, let me see if this is what I understand. I've heard so many different things.

W: Of course you will.

HMJr: They said that while the public hearings on the Charter were on, they wanted us to wait. But when they went into executive session we could introduce Bretton Woods, is that it?

W: Well,....

HMJr: Is that what you heard?

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W: Well, the hearings -- I've talked them to myself - some of them - because damn it I'm not going to stand for it all, my committee is standing by me too.

HMJr: Good.

W: No, we don't have to wait for that. They begin the hearings on the 9th, and there will probably be a couple of weeks of hearings. While the hearings are going on we're going on with the bill.

HMJr: Well, Bob, you say the 16th, that's a week....

W: Well, we thought we would give them --- I think in a few days - I talked to Barkley just now. In a few days it will sort of peter out, because hell there isn't so much to talk about except what has been said before. We thought we would give them a few days. It may be before the 16th.

HMJr: Has President Truman said anything to anybody?

W: Yes. I was there at the luncheon.

HMJr: What did he say?

W: Well, he just said he was for it. That's all.

HMJr: But as to when it should be introduced...

W: Well, there were too many around there, he couldn't.. talk about everything there, you know.

HMJr: I know.

W: The whole crowd was there.

HMJr: I see.

W: Oh, you got to take what you can get, Henry.

HMJr: You're telling me.

W: Yeah, and I'm doing the best I can.

HMJr: Well, I appreciate that, but also, I'm a little disappointed, that's all.

W: What are you disappointed about? You thought it would be on tomorrow?

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HMJr: No, I thought they would start debating it on the 9th. That was what I thought.

W: Debating?...

HMJr: On the ninth.

W: Yeah, well maybe.

HMJr: Yeah. Well, it is mighty nice of you to call and keep me posted. I appreciate - you've done all that anybody could do and more.

W: We've done the best we could, Henry.

HMJr: You've done better than that.

W: Well, but the committee feels that way about the even Taft sort of was pretty decent about it today.

HMJr: No, I think he is the fellow that started the trouble. You know

W: You know what I really it is, I think these big bankers are behind this thing, that is what my opinion is.

HMJr: I know they are. I take it Vandenberg came back and he joined Taft, and I think they thought if they could postpone it long enough, we wouldn't get any Bretton Woods.

W: Exactly.

HMJr: Yeah.

W: Yeah. Well, we'll do the best we can.

HMJr: Thank you.

W: All right, Henry.

HMJr: Bye.

July 2, 1945
2:59 P.M.

45

HMJr: Orvis Schmidt is in here and he told me last night - told me again that they have 50 people over there and two men who act as stenographers.

Mr. Charles Bell: Yes, sir.

HMJr: I had this fellow and I wish you would think about it. The possibility of through Civil Service, whatever the proper agency is, asking from a general Government list of people who would like to volunteer to go over there, see?

B: I see.

HMJr: So instead of always just picking on the Treasury, any agency, then we can look the people over and see who is qualified.

B: Those jobs, of course, are temporary, and it makes it quite difficult to use the Civil Service personnel unless they particularly want to go, and we've already selected a good many from outside.

HMJr: I know. Let me ask you... (talks aside). He wants 100 stenographers. I bet you that if that was put on the air that you would 10,000 volunteers.

B: We'd get quite a few. We're not having any trouble with recruiting, our principal difficulty has been clearing them through State Department. We've just gotten that to rolling nicely.

HMJr: Well, how many have you cleared for us.

B: We are up to about 123 total, that is stenographers and others. Bernie didn't want more than 50 stenographers when he was here, a hundred is something new.

HMJr: (aside) Said he had cleared 123 for you. Well, anyway he will come in and see you after...

B: All right, sir. We can get him, I think, oh, any number of people that would like to go.

HMJr: Yeah. Well, don't take them all out of the Treasury though.

B: No, sir, we are going kind of easy on the Treasury.

HMJr: That's right.

B: O. K., sir.

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July 2, 1945
3:00 p.m.

CONFERENCE WITH DOCTOR KUNG

Present: Mr. D. W. Bell
Mr. White
Doctor Kung
Mr. Hsi Te-mou
Mr. Friedman
Mr. Aarons
Mr. Hoffman
Mr. Coe
Miss Joan Morgenthau
Mrs. Klots

H.M.JR: We have a lot of experts today. We need a lot of experts when you come.

I thought you were going to China.

DR. KUNG: Well, I was leaving this afternoon, but because you wanted to see me this afternoon I have got to wait. I was leaving tomorrow morning. In fact, I was going to leave tomorrow morning for China from New York, but I came here to see the President. I saw him this morning, and I had a chat with Mr. Harry Hopkins. I had hoped I could meet with you this morning so I could go back this afternoon to New York and catch the plane tomorrow morning.

H.M.JR: Can't you go now?

DR. KUNG: Well, you see, I had promised the hospital I would be there for a checkup at five o'clock this afternoon in New York. Because of this I made a request to hold the plane until Wednesday morning. I was leaving tomorrow afternoon.

H.M.JR: You have a special plane?

DR. KUNG: Yes.

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H.M.JR: Well, you only let me know this morning about ten or eleven o'clock that you wanted to see me.

DR. KUNG: Oh, well, I talked with Doctor White Saturday.

H.M.JR: I only got the request this morning somewhere around ten o'clock.

DR. KUNG: Anyway, I have the plane waiting to take the notes back with me.

H.M.JR: What was it, ten or eleven o'clock?

MR. WHITE: That is when I informed you, yes.

H.M.JR: What do you want to do with all this money?

DR. KUNG: Well, I will show you.

H.M.JR: I can't read Chinese.

DR. KUNG: This is English, not Chinese, notes two thousand four hundred dated July 2.

Well, I talked with the President. He was greatly concerned and said something must be done.

MR. WHITE: That is the price, two thousand four hundred.

DR. KUNG: I suppose you saw what the Generalissimo said. It was published in your papers. That is one of the reasons he is so anxious--he wanted me to get home. If we cannot hold this--if this snaps, then the Chinese effort of war will be entirely gone. This is so serious, and, really, I don't know how to emphasize it. That is why I spoke to you some time ago about this black market. If it goes on like this and if our people lose confidence, the bank will go to pieces, and then the Chinese effort will be gone. We will just not issue any more. Your Army needs for the past month have been something like thirty billion.

MR. WHITE: Thirty billion for a month?

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DR. KUNG: Yes, and now your Navy has recently--you made a request for the Navy for three billion dollars to be given to this country, and we are printing notes in this country with two or three firms. We are reprinting notes in Canada and England, and we are printing notes in India and China. We cannot go on like this. Very soon if China collapses economically a note becomes a scrap of paper, nobody wants it, and it weakens the continuance of the war. It is very serious.

I called President Truman this morning and had a very nice talk with him. I told him the situation.

H.M.JR: The President?

DR. KUNG: President Truman, yes, and I told him the situation. He said emphatically, "Yes, we must do something. This can't go on like this."

H.M.JR: What did President Truman suggest doing?

DR. KUNG: I told him I was going to see you, I was going to ask you to give me notes to take back.

He said, "I am sure Mr. Morgenthau will do whatever is possible." He said, "He has my blessing, and you have my sympathy."

H.M.JR: You have?

DR. KUNG: Yes. He said he was willing to do everything possible to strengthen the common effort.

MR. WHITE: I am sorry, I didn't understand what Truman said. Who has his blessing?

DR. KUNG: He said, "He has my blessing."

MR. WHITE: Secretary Morgenthau would do whatever he could and Secretary Morgenthau has his blessing.

H.M.JR: I think he said Doctor Kung has his blessing.

DR. KUNG: He said I have his sympathy.

MR. WHITE: He gave his sympathy to him and to you he gave his blessing.

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H.M.JR: Out of that we ought to get a little money, anyway.

DR. KUNG: Well, this is a question you say for the time, and when the gold arrives--the gold is shipped--it just meets this commitment made some time ago. They say they stopped selling the gold.

MR. COE: Why did they do that?

DR. KUNG: They had no gold to sell.

MR. COE: We understood they had more than we had.

DR. KUNG: One shipment arrived there, just enough to meet the commitment. They don't want to start to sell this until they get enough gold, so they propose to begin again to sell it in August.

MR. WHITE: Was that a public announcement to stop the selling of gold?

DR. KUNG: Yes.

MR. WHITE: That is one of the reasons for the premium, you stopped selling for cash.

MR. TE-MOU: Selling for cash stopped long ago.

MR. WHITE: You stopped selling after you made the public announcement?

MR. TE-MOU: Yes.

MR. WHITE: That is one reason why it shot up.

MR. TE-MOU: That is one of the chief reasons.

MR. WHITE: It is funny you sold forward when you didn't have any. Now when you are going to get two hundred million you stop selling gold.

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MR. TE-MOU: We don't know why they stopped.

(Discussion off the record.)

H.M.JR: Excuse me. I just wanted a little information in your interest.

DR. KUNG: Well, now, Mr. Secretary, and gentlemen, you have been very helpful. You have joined us as partners in this common fight against our common enemy, and we appreciate what America has given us by way of lend-lease and so on. But now we have come to a point to hold the economic line. It is important, not only for the future of China, but for the present war. So far I am fortunate. Last year I was responsible for this part of the work as Governor of the Central Bank, and I had to provide the Government with the funds to carry on the war. It was a privilege that I was able to help the American Army. A year ago March we decided we would have Dutch trade and you would look after your expenditures in China and we would look after ours. But before you could do anything the Chinese came to advance anything from the Treasury for your need, and I took the responsibility, not only to advance the need to your Army for your work there, but I also took the responsibility to feed your Army there. I tried to be just as cooperative as I could. And Mr. Bell can tell you that when you need money--before I read your letter--just by telephone--if it was two billion or three billion--and I always try to do what I can to meet your needs. I appreciate the cooperation you have given me, Mr. Secretary, and now we are going to finish the war very soon, and we want to win the war in order to save more lives. Therefore, this is the time, and it is very important that something be done to strengthen the war effort.

I am not asking for a loan; I am not asking for anything; I am just asking to take some of the money that belongs to the Government back to China in order to create the confidence to stop this black market speculation

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When American dollars go up, when the price of gold goes up, it works a hardship on the Army and the general population. If once the people lose confidence in our currency, then everything is gone, and I cannot lay enough strong emphasis on this point.

I am leaving, and you saw what President Chiang Kai-shek said the other day which was wired to this country and published in the papers. I think he feels greatly concerned. If it weren't so critical, I would not have to take this journey which was against my doctor's advice.

H.M.JR: I read what the American newspapers said on what the Generalissimo said. You would think we hadn't done anything for China.

DR. KUNG: No. I don't say that, but he didn't say you hadn't done anything for China, but he said that the economic assistance is not enough to meet the crisis. That is what he meant.

H.M.JR: I was quite surprised at his statement.

DR. KUNG: I will try to make that right when I go back. You know your newspapermen always put something in or take something out. Sometimes you get a statement which is not quite correct. I don't know whether the Generalissimo knows the trouble that I went to to get that forty-five million yards of cotton cloth.

DR. KUNG: I wired him. I told him. I said that I had seen Mr. Morgenthau and Mr. Morgenthau told me he never worked so hard as he did with this cloth in his life. I said that this is out of his line and that he did it simply to help China.

H.M.JR: That's right.

DR. KUNG: I said that.

H.M.JR: I don't think anybody else in town other than the President could have got it for you.

DR. KUNG: That's it. I quite believe that, and I

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wired that, and I'll have him write you a letter to confirm what I told you when I get back.

H.M.JR: Your word is good.

DR. KUNG: Thank you.

H.M.JR: Well, do I understand, Dr. Kung, from conversations you have had with my people that it is agreeable to you that we give you something like our yellow seal money?

DR. KUNG: All right. Sure.

H.M.JR: What?

DR. KUNG: All right. You give me that. I'll take that. I don't care.

H.M.JR: Because it will take a little time to get that together.

DR. KUNG: Well, give me what you can so I can carry it with me and then gather up the rest and send it by the next plane.

MR. WHITE: That is the only currency we permit outside the country. That is what we gave our soldiers rather than the blue seal.

DR. KUNG: I'll take that. Yellow is gold you know.

H.M.JR: I call it the gold seal currency.

MR. WHITE: It is better than the blue seal because the blue seal is questionable, of doubtful validity, whereas the gold seal we know is good.

H.M.JR: I think I have some here.

MR. WHITE: Have you got one?

H.M.JR: I think so, yes.

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MR. WHITE: There is a little in circulation the soldiers are bringing back. I came across one. I don't know whether you have seen it.

MR. BELL: I have seen them here in town. It is rare if you ever see one.

H.M.JR: Here is this, just as a token. (Secretary signs a one dollar bill in gold seal currency.)

MR. WHITE: A short-snorter.

MR. D. W. BELL: You are starting something.

DR. KUNG: I retain your courtesy. I'll send you a Chinese note, too.

MR. WHITE: I've got one. How much is that worth? Can you figure it out?

(Discussion off the record.)

H.M.JR: From Henry for my friend H.E. (Secretary hands Dr. Kung the autographed dollar bill.)

DR. KUNG: Good, good. Thank you, thank you very much.

H.M.JR: That is a token. Remember the other day you said you would settle for a dollar a year?

DR. KUNG: All right. (Laughter)

H.M.JR: You said you would take a dollar, remember?

DR. KUNG: That's right. Your memory is very long. I'll sign this. (Dr. Kung autographs Chinese note for Dr. White.) All right. You go ahead.

H.M.JR: I tell you what we'll try to do, Dr. Kung. Do you suppose, Dan, maybe if they work through the night they might get a million dollars of this gold seal ready?

MR. D. W. BELL: I should think we might. We might have

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to get a little pressure on the transportation facilities to get it to New York, but we'll get some space in an express car and send it up under Secret Service guard late tonight or early tomorrow morning.

H.M.JR: And the others will follow.

DR. KUNG: I will hold my plane until Wednesday morning and get more.

H.M.JR: I don't think we can pack it that fast.

DR. KUNG: That is good for one dollar in gold after the war.

MR. WHITE: Two thousandths of one cent without your name on it, but with your name on it--

H.M.JR: Dr. Kung, within a week we can send the balance.

DR. KUNG: Yes.

H.M.JR: But I mean we will make a special effort so you will have something to take home with you.

DR. KUNG: All right, Mr. Secretary. I appreciate that very much.

H.M.JR: A million dollars.

MR. WHITE: Maybe you can even ship some from New York that you have. It may be a little shorter.

D.W.BELL: That is packed and has coins in it. It is boxed. He doesn't want coins.

H.M.JR: I think we can ship this. We will try. How do you leave--by Air Transport from LaGuardia Field?

DR. KUNG: Yes.

H.M.JR: We will deliver it to the Bank of China branch in New York.

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MR. D. W. BELL: We ought to make arrangements for somebody to pick it up right at the station when the train gets into New York and take it.

DR. KUNG: You can trust your Federal Reserve Bank to do that and get in touch with us.

H.M.JR: Can you stay behind now? (To Mr. Hsi Te-mou.)

DR. KUNG: He is going to stay here.

H.M.JR: Can he stay here when you leave?

MR. TE-MOU: Yes.

H.M.JR: Could you send it to New York?

I mean, when you leave now is he going with you to New York?

MR. TE-MOU: Yes. I was going on the four o'clock.

DR. KUNG: Well, yes.

MR. TE-MOU: Should I stay here?

DR. KUNG: If you are needed, all right, stay.

H.M.JR: Somebody better stay.

MR. WHITE: Have you somebody here?

DR. KUNG: Have Mr. Chi, too, stay.

MR. TE-MOU: He is sick. It is reaction from an inoculation, Mr. Secretary. I stay if your Excellency permits me.

DR. KUNG: All right.

MR. TE-MOU: I stay.

MR. WHITE: You know they are smaller denominations. They don't come in larger denominations, Dr. Soong.

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DR. KUNG: My name is not Soong.

MR. WHITE: Dr. Kung I should say.

H.M.JR: They are made up in five and ten dollar bills. That is much better anyway.

DR. KUNG: Well, higher denomination effects higher price. They are funny in China. One hundred dollars they have a price, fifty, and another price.

MR. D.W.BELL: These have wider distribution.

MR. WHITE: The large denominations come only from the banks, chiefly from the banks. There is no inflation anyhow.

H.M.JR: We can give you the fives and tens. Is that right?

MR. D.W.BELL: We have that in the fives and tens, and ones.

DR. KUNG: No twenties or fifties?

MR. D.W.BELL: No twenties, twenty-fives or fifties in the yellow seal currency.

MR. WHITE: They were prepared for soldiers' pay.

DR. KUNG: Don't give ones, just fives and tens.

H.M.JR: One way or the other. You stay behind and we will work it out. If you are catching the four o'clock, maybe you better--

DR. KUNG: I am going by plane from here to New York. Mr. Hsi can stay.

H.M.JR: He can stay and work that out? Because it is difficult.

DR. KUNG: If you need help, get some people from the Embassy.

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H.M.JR: What I am doing is very difficult.

DR. KUNG: I appreciate that, Mr. Secretary.

H.M.JR: And we will have to work through the night. We will get you together a million dollars.

DR. KUNG: Thank you. Then you can give me the nine million by the next plane.

H.M.JR: Within a week. Now, we have let you have thirty million dollars worth of gold in May and June, over thirty million dollars.

MR. WHITE: You mean the shipping.

MR. COE: Thirty million dollars should have got there according to our figures. Thirty million should have got there, and why, in view of that, they need to suspend gold sales I don't see.

MR. WHITE: They have over sixty million forward transactions. I don't understand the reason, but thirty doesn't meet sixty.

DR. KUNG: There was no cash. While there was no cash sale, and then in order to get their Chinese notes back, they sold forward. We had forward sales, and what was supposed to be delivered in March couldn't be met. The people who bought say cash bars in hand speculated in the cash market, and anybody who had a cash bar could fetch a big price. Now, the government, because of the commitment of forward sales, has postponed delivery for some time. What they have on hand is just enough to meet the forward sales made some time ago, and they hope by August, when that is cleared, we will have enough gold on hand we can then and there start sale again. Because of that--well, there are other reasons, too, and speculators just begin to speculate. They have the market. They run away with it. The only thing is you have something to curb them, you see? You can stop it. Otherwise--

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H.M.JR: Well, that is your problem. We are doing the best we can at our rate.

DR. KUNG: Yes. Thank you.

H.M.JR: And I just want to say I am sorry I was all booked up this morning, but another twenty-four hours of American air may do you some good.

DR. KUNG: Thank you. I appreciate that.

H.M.JR: If you would have gone tomorrow, I couldn't have let you have one million dollars, and, see, this way I can.

DR. KUNG: Yes. Well, thank you very much, Mr. Secretary. I will make that right when I go home. I will get the Generalissimo to write you a letter.

H.M.JR: That is not necessary. We sent you the stenographic notes.

DR. KUNG: I got them this morning.

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July 2, 1945 59
3:35 P.M.

Mr. Matthew Connelly:

Hello, Mr. Secretary.

HMJr:

I thought you were going to let me know whether I could either see him this morning, or that you were going to let me know what had happened in regard to Bretton Woods when he saw the Big Four.

C:

He ran me out an hour and a half this morning with the Secretary of War.

HMJr:

What's that?

C:

He ran me out an hour and a half for the Secretary of War, and I never did get a chance to catch up to him.

HMJr:

Oh.

C:

We've got you set up for an appointment. Have you heard about it?

HMJr:

But not until Thursday.

C:

Thursday, that's right. I'll get the pitch...

HMJr:

What?

C:

I'll get the pitch on this for you this afternoon.

HMJr:

I sent you a wire out West asking when I could see him - if he could see me Tuesday.

C:

Yes, it got to me, but we were all filled up by the time I got it. I got it in Kansas City yesterday.

HMJr:

Yeah, but this thing on Bretton Woods, I would really like to know.

C:

Yeah, well as soon as I can get to him now, he is still on appointments. But just as soon as I can get to him, I'll ask him about it.

HMJr:

Yeah...

C:

I'll call you.

HMJr:

What about those two messages I sent you on the Attorney Generals for the State of Washington.

C:

He hasn't made any decision on it, but he did check on this boy, and he found out he was o. k.

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HMJr: Yeah.

C: He has had very good reports on him out there.

HMJr: Ahuh. Well, I was sort of standing by.... but the important thing is about Bretton Woods, you see. So that you have it clear yourself..

C: Yeah.

HMJr: We would like to discussion to start on the floor of the Senate on the 9th.

C: On the 9th?

HMJr: On the 9th. They are going to report it out today or tomorrow. Unless the President gets behind it, I don't think they are going to start discussion now until the 16th.

C: 16th.

HMJr: Yeah, that is what Wagner told me.

C: O. K. I'll have this for you as soon as I can get in there - after the next appointment.

HMJr: Want a little service now, please.

C: We'll give it.

HMJr: All right.

C: O.K.

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July 2, 1945
3:55 p.m.

GI PROGRAM IN FRANCE

Present: Mr. D. W. Bell
Mr. White
Mr. Glasser
Mr. Coe
Mr. Aarons
Mrs. Klots
Miss Joan Morgenthau

MR. COE: (Quoting from memo to the Secretary from Mr. Coe, dated July 2, 1945, Attachment A.)

"Subject: GI Program in France. The French have already put into effect the night-club, tax-abatement, and conducted-tour programs for the benefit of our troops.

"The proposed program for adjusting the pay of troops now awaits your approval.

"(1) It is proposed, beginning the end of July, to provide a supplemental payment of 850 francs a month for every soldier stationed or on leave or at a staging area in France.

"(2) The total franc outlay for this supplemental pay for 1 year is estimated at 5.5 billion francs (310 million). The French will place at the disposal of the United States Army this amount of francs for distribution to United States troops.

"(3) Finance officers will pay this supplement of 850 francs to eligible soldiers according to regular payroll procedures.

"The above procedure for the payment of the 850-franc supplement is being worked out by the War Department and is believed to be administratively and legally feasible.

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"(4) The French have prepared a draft of a joint United States-French press release which plays down the 'gift' aspect of the above program, refers to the meeting held in your office on this subject, and speaks of the supplemental payment as a device for 'improving the purchasing power of American military personnel in France.'"

H.M.JR: It does what?

MR. COE: This is the thing that will be used in the French public release on the matter.

(The Secretary holds a telephone conversation with Mr. Matthew J. Connelly.)

MR. COE: I think it might be well to read a couple of paragraphs from this press release because it's good.

(Quoting from Attachment B.) "At meetings held with the Honorable Henry Morgenthau, the Secretary of the Treasury, at which M. Rene Pleven, Minister of Finance and of National Economy of the French Government, conferred with representatives of the United States, War, and Treasury Departments, consideration was given to the problems which have been of concern to the Secretaries of War and Treasury relating to the general welfare and purchasing power of American soldiers in France. M. Pleven emphasized the French Government's desire to make arrangements allowing the many American military personnel who will be stationed in, or in transit through, France during the period of redeployment to have the greatest possible opportunities of enjoying their brief stay in France."

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It goes on to say, "In Washington, an agreement was reached--"

H.M.JR: Can I see that?

(Mr. Coe hands Attachment B to the Secretary.)

H.M.JR: You haven't a copy for Mr. Bell, have you?

MR. GLASSER: We haven't had a chance to make copies.

MR. COE: We just got this business this morning.

MR. BELL: Has that been released?

MR. COE: No, this is a proposition.

H.M.JR: Where did this come from?

MR. COE: From Patterson.

MR. AARONS: By military courier.

H.M.JR: What does this paragraph mean? (Reading)
"However, the major contribution of the French Government, in appreciation of the French nation towards its ally is the placing of a substantial number of francs at the disposal of the American Governments to be distributed to members of the United States armed forces in a manner that will be equitable in relation to the length of time

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that soldiers may spend either as permanently stationed in France, or at leave areas and at assembly areas located in France."

MR. WHITE: Per month. I suppose the longer he stays, the more he gets.

H.M.JR: No, it is based on his length of service with the Army.

MR. WHITE: I thought the arrangement was every soldier--

MR. GLASSER: That language is a little confusing.

H.M.JR: Depending on the length of service in the Army.

MR. GLASSER: They mean the length of time they spend in France.

MR. WHITE: He gets so much every month.

MR. GLASSER: Eight hundred and fifty a month. If he is there eleven days or more he gets eight hundred and fifty francs.

MR. BELL: You have to be there more than eleven days.

H.M.JR: Nobody would guess that from this.

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MR. GLASSER: That's a bit confusing.

MR. WHITE: Our man, Ball, worked with that, and the release was better than it was, and acceptable from our point of view.

H.M.JR: This is from Pleven to me.

MR. GLASSER: This will be a press release.

MR. COE: This is a public release.

H.M.JR: It is not in the form of a letter from Pleven to me?

MR. AARONS: A letter was going to be sent to Pleven from Ball in addition to explain the main conditions of the program.

MR. WHITE: Do you prefer this as a letter to you?

H.M.JR: What happened to the letter from Pleven to me?

MR. GLASSER: We have that. We haven't had a chance to go over it in detail.

H.M.JR: Why not? You are always pressing me. Why didn't you have time to do it?

MR. GLASSER: The boys have been working on this, and we just got it this morning.

MR. COE: That was the letter we showed you the other day.

H.M.JR: Have you got that now?

MR. COE: It came back.

(Mrs. Klotz enters the conference.)

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H.M.JR: There are some loose ends. I don't see why somebody doesn't tie them up and have it ready for me. This is the second time now that I have been on this thing.

MR. COE: We were meeting at this time, but the stuff just came by courier this morning. That has been the problem on it.

MR. WHITE: Is it necessary to decide this? Can you decide this before the letter? Is there greater urgency about this than the letter?

MR. COE: I think if you could get agreement on the principal of eight hundred and fifty francs, we could work out the details of the letter.

MR. AARONS: Would you prefer it as a letter to your or Ball, because as it is set up now it is to Ball.

H.M.JR: Who is he?

MR. AARONS: Our representative in Paris.

H.M.JR: I don't think it should be to Ball. That thing, unless Mr. Bell has some objection, I think is pretty good now. What do you think?

MR. BELL: I haven't read the press release, but this memo explaining it is excellent.

H.M.JR: I haven't seen that.

MR. BELL: I don't like the "gift of francs," but I think it is the best you can do, and if the War Department is satisfied that it can be done legally, why--

(Discussion off the record.)

H.M.JR: I like that "improving the purchasing power of American military personnel in France."

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MR. WHITE: That gets around it very nicely. I don't know why the letter to the Secretary shouldn't be substantially that and this just a press release, and any details should be in a subsequent memo.

MR. GLASSER: Actually, the letter isn't necessary.

MR. WHITE: I think it probably would be desirable.

H.M.JR: I don't like this receipt.

MR. BELL: I don't either.

MR. GLASSER: We are opposed to the receipt, Mr. Secretary.

MR. COE: None of us like it.

H.M.JR: I don't object. I haven't got the language of the press release. Simply paraphrase and take what they say in the press release, "Acknowledgment is made of the receipt of 850 francs paid to me for expenditure in France as an adjustment of pay received by me in francs, to facilitate me during my period of travel," and so on and so forth.

MR. WHITE: Dan had a good suggestion, "Under arrangements made between the French Government and the United States Government."

MR. BELL: I wouldn't give any purpose. Just say, "Under arrangements made between France and the United States."

H.M.JR: I think that's very good.

MR. BELL: I think it is all right.

H.M.JR: What?

MR. BELL: I think the press release is all right, too.

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H.M.JR: Have you a copy of that?

MR. BELL: No.

MR. WHITE: The amount eight hundred and fifty francs is satisfactory to you?

H.M.JR: That's all right. Is that all right with you?

MR. BELL: Yes. I think that is a nice gesture. I am surprised they would do that.

MR. WHITE: We will pay for it.

H.M.JR: What I would like to do is when that thing is given out--there has been so much on it--I would like to somehow or other get a little credit for it on this side of the war.

MR. WHITE: Why shouldn't there be a press release for you to give out in a press conference? That isn't the only thing. You can also mention the other things. They have already put in effect night-club, tax abatement, and conducted-tour programs. Then give the press release simultaneously here and that would be the reason for the press conference.

MR. COE: Could we button this up in one telegram, giving our version of the press release and the letter and just send it over there and that would be the final decision from the Treasury? We will have that ready for you.

H.M.JR: There is no reason why you should come back again, but I would go back to the way they had it, in the form of a letter to me.

MR. WHITE: See, it isn't released there. Before it is released here maybe it would be a nice gesture if at the same time you had McCloy here. I don't know how you would feel about it. Maybe not, but suit yourself.

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H.M.JR: I wouldn't bother, not in this case.

MR. BELL: Do you want that letter to you, Mr. Secretary?

H.M.JR: Well, it wasn't my suggestion.

MR. WHITE: I think so. Here's a Minister of Finance indicating to the Treasury what resulted from his conversations with him when he was here, and the matter is now consummated and he is informing him what he is going to do. Isn't that appropriate?

MR. BELL: I have some questions about the legality of it, frankly, one of our soldiers accepting a gift from a foreign government, and I would prefer you, as the Secretary of the Treasury, not to accept any of that responsibility. Now, the War Department says it is legally all right, administratively all right, but the pay of the soldiers is a matter for the War Department, and I prefer you say--I know you made the suggestion that something be done. You were responsible for having the conferences and getting started, and I think you should get that started. But the final responsibility for the legality of the thing I don't think is your responsibility.

MR. WHITE: If there is any question about the legality, I didn't think there was, but if there is--

H.M.JR: What about it, Counsellor?

MR. AARONS: Well, the way it is--

MR. BELL: I am not a lawyer.

MR. AARONS: ...the gift is not to the individual soldier, it is a gift to the United States, and it is done under the Second War Powers Act which authorizes the Secretary of the Treasury to accept conditional

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gifts on behalf of the United States for war purposes, and certainly paying a soldier must be a war purpose. I don't think there is any question there. That is on the side of accepting the gift. The War Department itself has to work out its procedures as to paying out to the individual soldier the proceeds of that gift, and they have got a scheme under one of their statutes under which they say they can do that and they are going to clear that with the General Accounting Office, so it is all right legally. But I think the Secretary has to be in it. He might as well be in it on the receiving end of that letter.

MR. BELL: Are you satisfied in raising the soldier's pay--that's what you are doing--without an Act of Congress?

MR. AARONS: Our theory is we are not raising the soldier's pay but we are giving him his money's worth.

MR. BELL: For his present salary.

H.M.JR: There is another side, too. You can say if you did it now, why didn't you do it six months ago?

MR. WHITE: The answer is the prices are getting steadily worse.

MR. BELL: That's true, a lot of boys have been hurt. They are not going to be reimbursed for the losses they have suffered.

MR. AARONS: That's true.

MR. WHITE: I don't think that need worry us. A country has the right to set its own gold parity, and that's what France has done. The fact they are not getting their money's worth is that prices have been rising. Now, the French Government, after negotiations, has decided to make some compensation for it. The soldier cannot claim in a legal or economic sense any back pay merely because you have been able to get some adjustment in local prices

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that have taken place. Now, the change in the setting of the gold parity is a sovereign act by the French Government.

MR. COE: The answer is that the Secretaries of the Treasury and War Department have been pressing the French on this for over eight months.

MR. BELL: About that?

H.M.JR: I think if I am doing this under the Second War Powers Act, that authority is permitted me to accept gifts.

MR. AARONS: That's the theory of the thing as it is set up now.

H.M.JR: I might as well be hung for a lamb as a sheep, whatever the quotation is. I think I would like to have it come to me. The only suggestion I make is that the press release be the letter, and that the letter go to the Secretary. I would have the press release in the form of a letter.

What?

MR. WHITE: That can easily be arranged.

H.M.JR: And then all we can do is release Mr. Fleven's letter on this side or let the French Embassy release it. Have it either way. They can ask the Embassy and ask how they would like to do it.

MR. BELL: Make the suggestion it be done simultaneously here and in Paris.

MR. AARONS: May I say one thing?

H.M.JR: Why not?

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MR. AARONS: The present plan is to send this under present War Powers Act. They are thinking of the mechanical details of this in the War Department and they might work out some other system as accepting it as a rate adjustment.

H.M.JR: That's something else.

MR. WHITE: That's why I think so far as the legal side is concerned, you might accept it as a gift, but the position that ought to be taken here is that it is not a gift but an adjustment for the high prices which have taken place.

H.M.JR: And I wrote Coe a memo to be studying it. I thought it might come up. Anyway, it would be a nice story--the various things we have done in other countries like China.

MR. COE: We started that. There are one or two little things that have been hanging.

H.M.JR: Oh, no, not today! I'll give you another chance.

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C_O_P_Y

ATTACHMENT A

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TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

TO Secretary Morgenthau (For Action)

FROM Mr. Coe

Subject: GI Program in France

The French have already put into effect the night-club, tax-abatement, and conducted-tour programs for the benefit of our troops.

The proposed program for adjusting the pay of troops now awaits your approval.

(1) It is proposed, beginning the end of July, to provide a supplemental payment of 850 francs a month for every soldier stationed or on leave or at a staging area in France.

(2) The total franc outlay for this supplemental pay for 1 year is estimated at 5.5 billion francs (\$110 million). The French will place at the disposal of the United States Army this amount of francs for distribution to United States troops.

(3) Finance officers will pay this supplement of 850 francs to eligible soldiers according to regular payroll procedures.

The above procedure for the payment of the 850-franc supplement is being worked out by the War Department and is believed to be administratively and legally feasible.

(4) The French have prepared a draft of a joint United States-French press release which plays down the "gift" aspect of the above program, refers to the meeting held in your office on this subject, and speaks

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of the supplemental payment as a device for "improving the purchasing power of American military personnel in France."

(5) In order to give this program the widest possible publicity among the soldiers, the French have suggested the use of a receipt, with suitable heading, to be signed by the soldier upon each payment date. In our opinion, such a receipt is not needed. A summary of the proposed press release posted in paymasters' offices or, if desired, handed to every soldier would accomplish the purpose sought by the French. If the French insist upon a receipt, we suggest the following language:

"Acknowledgment is made of the receipt of 850 francs paid to me for expenditure in France as an adjustment of pay received by me in francs. This supplemental payment has been made possible by arrangement with the French Government."

If this detail can be worked out with the French, we recommend that you give your approval to the above-described program.

COPY

DRAFT
PRESS RELEASE

ATTACHMENT B

75

At meetings held with the Honorable Henry Morgenthau, the Secretary of the Treasury, at which M. Rene Fieven, Minister of Finance and of National Economy of the French Government, conferred with representatives of the United States War and Treasury Departments, consideration was given to the problems which have been of concern to the Secretaries of War and Treasury relating to the general welfare and purchasing power of American soldiers in France. M. Fieven emphasized the French Government's desire to make arrangements allowing the many American military personnel who will be stationed in, or in transit through, France during the period of redeployment to have the greatest possible opportunities of enjoying their brief stay in France.

In Washington, an agreement was reached on the broad principles of a program intended to provide more entertainment facilities, greater availability of non-rationed goods on special terms and some special mechanism for generally improving the purchasing power of American military personnel in France. It was further agreed that the War Department would appoint a representative to cooperate with the American forces in France and with the French Government for the purpose of working out details of the program.

These negotiations have now been proceeding in Paris for the past six weeks and, as a result, the French Government has adopted two broad policies for the general welfare and benefit of American military personnel in France.

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The first of these has resulted in substantial price reductions for articles made in France on sale at post exchange gift shops, for refreshments at night clubs, already or to be, opened with French Government cooperation, and for gifts purchased in French shops when an export address is given by the soldier purchaser. In addition, in order to acquaint the American soldier with the many places in France of great historic and scenic interest, the French Government has arranged for tours, starting from the major leave or assembly areas, which will cost the soldier a very moderate price. Also, the Army Central Welfare Fund will benefit from a refund of a portion of prices heretofore paid for local purchases by the Army Exchange Service.

However, the major contribution of the French Government, in appreciation of the French nation towards its ally is the placing of a substantial number of francs at the disposal of the American Government to be distributed to members of the United States armed forces in a manner that will be equitable in relation to the length of time that soldiers may spend either as permanently stationed in France, or at leave areas and at assembly areas located in France.

All of the advantages which the French Government wishes to place at the disposal of the American soldier are already now in operation with the exception of the issuance of the funds, which latter it is contemplated will begin on or about the last day of July.

July 2, 1945
3:58 P.M.

77

HMJr: Hello.

Commissioner Nunan: Hello, Mr. Secretary.

HMJr: I thought you were up in New York.

N: Oh, I came back with Joe O'Connell on the 12:30 plane.

HMJr: Nobody tells me anything.

N: Well, he is over in the office now if you want to talk to him. We had a very nice talk with Judge Hand.

HMJr: Good.

N: And Joe will tell you about it as soon as you want to see him.

HMJr: Good.

N: In the meantime Lipe Henslee, the collector from Tennessee called me, and evidently Senator McKellar, or McKellar's brother called him, and told him about the proposed shift to Richardson.

HMJr: That's right.

N: Henslee tells me that Richardson is a Republican appointed under Republican administration, and one of the few - if not the only republican there, and he said that would be a very bad reaction in the district.

HMJr: Now wait a minute - wait a minute. I've got this sheet before me. Do you mind, one minute?

N: Yes, sir.

HMJr: Wait a second. Richardson was the Assistant Agent in charge. He was the fellow that we were proposing to move up.

N: That's right.

HMJr: Now, he is what?

N: He is a Republican, appointed in that office under a Republican administration.

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HMJr: Why didn't somebody tell me!

N: Well, I didn't know that either. It never occurred to me.

HMJr: Who called you now?

N: Henslee, the collector down in Tennessee.

HMJr: Yeah.

N: He tells me also that Hale has refused to take the position as Assistant. He has declined to take that as Assistant Collector, or Assistant Agent in Charge.

HMJr: Yeah.

N: And Hale and Henslee both say that if we cannot go along with the appointment of Hale, they would rather us go along with Bessley than Richardson.

HMJr: Now, let me see if I've got the thing straight. Who called you from down there?

N: Henslee, who is the collector in that district, and a very close personal friend of McKellar's.

HMJr: And he says if we can't go along with Hale, they'd rather have us go along with Bessley.

N: Bessley, yes, sir.

HMJr: Well, the Senator was in this morning, and the way I left it was - he was going to call me back.

N: Well, then he evidently called Henslee down there and told him the story because he said was talking to the Senator on the phone.

HMJr: Well, he'll call me back. What do you think?

N: (Laughs)

HMJr: Huh?

N: Well, as I told you if you want to go along with Hale, it won't ruin the service, but the boys tell me it won't be a good thing for the service. Now maybe you can use your charm on Senator McKellar and get him to let us go along with Berkhead and Hill.

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HMJr: I'm afraid I haven't got what it takes.
 N: Not with McKellar, eh?
 HMJr: (Laughs) Not with anybody.
 N: Oh, I wouldn't say that.
 HMJr: Well, I haven't anyway with McKellar.
 N: Well, suppose you think it over and anything
 you want to do is all right with us.
 HMJr: Right.
 N: All right, sir.
 HMJr: Thank you.

July 2, 1945

4:01 P.M.

80

HMJr: Hello.
 Mr. Matthew
 Connolly: Hello.
 HMJr: Yes.
 C: Yes, sir. I finally got that information for
 you.
 HMJr: Please.
 C: The Big Three are going -- the Big Four were
 in today.
 HMJr: Yes.
 C: And told him they would go to work on it and it
 would.....
 HMJr: I don't hear you very well.
 C: The Big Four told the President that they would
 go to work on that thing..
 HMJr: Yes.
 C: Y ..and it would be passed before the Charter was X
 ratified.
 HMJr: It would be.
 C: Yes.
 HMJr: The timing - they didn't say?
 C: They didn't make it specific, but they said it
 would be passed before the Treaty was ratified.
 HMJr: They would.
 C: Yes.
 HMJr: Fine. Well, my stock has gone up a little bit
 over there with you.
 C: O. K.
 HMJr: (Laughs) All right.
 C: All right.
 HMJr: Thank you very much.

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C: O. K. fine.
 HMJr: Well, your stock for me is up too.
 C: What?
 HMJr: Your stock with me is up too.
 C: What?
 HMJr: Your stock with me is up, too.
 C: Well, we always intercede in these things you know.
 HMJr: (Laughs) O. K. fine, thank you.
 C: Bye

July 2, 1945
4:23 P.M.

82

Senator Bankhead: Hello.
 HMJr: Yes.
 B: Mr. Secretary.
 HMJr: Hello, Senator Bankhead.
 B: I'm still interested in the appointment of Mr. Grady Bessley, Agent in charge at Nashville.
 HMJr: I see.
 B: Alabama has never had that position.
 HMJr: I see.
 B: And treat it rather as a Tennessee appointment. Now I realize the situation that you've got in the matter of Mr. Hale.
 HMJr: Yes.
 B: I was down at my home last week and met a man there - an old friend from Nashville.
 HMJr: Yeah.
 B: He said if you would write-if your Mr. Nunan would write to Miss Pattie Hilliard at 3631 West End Avenue.
 HMJr: Yes.
 B: She would give you a -- much information that would be valuable to you. She is president of the Altroosa Club - a woman's club. And he said that the women there are all very much against Mr. Hale. That he has taken for some time authoritative position about women occupying any place of responsibility.
 HMJr: I see.
 B: And the women there are all against him.
 HMJr: I see.
 B: He said also write to Mrs. Alfred Hill of Nashville, who is a member of the State Democratic Executive committee and you'll get the same information.

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HMJr: Ahn.

B: That his appointment would be very objectionable to the women there.

HMJr: Ahn.

B: Now if you will write to those women, I'm willing to abide -- I don't know either one of them -- I'm willing to abide by what they say.

HMJr: Ahuh.

B: I don't think you want to get into that sort of a controversy.

HMJr: I like to stand in well with the women.

B: How's that?

HMJr: I like to stand in well with the women.

B: Why, sure, we all do.

HMJr: If I don't I'm lost.

B: Well, you don't want to fight with them anyhow.

HMJr: No, I'd like to do more than that.

B: Yeah. This man Hale, he's the man. Joe F. Hale. He's McKellar's man.

HMJr: Yeah.

B: He's the man that they resist and oppose. Joe F. Hale.

HMJr: Yeah. You gentlemen kind of got me on the spot.

B: Well, I realize that. I haven't said anything to you, I didn't know McKellar was going to take it up with you.

HMJr: Yeah.

B: I thought he would leave it to Mr. Nunan. Those things usually are.

HMJr: No. Well, they are when - heretofore they have been left that way.

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B: Well, that is what I said.

HMJr: That's correct.

B: I assumed it would take it's regular course. I didn't intend to put you on the spot.

HMJr: Yeah.

B: Until I found out that he was doing it.

HMJr: Yeah. Well, sir, thank you, and I will do what you suggest.

B: All right, all right.

HMJr: Thank you.

July 2, 1945
4:38 P.M.

85

Senator Wagner: Yes.
HMJr: I wouldn't bother you, but I thought this was important enough.
W: Yes.
HMJr: Matthew Connelly just called me....
W: Who?
HMJr: Connelly, the President's secretary.
W: Yes.
HMJr: To say that at the meeting of the legislative Big Four this morning...hello?
W: Yep.
HMJr: The President told them that he wants Bretton Woods to be passed ahead of the San Francisco Charter.
W: Fine.
HMJr: And I thought you would like to know that.
W: Yeah, thanks very much.
HMJr: You're welcome.
W: All right.

July 2, 1945
4:42 P.M.

86

HMJr: Hello.
Mr. John McCloy: Hello.
HMJr: Yeah.
M: Mr. Secretary.
HMJr: Did it rain out at the

M: It rained at the Pentagon.
HMJr: Did it blow you off? Everything is different over there, I just wondered.
M: Boy, this air-conditioning over here means something these days.
HMJr: Yeah.
M: Financial men for Germany - you won't let me have the men I want over there. We are thinking about several people - one, Ned Brown, but we don't think we can get him.
HMJr: Yeah.
M: Another fellow named Berry - Keehn Berry from New Orleans. Did you ever hear of him?
HMJr: Never heard of him.
M: Well, would you look him up?
HMJr: What's his name?
M: Keehn.
HMJr: I'm sorry, what is the first letter?
M: K - k for Katy.
HMJr: K for Katy.
M: And then what comes next?
HMJr: Keehn. It is a funny way of spelling Keehn. Keen, but you put an h in it.
HMJr: Keen?

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M: Keehn.
 HMJr: Keehn.
 M: That's right. W. Berry.
 HMJr: I see.
 M: He is the President of the Whitney Bank in New Orleans. I'm told he's got the best reputation as a banker in all the South.- relatively young man, and vigorous. Will Clayton said he thought he was very able. All my reports on him so far are pretty good. Now, you let me know what you think about him.
 HMJr: Well, now, just what would he do?
 M: We would put him in head of the financial division.
 HMJr: I see. You people aren't satisfied with Bernstein?
 M: We are satisfied with Bernstein, but we don't think he is the fellow for the top job. I checked up two or three - don't misunderstand me, he is doing a hell of a good job and he's keen, but everybody that I've talked to about it, and I've checked up with Clay directly on it, he said he didn't think he had quite the bridge for the top job. That he is busy as a bird dog and most useful and most helpful, but they don't think he can handle the big affair.
 HMJr: What part of the anatomy do you measure for the breadth?
 M: (Laughs) Anyway you look at it. I don't know.
 HMJr: (Laughs) I see.
 M: You revolve them - that is the way you tell. Now, we are still in the market for Dan Bell, if you will let him go even for a little while.
 HMJr: Well...
 M: Well, I'm dutching - I know...
 HMJr: Well, Dan doesn't want to go and I don't want him to go.
 M: Well, all right. Do you know....

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HMJr: You never asked me to go.
 M: No, well....
 HMJr: I hear you become a simulated General.
 M: Who's become a simulated General?
 HMJr: Well, for one Lubin.
 M: Oh, did he get a simulated General's rank?
 HMJr: Yeah.
 M: He did. Gee, we are slipping over here.
 HMJr: (Laughs) I mean they tell me it is very nice. I mean why don't you offer me that job? You offer it to everybody else.
 M: That's right - I've offered it to everybody else in town. All right, will you take it?
 HMJr: I'll give it consideration.
 M: Do you know a fellow named Hank Knight, Continental
 HMJr: Continental what?
 M: Continental - I guess Continental Bank.
 HMJr: Oh, yes, yes, he's a straight government security man. He handles the Government portfolios I can tell you off - he definitely would not know - a man with a very limited.... I mean - the bank turns over their government portfolios.
 M: I see.
 HMJr: Oh, definitely not.
 M: Right. Well, now look up this fellow Berry for me.
 HMJr: Well, there is one man down there - one bank that has a very good reputation.
 M: Yes.
 HMJr: It may be Mr. Berry, but how he feels about Germany that is something else again.

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M: Well, I don't know about it. I'm just looking at him as a brain in financial matters with a record in integrity.

HMJr: Yeah.

M: I haven't checked up as to whether he is this or that. I don't know whether I even know what his politics are.

HMJr: Well, it would be nice to have somebody though that would be in sympathy with IPCOG I.

M: Yeah. I wouldn't want to get somebody that wasn't. I've had enough difficulty with that.

HMJr: Yeah.

M: The Whitney Bank is the bank.

HMJr: I know the bank.

M: And I think it has got a very good reputation.

HMJr: I know the bank. But Hank Knight, you wouldn't want him.

M: O. K. Well, I'll strike him.

HMJr: Anybody else?

M: No, that is all I've got. I once talked to you some time back about Spole, Spool or somebody. The Federal Reserve Spool, not the bank president.

HMJr: In New York?

M: Yes.

HMJr: You mean Allan Sproul?

M: I guess his name is Allan. That's the fellow - the Federal Reserve man.

HMJr: What do you want him for?

M: Well, I was thinking of getting him for Germany, but you put thumbs down on him some time back. You said you weren't enthusiastic or something.

HMJr: Well, read his testimony up on the Hill here recently.

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M: I haven't seen that. Now give me some other ideas.

HMJr: The only thing I can think of is the temperature dropped 20 degrees and it has nothing to do with your telephone call. (Laughs)

M: (Laughs) I'm afraid I didn't raise it any.

HMJr: No, I'll look into Mr. Berry seriously, but you don't want Allan Sproul, and you don't want Hank Knight, and Dan Bell doesn't want to go, and you won't offer me the job.

M: I just did. I just did.

HMJr: Yeah, yeah. O. K.

M: All right.

HMJr: Thank you.

M: And if you've got any other ideas, let me know.

HMJr: I'll do that.

M: Right.

HMJr: Right.

July 2, 1945
5:05 P.M.

91

HMJr: Hello.

Mr. Luxford: Yes.

HMJr: Luxford, you don't mind if Harry White and Frank
Coe listen on the loud speaker, or my daughter?

L: Not at all, no sir.

HMJr: All right, you are on the loudspeaker. Just thought
it was no more than fair that I should tell you.

L: Barkley has just announced that debates start
July 16th.

HMJr: Yeah.

L: And that was agreed apparently without protest in
the committee, so it looks like we've won round one.
And they have discussed the Taft amendments, and
they vote on them at 2 o'clock tomorrow - 2:30.
But apparently, from what I've heard, he didn't
make much of an impression.

HMJr: Well, did you see Wagner leave the room?

L: That wasn't for what you thought it was. It was
because I wanted to talk to him. (Laughs)

HMJr: My daughter looks very much disgusted.

L: (Laughs)

HMJr: Any way I called him up to say that I had just
got a message, that was 20 minutes to five, from
Matt Connolly.

L: Yeah.

HMJr: The President told the Big Four this morning that
he wanted Bretton Woods passed before the San
Francisco.

L: Good, good.

HMJr: And we thought, Harry and I, we didn't know what
might be happening at the late and it might stiffen
Wagner up.

L: Well, this confirms it, very definitely.

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HMJr: Well, Wagner called me about three to say that
it was going to be the 16th. See?

L: Certainly even Taft didn't object.

HMJr: Well, I think if they start -- are they going to
give that out to the press?

L: I don't know for sure.

HMJr: Well, I think they should.

L: I'll mention it to him. C. K.?

HMJr: Who?

L: Senator Wagner.

HMJr: Yeah.

L: All right, sir.

HMJr: Yeah, they might change their minds again.

L: All right, sir.

HMJr: I'd get it out tonight.

L: Yep. All right, I'll do it right away. He's
leaving.

HMJr: All right.

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JUL 2 1945

Dear Dr. Kung:

I am informed that you are leaving this country in the next few days. I am looking forward to your return to this country, when we will have the opportunity to meet again. I am sure that in China, as in the United States, you will do all possible to serve the best interests of your country in its war against Japan and in the establishment of a strong, united and democratic China.

It would be appreciated if you would convey my best regards to President Chiang Kai-shek and assure him that, as in the past, my Department stands firm in its support of China's war of resistance and that we will continue to take pride in our reputation as friends of China.

In an enclosing, as you requested, copies of stenographic reports of conferences in my office which you attended since the Bretton Woods discussions. Needless to say, these stenographic reports are to be treated as most secret. I am also attaching the figures on Chinese holdings in the United States which you requested.

With best wishes for a pleasant trip home.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Honorable H. H. Kung, Room 4201, Waldorf-Astoria Hotel, New York, New York. Following stenographic reports attached: Oct. 6, 1944, 12:00; Oct. 6, 1944, 3:30 p.m.; Nov. 25, 1944, 11:15 a.m.; Jan. 26, 1945, 3:05 p.m.; June 22, 1945, 2:30 p.m.

ISP/afa 6/30/45

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Value of U. S. Assets Owned by Private Persons in China by Detailed Property Types as of June 14, 1941

(in millions of dollars)

<u>Property Types</u>		
Demand Deposits	27.1	
Time Deposits	6.1	91.2
<u>Domestic Securities</u>		
National Government Obligations	8.9	
Other Government	.4	
Corporate Bonds	5.5	
Common Stocks	27.6	
Preferred Stocks	5.2	
Other Securities	.1	47.7
<u>Interests in Controlled Enterprises 1/</u>		
		13.3
<u>Miscellaneous Assets</u>		
Real Estate	.4	
Real Estate Mortgages	.3	
Estates	1.2	
Trusts	1.3	
Insurance Policies & Annuities	5.1	
Goods & Merchandise	5.8	
Checks & Acceptances	10.4	
Debts & Claims	13.1	36.6
Total, all property types		188.8

1/ For statistical purposes only, control was determined on the basis of the ownership of 25 percent or more of the voting stock of corporations, and analogous interests in partnership and other organizations.

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Value of U. S. Assets Owned by Persons in China
by Detailed Property Types
as of June 14, 1941

(in millions of dollars)

<u>Property Type</u>	<u>Total</u>
<u>Bullion, Currency and Deposits:</u>	
Bullion	19.4
Currency	^{1/} 215.1
Demand Deposits	4.1
Time Deposits	238.6
<u>Domestic Securities:</u>	
National Government	11.2
Other Government	.4
Corporate Bonds	5.9
Common Stocks	30.2
Preferred Stocks	5.5
Other Securities	.5
Total	53.7
<u>Interests in Controlled Enterprises:^{2/}</u>	
Branches	2.4
Corporations	14.3
Total	16.7
<u>Miscellaneous Assets:</u>	
Real Estate	.4
Real Estate Mortgages	.3
Patents	.2
Trusts	1.3
Insurance Policies and Annuities	5.1
Goods and Merchandise	9.8
Checks and Acceptances	10.9
Debts and Claims	12.6
Total	47.6
<u>Total, All Property Types</u>	<u>366.4</u>

Note: The figures are rounded and will not necessarily add to the totals.

^{1/} less than \$50,000.

^{2/} For statistical purposes only, control was determined on the basis of the ownership of 25 percent or more of the voting stock of corporations, and analogous interests in partnership and other organizations.

June 22, 1945
2:30 p.m.

NEGOTIATIONS WITH CHINA

Present: Secretary Magenthaer
Mr. White
Mr. Coo
Mr. Friedman
Mr. Adler
Mr. Klots

Dr. Kung
Mr. T. L. Soong
Mr. Chi
Mr. Hui Tsan-shu

H.M.Jr: Have you got it all settled?

MR. WHITE: Well, we are in agreement. If you can get Dr. Kung to agree, then we would all be in agreement. The adjustment which we thought was reasonable, in fact more than reasonable, was based on changes in prices and the cost of living there, and, as I suggested to you before, it works out to forty-one point nine million dollars for the last three months of 1944. That approach is the one which we think is the most reasonable one, unless we want to go to exchange rates and gold premium in which case we would arrive at a figure that is much lower. The premium

on gold and currency is high and is rising rapidly.

H.M.Jr: Has the gold begun to move?

MR. WHITE: Yes, we just arranged for an extra shipment this morning.

MR. FRIDMAN: Seventeen million extra by air.

H.M.Jr: I see they made some arrests in China. Was that before this new gold came?

DR. KUNG: I think so, yes.

H.M.Jr: There were three or four arrests. The Minister of Finance had a statement. Did you see it?

MR. CHI: I haven't, have you?

MR. WHITE: They are going to get seventeen million additional gold in a very short time, because we have some extra space on Army planes. This will put the shipments ahead of the schedule.

DR. KUNG: Well?

H.M.Jr: Well?

MR. WHITE: They would like to round it off, the forty-one.

H.M.Jr: The forty-one?

MR. WHITE: Yes, the forty-one.

DR. KUNG: Make it forty.

MR. WHITE: This being the year 1945, they wanted forty-five. (Laughter)

H.M.Jr: Well, our men have gone into it, and we still think that forty-one decimal nine is a good figure.

DR. KUNG: Well, they say, of course, that different counsels come to different results, and if I might say that, Mr. Secretary, this is not a case of straight business, huh? It is a case of cooperation, and if I may recall when the late President, Mr. Roosevelt, said in the next few months it was twenty-five, we saw that

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it was too little, but we accepted it because of what the President said. I said, "All right." I came here, and you all may say, yes, in the next few months twenty-five, and for the next few months it would be twenty. That was not based on what the President said. We didn't say much about it.

But since that time the prices have gone up in China, sure, but your personnel who are spending the money in China, has increased. This is, of course, a case now of close cooperation in order to win the war. Now, the European war is closed. We are all centralizing our efforts to beat the Japanese, to finish the war sooner, not only to save money, but to save lives, and you, more than anyone else.

I came to this country on your invitation. I came to the Bretton Woods conference, and throughout the conference you emphasized the soundness of currency, and now I congratulate you and Dr. White. The scheme has gone through the Congress. Soon we will put this into execution, and you know better than I or anybody else how the situation is in China today and why I came.

I saw the President several times and he tried to find ways in order to help China economically so that China would be strong, not only to fight the war, but after the war. We are now at a higher stake for the world of peace and security. As far as forty million, forty-five million, sixty million, fifty million--these are small amounts. I'll take anything from you. If you say, "I give you one dollar for your work in this country," I would take one dollar for a year. Mr. Secretary, I take the dollar back, so it isn't a matter of only a few dollars or cents. It is a case of cooperation, and so on. America has a great name in China among Chinese officials and the people, and respect, and under your administration we have dealt many times, and in a time of crisis you have tried to help China, I know, more than anybody else. It is the wish of the American people. It is the policy of your government. It has been your own desire, so I would not just ask or argue whether the figure is right or wrong. I leave that to you. Any figure you name is all right, but I just want to give this thought to you for the sake of the past and cooperation for the future, and I think that is a bigger issue, and a few millions more or a few millions less, well, of course, it would work a hardship on the poor Chinese

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people. We are spending much money, and so it doesn't matter much, but there is one thing I want to just mention and call your attention to, and that is after this war--how long this war is going to take, nobody knows--I hope we could whip the Japanese within this hour, year.

H.R.JR: I'll take the hour.

DR. HUNG: But somebody said it will take another year. I saw a statement made by Stilwell in which he said two years. Inflation in China is getting really very, very bad. Tomorrow it will be one year since I arrived in this country.

H.R.JR: Is that so?

DR. HUNG: Yes. You remember I came down the twenty-third. Today is the twenty-second. Since then, the situation has become very much worse. Now, the people in China are puzzled. The government is worried. You know there are elements in China that seize an opportunity to attack the government, and so on, and I know it is the desire and your wish to strengthen the hand of the Chinese government so that we could do our best to cooperate with you, not only to win the war but to win the peace. Mr. Secretary, you know you have achieved something internationally through your Bretton Woods scheme. That scheme is going to help to stabilize the world trade, and in order to have world trade, you can have stabilized currency. In order to bring profit to your manufacturers, work to your laborers, you can have the other countries have the power to buy from your country.

On this China has helped to meeting that position. If the economic rate of China should collapse, if her currency should break, you know what that would mean. In your letter and also in the telegram from the late President where you ask me to come to this country, it says that not only to settle this, but to talk about the future cooperation and future stabilization, and so on and so forth. And now I am afraid I shall have to leave this country very soon now.

H.R.JR: That's too bad.

DR. HUNG: But I should want to carry some message back from you to my people, to my government, and I should like to have some assurance so that my people, my government's

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officials will be encouraged to put more strength and effort to cross the Japanese as soon as possible, and then they do have the chance, the opportunity, to cooperate with America and with you.

That is all I want.

H.M.JR: Well, Dr. Kung, you know that my government for seven years now has cooperated with you in this mutual effort that we have had. Again and again we have tried to demonstrate our friendship in many ways.

DR. KUNG: Yes. We appreciate that.

H.M.JR: And I am sure that President Truman will continue the same policy--

DR. KUNG: Yes. He assured me of that.

H.M.JR: ...toward China that President Roosevelt did. With respect to the Army expenditures, we have tried to arrive at a fair estimate. It is very difficult with these fluctuating rates of exchange to determine a reasonable figure. Any correspondence that President Roosevelt had with any members of your government were, I believe, on expenses of our Army incurred up to the first of July. I don't think there was anything mentioned by him on expenditures after the first of July. This settlement is from October 1 to January 1. But, anyway, we want to carry on in his spirit. I don't know, however, what you gentlemen have in mind. We thought that forty-one plus was reasonable.

MR. WHITE: That makes about fourteen million a month.

H.M.JR: Were you people about satisfied with forty-one million nine hundred thousand?

DR. KUNG: No. They were negotiating.

MR. WHITE: No. They have not agreed to that.

H.M.JR: What figure did they have in mind?

MR. WHITE: Well, they have--

H.M.JR: Excuse me, what figure have they in mind

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MR. HSI TE-KOU: With your permission, Mr. Secretary, we three have been asked by Dr. Kung to study this, and we have mentioned a figure as high as sixty based on the previous period, twenty million a month, and we have now come down and recommended fifteen million a month, or forty-five.

H.M.JR: Pardon?

MR. HSI TE-KOU: We have recommended fifteen million a month for this period of October 1 to January 1, or forty-five. This is our recommendation.

H.M.JR: Is that Dr. Kung's recommendation?

DR. KUNG: No.

H.M.JR: Will Dr. Kung accept that?

DR. KUNG: I tell you, Mr. Secretary, you can give anything you want. You can give me one dollar, and I won't argue with you.

H.M.JR: That is the recommendation of these three gentlemen?

MR. SOCHS: Mr. Secretary, the reason that we arrived at this figure, after, of course, our first figure of sixty, fifty-five, and fifty, is that we finally, the three of us worked together, and we arrived at this figure, not arbitrarily, but also taking into consideration some of the actual facts, average purchasing power of it, and between the three we reduced it to twenty-five million less sixty. Therefore, we arrived at forty-five.

MR. HSI TE-KOU: Twenty-five percent higher according to price index.

MR. SOCHS: We reduced it to twenty-five million less sixty million, and we arrived at forty-five, and we mentioned to Dr. Kung at the time Dr. White was testifying, and we said we would take it on our own facts to settle it and told Dr. Kung that as he had asked us to settle it the way we can over here. We say we will recommend that to twenty-five.

H.M.JR: I would like it if you gentlemen would just stay here. I will take my people, if you don't mind, and go to the other room, if you would wait.

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(The Secretary, Mrs. Klots, Mr. White, Mr. Coo, Mr. Friedman and Mr. Adler leave conference temporarily.)

H.K.JR: Well, we have been talking this thing over and the thing that influenced us the most to meet you is this very fine military effort which your soldiers are making. I think that we should do everything we can from the Treasury and to encourage the Chinese government to carry on in their program to kill Japanese. If, by raising our figure slightly, we make it possible for Dr. Kung to go back and say that this is a fair adjustment, we are prepared to say fifteen million dollars a month with the understanding that the Army may have subsequent claims which Mr. White has just informed us about and which may come in at any time, even six months or eight months from now.

MR. WHITE: Some additional items that they have spent for the Chinese.

H.K.JR: And the Army has asked us to put in an exception. Are you people familiar with that?

MR. SCOTT: Mr. Secretary, I think January, February, and March--

MR. WHITE: No, the Army has informed us recently that there have been a number of items which have come to their attention but of which they have not informed us as yet. These are expenditures that were made for the Chinese out of the funds obtained from the Chinese. They were made in the past, not in 1945. In 1945 there are some too but these items occur throughout 1944.

H.K.JR: We frankly don't know what they are.

MR. CHI: I wish to point out that our original figure for this period for three months was ten point seven billion. Now, we settled for eight billion because these two point seven billion include this kind of unsettled accounts.

MR. WHITE: I tell you, Dr. Chi, that the deductions we have made were on expenditures of which they have already informed us--am I correct--as to the specific amount.

MR. FRIEDMAN: That's right.

MR. WHITE: They now tell us there are some expenditures

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which they have not informed us about. We don't know what they are.

H.K.JR: That is correct. We do not know what they are.

MR. WHITE: But we have to take cognizance of their information. It came in a letter to us. We are handicapped because we can't even indicate whether it is small or large, but we have to leave it up for later adjustment. There will be opportunity for you to question the data or to trim the data, if and when we get it. The Army, itself, may not get it for another three or five or six months.

DR. KUNG: Well, this settlement is only for the eight billion for which we thought there was no question, but now from what Dr. White says there seems to be some claim which is in the eight billion.

MR. WHITE: Within the eight billion?

DR. KUNG: Yes. That's all right. If, and this is really a justified claim with a settlement included and for eight billion dollars now settled--if there should be some claim within the eight billion dollars, all right.

MR. WHITE: There will be a proportional adjustment. It may be very small or it may be large. I haven't the slightest knowledge whether it is very small or large.

MR. CUN: It is nothing new in principle. In principle I think we are all agreed.

H.K.JR: Well, Dr. Kung understands that it is within the eight billion and that we don't know what it is. It may be very small or it may be a considerable amount, but anyway, we have discussed whether we should withhold an amount from the forty-five million, and we decided now we would go ahead and pay you forty-five million dollars for October, November and December, with the clause in there saying that which the Army has asked us to put in.

DR. KUNG: Yes. This is a settlement for the eight billion. If in the future the Army should produce some figures and proof which would evidence that there is some refund to be made, well, we can make it, make an adjustment in proportion.

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H.W.Ju: That's all right.

Dr. HENN: Well, now, probably this will be the last meeting I have had with you, Mr. Secretary, and I first want to thank you for your personal kindness to me and for your cooperation, including your staff and your associates. I appreciate it very much. It has been a pleasure for me to associate with you and to deal with you between representing our two governments. Before I leave I want to put a little thing on the record to express my heartfelt thanks.

But as the war is progressing in the Pacific, the things in China are getting bad as far as inflation is concerned. Prices are high, and that is because of the depletion of currency. That was brought about by the black market, and when there is a black market you always give speculators a chance to play on the market and keep it up or down all the time which is neither helpful for the war effort nor good for the economic stability.

I raised the question with you once and you said you would be glad to discuss it with me and to find some solution. I just want to leave this thought with you. Of course, owing to the shortness of time--it is a big question--we can't go into detail fully this afternoon, but I had a chance to talk with Dr. White the other day. I was benefited by some of the observations which he stated to me. However, my government is greatly concerned over this. I think one of the reasons they are urging me to go back is because it is getting worse. They want to have some solution, some settlement, and I stated that to Dr. White. "Of course," he said, "the present rate of exchange, it was made a long time ago. Now it is out of date. It is a question whether we should authorize a rate of exchange now or wait until a time, a proper time to make the change so that it will stay, instead of making it today or tomorrow and then later you have to make it again, which would destroy further the confidence in the currency, and disturb the people's mind."

However, I think some solution should be followed. I realize your boys come to China to fight. Well, their parents, their friends, probably, would send them new and then a few dollars as pocket money. They, too, of course, want to get the best rate possible. I realize the rate we give to them, of course, is out of proportion now officially, and while the black market, too, continues, it is going to destroy the confidence and disturb the effort in this war.

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Therefore, I would like to have some idea from you what is the best way to do it. Could we come to some arrangement whereby only our military men have a few dollars that they want to exchange, and we are willing to give them a special rate, or subsidize something. Once that is done then we can, of course, wipe out this black market. We can do it now, but because of your military men we don't want to do that. But for the sake of the country and for our common effort something has to be done.

H.W.Ju: You are, of course, raising a very important question, and I know you are taking a four o'clock train.

Dr. HENN: Five o'clock now. I couldn't get the four o'clock. It had no room.

Dr. WHITE: It is quite important.

H.W.Ju: And I would like to have my people discuss this at great length with you. We have had experience in Italy; we have had experience in France, and we are having experience in Germany. We have learned a little and this matter of how a friendly government should be asked to deal with American soldiers while they are in their country is something that you just can't do very quickly. I think if Dr. White and Dr. Coo and these gentlemen would continue these discussions with your people, maybe we could come to a solution. I agree with you, because you take in France, it is a very serious offense if our men take American dollars and try to buy francs in the open market. They get maybe four times as many francs. Most of them don't because they don't want to go to jail, but it makes them very unhappy.

This is something we have with us right along. So I think it is something that should be discussed with your experts and our experts--

Dr. HENN: Yes.

H.W.Ju: ...with a hope that we can come to a solution. I also hope your government will give serious consideration to the creation of the five hundred million dollar fund.

Dr. HENN: Well, you have my sympathy there.

H.W.Ju: I want more than that, though.

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DR. KUNG: Yes. I mean, I want your sympathy.

H.M.JR: I want you to come off the mountain on that one. Come down to the trenches.

DR. KUNG: Let us come to the ground. I think five hundred million is not enough. If it were one billion, but we don't have that money. I would like to have a one billion dollar reserve for my country.

H.M.JR: Come to my level in the trenches and we'll work something out.

DR. KUNG: I'll come off the mountain and you come up from the trenches, and we'll meet on the ground.

H.M.JR: I'll see you again before you go?

DR. KUNG: Probably. I'll come back and say good-bye to the President, and if you are here, I'll come in to say goodby to you.

H.M.JR: I wish you would. It has been a very happy relationship, and I think that both you and I have tried to do everything we can to keep the friendship on a high plane. I have been very happy to be associated with you this year, as I have since I first met you. I hope that as years go on our association will continue closer and closer.

DR. KUNG: Yes. Yes. We had a long association before I met you, and I can say the same when I came here. We settled the silver and that only took a few days, but now it took me a whole year to stay here to settle this.

H.M.JR: You get your health back.

DR. KUNG: I would like to have copies of all the conferences that I attended while I have been here, because maybe sometimes I don't talk so plain, and there may be some mistakes. I would like to have copies.

H.M.JR: Yes. We'll get those for you.

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October 6, 1944
3:30 p.m.

CHINESE LOAN NEGOTIATIONS

Present: Secretary Morgenthau
Mr. Adler

Dr. Kung
Mr. T. L. Soong
Mr. Hsi Te-mou
Mr. Koo
Dr. Chi

H.M.JR: I am going to have to leave at four forty-five to catch my train, and Mr. White went ahead on the four o'clock train, so he is not here.

Dr. Kung, talking to the Army helped some and in other ways it doesn't help so much. But this is the memorandum that Dr. White left behind.

"In the most recent figures submitted by our Army for expenditures in China up to June 30, the total is just under fourteen billion yuan. Our Army states that this thirteen point nine includes three billion yuan for taxes and overhead, which should not have been charged to us according to agreement reached between the Chinese Government and the Army."

Now, I am reading what they have told me. They are saying that of this thirteen point nine, there are about three billion yuan of taxes and overhead.

Now, I have a suggestion to make, with the hope that we can come to an agreement and you can go to the hospital and have a successful operation.

At Bretton Woods we made you a firm offer for expenditures up to June 30 of 125 million dollars, of which we paid you twenty-five. Is that right?

DR. CHI: That is right.

DR. KUNG: I am not quite sure of that. Do you think it is right?

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DR. CHI: Yes.

H.M.JR: I don't think there is any discussion on that. I think we have settled that March and February matter, haven't we, Adler?

MR. ADLER: I understood there was agreement on that.

H.M.JR: We took that into account. We agreed with the Chinese viewpoint that it started when?

MR. ADLER: February.

H.M.JR: Yes, we first said March; you said it was February.

DR. KUNG: No, it is started from March first.

H.M.JR: We have been all over that, Dr. Kung. This is to your advantage.

DR. KUNG: Yes, but I don't want it.

H.M.JR: Perhaps, you misunderstand me. We agree: February, March, April, May, June. Right?

MR. ADLER: Yes.

H.M.JR: Five months times twenty-five is 125 million dollars, of which we have paid twenty-five, and we agreed with you. We first held the March view and then we said all right and we took in February. We paid twenty-five million dollars. I think that is correct.

DR. KUNG: That twenty-five is only for the regular military expenses, but all the expenses are advanced before that.

H.M.JR: February, March, April, May, June--twenty-five million a month is 125, of which we have paid twenty-five.

DR. KUNG: Yes, if you just say for the military expenses alone and the extra expenditure is not included, that is right.

H.M.JR: That was the proposal we made in Bretton Woods, wasn't it?

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MR. ADLER: That is correct.

H.M.JR: Now, in order to approach the rate which you have in mind, I am going to add to that figure provided--this is what General Clay has asked me to do--that we take in the months of July, August and September; bring it up to October first, which at twenty million a month makes another sixty million.

So by adding to this figure, we are prepared to add twenty-five million dollars or bring the total figure to 210 million dollars, less the twenty-five million dollars which we have already paid you, or a net figure of 185 million dollars. That is twenty-five million dollars more than we have ever offered before, and I think it is a good offer.

Now, as to the rate, you can add these things or subtract these three billion, whichever you want. I am adding twenty-five million dollars over and above any figure I have ever offered before; offering to pay net 185 million dollars up to the first of October. Is that clear?

MR. BOONE: Yes.

H.M.JR: What General Clay wanted to do was to spread this extra twenty-five over the period from February to October first. He felt that that would look a little better.

DR. KUNG: Mr. Secretary, I am sorry, but I don't have the figures. I think your Army is mixed up in the figures, and I trust the gentlemen who keep the figures--they don't say who gathered the figures. I will have to give again to check off the figures, and whether you agreed to that time from March first when you were spending before March first for your military expenditures besides what you required for the airfields--twenty-five million dollars. The President said from March first on you would spend twenty-five million dollars for the next three months, and then after that you would make another arrangement. And your Army, through General Clay, from the end of June, July, August, September, he proposed instead of twenty-five million, give twenty million. But actually you have spent more money than they spent in March and April. If they spent more money, why do they want to give us less?

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H.M.J.: We are giving you more. We are adding twenty-five million dollars to any figure which we have offered before. We have increased it by twenty-five million dollars.

DR. KUING: Now, of course that is for the general military expenditures. What money the Central Bank advanced for the building of the Chengtu airfield is a separate account.

H.M.J.: No, let me go back.

You have certain things in your mind; I have certain things in my mind. Now, I'd like to repeat it once more, and you gentlemen tell me if I am not correct.

At Bretton Woods I suggested for February, March, April, May and June a full settlement between the United States Government and the Chinese Government of 185 million dollars, of which twenty-five million dollars was paid. We then owed you a hundred million dollars for everything. You, very generously, refused to be reimbursed for food and clothing.

Then we said to you that we thought our expenditures would be less for the next three months and we offered you sixty million dollars for the next three months, which would bring the total to 160 million. Now we are offering you 185 million dollars in settlement for these eight months.

DR. KUING: Yes, Mr. Secretary, but we differ there, whether the building of the Chengtu airfields was included in this twenty-five.

MR. ADLER: The recent correspondence between you and the Secretary cleared that up. In the correspondence it says it is included.

MR. KOO: It doesn't say it is included in the figures; simply the American payment for the cost of construction.

MR. ADLER: In other words, it was included in the Bretton Woods settlement.

DR. KUING: It was not. The President told me it was not.

MR. ADLER: May I read this letter from the Secretary?

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"I am in receipt of your letter of September 7. There was never any doubt as to whether the United States Government would pay for the cost of the construction of the Chengtu airfield."

Therefore, the Secretary's offer at Bretton Woods presumably included something about which there was no doubt whether we would pay.

DR. KUING: Mr. Adler, I think you are wrong. I cannot accept that.

MR. ADLER: May I read on?

"The President's telegram, which was transmitted to Generalissimo Chiang Kai-Shek on January 28 by Ambassador Clegg, states explicitly that the United States, in order to cover all of its military expenditures in China, including maintenance as well as construction, is prepared to place to your account a U. S. dollar equivalent of any Chinese funds made available under general arrangements that will be suggested by General Stilwell and the Ambassador. The United States thus recognizes its obligation for its military expenditures in China, including the cost of Chengtu airports as one item in those expenditures, and is anxious to make a settlement which will cover them all."

MR. KOO: According to General Clegg's own statement, the figure at Bretton Woods includes only four billion dollars which was spent for Chengtu airfields. That doesn't coincide with the actual amount of money.

MR. ADLER: That is a different question. The offer made at Bretton Woods was that we had certain figures and the offer was made and those figures included the Chengtu airfields.

H.M.J.: The size of the figure we didn't agree on, but whether they would be included or not, we did.

DR. KUING: I wrote the Secretary a letter and I quoted what the President said, also what General Marshall said. Read that.

MR. KOO: Since our conversations at Bretton Woods additional information was received from China, substantiating the fact of the cost of the construction of the

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Chengtu airfields, which was always regarded as constituting a separate account which the United States Government undertook to pay.

Memorandum No. 111, dated January 5, 1944, referred to a reply from General Marshall to the inquiry, which stated that, "The United States will bear the cost of labor and material for Chengtu airbase construction at a rate of exchange to be arrived at under negotiations now in progress."

On January 12 General Stilwell transmitted to the Generalissimo a telegraphic message from President Roosevelt with reference to the Chengtu airfields, part of which reads:

"I will undertake to make available the necessary funds in Lend-Lease appropriation if that will hasten the completion of the work on the desired schedule."

Now, here is Secretary Horgan's reply to Dr. Kung, dated September 20: "There was never any doubt as to whether the United States would pay for the cost of the construction of the airfields."

In other words, at Bretton Woods the cost for the construction of the Chengtu airfields were not included--only a small part of it.

MR. ADAMS: Insofar as our figures included the cost of the Chengtu airfields, we included them. Now, those figures may not be right. We depend on the Army.

DR. KUNG: You are wrong, Mr. Adler. Even in the month of December, without whatever the cost of the building of the airfields was, your military expenses were twenty-three million.

MR. ADAMS: At the official rate of exchange.

DR. KUNG: And because, later, of the rising prices you were prepared then to spend twenty-five million only for the general military expenses. That is why twenty-five million dollars was offered. And the building of the airfields was a separate account. That account didn't come from the Government. I took the responsibility to advance the money.

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H.M.JR: It was my impression at Bretton Woods, from General Clay and the others, that the figure included the Chengtu airfields. They made the point that the principal expenditures during February, March, and so forth, were for the Chengtu airfields. If they weren't for that, what were they for?

DR. KUNG: You have over twenty thousand men in China.

MR. KOO: There were other airfields, too, Mr. Secretary.

DR. KUNG: There is a record by the President. If I am wrong--the Generalissimo certainly has given it clearance.

H.M.JR: Where did the President say he did or did not include the Chengtu airfields?

DR. KUNG: He said that would be a separate account.

H.M.JR: The President said that?

DR. KUNG: Yes, he just read you that. You read that again.

MR. KOO: On January 12 General Stilwell transmitted to the Generalissimo a telegraphic message from President Roosevelt with reference to the Chengtu airfields, part of which reads, "I will undertake to make available the necessary funds through Lend-Lease appropriation if that will hasten the completion of the work on the desired schedule."

H.M.JR: That doesn't say whether or not it is included in the twenty-five million.

DR. KUNG: You see, the twenty-five is the regular military expenditure. You are spending that much in the month of December.

H.M.JR: Do you mind if I call General Clay?

DR. KUNG: All right, you can call him.

MR. ADAMS: Your Excellency, this cable from the President which was transmitted by Mr. Gauss, I think, on January 23 was discussed at great detail in Bretton

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Woods, and there were two different interpretations of that cable, and I think that is what you are referring to.

DR. KUNG: So, there was a different one.

MR. ADAMS: This is the cable we discussed at Bretton Woods.

DR. KUNG: No, I got it from the Generalissimo's quarters. At Bretton Woods I didn't have that.

H.M.JR: We had it.

MR. ADAMS: You read it and Dr. Eno read it.

H.M.JR: I don't know of any other message.

DR. KUNG: There is another message. You can read that.

MR. EOO: That was transmitted to you, Mr. Secretary.

(Secretary holds telephone conversation with General Clay)

H.M.JR: What Clay says is that at Bretton Woods we said the 125 we were giving you included the cost of Chengtu, but we were perfectly willing that you offset those figures by putting down certain figures under reciprocal aid, if our figures proved to be wrong.

DR. KUNG: Yes, there we didn't agree. I said it was a settlement outside of Chengtu.

H.M.JR: He said we weren't in agreement as to the figures, but we did agree that you might under certain circumstances put down certain figures for Chengtu under reciprocal aid.

DR. KUNG: That is all right. That is where we split, and I took it that your figure for the settlement of the General military expenses was outside of the Chengtu expenses. And you want to include that. And then he said, "All right, the Chengtu expenses can be put on the Reverse Lend-Lease."

H.M.JR: Possibly as an offset.

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DR. KUNG: Well, I said I'd have to wire the Government, and beside the four billion he mentioned I saw that figure was not right.

H.M.JR: I think we are together now as to what happened, though. You agree that General Clay's memory on this is correct?

DR. KUNG: Yes.

Now, Mr. Secretary, we differed because you say--this is rather difficult to finance and to settle without knowing what the head of the Government actually promised. And therefore, you said you referred to the President and he referred to the Generalissimo and he sent me two wires, one from the President to him, another from General Marshall to him.

General Marshall said the airfields would be paid for, and the President said he will pay everything and this will come out of Lend-Lease. Your military expenditures, your American expenditures from your Treasury, that doesn't come from the Lend-Lease. Certainly you don't support your Army from Lend-Lease funds.

MR. ADAMS: May I point out that those quotations which you were good enough to supply the Secretary were the first indications we had had. Moreover, the dates of those communications are earlier than this formal communication from the President to the Generalissimo. This has the financial details.

DR. KUNG: Now, let us don't bother this any more. I advanced the American Army so many Chinese dollars. Usually I had to pay interest on the loan at the bank. The Chinese Government will pay the interest, if the American Government will return me the Chinese dollars which I advanced, and then just don't bother about the conversation or anything else. I made a loan and I advanced the money. If the American Government will just return me the Chinese dollars, you can take your notes, your dollars, and sell them on the open market. You can get the Chinese dollars. If you can get one or two hundred or three hundred, so much the better, and return that to me and we can settle the account. Would that be satisfactory?

H.M.JR: How are we going to get the Chinese dollars?

DR. KUNG: Sell it on the black market.

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H.H.JR: I am not taking that offer seriously. I have added twenty-five million dollars to what we have offered before, and the figure now stands at 185 million dollars net in full settlement for all obligations that the Army has incurred from February 1 up to and including September 30.

DR. KUNO: You can't tell me, Mr. Secretary, what that represents in Chinese dollars--

H.H.JR: You can figure that much better than I can.

DR. KUNO:according to our accounts. I think our accounts differ and your military account changes from day to day and our account is quite different from yours. I think we have advanced much more money than what the military claims. If they based this settlement on figures which are wrong, then we can never come to any agreement.

H.H.JR: You can arrive at any one of two or three different rates, depending on what you include. The rates run anywhere from seventy-three up or down. There is one way of figuring it which results in a rate of seventy-three.

DR. KUNO: That is all right. If it is seventy-three I will accept it.

H.H.JR: But there is another way that results in a rate of one hundred and eleven. So I say, you will have to figure it.

It figures from seventy-three to one hundred and eleven, depending upon whether you accept what our Army says or accept what your people say.

You people can give it the rate that you want.

DR. KUNO: Now, will you please tell me what is the total figure according to your Army?

H.H.JR: The latest figure is thirteen point nine, less three billion, or ten billion, nine, which, if you figure it the way I have just figured it, would give you a rate of seventy-three.

DR. KUNO: If that is the rate, that is all right.

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H.H.JR: That would give you a rate of seventy-three.

DR. KUNO: I think the best way, Mr. Secretary, would be for you to give me a copy of your Army's figures, letting me wire back to check it up.

H.H.JR: Am I right, Sol, that it would give a rate of seventy-three, thirteen point nine less three? It is ten billion nine into one hundred and fifty million dollars. Eleven billion yuan into one hundred and fifty gives you a rate of seventy-three.

DR. KUNO: According to the Army the total amount is thirteen billion!

MR. ADLER: Thirteen point nine, almost fourteen.

H.H.JR: Deduct three billion from that, and you have ten point nine.

DR. KUNO: From taxation?

MR. ADLER: Not only taxation, but overhead.

H.H.JR: So you don't get the figure wrong, that would be one hundred and eighty-five million dollars up to October 1.

MR. SCOTT: Thirteen point nine is the Army's figure including the Chengtu Airfield? These figures are kept by the Army?

H.H.JR: Yes, they are not kept here.

DR. KUNO: I am afraid the thirteen point nine Army figures are too small.

H.H.JR: If you take the Army's figures--it is thirteen point nine, subtract three, and you get ten point nine. If this total is considered in relation to one hundred and fifty million dollars, it gives a rate of seventy-three.

DR. KUNO: All right, Mr. Secretary, that is all right. Then I don't want to delay you, because you have to go. We will let my associates check up with the Army about the figures, and then we have a basis of seventy-three.

H.H.JR: Let us be sure that we understand each other.

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There are two ways to figure this thing. One way is to figure it to July 1, but another way is to spread the extra twenty-five million over the three months, July, August, and September.

MR. SOON: To the end of September.

H.M.JR: But I am giving Doctor Sun a more favorable rate if he figures it on the five months.

DR. SUN: All right, I will figure on the five months.

H.M.JR: But we, of course, have to figure it on a basis of eight months.

DR. SUN: All right, I will figure on eight months.

H.M.JR: If you figure it for eight months, it won't be as favorable. I want you to understand that. The Army says that this extra twenty-five million, which I am adding today is to be spread over eight months.

MR. SOON: Five months will be a better rate.

H.M.JR: But the Army wants it over the eight months. Do I make myself clear?

DR. SUN: Yes, I understand. But my point of doubt is the Army figure is not right.

H.M.JR: But we understand each other, that the one hundred and eighty-five million is for eight months.

MR. SOON: If you figure it on eight months, the lower figure of ten point nine comes out at eighty-nine. If you take the higher figure, it would come out at exactly a hundred.

H.M.JR: If you figure it on the five-month basis it comes out at seventy-three.

I give you my figures so there can be no misunderstanding.

MR. SOON: We just made a copy of it.

DR. SUN: The only thing is, I want to check on the figures of the Army.

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H.M.JR: If you figure it five months you get one rate, and if you figure it eight months, you get another rate. The eight-months rate is not as favorable.

DR. SUN: And the eight-months figure--if you take the lower figure and the higher figure, of course, the rate will be different, too.

H.M.JR: But when you get all through, the net offer is one hundred and eighty-five million dollars.

DR. SUN: In addition to the twenty-five million?

H.M.JR: And including the Chengtu airfields.

DR. SUN: That is, provided their figure is right.

H.M.JR: We are agreed on the basic principle that we have included the Chengtu airfields in our figures. I admit that our figure for the cost of the Chengtu fields and yours differ.

DR. SUN: I am responsible; if the bankers sue me, I will be in trouble.

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October 6, 1944
12:00

CHINESE LOAN NEGOTIATIONS

Present: Secretary Morgenthau
Mr. White
Mr. AdlerDr. Heng
Mr. Soong
Mr. Hsi Ts-hou
Mr. Hsi
Mr. Rao

H.S.J.: Doctor Heng, since talking to you last night, we have been in touch with the Army, and only this morning we were given some new information which we have never had before.

MR. WHITE: I was given the information over the phone. It seems that the Accounting Department has received further reports from the Army in China which indicate that the figures which had been submitted tentatively of the expenditures to the end of June include some items which should not have been included. There are also some errors in other items, so you have a very substantial change in the amount of yuan which was supposed to have been expended.

We asked them to send us over some details in writing, but they just received this information. It would greatly change the figures that have been the basis of discussion.

DR. HENG: More or less?

MR. WHITE: They included some items which should not have been included so that it would be substantially less.

DR. HENG: That is funny, that you have an Accounting Department that should make mistakes like that.

MR. WHITE: I don't know whether we made them or the Chinese authorities made them. I can't tell without seeing the report.

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DR. HENG: Your Accounting Department doesn't take our figures. Our figures do not agree with your figures. Therefore, that is why I told the Secretary just against a lump that is very unsatisfactory, because I was afraid something like that would happen.

Now, from the beginning it was a question of rate. Our official rate was one to twenty, and because of the increase in price of the American dollar, we are not able to buy as much. Therefore, you have either to increase your appropriation, or you have to get more Chinese currency for your currency. That was the reason you asked us to change the rate, because according to your representative there, you are spending too much money in China, according to that statement, yet you were only spending twenty-five million dollars a month for the American war effort in China.

After the President signified the proposition, the Generalissimo laid before him that the American Government was to pay everything in China. Now, of course, that is clear. But the question is, what was the rate. General Somervell and General Clay were there a year ago November or December. At that time the black market rate was one to eighty. Since they came to China it leaked out that the American Government was asking for a higher rate than the speculators, and the general public got hold of the idea. They knew that the Chinese Government always yields to the wishes of the American Government. And then they saw that Chinese currency was depreciating. They saw that they could make use of that information, so they got hold of American dollars and bought and bought, thinking it would be a hundred or two hundred. That started the confusion of the black market.

Then your men came. They said, "Well, the black market is so much, and, therefore, you shall give us at least as much." At that time I think the market wanted one to eighty. That was before this confusion.

After negotiations in which the Government were concerned, the Chinese Government decided at the time to grant one to one. Your missionaries--you have philanthropic workers in China--that money you spend in China is an American contribution.

Now, because of the high cost of living, they could not support their work, and they came to me, and I talked with my Government. Finally the Government prepared to make a contribution of twenty dollars, that is, each

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American dollar sent to China for such work--they would get twenty dollars for each American dollar. The Chinese Government will give those organizations another twenty dollars.

Well, at that time the Chinese contributed money back to China; they were only getting one to twenty dollars. And we said that because this was a common war and we were to make a contribution, we made a proposal that we would give fifty percent as a subsidy for the American expense. That was presented in a document to Gaus when he called with George Atcheson and, I think, Mr. Adler also was present. That was the document Mr. Adler brought up to the Secretary when we had the conference at Bretton Woods, saying that the American Government didn't accept the thirty dollars, that is, the twenty dollar official rate and plus ten dollars.

Now, from the telegram that Marshall sent to Stilwell, which was presented to their Government, Marshall said the American Government would pay for what was spent in China, that is, what the American Government spent in China, but the question was the rate. Now, this is really the crucial point, whether you say it is a lump sum, whether you say a certain amount of American dollars against present Chinese dollars--eventually you have to base it on something. And I might say at this juncture that I have taken a very heavy responsibility from March 1 on. The American Government would look after itself, pay its expenses; the Chinese Government was not to pay anything. Therefore, the Chinese Government Treasury cannot draw money off for that purpose. We have at least two organizations to check over the books of finance. As a means of finance, I cannot sign a paper, or a pay order other than the budget, and even if it is the budget, it must be countersigned. If that is not done, the administrative order for payment is not honored by the Treasury; and if I violate that law, I am liable to be in prison for fifty years.

Well, I want to have the American Government do what I came here for, so I make notes, an advancement on the Central Bank, and I ordered the Central Bank to advance money to the American Military Commission. Now, you see out of these two conferences, one with the Government Treasurer, and one with the bank--now, you just brought up--you say the amount was wrong because now you find there was something mistaken. Well, anyway, if that amount is wrong, if you are going to try to settle a lump against a lump, then that is another matter. That is not very scientific.

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In the best way would be for you to say how much you want us to subsidize. You are spending money in China. You have to set American dollars against Chinese currency. At the present rate it is one to twenty. We not only buy at that rate, we sell at that rate, and there are reasons. I received a letter from Secretary Morgenthau on September 20 and I wrote him an answer on the 22nd, four long pages. I thought maybe to send the letter to him would just give him a headache, so I just saved it until I saw him. If you want that information, I will send a copy later to you for your file.

But now the question finally comes down to the final analysis, the rate. We cannot change the rate, and you say our rate is too low. All right, now how much do you want us to subsidize? At the present time we are giving one to one for the philanthropic cause, and other causes, and we offer you thirty; but you say you will not accept it. Now, is forty acceptable? Is fifty acceptable? If I should say sixty, that means you only pay one-third, and we pay two-thirds. At the time when Clay and Somervell were there, they wanted eighty. At that rate you would pay one-fourth, and we pay three-fourths. That would be something!

You have given Lend-Lease; and you want to have reversal Lend-Lease. Then we can make a contribution. I think it would be easy for the Secretary, for the Senate, the President, and the public to know that China has done its share. I think without going into all the details, the point is, how much you are willing to pay and how much you want us to pay. Then after we fix that, you can ask your Army to find out how much the American Army did borrow from the bank or from the Treasury. Then we will settle the account accordingly.

Also, you say this war may take a little longer time and you will be wanting money in China, sometimes maybe more, sometimes maybe less.

MR. WHITE: May I comment?

MR. WILK: I wish you would, yes.

MR. WHITE: Mr. Minister, we are, of course, in agreement with much of what you say. In an attempt to make a reasonable settlement for past expenditures the Secretary at Bretton Woods said he would pay one hundred million. That was one side of the understanding and there was no question about it. Now the question is for what was that

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one hundred million dollars being given in payment. The bill that was submitted was for twelve billion plus.

DR. KUNG: Twelve point one.

MR. WHITE: Now, the problem is that the discussions were based on that figure. We assumed that that figure was the one that your Government submitted. We now have information that that figure included two very large items which should not have been included, one of taxes to the Government which amounted to several billion yuan.

DR. KUNG: Taxes to the Government! How do you mean?

MR. WHITE: That the Chinese Government paid taxes and then charged us with it.

DR. KUNG: The Government paid taxes to the Government?

MR. WHITE: That is what they tell us.

DR. KUNG: You are a Treasury man; you cannot believe that.

MR. WHITE: We have to determine whether we are settling for twelve billion yuan or whether we have to make the deductions of which we have just been informed by the Army.

DR. KUNG: Well, all right, now let us just come to an agreement on how much you are willing to pay and how much you want us to pay. Now, they say from the very beginning you are talking about a cash rate, an exchange rate. My Government wasn't willing to admit the rate, but now you order a settlement.

All right, I accept your first wish and your request of a rate. Let us come to a rate. Then if the rate is fixed, our accounts could be rechecked, and then we could settle it.

H.M.JR: Doctor Kung, I don't blame you for being confused, because it has taken so long and there are so many different U. S. Government agencies in it. But Adler can check my memory because he was present. (White had plenty of other things to do at Bretton Woods.) As I remember the thing, from the time I got into it and talked to you, I have been talking U. S. dollars, and I have not been talking about a rate. I think I am correct that the Chinese Government has been talking about a rate. You

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please correct me if I am wrong.

I made the offer of one hundred and twenty-five million dollars on a U. S. dollar basis, and not on the rate basis. Is that correct?

MR. ADLER: Yes, sir.

DR. KUNG: The lump sum of one hundred and twenty-five million was offered in consideration of so many Chinese dollars and so many American dollars.

H.M.JR: Yes, but if the Army at this very late date--it is unfortunate that they are so late--if they should be correct and show that there was considerably less expended on our behalf than we originally thought, it changes the whole picture. We have been discussing on the basis of the President's figure of twenty-five million a month.

MR. WHITE: That's right.

H.M.JR: Didn't Dr. Kung at Bretton Woods keep stressing what the President had said? Wasn't there a cable or something?

MR. ADLER: There was an offer of twenty-five million a month.

DR. KUNG: Outside of the special expenses such as building the airports.

H.M.JR: Didn't the whole discussion spring from that cable?

MR. ADLER: Yes.

H.M.JR: And then I have stuck to that, haven't I?

MR. WHITE: I think the Minister is correct in saying the earlier discussions were all on the basis of a rate, that the question was what would be a reasonable rate, about which there was no agreement. Then in the latter part of the discussions, as you said, because of the difficulty of arriving at an agreement on the rate, we said, "let us approach it differently. Let us approach it as a lump payment." That happened before Bretton Woods, and when the Secretary considered it at Bretton Woods, it was a question of how much of a lump sum payment, getting away from the question of a rate.

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MR. HOO: That has never been our stand. It was first proposed by Ed Acheson.

MR. WIRTH: That is true, because that is what we discussed at this end and sent to Acheson; that if you couldn't arrive at a rate, then instead of continually withholding money, to agree on an aggregate. The President had indicated about twenty-five million dollars a month, and that is to what the Secretary is referring.

H.R.JR: I think ever since I have taken part in this discussion I have been consistent, and I have been talking about so many dollars per month. And, as far as I know, no one else has ever been authorized to make an offer to the Chinese Government other than the one that I made. And the only difference now is that the Army people now suddenly come through and question the correctness of the twelve billion yuan figure. And until they can give us a correct statement, I just have to wait. For how long has Adler been calling them at least once a day?

MR. ADLER: Since last Saturday.

H.R.JR: He has been trying to get them to give us the necessary information.

DR. HUGH: Your military mission has made a mistake, because you have several people to take care of that, and Clay was in the conference. He had the figure.

DR. HUGH: In fact, the twelve point one billion figure was Clay's figure, not mine. We never offered any figures.

MR. JOHNS: I remember very vividly that during the Bretton Woods Conference, Mr. Secretary, you at the time offered a lump sum. That was understood, and what Doctor Hugg was saying, that Doctor White is at present saying, is this, that now the face of the whole thing seems changed because the amount submitted at one time and the amount not stated are quite different. Therefore, Doctor Hugg says that you, Mr. Secretary, then offered a lump sum, although you did not specify the rate, but there is a foundation of a rate behind it.

MR. WIRTH: It is easy enough to figure what it was, it was about a hundred to one; it was one hundred and twenty-five million dollars for twelve point three, or twelve point one billion yuan. It is easy enough to calculate that the rate that was implied was about a hundred to one. If you get one hundred and twenty-five billion for twelve billion yuan--

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H.R.JR: If it turns out that the Army is right, it would be considerably lower.

DR. HUGH: Suppose I had accepted your figure and it was settled, what would you do now?

H.R.JR: It is very simple. If you had accepted the figure that day, I would have drawn a check the next day, and the thing would have been finished.

DR. HUGH: Well, the Army has a figure.

H.R.JR: That would be their responsibility.

DR. HUGH: I think it would take some time to check this account, because in the Army they have their different accounts. Figures differ. The bankers have figures, and the Army has figures, and probably our figures wouldn't agree with your Army, and, therefore, if we just go on and say, "Check the account," it will take some time.

Therefore, as Doctor White just said, underneath, although no rate was mentioned yet the settlement was based one to a hundred. Now when Searvell and Clay came at that time, they hated it; they wanted one to eighty. We give them one to seventy; therefore, we cannot agree. Now they want one to one hundred, and we think that is too much. Now, what would be a fair rate? Three or four days ago they wired me to say to your General, "We want ten billion dollars advanced by the bank," and he had no authority. He asked us whether the bank was going to pay it or not.

The Government was not able to pay. Therefore, your Army then would be suspended in the air, and I again said, "I am negotiating with the Secretary of the Treasury." Meanwhile, what they need should be paid. I am taking too much responsibility.

Now, one way or another some arrangements must be made according to this conversation, this figure we talked about, in Bretton Woods. For your dollar you get twenty, and you want the Chinese Government to give you eighty. Now, I am prepared to offer two; that is, every dollar you exchange for twenty, I am willing to give you forty, making sixty. Maybe, after all, when you check over your account you will find it is ten dollars. I think we could come to some arrangement like that, and then we can check the account, what is supposed to be paid by the American Government and what is supposed to be paid by the Chinese Government, because some of the expenses are paid by the Chinese

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Government, not all by the American Government.

And in your military expenses--it will cost us four hundred million dollars a month to feed your Army. That is entirely paid by us; we haven't charged you anything for it. That amount will have to be settled. So today I say, well, I will give you sixty and you want a hundred. What is the happy medium? If we can reach a happy medium then we will have that understanding of accounts of what is to be paid by the Chinese Government and what is to be paid by the American Government, and how much.

MR. WHITE: You are a very good attorney, a very good arguer.

DR. KUNG: No, I am afraid to face your Treasury people. You are really hard business politicians and diplomats.

MR. WHITE: We think you are pretty tough and you present your country's case very ably.

DR. KUNG: You know, I am very easy.

MR. WHITE: You do very well.

DR. KUNG: I am especially easy with the Secretary of the Treasury. You can ask Mr. Morgenthau.

MR. SOONG: For the amounts we spend, accounts are not kept by the Treasury, but a lot of accounts are kept by the Army. In the preliminary stage when we talked about it, nothing had been said about it. And the Minister of Finance of our country and the Treasury are working to a conclusion. Suddenly they see where their accounts are not correct. Well, I think we have to allow something in such a large amount of money, and in these various items, these differences in account will appear from time to time as we examine the figures. They are bound to. But we certainly do not expect that the amount will come to so much.

I don't think that Doctor Kung can stay forever in this country, but he has a lot of duties to perform, and it is no secret with us that he is going back to the hospital.

MR. WHITE: Possibly before you give any answer, Mr. Secretary, we should have a few more hours to go over the

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Army's report. They say they are sending it over. You might want to look it over.

H.M.JR: You say Doctor Kung is going to the hospital for a month?

DR. KUNG: My Government is calling me back. The Doctor told me to go to the hospital. I reported to my Government. I don't know what my Government will say, whether I should take the time to go to the hospital or not.

H.M.JR: If he is going to the hospital for a month--

MR. SOONG: He has spent his month already.

H.M.JR: There is a hard-hearted man, he won't give you a month to go to the hospital.

MR. SOONG: He has spent it already.

MR. WHITE: You mean, you don't think he needs the operation?

MR. SOONG: Not that, but he has over-stayed his vacation already.

DR. KUNG: Vacation!

MR. SOONG: Excuse me, sir.

H.M.JR: I will put it the other way: After this very hard time Doctor Kung has had, I think he should go to a good American hospital and have his operation. It will be a good investment for the Chinese Government. After seven years of all he has done for the Chinese Government he is entitled to go to a hospital for a month.

DR. KUNG: I was sick when they started this war.

H.M.JR: You ought to go to the hospital and have your operation. It will be a good investment for the Chinese Government. After all, seven long years!

DR. CHI: I think Doctor Kung will be able to have real peace of mind in the hospital if we settle this today.

MR. WHITE: Will the Minister have his answer before he goes to the hospital?

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H.M.JR: As far as I am concerned, he will

DR. KUNG: This is really a question of rate. If you have that standard, then--

H.M.JR: Let me ask you a question because this thing can either be settled very quickly or may have to go on for a longer time. You were talking here a little while ago about a rate of 60, while the underlying intimation of the rate we are talking about was one hundred. Then you said maybe we could get together. Were you implying that we should split the difference?

DR. KUNG: All right, Mr. Secretary, as you say, I am for cooperation during the war, but you must remember this is a common war; you want to uphold China's hand to fight the Japanese. If our line is snapped, then you will realize what that means, not only to China, but to the common effort to the future peace and winning the war. I am perfectly willing to have you say anything you care to say. I will try my best to prevent my Government from accepting anything which is unreasonable.

H.M.JR: And that is what figure, the difference between sixty and a hundred? Eighty?

DR. KUNG: All right.

H.M.JR: I haven't said all right.

MR. WHITE: You are talking, Mr. Secretary, about the rate before June.

H.M.JR: I was trying to find out what the Minister had in mind when he said that we may be able to get together. I just wondered if he meant what I thought he meant.

MR. WHITE: Well, all the discussion has been about up to June 30, because the situation has changed.

DR. KUNG: But you must remember, now, Doctor White, that some of this money was spent long before January.

H.M.JR: You mean this period covers up to the end of June.

MR. WHITE: Up to the end of June.

H.M.JR: That is right. Doctor Kung, will you excuse us for a couple of minutes, and we will go into Mrs. Klots' room?

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DR. KUNG: All right.

(The Secretary and Treasury group return to the Secretary's office.)

H.M.JR: Doctor Kung, we are going to try this afternoon or tomorrow to get the Army to be more specific. I will press them for an answer in order not to hold you up.

I feel we have made real progress this morning and I would like you to go away feeling we have made progress.

DR. KUNG: Thank you, Mr. Secretary.

H.M.JR: I will not hold you up one minute longer than is necessary.

DR. KUNG: Well, I am giving away something which we have held over for the last ten months; and after all, when I see you, I could get weak. I don't know how I am going to face my Government. They may put me in jail for what I have promised.

H.M.JR: Well, I know your reputation back there. They will take what you recommend. They always have.

MR. GRI: I know the history of these negotiations. I know Doctor Kung had great difficulty in convincing the Government to agree that he would make an offer of sixty. The Government offered thirty.

H.M.JR: Dr. Kung has the advantage of not only being a Finance Minister, but also holding other top official posts.

DR. KUNG: You must remember that while I am the Deputy Premier, the Premier is the Generalissimo. Then he has an executive committee, or Kuomintang, and then he has the Supreme Defense Council. The people's political council wanted to examine everything concerning the budget. They think we are spending too much money, and we are giving away too much money.

H.M.JR: Well, I am going to put the Army under great pressure, but, having gotten this thing this morning, I can't make a settlement, such as I would like to.

MR. GRI: The only thing, Mr. Secretary, is that even if you get the concrete figures from the Army, unless they

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can be prepared this afternoon, you won't be able to settle it anyway, because it would take a long time to check their accounts on both sides, so the best thing is to settle the rate now.

MR. WHITE: Mr. Chi, we are not talking about two hundred million, but whether there are a few big items.

H.W.JR: I have been talking dollars right straight along, and I am going to continue to talk dollars. I will also try to get the Army to give me firm figures up to June 30.

DR. HUNG: That computation will simplify your work.

H.W.JR: Doctor Hung, I still haven't changed. I am still going to talk a fixed sum in U. S. dollars, but I have the rate in mind just as you have. I still have to pay you in U. S. dollars. I am not going to pay you in yuan. I take it you want U. S. dollars.

DR. HUNG: All right, anything you say, Mr. Secretary, I am willing to comply with. And I appreciate your effort, and that of the gentlemen with you. It is unfortunate that there is a misunderstanding, and it is unfortunate about the accounts.

H.W.JR: Well, there are two things I always think you could get along without, one is lawyers, and the other is accountants. If you just leave it to farmers and bankers!

DR. HUNG: I think we all had better go back to farming.

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November 25, 1944
11:15 a.m.

CONFERENCE WITH DOCTOR HUNG

Present: Secretary Berentzen
Mr. White
Mr. Ailer
Mrs. Kiots

Doctor Hung
Dr. Chi
Dr. Fei

H.W.JR: Doctor Hung, I sincerely hope that we can get together on this last transaction that you and I do as Finance Ministers, although, of course, not the last that we do together for China.

As you know, I am simply acting as the agent for the U. S. Army. I have no original figures of my own. I simply have a letter from Mr. Stimson asking me to conduct these negotiations.

I am more or less bound by what General Scurvull and General Clay tell me. It comes out of their appropriations, not out of any other. And they, in turn, have to explain it to Congress; I don't.

The last word that I have had from General Scurvull and General Clay is that from the first of March to the first of October they have authorized me to pay the Chinese Government one hundred and eighty-five million dollars for all of the expenditures incurred by our Army during that period.

The Army feels that it will take some time before their auditors and the Chinese auditors can get together. If the Army auditors and your auditors subsequently should find any discrepancies it would be perfectly proper for you to put in a claim as General Clay pointed out.

DOCTOR HUNG: That could be adjusted on both sides.

H.W.JR: But as of today, the 25th, I have nothing to offer other than this offer, which I made before. That is all the Army has authorized me to do.

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DOCTOR KURO: Certainly General Clay cannot go over the authority of the President, who is your Commander in Chief. From what the President wired officially to my Government--he said from March on the American Government would undertake to pay everything, send it for the American account for the American troops.

Then further he said for the next few months the Army requirement probably would be about twenty-five million dollars. And that was the figure which General Clay offered at Bretton Woods. And I accepted the figure from March to July because that was the wish of the President, and why that was brought about--we knew for a fact that the Army was spending something near that amount up to that time. In fact, the February expenditure was much more than that, because in February your Army had sold nearly ten million dollars to the Central Bank at the official rate.

And then later you wanted more money, owing to the increased expenditures, the rising price, and so forth. You negotiated through your Army's representative, Acheson, and your Ambassador, Mr. Gurnea. I think at the conference Mr. Adler also was present, and you told your case. After I consulted with the Generalissimo and with my colleagues, we made a counter proposition. That was, for many, many reasons we cannot alter the rate of our exchange. You say twenty to one to your dollars, but in relation to our foreign money, including British pounds--no other countries have raised any objection. Well, of course, they have in the Army there. But our own people, including the Chinese laborers who have to maintain their families in China, for instance--many Chinese work in this country and earn a little money, and each month they have remitted to China through the Bank of China to support their father, mother, wife or children. The Government gives them the same rate. Furthermore, your merchant--take your moving picture industry--after they have that picture, they get so much money, and they want to bring that back to this country. We sold foreign exchange, American dollars, to them. And the American prisoners, some missionaries, sold out their things, for instance, a typewriter--say they paid a hundred dollars for it before; now they settle for probably forty thousand dollars in China, and that means two thousand dollars of American money. They all exchange for the money they take out of China. Well, we know all of this. Why don't we change the rate? We have inflation, inflation caused by high prices. And the Chinese currency was based on American currency. We have it stabilized. Before the war it was thirty American dollars to a hundred dollars.

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Then because we tried to maintain the free market in Hong Kong, it gradually depreciated until this stabilization board was established, and your own representative, Mr. Fox, had a great deal to do with it; a rate was fixed at five cents to a Chinese dollar. Since then we have completed it, and we have, owing to your kindness in granting us a loan, we have some foreign exchange, and everybody knows that. The Government deemed it was unwise to change our rate, because the public would say there was no reason for you to do that. If you do that, you are going to just depreciate the money to nothing. That is why--that would encourage the people to hoard, lose confidence in the currency, or they will hold back, hoping to get a higher price. That would add to our difficulties. That was the reason we explained to your representative, saying we could not change the rate at the present time.

But the time may come when the Burma Road is open, or a seaport is open, and then we shall be able, I hope by that time, because some goods would be flowing into China which would combat the rising prices; so if we make a change of the rate it will not affect the finances of China enough to hurt it, the economical structure.

At that time there was really no black market, but when your Army came in some of them had sold and that created a black market. We could stop that, but at that time we didn't want to do it because probably a mother would send five dollars and a wife might send five dollars for them to buy something extra. If we force them to sell to the Central Bank at the official rate, do you see, they lose it.

Then there was a smuggling business between China and India--the Indian rupee lost value. They wanted to get hold of American dollars. Well, the supply from China goes to India--the Indians would buy it at a premium so the Chinese smugglers will get that and buy precious stones or cigarettes or drinks or perfume or gold. Here, again, because of this military transportation, planes, and we trust everybody--your Army didn't want us to have a customs officer investigate all that. So that was left as freight. Well, occasionally, of course, that created the market for the American dollars. At that time the black market was about seventy or eighty dollars while the official rate was twenty. But in order to help those people out, the Government decided finally to give dollars for dollars. That is, when an American dollar was sold to the bank, the Chinese Government created a fund--they would give an equal

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amount to what they sold to the bank. Later that was applied to the Chinese who supported facilities.

But your military expenditure is between Government and Government. The American Government has been generous to help China. Therefore, we thought this was the way--and perhaps the American Government would be willing to do it. But since you said you are spending too much and you want to change the rate, we cannot change the rate, so we offered you a fifty percent subsidy. They thought that was too little, and they wouldn't accept that. If the Chinese Government then could do its way, we might offer a hundred percent; maybe they think it could be settled.

But because we know you are sympathetic--the President of the United States realized the common effort to win the war against Japan--the Chinese position must be strengthened. To strengthen the Chinese military position, you must hold the economic line. If the economic line is snapped, then everything will be gone. On the strength of the President's telegram which said he would pay for the Chengtu airfield and other expenses, and so forth, we advanced the money. The money advanced by the Central Bank of China is not from the Government Treasury. It so happened that I am the Governor General of the Central Bank. I can make loans and make advances. So I did that.

Now, of course, my Government says I haven't done the thing right and I made a mess of things, so they will dismiss me. And I am dismissed as the Minister of Finance now. So I must settle everything in the proper way; otherwise, they will put me in jail.

But you see, we are cooperating in a common effort to fight a common enemy. You have in the past granted us a loan. This is an account which has been advanced by the Chinese Government, by the Central Bank, and they believe this thing would be settled accordingly, because the President said he would pay for the Chengtu airfields from the Lend-Lease.

Now, if General Somervell or General Clay has some difficulty about their appropriations--well, the President from the very beginning said that could come out from the Lend-Lease fund. And I knew you had difficulties, because you didn't have all these negotiations, and you didn't know what happened. So the last time I had occasion to see the President, I just asked him what he meant by those telegrams.

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He said it was correct, but about that twenty-five thousand dollars--that was for the military expenses. I just told you, remember, later, one billion Chinese dollars. If that one billion Chinese dollars which you required must be bought with American dollars at the official rate, that would amount to fifty million dollars alone. So your February expenditure would not be twenty-five million U. S. dollars; it would be nearly sixty million dollars. That was too much. Therefore, the President--I suppose he was probably influenced--said, "Well, we will spend about that much." He said in his telegram, "For the next few months the American Army expenditure will be somewhere around twenty-five million dollars."

Well, now, if you say it is twenty-five million dollars, from March you pay nothing. Suppose you say from March on, March, April, May, June--four months--that is a hundred million dollars. Do you see? Now, if you go on like that to July, August, September, October--or where do you want to end it, the end of October or November?

MR. JIN: To the 1st of October.

MR. CHI: The end of September.

DOCTOR SUN: Well, then that is three months more, July, August, and September at the rate of twenty-five million? That would be seventy-five million. Seventy-five million and a hundred million--that would be one hundred and seventy-five million for your military expenditure. That is, of course, saying nothing about the maintenance of your Army and construction of barracks. The President promised that the American Government would pay for it, though you didn't know how much that would be.

Now, the Chengtu airfield is a separate account. That, the President already said he would pay for from the Lend-Lease fund. There is a telegram he sent, and I have sent that telegram--a copy of that for your reference.

That is the history of it. As I have said before, the only regret I have is that China, after fighting seven and a half years of war, is desperately in need. To begin with, China is a poor country. If China were like America or the United Kingdom, Mr. Secretary, I can assure you that as long I was Minister of Finance I would foot the whole bill. That is, I would fight for it with my Government to pay whatever the extra expenditure may be that is expended by the American Army in China, because it is a common war.

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If we can do it, well, why shouldn't we do it. Good will and future cooperation are very important. But it so happened that China is not situated in such a position. China has to time and again come to America asking for assistance. Before you entered the war you couldn't make us a loan, so we sold something--you paid us in advance--the tung oil loan. And you gave us five years to pay it back. We paid it in two and a half years. Before the war you had to store it, and your people advocated burning it, but you gave it to us, and we took it and paid for it; even today during the war we suspended other payments, but we are still meeting that every year with cash.

I need not tell you, Mr. Secretary, of our relations since I have become the Minister of Finance and you have become the Secretary of the Treasury; from the very beginning our relationships have been very pleasant and very happy, and I must say that we have the utmost confidence and faith in each other. I appreciate what you have done for China; and if there is something that I cannot do for the American Army, it is not because I don't have the desire, but it is because China is not in the position. We have every dollar we issue--that piece of paper money that is printed in this country, we have to pay cash for it later after the war, and that is payable on demand. What would your merchants say after the war when they sell goods to China and they get this paper money and they come to the Central Bank for exchange of American currency and we say to them, "Take this money to America and spend it. We loaned the money on your Army account. You never gave us money to redeem this." What could we say or do?

And I think, Mr. Secretary, you are justified, not based on what Clay said--Clay made a trip to China, stayed a few days--I think he really doesn't understand the situation himself--by the principle laid down by the President. And if he wired to the Generalissimo, the President of China, that between the head of one State and the head of another friendly power, who are cooperating--fighting against a common enemy--that is something, after all--

H.M.J.H: May I just say this: We have never questioned the President's telegram. As a matter of fact, the telegram that the President sent was written in my own office, so I am thoroughly familiar with it.

DOCTOR KING: You mean about the Chengtu airport?

H.M.J.H: The one the President signed.

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H.M.J.H: The one transmitted to the Generalissimo on January 28.

H.M.J.H: The January 28 --

DOCTOR KING: But there is another one.

H.M.J.H: From the President?

H.M.J.H: On the 12th. That was quoted in the letter.

H.M.J.H: There were two telegrams with regard to the Chengtu airfield, one by Marshall, and the other by the President.

H.M.J.H: This is the one, I imagine, he refers to, but there is nothing inconsistent with that, Mr. Secretary.

H.M.J.H: On the 12th General Stilwell transmitted to the Generalissimo Chiang a telegraphic message from President Roosevelt with reference to the Chengtu airfields, part of which reads: "We can supply the technical engineering supervision but rely upon you to provide the necessary labor and material so as not to draw on the air supply line. Stop. I'll undertake to make available the necessary fund through Lend-Lease appropriation if that will hasten the completion of the work on the desired schedule."

I am acting as the agent for Dr. Stinson. Moreover, I feel that as far as the President is concerned, we are doing what he wanted done, namely, paying for the Chengtu fields. We are paying for it when we offer you one hundred and eighty-five dollars.

Now, that has been our position right along.

H.M.J.H: That makes the Chengtu airfield only ten million, because here twenty-five million dollars a month --

H.M.J.H: Excuse me, it was only twenty-five million dollars a month up to June 30.

H.M.J.H: After that we suggested twenty a month.

H.M.J.H: That very question, Mr. Secretary, was raised in almost precisely the same form, and General Clay's answer to that, not once, but several times in the same conference, was that the cost of the Chengtu airfield was included in the approximately thirteen billion yuan.

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Doctor Kung questioned that. He said he thought it didn't.

General Clay said that our figures show it is. So the question has progressed no further than it did at that time. That is, the Army claims that the figures include the cost of the Chengtu field, and Doctor Kung says they don't.

H.M.Jr: May I explain to you once more how we arrived at these figures in the offer we are making? For March, April, May, and June, four months, it is one hundred million dollars. Then we offered for July, August and September, twenty million a month.

DOCTOR KUNG: Mr. Secretary, how could we arrive at that? From March, April, May, and June, four months, gives you the figure which is no more than the figure in Chinese dollars expended for July, August, and September. And in some months you will spend more. How is that?

H.M.Jr: I can only repeat what the Army told me, that they felt that beginning with July our expenditures fell off.

MR. CHI: They actually didn't, Mr. Secretary.

MR. ADLER: The average for March, April, May, and June of our Army figures is approximately three point five billion yuan, and for July, August, and September, the average monthly figure is approximately two point eight billion. So there is a falling off.

DOCTOR KUNG: That is four months.

MR. ADLER: But I am taking the monthly average. The twenty-five million a month was offered for the first four months as the average, and the twenty million per month is offered for the next three months. There is one other point which the Army had in mind when they suggested the twenty million dollars, that prices were going up all the time, and therefore even if our expenditures did not fall, there would be a justification for a reduction from twenty-five to twenty million. Actually on the basis of the average monthly figures, there is a decline in expenditures, too, as well as an increase in prices.

MR. CHI: But in arriving at that average from March to June, you are including the expenditures of the Chengtu airfield. So the whole thing hinges on that.

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MR. ADLER: The next three months--

MR. CHI: If you included the six point three billion and arrive at the average, then you will find the expenditures per month in the three months from July to September a little higher.

MR. ADLER: Excuse me, the figures from July to September also include the Chengtu figures.

MR. WHITE: Since the expenditures on the Chengtu field declined very sharply, if he is consistent in his position that the earlier figures do not include the Chengtu field--the Army says it does--then he is right in saying that the expenditures in yuan were greater during July through September. But that still leaves the major issue--

DOCTOR KUNG: The Chengtu airfield was built--after the finishing of the construction--that was kept as a separate account. After that you have personnel and additions, and, therefore, you need a little more money. But that does not include the construction of the airfield.

H.M.Jr: Well, Doctor Kung, I am simply telling you what General Corwain, General Carter, and General Clay have told me. What we have offered you was a hundred million dollars for the four months from the 1st of March to the 1st of July, and twenty million a month for the three months from the 1st of July to the 1st of October, inclusive, or sixty, by which you arrive at one hundred and sixty. In addition, the Army authorized me to add twenty-five million dollars over the seven months period to settle the matter. Therefore, we added twenty-five million which brought it up to one hundred and eighty-five million.

I have done all I can do, Doctor Kung. I can only do what I am authorized to do.

DOCTOR KUNG: Is that your authorization by the President or by General Clay? We are dealing with the Government.

MR. WHITE: It is on the basis of figures which the Army has supplied.

H.M.Jr: I think I have demonstrated over a seven-year period that I am a friend of China's, but I am a public servant, and I can only do so much.

DOCTOR KUNG: The only thing at Bretton Woods is, the issue was confused because General Clay seemed to think the twenty-five million included everything.

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MR. WHITE: He said so several times. It is a specific and direct question which arose then and since. You questioned him, and he said that, "Our figures which we have submitted to the Treasury upon which this arrangement was based of the hundred million includes the cost of the Chengtu airfields."

Doctor King said that according to his information they did not. And General Clay said that according to his information they did.

DOCTOR KING: Well, the figure now proves it did not. And furthermore, I saw the President. The President said that would be paid. "In fact, we propose to pay that, not from the regular Army expenditure, but from Lend-Lease."

MR. WHITE: I don't know where that appears. I have no information on that score.

DOCTOR KING: You just read that.

MR. ADAMS: He said, "If it hastens--"

H.M.J.H: "Undertake through Lend-Lease--"

MR. CHASE: That did hasten--

MR. ADAMS: The commitment was made in the January 28 telegram, the specific commitment.

DOCTOR KING: When the January 28 telegram came, the Chengtu airport was an object which was settled before January 28.

H.M.J.H: But if you are going to bring Lend-Lease into this matter, as far as I know, there is nothing in the record of any contract between Lend-Lease and the Chinese Government for the Chengtu airfields.

MR. WHITE: All the President meant was, if the funds weren't available he would get funds from Lend-Lease. But the Army said they made the funds available, and it gets down to whether our figures include the cost of the Chengtu airfields as the Army claims or whether they don't as Doctor King says.

H.M.J.H: I am not questioning Doctor King any more than I am questioning the Army. But the Army takes one position, and Doctor King takes another. Now, the Army says you can

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pay one hundred and eighty-five million dollars "or seven months for everything. That is all I can do.

H.M.J.H: I feel that we have done everything within the spirit of the message from the President when we consider the fact that the Army consistently says that they are paying for these fields. As I say, I am the agent or the attorney - whatever you call it.

Now, I can't say to General Marshall or Mr. Stinson, or to some other general who is in China, "You don't know what you are talking about," because I have nothing to base it on. I have got to take what they say.

MR. WHITE: We have asked them to check up again. They say that their figures include the Chengtu airfield.

DOCTOR KING: What is their total figure?

MR. ADAMS: Thirteen point nine, plus.

DOCTOR KING: For the Chengtu airport?

MR. ADAMS: Four billion, four hundred and sixty-four million.

DOCTOR KING: Four billion - our figure is six, three. Suppose there is a difference; we can leave that for further considerations. You can settle it either way if there is a discrepancy. But that four billion, six hundred million, you see--

MR. ADAMS: That is included in the Army's figure of thirteen point nine billion. It is not separate. It is included in that figure.

MR. WHITE: The thirteen point nine billion includes the Chengtu airfields which they list as four billion plus.

DOCTOR KING: Well, we have given the detailed figure to you, and that figure was checked by your Army man. You have an Army man there. They must O.K. it.

MR. WHITE: That is what the Army says.

DOCTOR KING: Well, we can take that - suppose we take that thirteen billion--

MR. WHITE: From which the Army would like to deduct some taxes.

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DOCTOR HUGH: No taxes. If there were taxes, all right, you can deduct that, too.

Chi, you have the figures. What are the figures?

MR. WHEAT: Thirteen point, what?

MR. ALLEN: According to our Army figures, thirteen point nine billion, gross. That is up to June 30; and from June 30 to September 30, their figures are eight point five.

MR. WHEAT: There is no difference between the figures. Your figures and the Army figures are approximately the same.

MR. WHEAT: For the next three months, yes.

DOCTOR HUGH: That figure of thirteen, nine is inclusive of the four billion, four.

MR. ALLEN: Four, six, four. Yes.

DOCTOR HUGH: And then the Army offers to settle for one hundred and eighty-five million?

MR. ALLEN: Up to September 30.

MR. WHEAT: So you will have to add to that.

DOCTOR HUGH: Well, originally the settlement was from March to June, and then from June, and I account. Well, now, from March to June we settled that; that is the four months according to what the President said, twenty-five each - that would be a hundred million. Then how much--

MR. WHEAT: The one hundred and twenty-five million is supposed to cover the thirteen point nine, gross; twenty-five you get, and a hundred million more you were going to get. It is one hundred and twenty-five million for the thirteen point nine, gross.

MR. WHEAT: That makes the total two hundred and ten; if we include that twenty-five million the total will be two hundred and ten.

MR. ALLEN: Twenty-five million already paid.

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DOCTOR HUGH: No, that is finished.

MR. WHEAT: The thirteen point nine figure includes the one billion.

MR. WHEAT: The point is this, as I understand it; the thirteen point nine includes February, and therefore if you include February you have to include the twenty-five million we have already paid you.

DOCTOR HUGH: You can exclude that.

MR. WHEAT: In other words, we are offered one hundred and twenty-five million to settle the thirteen point nine.

MR. WHEAT: That is right, or two ten to settle the whole thing up to October 1st.

DOCTOR HUGH: Well, what does that represent for the payment of the airfield?

MR. WHEAT: What is the point, Dr. Hugh?

DOCTOR HUGH: Well, Mr. Secretary, I think if we are going to check the account it will take a long time. I think the best thing would be, based on the conversations we had in Bretton Woods, and Clay then offered through you a certain amount, and he was willing to let the Chungtu airfield be credited to Lend-Lease - then you say now that February has been paid, deduct that, you are offering one hundred and eighty-five million.

MR. WHEAT: I am not quite clear, are you?

MR. WHEAT: Yes, he is saying you offered one hundred and eighty-five up to October 1st, and General Clay said that they could put the Chungtu airfields under reciprocal aid.

MR. WHEAT: The point that was made was this, that the Army kept saying that the offer that we were making you at Bretton Woods included the Chungtu airfields.

DOCTOR HUGH: You have a record of what Clay said.

MR. WHEAT: Yes, we looked at it before you came in - and you gentlemen said it didn't. Then we said if you wanted to you would have the privilege of putting in a claim for the cost of the Chungtu airfield under reciprocal aid. Is that correct?

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MR. WHEAT: They could put in a claim.

H.M.J.: But we were maintaining that when we paid you the hundred and twenty-five million dollars for the five months, that that paid for everything. That has been the Army's position right along.

MR. WHEAT: That is, the claim, presumably, would be one based on re-examination of the figures. If the Army was wrong your claim might have some validity. If they were wrong, you could put in a claim under reciprocal aid for the Chengtu airfields.

DOCTOR WHEAT: Will you please get that record and read what Clay said?

H.M.J.: Yes.

MR. WHEAT: May I read it, Mr. Secretary? (Hands record to Mr. Miller)

MR. WHEAT: (Reading from Bretton Woods Conference of July 16)

"General Clay: Well, Doctor, going back to what we have been discussing, and this view which you have just stated, if we paid you a gross of one hundred and twenty-five million now - a lump sum of a hundred million with twenty-five million having been paid - that would leave remaining the food and lodging and the four billion dollars would be presented by you as a claim under Reverse Lend-Lease. It would have no effect on the twenty million dollars for the next three months, which would be paid in cash, and for which you would provide us with the year that we need and would not prejudice that arrangement in any way; that we would pay you the lump sum of a hundred million dollars immediately, and in any Reverse Lend-Lease agreement to be affected, you could, in addition to the food and lodging which you would get forward as a claim, include also this four billion dollars.

"Dr. Sung: I wish I could do it, you know.

"H.M.J.: Excuse me. May I add one thing that we talked about, that in admitting this Chengtu four billion dollars, the claim, we in no way prejudice or go back on the cable of the President, which we interpret was all inclusive. I would like to make that clear.

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"I mean, we claim that this telegram of the President's meant twenty-five million a month, and included the construction of everything.

"Now, what we are saying in view of what you have said - but not in any way going back on that - we still hold to this cable. But if you wish to put that claim under Reverse Lend-Lease for four billion dollars, we would raise no objection. Do you mind my making that suggestion?

"General Clay: That is right, sir. And we would do it in the interest of harmonious relations and appreciation of the cooperation which you have given to us."

DOCTOR WHEAT: Well, all right. As far as you are concerned, you have paid this, but the four billion dollars includes food, lodging, everything; if I want to claim that in Reverse Lend-Lease, you have no objection.

H.M.J.: That is right.

MR. WHEAT: The food and maintenance was a separate item which we were ready to pay at any time. But you indicated - your Government indicated - that they preferred to have that given to us as reciprocal aid. That is a separate item.

With regard to the Chengtu airfields, what the Secretary says is that you can put in a claim. Such a claim would mean that according to your figures the Chengtu airfields were not included in the Army figures, whereas the Army claims that the Chengtu airfields are included in their figures and that the one hundred and eighty-five is in complete payment of all expenditures including the Chengtu airfields.

H.M.J.: May I just say this, I stand on what General Clay said, and what I said at Bretton Woods, which we have just read and of which you have a copy.

DOCTOR WHEAT: Well, we can leave that as a claim.

H.M.J.: I don't want to change a word. I gave you that; I said that. We stand on that position. We don't retract or withdraw from that position. That is perfectly clear.

DOCTOR WHEAT: Well, Mr. Secretary, if that is the position, and we will just go back to the original Bretton

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Woods position, we will settle this and according to what you said and I said, leave that as a claim, and the Chinese Government will pay that by itself as a Lend-Lease, according to what was said.

All right, today, in order to facilitate the thing, we leave that as a claim.

H.M.Jr: Now, let me see if I understand it correctly. If I understand what you are saying correctly, you accept what I said, and what General Day said at Weston Woods which we have just read and of which you have a copy. I reaffirm that position now, and I take it that you are accepting that position as it was stated.

DOCTOR KUNG: Yes.

H.M.Jr: Now let me see if I understand it correctly. You will accept how many U. S. dollars for how many months in payment, so we get that okay?

DOCTOR KUNG: To the end of September, October 1st, one hundred and eighty-five million.

H.M.Jr: That you will take one hundred and eighty-five million dollars until October 1st. And that is in full payment with the understanding with respect to the claim. Is that right?

DOCTOR KUNG: Yes.

MR. CHI: In addition to that, the claim for the Chengtu airfields can be put in.

MR. WHITE: I want to make certain, Mr. Secretary, that you and Dr. Kung are in agreement. I presume that you are both using the word claim in the sense which we use it in the United States, namely, that the Chinese Government should advance the cost of the Chengtu airfields as a claim in mutual aid on the basis that such cost had not been included in the figures submitted to us by the Army. Whether that claim will be recognized or not is a matter to be determined by subsequent examination of the facts. In other words, the word "claim" does not mean a charge but rather the right to claim that a charge should be made for credit for reciprocal aid.

H.M.Jr: To go a step further so that there can be no misunderstanding - when we pay over this \$185 million we

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will state that that is in full payment for all obligations incurred by the United States Army from the first of March to the first of October.

MR. FBI: I beg your pardon, Mr. Secretary - with the understanding that the Chinese Government will put in a claim.

H.M.Jr: May put in a claim . . . That if subsequently additional information comes to light, furnished either by our Army or by the Chinese Government, the Chinese Government may submit a claim as reciprocal aid.

MR. WHITE: It would perhaps be better to add the twenty-five and have the final figure include February expenditures.

H.M.Jr: Yes. What we are really talking about is the 1st of February to the 1st of October, inclusive, for which I said we owed the Chinese Government two hundred and ten million dollars, of which we have paid twenty-five, which brings it to one hundred and eighty-five.

Is that right?

MR. CHI: Yes.

MR. FBI: That is right.

H.M.Jr: Now, we have been over this so often.

MR. CHI: That is right.

H.M.Jr: Now, be completely sure. I will say it once more. From the 1st of February to the 1st of October, inclusive - that is eight months - we claim we owe you two hundred and ten million dollars. We have advanced you twenty-five.

MR. CHI: Yes. Beg your pardon, Mr. Secretary. May I make a suggestion? In view of the fact that His Excellency will have to go to the hospital soon, and after that if there is any misunderstanding, would it be better for us to put something in writing right here?

H.M.Jr: I think we can phrase the thing. I will try to have the check drawn today, if possible. Now, I think the simplest way to do the thing would be to attach to

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this document that conversation of General Clay and myself at Bretton Woods; that will be attached to the document, and I will initial it.

DOCTOR KUNG: Yes, what Clay and you and I said.

MR. CHIL: Yes, the few paragraphs Mr. Adler just read.

H.S.JR: And I will say this is a true copy of the conversation and Dr. Kung can initial it and say it is a true copy.

MR. WIRTH: We can make certain that the document itself, the exchange of letters, contains precisely what you have agreed this morning.

H.S.JR: Can the Army crew that check today?

MR. WIRTH: We will find out. I don't know what their routine is.

DOCTOR KUNG: We want the money to be left here for future payment in American. That money won't leave America.

H.S.JR: Well, Dr. Kung, nothing makes me happier than that as your last official act here as Minister we should come to a successful agreement. I know that you will continue to play a very important part in the life and reconstruction of China, and I hope that when you do that there will be some little way that I can be of help to you.

DOCTOR KUNG: Thank you. You may be sure I will cooperate with you whether I am Minister of Finance or not.

H.S.JR: Well, I am sure you will play a much more important role.

DOCTOR KUNG: Well, I have to get rid of the ailment I have. When I go under the doctor's knife two or three times I don't know what may happen.

H.S.JR: You will come out a stronger man, with a new life.

DOCTOR KUNG: Thank you.

H.S.JR: And as I say, I hope in the future that I can in some little way be helpful to you personally, or to your government.

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DOCTOR KUNG: Thank you. You have been, and I appreciate that.

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January 26, 1945
5:05 p.m.

NEGOTIATIONS WITH CHINA

Present: Secretary Morgenthau
Mr. White
Mr. Friedman
Mrs. Klots

Mr. Hsing
Mr. Chi

H.M.JR: I am sorry, Doctor Hsing, that I am late.

MR. HUNG: I want to especially thank you for the trip you made down to see me.

H.M.JR: That was all right.

MR. HUNG: And I am coming here to thank you first for that.

H.M.JR: How did you get along on a vegetable diet?

MR. HUNG: All right.

H.M.JR: Mrs. Morgenthau said she wanted to send you up some food, but I said I didn't think we would compete with Mrs. Hsing.

MR. HUNG: The Doctor says I weigh too much.

H.M.JR: You lost ten pounds?

MR. HUNG: I lost half a pound. He wanted me to lose ten pounds.

H.M.JR: I imagine your family sent you good food.

MR. HUNG: They gave us chicken soup.

H.M.JR: The war is going much better, isn't it?

MR. HUNG: Yes. Isn't that good?

H.M.JR: Wonderful! Well, we have from the 1st of February to the 1st of October back of us, haven't we?

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MR. HUNG: Yes.

H.M.JR: All we have to worry about is October, November, and December. Is that right?

MR. HUNG: Yes. I am not worried.

H.M.JR: Have you spent all of that one hundred and fifty million dollars and four cents?

MR. HUNG: No, we deposited it. When the war is over, I hope I won't have to worry, myself, but my Government will.

H.M.JR: You have this road open now.

MR. HUNG: Yes.

H.M.JR: That ought to help, oughtn't it?

MR. HUNG: Yes.

H.M.JR: How many tons can go over that?

MR. HUNG: That depends on how many trucks you put on. The more trucks they put on--

H.M.JR: Five thousand tons a month?

MR. HUNG: More than that.

H.M.JR: More than that?

MR. HUNG: Yes.

H.M.JR: Ten thousand?

MR. HUNG: Maybe thirty thousand! You see, the smallest truck would take two tons. With a big truck you can take four tons, and then if you have, say, fifteen thousand cars, they would be able to make two trips during the month.

MR. WHITE: During the best period of the other road, I think you got thirteen thousand tons a month.

MR. MORGENTHAU: They do have the advantage now of having a pipeline being built by the American Army for its military operations, so they will be able to transport petroleum by pipeline.

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MR. KUNG: Originally they had to carry that gasoline by trucks. Now they have to pipe it.

H.M.JR: That will help.

MR. KUNG: The pipes reach--

H.M.JR: The fact that it is known the road is open-- has that had any effect on prices?

MR. KUNG: Yes.

H.M.JR: Staff will come out of hoarding?

MR. KUNG: Yes, stock will come out of hoarding, because as soon as you know the goods can be moved in, then the merchant would know--they think the price would drop--and they take that and dispose of their goods first. Then outside goods come in gradually, and you have more supply. Naturally the price will go down.

H.M.JR: Your friend E. P. Chen was in here for about five minutes.

MR. KUNG: Was he? He came to see me.

H.M.JR: He was here about five minutes.

MR. KUNG: He is coming back again.

H.M.JR: He said he was coming back. He looks very well.

MR. KUNG: Yes, he is only one year younger than myself. He looks very well.

H.M.JR: Just a couple of young fellows?

MR. KUNG: We are not old yet.

H.M.JR: No. Well, sir?

MR. KUNG: Well, sir.

H.M.JR: What is the business for today?

MR. KUNG: You know what the business is for today. Or are you just saying that?

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H.M.JR: I am not sure that I do. Do you know, Harry?

MR. WHITE: I thought that Doctor Kung was coming here to give us some data which would constitute the basis of consideration of what adjustment would be made for the last three months of last year.

H.M.JR: Is that it?

MR. KUNG: Yes, that is the question. According to the agreement that's reached for those three months, another settlement should be made.

MR. WHITE: Have you got some data as to the expenditures, because we haven't received any?

MR. KUNG: I tell you, the loans to your Army for October, November, December, and January are for each month two billion dollars.

MR. WHITE: Two billion dollars each month, or a total of eight billion dollars.

H.M.JR: Including January.

MR. WHITE: For the four months.

MR. KUNG: If they leave January out, they owe six billion dollars advanced to the U. S. Army, and then there is another account, the request of the Army advance that was made to the National Engineering Commission. That is a commission set up to build or to repair any airfield or buildings and roads--anything you want. That is, up to the end of the year, two billion, eight hundred million.

MR. WHITE: For those three months?

MR. KUNG: Yes.

MR. CHU: Your excellency, for January the direct advance is three billion.

MR. KUNG: For January three billion?

MR. CHU: Yes.

MR. WHITE: Do you have all of that down in a memo?

MR. CHU: No, we didn't write it.

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MR. KENN: I asked for the figure they wanted from the Minister of Finance from the Central Bank. Most of the money is, of course, advanced by the Central Bank, and as to how much is advanced by the Minister of Finance, I don't think it is very much; I don't have that, but I wired for it.

MR. WHITE: Wouldn't the next step be to submit a memo with the data? We could then check the data with the Army. Other than that, we couldn't begin the discussions.

MR. KENN: I think your Army knows that.

MR. FRIEDMAN: The Army actually has not received as yet from Chungking the figures for December. They know the figures for October and November and those figures more or less jibe with the ones that Doctor Kung has given for these months, but they don't have them for the third month, or the last month of the year.

MR. KENN: For the last three months there has been each month a request for two billion dollars in Chinese currency. That is for the Army's use, besides some advance that was made to the Engineers Commission at the request of the Army at our request, and for January, as he just said, it is three billion.

MR. WHITE: Did you get an indication as to how soon the Army would be able to supply figures for the third period?

MR. FRIEDMAN: The Army said that they felt they ought to give headquarters at least until the 31st.

MR. WHITE: Until the 31st of this month?

MR. FRIEDMAN: That would give them a whole month to get the necessary data to wind up the previous month.

MR. WHITE: They are a month behind.

MR. FRIEDMAN: They are reluctant, of course, to go back to General Wedemeyer. They have, however, agreed to go back to them at the beginning of next week for the figures, if necessary.

MR. WHITE: Isn't the thing to do, Mr. Secretary, to wait until the Army supplies us with the data? They can't get the end of December figures until at least the

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end of January. We've got the October, November, figures, and since you want to make an adjustment for the three months, we can wait another week or two and the information will probably be here.

MR. JEN: As I say, I wasn't fully prepared for this meeting when you suggested that you come down. I looked forward to seeing you.

MR. KENN: That is very kind of you.

MR. JEN: Of which month are we still shy?

MR. WHITE: December.

MR. JEN: December. I see.

MR. WHITE: There is also a month's lag.

MR. KENN: We can wait until the December figures come in.

MR. JEN: When will they be in?

MR. WHITE: The Army said they expect them by the end of the month, but they don't like to go back to Wedemeyer and ask him until they've given him that month.

MR. JEN: All right.

MR. KENN: That's all right.

MR. WHITE: The Chinese can supply us with data on a memo and you can consider that. If the figures are delayed, we can go on the basis of their data. The first two months are apparently the same.

MR. JEN: I think it is desirable to do it on the three-month basis, don't you?

MR. KENN: Yes, it is all right, but I can tell you that the third month of December is the same as October and November, two billion.

MR. JEN: Which General is handling this?

MR. WHITE: I suppose it is General Richards who is giving us the data, isn't it?

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MR. FRIEDMAN: That's right.

MR. WHITE: General Richards is getting it from General Wedemeyer.

MR. CH: The data for these three months is much simpler than before.

MR. WHITE: Doctor Kung, either you give us a memo which we could revise later in the light of the Army figures and we begin without delay to operate on that basis, or we can wait for the Army. As it is, we have nothing either from you or from the Army.

MR. KUNG: It is only a few days. I think by the end of this month the Army ought to be able to give you figures for December.

MR. WHITE: Couldn't you in the meantime send us a memorandum with your figures?

MR. KUNG: I will do that.

H.W.JR: I think if we could have a memorandum from you, it would help.

MR. KUNG: I will do that. How about shipping gold?

H.W.JR: Harry, you are an expert on gold.

MR. WHITE: When did the last shipment go?

MR. FRIEDMAN: I don't know exactly.

MR. WHITE: Well, as soon as another shipment is possible we will make it, but the proposal to ship it through commercial channels is one that we don't think is a very wise one.

MR. KUNG: We prefer if you can, you can ship it, but the Army is so much better, but the only thing is that you say my government hasn't reversed their policy, and it was reported today that the government now is trying to abolish some taxes.

MR. WHITE: Abolish taxes.

MR. KUNG: Yes.

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H.W.JR: Where is this going to be? In China?

MR. KUNG: In China. Formerly my policy was to get them as much as possible from the taxes, and that was in order to help the inflation.

MR. WHITE: Are they really going to reduce taxes?

MR. KUNG: Yes.

MR. WHITE: That sounds very strange. You seem to be going on a policy of inflation. It is going to dissipate gold even more.

Are you sure of that, Doctor?

MR. KUNG: Yes.

MR. FRIEDMAN: We had heard they were going to abolish consumption taxes for one thing.

MR. KUNG: Several taxes have been abolished. Of course, that means the government will lose more revenue as the expenditures grow. Therefore, we have to issue more notes, and in order to try to keep down the inflation, the best thing is just to have the gold to gather money back from the market. Otherwise, you have too much surplus of money and the commodity prices will go up.

MR. WHITE: Well, I think, Dr. Kung, that continuing to ship gold the way we have, which seems to us at the moment to be in line with what you want, would be satisfactory.

Yes, raising the question of shipping gold by more rapid means, we will have to take that up with the Army. Maybe with the new road that has been opened up they can send a little more that way, but we feel that sending it on commercial vessels is a most unwise policy.

MR. KUNG: You see, this thing was when Madame Chiang was here and she spoke to the President about this two hundred million dollars of gold, and also the President agreed to it, or almost agreed to ship it, in order to sell it, take advantage of the high prices of gold, to sell it on the market and get as much of this currency back in order to suppress inflation. Well, that has helped some, recently, because we are short of gold. Therefore, we instructed them to sell certificates, that is, sell paper, promise to

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pay three months afterwards, and the time has arrived. There was no gold to be delivered, and that created black markets, so we had to do something recently. You know that there has been an arrangement to buy some gold from the British government from India to ship into China, and then we pay the British.

MR. WHITE: So understand there are some charges in connection with that transfer.

MR. KUNG: Yes. Shipping and service charges.

H.R.JR: What is the price for an ounce of gold now?

MR. WHITE: In Shanghai?

MR. KUNG: In Shanghai we sold gold at, I think it was eighteen thousand five hundred dollars an ounce, but the shortage that kept up recently caused no gold to be delivered. Therefore, well, people are speculating. These people who had enough gold sell on the market and try to get more.

H.R.JR: We had a message that the Central Bank has been selling gold.

MR. KUNG: Yes. We have been selling gold.

H.R.JR: What is the highest price they got now?

MR. KUNG: Eighteen thousand five hundred. That is the official price, and that was the price of it at the time on the theory when there was no gold to be delivered. Therefore, until recently, a black market appeared, and when we got gold shipped by you the black market has dropped, but you don't have gold to meet the demand. That is so that we can not deliver. I am afraid another black market will appear.

H.R.JR: Well, we keep watching it all the time.

MR. WHITE: I think we ought to examine what the possibilities are with the new road opening up. That might provide additional facilities. That's the bottleneck.

MR. KUNG: You see, we suggest an increase in the demand both by the Chinese government to prepare and for the war against the Japanese, and also your army's demand. Your personnel is increasing in China all the time, and

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a year ago you only had ten thousand, but now you have nearly forty thousand.

MR. WHITE: Troops?

MR. KUNG: Yes--personnel--people connected with the work, too, of building air fields, and the ground forces, and so forth; and, of course, now including also the reason why Mr. Nelson and the WFB--

MR. WHITE: Is he spending some money there?

MR. KUNG: I had to advance ten billion dollars to him.

H.R.JR: To whom did you have to advance ten billion?

MR. KUNG: To the WFB.

H.R.JR: To Nelson?

MR. KUNG: Yes. Well, he said he was going to try to get all these factories to work. Then you have to give them money in order to get materials and so on, money to pay their laborers.

MR. WHITE: Was that a government advance, or did he get that from private banks?

MR. KUNG: From the Central Bank.

MR. WHITE: Could he have borrowed from private banks?

MR. KUNG: No.

H.R.JR: I understood from Nelson that he got the Generalissimo to order that the interest rates be reduced.

MR. WHITE: Yes.

MR. WHITE: Were they?

MR. KUNG: Oh, yes.

MR. WHITE: I thought that the new program which he initiated was going to be financed by borrowing from the banks.

MR. KUNG: From the Central Bank?

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MR. WHITE: From private banks.

MR. KUNG: From the four banks, the four government banks. Take the Bank of China--they made a loan, but if they need to, they are allowed to take their paper to discount with the Central Bank.

MR. WHITE: I see. Have the private banks undertaken any of the financing?

MR. KUNG: No.

H.M.JR: Well, sir, we shall meet again soon.

MR. KUNG: All right.

H.M.JR: At your pleasure. We will get some kind of memo from you. Mr. White will call up the Army and ask them to hurry up with the December figures.

MR. WHITE: And we will also explore the other possibility.

MR. KUNG: There is another thing, Mr. Secretary, I would like to request from your good office, and that is I would like to know, that is, my government would like to know what is the frozen fund, the Chinese--

MR. WHITE: The total?

MR. KUNG: Yes, and, of course, I know that total, and put on there frozen, the whole total including the government fund, bank fund, everything else included, but now I would like to know how much of that really belongs to the private Chinese.

MR. WHITE: How much is government and how much--

MR. KUNG: ...is private.

MR. WHITE: Don't you know the total?

MR. KUNG: I think I know the total.

MR. WHITE: If you know the total, just deduct the government, and the rest is, of course, private.

MR. CHI: We knew the total as of June, 1941, but not since then.

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H.M.JR: We will give it to you.

MR. WHITE: You would like the total government and total private at this time.

MR. KUNG: Yes, at this time.

H.M.JR: That is easy. Anything else?

MR. KUNG: Another thing I would like to speak to you about is you say when they should have savings certificates. The purpose of that was to help the Chinese industries to put their money into this instead of buying commodities, so as soon as the road opens, the war is over, they can use that for purchasing machinery, materials, from this country in order to bring to their industry and business and the bond--that over short term, and the buyer could either choose it for one year or two years or three years. The interest varies, and two years is a little more than one year, and three years a little more than two years, and the bond issued by the government is a little longer in term.

The money, of course, is already set aside for that, the demand, but along then we have figured out, as I think I told you, if we did this in gold as originally planned and drew them for ten years, the government will have to pay something, I think, like thirteen million dollars as interest. I think that China is in a difficult position, especially after this war, and at Bratton Woods, now, we wanted some currency, see, so my government is thinking of shortening that time.

MR. WHITE: Refinancing?

MR. KUNG: Leave the money here for nothing and then we have to pay into it all the time. I think if we can--in view of this road to be opened, the war may be shortened--we would like to have the people with their money to use it with the papers and it will help them and also reduce the government obligation.

MR. WHITE: If I understand correctly, the idea is to refinance some of these long term notes, and make them short term, because the dollars have to be kept here in any case. They have to keep dollars frozen as backing for the long term bonds and pay interest. They would rather release those dollars after the war is over, so

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they can be spent here and save the interest.

I think there is much in that. I think that if the money is going to be released that way, you might want to consider whether you can set up a mechanism that will give you sufficient assurance that the money will be spent for that purpose and not be spent for investments in American securities.

MR. KURO: That money will be. When they want that they will have to say what they want to buy in this country, see?

MR. WHITE: Are you asking the Secretary's advice on this?

MR. KURO: Yes.

H.M.JA: I would like to think it over a little.

MR. WHITE: We shall submit the proposal in a moment.

MR. KURO: Of course, the Chinese government originally-- the government could have made it five years or four years. I think that was probably overlooking on our part to make it a long instead of a short term, forgetting we had interest to pay, because we issued that one hundred million. Now that is--

MR. WHITE: Is that also in U. S. dollars?

MR. KURO: That is credit. The capital for the redemption of that bond is here, but when this goes on our government will have to pay three million dollars.

MR. WHITE: Haven't you the right within the bond contract to pay them off whenever you want to?

MR. KURO: Yes.

MR. WHITE: You have that, and you are questioning whether you should exercise it? The war isn't over yet. You can always make that decision.

MR. KURO: Yes.

MR. WHITE: We will submit a memo on it.

MR. KURO: The government has a right to shorten it,

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you see. I'm trying to save a little money.

H.M.JA: Good.

MR. KURO: For the future.

H.M.JA: We all try to do that.

MR. KURO: Well, all right.

H.M.JA: All right, sir, take care of yourself now. You know what I told you.

MR. KURO: Thank you.

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SPECIAL
TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 2, 1945

TO Mrs. Klotz
FROM Secretary Morgenthau

I tried to get Mr. Biffle at his home and found that he was on his way to the White House. I asked when he got there whether I could talk to him. I told him what I had told the President about Bretton Woods legislation. He said, "When did you speak to Barkley last?" I said, "I didn't, I got it indirectly through Acheson." He said, "Well the situation has changed a little bit now. They are proposing to start public hearings on the Charter on Monday, July 9, and will run for four or five days. During that time they won't have on anything else, and then when they go into the Executive Session, they will then introduce the bill on to the floor of the Senate." I sort of hesitated a little bit and he said, "Well, I will see if I can't get Senator Barkley to agree to let us introduce the bill on the floor on Monday, July 9th."

Please make a note, Mrs. Klotz, when I talk to the President that I want to bring it to his attention and see whether I can't get him to have the bill introduced on the 9th of July and not wait for the public discussion of the Charter. I don't see why we have to wait.

July 2, 1945

MEMORANDUM

Sunday, July 1, Joan and I went down to meet the President when he came in. We were the only people there to meet him other than the people who were there to meet other people who were with him.

At 2:45 I called up Usher Searles and said I would either like to talk to President Truman on the telephone or come down to see him. He said he would see the President at 3:00, that he was resting and would give him the message. At 3:45 the President got on the telephone and I told him what had happened on Bretton Woods. I told him that we hoped to get a vote this coming Monday or Tuesday to get it out of the Committee and that we were trying very hard for no amendments. He said, "That's right - no amendments." We will get on the floor on the 9th and we will have at least a week or more on the floor over the San Francisco legislation. I told him about my conversation with Murdock and what I had done in regard to free silver. He said, "I will back you up 100 percent on what you've done on Murdock." Then I told him that Ramspeck and Ratcliffe were giving us a little trouble, that Ramspeck wanted to put a rider on to the bill to either give or lend England three billion dollars. He said he was absolutely opposed to that. So he said, "Shall I send for Ramspeck or Ratcliffe?" I said, "No." "Well," he said, "Shall I do anything - I will do anything that you ask me. Just tell me what you want and I will do it in connection with the legislation." I said, "No." I told him I thought everything was all right but in case he was talking to anybody that he would back us up on no amendments to get the thing out as soon as possible. He said that he would do it.

The conversation was brief and to the point, very businesslike. I said, "Are you satisfied with what I have done?" He said, "Entirely satisfied."

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July 2, 1945

Mr. Gentle
Secretary Morgenthau

The man came Sunday and put the second machine in Mrs. Morgenthau's room and it is much more comfortable, and I want to thank you very much. Somebody must pay this man for the work that he does and whoever pays him, I would like a bill.

The two machines in my room which came down from New York - one of them is broken. I don't know who is attending to having that fixed but the sooner the better unless you want the boss to melt away. Thank you. *Feb*

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July 2, 1945

Dan Bell
Secretary Morgenthau

I think Friday a week ago Fred Vinson had lunch with me, and I gave him a memorandum prepared for me by Blough on that part of the message that had to do with taxes. Vinson promised to send me over a revised copy and as far as I know, I haven't received it. Did anybody else in the Treasury receive it? I wish you would look into this and speak to me about it today.

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July 2, 1945

Ed Fussell
Secretary Morgenthau

Would you get the interview of Mr. Truman out at Olympia where he talked about my resignation and Ickes' resignation? I would like to know just what he said. I think the Washington Post had the best story on it, if you please. *Fussell's memo in 8/1/45*

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July 2, 1945

Mr. Feltus
Secretary Morgenthau

These telegrams that came in from the various collectors, I think Pehle has them, but I would like for you to read them because they make a number of suggestions with regard to public relations. Also ask Mrs. Klots for Pehle's analysis of these telegrams. These telegrams from the collectors definitely show that in many instances the releases I give out and the statements I make, never reach the field. I think we are on the right track and we must do something in the field to get better publicity on this tax evasion. *File*

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July 2, 1945

Clifton Mack
Secretary Morgenthau

Is Brant Holmes still on the same job that he has been on for some time in connection with the construction of airplanes for the Russians? How is he doing? Will you give me a little memo on it?

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THE SOUTH CAROLINA NATIONAL BANK

CENTRAL OFFICE

COLUMBIA, S.C.

H. H. Edwards
President

July 2, 1945

Dear Mr. Morgenthau:

I have just read with a great deal of interest the tribute paid to you by Mr. Patton, a Member of the House of Representatives, in his speech on June 6, 1945. I subscribe to all that he has said and think I could add a great deal more.

You have done a great and very patriotic service for your country--in fact, for the entire world, and I am of the opinion that there are very few people who have contributed more to the war effort than you.

I believe you will recall that I have said to you a good many times that you couldn't win a war without money, and I think I referred to the fact that we folk down South would have given the Yankees a darned good licking in the Civil War if our money hadn't run out. And certainly money plays a more important part in our wars of today than it has at any time in the past, because it takes so much more of it.

I hope that your health is good and that everything is going nicely with you and the family.

With kindest regards,

Sincerely yours,

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

ASSISTANT SECRETARY OF STATE
WASHINGTON

July 2, 1945

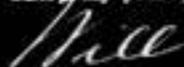
Dear Henry:

Many thanks for your prompt action on the matter of trucks for Poland.

With reference to sending the document to Secretary Stinson for transmittal to General Eisenhower, will say that I am sending the document direct to Mr. McCabe but am passing on your suggestion to him and am sure it will have the proper attention.

I am also sending Mr. McCabe a copy of your letter.

Sincerely yours,



W. L. Clayton

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

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 2, 1945

TO Secretary Morgenthau (For Action)

FROM Mr. Coe

Subject: GI Program in France

The French have already put into effect the night-club, tax-abatement, and conducted-tour programs for the benefit of our troops.

The proposed program for adjusting the pay of troops now awaits your approval.

(1) It is proposed, beginning the end of July, to provide a supplemental payment of 850 francs a month for every soldier stationed or on leave or at a staging area in France.

(2) The total franc outlay for this supplemental pay for 1 year is estimated at 5.5 billion francs (\$110 million). The French will place at the disposal of the United States Army this amount of francs for distribution to United States troops.

(3) Finance officers will pay this supplement of 850 francs to eligible soldiers according to regular payroll procedures.

The above procedure for the payment of the 850-franc supplement is being worked out by the War Department and is believed to be administratively and legally feasible.

(4) The French have prepared a draft of a joint United States-French press release which plays down the "gift" aspect of the above program, refers to the meeting held in your office on this subject, and speaks

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of the supplemental payment as a device for "improving the purchasing power of American military personnel in France."

(5) In order to give this program the widest possible publicity among the soldiers, the French have suggested the use of a receipt, with suitable heading, to be signed by the soldier upon each payment date. In our opinion, such a receipt is not needed. A summary of the proposed press release posted in paymasters' offices or, if desired, handed to every soldier would accomplish the purpose sought by the French. If the French insist upon a receipt, we suggest the following language:

"Acknowledgment is made of the receipt of 850 francs paid to me for expenditure in France as an adjustment of pay received by me in francs. This supplemental payment has been made possible by arrangement with the French Government."

If this detail can be worked out with the French, we recommend that you give your approval to the above-described program.

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JUL 2 1945

Dear Will:

I have signed the attached memorandum on trucks for Poland, which I understand is to be sent to Mr. McCabe. It seems to me, however, that the document should also be sent to Secretary Stinson for transmittal to Eisenhower, since it is necessary for Eisenhower's force to declare the truck surplus in order that the OANLC can carry out the transaction.

When the memorandum as signed is transmitted to Secretary Stinson and Mr. McCabe, I would like, if you agree, to have the attached memorandum from myself sent along with it as an interpretation. I think that this would be helpful to Mr. McCabe.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Honorable William L. Clayton,
Acting Secretary of State,
Department of State,
Washington, D.C.

FC:rl 7/2/45

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JUL 2 1945

Memorandum from the Secretary of the Treasury
on the Financing of Surplus Trucks
for Poland

In signing the memorandum of June 29, 1945 requesting that 1,000 trucks be declared surplus by the War Department and offered by the OANLC to Poland "on dollar credit terms", it seems to me necessary that this last phrase should be understood in a broad sense, in order that it may be consistent with the policies which I understand the OANLC is proposing to follow in financing the disposal of U.S. surplus property abroad:

- a. If no over-all agreement with Poland is later negotiated the trucks should be paid within three years.
- b. If an over-all agreement is later reached with Poland on the financing of the sale of surplus property, it should be retroactive to include this transaction. Therefore, the OANLC can arrange for the financing of this exceptional transaction in accordance with its general policies.

(Signed) H. Morgenthau, Jr.

FC:rl 7/2/45

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July 2, 1946

MEMORANDUM

After 9:30 p.m. I talked with Luxford who told me that Senator Wagner had told the Committee that the President wanted Bretton Woods passed ahead of San Francisco. Berkley said that the President had said no such a thing to him. I was disturbed and tried to get Biffle and couldn't and then I got hold of the President himself. "Mr. President," I said, "You said if I needed any help on Bretton Woods to call you, and I need some help." He said, "What is it?" I said, "Matt Connelly told me this afternoon that when you talked with him before this morning you told him that you wanted Bretton Woods to be passed ahead of the San Francisco charter." He said, "That is right." I said, "I repeated that to Wagner a little bit before 5:00, and when he brought it up at the Committee, Berkley categorically denied it." The President said, "Well, I don't see how he can do that because I made it perfectly clear to him that that is what I wanted." I said, "Well, I wish you would make it clear tomorrow to Wagner or Berkley what your wishes are." He was a little hesitant and a little grumpy about it, but I stuck to my guns and repeated two or three times that I wished he would do something about it and then he said, "All right, I will take care of the matter in the morning."

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JUL 2 1945

My dear Mr. Secretary:

I have your letter of June 16 in which you discuss foreign exchange rates and price inflation abroad as they affect the purchasing power of military personnel and procurement of supplies for the military in foreign countries.

It is my understanding that Treasury, State and War Departments have been discussing these problems from day to day during the past few years and that each of the Departments is intimately acquainted with the views of each other, that all decisions on these matters have been agreed to and in most cases formulated by the three Departments together. Therefore, I would like to ask if your letter of June 16 represents views which had not previously been made known to this Department. If so, I would appreciate receiving specific details as to the countries you had in mind, the particular problems the military is meeting in these countries, and any suggestions you may have for further action. It is my feeling that if there is any difference in viewpoint at this time between the three Departments that these differences be discussed and a common point of view reached before discussing with Congressional leaders.

Sincerely,

Samuel H. Morpenthau, Jr.

The Honorable,

The Secretary of War.

SMH:SP 6/29/45

WAR DEPARTMENT

WASHINGTON 25, D. C.

JUN 1 6 1945

The Honorable

The Secretary of the Treasury

Dear Mr. Secretary:

The disturbed monetary and economic conditions which are the aftermath of war in many foreign areas make it desirable that the War Department state its position concerning foreign exchange rates and price inflation abroad, in so far as these factors affect the purchasing power of military personnel stationed outside the United States, and of the War Department in procuring supplies in foreign countries.

I believe it was the tacit assumption of Congress in passing the Pay Re-adjustment Act of 1943, that pay disbursed in foreign currency to troops abroad would command locally a purchasing power substantially equivalent to that which pay disbursed in dollars to troops in the United States would provide in this country. In determining whether pay disbursed abroad does command such equivalent purchasing power, due allowance must be made for prices resulting from the demand of troops for specialized goods and services, to local shortages from which all persons in a given area may suffer, and to different standards of living. Making reasonable allowance for such factors, the War Department holds that the medium of payment and the rate of exchange should be such as to provide consistently and without exception, a fair purchasing power for military personnel. This policy stems not only from the principle of providing equitable treatment for all troops wherever stationed, and from the necessity of maintaining morale and discipline, but it reflects, I am sure, the will of Congress. I feel sure also, that Congress would agree when I say that War Department money expendable for supplies in foreign areas should command an equally fair purchasing power, particularly when such supplies are purchased in a country which the United States is aiding by Lend-Lease, by relief measures, or by the utilization of American armed forces to assist in its liberation.

When the rate of exchange and the medium of payment in any foreign country do not provide a fair purchasing power to troops, and for supplies, I consider that immediate steps should be taken to rectify the situation, either by an adjustment in the exchange rate, by a change in the medium of payment, or by other appropriate and adequate measures. Furthermore, I feel that the



purchasing power of United States troops and Army procuring officers having been established by Congress by its Legislation and Appropriation Acts, ipso facto, in terms of dollars, the establishment or restoration of a fair purchasing power in terms of foreign currencies, under the economic circumstances governing at the present time, is primarily the responsibility of the foreign government concerned. Indeed, for the War Department to attempt to keep pace with monetary inflation in a foreign country, where restrictive exchange measures prevent the United States dollar from commanding its proper value in terms of the local currency, would simply be to underwrite the inflation at the cost of the American taxpayer.

It seems not unlikely that situations will arise where, as a result of a substantial inflation in local prices, previously established exchange rates or mediums of exchange will no longer provide a satisfactory purchasing power for United States troops in the affected area. Unless the position of the War Department is made known in advance of such developments, long delays, causing hardship to military personnel and serious drains on War Department appropriations for local procurement, may occur before negotiations for remedial measures can be completed. I should like to suggest, therefore, that the opportunity be taken, where appropriate, to establish the principles enumerated above in conversations with foreign countries about reimbursement for troop pay or concerning the local procurement of supplies for our armed forces.

If it is felt that the expression of such a principle is not consistent with the present diplomatic or financial policies of the United States in the case of some specific country where this situation exists, I believe that the War, State and Treasury Departments should join in discussing the matter with the appropriate committees of the Congress. For if such a principle is not accepted and, when necessary, implemented without delay, the War Department must either see military personnel in an affected area suffer, or else attempt to maintain purchasing power at the cost of not unlimited appropriated funds. Such use of appropriated funds, in anything but nominal amounts to meet temporary emergencies, would have the effect of increasing the need of money for the Army, and of altering the specific purposes for which appropriations are presently made available. To obtain additional funds or to bring about such alterations, the mandate of the legislative body itself would be required.

I am addressing a similar letter to the Secretary of State.

Sincerely yours,

Henry L. Stimson

Secretary of War

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85.

JUL 2 1945

Your Excellency:

With reference to my letter of 16 May 1945 addressed to Mr. T. V. Soong, I wish to inform you that on 12 June 1945, U.S.\$60,152,331.03 were transferred from the credit in the name of the Government of the Republic of China with the United States Treasury, and 1,714,285.708 fine ounces of gold valued at U.S.\$99,999,999.80 were earmarked for "The Central Bank of China as fiscal agent of the Government of the Republic of China" gold account, with the Federal Reserve Bank of New York.

The following summarizes the cost of the gold:

Cost of 1,714,285.708 fine ounces of gold at \$58 per ounce. . . .	\$99,999,999.80
1/4 percent handling charge . . .	150,000.00
Labor, transportation and insurance costs	<u>2,111.21</u>
Total cost.	\$60,152,331.03

Adding the transfer made on 22 May of U.S.\$60,152,342.45 to this second transfer brings the total to U.S.\$120,304,673.48 of funds used for the purchase of gold under the terms of my letter to Mr. Soong of 16 May 1945.

Sincerely yours,

Walter D. Dornier, Jr.

His Excellency,
The Ambassador of the Republic of China,
Washington, D. C.

AL:df 6/21/45

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION7;
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DATE
July 2, 1946TO Secretary Morgenthau
FROM Frank Coe FC

We were told by the State Department this morning that Churchill's cable of May 28 has not been answered. All the drafts which have been proposed--including the one you sent to Grew, I believe--have been in Judge Vinson's hands for a week, according to Collado.

Apparently word got back to Clayton from Grew's office that you were blaming the State Department for the delay. I told Collado that I had been present at your conference with Reams and that you had pointed out the long delay but had not blamed any particular Department.



TREASURY DEPARTMENT

WASHINGTON

July 2, 1945

To Heads of Bureaus, Offices and Divisions,
and Chiefs of Divisions, Secretary's Office,
Treasury Department.

Subject: Establishing (1) a basic
administrative workweek,
and (2) pay periods of
two weeks.

1. Pursuant to the provisions of Section 604(a) of the "Federal Employees Pay Act of 1945", requiring that the heads of the Federal departments establish as of July 1, 1945, a basic administrative workweek of 40 hours, and directing that the hours of work in such workweek be performed within a period of not more than six of any seven consecutive days, it is hereby ordered that the basic administrative workweek for all full-time officers and employees in the Treasury Department, except as hereinafter provided, shall consist of 8 hours each day from Monday through Friday, inclusive.

2. The heads of bureaus, offices and divisions are hereby authorized to establish a different basic administrative workweek, not exceeding five 8-hour days in any consecutive seven days, in those services where it is necessary that work be performed on every day in each week. This exception applies to such classes of employees as guards, telephone operators, border patrolmen, port patrol officers, and maintenance employees. The Director of Personnel shall be advised by the several bureaus and divisions as to the specific classes of employees, including their basic administrative workweek, coming within the provisions of this paragraph.

3. Pursuant to the provisions of Section 604(b) of the aforementioned Act, and effective July 1, 1945, each pay period for all officers and employees of the Treasury Department shall cover two administrative workweeks. All employees of the Treasury Department, except those in the Bureau of Engraving and Printing, will receive their first pay under the "Federal Employees Pay Act of 1945" on Wednesday, July 25, 1945, covering the two-weeks' pay period July 1 to July 14. The second pay day will be on Wednesday, August 8, 1945, covering the two-weeks' pay period July 15 to July 28. Pay days covering subsequent pay periods will occur on alternate Wednesdays thereafter.

4. This order is applicable to employees of both the departmental and field services.

5. At such time as the administrative workweek for the Treasury Department is hereafter reduced to 40 hours per week, the provisions of this order will be subject to such revision as may be necessary to conform to the reduced schedule.

J. M. Mitchell
Secretary of the Treasury.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE July 2, 1945

TO Secretary Morgenthau
 FROM Mr. Haas
 Subject: The Business Situation,
 Week ending June 30, 1945.

SUMMARY

Stock market: Stock prices showed substantial net losses last week, with the Dow-Jones average of 65 stocks declining about 2 percent. Stock sales on the New York Exchange on Thursday were the heaviest since May 21, 1940 while the Dow-Jones railroad stock average suffered the widest drop since October 23, 1937. Meanwhile, industrial stock prices in London moved slowly higher, and at the end of the week stood at the highest level since just before the resignation of Prime Minister Churchill's coalition government.

Employment: Despite a drop of 600,000 in munitions employment from March 15 to June 1, a recent WMC survey reports that "unemployment continues at the very low levels that have prevailed for many months." Moreover, acute manpower shortages are reported in many critical areas and industries. The WMC estimates that unemployment will rise to 1,800,000 by June 1946, but labor economists characterize this estimate as a gross understatement. The labor situation continues to be clouded by a marked increase in strikes since V-E Day.

Retail trade: Department store sales have improved substantially in June, aided by heavy demand for vacation apparel and summer merchandise. Sales gains over year-earlier levels have widened progressively since early in the month, and in the week ended June 23 reached 21 percent. Department store stocks (in dollar value) rose in May and at the end of the month were 12 percent above year-earlier levels. Outstanding merchandise orders of 296 stores were 26 percent higher than at the end of May 1944.

Prices: Commodity futures recovered somewhat last week despite the unsettlement in the stock market, but spot prices averaged lower. Rye futures declined further on press reports that the CPA was planning to impose a price ceiling on this grain. The ELS all-commodity wholesale price index declined 0.1 percent to 105.9 in the week ended June 23 due to lower prices for farm products.

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- 2 -

Stock prices decline sharply

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After moving higher in the early part of last week, stock prices declined sharply on Thursday in the heaviest outburst of selling in more than 5 years. Stock transactions on the New York Exchange during the day approximated 3 million shares and were the largest since May 21, 1940 when the German breakthrough in France caused an avalanche of selling. Railroad shares proved particularly vulnerable to selling, with Thursday's decline in the Dow-Jones railroad stock average being the largest since October 23, 1937. At the close on Saturday, average stock prices were about 2 percent below week-earlier levels, and all of the advance since mid-June had been erased. In fact, the Dow-Jones industrial stock average on Friday dropped to the lowest level since May 24. (See Chart 1.)

No special news developments appear to have been responsible for the decline, but investment advisory services have been showing increasing caution in recent weeks, and a widespread feeling had developed in financial circles that a corrective reaction in prices was overdue. Among other developments, uneasiness had arisen over the failure of the Dow-Jones industrial stock average to move above the May 29 high in the face of sharp gains in railroad stocks and in many speculative issues.

London stock prices firm

In contrast to the decline at New York, stock prices in London last week continued to move gradually higher. At the close of the week the industrial stock average stood at the highest level since May 22, which was the day before Prime Minister Churchill's coalition government resigned. Reference to Chart 2 will show that the ensuing unsettlement in London stock prices was relatively short-lived and a slow recovery continued throughout June. However, industrial stock prices in the London market are still about 3 percent below the level prevailing at the beginning of May, when prices were close to the war-time peak.

Effects of cutbacks on industrial output

Although most industrial and transport facilities continue to be hard-pressed to meet the aggregate demands

- 3 -

of the Pacific war and the civilian economy, numerous cross-currents are in evidence in the shift to a one-front war basis. During the past week the huge Ford-operated Willow Run plant turned out its last Liberator bomber, while a cutback in production of jeeps by Willys Overland went into effect at the end of the week. However, the company's production of military jeeps is scheduled to continue well into the fourth quarter of 1945, and the production of commercial vehicles and civilian jeeps is expected to begin on July 2.

In addition to recent reductions in output of aircraft, ships and military vehicles, further cutbacks in ammunition output are under way. Early last week the Army announced that a 50 percent reduction in artillery shell production would be put into effect gradually, and that 12,000 workers in 44 plants would be released as a result of the readjustment, which is to extend to September 30. Reflecting the decline which has occurred in military requirements, the WPA reported last week that the demand for brass mill strip has been cut to about 100 million pounds a month from the monthly peak of 412 million pounds in 1945.

During the past week the Westinghouse Electric Corporation revealed that unfilled orders totalling about \$557 millions at the end of May were approximately \$240 millions below year-earlier levels. On the other hand, the General Electric Company indicated that new orders in the first 5 months of 1945 have exceeded billings, and have filled gaps left by cutbacks and cancellations. Contract terminations have averaged only \$23 millions monthly in 1945 as compared with \$32 millions monthly last year.

Unemployment relatively low despite cutbacks

Despite cutbacks in war contracts which cut employment in munitions plants 600,000 from March 15 to June 1, a recent survey by the WMC indicated that "unemployment continues at the very low levels that have prevailed for many months." Displaced workers are reported to be finding jobs in agriculture, trade, finance and the service industries, while some have withdrawn from the labor market. Moreover, acute manpower shortages continue to exist in many critical areas and industries.

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The WMC estimated that by next December unemployment would rise to 1,300,000, with possibly as many as 2 million unemployed temporarily at some stages of the outback program. Unemployment by next June was estimated at 1,800,000 but this figure was characterized by economists of the CIO and AFL as a gross understatement.

Many strikes hampering industrial output

Meanwhile such labor unrest continues in evidence although serious work stoppages in the automobile and glass industries were terminated during the past week. Due to a CIO-AFL jurisdictional dispute, around 40,000 workers had been idle at several large automobile plants at Detroit, and the industry had become concerned over the adverse effects on reconversion activities.

Offsetting the improvement in the labor situation at Detroit, elsewhere numerous strikes were threatened or actually under way at the end of last week. One of the most serious was the continuing strike at Akron, Ohio of about 17,000 CIO employees of the Goodyear Tire and Rubber Company, despite strenuous efforts of Federal authorities to get the strikers back to work.

Munitions output declines

During the past week the WPA Chairman revealed that munitions output in May was 7 percent below March, which was the last month of full production for a two-front war. Declines in output of aircraft, ships, guns, and fire control equipment, and communications and electronic equipment during May, as compared with April, ranged from 1 percent to 7 percent, while ammunition output rose 2 percent.

The drop in munitions output in June is said to have been relatively small. It was indicated that during the coming 12 months munitions schedules are expected to decline progressively, with the sharpest cuts occurring in the next few months.

Department store sales higher in June

Following a noticeable slackening in April and May, department store sales in June improved substantially. In contrast to a year-to-year sales gain of only 3 percent

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- 5 -

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in the 4 weeks ended June 2, the sales gain has since progressively widened and in the week ended June 23 reached 21 percent. (See Chart 3.) Preliminary reports indicate that retail sales during the past week continued at a fast pace, with vacation apparel and seasonal items in strong demand. Nation-wide retail sales were estimated by Dun and Bradstreet to have been from 13 percent to 17 percent above the corresponding period last year.

Department store stocks rose in May

Aided by a slackening sales pace after the first quarter of the year, department stores succeeded in building up stocks somewhat in April and May. At the end of the latter month, stocks (on a dollar basis) were 12 percent above year-earlier levels, and the FRB adjusted index of stocks attained the highest level since last August. (See Chart 2.) Outstanding merchandise orders of 296 stores at the end of May showed a decline of 9 percent from the previous month, but were \$136 millions, or 26 percent higher than at the end of May 1944.

Price trends mixed

Prices in the futures market were generally firm last week, despite the break in the stock market, and the Dow-Jones futures index recovered part of its sharp decline of the previous week. (See Chart 5.) Rye futures declined further on press reports that the CPA was planning to put a price ceiling on this grain, presumably involving a cutback to substantially below current levels. It was indicated that at least 15 days' notice would be given, as required in the price stabilization act, and that the announcement would be made well in advance of planting time for winter rye. Rye had been selling below parity until the recent sensational rise, which carried prices up 15 cents a bushel in three weeks, raising them substantially above the parity level.

Spot prices last week averaged somewhat lower. Moody's index (shown on Chart 5) declined appreciably for the first time since January. In the week ended June 23, the BLS general wholesale price index declined 0.1 percent because of lower prices for farm products. Prices of fresh fruits and vegetables were sharply lower, the index for this group dropping 2.1 percent. The principal increase during the week was in the price of anthracite coal, which rose 3.2 percent after the CPA approved ceiling increases averaging 75 cents a ton to restore profit margins following the recent increase in wage rates.

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CPA extension bill passed

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The CPA extension act, signed by the President at the end of last week, provides for the continuation of CPA for another year with but minor amendments. The Wherry amendment, which would have substituted a cost of production basis for farm product ceilings in place of the parity basis, was killed in conference, as was the Dirksen amendment which would have provided for Federal Court review of CPA regulations. The amendments to the bill as passed are the following:

(1) Slightly more power is given the Secretary of Agriculture over CPA actions affecting agricultural products by the Andressen amendment. This requires "written approval" of the Secretary of Agriculture on any such action, in place of "prior approval" as stated in the original act. The requirement for such approval is also extended to processed foods.

(2) The Patman amendment is designed to improve the distribution of meats by extending the privilege of interstate shipment and Government purchases of meats to such non-federally-inspected plants as the Secretary of Agriculture may certify as meeting proper sanitary requirements. Such plants are not to be subject to slaughter quotas or limitations.

(3) The Barkley amendment requires that in establishing maximum prices on meats and meat products, a reasonable profit must be allowed on each species of animal, rather than taking into account the over-all profit situation for the slaughtering industry, which has tended to operate to the disadvantage of small concerns. This provision may require some raising of price ceilings or increases in subsidies.

(4) The Wiley amendment prevents CPA from requiring sellers to absorb increases in postal rates.

(5) The Baldwin amendment makes certain provisions for the stabilization of rents in defense housing areas, and provides for the establishment of industry advisory committees on rent control.

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Feed shortage in prospect

A noticeable shortage of feedstuffs has recently become evident in various sections, and threatens to develop into a more serious situation than that of two years ago. Some of the large corn processors are closing down temporarily for lack of material, according to market reports of the War Food Administration, although the CCC has started distributing some corn from its holdings. Mills producing linseed oilmeal are also closing for lack of flaxseed.

The Northwestern Miller notes the virtual disappearance of corn in commercial channels. The WFA reports the situation in the gluten feed and meal market as very critical due to the lack of supplies, with production out to less than half of normal. In oilseed cake and meal no new offerings are expected until the new crop becomes available around October 1. Supplies of tankage and meat scraps are also very scarce, and imports of meat scraps from South America are expected to be very small this year due to higher prices obtainable in Great Britain.

The shortage of feedstuffs has developed very rapidly, and apparently a major factor has been the recent unfavorable weather for the corn crop, which has caused farmers to hold back their corn until the crop prospect becomes clearer. Transportation difficulties have also been a factor. At the same time, recent emphasis on increased production of meats, milk, poultry and eggs has caused an increased demand for corn and other feedstuffs throughout the country. The shortage of feeds is particularly serious in the New England deficit area, as was the shortage two years ago.

While good crops of small grains are expected this year, the corn crop outlook is uncertain. The crop is reported to be as much as 10 days behind last year's late crop, which was saved only by a late fall. Corn has made better progress recently, according to last week's weather report, but planting has been delayed and 40 percent of the crop in Missouri had not yet been planted at the beginning of last week. In the important state of Iowa the crop was reported about 10 days behind normal.

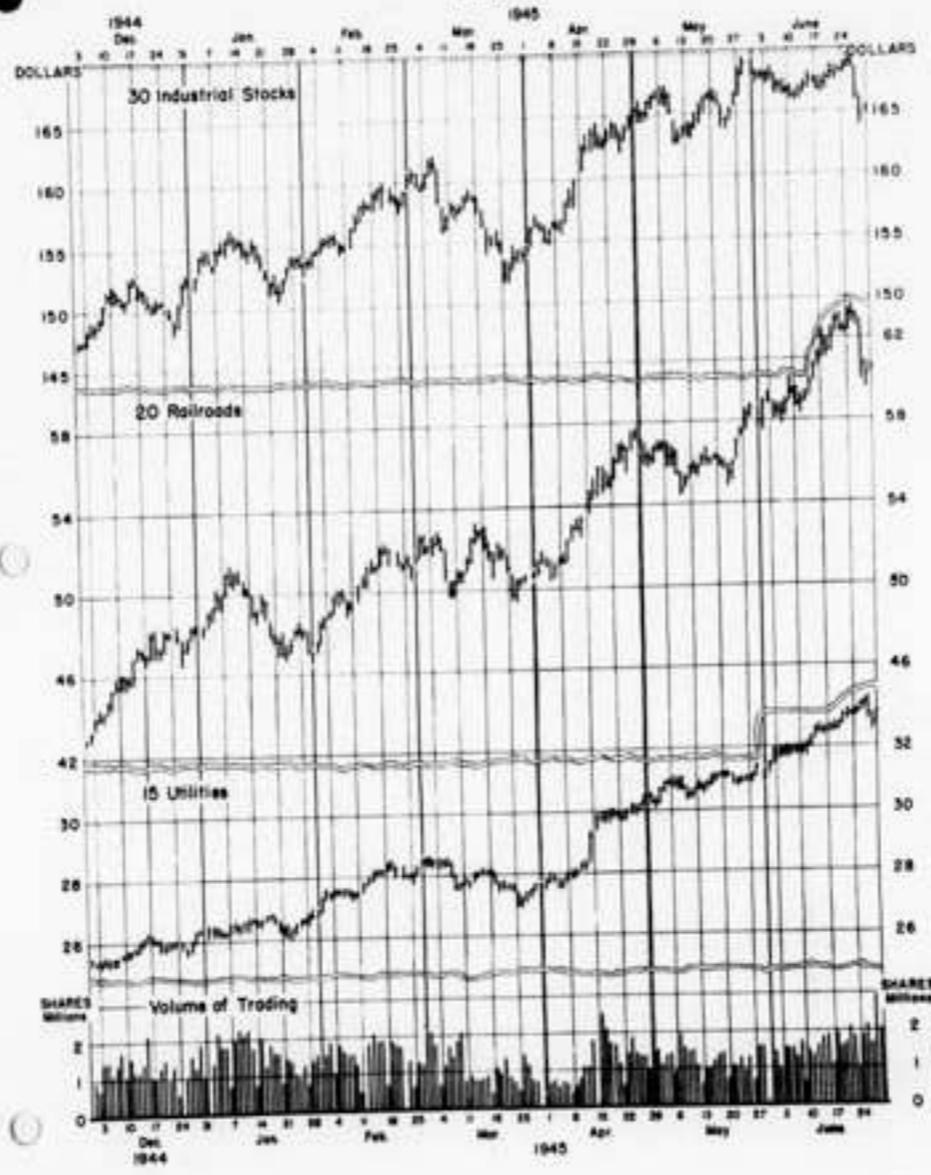
143

Chart 1

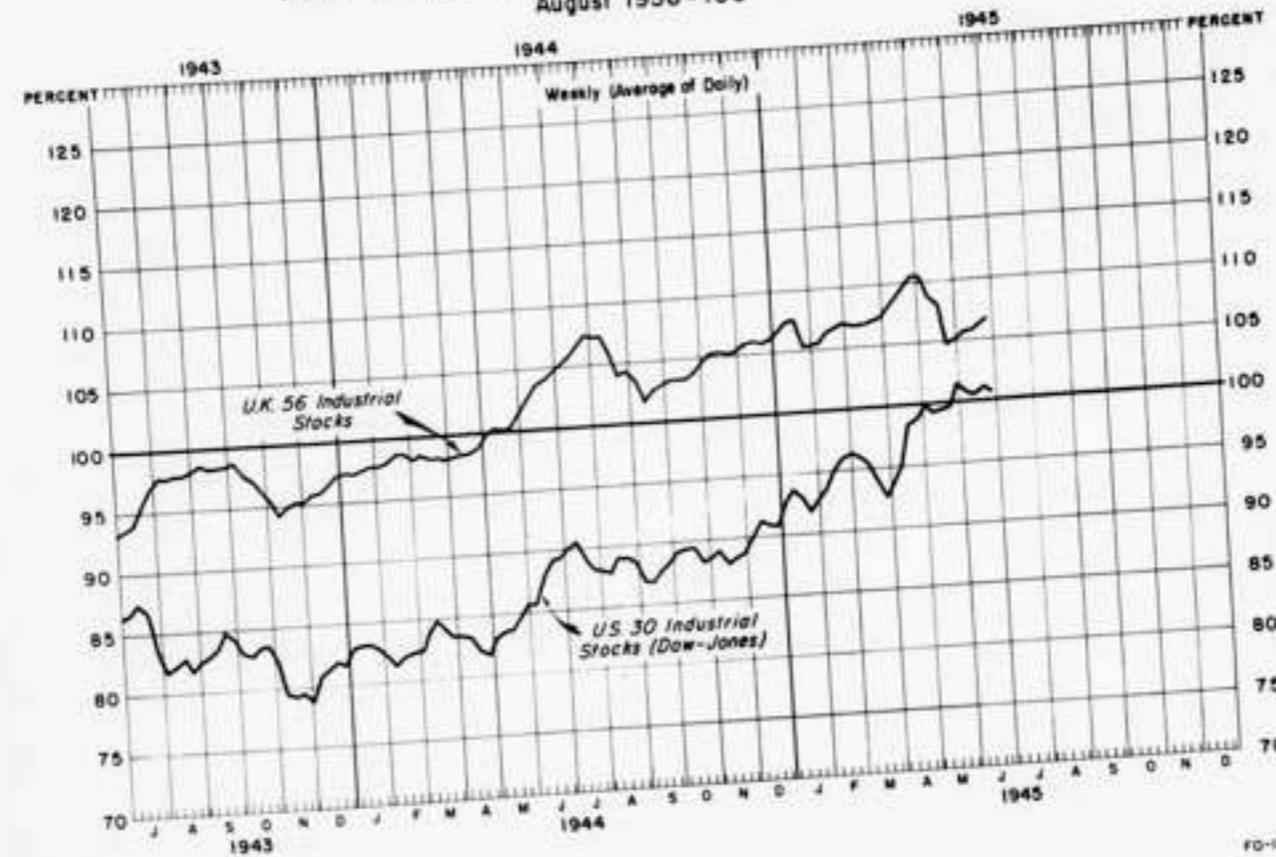
194

STOCK PRICES. DOW-JONES AVERAGES

Daily



INDUSTRIAL STOCK PRICES IN U.S. AND U.K. August 1936 = 100



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

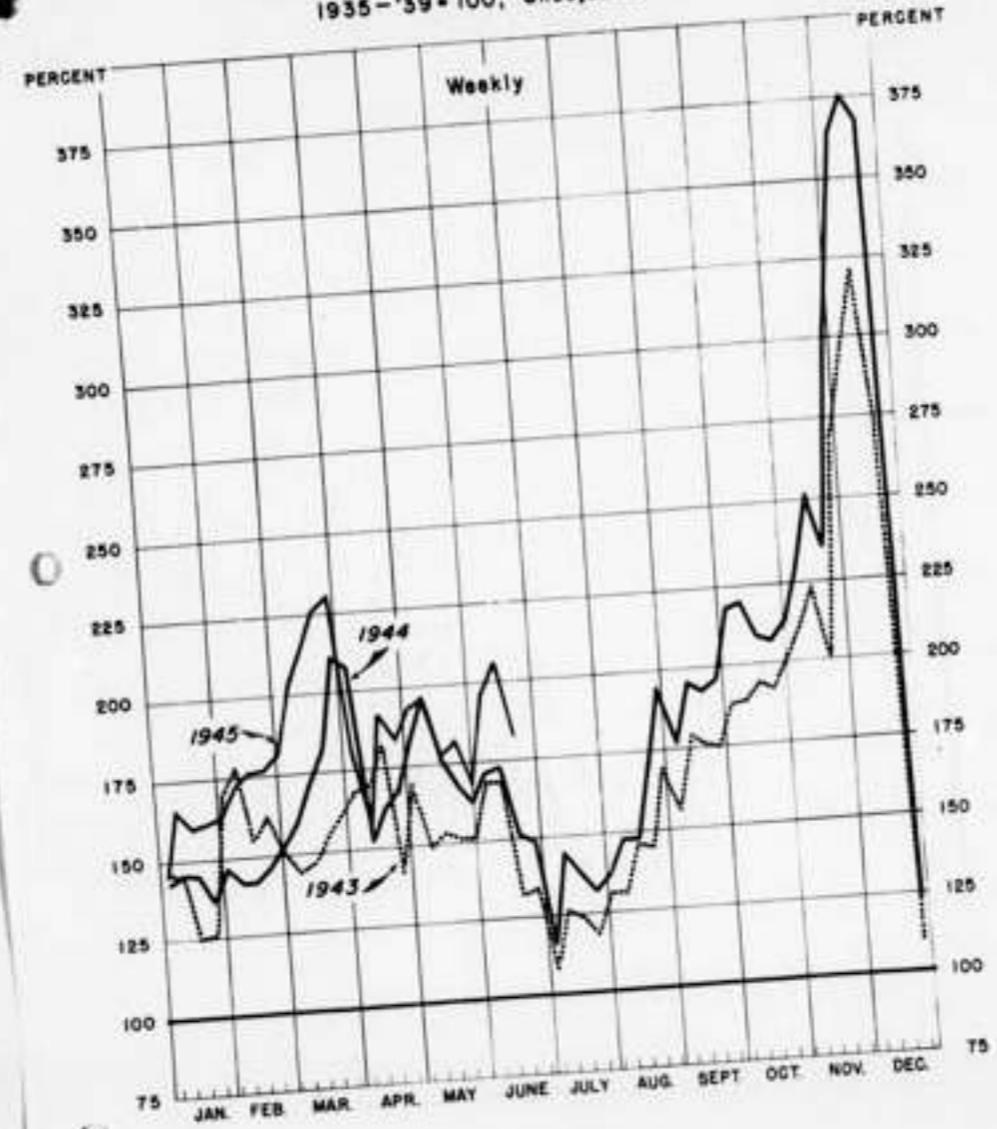
FD-156-D

Chart 2
1945

Chart 3

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DEPARTMENT STORE SALES 1935-'39 = 100, Unadjusted

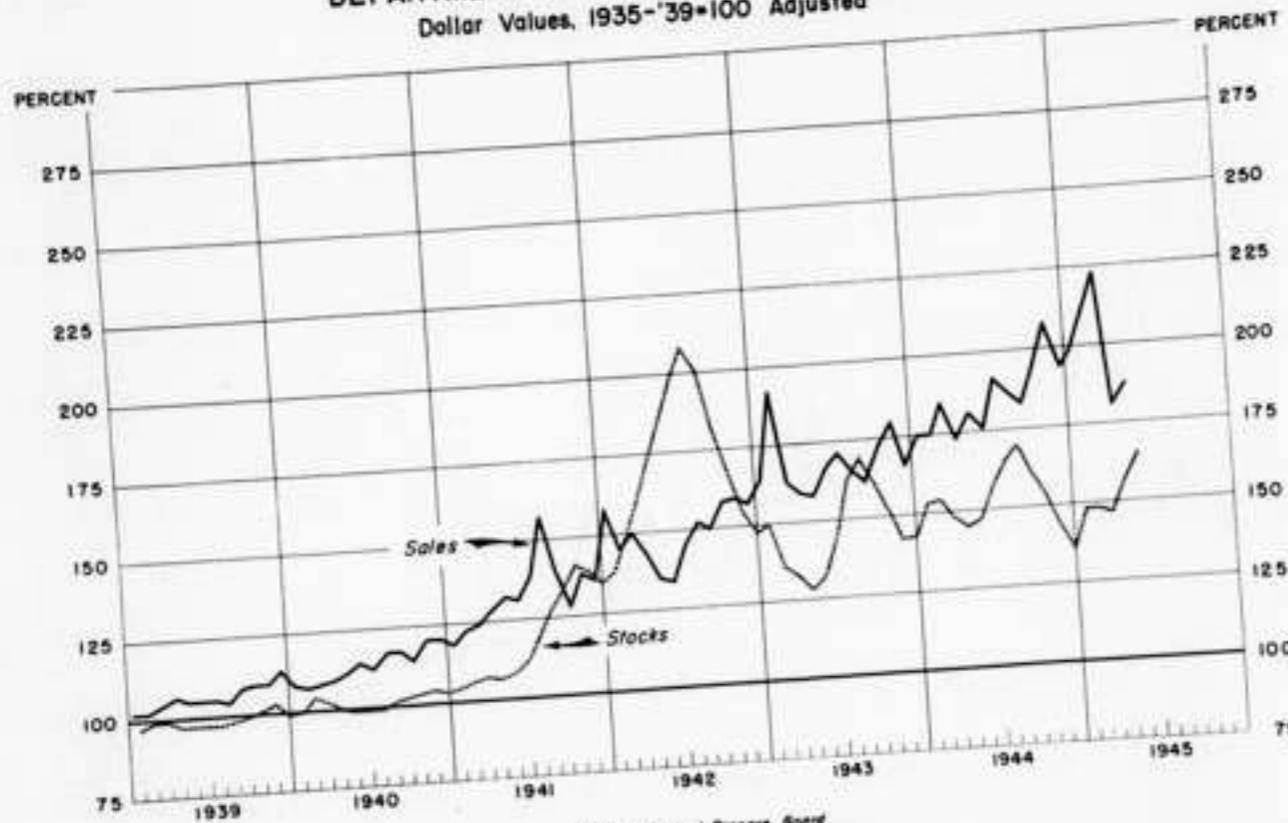


Office of the Secretary of the Treasury
Bureau of Research and Statistics

C-380-D

DEPARTMENT STORE SALES AND STOCKS

Dollar Values, 1935-'39=100 Adjusted



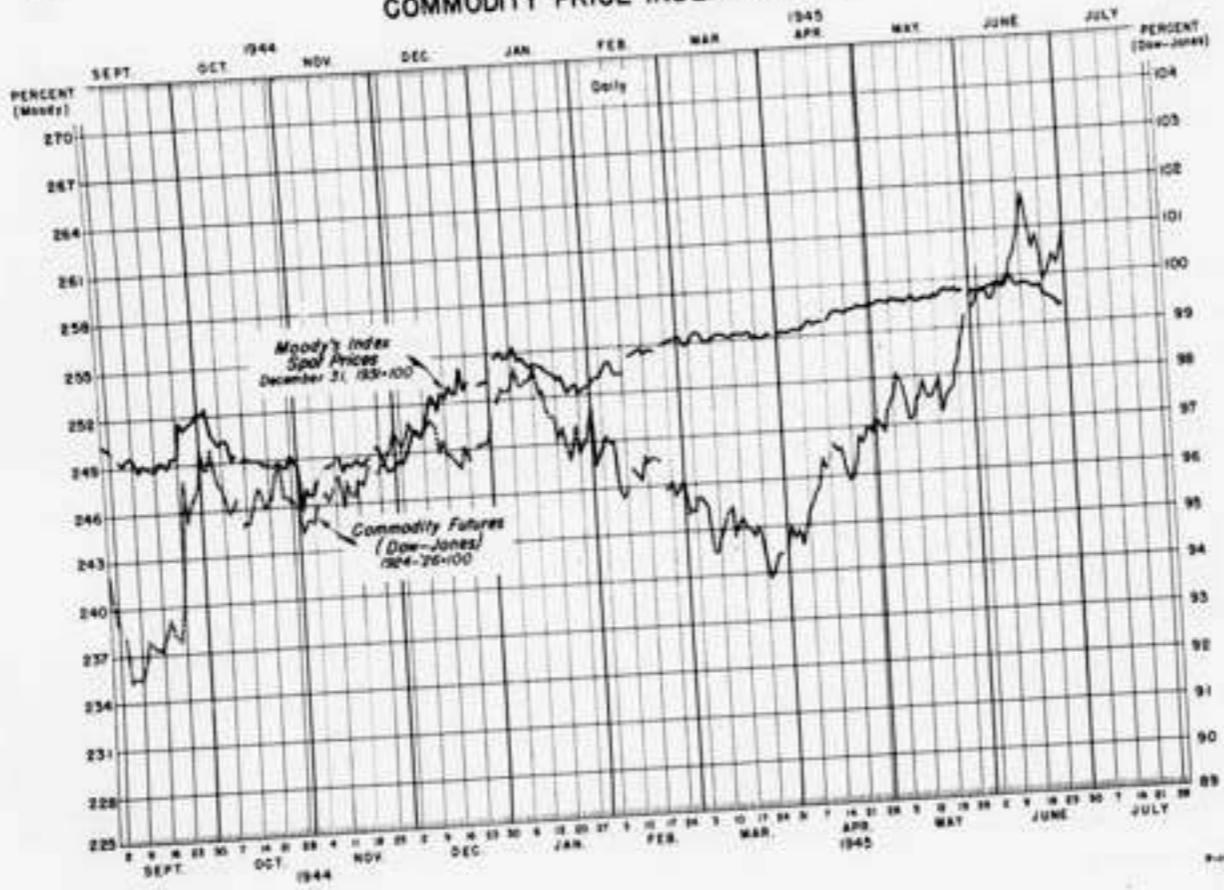
Source: Federal Reserve Board

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

C-430-B-1

Chart 4

COMMODITY PRICE INDEXES IN U.S.



Office of the Secretary of the Treasury
Bureau of Economic Warfare

CHART 5
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July 2, 1945

Dear Mr. Byrnes:

It would be appreciated if you would send the following cable from me to Ambassador Braden in Argentina:

"The State Department has transmitted to me your cable No. 1215 of June 11, 1945, containing your program for dealing with the Argentine bank situation. The Treasury is prepared to send two investigators to assist you whenever you so request."

Sincerely yours,

(Signed) H. Morgenthau, Jr.

The Honorable James F. Byrnes,
Secretary of State.

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Office Memorandum • UNITED STATES GOVERNMENT

TO : Secretary Morgenthau

DATE: July 2, 1945

FROM : Frank Coe *FC*

FOR ACTION

SUBJECT: Treasury Personnel for Argentina

You will recall that you talked with Ambassador Braden prior to his departure for Argentina about the desirability of getting into the Argentine bank situation. He has now cabled the State Department requesting that the Embassy be placed in a position to take strong action on the Banco de la Provincia and Banco de la Nacion, and to obtain access to their records. When he gets access to their records he wants Treasury experts to be attached to the Embassy "under my entire control" to assist in the examination of the banks' records and the preparation of a report. A copy of the cable is attached.

By the terms of the cable it is clear that Braden wants Treasury help only for a restricted assignment. When Braden is ready Foreign Funds can furnish two or three people to study and report on the examination of the books and records of the banks.

I attach a suggested cable which you may wish to have sent to Braden confirming that we will supply the experts when requested.

DEPARTMENT
OF
STATE

INCOMING
TELEGRAM

Man Rte 591
DIVISION OF
CENTRAL SERVICES
TELEGRAPH SECTION

RS-1227

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

Buenos Aires

Dated June 11, 1945

Rec'd 9:15 p.m.

Secretary of State

Washington

PRIORITY

1215, June 11, 10 p.m.

I am opposed to unconditional unblocking assets Banco de la Provincia and Banco de la Nacion (your 623, May 31, 7 p.m. and other correspondence re unblocking assets these banks) and request that all persons approaching DEPT or Treasury re unblocking these banks be informed that they must take up matter directly with this Embassy "whose recommendations will be largely controlling."

It is my thought that this Embassy can then reply to any such approaches that of course our recommendations will depend upon our being convinced thru SAFEHAVEN census and investigations removal from Banco de la Nacion directorate of four known Axis representatives and such access by our investigators to records with full cooperation of banks personnel to examine all phases their activities with particular relation to Axis funds as will convince us that no

(repeat no)

cc: 16/June/45

For Information - Miss Scullen, Mrs. Lewis, Messrs. R. L. Jones, Murphy,
Miss Burnett, Mr. Fed., Flammiano,
Action: Foreign Investigations Unit.

DEPARTMENT OF STATE
JUN 12 1945
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LIAISON OFFICE

-2-#1215, June 11, 10 p.m. from Buenos Aires

(repeat no) Axis interest remains in these institutions if and when access to bank records arranged in accordance with my conversation with SEC Morgenthau, I would welcome Treasury experts being attached to this Embassy and under my entire (repeat entire) control to assist Embassy personnel in examination of banks records and preparation report thereon.

BRADEN

WTD

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE 7/2/45

TO Secretary Morgenthau
FROM E. S. Fussell

Here is the Washington Post story of the interview with President Truman.

I do not recall any account of this interview in which your resignation was discussed. They all referred to possible cabinet changes in general, but mentioned specifically only State and Interior.

We have not yet received from OWI copies of Seattle and other West Coast papers, which may have had more details on this interview, though probably the AP and other wire services would cover anything at all pertinent.

BT

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AA

WASHINGTON POST - June 22, 1945

Meat Crisis To Be Eased, Truman Says

Predicts Automatic Correction, Single System of Control Over Food, Prices

By Ernest S. Vaccaro

Olympia, Wash., June 21 (AP)—President Truman promised improvement in the meat situation and forecast a single control over prices and food at a press conference today, his first outside the White House. After the conference he embarked on a salmon fishing trip.

At the press conference—attended by his host, Governor M. C. Wallgren and by United States Senator Warren G. Magnuson of Seattle—the President also:

Expressed confidence the Senate would ratify the Bretton Woods world monetary agreements and extend the reciprocal trade program.

Termed General Eisenhower a grand gentleman who is entitled to anything he wants, and asserted the President would see that he gets it.

Indicated a measure calling for creation of a Columbia Valley Authority.

Told reporters the San Francisco United Nations Conference seems to have accomplished its purpose and that he would leave by plane Monday to address its closing session Tuesday, after stopping off in Portland, Ore.

Assured questioners he had no plans for lowering the age for discharging soldiers, adding that it is a matter strictly for the military.

And the President came out fully in favor of postwar completion of the Alaska highway in cooperation with Canada and British Columbia governments.

No Cabinet Changes

The President said he had no Cabinet changes immediately in mind, and denied reports he was getting rid of Interior Secretary Ickes. In response to a question, he said he had nothing on reports of a change in the State Department, headed by Secretary Stettinius.

Mr. Truman embarked with Senator Magnuson and Governor Wallgren, from whom he borrowed a gaudy Indian sweater, on a Bureau of Fisheries boat, the *Brant*, for an afternoon outing on upper Puget Sound. He disclaimed any expertise as an angler, but expressed his pleasure at the opportunity.

At his press conference, the President spoke reassuringly of the food situation, and said the Administration was at work on a plan for single control over prices and food, but did not disclose how it would function.

Holds Meat Relief Certain

He said the meat shortage automatically would be straightened out as soon as Representative Clinton P. Anderson (D., N. Mex.) takes office as his new Secretary of Agriculture and War Food Administrator. Mr. Truman added that it would have been straightened out under the contemplated program under Mervin Jones, retiring Food Administrator, as well.

He told a questioner he had not seen a statement of former President Hoover that food controls over meat distribution had broken down. He added that Mr. Hoover had been very helpful in his recent White House talk on the subject.

Commenting on the reciprocal trade legislation, he said—permitting direct quotation—that it "places the United States squarely behind the principles of international trade cooperation. . . . Trade

cooperation, however, must go hand in hand with monetary and financial cooperation."

500-Mile Gap Remains

He said he had talked with Senator Magnuson and with Alaska's Gov. Ernest Gruening about the Alaska Highway, of which there is a 500-mile gap to be filled. He was referring to the valley or "trench" route northward through British Columbia, considerably west of the present Alaska Military Highway. Mr. Truman said it was absolutely essential that it be considered a part of a postwar program, that it is a good project and he will support it.

President Truman did not elaborate on the remark about General Eisenhower's desert. The general's first job, the President said, is to go back to Germany and finish his work there. How long Eisenhower will be there, the President did not know. He said that that was one of the things to be settled at the Big Three conference with Churchill and Stalin.

Ickes Kicks It Around

By the Associated Press
Secretary of the Interior Ickes yesterday kicked the resignation ball around again.

At his news conference, more than usually well attended in the wake of diverse published reports

variously naming Senators O'Mahoney (D., Wyo.) and Downey (D., Calif.) and War Production Board Chairman J. A. Krug, as possible successors, Ickes deposed as follows:

His resignation has been on President Truman's desk since President Roosevelt's death.

It was "at least his sixth" resignation.

He is "the resigningest man in the Government."

Even "Methusalem had a successor."

And, when it was noted that today one published report predicted O'Mahoney would take over while another named Krug—"they're both right, it takes two men to do this job."

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LEGATION OF THE
UNITED STATES OF AMERICA

Cairo, Egypt, July 2, 1945

PERSONAL

Dear Mr. Secretary:

Through unpardonable negligence I find that I have not acknowledged the receipt of your very kind letter of April 20 in which you informed me that the necessary Treasury license, in connection with our proposed purchase of a house in Geneva, had been issued to Coudert Brothers on April 19 last.

Please forgive this apparent rudeness. I had mislaid your letter and only came across it the other day. I can not tell you how grateful my wife and I are for your consideration and kindness in this matter.

With kindest regards to you and Mrs. Morgenthau in which Katherine joins me.

Sincerely yours,

H. Morgenthau, Jr.

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

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July 2, 1945

Dear Jimmie:

I offer you my heartiest congratulations on your selection to be Secretary of State.

It is a tremendous opportunity that has been given to you, and I am confident that you will be fully equal to it. I shall look forward to most pleasant contacts with you in your new position. You can count on my full cooperation and that of the Treasury Department.

Sincerely yours,

(Signed) Henry

The Honorable James F. Byrnes

Secretary of State.

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I offer you my heartiest congratulations on your selection to be Secretary of State.

It is a tremendous opportunity that has been given to you, ^{and} I am confident that you will be fully equal to it. I shall look forward to most pleasant contacts with you in your new position. You can count on my full cooperation and that of the Treasury Department.

Sincerely yours,

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THE SECRETARY OF THE TREASURY
WASHINGTON

July 2, 1945

Dear Jimmie:

I offer you my hearty congratulations ~~both~~ on your selection to be Secretary of State, ~~and the praiseworthy speed with which your former colleagues in the Senate have confirmed you.~~

It is a tremendous ~~job~~ ^{opportunity} that has been given to you, but I know you will regard it as an opportunity rather than an honor. ~~It is a tremendous job that has been given to you, but I know you will regard it as an opportunity rather than an honor.~~

Please call on me for anything I can do to help you.

I shall look forward to most pleasant contacts with you in your new position.

Sincerely,

The Honorable James F. Byrnes
Secretary of State

It is your wish we fully expect it

July 3, 1945
9:15 a.m.

BRETTON WOODS
INTERNAL REVENUE

Present: Mr. Luxford
Mr. White
Mr. O'Connell
Mr. Bernstein
Mr. Feltus
Mrs. Klots

H.M.JR: Have you brought these fellows up to date?

MR. LUXFORD: Not very much, Mr. Secretary.

H.M.JR: In talking with Luxford last night, I don't know who it was told you that after I spoke to Wagner, Wagner went back to the Committee and said that I had said that Truman wanted to see this go ahead of the Charter.

MR. LUXFORD: Wagner told me that.

H.M.JR: Wagner told you himself.

MR. LUXFORD: Yes.

(Mr. Feltus enters conference.)

H.M.JR: And Wagner said when he reported that to the Committee Barkley flatly contradicted him and said Truman had said no such thing to him that morning. That naturally upset me, because on the Hill your word is one thing, but your word is also something if you are quoting the President of the United States. So, I tried to get Biffle and couldn't, and I thought the only man who knows what he said is a fellow named Truman, and I got him on the wire and I said, "Mr. Truman" and I put it so there would be no misunderstanding. I said, "Mr. Truman, I sent a message in to Senator Wagner. I told Senator Wagner that you had told me that you wanted Bretton Woods passed before the San Francisco Charter." He said, "That's right." So, I said, "Well, there seems to be some misunderstanding." I explained to him. I said, "You asked me Sunday when I talked to you if there was anything you could do to help me on Bretton Woods. I told you no, and now there is."

I wish you would get Senator Wagner and Barkley straightened out." He said, "I told this to Barkley," and unfortunately I can't remember just what he said about his conversation with Barkley. I tried to remember right afterwards something that Barkley said to him about the hearings and one thing and another. So I had to repeat it three times. My wife said when I want something I keep after the person, and finally he said, "Oh, all right. I'll take care of it in the morning." But now Truman has told me himself, no third party, (1) he wants the thing passed without any amendments, and (2) he wants the thing passed ahead of San Francisco. So, I've got it from his own lips, see? I don't know whether it's good or bad, calling him last night, but anyway I've done it because I cannot let Wagner think when I quote the President it isn't right. Now, I thought I'd call up Wagner. Luxford thought I should call Wagner and tell him of my conversation last night with the President, and I wondered if there was any disagreement on that.

MR. WHITE: Is it the difference of getting it introduced and passing it?

H.M.JR: Nobody pays any attention to when it's going to be introduced. The question is when the debate takes place on the Floor.

MR. LUXFORD: Wagner was embarrassed because he came in after talking to the Secretary and reported to the group. They were discussing when they would debate it. He told them the Secretary told him the President said it was to go out before the Charter. Barkley was in favor of having it go out before the Charter, but he said definitely the President had not said this to the Big Four. Wagner came out when it was over and started grumbling to me and said, "I reported to the Committee what the Secretary said, and Barkley said it wasn't true."

MR. WHITE: I certainly think you ought to talk to Wagner. I think you ought to talk to both Barkley and Wagner.

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MR. O'CONNELL: Isn't the President going to talk to Barkley?

H.M.JR: I'm not going to talk to Barkley. I'm going to tell Biffle what happened.

MR. O'CONNELL: I'd tell Biffle, and you might speak to Wagner.

H.M.JR: I think it's a mistake.

MR. BEHNSTEIN: I wonder if the question they had in mind was whether the hearings should begin before the charter.

H.M.JR: I can tell you--Luxford can correct me--this is what they propose to do. This is what the final angle was. The Bill is supposed to be out of the Committee this afternoon and then be dropped in the hopper. Nobody seems to give a damn about that, but these people want all the press and fanfare they can get. They will have open hearings on the San Francisco Charter. When they go into Executive Session on the San Francisco Charter they are willing to have the debate start on the Floor of the Senate on Bretton Woods, and somebody said--I can't remember, I talked to so many people, and I think, among others, it was Truman--said it would only take two or three days, and they figure from the time they start Executive Sessions it would be at least another week. Is that right?

MR. LUXFORD: Yes.

H.M.JR: While they're holding Executive Sessions on San Francisco is the time they'll give us a chance to get this thing through. Now, is that right, Luxford?

MR. LUXFORD: That's right.

MR. FELTUS: What's the approximate time of that, Mr. Secretary?

H.M.JR: They start public hearings on San Francisco the ninth, and they're going to run that a week, and they have us scheduled for the sixteenth.

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MR. LUXFORD: Or sooner.

H.M.JR: That was due to my pressing Wagner. Did you read my conversation with Wagner?

MRS. KLOTZ: I told them.

H.M.JR: Just a second, I meant the conversation I had yesterday, during the day, with Wagner, Matt Connelly, who else?

MR. LUXFORD: I saw the Wagner conversation, one of them, but there was one on the Hill. I didn't see that.

H.M.JR: I want Feltus. You woke me up out of a sound sleep last night. I know I was cranky.

MR. FELTUS: I'm awfully sorry.

H.M.JR: But have you read those conversations, plus the notes I made last night, which are available to you people? Have you read them?

MR. O'CONNELL: Yes.

H.M.JR: Here's what Connelly said yesterday: The Big Four told the President--this is Connelly--The Big Four told the President they would go to work on that thing, meaning Bretton Woods, and it would be passed before the Charter was ratified. That's when the President comes back. Barkley told him that you see. He didn't tell Barkley. Maybe that's the thing Barkley was griping about. He told it to the President, the President didn't tell it to him.

MR. LUXFORD: That might be.

H.M.JR: Would that upset Barkley, the Senator?

MR. FELTUS: No.

H.M.JR: If he said to the President, "I'll get it passed," and it was twisted around, the President said he would see it was passed. What's Wagner's secretary's name?

MR. LUXFORD: Delman.

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H.M.JR: You know, the last person that read a paper in my office was the American Ambassador to France.

MR. LUXFORD: Biddle.

MR. WHITE: I'm not reading it because I'm curious. I'm reading it because I'm trying to find something for you.

H.M.JR: He was reading because he was bored.

MR. WHITE: The boys called my attention to the fact the Treasury has opposed the British Loan Plan, see? (Indicates article entitled "Bretton Woods Delay for Britain Opposed" in Washington Star, July 2, 1945, copy attached.)

H.M.JR: I have seen it.

MR. WHITE: You have the advantage of me.

H.M.JR: Mr. White told me I had a good idea yesterday. I've been living off that ever since. Well, this thing-- while we're waiting, Harry, you told me that you thought you had sold Fulbright, but evidently Fulbright saw the newspapermen afterward.

MR. WHITE: I can't tell. If he isn't sold, then he's very obtuse, I would say. What do you think?

MR. LUXFORD: He didn't ask one question, Mr. Secretary.

H.M.JR: You see, it says here where White thought he'd sold him--when he went out, Fulbright told the reporters-- it says--

.(Secretary talks on the phone to Miss Ruppert, Senator Wagner's secretary, as follows:)

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July 3, 1945
9:29 A.M.

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HMJr: Hello.

Operator: Neither the Senator nor Mr. Delman have come in yet. Miss Ruppert thinks the Senator is over at the barber shop, but she will try to get a message to him.

HMJr: Is Miss Ruppert on the phone?

O: Yes.

HMJr: Let me talk to her.

O: Miss Ruppert.

HMJr: Hello.

Miss Ruppert: Hello.

HMJr: Good morning, Miss Ruppert.

R: Good morning.

HMJr: Will the Senator come from the barber shop back to the office?

R: I think so, Mr. Secretary, suppose I have them telephone over there and tell him you want him, and he could call you.

HMJr: Well, he -- wouldn't that disturb him while...

R: Oh, no, no. Do you have a private phone?

HMJr: Well, it is District 2626.

R: Does that ring on your desk?

HMJr: I tell you what -- no, it doesn't. I just have my own operator, and she just handles my own calls.

R: And if he calls District 2626...

HMJr: He will get me at once.

R: All right, I'll have him do that.

HMJr: Now, it is just a separate switchboard just for calls for my office.

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R: All right, I'll do that, Mr. Secretary.
HMJr: Now if he calls that number - I have no other phone, it will go right through.
R: Thank you. I'll do it.
HMJr: Much obliged.

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MR. WHITE: It says here Fulbright told reporters White had opposed the idea before.

There is nothing in this article that would indicate Fulbright didn't agree with us unless it's some other article you're referring to. See, prior to that he had suggested that Congress write a reservation to give Britain prior aid in the legislation providing for participation, and Fulbright said I was opposed to that.

H.M.JR: I deducted, maybe incorrectly, that if he was convinced, he wouldn't go talking about something, and then he had his mind changed.

MR. WHITE: Probably, except he said that the day before. It appeared in the previous day's paper, and I suspect that first part they took over previously. I think if he felt that way, he had very little support from the other members of the Committee.

H.M.JR: I don't think it's important.

MR. LUXFORD: I think he almost had to talk to the press yesterday after shooting off the day before.

H.M.JR: I was upset last night, because there's nothing worse than having your word doubted, particularly when you are quoting the President of the United States, but now that I know, that I can see, where the difference, technically, could be--but at least I put it straight to the President, huh?

MR. LUXFORD: He said what you said now.

H.M.JR: Well. I told you that on the phone.

MR. LUXFORD: I think the Secretary was right, too, with the President going out of town. It's very appropriate.

MR. WHITE: Not only that, you've got to straighten out things like that right away, because the next time it happens they refer back to it and so on and it diminishes. It was important. Unpleasant as it was, you had to straighten that out.

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H.M.JR: I'm used to dealing with people that resist me say. (Laughter) That's a very nice way of putting it.

MRS. KLOTZ: Yes, very nice.

MR. WHITE: Mr. Secretary, I promised Senator Downey I'd be up at quarter of ten.

H.M.JR: Go ahead. I'll see this through, and I want to talk to these boys about what Feltus is going to do.

MR. WHITE: Fine, and do you have in mind doing something this morning about Anderson's statement--I read it over--to see if there is anything to be done?

H.M.JR: Oh, no. If you're not worried, I'm not worried.

MR. WHITE: Well, they're misleading. The reason why the British dollar balance, as if you don't know, is built up, is because of what the troops print there. That's the only reason. They're very misleading.

H.M.JR: I thought this, if you thought well of it, that you might call up Bob Brand and say that I was surprised at his statement, that, normally heretofore before Mr. Anderson makes a statement which is, so to speak, joint account, he has consulted me, and if I were going to make a public statement about the pound dollar--

MR. LUXFORD: This is the day before election.

MR. WHITE: We had the whole speech, and why he made it. It might be of substance.

H.M.JR: Why not ask him to get you the whole speech?

MR. WHITE: We have.

H.M.JR: Through Brand? I'd just file a little demurrer. Put a little protest in. Listen, it's good with the British. I know you hate to do that, Harry, but just give in to me, you know, in your old impeccable manner. Say I'm a little surprised. Will you do that, Harry?

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MR. WHITE: Yes. They're much disturbed over this discussion in the Committee. They want to be sure they're being done right by, and I don't think they have the assurance they would like to have.

H.M.JR: Will you say something to Brand? Where are you going?

MR. O'CONNELL: I thought this was the other meeting.

H.M.JR: No. I brought this fellow down. Now I'll see you later in the day. (To Mr. White.)

(Mr. White leaves the conference.)

H.M.JR: We want to put the heat on.

MR. FELTUS: Your time is the sixteenth, roughly. Isn't it?

H.M.JR: Who is it, you or White, who suggested it?

MR. LUXFORD: No, sir. I didn't think you could put the heat on.

H.M.JR: Who raised it in this room?

MR. BERNSTEIN: Mr. White, I think, as you said.

H.M.JR: Let's discuss it. We've got him down here now, much against his will. (Laughter)

MR. LUXFORD: Well, speaking for White on this, he felt it was appropriate to start putting the pressure on again, in view of the fact that there was this tendency on the part of the Hill to delay Bretton Woods and put the Charter ahead of it. Against that I just don't think you can start the pressure going hard, that is the pressure groups, in the time that you've got, which is about ten days. Maybe I'm wrong.

H.M.JR: Let's hear the expert, Morgenthau. I don't agree with you.

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MR. BERNSTEIN: I think there's another side to it.

H.M.JR: I don't agree. I think if you would get the letter-writers--

MR. FELTUS: I was going to suggest that. I'm not completely familiar with what went before, but I assume that this is the situation: They want to get most of the publicity concentrated on the Charter and get Bretton Woods in during the lag period when they are in Executive Session. Is that right?

H.M.JR: I don't know. No one has given me an explanation. I can only give you what has been told me. Nobody has told me why. I mean somebody did say that they felt that there would be so much heat and animosity during the Bretton Woods debate on the Floor of the Senate that it might hurt the Charter. That's one explanation. I think the other is just that the State Department is capitalizing on the fact that Mr. Truman is going to go away and they want to rush this thing through to put it in his hands, and I think they just feel that this would hurt it. They've got to place it in his hands while the Three Power Conference is going on. Now I think what we've got to do is this: I made my little radio speech at which I tied the three things together. I don't know whether anybody saw it or heard me, where I tied Bretton Woods and the Trade Treaty and the Charter together.

It's rather laughable that I remember last June visiting with President Roosevelt and somebody said, "You've got an appointment in Washington on July 3, to make an appearance at Dumbarton Oaks." The President said, "Why is that?" So they said, "You know, State is having some meeting." The President said, "That is unimportant. I'm not going to rearrange my calendar. That's something that State is fussing with." He couldn't even remember it, and it was so unimportant he wouldn't even put the date down. That was last June. Then, of course, somehow he began to get interested in it. But I, personally, think that the letter-writers, the people, anybody that can turn on the steam, could make the Senators think that this is important, that this isn't something that can be ducked around.

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MR. FELTUS: I was going to suggest we do a non-publicity campaign, that is, stay out of the press and out of the radio, and do it all behind the scenes. Call the wolves out and let the pack loose on the side with letters and telegrams and phone calls. Now the question is who would concentrate on that? I assume Joe would know who to pull back.

MR. O'CONNELL: I can give you a whole list, about ninety-six of them.

MR. FELTUS: We did this with Wagner about two or three weeks ago, and I think it had a direct effect, didn't it?

MR. O'CONNELL: I don't know.

MR. BERNSTEIN: Mr. Secretary, I think there's a good deal that can be done in the way of newspapers and radio in a friendly and helpful way. The Committee is going to vote for it this week. At that time stage a chorus of approval of the fine work the Committee has done and how it shows the direction of the Senate's thinking. That will bring out a spirit of good fellowship in the Senate and will also be putting them on notice about the time the hearings begin on the Charter--something about the importance of the economic side of it by one or two of the columnists who are syndicated all over the country. That would do a lot for Bretton Woods in a friendly way, instead of trying to knock them over.

H.M.JR: I tell you the way to do it. Now, don't laugh at me, anybody, but I think that like all these things, you've got to do them once, and this would be the first time I've ever suggested doing this, but I think that we should see that a newspaper reporter asks the President of the United States, "Do you, or don't you, want Bretton Woods to get the green light? Which is coming first? Which is to be passed first? There's all this discussion. The Bill has been introduced this afternoon. Mr. President, there seems to be some misunderstanding. Which comes first?" Then he'll answer, "I want Bretton Woods to come first, and then everything else." Then we can use that, and say the President wants it, and in she goes, but I would see that he was asked that question.

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MR. FELTUS: All right. That's easy.

H.M.JR: Well, I would see that he's asked the same question I asked him last night: "Is it correct, Mr. President, which do you want to come first," and he said, "I want Bretton Woods passed first." He says it, and the fight is over.

MR. FELTUS: The question is when to do that.

H.M.JR: There's only one press conference left.

MR. FELTUS: When is that?

H.M.JR: I don't know. You'll have to find out. It's usually Wednesday. Tomorrow is the Fourth of July, so it would most likely be Thursday, but there's only one left before he goes.

MR. FELTUS: All right.

H.M.JR: That's why there's so little time.

MR. FELTUS: That's excellent.

MR. LUXFORD: You're kind of putting him on the spot.

MR. BERNSTEIN: He mentioned it twice now.

MR. LUXFORD: You're putting him in a difficult spot.

MR. FELTUS: He'll never know where it came from.

MR. LUXFORD: It's a very good idea.

H.M.JR: We sweated. We're months ahead of these people, and I don't think that this is--look, it isn't as though I'm putting myself in the position--supposing the position was reversed and I told you I didn't want something and then you put me on the spot. Then I'd be

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furiously, but I've asked the President the two key questions: one, Do you want any amendments? No. Two, do you want it passed first? Yes. Well, I'm not asking him--I'm not putting him on the spot to do something that I know he's opposed to. I'm only asking him to give publicity to it. Now, I would resent terrifically if anybody in my organization had a newspaper man ask me something he knew I was opposed to, but I couldn't be very resentful if they asked me a question about--my people don't work like that--something they knew I was sympathetic to. I think the things are ethically and morally entirely different. Don't you agree?

MRS. KLOTZ: Definitely, absolutely.

H.M.JR: It would be different if I tried to put the President on the spot where I knew he was opposed to something. The question of amendments or no amendments will be settled today, this afternoon?

MR. BERNSTEIN: Yes, two o'clock.

H.M.JR: That's out of the way, so the only thing left is which comes first. He told me he wants that first. Barkley said he wants it to come first. Wagner says he wants it to come first. All right. If you are worried now, Luxford, because of your standard of ethics!

MR. LUXFORD: No, that doesn't trouble me, Mr. Secretary; I'm not the least bit concerned about that. I just query what you can do by a newspaper campaign, or by a publicity campaign.

H.M.JR: You can back the President of the United States up. You get a public statement from him. There's no trouble running a campaign. Back up the President and get this thing through first.

MR. FELTUS: No. We can do that.

H.M.JR: But you've got to get his statement first and hang everything on it.

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MR. FELTUS: We can ask all the commentators to point to that.

H.M.JR: After he spoke, that's all that's necessary. You get the President and then get general publicity to his statement so it isn't lost sight of. Incidentally, I never saw a statement that was so sunk under a cloud of other publicity as Vinson's first monthly report to the Senate. Are you all right on this?

MR. O'CONNELL: Yes.

H.M.JR: Are you all right on this?

MR. BERNSTEIN: Yes.

H.M.JR: Are you all right on this?

MR. LUXFORD: Yes.

H.M.JR: Will you go to work, please?

MR. FELTUS: Yes.

H.M.JR: So I can go back to sleep.

MR. FELTUS: Let me throw one other thought in. It's not going to be possible to revive in full force this publicity, because this is an old hat to the President, but we have to have these little special angles, but don't expect the same sort of thing we had before.

H.M.JR: Look. You get some friendly reporter to ask the President that. I've seen to it that the President will answer promptly. All you have to do is get him to ask the question. After you have got that, anybody with half your talent can publicize what the President of the United States has said. That's all I'm asking you to do.

MR. FELTUS: That will carry it's own weight really.

H.M.JR: That's all I'm asking. I think it's a good conference.

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MR. FELTUS: You want me to put in a written report on this?

H.M.JR: No.

Joe, what are you doing now?

MR. O'CONNELL: I'm due at the Joint Committee at ten o'clock, but I can cancel it if you have something else.

H.M.JR: I want to get a verbal report on what he did in New York, pending waiting for Wagner, and if you don't have it, he can give you a written report.

MR. O'CONNELL: All right.

MR. FELTUS: I'll write it out afterwards.

H.M.JR: Suppose he tells me the high lights now and he can give you the written one. I think you better go up there.

MR. O'CONNELL: We have a couple of Bureau refund cases before the Joint Committee and I was expecting to argue one of them myself.

H.M.JR: You better go, and Feltus will see you during the day.

(Mr. O'Connell, Mr. Luxford, and Mr. Bernstein leave the conference.)

MR. FELTUS: I saw Johnson. Pedrick had left for his vacation. I saw Raymond Ryan, his assistant, who, frankly, is very close to Pedrick, knows his thinking, and so forth, and I did not see Marcelle. He wasn't in his office yesterday.

H.M.JR: He's the Italian?

MR. FELTUS: In Brooklyn.

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H.M.JR: He succeeded Numan.

MR. FELTUS: I did not see McQuillan. I was to see him today. I met two sharp differences in approach between Johnson and Pedrick's office. Johnson is against publicity until you have a conviction to publicize, and he's a rather intelligent person.

H.M.JR: Yes, he is.

MR. FELTUS: He felt that the only effect of this publicity was to forewarn certain people and make them more cagey or hazy and also open Treasury Collectors' offices to criticism and not have any results to show. He seemed to feel that to accomplish anything would take from two to three years in the way of convictions.

H.M.JR: That's the old school of thought--don't do anything, don't stir up the waters, wait until the case breaks.

MR. FELTUS: Also he is a naturally cautious person. He's the old line Government employee type. He said a few things that I think were quite significant. One is that his investigators are on a much lower shelf than the Intelligence people or Revenue Agents. Their salaries are lower and he gets a lower grade of person.

H.M.JR: Excuse me. If you will read these telegrams-- I've sent you a note--you get all of that in them.

(Secretary holds telephone conversation with Senator Wagner, as follows:)

July 3, 1945
9:48 A.M.

JJC

HMJr: Hello.

Senator Wagner: Hello.

HMJr: Bob?

W: Yeah.

HMJr: Good morning.

W: Good morning, sir.

HMJr: We all slept better last night, eh?

W: It was a little cooler.

HMJr: That's what I mean.

W: Not much though.

HMJr: Bob, Luxford told me last night that after you had spoken to me you went back in the committee and told them of my conversation with you.

W: Told whom?

HMJr: The committee, or Barkley anyway. Hello?

W: Yeah.

HMJr: Well, anyway, he said the committee, and he said that Barkley had categorically denied that President Truman had said anything like that to him in the morning.

W: Oh well, he talked to me alone. I didn't say anything to the committee.

HMJr: Oh, well any way....

W: Luxford got that all off. I whispered to him...

HMJr: Yeah.

W: Yeah?

HMJr: Well, my word was at stake, you see, as to what I told you, see? So...hello?

W: Yeah.

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HMJr: I called up President Truman last night..

W: Yeah.

HMJr: And said, "Did I get the message correct from Matt Connally that you would like to see - that you told the Big Four this morning that you would like to see Bretton Woods passed ahead of the San Francisco Charter?" And he said, "That is absolutely correct."

W: Yeah.

HMJr: He said, "That is the message I sent you."...hello?

W: Yes.

HMJr: So then I said, "Well, there is a little misunderstanding as to what I told Senator Barkley and - I mean Senator Wagner - and what Senator Wagner told Senator Barkley, and I would appreciate it, Mr. President, if you would straighten it out this morning." And he said he would.

W: Yeah, oh, well, the-- it - I'm sorry that you made so much of it, because there wasn't - because we decided yesterday in spite of Mr. Taft and one other that we are going on with it today, and we are going to vote on the reporting or rejecting of it. So that is all to be settled today, there is no question about that.

HMJr: Well, the reason I made so much of it was that I never want my word on the Hill doubted. That's the point.

W: Well, it was one of those foolish things. Luxford shouldn't have said anything to you about it, because it wasn't serious enough for.....

HMJr: Well, I was...

W: We had already decided what we were going to do.

HMJr: Well, I was very much disturbed because I didn't want either you or Barkley to ever think if I say that's what the President said that there would ever be any doubt in your mind.

W: Well, there isn't. It was never in my mind.

HMJr: Well, anyway, I did talk to him.

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W: Oh, well, forget that, Henry, because we are going right on, and we are going to, I think -- I'm sure that we are going to finish it before the Charter starts.

HMJr: Well, that's, that's

W: About all you can expect - I mean.. but he did say at the meeting, Barkley did say that he thought we would start on the 16th.

HMJr: Yeah.

W: So I just interposed that, well, now, maybe we can start before. He said "Well, all right, but it certainly won't be later than the 16th." So I think we are all right.

HMJr: Good. Well, at least, as long as you, the President, and I are straight, I don't worry about anything else.

W: Oh, don't - no, don't take that thing too seriously, Henry, because everybody knows you.

HMJr: Well, thank you.

W: Knows your accuracy and all that sort of thing, and we are all for you, too.

HMJr: Thank you, Bob.

W: All right, Henry.

HMJr: Much obliged.

W: All right, good bye.

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H.M.JR: I told him just what happened. It's the whole whispering gallery up there, and Biffle is very close to the President and very close to Barkley. I wanted him to know just what happened, so if and when the President called up--Barkley may go up tomorrow, see? I'd much rather have him take that attitude, you're making too much of this thing, than to have him say, "When Henry Morgenthau says something about the President, maybe the President said it, and maybe he didn't." It's a funny situation. There's a little club up there, and if they once get down on you, God help you. Isn't that right?

MR. FELTUS: You're absolutely right.

H.M.JR: That's the nicest thing he's ever said to me in my life. He never talked like that.

Well, I'm going to interrupt you, because I tell you what you do. I think this, if you don't mind. If you could read those telegrams, and Pehle's analysis, it would save me time. Pehle read these sixty-five telegrams and boiled them down to three pages, the good and the bad, and then after you've read the sixty-five telegrams and Pehle's analysis, plus anything new--I'm so sick and tired of being told what I can't do. I want to be told what I can do, see? So, we'll skip everything they tell us we can't do, and you will see in these telegrams that the interesting fact comes out that the statements I make here--I can't remember the various States, but I think it was in Arizona, not a statement was ever published in the papers.

MR. FELTUS: The thing that amazed me more than anything else was the complete lack of familiarity with the New York cases that you had announced here that these boys had. For instance, Johnson didn't know anything about the Broadway playboy. He didn't know whether he was in his district or in another district. He didn't have any idea.

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H.M.JR: Gaston pointed out they wouldn't know. These cases were handled by the Agents in Charge, but when I went up there--it was on getting this thing started--under the law the Collector is responsible, and they can say it's the Agent in Charge or some other person, but under the law these fellows are there to collect the taxes and uphold the law, but what they've gotten down to is just who it really comes back to.

MR. FELTUS: Routine people.

H.M.JR: But you have in each case, supposedly, a strong political figure. Otherwise, he won't be there. We've never used them, for instance, to help us on Bretton Woods. But you take a fellow like Nunan who had the same position in Brooklyn. We pull him down here and he becomes a national figure. When he was in Brooklyn supposedly he was a strong figure in Brooklyn, and there are Congressmen in Brooklyn, and I've also had in the back of my mind these Collectors of Customs--I tried so hard to get them in on Bretton Woods.

MR. FELTUS: One or two did.

H.M.JR: You find out which are the strong ones. I tried so hard on this thing. You just think and come back at me, see. But I think after you read them, I may have time this afternoon.

MR. FELTUS: I've got some very definite ideas for little things to improve the whole thing.

H.M.JR: I'm sure you have. I think you'll get more, but I think--I don't know what--but I know that the heart of America is not getting this stuff. When they do, they get maybe two inches.

MR. FELTUS: I think maybe it was a good idea if I hit one or two other parts of the country on it.

(Secretary holds telephone conversation with Mr. Biffle, as follows:)

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7/3/45
9:56 A.M.

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Operator: Mr. Biffle

HMJr: Hello

Mr. Biffle: Good morning, Mr. Secretary.

HMJr: Good morning. Mr. Biffle, you may think that this is unimportant but I think it is important because I have been following the plan that if you know everything that I am doing in connection with the Senate then I am all right. (laughs) And if I am not doing the right thing, then you tell me. See? Is that right?

B: I'll be glad to and I know you will take it in the way I mean it.

HMJr: I know and I have asked you again and again if I got off on the wrong foot you tell me. Now this is what happened - see. It will take a couple of minutes for me to tell you.

B: That's all right.

HMJr: Last night Mr. Luxford, one of my assistants, came down off the Hill and talked to me after supper and said - I got to go back a minute - I tried all day to find out what President Truman had said to the Big Four about Bretton Woods and sometime after 4:00 Matt Connolly called me and the impression I got from his call was that the President had told the Big Four that he wanted Bretton Woods passed before the San Francisco charter. Hello.

B: Yes.

HMJr: After getting that message I called up Wagner and told him this and then Wagner got Barkley aside and told him he had gotten this message from me and Wagner - Barkley categorically denied it and said that the President had not said that to him. See? Well, I have been around Washington long enough to know that the only thing worth having around here is one's word, and if the Secretary of the Treasury's word is doubted, particularly when he is quoting the President that's almost fatal. So I got the President on the phone last night about 9:30 and told him the story and said "Did I quote you correctly when I said that you wanted Bretton Woods passed ahead of San Francisco charter." He said, "Absolutely." And I said, "Would you

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HMJr: (cont'd) mind - you have offered very kindly to help me and I haven't needed any help but now I do. Would you mind straightening out Senator Barkley and Senator Wagner that you do want Bretton Woods to be passed before the Charter? He said he would. Then a few minutes ago I spoke to Senator Wagner and told him what I had done up to the minute just where I have told you, and he said, "Oh Henry, this was unimportant, Luxford should never have told you - this was just a little conversation between Barkley and myself. Of course, we believe you. I wish you hadn't done anything." I said, "Well, I don't like to have my word doubted and I did do it and that's that." He said, "Well, we believe you." So I wanted you to know the story in case you hear from the President or Barkley or Wagner you will know what my part was. Hello?

B: Yes, I understand.

HMJr: Now you have the whole story.

B: Yes.

HMJr: Do you want to question me on it?

B: I don't think it's necessary.

HMJr: No - but is it clear in your mind?

B: Oh, yes, very clear indeed, Mr. Secretary.

HMJr: If there are any repercussions or if you hear anything or if the President calls you, you know just what happened.

B: I am going to see him this morning - I am going to the White House in a few minutes.

HMJr: If you will get it straight also in your own mind that that is what he wants -

B: Fine - it should be done.

HMJr: Pardon me.

B: There is no question but what it should be done.

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H.M.JR: You see? He's seeing the President. The President counts on him very heavily.

MR. FELTUS: He sees him all the time.

H.M.JR: Don't you think that's the right way to handle it? It's the most intimate little crowd, and one tells the other, and Barkley is sore and I'm not, huh? I think the trouble is that Barkley said he would do it and he's standing on a technicality rather than saying he told the President he'd get it through, the President didn't tell him. I think that's the whole business.

Bretton Woods Delay For Britain Opposed

By the Associated Press.

The Treasury today opposed a reservation to the Bretton Woods world monetary plan restricting its operation until Great Britain's fiscal position is improved.

Committee members said Assistant Secretary of the Treasury Harry D. White held a closed committee session discussions had been going on in only a general way for the United States to give Britain a post-war loan to help clear up that nation's debt.

Senator Fulbright, Democrat, of Arkansas had suggested that Congress write a reservation to give Britain prior and to the legislation prevailing for United States participation in the Bretton Woods plan.

He had suggested some proviso after committee witnesses testified the monetary plan might not work out unless Britain received substantial help beforehand and modified its empire preference trading system.

Mr. Fulbright told reporters that Mr. White had opposed the idea of any reservation to United States participation in the plan and had assured the committee this Government as yet has made no actual commitments to give Great Britain postwar aid.

Senator Tamm, Republican, of Ohio, said afterward that nothing should be given Britain until it agreed to lift trade restrictions so "we can sell to India and Egypt, for instance, on the same basis as the British Empire."

July 3, 1945 JBC
9:17 A.M.

HMJr: Hello.
Mr. Harry Hopkins: Hello, Henry.
HMJr: Feel better the way everybody else does now the heat wave has passed?
H: Yes, I do.
HMJr: Harry, I don't want to be a pest, but in as much as you yourself raised this question about seeing a couple of people who know about Jewish affairs, I again want to bring it to your attention.
H: Henry, I'll tell you, I'm not going to.
HMJr: Oh, I'm so sorry.
H: But I want -- are you going to be in town this week?
HMJr: Oh, yes.
H: What about-- well, I'd like to come and see you. I'm going to lunch with Marshall today.
HMJr: Well, I'm available....
H: What about 12 o'clock?
HMJr: Today?
H: Or tomorrow some time.
HMJr: Well, anytime tomorrow. Tomorrow is the 4th of July.
H: Oh, tomorrow is the 4th - that's right.
HMJr: So anytime.
H: Are you going to work tomorrow?
HMJr: No, I'm going to stay home. I'll do anything you suggest. If you are not feeling well, I'll come and see you.
H: Well, let me call -- suppose I call Mrs. Klotz up because I'm not sure what my appointments are.
HMJr: And if you don't want to do it the 4th, I'd be delighted to have you here at lunch on the 5th.

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H: I think I'm lunching with Dr. O'Connor about the Red Cross.
HMJr: Oh. Well, anytime tomorrow, I haven't no plans.
H: All right, Henry, I'll come over sometime to see you - over at your house tomorrow.
HMJr: Why don't you do that.
H: And I'll tell Mrs. Klotz. She's in town, isn't she?
HMJr: Yes, she is.
H: All right, Henry.
HMJr: Right.
H: Bye.
HMJr: Thank you.

July 3, 1945
11:45 a.m.

BRETTON WOODS

Present: Mr. O'Connell
Mr. Luxford
Mr. Bernstein
Mr. White
Mr. Feltus
Mrs. Klots

H.M.JR: Luxford make a note. I had a long talk with the Senator from New Hampshire.

MR. LUXFORD: Tobey.

H.M.JR: He has a couple of people here in town, and if there is a dance or Bond Rally he wants to be invited.

MR. WHITE: Invite them all?

H.M.JR: Anyway, he has a couple of people here. Between Charlie Bell and Coyne--Gamble isn't here--but see that he gets a couple of tickets, compliments of Morgenthau. And if you have any other affairs around here, see that he gets tickets.

MR. LUXFORD: War Bond Rally or dance. Is that the dance out here?

H.M.JR: Yes.

MRS. KLOTZ: Maybe he can take them over in the Theater Wing, if he's got somebody.

H.M.JR: No, he wanted this. There is a big War Bond Rally on tomorrow night up at the Washington Monument.

MR. LUXFORD: I see.

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H.M.JR: And I asked him about this thing that came up yesterday, this discussion of changing the Chairmanship, and he said, "Yes, it is," and he said, "That's the stand on it." That's what he said. So I said, "Do you know the President issued orders to each agency and to the Secretary of the Treasury?" He said, "Well, it's dead," and I talked about Democratic leadership up there.

MR. WHITE: I gather he wasn't too enthusiastic.

H.M.JR: No, he is not a great admirer.

MR. WHITE: I am afraid he is right.

H.M.JR: Have you boys found out anything?

MR. WHITE: I haven't.

H.M.JR: I thought you were going to call Wagner's secretary. I think even it wouldn't do any harm. Who is going to be sitting on the doorstep?

MR. WHITE: I want to go up, too.

H.M.JR: I don't think it would do any harm before a meeting to show Barkley and Wagner this thing.

MR. LUXFORD: All right.

H.M.JR: Now, has anybody else got anything? You all look dead to me.

MR. WHITE: No, I mentioned to you that Ball and Burton seem to reflect an eagerness on the part of the Republican Party to put this thing over. They think it will pass more easily.

H.M.JR: Well, that's that. Wagner is in a grand humor. He and Charlie were patting each other on the back.

MR. WHITE: Charlie who?

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H.M.JR: Charlie Tobey. (Laughter)

I don't have anything. What's the matter with you fellows? You all sit there as though you were exhausted.

MRS. KLOTZ: They are.

MR. WHITE: There has been no news for two hours. That's reason for us to be exhausted.

H.M.JR: Okay. Glad to have met you.

July 3, 1945 241
11:50 A.M.

Mr. Luxford: Hello.

HMJr: Yes.

L: We just finished, and things went very well. I think they are going to decide what they are going to do. They excused us from the room, and they are now going to decide what they are going to do.

HMJr: I see.

L: But there was no real difficulty. There were a lot of questions, but I don't think it is bad at all.

HMJr: Yeah, but as to the timing.

L: We have no information on that at all.

HMJr: Yeah.

L: ...at this point.

HMJr: Yeah.

L: I'll call you as soon as I hear anything more.

HMJr: Right.

L: All right.

July 3, 1945
11:53 A.M.

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HMJr: Hello.

Senator McKellar: Mr. Secretary, this is McKellar, and I took up that matter with Mr. Joe Hale..

HMJr: Yes.

M: And he says that he would prefer his friend's place - the second place up there. By the way, he told me that Mr. Richardson was out and out Republican and had been all his life. I don't know whether I ought to tell you that or not....

HMJr: Well, I didn't -- the first I heard about that was yesterday afternoon. Somebody from -- the Collector of Internal Revenue there called up Mr. Nunan and told him that yesterday.

M: Yes.

HMJr: That's the first I've known.

M: Yes. Well, I hoped that you would appoint Mr. Hale. He's the best man in the whole lot.

HMJr: Well, now, Senator, this is what happened since I talked to you. Senator Barkhead called me up yesterday. I don't know who he's got -- and he gave me the names of two women's organizations. He says now you write them and inquire from them about Mr. Hale, and he said you'll find out what kind of a man he is.

M: I can't imagine-- I'd be perfectly willing for you to write to anybody that knows him. There is nothing wrong with Hale.

HMJr: No. Under the circumstances I think I've got to, don't you?

M: Oh, yes, that's all right.

HMJr: What?

M: Oh, sure, I'd want you to inquire, but I'm sure you'd find that Hale is all right. You say -- what sort of women's organizations?

HMJr: Well, I haven't got it before me.

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M: Well, John is just all wrong about it. *He's repeating things he don't know about.* He's a man of the highest character and standing. I never heard a bum thing about him in my life.

HMJr: Well, I don't know. He said these women were down on him, and I'd better write them. I just don't -- I'd be glad to furnish them to you, but I just don't happen to have the names.

M: Well, that doesn't make any difference because I know when you write you'll find out that he is all right.

HMJr: Well, I'm getting them off letters today. I was going to call you up about it. But as soon as I hear I'll let you know.

M: All right. Thank you very much.

HMJr: Thank you, sir.

July 3, 1945 244
12:18 P.M.

HMJr: Hello.
Mr. Luxford: Mr. Secretary.

HMJr: Yeah.

L: There is one further development that I wanted to mention to you. Senator Murdock called White this morning, and said that he was having trouble with the silver Senators because they didn't want to have in the bill the definition of the dollar in terms of gold, which is in there now.

HMJr: Yeah.

L: White discussed it with him, but we had to agree that it wasn't necessary, we only put it in there because the House wanted it in there as reassuring that the value of the dollar that we submitted to the fund would be the present dollar.

HMJr: Yes.

L: Then White wanted me to call Murdock so I spoke to Murdock about it and explained the thing to him, pointing out that we would have trouble in the House if we tried to do anything with that provision...

HMJr: Yeah.

L: ...and we didn't want - if we could avoid it, any more amendments.

HMJr: Yeah.

L: And he said well he said Millikin was very definitely going to introduce this as an amendment this afternoon, and that it would get a lot of support on the silver side. And he said that put me in a bad position because he said if they introduce that amendment, I'll just have to support it. Now, he said I told the Secretary that I wasn't going to push for any changes, and he said I won't push but I will have to vote on that with Millikin if the thing comes up.

HMJr: Well, they'll just have to vote it down.

L: That was my opinion. I just wanted to keep you advised.

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HMJr: Vote them down.

L: That was what I wanted to be sure.

HMJr: Yeah.

L: The other thing - Dave Carr was in here a minute ago.

HMJr: Well you'd better -- I'll see him a minute.

L: All right.

HMJr: Is it important?

L: No, no hurry at all.

HMJr: I see him - he in my outer office in a couple of minutes.

L: All right.

July 3, 1945
3:00 p.m.

FINANCING IMPORTS INTO GERMANY

Present: Mr. D. W. Bell
Mr. White
Mr. Coe
Mr. Glasser
Mr. Friedman
Mr. Aarons
Mrs. Klotz

MR. COE: This was a formal document transmitting Treasury's views on this report.

H.M.JR: Let White sign it.

MR. COE: Yes.

H.M.JR: Well, that's hard to say. It is just that I want as few emergencies as possible. I have too many of them each day. I am just stepping out. White wants me to shake hands with some of the people. There are too many emergencies.

Glasser doesn't even smile.

MR. GLASSER: I can smile, Mr. Secretary.

MR. COE: We were trying to think of whether any papers were missing from this meeting. That's what is bothering Harold.

(The Secretary leaves the conference temporarily.)

H.M.JR: Come up a little closer where I don't have to talk so loud.

MR. COE: I've got a little memo here.

H.M.JR: Well, do you think in face of that we can go ahead?

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MR. COE: In face of this? May I think back? Yes, sir, I think so, because there have been about a dozen such things introduced. They are floundering around up there.

H.M.JR: (Reading from memo to Secretary Morgenthau from Frank Coe, dated June 29, 1945, Attachment A.) "This position would prevent the rehabilitation and rebuilding of the British zone at American expense, might discourage any tendency to develop a Western bloc functioning apart from the Russians and would hasten British and French concurrence in any necessary four-power agreement on supplies for Germany made through the Control Council." I don't get that.

MR. COE: The American Committee meeting under the Chairmanship of State is against the British proposition for a combined arrangement on supplies and their financing. One reason is that this would exclude the Russians and the Americans were afraid that such exclusion would interfere with later four-power cooperation. On this point, Harold Glasser tells me that day before yesterday--

MR. GLASSER: Yesterday.

MR. COE: Yesterday this matter came up. A reply came down from the War Cabinet, transmitted to this Committee in State. The British said that they wanted to dispel any fears that their propositions on this might be aimed at preventing real four-power functioning in Germany. They sensed that maybe part of the American opposition was on that ground, and they hastened to try to correct it. I don't know whether it was the consensus of the group that the British were so motivated or not.

MR. GLASSER: It was taken with some skepticism.

(The Secretary holds a telephone conversation with Mr. D. W. Bell.)

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(Mr. White enters the conference.)

H.M.JR: A letter has come in from the President which is most unusual.

MR. COE: In answer to the Budget Bureau's problems.

H.M.JR: Let him read it. I mean, I don't want to try to paraphrase it, but it just came in. I think it cuts straight across this. Did you get a copy for Mr. Bell to read?

MR. COE: Yes, he can have this one.

MR. WHITE: They are not letting the boys in the Executive Session. They are keeping them outside.

H.M.JR: You changed your mind. You wouldn't go up.

MR. WHITE: I thought I better not hang around outside.

H.M.JR: I thought it was a mistake, but I didn't want to tell you what you should or should not do.

MR. WHITE: They talked to Fulbright and he is entirely satisfied with the views expressed with regard to it, and he is not going to push for amendments.

(Mr. D. W. Bell enters the conference.)

H.M.JR: Dan, read this letter out loud to the boys.

MR. BELL: This is a letter dated July 2, 1945, from the President to the Secretary.

"It has come to my attention that various agencies of the Government have in the course of their dealings with representatives of other nations made promises or entered into agreements involving commitments beyond authorized funds.

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"Whether such commitments are informal or the formal results of international conferences, it is obvious that they must receive careful consideration from financial and budgetary standpoints before they are made.

"It is not enough that such agreements be covered technically by being made subject to future appropriations, since even such conditional arrangements often carry with them a major or moral responsibility for fulfillment.

"Accordingly, I am notifying the principal agencies dealing with representatives of other nations that I expect them to consult fully with the Director of the Bureau of the Budget prior to giving formal or informal assurances to other nations as to the future expenditure of funds beyond authorized amounts for the purposes involved."

I don't know what it means unless it means FEA.

MR. COE: He might mean Phase II Lend-Lease.

MR. BELL: Yes.

MR. GLASSER: It would apply to this, Mr. Secretary, if these discussions had taken place before the War Department appropriation had been passed by Congress, but the War Department appropriation has been passed by Congress, and the funds involved in this program are now available and appropriated.

H.M.JR: Let Mr. Bell read what I am reading, will you?

MR. GLASSER: Oh, I am sorry.

H.M.JR: Do you mind if I just finish? I got as far as (c).

MR. WHITE: That sounds like a budget letter. The appropriate place for consideration of that kind is the

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Council which was created. That's what its functions cover.

H.M.JR: What functions?

MR. WHITE: The Financial Council.

H.M.JR: You mean Bretton Woods Council.

MR. WHITE: Yes. That's the terms of authority which cover that. I imagine that's a budget letter.

H.M.JR: I don't doubt it is a budget letter.

MR. WHITE: Senator Hickenlooper and a couple of others pressed repeatedly, very hard, "Wasn't there a commitment for Phase III made at Quebec, and made by the Government," and I said, "On that score I can speak for the Treasury. As far as the Treasury knows there is none. There was general discussion about nothing that could be considered as a commitment, either formally or informally after the Japanese war."

H.M.JR: This letter has just come in from Truman, and I think it is a very arbitrary letter.

MR. WHITE: Very arbitrary?

H.M.JR: Yes.

MR. WHITE: Well, do you think so? I think they are shooting at commitments.

H.M.JR: Why should he send me a letter like that without talking to me about it first?

MR. BELL: Well, I think it is a general letter. I think it went to several people.

H.M.JR: I'm sure it did, but I still think after all, if I am Chief Fiscal Officer, why send me a letter like that without talking to me about it first?

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MR. BELL: Well, Harold Smith has gone over there and told him what has happened, and that he would like to write a letter to some of the agencies dealing with foreign governments, and he said okay.

MR. WHITE: Probably they said that he may have mentioned that either FEA or the State Department are making commitments.

H.M.JR: I think I will call Harold Smith and ask him. Dan, do you want to or shall I? There is another letter in the mill which should come to you for signature which I haven't seen which is in answer to the Smith letter we got on the Railroad Retirement Bill which I wanted to go over and talk to him about. If you would do that, I would appreciate it.

MR. BELL: I will do both.

H.M.JR: I am seeing the President at ten-fifteen Thursday. I would like an answer before that. I think it is a very arbitrary letter.

Well, now, Mr. Bell will do that.

Are you sure this comes out of Army appropriations?

MR. GLASSER: The part of the program that is involved for the combined appropriations does come out of there.

MR. WHITE: What do you mean, combined operations?

MR. GLASSER: The military relief program.

MR. WHITE: I thought you meant combined in the sense of British-American.

MR. COE: I did, too.

MR. GLASSER: But the War Department got an appropriation for all the combined military operations for their share of military operations in Europe.

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H.M.JR: If that's true, and it is of course, what I would think about this thing is that here was this commitment made at Quebec, and then there is all this finagling going on with Crowley, and then you see what Clayton told me that there is a distinct cleavage in the testimony before the Appropriations Committee between Crowley and the Budget. You were here.

MR. COE: Yes.

H.M.JR: Four hundred and fifty million dollars. Crowley is claiming that he has enough money to take care of the commitment to the British, and Budget is saying he hasn't.

MR. COE: That's partly it, yes.

H.M.JR: And so much so that Cannon, Chairman of the Committee, told Crowley, "It seems to be your philosophy that the less the Committee knows, the better off we are. What we don't know won't hurt us." You know what he said.

MR. COE: I didn't get that.

H.M.JR: But he said there is a distinct cleavage between Crowley and the Budget, Oscar Cox maintaining they have the money and Budget claiming they haven't. There is a difference of four hundred and fifty million dollars which comes out of the hide of UNRRA. Is that right?

MR. COE: Yes, that's right. They completely forgot UNRRA and over-estimated.

H.M.JR: So, my guess is that this is an FEA thing, but sending me a broad thing like that without even explaining it or anything--I'm not a clerk.

MR. WHITE: I don't think, Mr. Secretary, that you are quite justified in that, because I think that would be the appropriate thing for the President to do if it is called to his attention that there is any agency making

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either by implication or not a commitment, and I think one of the offenders is not only FEA but the State Department in their implications which can be done as well.

H.M.JR: Yes, but look, Harry, the way he says he is going to work is call us together and explain it to us and then hand us a letter and explain what is back of it. I mean, I don't get out orders here at the Treasury to you people saying to do this thing and take it or like it or don't. I don't leave it without calling you in and discussing it or giving some kind of an explanation.

MR. WHITE: Well, I think that's true. I think it could be done more effectively. That's in order, I think, the instructions are in order whether that's the way to give it or not.

MR. BELL: I think it is better not--

H.M.JR: Here I get a letter like that. I don't know what it is all about. I am Secretary of the Treasury.

MR. WHITE: Because you don't violate it.

MR. BELL: It doesn't fit you, maybe.

H.M.JR: I would still like to ask him what the hell is this all about?

MR. COE: That's in order. Try to find out what case has actually motivated Budget, whether it was in the Treasury, either you or Mr. Bell.

H.M.JR: Bell has good contacts. If he can find out before Thursday, but this idea of sending out a blanket letter--it would be one thing if I suggested it myself. (Laughter)

(Mrs. Klotz enters the conference.)

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MR. BELL: That has been done, you know.

H.M.JR: When the President sent out the one that Treasury should be the top dog, that was all right.

MR. COE: We understand.

H.M.JR: Anyway, let's get at this thing, see? Bell, I want you to hear from me again on this. I am on both sides of the fence on this thing. One of the reasons, I can see that if we don't say we will do this thing cooperatively from now until the first of November--Europe and Germany I mean--the bottom will just drop out, see? What percentage do we pay on the British-Canadian-USA formula?

MR. GLASSER: Sixty-seven and a half percent up to a total of four hundred million dollars and beyond the four hundred million dollars the British are now negotiating what the percentage will be.

H.M.JR: We pay sixty-seven and one-half of four hundred million dollars?

MR. GLASSER: Yes, the net loss for the military relief program in Europe.

H.M.JR: And this becomes a first charge on their exports.

MR. GLASSER: The exports to Germany. It becomes a first charge on Germany's exports.

MR. BELL: Imports.

MR. WHITE: The money they get for the sales of their exports becomes a first charge on what they have to pay.

H.M.JR: The exports in Germany?

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MR. GLASSER: The exports from Germany will pay for the imports into Germany.

MR. COE: Ultimately.

H.M.JR: Ultimately?

MR. GLASSER: The problem here is interim financing until they get--

H.M.JR: Thus cuts what you are saying, cuts right straight across the Reparation Commission. The Reparation Commission has a chance actually of putting a first charge on the exports of Germany.

MR. WHITE: That was done by the IPCOG, and the reason for it was they were afraid the State Department and the Army much feared that Russia would take food out of her end export to Russia and leave a deficit of food which would have to be supplied by other countries. So, in order to stop Russia from pulling stuff out of Germany and making it a burden on the other countries they said that if anything goes out of Russia, it will have to--the proceeds of that will have to be used to pay for stuff that gets in Russia.

H.M.JR: Yes.

MR. WHITE: That gets in Germany.

H.M.JR: Yes, but can we make this a first charge? Won't the Reparation Commission have a prior claim?

MR. WHITE: It's a matter for negotiations. They could say--

H.M.JR: Are you sure now? Are you sure?

MR. GLASSER: The President's memo of March 23rd--

H.M.JR: Which attorney sat in on Reparations?

MR. COE: Friedman.

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H.M.JR: Is he in on this, too?

MR. COE: Was it Joe or Friedman?

H.M.JR: Has he seen this paper?

MR. WHITE: Friedman.

MR. COE: I think Mr. Aarons.

MR. WHITE: Aarons is the fellow.

H.M.JR: Get both in here. I want to ask this question.

MR. WHITE: I think this part dealing with the interim is a separate problem than the one you are raising, isn't it?

H.M.JR: No! No!

MR. WHITE: This is a question of what is to be done until there is a unified position.

H.M.JR: I am just questioning whether you have a right to make this a first charge against it.

MR. BELL: All you are doing is getting an agreement between the United States and Great Britain and whatever other country, France I suppose in the Western zone, that this will be a first charge on reparations.

MR. GLASSER: We are not doing that here.

MR. BELL: No, you are getting an agreement on all Government agencies on this end. You will take that position with the Governments. If they go with you, it will be three against one.

MR. WHITE: I wonder if we are not missing two things up here. The problem here is who is going to pay for exports to Germany. There aren't any funds available yet from exports.

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(The Secretary holds a telephone conversation with Mr. Luxford, as follows:)

July 3, 1945
3:12 P.M.

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Mr. Luxford: Hello.
 HMJr: Yes.
 L: There have been two votes so far - one to kill the fund.
 HMJr: One to kill the fund?
 L: And one to kill the bank.
 HMJr: Yeah.
 L: And it was -- each time there were only two in favor of it.
 HMJr: Two what?
 L: Two in favor of it.
 HMJr: Two? You mean that two ---
 L: Taft and Millikin.
 HMJr: Taft and Millikin.
 L: The rest, excluding Butler, were against it.
 HMJr: Excluding who?
 L: Butler.
 HMJr: Butler?
 L: Yeah. Who we counted as a sure vote against it.
 HMJr: What's that?
 L: We had counted on him as a sure vote against it.
 HMJr: And he is with us?
 L: Apparently on those two votes.
 HMJr: I see.
 L: But now they are getting into the amendments where it will be tougher.
 HMJr: Ahuh. Do you need any liquor?

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L: (Laughs) Not yet.
 HMJr: The boys here think you need a little cough medicine.
 L: Maybe I do. Ratcliffe is not doing so good for us.
 HMJr: What's that?
 L: Ratcliffe is not doing so good for us.
 HMJr: He's not doing so good.
 L: He wants to talk about these things, but it is going very well at this point.
 HMJr: Keep us posted. White and Bell are in here and they hear what you say.
 L: All right, sir. I'll call again.

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H.M.JR: He said Madcliffe is talking too much.

MR. COE: He is not doing too well.

MR. BELL: He is not helping us much. He said funny how they take turns.

(Mr. Aarons and Mr. Friedman enter the conference.)

H.M.JR: Look, boys, I want to ask you a question. Come here, the two of you lawyers. Just sit down.

Here is a proposal which is financing of imports into Germany, in which we pay sixty-seven and one-half percent of four hundred million dollars from now until the first of November. Have you worked on this paper?

MR. AARONS: Yes, I worked on it.

MR. FRIEDMAN: I have seen it.

H.M.JR: All right. Now, Paragraph (e). (Quoting from Attachment A.) "Whatever may be the interim financing arrangement, ultimately the cost of any supplies going into Germany would be an obligation of Germany, and the British agree with us that they should be a first charge against exports from Germany."

In other words, the four hundred million dollars which goes in from now until the first of November will be a first charge against exports coming out of Germany. Now, the question I am asking is doesn't this cut straight across the Reparations Commission? If I don't make myself plain--after all, the Reparations Commission has sounded the thing out. They have certain things they are going to do with the surplus money gotten from exports over--just be good a minute, if you please. No coaching from the side lines. Just let the lawyers talk. Do I make myself plain? Which one of you sat down when we did the Directive?

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MR. AARONS: Joe has been in on it more than I have.

H.M.JR: If we did something like this, wouldn't Mr. Pauley have a right to say we have cut right across his authority? We had no authority, this group here, to earmark certain funds surplus funds, and got it out of exports to Germany. Wouldn't Pauley say we have cut right straight across his authority? Now don't you go nodding your heads. I mean just the two of them.

MR. AARONS: Do you want to answer that, Joe?

MR. FRIEDMAN: If you want to answer first while I remember it.

H.M.JR: If you want to go get the Directive--

MR. FRIEDMAN: No.

H.M.JR: You were in on that.

MR. FRIEDMAN: Not on Reparations.

H.M.JR: You were in on Reparations.

MR. FRIEDMAN: No, not on Reparations.

MR. WHITE: On the German IPCOG 1.

H.M.JR: Who was on Reparations?

MR. FRIEDMAN: Joe DuBois. I have got it. I think this question will certainly come up in the reparations discussions of paying for imports now.

H.M.JR: Aren't we cutting straight across the authority of the Reparations Commission? The way I feel is this: Let's put it down in simple language. You have got a debtor and somebody slaps a first lien on this debtor, and that's the first lien. Mr. Pauley says, "I pay no regard to this thing. I have got the first lien. The Reparations has the first lien. You fellows may think you have but you haven't. You can't

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put another. I come first, Reparations. Anything out of Germany is me, Ed Pauley." God forbid.

MR. FRIEDMAN: I don't know about Pauley, but I certainly think that sooner or later the Russians will say that. They are quite likely to say that.

H.M.JR: Well, I take it the Reparations Commission is going to be Russia, France, England, and the United States, and Russia could say, "Well, that's very nice, gentlemen. You put four hundred million dollars in that. That's very nice, but we don't recognize that. It was very nice of you. We are glad you are going to feed the Germans from now until the first of November, but that was your lookout, but you have agreed with us."

MR. FRIEDMAN: I doubt if it is decided that way.

H.M.JR: Yes, but you are attorneys and you are making a case and you don't want a big, wide hole in it.

MR. FRIEDMAN: Well, certainly.

H.M.JR: White is going to have apoplexy.

MR. BELL: This doesn't say that.

MR. WHITE: Yes, it does, but I think Buzz hasn't spoken yet.

H.M.JR: Yes it does. I think these boys overlooked something. I would love to be right two days in succession.

MR. WHITE: Buzz, is that right?

MR. AARONS: Well, Joe has worked on this more than I have, but my understanding is under the 23rd of March Presidential memo--Roosevelt's memo--on that if stuff was exported, like coal was exported out of Germany for reparation purposes, that nevertheless, the recipient country was supposed to pay for the coal and that those proceeds would be held for essential imports to Germany.

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Is that your understanding of it, too?

MR. WHITE: But the Secretary makes this point, and isn't this the accurate one: The Reparations Commission is another name for saying liquidation of all assets of the German Government, and three parties of the four cannot pre-empt those assets. The four coming together could decide that would be a case in the first instance, and Reparations would say that side is earmarked, but you can't get Britain and the United States--only two of them saying to Russia that we have pre-empted part of the current and accruing assets any more than--I think the same question arises with gold. The question whose gold that it is precisely the same question.

H.M.JR: Lew Douglas put up to me the question how did I feel about using American gold to pay for imported wheat into Germany, and I said I was absolutely opposed to it.

MR. BELL: American gold?

H.M.JR: No, German gold that the Americans have possession of, and I was absolutely opposed to it and said that thing has to be very carefully considered by the proper people, and this was no time to do it, and he said, "I am so glad. That's my position, that our people might want to use the position of the United States Army to pay for German imports of wheat."

MR. BELL: That's right.

H.M.JR: What do you think, boys? You know. The only point I am making is I am just having a little fun because I enjoy matching wits. I don't object to this thing, but I think you ought to leave out the part--that sentence about the first charge against the exports from Germany.

MR. WHITE: They could say try to get Russia to agree.

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MR. BELL: It doesn't say that.

MR. COE: We have been directed to do that by the President in the March 23rd Directive.

MR. WHITE: It should be a first charge. They come in to the conference with a demand that it be a first charge. Whether or not it will be will be a matter for joint decision. That word takes them out of that dilemma. That is the American policy, and I gather that is the British policy, and Pauley should follow this policy around the table. Now, whether he can get Russia to agree to it is something else again.

H.M.JR: Pauley won't even be consulted.

MR. WHITE: He doesn't have to be on this. He is receiving instructions. It is the American Government.

MR. COE: Pauley, like ourselves, his instructions, like our general proceedings here, are governed still by this March 23rd Directive signed by the President which includes that phrase.

H.M.JR: What's the phrase?

MR. COE: The phrase is that a first charge on all proceeds of exports shall be payment for necessary imports.

MR. WHITE: That was decided before Pauley appeared on the scene. I think he ought to be cognizant of it.

MR. COE: And the basis for that was--

MR. GLASSER: It was in the Reparations document.

H.M.JR: You go back to the 23rd of March.

MR. COE: These men say it is also reported in Pauley's instructions. That has been a consistent American policy for the reason Harry said, that the State Department and the War Department are worried about the fact that we would have to put in certain

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stuff into our zones there, and they wanted to make sure that we got paid for that, if there is any reasonable chance of getting paid ahead of reparations.

MR. WHITE: You remember Clayton at this table repeated just that fear.

H.M.JR: What fear?

MR. WHITE: About the withdrawal of food stuffs and what not from the Russian area to Poland, and agreed they would syphon off in the East what we put in the West, and this was to stop that. So, then, Pauley has his instructions. Pauley might say--

MR. COE: He couldn't get them.

MR. WHITE: ...he doesn't like it.

MR. COE: Then we might compromise to modify our position.

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

MR. BELL: This doesn't worry me because it says the British agree with us that these goods should be a first charge. That doesn't make it so. I don't think you are agreeing to anything except that you and Great Britain are agreeing to go to the Reparations Commission trying to get a first charge. That doesn't mean you get it.

MR. WHITE: Anything the Germans would have in the way of exports they will need to take care of many more claims against them, the current imports plus reparations settlement, so that for paying for the past debt, I think we can agree that we are never going to see our contribution to the four hundred million dollars.

MR. COE: There is no dissension there. I think that's agreed.

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H.M.JR: Then, if that's agreed, don't let us be children about the thing. I would like the Treasury to put in an exception saying that as far as we are concerned we think that we don't expect to be reimbursed for this money, and we are going at this thing with our eyes open.

MR. WHITE: It is better for us to have a claim. We have better bargaining power.

H.M.JR: No, but against the other agencies I would like to follow the same thing like when I went up on the five hundred million dollar loan to China. "Now, gentlemen, I am asking for this and I am telling you I want you to be prepared to get a dollar back. We are going to be very careful, but we don't expect to get a dollar back." I would like to get the same position as this: That the Treasury is for this participation, but as far as we are concerned we would like to put it we don't expect a dollar back.

MR. WHITE: We are very skeptical about our ability of getting much of it back, rather than we don't want it back.

MR. BELL: Haven't you all agreed upon that pretty well?

MR. GLASSER: No, I would be inclined to disagree with the general statement we are not going to get it, that we can't get any of that back. I think we can. Germany is able. Europe is now in desperate need of coal, and Germany can produce three hundred and thirty million tons a year, which is three hundred to four hundred million dollars, and if imports into Germany are kept down, they can very well pay for these particular imports.

MR. WHITE: I bet you a dollar to a doughnut any exports Germany makes will be reparations in kind, and we will never get a nickel.

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MR. GLASSER: Germany exports to Switzerland, Sweden, Turkey, Spain, to neutral countries.

H.M.JR: That would be five years from now. What White said--look, gentlemen, what I would like to make-- I don't know the legal language--but an exception. Is that what you call it?

MR. FRIEDMAN: Yes, sir.

MR. BELL: An observation.

MR. FRIEDMAN: Observation or exception.

H.M.JR: But I would like to have put in it that as far as the Treasury is concerned, we are going into this thing with our eyes open. We gravely doubt if any of this four hundred million dollars will be gotten back between now and the first of November. In view of the gravity of the situation, we are willing to go along. We are also willing to put it up to the Reparations Commission to get it, but we would like to point out that the chances of getting this money are very slight, not what he is saying Germany can pay. That has nothing to do with it. It's on account of our other allies that I am taking this position. Do you get the distinction? I am not arguing with you. I agree with you on that, but if I were a Russian and sat down I'd say, "Well, gentlemen, after all, you looked after this between now and the first of November. It's very nice. We would like to thank you. Let's start now. We are just beginning to talk. Whatever you have done you don't expect us to contribute to your cost of occupying Italy, do you? You are not going to give us the bill for that, and it is very nice. We appreciate it. We will take very nice care of the Germans without some new deal. We start out from now and anything that is coming out over the exports we want our quota." Right? That's what I would say. And the Russians--nobody ever made me think that the Russians aren't very smart.

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MR. WHITE: They have three against them. If the British Government--but I think the British will have so little coming to them they will probably side with the Russians. We have taken sixty-seven percent, and Canada is taking ten percent, isn't it?

MR. GLASSER: No, the new percentage will probably be Canada, five, United States, seventy, and Britain, twenty-five.

MR. WHITE: France, nothing.

H.M.JR: I just don't want to be a babe in the woods on this, that's all.

MR. WHITE: I don't think there is any danger.

H.M.JR: Anyway, on that basis you are going along, Mr. Bell?

MR. BELL: Sure. What you do here is give Lend-Lease to Russia and Great Britain and France and they furnish some of these food stuffs?

MR. WHITE: That's part of the shell game. (Laughter)

MR. BELL: In other words, we furnish it all, is that right?

MR. GLASSER: There is a provision in the Lend-Lease Act that the food supplied under Lend-Lease must be used in France, and can't be taken out.

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MR. WHITE: Dan's point is a little more than that. The reason we are giving France Lend-Lease is because her dollar balances aren't settled. If her dollar balances are used up to pay for this, Lend-Lease will be more.

MR. BELL: You might furnish goods to Great Britain not used in Germany but it releases other goods in Germany we can furnish to Germany.

MR. WHITE: It isn't supposed to be similar goods.

MR. BELL: Even other goods, I don't care.

MR. WHITE: There are lots of ways to skin a cat.

MR. BELL: What cat?

H.M.JR: Do you think we have any skin left?

MR. WHITE: Yes. It constantly regrows.

H.M.JR: Well, do you want me to initial it, or something?

MR. WHITE: That raises a question. I don't know, with the shortage of coal that there is. Harold spoke of coal exports to Switzerland, France and Belgium, and also whether or not German coal exports ought to go to Switzerland rather than France. I don't know whether you are interested in that.

H.M.JR: Yes, I am.

MR. WHITE: If Switzerland needs coal, so does France. The question is who is going to go without it.

H.M.JR: I don't think so. You are asking me.

MR. WHITE: Well, that raises a question.

H.M.JR: I would certainly give it to France first. Do you agree, Dan, and before I give Switzerland one thing I would make them come through one hundred percent in the

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name of every so-called family trust they have got in Switzerland, and who was that family trust, and make them cough up the people that had hidden German money. Until they did that, I wouldn't give one pound of coal.

MR. COE: There is a proposal to give them some United States coal before Judge Vinson.

MR. BELL: Switzerland?

MR. COE: Switzerland.

MR. WHITE: Switzerland is a stable government. It isn't threatened. There isn't any. It will come out all right, but the other governments and other people are in a very unstable position.

H.M.JR: Lewis Douglas will be on our side, and he will throw a lot of weight around this side. Douglas is more worried about France now than he is about Germany. His whole worry is France. He will get very emotional.

MR. WHITE: He is afraid France is going Communist.

H.M.JR: First he was a great friend of England's, and was very useful in the old days, and now he is very much worried about France.

MR. BELL: I thought that Schmidt made a good statement. He said he was worried about this next winter, and he didn't think he could permit the French people to be cold another winter.

H.M.JR: What I would do, I would have Orvis Schmidt here, and while he is here draw up a bill of particulars on what we want out of Switzerland, and I think we should file it with whomever the powers are, and tell them before the Swiss get a dollar of anything from this country I would make them come through. Let Schmidt draw up this thing of what he wants, first, what they promised.

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MR. WHITE: They didn't help us during the war, because they said they weren't in a position to subject themselves to possible German aggression, they were surrounded, and doing the best they could. We don't believe that, but that was their argument. They are not in danger of Germany or invasion now, and should be helping us so far as possible.

H.M.JR: I want to open up every lock box they have got.

MR. WHITE: The Swiss are going to freeze.

H.M.JR: Let them freeze.

MR. COE: The British are also giving Switzerland coal.

H.M.JR: I wanted the other people to hear what I have to say, and I wanted Mr. Bell to hear. That's this: Dan, I told these boys yesterday I would go along with this thing, but all you have got to do is to look at our record with England since we have liberated Italy, since we have liberated France, conquered Germany, whatever we have done, and every single place we go when it gets down to doing something to get rid of the Fascist businessmen in Italy or Nazi businessmen in Germany, England stops us from doing that. I think that I don't want to be a part in helping to finance England directly or indirectly. This is funny coming from me, but until they help us rid Germany of the top Nazi businessmen and Italy of the top Fascists--and they can block us--when I went through this business with the representative of the British Treasury and John Anderson sent me this long, blah, blah, blah, he is perfectly satisfied everything is going fine. I told the boys yesterday that I want to bring it forcibly to the President's attention that we are aiding and abetting England in its pro-business, pro-big cartel, pro-Fascist, pro-Nazi thing that they are doing. Every time we give them a dollar for this it helps them a dollar somewhere else, and I have about reached the end of my rope, and it's just about time that we stopped being so immature and childish about this thing.

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(The Secretary holds a telephone conversation with Mr. Clayton Fritchey, as follows:)

July 3, 1945
3:34 P.M. 273

HMJr: Hello.

Mr. Clayton Fritchey: Hello.

HMJr: Fritchey?

F: Hello, Mr. Secretary.

HMJr: How are you?

F: I'm hot, sir.

HMJr: Hot?

F: Very hot.

HMJr: Well, we got our cooling off yesterday.

F: I trust you are feeling better in that case.

HMJr: Yeah. It went up to 99 at 5:30.

F: Oh, my heavens!

HMJr: Can you equal that?

F: No.(Laughs) I think I'll take New Orleans.

HMJr: All right. Look, it has been suggested that Mr. K.W. Berry of the Whitney Bank go as top financial man to Germany under General Clay. Hello? I don't know a thing about Berry. I don't know how he stands in the community, or what is more important what his attitude towards Germany is.

F: Off hand I would say his place in the community is very respectable.

HMJr: Very respectable?

F: Yeah.

HMJr: Didn't the Whitney Bank -- weren't they very helpful with us when we had that fight against the racketeers down there?

F: I believe the Whitney Bank has had pretty clean hands.

HMJr: That's what I thought.

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F: It got off, I think, reputationalized much better than the other banks here.

HMJr: That was my impression.

F: And as an institution I think perhaps has just a little more prestige than some of the others.

HMJr: Now what about Mr. Berry?

F: Mr. Berry is a personable man, and I believe intellectually he is a little superior to the usual banker. I think perhaps that he might even have read the Articles of Bretton Woods.

HMJr: What's that?

F: I say I think he may even have read the entire text of Bretton Woods, which I discover most bankers have not.

HMJr: Well, look, Clayton...

F: I think he has some intellect.

HMJr: ...could you do this for me?

F: I'll do anything you like.

HMJr: Well, I'll tell you what I'd like you to do. I'd like you to drop around and see him.

F: All right.

HMJr: And sound him out on Germany, you know you could kind of egg him on because the War Department has asked me whether he would be agreeable to me to go as a top financial man.

F: Yes.

HMJr: ..under General Clay. Now the point is...

F: Has he been approached yet?

HMJr: I suppose so. I don't know.

F: You don't even know whether he is interested or not, do you?

HMJr: I don't know that. To give you the whole story - Mr. McCloy called me up and asked me to look into this man, and how I'd feel about Mr. Berry. I didn't want to call up Berry and then have to say "No."

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F: Uhuh.

HMJr: Because some other people I said "no" to without having to call up anybody. But it would be a very important position, and he'd have a lot to say as to the future economy of Germany. See?

F: Do you think it would be advisable for me to talk to him?

HMJr: Advisable?

F: Yes.

HMJr: Well, I don't mind your being very straightforward and tell him that you are a personal friend of mine and I've asked you to go down as my representative and talk it over with him.

F: Should I find out whether he would be interested?

HMJr: Yeah.

F: I mean in general what his attitude toward Germany is?

HMJr: Yeah.

F: I take it he would be in a financial advisory capacity to Clay?

HMJr: No, they have about 12 sections there, see?

F: Yes.

HMJr: That handle different things. They got a coal section, and a this section and that - and one is called finance. At present it is staffed largely by Treasury people. They don't feel that our people are important enough.

F: (Laughs)

HMJr: So they want somebody important.

F: I see.

HMJr: I disagree with them, but they have been asking me now for months. They want an important person.

F: Well, it is awfully nice to have important people.

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HMJr: Well, unfortunately, my experience with important people hasn't been so good.

F: Mine - I also will narrow down some of the generalities a little bit more about him, and his general place in the community and make a general inquiry.

HMJr: You see the main thing is -- the question does he think Germany is important to the export-import picture - do we have to have a strong Germany, see?

F: Yes.

HMJr: And how does he feel de-industrializing Germany to the extent that those industries directly related to the war - should they be done away with or should they be continued. Do we need -- does General Motors have to work its plants there. I mean - the idea is do we want to dismember Germany, or do we want to dismember Germany or do we want to keep her intact.

F: Do you have any idea what the general policy is along that line?

HMJr: (Laughs) Now don't get an exclusive out of me.

F: (Laughs) Never do that.

HMJr: No, no, I know, but it is very important to the future peace of the world that the man at the head of the finance section - either wants to pull the military factories - do away with those, or doesn't he. Does he think that we need a strong industrial Germany, or don't we, see?

F: Yes.

HMJr: Pardon?

F: That's the clue.

HMJr: Yeah, that's the clue.

F: All right, well, I'll do that, and report to you just as soon as possible.

HMJr: You can call me up collect.

F: All right. Where shall I call you - just call the Treasury?

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HMJr: District 2626.

F: 2626.

HMJr: District.

F: All right. I'll try to call you either today or tomorrow.

HMJr: Well, that's plenty of time, or you can call me Thursday, that's plenty of time.

F: All right, tomorrow's the 4th, yes, well, I'll call you Thursday.

HMJr: Call me Thursday.

F: All right, sure.

HMJr: Thank you.

F: What do you hear from Henry?

HMJr: Henry is sitting-, at the moment, at the top of the world. He is in a little town in the Bavarian mountains, and he is at present the County Judge and he is guarding a Panzer unit and he is running a third of a county, and is living in a very comfortable house and....

F: ...and if he had to pick a nice place to be in Germany, he's got it.

HMJr: I suppose he will move down to the Riviera in the winter.

F: He might go down to for the winter, yes.

HMJr: (Laughs)

HMJr: But right now Henry is all right.

F: All right. I'll call you Thursday.

HMJr: Thank you.

F: Bye.

HMJr: Bye.

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H.M.JR: I rang up this fellow Clayton Fritchey who used to be on the Cleveland Press, and he is very liberal and very advanced in his thinking. This New Orleans Item is the number one paper now in New Orleans. He is the man that went to bat to make the fight for Roosevelt Delegates from the State of Louisiana. He got them and then wasn't satisfied and went over to Texas and put on a big fight against the Anti-Roosevelt Delegates and had a lot to do with that. He is a very liberal legislative fellow, and he has got a boss that has lots of money who came from the North and lets him run his paper. It is absolutely growing in constant influence, not only in Louisiana but the whole South. They offered him a job with Time Magazine and various people. He is having the time of his life. He says it is ideal to be a newspaper man who gets a boss that will let him run his newspaper. He is the Executive Editor of the New Orleans Item. If he says this fellow is all right--and incidentally, the New Orleans paper has supported Bretton Woods right straight through. He said this much about Mr. Berry, "He is this kind of banker. I guarantee he has read the whole agreement of Bretton Woods from cover to cover and really knows it."

MR. BELL: He is a good banker. I know him very well.

H.M.JR: He said he was above average.

MR. BELL: He must be in line for the Presidency of ABA. I think he is Vice President.

H.M.JR: Don't let me down.

MR. BELL: He really is a good banker.

H.M.JR: Do you know him personally?

MR. BELL: Every time he comes in he comes to see me.

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MR. WHITE: I don't think he is as good as Burgess.

MR. BELL: He is a better banker than Burgess, commercial banker. He runs the bank. Burgess doesn't run a bank.

H.M.JR: Fritchey said he is intellectually superior.

MR. BELL: He is well thought of in ABA circles, Keehn Berry.

MR. WHITE: K-e-e-h-n.

MR. COE: Burgess is a banker. I was thinking when you were trying to describe him, the man you want is one who isn't afraid there will be a vacuum in Germany.

H.M.JR: Well, of course, Clayton Fritchey picked me up quick. He said, "Just so I understand it, what is the Administration policy toward Germany?"

MR. WHITE: We have the name of a good banker to add if you like.

H.M.JR: Excuse me a second.

(The Secretary holds a telephone conversation with Mr. Luxford, as follows:)

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3:44 P.M.

L: Yes, sir, but it is getting harder to remain that way.

HMJr: Yeah.

L: There has been three more votes, and all have been good and in our favor.

HMJr: Yeah.

L: The closest one was on one executive director which was 11 to 7, but the other two were on Article 7, that is scarce currency and Article 14, the transition period, and there it wasn't even close.

HMJr: Yeah.

L: Tobey just came out and told the press - he said "So far we have licked the ABA and that small segment on every vote, and he said, "What's more we are going to keep licking them."

HMJr: Wonderful.

L: He said that to the Republicans.

HMJr: Is Tobey still unshaven?

L: He's doing all right.

HMJr: When I saw him he hadn't been shaved at noon today.

L: Well, I think he has had one now.

HMJr: (Laughs) The boys are still here. White is still smiling.

L: Well, that's fine.

HMJr: How many more will there be?

L: I don't know (Laughs) they are knocking them down as fast as they come - Looks like to me they will end up with only two opposed.

HMJr: Where's Burgess?

L: He's not here unless he is under the desk.

HMJr: He left town last night, I checked on it.

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L: Did he?

HMJr: Yes. He left town last night.

L: I think it will end up with only two against probably. Buck is voting all right and Higgenlooper is voting pretty good.

HMJr: Good.

L: He jumps once in a while. Buck jumped on one on one executive director.

HMJr: How's Capper?

L: Capper said he -- walked out - he got tired of voting, and he said he didn't agree with some of Taft's amendments anyway. Now followed him out and he told Bradder he thought he would vote for this thing, when the final vote comes.

HMJr: Well, keep us posted.

L: All right.

HMJr: Thank you.

L: You bet.

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H.M.JR: The fact that I used Fritchey I would like to keep that confidential.

MR. WHITE: Would you like to know the name of the other man?

H.M.JR: I would like to keep it confidential that I am using Fritchey.

MR. WHITE: Penick.

MR. BELL: Herb Penick, the baseball pitcher.

MR. GLASSER: Jim Penick from Arkansas, President of the biggest bank in Arkansas. He is now with AMG in Italy. He has been working with Treasury people in Italy and likes the Treasury's attitude. Treasury people are for him one hundred percent, everybody who comes back.

H.M.JR: Give me a piece of paper.

MR. WHITE: We tried to get him to be promoted head Finance Officer in Italy, but they wouldn't do it. He is only a Lt. Colonel, and who did they decide on in his place, Meno Pace.

MR. GLASSER: That's the name.

MR. COE: Penick is a man about forty-five. We will give you a full description.

MR. WHITE: The other people who came back from Italy thought the same, what Harold said. They are strongly in favor of him.

MR. WHITE: They either made a mistake and put the other guy in, no matter what kind of a guy he is. But he might fill the bill if the other fellow doesn't, because he is a banker and he is a Southerner and he is very important. (Laughter)

MR. BELL: I never heard of him.

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MR. WHITE: Didn't you ever hear of Draper before he went in there?

MR. BELL: Sure. He was in New York.

MR. WHITE: You play around the Northeast. This is the Southwest, the wide open spaces.

MR. BELL: The fellow I know is the guy who was over at the Board.

H.M.JR: They again asked me for you yesterday.

MR. BELL: Did they?

H.M.JR: I said I talked to you and you didn't want it, and I didn't want you to go, and it is unanimous. Is that right?

MR. BELL: That's right.

H.M.JR: I said to McCloy, "why don't you offer me the job?" I wasn't important enough. (Laughter)

MR. WHITE: Do you want to mention that little ticker to the Secretary.

H.M.JR: I gave it out.

If Mr. White has a few minutes, I would like to see him alone.

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ATTACHMENT A

C_O_P_Y

June 29, 1945

TO Secretary Morgenthau (For action)

FROM Frank Coe

Subject: Financing of Imports into Germany

1. The British are now discussing with this Government (State, FEA, and Treasury) the question of interim financing of imports into Germany during the period between the dissolution of SHAEF (now scheduled for July 1) and the time when the Control Council determines a new procedure for financing such imports.

The British view is that all imports into the three Western zones of Germany should be on a combined basis using the military relief formula for financing. The United States is now providing the greatest part of the supplies going forward under the military relief formula, and the British would naturally like us to continue to finance imports into their zone.

2. The Treasury view taken so far is that the interim financing of German imports should be the responsibility of the country occupying the zone into which the imports are destined. This view is concurred in by all the agencies of this Government. This position would prevent the rehabilitation and rebuilding of the British zone at American expense, might discourage any tendency to develop a Western bloc functioning apart from the Russians and would hasten British and French concurrence in any necessary four-power agreement on supplies for Germany made through the Control Council.

3. The program for supplying imports into Germany, as drafted by State, Treasury, FEA and War for presentation to the British and French is as follows:

- (a) For the month of July the present procedure for scheduling, procuring, financing and shipping supplies into Germany through combined military channels will be continued without change.

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- (b) For the months of August, September and October, loadings for Germany will continue under the combined mechanism of scheduling, procuring, initial financing and shipping, but a bill will be rendered to the occupying power for supplies delivered in its zone in the same way that bills are being presented to the French, Belgians, etc. for military relief supplies to their countries.
- (c) Beginning with November 1, the combined machinery will end and each of the occupying powers will be individually responsible for arranging for and initially financing any supplies which it may ship into its occupation zone.
- (d) The foregoing tapering off procedure to provide for an orderly liquidation of the present combined supply machinery will only be applicable to the relief items such as food and medical supplies which are included in the Army's "disease and unrest" formula. Thus, if the British want to procure coal mining machinery for the Ruhr, or the French for the Saar, it would be their own responsibility to arrange for the supplies and pay for them even before November 1. Of course the Control Council decisions would be determinative on such questions.
- (e) Whatever may be the interim financing arrangement, ultimately the cost of any supplies going into Germany would be an obligation of Germany, and the British agree with us that they should be a first charge against exports from Germany.

Do you approve of the position taken?

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HMJr: ... so you will have to do the best you can, the only person around is - Feltus and Leroy are available.

Mr. Fussell: All right, I'll get in touch with Feltus and grind out something right away. Has the committee reported?

HMJr: No, but they will shortly.

F: They will this afternoon, you think?

HMJr: Yeah, and White will be available a little bit later. He is in here with me. When he gets out he'll get in touch with you.

F: O. K.

HMJr: Leave word --- the best way to do is leave word in his office when he comes back if you want to talk to him.

F: O. K.

HMJr: But I think the statement should be ready.

F: O. K. I'll have it.

HMJr: And I want to certainly pay my compliments to Senator Tobey for the help he has given.

F: By name?

HMJr: Yeah, by name.

F: You bet.

HMJr: As an American delegate.

F: Yeah. Thank you, Mr. Secretary.

July 3, 1945
4:45 P.M. 287

HMJr: Hello.

Mr. Dan Bell: Bell.

HMJr: Yeah.

B: The other day when we were talking about -issuing silver certificates against the silver in the Treasury, I said that I would like to clear off of the Daily this increment on gold item and the seigniorage. Remember I showed it to you? And I'd like to do it on the first.

HMJr: Yeah.

B: And when we set those up we had a press release, and we drafted one. Would you like to see it? - come out tomorrow morning with the Daily.

HMJr: Well, how long is it?

B: A little over a page.

HMJr: Well, do you want to bring it in right now?

B: Sure.

HMJr: All right.

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4:45 p.m.

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BRETTON WOODS

Present: Mr. White
Mr. Feltus
Mr. Fussell
Mrs. Klotz

H.M.JR: What the mountain gave forth was a mouse.

MR. FELTUS: There is a lot of talent on this.

H.M.JR: (Reads proposed press release copy attached.) "The overwhelming approval of the Bretton Woods legislation by the Senate Committee on Banking and Currency means that we have passed another important milepost on the road to international cooperation." Says who?

MR. WHITE: Says Secretary Morgenthau.

H.M.JR: That isn't in here.

MR. FELTUS: That will be in the whole thing.

H.M.JR: "It is further evidence of the ability of Democrats and Republicans to work together in the nation's interest. No American citizen and no foreign Government can any longer doubt that the United States has come of age in international matters."

MR. WHITE: Is that too strong?

H.M.JR: No. Do they still doubt it?

MR. FELTUS: They did up until now.

H.M.JR: Do they?

MR. FELTUS: Really up until San Francisco.

H.M.JR: You don't want to say "America now has come of age in international matters." (Laughter)
"Senator Wagner, Democrat, Chairman of the Committee,

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and Senator Tobey, ranking Republican member of the Committee, both delegates to the Bretton Woods Conference, have worked together on this matter for more than a year. They served with delegates of other nations at the Conference, drafted the legislation, introduced it jointly, and were tireless in explaining its meaning to their colleagues and to the public. It is this kind of teamwork, statesmanship which alone can assure world peace and security." This kind of teamwork?

MR. FELTUS: Teamwork and statesmanship is what it should be.

H.M.JR: Which alone can assure world peace and security. Well, in my mental state, I don't like it very well, but--

MR. WHITE: Too gushy.

H.M.JR: No. Not enough. Why can't you give me something simple, "teamwork, statesmanship."

MR. FUSSELL: Teamwork and statesmanship. How would that be, Mr. Secretary?

H.M.JR: I don't like it. It's not me, but if it suits you fellows, all right.

MR. WHITE: Leave out statesmanship. Just say, "This kind of teamwork."

H.M.JR: You won't want to say, "This kind of non-partisan statesmanship."

MR. FUSSELL: Yes. That's better.

MR. FELTUS: That was sort of stressed in the last two statements, the work "nonpartisan."

H.M.JR: I don't care. New York papers don't come out anyway.

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MR. WHITE: They don't get down here. Nobody can read them. IM comes--

MR. FELTUS: You go to the paper and cross a picket line to get a copy.

MR. WHITE: Do you?

MR. FELTUS: No.

H.M.JR: I think that Senator Wagner and Senator Tobey worked together in this matter.

MR. WHITE: The idea is to give them credit without hurting the feelings of the other people on the Committee. That is, if we boosted Wagner too much, Barkley and Murdock will get sore, because they feel they've done more of the job than Wagner has.

MR. FUSSELL: I would just make one suggestion, that on second thought on this thing, substitute the word "importance" for "meaning"--"Explaining its importance to their colleagues and to the public." It's like saying that they had to explain this meaning. It makes it look so complicated that nobody can understand it.

H.M.JR: That I'm not going to say, but I think that "Senator Wagner, Democrat, Chairman of the Committee, and Senator Tobey, ranking Republican Member of the Committee," would bring in both delegates, you see, "had worked together." Why do you single them out?

MR. FELTUS: You say that in the sentence below.

H.M.JR: I'd bring it right out.

MR. WHITE: The other Senators are going to give a horse laugh when they hear how Wagner took the trouble to explain it to them.

H.M.JR: I think this: Bring it right up here. Just explain why we bring them in, you see, both delegates.

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MR. FUSSELL: Yes.

H.M.JR: Bring them in there.

MR. FUSSELL: "Both delegates to the Bretton Woods Conference."

H.M.JR: "Have worked together."

MR. FUSSELL: Yes.

MR. FELTUS: Yes. Then you can leave the other part. It doesn't matter.

H.M.JR: You can still leave it.

MR. FELTUS: Yes.

H.M.JR: That says why I single them out.

MR. FELTUS: Yes.

H.M.JR: I don't like "teamwork", "statesmanship."

MR. FELTUS: I'll take out "teamwork." "This kind of statesmanship."

H.M.JR: I would like to leave "teamwork" in. "It is this kind of teamwork."

MR. FELTUS: All right.

MR. WHITE: "Nonpartisan teamwork."

H.M.JR: "Nonpartisan teamwork."

MR. FELTUS: That's all right. Fine.

MR. FUSSELL: Of course, if there are any important amendments to this we'll have to revise it.

H.M.JR: I'm sitting here. I'm not going home.

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MR. WHITE: Did you hear?

H.M.JR: Not another word since you left here. I would like all of you to stand by until this thing happens, if you will, please.

MR. FUSSELL: Shall I take this, or do you want to keep this?

H.M.JR: No. Thank you all.

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ATTACHMENT A.

COPY

The overwhelming approval of the Bretton Woods legislation by the Senate Committee on Banking and Currency means that we have passed another important milestone on the road to international cooperation.

It is further evidence of the ability of Democrats and Republicans to work together in the nation's interest. No American citizen and no foreign Government can any longer doubt that the United States has come of age in international matters.

Senator Wagner, Democrat, Chairman of the Committee, and Senator Tobey, ranking Republican member of the Committee, both delegates to the Bretton Woods Conference, have worked together on this matter for more than a year. They served with delegates of other nations at the Conference, drafted the legislation, introduced it jointly, and were tireless in explaining its meaning to their colleagues and to the public. It is this kind of teamwork, statesmanship which alone can assure world peace and security.

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July 3, 1945
5:00 p.m.

BRETTON WOODS
INTERNAL REVENUE

Present: Mr. O'Connell
Mr. Pehle
Mr. C. S. Bell
Mrs. Klotz

(Secretary holds a telephone conversation with Mr. Luxford, as follows:)

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MR. O'CONNELL: That wasn't so bad, except for the delay. It is bad because the House won't be there. The House will be out of session.

H.M.JR: It will go back. They are in session now. How long will it take?

MR. O'CONNELL: They can't go back to the House until the Senate has voted on the bill. If they don't get to the vote on the bill until the 16th, the House won't be in session, and we will be stymied, although we will have a bill passed in the House and an almost identical bill passed in the Senate. Unless you have got a majority in the House around here, they can't appoint conferees, except by unanimous consent. All Doc Smith has to do is indicate an absence of a quorum. They may not legally resist while the Senate is in session, but they all go home and leave a corpus guard around here, but the Committee will be in a position to stymie the appointment of House conferees.

H.M.JR: If it has any amendments at all, the thing goes over until next fall, doesn't it?

MR. O'CONNELL: Assuming we are right in saying the House isn't going to be in session, and all I know is that there are indications that they are going to be out of town for two months. If the only amendment that had been passed on at the end of the day was a one-word amendment, I think Downey would have a chance to have it changed back.

H.M.JR: All right, Joe.

MR. O'CONNELL: Well, we have caucused at some length in connection with it.

H.M.JR: You have had time enough.

MR. O'CONNELL: We still have this other thing to do, but there was difficulty in getting the three of us together for more than ten minutes at a time. On the enforcement job, we have two names among the group that John gave to you some time ago.

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H.M.JR: The 28th of May.

MR. O'CONNELL: One is Bob Kline. He mentioned him to you this morning, and the other is a fellow named Kennedy. I forgot his first name.

MR. PERLE: William McNeil.

MR. O'CONNELL: William McNeil Kennedy--Kennedy I know nothing about personally, except he was Regional Director for SEC. They all have SEC backgrounds. Tom Lynch knew him quite well because it was while Tom Lynch was in SEC that he was appointed Regional Director, when Landis was Chairman. He apparently made a good record and had some experience in enforcement work. He is now in private practice. We had Tom call him on the phone to see if his situation was such that he would be interested, and he is going to call back at the end of the day. He has recently gone into private practice, and his problem was complicated by having commitments to his partners, and so forth, which he is exploring this afternoon. His first thought, as I understand it, was he would be interested, and if he doesn't run into a snag with his partners, he would be willing to come down here in a few days to have us look at him without any commitment. Those are the two names.

H.M.JR: That is for the enforcement job. What do you prefer?

MR. O'CONNELL: I have known Kline quite well and have known him for some years. I don't know Kennedy. Tom Lynch, who knows them equally well, says there is little to choose between them on ability, and he thought there might be some advantage having Kennedy in that he comes from Chicago, and that is the section we might want a little representation from.

H.M.JR: Occasionally.

MR. O'CONNELL: Occasionally. Kline is a D. C. attorney, has been here since the early 20's, and Tom pointed out that if Kennedy were as good a man, bringing him in here from

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Chicago might enable us through him to tap maybe some other good men from Chicago, whereas Kline knows all the same people we know. It is a small point, but Kline also has gone into private practice within the past few months. He has had a lot more experience in Washington than Kennedy. Kennedy has never worked in Washington, whereas Kline has been in the Government almost all the time since 1934.

H.M.JR: Are these fellows with SEC background the kind of fellows we want?

MR. PERLE: Kline was in charge of the enforcement staff at SEC for about four years, I should say. We can clear with him. And I think Kennedy is the kind of guy, too--they both seem to be outstanding people.

MR. O'CONNELL: SEC had a whale of a good staff in the middle 30's, and we have had good luck. We have had Lesser and Lynch from SEC, and it so happened we could get them because SEC went to Philadelphia during the war years and has not been as active in ages. They had a whale of an organization, and lots of graduates of SEC are terribly good men. The majority of the commissioners are fellows that had jobs just like the one Kennedy now has. The newest Commissioner, Caffrey from New York, was Regional Director in New York.

MR. PERLE: You might want to talk to Kline. He is available right now.

H.M.JR: I wouldn't want to do it tonight. What do you think, Charlie?

MR. PELL: I think Kline would be a very good man. I can't find any fault with him at all for the job. I talked with him for about half an hour this morning. He headed a committee over on the Hill, the same type of committee as the Truman Committee, for the Navy, and he has done quite a lot of investigative work for that committee, and I think he spent six years in the enforcement section of the Securities and Exchange Commission.

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H.M.JR: In charge of the whole thing?

MR. O'CONNELL: He started--

MR. BELL: Yes, sir.

MR. O'CONNELL: ...as a lawyer down the line in 1934, and in a very short time, a couple of years, he came up to the rank of Assistant General Counsel in Charge of Enforcement. All enforcement work in SEC was done by lawyers in the Legal Division.

MR. BELL: He had two hundred and fifty attorneys under him.

H.M.JR: He did? How old a man is Kline?

MR. O'CONNELL: Forty-seven, born in 1898.

H.M.JR: And the other fellow?

MR. O'CONNELL: We don't have his age, but he is about thirty-eight. He is younger. I don't know if there is any political difference between the two, but I would guess that Kennedy might be a little easier, if that is a factor.

H.M.JR: I wouldn't have to go to Hannegan or anybody on this one.

MR. BELL: Justice Douglas can give you possibly a pretty good background on this fellow if you want to call him.

H.M.JR: Who, Kline?

MR. BELL: Yes, Douglas.

MR. O'CONNELL: There are so many sources of information on Kline.

H.M.JR: I asked Douglas for some recommendations some time ago on something, and he gave me the lousiest recommendations. I ran them down. He recommended two or

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three people. I forget their positions, but none of them stood up. It was most amazing. His recommendations just didn't stand up under investigation.

MR. O'CONNELL: I think even without speaking to Douglas you would find almost anyone who has known Bob Kline for the past eight or ten years would think he was competent.

H.M.JR: What would you think of getting an SEC enforcement man in?

MR. BELL: I think it would be good, Mr. Secretary. He must of necessity have a pretty thorough financial background--accounting background--even though he is an attorney, to delve into the intricate problems of SEC.

MR. O'CONNELL: He doesn't need to be a tax man.

H.M.JR: Has either man ever been on general finance business?

MR. O'CONNELL: I don't think Kline was, and, of course, the other fellow wouldn't have been in Chicago. I have never heard Kline's name in connection with it. Jim Treanor was the fellow that handled SEC.

H.M.JR: Some of the attorneys came out to see me at the house one Sunday--SEC attorneys.

MR. O'CONNELL: I doubt if he did, but he might have.

H.M.JR: Let's just wait and I will take a look at the thing Thursday morning bright and early, and then you will know more about Kennedy.

MR. O'CONNELL: I wish we would take a look at Kennedy. We may not decide anything Thursday.

MR. BELL: From what I have been able to gather, they kind of hold Kline out as number one--number two on the list you gave me.

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MR. PEHLE: That is a matter of judgment. I would say either one of them.

MR. O'CONNELL: I would like to see Kennedy. I know Kline and think well of him. Tom knows Kennedy and Kline both, and he thinks they are about on a par.

H.M.JR: I think if Kennedy says he is interested, we ought to have a look at him. We have waited this long; I can wait another day.

MR. O'CONNELL: That is right.

H.M.JR: O.K., gentlemen.

MR. BELL: Assistant Commissioner.

MR. O'CONNELL: We haven't done so good on Assistant Commissioner.

H.M.JR: Let me tell you, I asked Matt Connelly why I never heard from the President with regard to the suggestion I raised with him in the State of Washington, and he said that that was on his list.

MRS. KLOTZ: No.

H.M.JR: Will you put him on the list?

MRS. KLOTZ: Yes.

H.M.JR: He said the President had made an inquiry and heard good things about him and had intended to talk to me about him, so I intend to see the President Thursday and intend to ask him. I had better find out Thursday what the President said.

MR. O'CONNELL: Yes, we haven't had much.

MR. LUXFORD: We haven't come upon anybody who is pretty good. Charlie suggests Berliner, who used to be our Collector in San Francisco who resigned a couple months ago.

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H.M.JR: Who?

MR. BELL: Berliner.

MR. O'CONNELL: Harold Berliner.

MR. BELL: He is a young fellow.

MR. O'CONNELL: He is not so young.

MR. BELL: Forty-five.

MR. O'CONNELL: Between forty-five and fifty.

MR. BELL: He is pretty young.

MRS. KLOTZ: Still a baby.

MR. O'CONNELL: I saw him when he was still at San Francisco as a Collector. He was there for two years.

H.M.JR: Collector of Customs?

MR. O'CONNELL: Internal Revenue. He explained to me he was forced by virtue of the fact that he had two or three growing children to get back to the business he left in '43, and I got the distinct impression he was going back to something that was worth three or four times as much as the Collector's job, and I had the reaction that there would be nothing in this job that would entice him here. He isn't a lawyer, so you couldn't hold out the possibility of a lucrative tax practice. He was a good leader and a competent fellow. It would be a waste of time to contact him, I think.

MR. BELL: And he is a good Democrat.

MR. O'CONNELL: A very active Democrat.

H.M.JR: Anything else?

MR. BELL: You may want to sign a little letter to Tobey giving him four tickets for tomorrow.

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H.M.JR: Wonderful. Thank you all.

(Mr. Bell hands Secretary letter addressed to Senator Tobey.)
(Mr. O'Connell and Mr. Pehle leave the conference.)

H.M.JR: He spoke to me himself.

MR. BELL: Tobey did?

H.M.JR: Yes. Do you know where he is staying? They had better call up his office and find out. I will rewrite this letter and send it in to you. How is that?

MR. BELL: Fine, all right, sir.

Dan wants to take that over this afternoon to Harold Smith. (Hands Secretary letter addressed to Mr. Harold Smith, dated July 3, 1945, which Secretary signs.)

H.M.JR: I haven't seen this letter. Sit down.

Well, of course, the fact that he wasn't advised--I can't be in ten places at the same time. Dan Bell knew that I changed in my contact with the Budget.

July 3, 1945
5:02 P.M.

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HMJr: Yeah.

Mr. Luxford: Well, they are fighting and going down awfully hard.

HMJr: Are they?

L: They just got an amendment through to add one word to the bill. They wanted - we have a provision that the fund shall not be used for reconstruction or relief, and they forced through an amendment for armament. The fund shall not be used for relief, reconstruction or armament.

HMJr: Yeah.

L: And in order to get that vote Barkley yielded and I think, two others went along - two Democrats.

HMJr: Yeah.

L: Now apparently, they are annoyed at this idea that the Senate should not make any amendments at all. That's the word I'm getting back, protesting. Now Downey, this is what Tobey told me, that if they don't get any other amendments, they are going to move to reconsider that vote.

HMJr: I see.

L: On the thought that they may be able to get rid of it, but they are putting on awfully hard pressure. Ratcliffe, incidentally, is misbehaving.

HMJr: Yeah.

L: He is now insisting that they include in the bill a provision that they call a conference on commercial policy.

HMJr: Yeah.

L: Now, neither one of those go to fundamental of either agreement, but if you do that then it will have to go back to the House. Tobey was talking to me about it, and I urged to see if they can't kill it.

HMJr: Yeah.

L: But I don't know. They don't like this idea of no amendments.

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HMJr: Yeah.

L: That's about what it boils down to. We've got a majority on anything that is important.

HMJr: Well, if you've got one word - one amendment - it's got to go back to the House.

L: That's right. Well, that's why Tobey says if they don't get any others, he says he is going to move to reconsider to see if they can't get rid of that one vote.

HMJr: How long will this continue?

L: Well, they expect to get through in another half-hour.

HMJr: Right.

L: But they had an awful dirty fight, too, on the 18 months provision, but apparently they killed that one. I'm calling from Wagner's office and I'll go right back up there again.

HMJr: O. K.

L: All right, sir.

July 3, 1945
5:28 P.M.

305

HMJr: Hello.

Mr. Luxford: Mr. Secretary?

HMJr: Speaking.

L: I just got through with a long talk with Wagner and Murdock, and Murdock says there is just no way you can stop that silver amendment from going through in his opinion.

HMJr: Yeah.

L: They were both there together. That is the one deleting section 6 from the bill.

HMJr: Yeah.

L: Now that doesn't hurt us again except by forcing us into conference, and I emphasized to them that to them that that is something the House would fight about. And he said well, he said, I don't think we can stop it here. But he said "If we get into conference on the thing - if the House is adamant, we'll at least have room to play around with and we can finally drop it." But I said, "Well, Senator, it seems to me we are doing quite a little for silver - you know, that silver certificate arrangement." He said, "Yes, but my hands are tied. I can't even tell anybody about that." And I then tried to get him to say that I would check with you to see whether or not you would allow him to speak with the silver senators about it. He said, "Well, I can't do it here. It is too late."

HMJr: Well, I didn't tie his hands the other day.

L: Well, I hadn't understood that either, but he was under that impression that he couldn't speak about it.

HMJr: No.

L: Now I told him I would check, and he said, "Well, I can't stop this amendment here." Now Wagner was very much worried, and again Barkley isn't holding tight, and Downey has joined with Milliken. Murdock said, "I've got to go along. I don't want to, but I've got to."

HMJr: Who's holding tight.

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L: I just say Berkley is not holding tight. He is again playing around.

HMJr: Yeah.

L: But I just wanted to check with you on that because I think I'll pass word into him.

HMJr: I never in any way indicated the thing was a secret.

L: Well, I just wanted to be sure of that because I hadn't heard of it before. That's why I said I would check with you.

HMJr: No, no. He knows that I never asked him to keep it...

L: Well, when I started pushing him on it, he said well he couldn't stop it anyway, at this point.

HMJr: Well,....

L: But I just wanted to tell you what's happening, and I'll tell you just as soon as I can what happens finally.

HMJr: Look, are you also telling White or are you just telling me?

L: I'm just telling you, Mr. Secretary.

HMJr: Well, it looks to me that it pretty well lost. Hello?

L: Hello.

HMJr: I mean one amendment sinks us.

L: What?

HMJr: One amendment sinks us.

L: Well, they don't feel so.

HMJr: Well, I mean it will be next Fall sometime.

L: Well, they can go into conference in a very short time.

HMJr: Only after it passes the Senate.

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L: That's right. Then they can go in conference and settle the thing in one day.

HMJr: If the House is here.

L: That's right, but suppose it was voted out next week.

HMJr: But they are not going to vote on the thing until the 16th.

L: I said that would be next week - but that's right week after next.

HMJr: Yeah.

L: It doesn't necessarily, it makes it awfully hard though, there's no question about that.

HMJr: Well, O'Connell was in here a little while ago - he said one amendment and we might as well give up any idea of anything until next Fall.

L: I wouldn't be quite that pessimistic. I don't want any amendment either, but I wouldn't be quite that pessimistic.

HMJr: As far as Murdock, people will hear that there is no secrecy in any way attached to it.

L: Well, I will at least let him know that right away.

HMJr: Well, they just double-crossed me, that's all.

L: I don't think he is, Mr. Secretary. I don't think he is, he's just in a position where he can't control the others.

HMJr: O. K.

L: All right, sir.

July 3, 1945
5:33 P.M.

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HMJr: Hello.

Mr. Clayton Fritchey: This is Clayton talking, Mr. Morgenthau.

HMJr: Yes.

F: I went over to see Mr. Berry....

HMJr: Yeah.

F: And just came back. I got the impression, first of all, that he had not been approached before by any body if so he assembled before me very well.

HMJr: He did what?

F: If he had been approached he disassembled before me very well because the idea seemed to be entirely new to him.

HMJr: Yes.

F: And as we talked his interest seemed to grow on it. I gather he would not want to sever his connection with the bank permanently.

HMJr: Yeah.

F: That if it was on the basis of a year or so, it could probably be arranged. He is not certain that his particular experience is just what would be required, and he would like to know a little bit more about what would be required.

HMJr: Yeah.

F: In general, I discovered both through him and looking up our data on him, that he is a lawyer to start with which is a little hopeful but very usually a little more flexible than the banking mind. Then before he came here he was executive vice-president of the First National Bank in Birmingham.

HMJr: Oh, yes.

F: His work there - now I think this will interest you - was largely concerned with taking over concerns during the depression and running them. He had a crew and the bank was just taking over one kind of company after the other - a great variety of them, and really running the company.

HMJr: Yeah.

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F: He has been here since 1938. He is the President of the bank, and it is the largest bank in the South. Just to refresh my memory I checked all the way back on the bank and it's reputation was spotless and so was his. He is, I would say, has the public sense and the usual conventional views of most American bankers, but is not the vocal type about them and doesn't make himself a nuisance about them.

HMJr: Yes.

F: Conservative, but a relaxed conservative. Now he doesn't know Germany, nor does he know the German language. I didn't know whether that was....

HMJr: That is not necessary.

F: ... important or not.

HMJr: Well, it would be helpful if he did, but it--- at least he has no preconceived notions.

F: Yeah. The Whitney National does considerable business in foreign trade and he has the usual knowledge of it, but is not an expert in it.

HMJr: Yeah.

F: He has quite a bit of practical experience. As to Germany itself, he doesn't seem to have any fixed ideas on how it shall be reconstructed or to what extent. Personally, he rather feels that it would be better not to approach the job with an arbitrary program.

HMJr: Yeah.

F: I gather that he felt the main problem was how to make --Germany self-sustaining again without -- at the same time creating a new war potential.

HMJr: Yeah.

F: And on that score he thinks that is a little easier said than done, and feels that is something that will have to be worked out on the scene after becoming considerably more familiar with the situation than he is now. I think that in general explains his attitude. I could go a little more in detail, but I think that gives you some idea of his thoughts. He doesn't have any hard and fast ideas at the present time on it.

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HMJr: Yeah, I wouldn't say it was -- he says he has no burning feeling aginst them, that's the....

F: No. He is a man who doesn't have burning feelings about anything in my estimation.

HMJr: Yeah.

F: He is a rather self-effacing type, Mr. Morgenthau, and is not the go-getter type at all. He doesn't make many speeches around town, he does what is necessary of a citizen of his position but rather a thoughtful type - rather on the reticent side.

HMJr: You don't know where....

F: He makes a very fine appearance incidentally. He is a fine looking man - about 49, I should say, or 50.

HMJr: You don't know where he stood on Bretton Woods?

F: Yes, I do know because I just inferred that in the conversation, and I think his views are about those of the banking fraternity as a whole except that again his criticisms are not of the passionate type. I got the impression that he thought it was going to go through, and that he thought the amendments that were passed in the House were some improvement. I think he is the kind of man when the situation is still fluid would like to put in his oar, but after it is once established doesn't cry over spilt milk any more but just seems to make the best of it.

HMJr: Well, of course, if he's this type, I mean I never would pick him, you see?

F: Ahuh.

HMJr: But the War Department has been after me and there is nothing I can object to as to the man's character and ability, and it is their responsibility and if they want that kind of person why I think it is up to them.

F: Well, I think, on the whole, they are getting a man of considerable rectitude, pretty good training, pretty good head, but a conventional type of man, and probably reflects the general banking views pretty well.

HMJr: Well, I get a picture of him. I know the type.

F: I should think without knowing him that he would be an Episcopalian. He was in the first war as a Judge advocate...

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HMJr: What was that?

F: In the first World War he was in the army of the Judge Advocate.

HMJr: I see.

F: He went to the University of Missouri, and went to law school there. I told him that I was going to call you back and report the nature of our conversation, and I didn't know what would happen from there on.

HMJr: Well, I'll pass it along to McCloy. It is up to him. The War Department will make the contact - I won't.

F: I see.

HMJr: It will come from the War Department.

F: I see. Now is there anything further you would like along that, or does that give you --- do you want me to put this in the form of a memo.

HMJr: No, no. I've got the picture - I think he is....

F: Well, I think that is a pretty accurate picture.

HMJr: Well, I got the picture. They've got a lot more like him over there now only much worse.

F: Yes, that is probably the answer...others of the similar type but less violent.

HMJr: Well, they've got two or three men from General Motors Export whose main interest is to get the export market re-established in Germany. They are right on the inside. The top economic fellows from Dillon Reed in New York, and General Draper.

F: It will be a happy family, won't it? They'll all get along well.

HMJr: They'll all get along beautifully.

F: They'll have themselves a nice club group.

HMJr: And I'm afraid that the industries will grow up again.

F: Soon have the Union club and

HMJr: Frankfurt is the place.

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F: Frankfurt, all right.
 HMJr: It's Frankfurt. That's right. Well, thank you very much.
 F: All right, anything further, why let me know.
 HMJr: Much obliged.
 F: All right, bye.
 HMJr: Bye.

July 3, 1945
5:42 P.M.

313

Miss Carr: They voted out the Bretton Woods Bill 13 to 4, with three amendments.
 HMJr: With three amendments.
 C: Yes, sir, and he said he would be here just as soon as he can get the car.
 HMJr: What did you do, send a car up for him?
 C: I didn't but I believe maybe he asked Paul...
 HMJr: 13 to what?
 C: 13 to 4.
 HMJr: 13 to 4.
 C: With three amendments.
 HMJr: O. K. Well, tell White, O'Connell, Pehle, Dan Bell, Feltus, Fussell to come... Herbert Gaston if he is around.
 C: To come in?
 HMJr: Yes.
 C: All right.
 HMJr: 13 to 4 with three amendments.
 C: That's right.
 HMJr: O. K.
 C: Right.

July 3, 1945
5:57 P.M. 314

HMJr: There's going to be a million dollars, gold *seal* currency for Dr. Kung today up there at 4 o'clock. Now this thing we've done for Dr. Kung under my new instructions. Have we let the State Department know?

Mr. Frank Coe: I talked to Coliado.

HMJr: Good.

C: ... last night. Incidentally, he said that he thought that their political people would be a little disturbed. That they would rather not of had him get him. He said he would tell John Carter Vin~~son~~ about it. He promised to ring me if they had any objection. I pointed out that the way you had done it there was a week's lapse on the other 9 million, so that if they had any misgivings they could get in touch with us.

HMJr: Well, I gave Soong my word on the other 9 million.

C: Well, I don't....

HMJr: You did let Coliado know.

C: I let him know.

HMJr: Fair enough.

C: O. K.

HMJr: And the first million is up there at four o'clock, so you go.

C: *we will go tonight* I think we telephone up there and tell them, and also telephone State.

HMJr: What do the political boys over.... what do they want us to do?

C: Well, you see I don't think they are together on their policy, just as they are on that other Chinese gold thing. I think the *China* *division* *there is* *work* on all these people in the regime, but on the high level they are not.

HMJr: Well, I must *not worry*

C: O. K., thank you.

HMJr: Thank you.

315^v

July 3, 1945
7:00 P.M.

MEMORANDUM

I was unable to get Senator Wagner this evening, and I left word at his hotel that I had called him. I did get Barkley and I thanked him for all he had done to help us. He said that he thought the amendments weren't too bad. I asked him if he thought we could get the House to concur and he said he didn't know. I said, "Is the House going to be in session when you get the legislation through the Senate?" He said he didn't know that either. Then I said, "Supposing the House won't be in session for a couple of months, do you think there will be a chance to get these amendments knocked out on the floor of the Senate?" He said that there might be. I said I would try to see Rayburn Thursday and I would come around and see him. He said he wouldn't be here until Monday and I said I would see him Monday then.

He talked very friendly and seemed to think the thing had been a great success. I just was very cordial and thanked him, etc.

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July 3, 1945

Ted Gamble
Secretary Morgenthau

I told Mrs. Morgenthau about my idea for a show for the night of July 10th. She likes the idea very well. She wondered whether we could get either Corwin or Robson to write the show. What do you think?

In case we decide not to do it, I wouldn't mention it to Dave Levy because if we are going to depend on Dave Levy, I don't want him to lose his enthusiasm for doing it himself.

RALPH A. GAMBLE
27th Dist. New York

COMMITTEE
BANKING AND CURRENCY
CLAYTON M. B.
ELECTION OF PRESIDENT, VICE
PRESIDENT AND MEMBERSHIP
OFFICE IN CONGRESS

Congress of the United States
House of Representatives
Washington 25, D. C.

317

July 3, 1945

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

Dear Mr. Secretary:

I apologize for making a belated acknowledgment of your very nice letter of the 5th regarding my efforts in connection with the Bretton Woods proposals.

I am delighted, of course, that the bill passed the House by such a large vote and I think, strange as it may seem, that it is going to be helpful in the Senate which, I hope, will approve the legislation promptly.

With kindest regards, I am

Sincerely yours,

THE CENTRAL BANK OF CHINA

OFFICIAL HEADQUARTERS OF THE NATIONAL GOVERNMENT

HEAD OFFICE
CHUNGKING, CHINA

CABLE ADDRESS
"GOVERNMENT"

Case 100-5
318

New York
July 3, 1945

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

My dear Mr. Secretary:

I have been directed by His Excellency Dr. T. V. Soong to forward to you the following message which was cabled from Chungking under date of June 26, 1945:

"In accordance with our policy on gold sales as outlined between us when I was in Washington, I have ordered that sales for future delivery be stopped forthwith and that commencing August, sales will be on a spot basis.

"I also wish to take this opportunity to thank you again for your kind assistance to me during my recent visit to the United States. Cordial regards."

I regret that there has been delay in forwarding this message to you owing to mutilation in transmission.

Yours sincerely,



Hsi Te-Mou

HTM:pd

EXECUTIVE YUAN
NATIONAL GOVERNMENT OF CHINA

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July 3, 1945

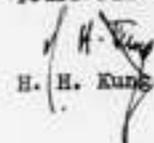
Honorable Henry Morgenthau, Jr.
The Secretary of the Treasury
Washington, D. C.

Dear Secretary Morgenthau:

I have received your letter of July 2nd together with your excellent photo which you have been so good to autograph for me. I much appreciate this additional fine gesture of your long friendship which I always cherish.

With kindest personal regards,

Yours sincerely,


H. H. Kung

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 3, 1945

TO: Secretary Morgenthau

FROM: Mr. Gaston

Fussell tells me that he did not at any time in their conversation suggest that he thought Edson was trying to "blackmail" you or to bargain with you. Edson's disclosure of the sources of his information on IPCOG was entirely voluntary. The sources were those of a good reporter; that is, he simply put two and two together.

I have only talked to Edson once or twice, but I have a good deal of confidence in him.

MRS

TO: SECRETARY MORGENTHAU

FROM: E. B. FUSSELL

Peter Edson says the intimation that he was attempting to blackmail you into giving him some more information about IPCOG is incorrect.

He says he put together his IPCOG story as follows:

TIME magazine about 3 weeks ago had a story dealing in some detail with 1067.

Clayton told part of the story in his appearance before the Kilgore committee.

On the basis of these tips, Edson went to the War Department where someone in the Public Relations Section acknowledged the existence of IPCOG and apparently gave him the designation "1067 slash 6". He saw it on this man's desk but didn't see its contents.

I took Edson to Frank Coe who talked in a general way to him about the so-called Morgenthau plan consisting of a variety of notes, memoranda, etc., and about the thread of economic and financial controls running through the Quebec conference, Yalta, 1067 and IPCOG; that while it couldn't be said that any of these subsequent documents actually was the "Morgenthau plan", the various issues raised by the original notes and memoranda were the subject of discussions, interdepartmental and international, and that the general trend was distinctly favorable. Edson indicates that he plans to continue discussion of this and related subjects in subsequent columns. As he left he repeated two requests.

(1) He said he wanted to make a formal request for the documents representing the "Morgenthau plan". I told him his

July 2, 1945

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request was noted. I don't think he intends anything serious by this except to be in the position to ask that if and when anything of the kind is given out, the fact that he has made the request be given attention.

(2) He would like to talk to you personally to get a story on what you and President Roosevelt talked about the day before his death. He may have the understanding that the German matter was the subject of conversation, but if so he didn't indicate it. What he said to me was that you were the last official to talk to the President and there never has been anything in the papers about the subject of your conversation or the circumstances. I told him that you were extremely busy and that in general you didn't give exclusive interviews, but I would repeat his request to you. It seems to me that if you can give him enough of a human interest story on your last meeting with FDR to be interesting without divulging any subject of conversation that you wouldn't want to discuss, it might be worthwhile to see Edson at your convenience. He is generally friendly and has one of the largest reader audiences.

E. B. Frank

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3 July 1945

Secretary Morgenthau

Mr. Luxford

The three amendments provided by the Senate Banking & Currency Committee today are as follows:

1. The Committee explicitly provided in Section 14 of the Bill that the assets of the Fund might not be used to finance armaments. Thus, where Section 14 now provides that the Funds resources may not be used for "relief or reconstruction", under the Senate amendment it will now read "for relief, reconstruction or armaments."

2. The Senate Committee deleted Section 6 of the Bill which stipulated that the par value of the U. S. dollar which should be communicated to the Fund would be 15-5/21 grains of gold (i.e. the gold value of our present dollar). The deletion of this Section of the Bill has no significance in fact. The reason for its deletion is that the silver Senators did not want a reference to gold without a reference to silver.

3. A section will be added to the Bill recommending to the President that he take such action as may be possible to convene an international economic conference for the purpose of working out trade policies, etc. This amendment is made in the form of a recommendation and is not significant since the State Department has already announced plans to have a conference of this character.

The Senate Committee voted out the Bill thus amended by a vote of 13 to 5.

A.F.L.

AFL:ehb
3/7/45

TO:

323
Mr. McLaugh
Original sent by
Special Messenger
to Secretary

7 p.m. - 3 July '45

MR. LUXFORD

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MEMORANDUM FOR THE FILESSTRICTLY CONFIDENTIAL

July 3, 1945

As I was about to leave Frankfurt, Joe DeBois summarized a report he had just received from one of Paulley's men concerning the first meeting in Moscow of the Reparations Commission. While asking that I make this information available in the Treasury, Joe emphasized the extreme importance of not having it leak, since the Russians are very insistent that none of the proceedings in Moscow should be made public.

Upon the arrival of the British and American delegations in Moscow, much time was spent in getting office space, billets, etc. The Russians had assigned one house for the three delegations but, upon seeing how inadequate the quarters would be, they decided that the house should be shared by just the British and American delegations. Considerable time was then spent in negotiations between the British and American delegations as to who was to occupy which part of the house. The British then devoted their primary effort to have arrangements made for a special courier plane to London each week, a request which the Russians were not inclined to grant.

The first formal meeting of the Commission was held on Thursday, June 21st. Wisky made the opening speech, in which he made a big point of Russia's desire to carry out the Yalta decisions and stated that Russia's primary interests are in obtaining security and justice. The main point of the British speech was to the effect that if the conference was to be a success the British must be allowed to establish communications with London. Paulley is reported to have made a good speech containing the basic points of the Reparations Instructions. He also took the position that it was appropriate that the initial meeting be held in Moscow but apparently began to lay the ground for arguing that the negotiations should be transferred to Berlin.

After the opening speeches, the Russians presented two papers. The first paper related to the organization of the Reparations Commission and made two fundamental points: (1) that the Commission must be a three-power commission (which would, of course, exclude France) and (2) that the Commission should sit in Moscow. It is expected that much time will be spent in discussing these two points.

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The second of the Russian papers related to the proposed Reparations program and was based upon the Yalta decisions. In this paper the Russians asked for 20 billion dollars in reparations, of which 10 billion should go to Russia, 4 billion to the United States, 4 billion to the United Kingdom, and 2 billion to be distributed among all others. It was unanimously agreed that they would start with the Russian paper as a basis for discussion.

The informal discussions indicate that the views of the United States and the Soviet delegation are close together but that the British want much more reconstruction of Germany.

The members of the reparations Commission who have visited Russia and returned to Germany described the standard of living in Russia as being very low. Every one of the members, upon leaving Germany and entering Moscow, was so shocked by the contrast that it had a profound effect upon his thinking. The Russians had taken some of the members to visit Stalingrad, which they found to be completely wiped out and no reconstruction under way, although there were persons in their travels in Germany and German cities being reconstructed. Every one has been impressed with the manner in which Russia has devoted all of its resources to the war and one of the members who had travelled a good deal in Central America told Joe that conditions of poverty which he had seen in Russia were much worse than anything he had seen in Central America.

Orvin A. Schmidt

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE: 3 July 1945

TO Secretary Morgenthau
FROM Mr. Luxford

The three amendments provided by the Senate Banking & Currency Committee today are as follows:

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The Senate Committee voted out the Bill thus amended by a vote of 13 to 5.

A.F.L.

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July 3, 1945

Herbert Gaston
Secretary Morgenthau

On second thought, instead of my writing to these two women, I think you should have somebody from Internal Revenue call on them in the way we usually do when making an investigation, and give us a report on their interviews.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE 7/3/45

TO Secretary Morgenthau
FROM E. S. Fussell

The following is transmitted in response to your request of last week for a report on the present status of each tax evasion case you had discussed at a press conference or otherwise.

The cases are grouped in the order in which they were discussed by you. In each instance a brief summary of your description of the case is given first, then a report of its present status.

E. S. Fussell

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July 3, 1945

Status of tax investigations mentioned by Secretary at press conferences or in statements:

PRESS CONFERENCE OF APRIL 30

(Crucible Steel Castings Co., Milwaukee) - Chicago

A midwestern manufacturing concern diverted proceeds of sales directly to officials to escape record on company's books. Additional taxes and penalties of more than \$2,000,000 for three year period indicated.

The case probably will be referred to the Justice Department about July 7 with recommendation for prosecution. Some 28 key employees who appear to be involved in conspiracy to aid principals in concealment of income may be called before grand jury; some may face prosecution for perjury.

---X---

(Canal Loan and Jewelry Co.--New Orleans) - Dallas

A jewelry firm in a southern city accumulated \$250,000 in \$20 bills which apparently represented proceeds of sales unreported for tax purposes.

Investigation continuing; Evasion of \$270,000 in excise taxes indicated, in addition to income tax deficiencies. Three agents working on excise and income tax phases.

---X---

PRESS CONFERENCE OF MAY 24

(Henry Lustig-Longchamps Restaurants) - New York

Investigation of tax status of a New York restaurant chain operator indicates he has failed to report income of \$2,800,000. He appears to have diverted part of cash receipts of restaurants into his personal vaults, making daily collections by armored truck. These collections were excluded from books and tax returns.

(See next page)

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Agents' report submitted on two of corporations involved and examination nearly complete on three of remaining five allied corporations. Amount of income apparently unreported much larger than indicated earlier. Criminal proceedings contemplated against three principal officers and three other officials of the firms. Final reports to be submitted early in July. Some twenty investigators are active in this case.

---X---

PRESS CONFERENCE OF MAY 28

(Berry-Wright-Wright Beef Co. - Wash.) - Wash.

Washington, D. C. meat dealer allegedly overlooked \$400,000 tax liability for profits obtained in Black Market.

Justice Department has requested additional evidence if possible.

---X---

(Jacob Spevak - Baltimore) - Washington

Baltimore meat wholesaler, with indicated Black Market collections during 1944 of at least \$400,000. He reported only \$35,000 income on his tax return for that year.

Investigation should be completed in ten days or two weeks. Evidence has been obtained indicating this dealer made over-ceiling collections of from \$4,500 to \$6,000 weekly from New York and Baltimore customers, and that he paid 2 cents a pound over ceiling to packers, and charged his customers 10 cents, or a net of 8 cents a pound above OPA prices.

This principal and three others went on trial July 2 on charges of conspiracy to violate the price control act.

STATEMENT TO CONGRESSIONAL COMMITTEES, June 1, 1945

(California Raisin Industry) - San Francisco

Diversion of raisins to wineries as "waste" to evade price ceilings and War Food Administration preclusive buying for military needs. As cited to committees, this investigation had involved some 25 cases, and estimated \$10,000,000 to \$12,000,000 concealed taxable income.

The first of these cases is nearly completed, with apparent tax liability of \$100,000. More than 100 cases now on list for investigation. A number of taxpayers engaged in these operations already have filed supplemental returns and paid additional tax.

--X--

(Fresh Crown Preserves Corp., Lyndhurst, N. J.) - New York

A preserving company in the New York district diverted 30,000,000 pounds of sugar, obtained ostensibly to fill Army and Navy contracts, into the soft drink industry. Sales of \$1,200,000 were concealed, it was estimated, with possibly \$2,000,000 recovery in taxes and penalties anticipated. Checks cashed outside banking channels furthered concealment of sales receipts.

Tax and penalty liabilities of company and individuals involved now placed at \$3,500,000. Recommendations for prosecution of the company and two individuals expected to go to Justice Department about July 7.

--X--

General Desserts Corp.--Anthony Armentano) - New York, New York

This case involves a New York company supplying the baking trade. The treasurer, dominant figure in the firm, diverted and concealed proceeds of sales through cashing checks outside banking channels. After the investigation started, the officer removed \$600,000 from his private safety boxes to a bank for deposit, to meet possible tax deficiencies.

The principal in this case fell or jumped to his death from a New York hotel building, on June 2. Jeopardy assessments have been filed against the corporation to protect the interest of the Government, in the sum of \$1,134,050, and investigation of the corporation's tax liability is continuing.

--X--

(Robert H. Gould, et al) - Cincinnati

This Black Market liquor conspiracy case involved cash payments of nearly \$2,000,000 over-ceiling; and evidence included the incidents of a deposit of \$50,000 in thousand dollar bills traced subsequently to Virginia operations of the syndicate, and a paper wrapped package of \$300,000 (lettuce) at a southwestern bank.

The principal in this conspiracy has been given a long prison term for OPA price ceiling violations. Since the Treasury investigation began he has filed amended declarations of income and made additional payments on taxes of more than \$500,000. Similar action by several associates has increased the tax recovery to around a million dollars. Since the principal obtained an extension to July 15, of time for filing his 1944 final return, completion of the investigation of his tax status has been impracticable.

--X--

(Thomas H. Gorman, American Distilling Co., et al) - New York, New York

A liquor syndicate collector with a gladstone bag filled with currency. Another collector, while confined in a hospital, received \$80,000 at his bedside, causing his nurse to suspect a robbery, and call for police.

Evidence against a Broadway playboy, alleged principal intermediary and recipient of \$1,300,000 Black Market money is complete and being reviewed by the chief counsel. The special agents recommend prosecution, and place taxes and penalties at \$1,800,000, since the supposed intermediary has refused to explain receipt or disposition of the Black Market money, and it must be assumed it was income to him. He is awaiting trial on OPA charges.

--X--

(Dr. Abraham Fristag) - New York, New York

A Brooklyn physician, manufacturing surgical bandages for the Army, diverted textiles to the Black Market. He was sentenced on May 29 to three years in prison on a War Frauds charge.

A lien against real estate holdings of this taxpayer has been placed to protect the Government's tax claims. Agent's report in hands of penal division.

--X--

(T. D. McGough and McGough Chevrolet Co., Montgomery, Ala.) - Atlanta

A used car dealer in a southern state perpetrated a \$100,000 concealment of income through secret records. Money derived from Black Market sales.

Taxpayer had made full disclosure, is cooperating in the establishing of full tax liability. Investigation continuing.

--X--

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PRESS CONFERENCE, June 7

(P and M Liquor Corp., Chicago-Gary Wine and
Liquor Corp., Gary, Ind. - Chicago)

In a Chicago-Indiana liquor case, three men solicited orders for whiskey before they owned any, obtaining \$400,000, with which they purchased a corporation with a stock of whiskey. They allegedly distributed the whiskey in the Black Market. Half a million dollars in taxes and penalties are involved. The corporation purchased was a liquor subsidiary of a drug chain.

* * *

Major part of the investigation so far as the P and M company is concerned is completed. However, several corporations are involved and several individuals, with jurisdiction in four judicial districts and three collection districts. Prosecution, if recommended, probably will be in the southern district of Indiana, at Indianapolis. The Indiana phase of the cases still is under active investigation, with indications that tax and penalty recovery from the series of investigations will total a million dollars.

-----X-----

WE, THE PEOPLE BROADCAST, June 11

Kansas City

Wichita Grand Jury (Wichita, Kansas), Investigation into Tax Phases of Alleged Illicit Liquor-Gambling-Night Club Operations.

Indictments were returned on June 26 against Max Cohen and Robert L. Carnahan, alleging evasion of \$200,000 in taxes for years 1941 and 1943. They were held under \$10,000 bond

6

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each. Previously two witnesses were jailed for contempt of court and another man held as a material witness. On June 29 five other indictments charging tax evasion were returned, including charges against William J. Zurbucken, superintendent of the Kansas State Highway Patrol and Joe Maness, Sedgwick County Deputy Sheriff.

-----X-----

St. Paul

(Henry A. Heiser, Minneapolis)

A Minnesota ordnance plant employee chiseled kickbacks on purchases of supplies his firm made, amounting to several thousand dollars which he did not report as income. He made a full confession, and recommendation for additional taxes, penalties and prosecution is being prepared. Investigation continuing.)

-----X-----

Denver

(Denver Group: Herman Napelli, Peyser Pepper,
Arthur L. Sigman and 35 others)

In a Colorado Black Market case information came to us from five different sources.

* * *

Investigation under way.

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PRESS CONFERENCE, June 21 (Indiana Cases)

(J. C. Perry and Co. Inc., et al) Indianapolis-Chicago

An Indianapolis company dealing in black market liquor, with flyers in canned pineapple and sugar. Taxes and penalties of half a million dollars are involved.

This case is in hands of United States attorney at Indianapolis for prosecution. Probably will go to Grand Jury in September.

---X---

(Rocco Barbera, Mishawaka, Ind.) Chicago

A slot machine operator allegedly omitted \$35,000 in income in three-year period.

Investigation nearly completed, prosecution to be recommended.

---X---

(Reuben S. Troyer, Elkhart, Ind.) Chicago

Truck farmer and florist accumulated \$100,000, including \$50,000 in currency.

Under investigation.

---X---

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J. BANT SEXSON, Robert Sexson, Indianapolis) Chicago

Indianapolis man paid \$35,000 in currency in purchasing a small apartment, and other cash purchases by the taxpayer and son brought total to \$95,000, out of proportion to reported incomes.

Preliminary evidence obtained by revenue agent in charge turned to Intelligence, and investigation is continuing.

---X---

(Liquors, Inc., Samuel Frommer, Indianapolis) Chicago

An Indiana liquor house received side money in currency of \$150,000, in above ceiling transactions.

Under active investigation.

---X---

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Hickory Daily Record

"Covers Western Carolina Piedmont Area"

Hickory, North Carolina

July 3, 1945

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

Dear Mr. Morgenthau:

Thank you for your letter of June 30 and your suggestion that newspapers continue to be interested in news relating to the Treasury's drive against tax evaders. The Hickory Daily Record is eager to serve in any way it can in bringing black market operators to a realization that it does not pay to try to defraud the government out of income tax payments.

We are 100% behind your proposal to recruit a sufficient number of additional investigators to care for this essential job satisfactorily.

Yours sincerely,

HICKORY DAILY RECORD

L. G. Gifford
L. G. Gifford, Publisher

LCG:rb

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 3,
1945

TO Secretary Morgenthau
FROM J. W. Pehle

Attached are two very interesting clippings from the AMERICAN BANKER on the currency order. Both of the clippings are very helpful and well worth reading.

Clipping No. 2 reiterates the suggestion which is being more and more frequently made that large bills should be called in.

When the AMERICAN BANKER is willing to openly advocate such a step isn't it about time the Treasury stopped regarding such action as "radical"?

Attachments

CLIPPING NO. 1

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SECRETARY MORGENTHAU'S DISAGREEABLE ORDER

JUN-13 1945
Another Public Relations
Opportunity
American Banker

Once again the capacity of bankers for lining up behind the eight ball of public opinion is being sorely tested. This time it is Secretary of the Treasury Morgenthau's disagreeable order for reports on "unusual" currency transactions which involve large bills and are indicative of attempts to dodge regular banking records of transactions by utilizing currency for illicit transactions or income tax evasion.

A prime consideration, we believe, is that the general public—the man on the street, in the mills and in the offices—is all for giving such wartime public enemies as the black marketeer and the tax evader "the works." The howl or protest which we hear against Secretary Morgenthau's order from various sources comes either from honest people who have misunderstood the order or from people who it is going to hurt, because they have been utilizing cash for outside-the-law transactions.

Is there any reason why banks should want to identify themselves with the business gangsters against whom Secretary Morgenthau's order is directed? We do not think so. But the general effect of bankers kicking loudly, as has happened in a few places, will certainly be to make thinking people wonder what interest the banker has in protesting against an order asking his co-operation in uncovering income tax and black market outflows.

Of course, the bankers have protested against the nature of the order, and that it is different from a court order asking them for records on a suspected character against whom a criminal information has been actually filed. But this is wartime, and there are many disagreeable duties for which fellow citizens of bankers are being called upon. Seeing that profiteers and tax evaders do not betray us into an inflation which would make winning it a hollow victory, is a disagreeable assignment. It took courage to issue it. It is going to take courage—and common sense—to apply it.

One of the ways that the banker can keep from getting behind the eight ball of public opinion on this currency report problem is to see to it that his local editor and reporters understand that it is aimed only at law breakers. See that the local newspapermen have the whole story as told in the *AMERICAN BANKER* yesterday. (They will get a laugh out of the typographical error in the headline calling "Large Bills" "Sarge Bills," but that won't hurt.) Or tell them the facts in your own words.

And this is what we think should be added to any local statement by a local banker on the currency order, and perhaps posted in the bank:

"Our bank wants to have no business dealings with wartime income tax evaders or black marketeers. We want to see them all in jail and deprived of their ill-gotten gains. We will protect the rights of honest citizens to the hilt. They have nothing to fear from this order. But where people who never handled more than a \$20 bill in cash before the war now have safe deposit boxes full of currency and are using cash and large bills in transactions which they are unwilling to carry out through banks, they risk classification with known income tax evaders and black market chiselers who utilize such methods to cover up their illicit gains. We are, by reason of our membership in the Federal Reserve System, an agency of the United States Government, and under the wartime powers of the President, and as citizens, we are duty bound to see that the order of Secretary Morgenthau to report 'unusual currency' transactions involving big bills is carried out. We are on the side of the general public and the honest man who obeys the law, and hope that the Treasury Department smokes out and enforces the law to the limit upon every malefactor who is illicitly profiteering and evading taxes in a war in which so many of the flower of our youth are giving their blood and lives."

Which is the better public relations: A statement of that sort, or one castigating the Secretary of the Treasury for this order?

SECRETARY MORGENTHAU'S DISAGREEABLE ORDER

American Banker
Delegalizing Bills Next Step?

We've received both brickbats and bouquets from banker friends on our editorial on Secretary Morgenthau's order to banks to report "unusual" currency transactions. We called it a disagreeable order. "You can say that again," some of our banker friends tell us.

Their complaint is that they are put into the position of judging their customers. They would much prefer that the Treasury order was non-discretionary, and that they had to report on every currency transaction involving bills of over \$100; or better still, they would like to be able to hand out the Treasury blank to their customer and let him write his own ticket on the whys and wherefores of his withdrawal or deposit of big bills.

But there was no dissent from our suggestion that the banks ought to line up publicly-wise against the income tax evader and black marketeer and make it plain that they wanted none of their business.

Now, a new element is entering the picture.

We wonder whether Mr. Morgenthau is going to take the steps which appear to be the inescapable results of his first order.

Income Tax Outlaws Avoid Banks

Bankers who have tossed some brickbats at our editorial point out that since the Secretary's order no income tax evader or black marketeer has been putting his neck into the noose. Such characters are smart. They have studiously avoided direct dealings with banks in any big bill transactions. If any customers have been depositing and withdrawing \$50- or larger currency notes from banks since the Morgenthau order, it has been honest men. Wherefore the complaint of our brickbat tossers: Anyone whom they may be reporting, and thus exposing to the possibly embarrassing inquiry of the Treasury's income tax sleuths, is more than likely to be simply an honest and law-abiding normal business man — and no good can come to the bank for such treatment of a customer.

No so what does this imply?

CLIPPING NO. 2

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The man who has been "sought long" with big currency bills, is getting rid of them — and as fast as he can — through untraceable channels. Race track betting windows represent a most obvious spot to change a \$50 or \$1,000 bill. Or a department store, fur shop, or jeweler's counter could be the spot to change a "hot" bill into something which does not

have to be explained, plus a pocketful of \$20 bills. And what store takes the names of cash customers who hand over legal tender of the United States? Or there could be a "black market" in "hot" bills themselves. We have read of \$1,000 bills being offered for sale for \$900 or \$850. What is there to stop some big operator from thus accumulating a suitcase full of big bills, then going abroad, and depositing them in some foreign bank in some surreptitious manner which would defy check-up?

Conceivably it may have been Secretary Morgenthau's intention merely to put a psychological handicap on the use of big bills in tax evasion and black market operations and to drive such operators into the further inconvenience and expense of going further underground. If so, it appears that he has attained his purpose.

But this is a far cry from his avowed objective of getting the names of the income tax evaders. In fact, it actually puts a final stop on getting at them.

Is There An Alternative?

Which leaves Secretary Morgenthau right up against considering whether he can escape further and more drastic steps.

For instance, can he level an order at the general business man requiring him to get the names (and fingerprints) of customers who make purchases or get change for bills of large denomination? Possibly the race tracks would comply with such an order. Most business men would stall at it. Such an order, disagreeable as it might sound to the average business man, would tend to make the big bills a little more unspendable.

The more unspendable the big bills are made, the more nearby inescapable, it seems to us, becomes more drastic Treasury procedure in tracing down the income tax evader who has been using big bills.

The implied next step is, to put it bluntly, calling in and delegalizing all big currency bills after some announced date, much as gold was made non-legal tender in 1933. New and different design currency bills would have to be prepared to take the place of the bills called in, or they could be exchanged for War Bonds or for trusted deposits with banks, if their owners did not want an ordinary bank deposit.

Great Britain, France and Belgium have had to take this thoroughly disagreeable and nuisanceful step of delegalizing hoarded currency. Do we have any alternative save forgetting the whole matter and letting the income tax evading hoarder escape while all the rest of us pay extra taxes to make up for the deficiency caused by his non-payment? How else can this sort of tax evasion be stopped?

Perhaps there is some other alternative. But Secretary Morgenthau seems determined to go after the income tax evader who has been using hoarded currency and big bills to secrete part of his income. The way that his order has driven underground all unusual transactions involving big currency bills, seems to imply the necessity for some more drastic step.

The question definitely is how far Mr. Morgenthau and the Administration think it is worthwhile to go to outlaw and penalize the income tax evader and with him the black market business gangster.

It is our guess that the general public will sympathize with such an objective, and whatever means are necessary to achieve it, particularly if it is made clear that any honest man whose income tax reports have not concealed part of his income, can turn in hoarded big bills without involving any embarrassing proceedings.

One by-product of delegalizing big currency bills would very definitely be a big pick-up in bank deposits and reserves, and possibly an opportunity for the Federal Reserve Banks to sell some of their huge holdings of Government securities to banks.

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July 3,
1945

Under Secretary Bell
J. W. Pehle

As I mentioned to you, the Secretary would like to have the Comptroller of the Currency's office undertake the following assignment as promptly as possible.

1. Ascertain in which states so-called "check cashing establishments" are now operating and in what numbers.
2. Ascertain which states have such establishments under effective state supervision.
3. In the states in which such establishments are supervised, see if we can get copies of the examiners' reports on such establishments.
4. In the states in which such establishments are not supervised, consider preparing letters for his signature to the Governors of these states suggesting that legislation be enacted providing for the adequate supervision of such establishments.

Revised 7-3-45

JWP:an 7-3-45