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December 28, 1941

I called up Patterson and asked him whether I could see him this morning. I went down there at 10:30 and stayed until a quarter to twelve. He had Colonel Aurand and Lieutenant Colonel Dow there, both of the Quartermaster General's Corps, and these men evidently are in charge of the purchasing of trucks.

It seems that last November they promised Hillman before he went out to the CIO Convention that he could say they would buy 95,000 trucks, which they tell me they have placed. They now have another order for 123,000 trucks, 42,000 for the Army, 58,000 for Lend-Lease, and 23,000 for the Philippine Islands, or a total of 123,000.

I told them that Chrysler was working on an order for eighty or ninety thousand, and they said it must be in connection with this order of 123,000. I explained to Patterson why I was interested in the whole thing, and he was quite sympathetic. When Colonel Aurand learned that I was thinking of buying some trucks for Lend-Lease, he became quite excited, and said that they wouldn't like it. As the conversation went along, it turned out that the entire truck production in this country is 800,000 trucks. I kept stressing the fact that these men were out of work because of the shutdown of plants such as the Dodge Plant and other automobile plants. Patterson told them that out of the fourth supplemental bill they should go ahead and place an order for 400,000 additional trucks. Colonel Aurand argued with him and said, "Well, we haven't yet gotten the money." Patterson said, "That's all right. You go ahead and place an order." Aurand argued a little more and finally Patterson told him to just go ahead and do it. If I didn't accomplish anything else, at least I got Patterson to place this additional order which is half the truck capacity for the whole country for one year.

I asked them whether they were going to sit around and wait for this meeting on January 5th which evidently has been called by Knudsen and Sidney Hillman. They said, "Of course not." They said that this was a meeting which Knudsen and Hillman were calling to discuss what they would do with the surplus capacity of the automobile industry after they have filled

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them up with all available truck orders, and they wouldn't think of waiting.

I probed them on their relation with OPM, and as near as I can make out, the Army just goes ahead and orders what it wants and pretty well disregards OPM.

After the Army officers left, I asked Patterson where he stood on a Ministry of Supply, and he said he is opposed to it. He thinks they ought to bring in Baruch and give him the job that he had during the World War, and as near as I can make out make him the head of OPM, but leave the buying with the Army and the Navy.

I then asked him what he thought about Jim Landis, and he is very enthusiastic about Landis, but doubted if I could get Walsh to go along. He thinks Landis is a great guy.

Dec. 28th 1941
Sunday

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3

W. said 95,000 trucks
have been ordered

5,000 more out of 3rd supplemental
which has passed

Dr. Award

by Lloyd -
Lend Lease

42,000 Army
58,000 Lend Lease
23,000 P. G.

123,000

400,000. apt to be placed

95
123

218

642

30,000 3/4 million
British apt to make

December 28, 1941

Harriman told me tonight that Knudsen and Ed Stettinius spent the whole morning together today, and that Knudsen is very angry with Stettinius for asking me to buy the trucks.

December 29, 1941
9:00 a.m.

RE DEFENSE CONTRACTS IN AUTOMOBILE INDUSTRY

- Present: Mr. Mack
- Mr. White
- Mr. Keller
- Mr. Hutchinson
- Mr. Vanderzee
- Mr. Purdy
- Mr. Rubin
- Mr. Stephenson
- Colonel Aurand
- Colonel Dow
- Colonel Lawes
- Mr. Stettinius
- Mr. Young
- Mrs. Klotz
- Mr. Swetz

H.M.JR: I would like to explain how this meeting came about. These two gentlemen, Mr. Rubin and Mr. Swetz, trying to find somebody who would listen to them and being unable to, asked to see me. What they are interested in is to get work for the Dodge plant where they are employed.

MR. KELLER: So are we.

H.M.JR: I am interested in knowing how many billions of dollars there are still unplaced and knowing that there is enough work for everybody if the orders were only placed, and we had a section in the Treasury called the Procurement Section that does all the non-military buying for Lend-Lease plus a great deal of the Government buying. So I look around, where we could

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find some money and Mr. Stettinius said that he did have twenty-seven million dollars available for trucks which he would be glad to give to the Treasury Procurement to buy if we could get the kind of trucks that our allies needed.

MR. STETTINIUS: Commercial makes are a non-military specification.

H.M.JR: Then I spoke to Mr. Knudsen and explained to him so that there could be no misunderstanding that it was of a non-military nature and he said, "All right." I just wanted to give you all the background.

Mr. Stettinius spoke with Mr. McCloy who has been designated by the War Department to act for Mr. Stimson with you (Stettinius), isn't that right?

MR. STETTINIUS: That is correct.

H.M.JR: And then so there could be no possible misunderstanding and also I could learn what it was all about, I called up my friend Judge Patterson yesterday and went to school with him, and these gentlemen for about an hour and a half and found out just what this situation was. That is my little introduction.

My policy is always, if somebody else can do a job better than we can, we have no desire to do somebody else's work if we can be assured that somebody else can do it better because we have got more than we can take care of.

MR. KELLER: It has always been your policy?

H.M.JR: That is right. I mean, frankly, talking for myself, I am shocked at the thought that there are twenty-five thousand men in a complete plant with practically no war orders and billions of dollars waiting to be placed, and I can't help but think somewhere in Washington there is something wrong and the further you get into this, the more I am convinced there is something wrong. I am trying to find out what is the

matter.

Now, Mr. Keller, I don't make many speeches. That is the longest speech I have made in a long time. In talking with you and - I understand that you were working on an order of somewhere between eighty or ninety thousand, wasn't it?

MR. KELLER: Yes, eighty-four thousand. Sometimes it is talked of as seventy-three and sometimes as eighty-four.

H.M. JR: Well, now, would you mind for my benefit and the other gentlemen, where are you at as of Monday morning?

MR. KELLER: Well, suppose we outline the Dodge plant a little bit for the benefit of the other gentlemen. There is a big unit we have. It got up to the place where the personnel over there was crowding pretty close to thirty thousand people. We have a large press plant there. We have a foundry there. We have a transmission plant. We assemble cars, and we make units for all the other plants. Since the rubber supply was shut off, the automobile schedule is practically nonexistent any more. It affects the Dodge plant more than any other plant we have, and it affected more people because roughly half of the Chrysler Corporation is in the Dodge main plant. The foundry is shut down. They have done sixteen days of work on short hours for part of the crew over there to finish up all the automobiles we have to build.

Now, we have going into the Dodge main plant seven hundred fifty thousand tank transmissions per month. We have a number of gun parts. Our tool rooms have been working twenty-four hours a day seven days a week, but the problem of getting the equipment assembled and the tools finished to put the men to work on this tank program and on this Bofors gun job has really left a gap between the automobiles going in and this work going in. With all of the work we have there, we still have quite a lot of men that are not going to have any

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work.

Mr. Knudsen has been asking me to keep in mind that we have got an airplane engine coming along to work on and that hasn't come to any head yet. Now, along with that, the Dodge engine which we have capacity to build twelve hundred a day is used in this three-quarter ton truck, about which they were talking of getting seventy-six thousand or eighty-four thousand or whatever it is. One time it is October and then it is September, and the last I heard they were talking about it for July. That job takes a complete new and different frame for which the dies have to be made. The Army are asking us to - and we had an appointment to see, today, what we could do to get three hundred of them out by making them by hand. This truck has been under development for some time and the idea is quitewell thought of. It is a very good truck.

So that the problem of getting into volume production on that truck is the problem of getting tools made for the special parts for which we do not have tools now. We have a letter of intent on that so that the tools are going forward at the present time, but it takes a few months to make a set of frame dies as you know, Mr. Stettinius, and then the transmission cases and transmissions which are entirely different from passenger car transmissions have to have some expansion to get the quantities that we want to make on that job. As a matter of fact, we would like to make all of that type of trucks that the Army could possibly use, and we can not only get all of the things ready in time to meet the frames, see, the twelve hundred a day, but if we want to go beyond twelve hundred a day, we can take our Plymouth plant which has a capacity for two thousand engines a day and very easily change that over so that we wouldn't be scared at three thousand a day of those trucks.

Now, the problem of building trucks is one of getting the pieces and the matter of assembly is a comparatively simple thing because we always look upon assembly

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as wrapping up a package for delivery and it has got to be done right. There is no bottle-neck in assembly, because you can work all the shifts you want to. As a matter of fact, the tank chassis we assemble on one shift because we can assemble on one shift all the tanks we can get the pieces made for, twenty-four hours, seven days a week.

Now, we look at this thing from the standpoint of getting some immediate help. If we can use and deliver some of our so-called non-military types of jobs--

H.M.JR: Can I interrupt you a minute?

MR. KELLER: Yes, sir.

H.M.JR: What I don't know is, the Dodge plant - what have you been making there up to now or what are you making?

MR. KELLER: You mean in peacetime?

H.M.JR: As of Saturday or Friday.

MR. KELLER: As of Saturday, we have some cars yet to finish up on this January schedule. We make a lot of stampings for all of the other plants there. We are making the trade mechanism on the Bofors gun. That will be seven hundred fifty jobs a month. That is all machine shop work, though. We have a foundry there where we make gray iron castings. There seems to be little use for those in wartime. We have a big engine plant and a big transmission plant there also. We are putting in these seven hundred fifty a month transmissions for the tank which is quite a large job. We are in the process of getting that thing going and some other tank parts, smaller parts, that go on a tank. That class of work doesn't begin to pick up the workmen nor does it put to use the highly specialized machinery that we have on the motor so that if we can get something for that motor line, it will put the foundry at work, it will put the motor shop at work, and then we will take one of the assembly lines over there and put it on the

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assembly of these trucks as well. We could do that starting with March. So we have made a survey of what we could do with non-military vehicles and we are in excellent shape on sixty-nine hundred jobs. We could start in January and produce thirteen hundred and fifty, and we could do fifty-five hundred and fifty in February, and this would not in any way interfere with the so-called military vehicles.

H.M.JR: What kind of a job is that?

MR. KELLER: I will carry on through my schedule--

H.M.JR: Please.

MR. KELLER: ... first and then I will show you the jobs.

Now, the - for those jobs we have material in the process of fabrication at our own plants and our suppliers. We have commitments that were made quite a long while ago and the materials are pretty well in hand for them, but fabrication hasn't progressed on them, for additional twenty-five thousand four hundred forty-nine jobs, making a total of twenty-seven thousand four hundred ninety-four jobs. They are made up of half-ton, three-quarter, and one-ton jobs.

Now, I will show you here the trucks, the specifications, the deliveries we can make on this one, and the prices at which we can produce them. This is a job of that body type. Seventeen thousand of those, one hundred ninety-seven of those, thirteen hundred ninety-five of those, and this comes into the next size larger, which is a three-quarter ton. We have thirty-four hundred and eight of those, we have four hundred thirty-nine of that stake job, and then we come to the one ton. We have got ten hundred and forty-nine of those, a hundred and forty-one of these, eight hundred eighty-three of those, and we have on different specifications these quantities. And there are the pictures of the trucks.

H.M.JR: So I can understand it. Is that your story?

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MR. KELLER: That is my story on those jobs. I am expecting to be over at the Quartermaster's Department to clear up the three-quarter ton job.

H.M.JR: Aren't they here now?

MR. KELLER: They are here now, and we can clear it up here if it is satisfactory, if there are any questions they would like to ask.

H.M.JR: Well, Colonel Aurand, in view of the conversation that we had in the Undersecretary's office yesterday, what I would like to ask you to do would be if you would go into this, you see, as your own responsibility, and if you don't mind my saying it, for me also.

COL. AURAND: All right.

H.M.JR: I take it that you know what Mr. Stettinius needs.

MR. STETTINIUS. He knows what I need as far as the requisitions that have been submitted to him and the funds allocated. Colonel Aurand does not know what the British are discussing for the future in non-military items.

COL. AURAND: No, I do not. I tried to locate the British yesterday and found no one at the BPC or the Military Mission that had any requirement for non-standard vehicles. There is one other point on that. The shipping situation is such that I doubt whether anything that isn't of a military nature could be sent over seas at the present time.

H.M.JR: Well, that brings in a new problem just to make it interesting.

COL AURAND: Yes, sir.

MR. KELLER: Pardon me, we are just completing

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fifty-four hundred jobs for Russia, non-military jobs.

COL. AURAND: That is right. That had to be done because the Russians needed those trucks immediately, and we now are able to meet the schedules of military types to Russia. We propose to send not entirely military types but types larger than the three-quarter ton or one-ton job, and we propose to send nothing under a ton and a half to Russia from now on. We just can't take up that much shipping space for so little transport capacity.

H.M.JR: Well, it would be very easy, wouldn't it, for Colonel Aurand to find out about these thirty thousand three-quarter ton trucks?

MR. STETTINIUS: Mr. Philip Young could tell him now quickly as to what he was told by Mr. Swing yesterday.

H.M.JR: Let's have it out, Philip.

MR. YOUNG: The British having gone over those requirements, as you know, those are very large military types, especially in the larger sizes. In addition to the forward requirements which they have talked about up to now, they would like to purchase and distribute around various parts of the British Empire, not entirely in the UK but all over the place, including the Dominions, about thirty thousand small size standard commercial type trucks for general utility use, still contributing to the war operation but not being used for actual specific military operations.

MR. KELLER: What are the Ford jobs you are talking about?

COL. AURAND: He said "forward," not "Ford."

MR. YOUNG: Forward requirements. No competition.

COL. DOW: Mr. Young, what do they mean by small size?

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MR. YOUNG: Mostly three-quarter ton.

MR. KELLER: We delivered, Mr. Secretary, quite a number of these one-ton jobs to the British.

H.M.JR: Well, here is thirty thousand more that they want or are talking about. Colonel Aurand, do you suppose you could let me know something this afternoon?

COL. AURAND: Well, I think I can let you know this morning. I have talked with Mr. McCloy yesterday after our meeting. I don't know whether Mr. McCloy called you last night. He promised me he would, but he views the situation very much like we did in the discussion in Judge Patterson's office yesterday. First, that we have no possibility of absorbing the passenger car production by ordering trucks, that this is a single case in the industry and that the industry as a whole is faced with this same problem. Second, that Chrysler has had the benefit of very large armament orders outside of the truck field, and third, that the transportation situation is such, as a result of these conferences now going on, it looks as though the shipping will have to be utilized very sparingly and for almost entirely strictly military items.

Now, there is a fourth point, and that is that in a meeting with the British on November 11 when General Burns represented the Lend-Lease Administrator, Brigadier Camper of the British, all of the second Lend-Lease funds in category three plus all that could be transferred to that category under the law were earmarked for certain purposes and since that time these funds have been depleted to the extent of twenty-six million dollars for Russian trucks so that we cannot now fulfill the British military requirements from the funds in second Lend-Lease. I think that if this proposition were put to the British Supply Council at the moment, from what conversation I had last evening with Mr. Monnet, who is a member, that the answer would be that they had no - they had more pressing demands than these thirty thousand trucks for this money which is available.

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H.M.JR: Well, if you don't mind my saying it, if that is Mr. McCloy's answer, that isn't what I got out of Judge Patterson's office yesterday. That isn't what I went away with.

MR. STETTINIUS: That is not?

H.M.JR: No. By that I mean, I gathered that - well, I think in my presence he ordered that you go ahead with four hundred thousand trucks on the fourth supplemental.

COL. AURAND: Yes, sir, but none of those are of this type.

H.M.JR: Well, then it gets down to what is the United States Government going to do with a plant like the Dodge plant and all the other automobile plants. How long is it going to take them to make up their mind what they are going to do about it?

COL. AURAND: I think that that question is going to be put to this conference of January 5 about which Judge Patterson spoke as to what other utilization than the manufacture of motor vehicles can be made of these plants. Of course, Chrysler has been pretty well benefitted by orders other than motor vehicles.

H.M.JR: Well, as Mr. Keller can tell you better than I can, neither he nor Chrysler means a damn thing to me personally.

MR. KELLER: Means a lot to me.

H.M.JR: And he knows from his relations with me before that - but I am interested in putting the full capacity of this country to work, and here is a plant which is an example, Exhibit A.

Now, are we going to sit around until the fifth of January to have a conference?

MR. KELLER: Mr. Secretary, the problem is basically

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this. We have in unused productive capacity in this country at the moment for the calendar year 1942 approximately thirteen billion dollars worth of products for the year 1942. We are trying in every way to determine what articles can be made in these various plants to absorb that additional productive capacity. The thing on that scale can't very well be done in a few days. It involves not Chrysler but the whole American industry. It is not a small problem. There are many different views as to how this capacity should be used and as to what orders will be put in what plants. There is going to be a tremendous dislocation of labor, and it is going to take months to get a plant which is as specialized as an automobile plant into making something else because there is no use for it to make more automobiles. They are not needed.

H.M.JR: But then I take it the War Department is not ready at this time to use the capacity of the Chrysler plant or any other automobile plant which is idle right now.

COL. AURAND: Except to the extent of the orders already given and these prospective truck orders which Judge Patterson spoke of yesterday.

H.M.JR: When will those prospective truck orders materialize?

COL. AURAND: They are under negotiation today.

H.M.JR: Well, I mean, there are four hundred thousand - there were ninety-five thousand, a hundred and twenty-three thousand and four hundred thousand.

COL. AURAND: Yes, sir, I show a total of about six hundred forty thousand all told.

H.M.JR: Let's just see if you and I agree. I make it six sixteen. What did you make it?

COL. AURAND: Six hundred forty-two thousand. Those

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were round figures that the Judge gave you, but they are approximately the same.

H.M.JR: Well, let me put the question this way. Of these six hundred forty-two thousand, do you have to wait for a conference before you can place those?

COL. AURAND: No, sir.

H.M.JR: Then let's get back--

COL. AURAND: Colonel Lawes and Colonel Dow are in the process of placing those contracts now, and I have an appointment with Mr. Keller here this morning to go over those contracts.

H.M.JR: How rapidly will those contracts be placed?

COL. AURAND: I should say just as fast as it is humanly possible to interview people and get out letters of intent.

H.M.JR: Will it be this week?

COL. LAWES: I would say it would be well on the way this week, yes.

H.M.JR: Let me get back to the point where I started, out of the six hundred forty-two thousand, will any of those go to the main Dodge plant?

COL. DOW: May I bring out a point, sir, that there will be approximately seventy-six thousand plus orders that Dodge has for January, February, and March production of twenty-five hundred and three more. Five thousand ton and a half four by two's.

Now, perhaps Mr. Keller can tell us what part of that is made in Dodge main.

MR. KELLER: Well, right here I think is where I ought to point a few things out, Mr. Secretary. We have

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been for quite some months developing this three-quarter ton truck. The largest quantity that we have talked about up to now is fifty-one hundred jobs. We have a letter of intent for fifty-one hundred jobs plus an option to put a fifty percent increase. We have been working on this job since last September. We had our samples--

H.M.JR: You mean you have been trying to get a contract since then?

MR. KELLER: Yes. The thing that I see is this, and this is the thing that bothers us. In our line of machinery there are certain machine tools that can be put over onto other types of defense work, but when you put them over there you leave a great quantity of machines to work on nothing else except, for instance, the Dodge engine or the Dodge axles. We have got highly specialized milling machines, cluster drilling machines, and tapping machines, and angle facing machines, and things of that nature. We have always been pretty much of a three-shift operation plant since the late thirties so that we don't pick up more men by going three shifts, seven days, on defense work. So we will leave out of work a lot of people and if the so-called standardized tools are taken out of those lines, then you are going to find that when you come up to your motor vehicle program, the facilities are pretty much dissipated with the result that you are going to get into priorities for replacing machines for those jobs and delays, and it would seem to us that if you can crystallize, as far as we are concerned, the three-quarter ton truck and concentrate the volume on that, that we can know what our program is and we can set that aside and more intelligently understand what tools are then left for other defense jobs.

H.M.JR: Have you been trying to get that straightened out?

MR. KELLER: Yes, sir, because to me it just seems like a crime to tear down the motor line and take about

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one-third of the machinery out of it, and then come along a few months from now and say we want more motors for more trucks and then go around to some other plant which isn't tooled and which isn't implemented for the job and go through the tortures of getting that plant set up to do the job. In other words, you are tearing down a field that is practically ready to harvest, you see, and starting the plant over again.

Now, we happen to have in the Chrysler Corporation fifteen thousand two hundred twenty-seven pieces of equipment which we find are located, for instance, in our Dodge main plant, there are five thousand five hundred seventy-one of those pieces of equipment in that plant, or a third of it. Out of that we consider that there is three thousand six hundred twenty-eight are totally unusable on any defense thing we have seen.

H.M.JR: How many?

MR. KELLER: Three thousand six hundred twenty-eight, which leaves eleven thousand five hundred ninety-nine. Of that eleven thousand five hundred ninety-nine, we already have assigned to defense work - while they are not all working on defense work because the tooling is not done for them, eight thousand two hundred and sixty, or seventeen percent.

Now, that defense work will not be tooled and equipped before June or July. Now, the problem that confronts the Dodge working men and us, and our interests, are one and the same, because we can't run a plant without workmen and the workmen can't work unless we have something to make--

H.M.JR: Well, I am glad to hear you say that.

MR. KELLER: We know that and always have. That is what keeps a plant going. When we haven't got work for our workmen, we aren't doing business and when we have got business we are doing work. Everything stems around

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our efforts to get work for our workmen to do. It is inevitable that it has to work that way. Now, we have a very low spot facing us right now between now and May. As I tried to explain, the military vehicle requires an increased capacity on frames and a new type of frames, which is the low silhouette job, and I have no complaint to make about changes in design because I think our armed forces should have the very best stuff that we can conceive of and this low silhouette job we know, and I think the Army realizes is a much better job than the half ton job that we were running and that is the one we would like to make. Now, the physical problem of getting those frames and getting those sheet metal dies made and of getting the axles enlarged to take the larger universal joint and the problem of getting the joints for the front axles are the real bottlenecks in this situation and those are the things that we are working full time and overtime on to get in shape, starting last week. Now then, if these twenty-seven thousand trucks can be picked up and used, not only the material situation is comparatively easy - and it will fill in a gap with quite a good many thousands of hours of work in the Dodge main plant. We make a lot of parts there. It is true the engines for these trucks that we are talking about of the half ton job, they are Plymouth engines. At the same time, the Dodge makes the forgings and the castings for those engines. We would start in the Dodge main plant one assembly line on these trucks and assemble them there beginning in March or the middle of February, because it takes us that long to get the thing set up. Before the time we get the material flowing, there are only one hundred fifty we can do in January because after all it takes time to assemble this stuff. You see, we assemble now in what is known as the Dodge truck plant and we could get this assembly over in the Dodge main plant and at the end of that period that line would be set up to assemble the three-quarter ton jobs. This schedule ends on the twenty-third of April. By that time we would hope to have our three-quarter job coming so that that would fill that hole up.

COL. DOW: Pardon me, Mr. Keller, but I believe we

asked you how many of the old style model you could build to fill that gap as far as our military assembly line is concerned, and we made one a ward of about five thousand. You came back later and said you could make still more. It is somewhere on the order of eight thousand vehicles to fill that gap. In fact, we gave you enough so that you would have authority to make part of them in three-quarter tons if you were ready.

MR. KELLER: You are talking about the half ton four by four?

COL. DOW: Yes, sir.

MR. KELLER: That has all the same complications as the three quarter ton has, sir.

COL. DOW: But you are tooled to make that.

MR. KELLER: We are tooled to make three hundred thirty of them a day. We are trying to string that up to over three hundred.

COL. DOW: Yes.

MR. KELLER: But that quantity doesn't do anything for the Dodge main plant.

COL. DOW: What parts of the half and three-quarter ton are made in the Dodge main plant and what parts of the ton and a half, four by two, that we have been buying for immediate shipment to Russia are made in the Dodge main?

MR. KELLER: Well, the engines are made there. Is that right, Luke?

MR. VANDERZEE: Yes.

COL. DOW: Transmissions?

MR. KELLER: Yes.

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COL. DOW: Axles?

MR. KELLER: No, they are made in the Highland Park plant.

COL. DOW: With Chrysler probably getting out of that eight hundred thousand - to go back to orders that were place for the thirty-nine and probably a hundred and twenty-three thousand, they will probably get a hundred thousand over-all out of the six hundred thousand. They have ninety thousand trucks, they will have, to produce over the next twelve months because they have something like sixteen thousand on order as of December 1 and a few orders have gone in in the meantime and here is seventy-six thousand more. But with a hundred thousand out of the six hundred thousand roughly, we will not touch the Dodge main plant, sir.

MR. KELLER: Yes, we will, because we propose to put a line of the three-quarter tons over there.

COL. DOW: An assembly line?

MR. KELLER: Yes, sir. And we have to triple our axle production, you see. Our engine production capacity is there.

COL. DOW: What percentage of the Dodge main plant will be taken up by that military program?

MR. KELLER: Well, I didn't figure that, sir. That is quite a complicated plant. But I would say that if we got those trucks and with the transmissions for the tank and all of those things we are figuring on, we will have work for between fifty and sixty percent of the men now employed.

COL. DOW: Eventually.

MR. KELLER: Yes, sir.

COL. DOW: With the half ton orders you have and the

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ton and a half four by two orders until the three quarter ton--

MR. KELLER: No, with this thousand a day.

COL. DOW: You will run out of orders quickly at a thousand a day.

MR. KELLER: I was hoping you would get it up to two thousand and we could get some steam up in the Dodge plant.

COL. AURAND: I might say for your information that the three-quarter ton truck as a military type is on the wane and the demand is for higher capacity trucks, from one viewpoint only, and that is that we have to take as much transportation across the water in a ship as we possibly can. The number of cubic feet of ship tons, per ton of transportation, when it gets on the other side, is a very vital problem and therefore we are going to the heavier trucks all the time.

H.M.JR: Does the expression, "on the wing" mean on the way out?

COL. AURAND: Yes, sir.

COL. DOW: On the wane, w-a-n-e.

H.M.JR: Well, to come back to this, this thing doesn't seem so complicated, but what I might be able to get an answer. I take it Mr. Keller is here wanting business. You people have got six hundred forty-two thousand trucks to place, of which he is to get approximately - well, you mentioned a hundred thousand. He is to get a goodly amount of that. Now, I also take it that the placing of this six hundred forty-two thousand trucks will be done within a few days, just as rapidly as you can. Now, when that is done it would be Mr. Keller who could tell me how much of that will be distributed amongst all of your plants and how much work it

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will give and - I would like to know how many people and how many tools and how much capacity will be still unused when you get through. Would you be willing to give me that?

MR. KELLER: Well, they will have to tell me how many a day we will make.

H.M.JR: I take it you are going into a conference, but I mean after today or tomorrow.

COL. DOW: Seven hundred fifty a day will be ample, according to the present figures.

MR. KELLER: Then I have got to balance in my other war work and I would say that that plant would be less than fifty percent used, in so far as the number of workers is concerned.

H.M.JR: But I mean, could you tell me within a couple of days, do you think?

MR. KELLER: I can work out the answer to any question if I know exactly what the question is, but I have got to get the balance between the other things.

Now, you see the OPM wanted to see me today or tomorrow and talk over what other jobs we can take on. The point that I wanted to make here this morning is that if that Dodge engine is a good military engine, which is all tooled up, we ought to try to figure out what will use that capacity if the Army needs it. Now, before we begin to take a third of the tools out of it and leave the other two-thirds standing idle--

COL. AURAND: Yes, sir.

MR. KELLER: Now, whatever we do with regard to these military type of vehicles, you see, there is nothing in the Dodge main plant between now and the

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end of April. That is the other main point I wanted to get over.

H.M.JR: There is nothing?

MR. KELLER: No, there is nothing.

H.M.JR: That seems inconceivable.

COL. DOW: Nor for the other plants in the industry.

MR. KELLER: No. And there are the programs. I brought down to you one job--

H.M.JR: Could I interrupt you a minute?

MR. KELLER: Yes, sir.

H.M.JR: Do I understand that the automobile industry is going to - just nothing is going to happen for them from now until April?

COL. AURAND: Yes, sir, quite generally. It is going to take that long to retool.

COL. DOW: Except in so far as they are already working on military orders and already have their instructions to step up in February. There will be a small proportion, sir, of the passenger car industry.

H.M.JR: Well, I just, if you don't mind - I can't understand the answer, and I am not going to accept it.

MR. STEPHENSON: Well, that is the reason, Mr. Secretary, for our meeting on the fifth.

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COL. DOW: Sir, if we had not had Pearl Harbor and the shortage of rubber, they would have been busy building for civilian use.

H.M.JR: Well, that --

COL. DOW: It is how many weeks since Pearl Harbor?

H.M.JR: But I got the same answer and my answer is, I don't think we needed Pearl Harbor to convert the automobile industry into taking up the appropriations Congress passed.

MR. STEPHENSON: That is right, Mr. Secretary, but in this transition period we can't build these civilian trucks that we hoped that we could. We don't have the rubber for them.

H.M.JR: But Mr. Stephenson, at that time -- the thing that I can't understand, and as I say, I am not going to accept it because I have seen what industry can do. There must be twenty-two billion dollars, at least, of unplaced orders, war orders. I am sure that the President of the United States isn't going to permit all of these automobile workers, or accept as an answer, that you gentlemen can't find a way to convert these plants to war work and the fact that you waited until the Japanese had attacked, if you don't mind my saying it, is no excuse whatsoever and I wouldn't think of using such an excuse. There was twelve billion dollars worth of unfilled orders before December 7 and now to say because of tires that now we are going to have to stop automobile production because you haven't got the tires and if you don't mind my saying it --

MR. STEPHENSON: I spoke of trucks, not passenger cars.

H.M.JR: Well, the whole thing should have been stopped a long time ago and the whole industry should be on defense.

COL. AURAND: Mr. Secretary, the War Department agrees thoroughly with that attitude.

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H.M.JR: But now to tell me, because I have got this same thing, and to give an excuse that the automobile tires -- that we have no work.

MR. STEPHENSON: We assent perfectly to your position. That is the reason we aren't accepting it and the reason we are having this meeting on the fifth, but we haven't got any ideas yet of these trucks, where they are to be placed, that is, the Army trucks.

H.M.JR: But why wait until the fifth, Mr. Stephenson? That is a lifetime.

COL. DOW: We only received the authority last week to go to the three million six. There was a matter of decision there and there is a question as to how long-- Mr. Keller can tell us how long it takes to convert after he once starts to convert.

MR. KELLER: It depends on what we convert, too.

COL. DOW: You have orders that you are working on to convert, too.

MR. KELLER: As far as converting machinery for the military type of truck --

COL. DOW: No, I am talking about other than trucks. Machine guns, how long did it take you to convert and what percentage of the passenger car facilities did you convert to the Bofors gun?

MR. KELLER: We put some eight hundred machines on the Bofors gun.

COL. AURAND: Out of fifteen thousand?

MR. KELLER: Yes, that is all. And we retooled on some of the machines in production, we retooled truck and passenger car operations on the other types of machines to release machine tools out of the production line to put on the Bofors gun. A year ago last September we figured

out that the automobile business would run about fifty percent. We surveyed all of our facilities to take fifty percent out and apply it to any more work that was gotten in tanks, guns, and airplanes which are our three biggest jobs. On those three big jobs we started a year ago last October by leasing six hundred thousand feet of floor space on Warren Avenue and we expected to be producing airplanes by July of this year. We are just not getting our completed drawings of what we are to build. There have been so many changes come on that job. A great many of the tools that we built have to be discarded and new ones built. As you gentlemen know, they put more on the wing spread and that heavied up all the castings. Forging dies that we had made have to be resunk entirely for the new dimensions and we are just sweating blood there right now to machine these aluminum castings, because the thing that happens in this gun work and in this airplane work and in this tank work, there is a great preponderance of milling machine operations.

H.M.JR: Can I interrupt you so this will sink in to me?

MR. KELLER: Yes.

H.M.JR: You were told last July to build some airplanes?

MR. KELLER: Mr. Morgenthau, in the early part of October of 1940, Mr. Knudsen asked the automobile industry if they would take hold of the airplane engine program - airplane building program, in the early part of October. We left New York --

H.M.JR: That is the so-called five hundred four-engine bombers a month?

MR. KELLER: No, these were two-engine bombers. He said we would have a meeting in Detroit by the middle of October and wanted us to be ready to go around and visit the airplane plants and sit down and work this program out. We got back to Detroit and said to ourselves, "Where in

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the world are we going to take our share of this job?" So we found the Graham-Paige plant was standing idle and we leased six hundred thousand feet of floor space over there and we have paid eighty-seven thousand dollars a month for over a year now. We painted it up and cleaned it out and got the lights in and said, "We are ready to go." It was July of this year before we got the contract worked around on the thing and the plane was in the process of redesign. We picked out our foremen and put them through a training program, about three hundred men. We got a ship that had gone through static tests, which meant that it was no good to fly any more, and these men on this training program have taken that ship apart and put it together so often they are going to be in the insane asylum if we don't soon get some real stuff to work on. Now, we expect to get a couple of jobs started in January but we had fully expected that we would be in production in July of this year.

H.M.JR: And when did you put this - have you got the final green light on the plan, specification?

MR. KELLER: Yes, we have got a few details still to come.

H.M.JR: It isn't finished yet?

MR. KELLER: But it is practically finished.

H.M.JR: As of when?

MR. KELLER: As of Christmas.

H.M.JR: That is a year and three months.

MR. KELLER: Yes, sir. There has been a lot of change in design and plans. Now, we expect that operation to absorb fourteen thousand men, you see. We have about a thousand over there now. Now, on the gun program we were given the Bofors gun and made three hundred a month and told that was the most important thing in front of the United States Navy Yards. We started out on a double-A

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priority and we laid out our program to get into production so we would be in production in November. We got this on the twenty-third of May.

H.M.JR: 1941?

MR. KELLER: 1941, yes, sir. We selected the type of machine tools that the machine tool builders told us we could get delivery on in September and October and applied our processes to those types of machines, in addition to taking all the machines - implementing all the operations for which we had machine tools that would fit. We did that out of our own machine tool bank. But the lathes in the automobile plant are pretty much short bed lathes and they won't take gun barrels. The breech ring job is primarily a vertical milling machine job and most of our new type vertical milling machines are in their designing departments which are making dies for - the Aluminum Company of America, they have been working all this year on new dies and we need these special gun barrel machines and we need these milling machines and these thread millers and types of equipment like that that we don't have and that don't fit. But our priorities slid from double-A to A-1-9 and our machinery didn't come and didn't come. I was down here two weeks ago at a meeting and we had at that time seventeen machines that were so critical we couldn't do anything without them, thirty-seven more to give us a complete line, and some three hundred still to come to give us our three hundred a month. Now, in the meantime --

H.M.JR: All for the Bofors?

MR. KELLER: Yes, sir. In the meantime they have asked us to go to seven hundred fifty and I heard they wanted three hundred more and I figured on a proposition to get that up to ten hundred fifty because we could do it very easily after we get to seven hundred fifty. The problem lays around the machine tools on that job. Now, we got an authorization from the Navy to block out, say, two rooms and whatever we had to do to get out a neater schedule of guns.

H.M.JR: You mean to take the machine tools or to place the orders with these people?

MR. KELLER: Place the orders wherever we can get an operation done and we are attempting to do fifty gums in February and a hundred in March.

H.M.JR: Will you?

MR. KELLER: I think we will, with this program.

H.M.JR: What did the original schedule call for?

MR. KELLER: The original schedule called for three hundred a month, sir.

H.M.JR: Beginning when?

MR. KELLER: January. We got our samples out in November. Now, of course, when the Bofors gum gets going that is going to pick up about nine thousand people.

H.M.JR: Let me just - you may not --

MR. KELLER: The other plant will pick up about four thousand.

H.M.JR: As I understand, I don't know how many, but I am getting the figures - do you know how many automobile workers were laid off on the twenty-third of December in Detroit? The whole industry?

MR. KELLER: No, I don't know, because I don't think the process is complete yet.

H.M.JR: But there has been --

MR. KELLER: You see, there is about --

H.M.JR: Would seventy-five thousand be too high?

MR. KELLER: I don't think that would scratch the bottom. I would say it is more nearly twice that and there will be another time that many by the end of January.

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H.M.JR: Making a total of how many?

MR. KELLER: I would say you would have two hundred thousand people out of work in Detroit by the end of January.

H.M.JR: And the earliest that any of them might be able to go back to work would be April?

MR. KELLER: On the truck job, yes.

H.M.JR: On any job.

MR. KELLER: Well, on the Bofors job some of them will start going back to work, but it looks to me as though it will be April before we get that Bofors gun job tooled so that it will go. The airplane job ought to come along faster. In fact, we are starting to put the first workmen into the airplane plant today.

H.M.JR: Is it a two-engine airplane or a four-engine airplane?

MR. KELLER: Two.

H.M.JR: Where do the engines come from?

MR. KELLER: It is a Martin job. I don't know whether they are Wright or Pratt and Whitney.

H.M.JR: Do you know whether the engines are on schedule?

MR. KELLER: No, the engines are on schedule all right. I understand that Ford is storing engines now. I read in the paper that they were. This is a heart breaking job, to get these programs and think we are going to get there and then find there are so many things on that for every good milling machine that comes along there are twenty places they want to put it. It really makes a tough job.

H.M.JR: Have you got anything to add, Mr. Stephenson? Have you got any encouragement of any kind?

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MR. STEPHENSON: Well, I thought I was here only on the proposition of placing some twenty-seven thousand civilian trucks. That is a different matter. I mean, we have our own problems here in getting civilian trucks.

MR. KELLER: I am not making this as a complaint. You are asking for information and I am trying to give you the facts as I can.

H.M.JR: You and I are both American citizens.

MR. KELLER: I am not critical in my observations.

H.M.JR: And we have got to win this war and we are not going to win it this way. I appreciate your frankness and I am sure nobody is going to criticize you for being truthful.

COL. AURAND: Mr. Secretary, there has been a machine tool committee in OPM headed by Mr. Mason Britton, which has had dictatorial power in the machine tool field and the War Department has tried and the Navy Department has tried - I am sure Mr. Keller here will agree- to get these tools for the forty millimeter Bofors. We want those guns and we need them very badly. It is a question of rationing machine tools, and these vertical boring mills, vertical millers, are choked too. They have had to be assigned to the things which were needed the most at the moment.

MR. KELLER: That is the only thing I was trying to say.

H.M.JR: Well, you are just telling the truth.

COL. AURAND: That is a thing that has to be done by OPM after hearing all the evidence in the case.

H.M.JR: I organized the machine tool group when Mr. Knudsen came in and I handed it over to him. I organized it originally. Then he came in and I handed it over to him. But, I went through this whole thing with

Pratt and Whitney and Curtiss Wright when they were short and it was the same story two years ago, but by going here and going there I built up the line for the Curtiss Wright and Pratt and Whitney and Ford, so that they could have a complete line of machine tools.

MR. KELLER: Yes, sir, and they took a lot of machines that we had already to be shipped to our tank plant.

H.M.JR: But I got them for them.

COL. AURAND: Yes, but you stopped the forty millimeters and the Bofors by doing it.

MR. KELLER: But our tanks --

H.M.JR: You had no tank orders.

MR. KELLER: But I know the Pratt and Whitney plant down at Cincinnati --

H.M.JR: I had nothing to do with that. I am talking about the first extension they built. If you don't mind, you had no tank orders.

MR. KELLER: That is right.

H.M.JR: You had no tank orders.

MR. KELLER: That is right, that is right.

H.M.JR: As a matter of fact, what I took was machine tools off the docks scheduled for Russia. That is where I got those.

MR. KELLER: That is right. I got my time element mixed up.

H.M.JR: You remember?

MR. KELLER: Yes, very well.

H.M.JR: I took Russian machine tools.

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COL. AURAND: Would you advocate doing that now, sir?

H.M.JR: No, it is the other way now.

MR. KELLER: Well, we realize, Mr. Secretary --

H.M.JR: They happened to be an ally of Mr. Hitler at that time.

MR. KELLER: We happen to realize in our plant and we preach it every day to our executives - I just had a meeting with them Saturday and fortunately we were there on this truck job when you called up so we were able to get this thing going right away. We took this position, that - I read in the paper that the fellows over in the Philippines were trying to throw bags of potatoes at the Japs and if they could do that, we had to find ways as we had never done them before and I want to tell you that our whole mechanical organization feels that way about it, sir. Now, what we would like to do this week, we are prepared to stay until we get it done, is to get a program so that we can intelligently disperse this equipment onto the jobs that will get going quickest. Now, if it is going to be trucks, the trucks we can get going on the quickest because the tools are made and it is just a matter of enlarging the capacity in two departments and getting these universal joints, which unfortunately involves a few milling machines, and beyond that it depends on what the job is, what we can do with it.

H.M.JR: Well now, before you leave town would you mind coming back to see me?

MR. KELLER: Be glad to, sir.

H.M.JR: And Colonel Aurand, when you gentlemen leave I am going to call up Mr. Patteron and tell him of this conversation.

COL. AURAND: Yes, sir.

H.M.JR: And also ask him whether I can't have from the Army the information that I would like to have, that is,

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on the short run thing, when you place the trucks, the immediate thing, what will this do for the whole automotive industry, how much unused capacity will it leave, and what will it do particularly for this one group here who have come down here. I mean, that is what I would like to have.

COL. DOW: Mr. Secretary, may I speak as a man down the line? I am asked frequently for reports. The preparation of that data will slow up the placing of those orders this week.

H.M.JR: Well, I can get a verbal report, can't I?

COL. DOW: We can give you round figures.

H.M.JR: If you give me figures which are ninety percent correct - can you give me a verbal estimate of ninety percent?

COL. DOW: Well, we can give you about what we have given you here. We will go ahead and get what you want.

H.M.JR: If you can just come back and give it to me verbally.

COL. DOW: Whenever figures go out they have to be checked and double checked and our people get on this other job and the other work waits.

H.M.JR: I will go along with you cheerfully.

COL. DOW: If you will wait a week we will give you a report of what has been placed.

H.M.JR: You can give me a verbal progress report, can't you?

COL. DOW: On the way they are being placed?

H.M.JR: You mean you want me to wait until the four hundred sixty thousand are placed?

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COL. DOW: We hope to see the biggest part of them out this week. Then we will have facts to work with.

H.M.JR: Let's leave it this way. Just as soon as you have got some facts, report orally - which are important. I would like to have them. I will let you decide it. How is that?

COL. AURAND: All right, sir.

H.M.JR: That doesn't mean I have got to wait until the last - but anything you think is important, that I could have, orally.

COL. AURAND: Yes, sir.

H.M.JR: Would that slow you up?

MR. STEPHENSON: May I ask whether that is placing the specific order, these twenty-seven thousand?

COL. DOW: We know nothing about the twenty-seven thousand.

MR. KELLER: I wanted to say this, that the Secretary called me up on Saturday and wanted to know what we could build right now, that we could build that would put men to work.

H.M.JR: That is right.

MR. KELLER: So we made a survey and of course the things you need for that are equipment and material. It just so happens that our plants on half ton and ton trucks are in such shape -- I might say we have got ourselves in the curious position that for the last ten days we have been working like beavers to get commitments cancelled. We have held that up because there is a good million dollars involved in this thing for us. We have got sixty million dollars of stuff and an eighty million dollar commitment, and that is a lot of money even for the Chrysler Corporation. Before throwing that back and this material in these plants and these workmen being laid

off in the supplier's plants, because more than half of the jobs we buy from suppliers, not only would it affect the Dodge but it would affect all around that section of the country, you see, fellows that make the universal joints, fellows that make the carburetors and all of those things and the materials are there and partly processed and on the first bunch there of about six thousand jobs --

COL DOW: Mr. Keller, you could give us passenger cars too, couldn't you?

MR. KELLER: Yes, but I was asked what I could do in trucks and that is the story I brought down here, Mr. Secretary, and I have concentrated my remarks on the fact that that would fill a big gap between now and the middle of April, you see.

COL. LAWES: Mr. Keller, you say you have commitments on materials for these jobs. Does that include the rubber for tires?

MR. KELLER: Yes, but the rubber is held up, as you know. As a matter of fact, the importance of a thing like this -- you see, we fixed prices on these jobs. Now on the first of February tires are going to go up twenty percent and we have got to know darn quick so that we can get those tires by the first of February or all our profit from the job will be completely gone and the profit is very, very small on this and out of our profits, of course, we had to carry our engineering and executive force. When we speak of profits we speak of our gross, which doesn't cover all of our out-of-pocket expense, you see, on our costs. We don't carry our costs that way.

H.M.JR: To answer, I think, what is worrying you (Stephenson), as far as Treasury Procurement is concerned, I am going to wait and see what Mr. Patterson can do before I step into the picture. Is that all right with you?

MR. STETTINIUS: Yes, sir.

H.M.JR: Because after all, Mr. Patterson has got four hundred fifty thousand trucks to place and of which a considerable number will be for Lend-Lease.

COL. DOW: Not in this group, sir.

H.M.JR: I thought you had --

COL. AURAND: About fifty-seven thousand five hundred.

COL. DOW: Not in the half ton, the three quarter ton.

H.M.JR: And in what you are doing you naturally take into consideration what is Lend-Lease and also if it fits in with the general over-all strategy that there are people in Detroit walking the streets without any jobs and when we get those hours added up, it is going to be an overpowering figure of waste man hours walking in the streets and it is awfully hard to explain that.

COL. AURAND: Mr. Secretary, I think there is one solution that has not been discussed here.

H.M.JR: May I just finish? I just want to say, I haven't got the answer and I am just going to keep pounding until I do get it, but I cannot understand how there are millions of hours of trained, skilled workers, walking the streets of Detroit and billions of dollars of appropriations, and the two things just don't add up.

COL. AURAND: May I suggest that there is one solution we haven't considered? This matter has been up several times. The Mayor of Detroit has been here. We have had conversations with Mr. Hillman, as Judge Patterson told you yesterday. Any shutting of the gate, as has been done, on civilian production leads everyone immediately to come to the Government to fill the gap. Isn't there a solution of not shutting that gate so fast and if it is necessary for the automotive industry to taper off, to permit it to taper off in building those things which can be sold to the American market? Why should it be necessary for the Federal Government to buy things that it doesn't

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need in order to bridge this gap? Why not let the automotive industry make things that the public needs to bridge the gap?

H.M.JR: Do you want my frank answer?

COL. AURAND: I suggest that merely as a solution.

H.M.JR: If you don't mind my frank answer, if I had the decision, I would move just in the opposite direction. Our military needs are so terrifically short that if it was left to me, I would stop all manufacture of passenger cars at once and then move day and night to convert these plants over for military purposes. That is the direction I would move in, day and night. And if the men knew that that was going to happen and knew what was coming, I think they would take it.

COL. AURAND: I think both the War Department and OPM are doing just exactly that, but there is this time of conversion which runs from four to six months, as Mr. Keller here will tell you.

H.M.JR: And I would take all the material and all the rubber it has got on order for civilian goods and just freeze it and put it into military purposes.

MR. KELLER: It is now.

H.M.JR: And put it into military goods.

MR. KELLER: We have to have a priority to get out our own tires.

H.M.JR: I would just move in the opposite direction. It is the three to six months that scares me. Of course, the Treasury has another interest for the Government and that is, if the war orders can't take care of this and there is this unemployment, the Treasury will have to take care of these men, which means money diverted, entirely unnecessary, to take care of unemployed skilled workers who should be on war work. That is an entirely different problem we will be faced with because certainly Mr. Roosevelt

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isn't going to let these men starve. He never has and he isn't going to. He isn't going to let these men starve, which means the Treasury will have to take it over. I have got an entirely -- an interest so much bigger than this - but I still think it can be done if everybody puts his shoulder to the wheel. I won't accept that answer, that American ingenuity and American courage and American inventiveness can't lick this job and lick it fast, and by that I mean convert the automobile industry into a hundred percent wartime basis.

COL. AURAND: We hope so.

MR. KELLER: So do we. That is our program.

H.M.JR: Well, I think your -- a couple of necks of bottles are going to have to be broken.

MR. KELLER: Mr. Secretary, I ought to say that we have just flown at everything that came in our direction. You may be interested to know that we have worked out a winch -- I don't know how many of these barrage balloons are going to be used, but the winch capacity is quite a problem. We are finishing a sample job of a winch that uses a great many axle and brake parts and other parts that we are all tooled to make. We have the specialized machinery and the tools to make it. We have worked very intensively on this matter of civilian protection of fire pumps. We have worked out an arrangement with the people who make the pump end of the job. They have very little capacity and we have got studies all made how we can take some of our equipment and make more pumps and put them up against the motors and trailers that they run on. Of course, you are somewhat familiar with the work we did on the Sea Otter job. We had that thing all ready to go, but I understand that is back for a change in design. We have literally spent hundreds of thousands of dollars making studies, preparing tools and making samples, but they all seemed to fade out. Barge propulsion units. We have even quite a study on making reflectors for searchlights which we figure that we can make and we have even gone into the matter of making prisms for periscopes and things like that out of glass. We have

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just searched everything that we could get our fingers on that looked as though it might have a possibility and we have spent hundreds of thousands of dollars of the Corporation's money making samples and experiments and making studies.

H.M.JR: Thank you all for coming.

Dodge main plant
 Detroit Dec 18th layed
 off 17,000 men.

25 men out of 25,000
 working on defense.

Com. William C. Niel - V. Paul
 & general manage
 Lance Harkett (3)
 Operating manage.

@ Fred Lamborn
 general Plant manage

Sat. Dec. 27th 1941

INDUSTRIAL MOBILIZATION PLAN REVISION OF 1939

A STUDY OF METHODS FOR THE EFFECTIVE
AND EQUITABLE UTILIZATION OF THE
INDUSTRIAL RESOURCES OF THE
UNITED STATES IN TIME
OF WAR

APPROVED JOINTLY

LOUIS JOHNSON
Acting Secretary of War

CHARLES EDISON
Acting Secretary of the Navy



PRESENTED BY MR. McCARRAN

OCTOBER 24 (legislative day of OCTOBER 4), 1939.—Ordered to be
printed with illustrations

UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1939

THE INDUSTRIAL MOBILIZATION PLAN

First published, 1931

Revised, 1933

Revised, 1936

Revised, 1939

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FOREWORD

This is the third published revision of the Industrial Mobilization Plan. The first published text was submitted by the War Department to the War Policies Commission in 1931. For some 10 years prior to that time studies had been made by personnel of the War and the Navy Departments looking to the effective and equitable utilization of the industrial resources of the United States in time of war.

The Industrial Mobilization Plan, as its name implies, is a study. It is a guide to be available in time of major war. It would apply only for the duration of such a war. It attempts to anticipate the difficulties experienced by the United States during the World War. It aims to overcome such difficulties promptly and effectively in any future war in which our country unfortunately may become engaged.

This plan does not propose the modification of any of our constitutional processes. Indeed the prime purpose of procurement planning and of the Industrial Mobilization Plan is the preservation of these processes for the people of the United States.

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INDUSTRIAL MOBILIZATION PLAN

REVISION OF 1939

INTRODUCTION

The highest and best form of efficiency is the spontaneous cooperation of a free people.

—Woodrow Wilson.

Historical.—The tremendous influence of industrial and economic factors upon modern warfare was not appreciated fully prior to 1914. Since the World War, however, many students have devoted to these subjects a great amount of study and research. Exhaustive accounts of almost every kind of industrial and economic activity in that war are now available. These serve as a basis for the deduction of principles applicable to the economic and industrial phases of modern warfare.

The necessity for industrial preparedness is clear. Military weapons and machines are used up rapidly in war. Armies and navies must not only be well supplied initially but must be maintained adequately and continuously. Thus, the success of a modern fighting force is dependent upon the Nation's readiness to satisfy promptly its requirements in munitions.¹ In addition, throughout the duration of a war, the Nation must continue to provide all the material items upon which the health and well-being of its civilian population depend. War is no longer simply a battle between armed forces in the field—it is a struggle in which each side strives to bring to bear against the enemy the coordinated power of every individual and every material resource at its command. The conflict extends from the soldier in the front line to the citizen in the remotest hamlet in the rear.

The experiences of most of the great belligerent nations during the World War were, in many important particulars, strikingly similar. Expenditures of munitions far exceeded pre-war estimates. Reserves of materials were quickly exhausted. Inadequate plans for military procurement and for industrial mobilization resulted in uncoordinated purchasing by the many government agencies, inequitable distribution of the industrial load, inefficient utilization of the transportation system, and ineffective coordination of the entire industrial effort during early stages of the war. The above resulted in delay in the procurement of munitions for the support of the armed forces, violent disturbances of prevailing price levels, unequal distribution of the economic burdens of war, and waste of national resources.

¹In this report, the terms "armed forces" and "military," when used, include both the Army and the Navy. The "munitions" so named all supplies of every kind used by the armed forces. Thus the term is not confined to armament, i. e., arms, ammunition, aircraft, etc., but includes every type of supplies used by the armed forces in peace and war.

The aforementioned conditions soon made apparent the necessity for the exercise of varying degrees of governmental control over essential raw materials, labor, power, capital, industry, and transportation in order that their use could be directed to those purposes which would best meet the immediate needs of the Nation as a whole.

The methods by which governmental control was exercised had to be improvised in the heat of conflict to meet specific situations as they arose. The effectiveness of the methods employed depended in large measure upon the voluntary cooperation of the entire Nation. Separate temporary agencies were created to direct the utilization of national resources by effective and expedient methods which would achieve and maintain the required degree of national morale and support the military effort.

As a result of these World War experiences, people have seen the needless waste, confusion, and danger incident to involvement in a major conflict without adequate plans for the prompt mobilization of industrial resources. Since the World War, many nations have devised systems under which they plan, in the event of another war, to avoid the repetition of the industrial mistakes of 1914-18, to rally material resources to national support with a minimum of delay and a maximum of effectiveness, and to facilitate post-war rehabilitation.

The current problem.—In the United States, the War and Navy Departments, under the authority of the Congress, have the responsibility of building up a defensive structure which will make hostile attack improbable. Under legislative mandate, the armed services must prepare plans for industrial mobilization supporting the military effort and looking toward early and complete victory. Such plans should attempt to avert those preventable evils which have made their appearance in past wars.

The task is not simple. To make arrangements for the effective use of material resources in war, the plans evolved must consider the problems of the Army, the Navy, the civilian population, and industry. These plans must receive the approval of the President and of the Congress. Frequent revisions, based upon constant study and research, are essential in order to adapt such plans to changing economic and political conditions.

Fundamentally, the first step in the preparation of a sound plan for industrial mobilization is the determination of the material requirements of the Army and Navy. Requirements must be estimated independently by the two armed services, guided by the general policies laid down by the Army and Navy Joint Board.

Actual requirements of armaments for any given situation must be compared with the Nation's stocks on hand and available capacity for production. In the determination of the national ability to meet the war load, due allowance must be made for the essential needs of governmental agencies, other than the War and Navy Departments, and the civilian population. Plans can then be developed under which our resources may be utilized to fulfill national requirements, and specific plans may be prepared for the procurement of those items considered essential.

Upon completion of the steps outlined above, the preparation of plans may be undertaken to assist industry in absorbing the war load and for appropriate administrative bodies to carry out these measures.

Since the actual execution of any industrial mobilization plan must be undertaken by civilian leaders, under conditions which cannot be predicted exactly, the plan must be flexible in its provisions. The essential parts of the general plan, however, must be outlined clearly, in order that the relationships visualized among the various agencies proposed may be clearly understood.

All the aforementioned factors have been considered in the preparation of the various provisions of the plan suggested in the following pages in the hope that in time of a major emergency the procedure outlined will facilitate the organization of the agencies necessary to bridge the period of transition from peace to war and lead to early victory.

PART I. THE UTILIZATION OF NATIONAL RESOURCES AND THE MOBILIZATION OF INDUSTRY IN TIME OF MAJOR WAR

A. COORDINATING MEASURES WHICH MAY BE APPLIED

In any future major war the application of some form of guidance will undoubtedly be necessary to effect a rapid and orderly transition from the peacetime economy to one wherein normal conditions have been altered by the sudden imposition of an expanding war burden. Varying degrees of coordination will be required in order that the Nation may mobilize and efficiently utilize materials, facilities, capital, labor, power, fuel, transportation, and communications. The sole purpose in supervising the utilization of our national resources in war is to assure effective support for our armed forces, while protecting industry and the civilian population from unnecessary inconvenience and privation. The surrender of all individual rights in war time is undesirable, if it can be avoided, but the assumption of additional individual responsibilities will be essential to the efficient coordination of a national industrial effort.

Specifically, the following are the more important measures which can be utilized to attain industrial coordination necessary in war:

1. PRIORITY

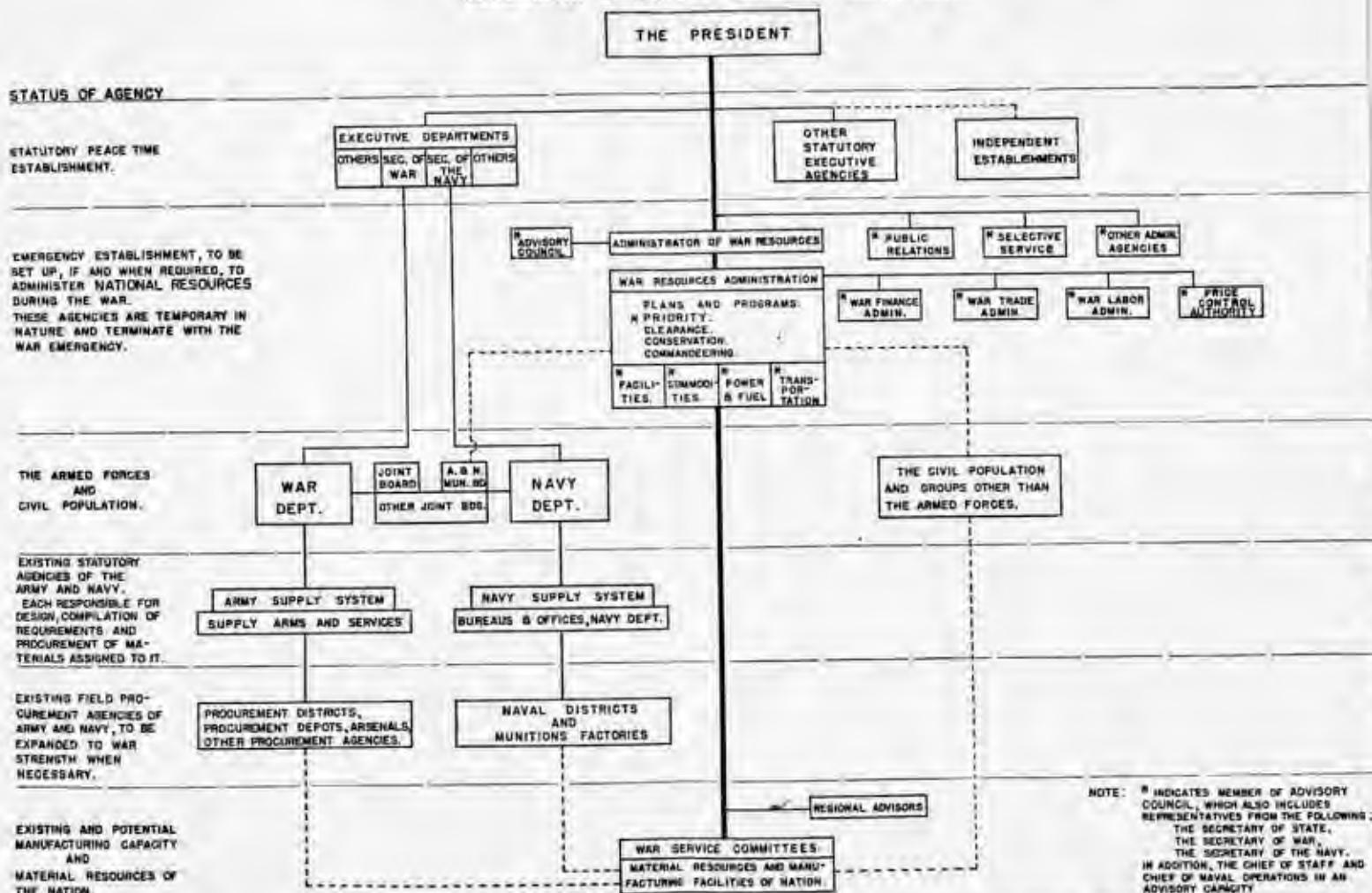
A priority may be defined as the means whereby precedence is established in the procurement program after considering all urgent and essential needs of the Nation. The right of government to institute drastic priority action has long been recognized, but it underwent rapid development during the World War. Priority soon became the most direct, powerful, and therefore the most important means of directing the flow of resources into desired channels of production. It assured equitable distribution of materials and services according to national requirements.

Priority can be applied in a number of forms, no one of which may be considered as a panacea for all the problems which may arise in war. All the various methods of applying priority may be required to meet varying conditions; they must be coordinated to assure a united, effective program.

Methods of applying priority may take any of the following forms:

(a) *Classification ratings.*—Priority classification of orders, items, facilities, or industries may be established to determine the order in

**SUGGESTED ORGANIZATION FOR COORDINATION OF NATIONAL RESOURCES
AND
MOBILIZATION OF INDUSTRY IN TIME OF MAJOR WAR.**



which resources are to be used. Such ratings were found most useful during the World War in promulgating broad priority policies, capable of ready interpretation by all concerned, and avoided a tremendous load on the commodity divisions of the War Industries Board that would have been incurred in the assignment of individual priorities. There is every reason to believe that such an automatic priority classification would prove equally advantageous in any future national emergency.

(b) *Allocations.*—Allocations assign the productive capacity of individual plants, or parts thereof, to specific agencies in cases where serious procurement difficulties are anticipated or develop. This measure establishes priority for sources of supply among requiring agencies.

(c) *Licenses, embargoes, permits, and warrants.*—These are mechanisms of priority which may be set up to establish precedence in the utilization of resources in war. By such means, resources, especially materials in foreign and domestic trade, may be made to flow in such a manner as to insure their most advantageous use.

2. CONTROL OF PRICES

Control of prices in war may be required to prevent or minimize disruption of the national economic structure resulting from the impact of the rapid increase of demand upon existing facilities and resources.

3. CONTROL OF FOREIGN TRADE

This control includes the licensing of importers and exporters, negotiations of trade agreements with neutrals, and the furtherance of the economic isolation of the enemy. Such measures, involving questions of military strategy and of diplomatic and commercial relations, are of the utmost importance.

4. ORGANIZATION OF GOVERNMENT CORPORATIONS

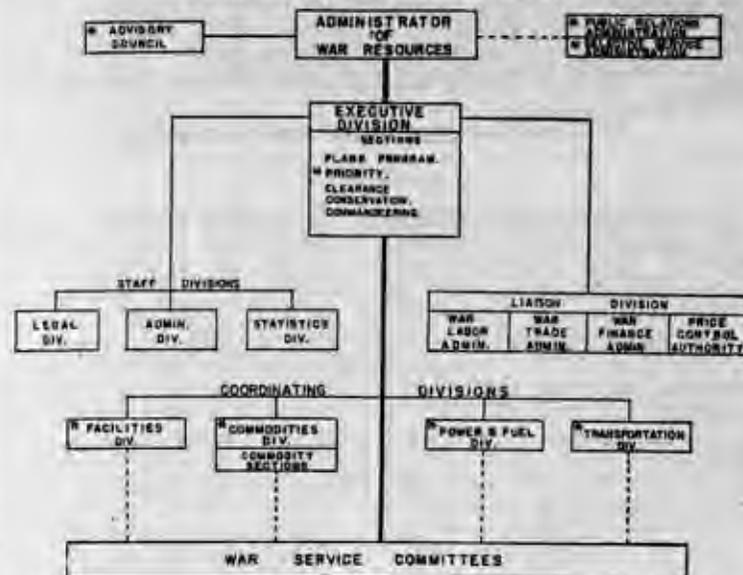
Where appropriate agencies of Government do not already exist, it may become necessary, in some cases, to organize corporations controlled or owned by the Government. These corporations would render services or take business risks which it would be unreasonable to expect from privately owned bodies.

B. ORGANIZATIONAL PLANS

To carry out effectively the coordinating measures suggested in section A, it is proposed that, when war becomes imminent, and without waiting for serious economic problems to develop, the coordination and direction of the utilization of our national resources should be initiated immediately. While it has long been recognized that such direction in time of war is a function of the President, acting under the authority accorded him by the Constitution and by the Congress, it is obvious that the magnitude and emergency nature of the task require the services of an adequate organizational set-up to which this responsibility may be delegated. It is contemplated that such a set-up will be manned by qualified civilians chosen by the President. Appropriate representatives of the military services will advise and assist in the accomplishment of the task involved.

Since the functions to be accomplished are new and temporary, entirely new and separate agencies, directly responsible to the President, should be created for industrial mobilization in time of a major war. Reliance should not be placed on existing governmental departments and agencies unless the functions to be used are peacetime as well as wartime responsibilities. Usually the functions of existing departments and agencies are defined by law and custom and are designed to serve only a social structure based upon a peacetime economy.

WAR RESOURCES ADMINISTRATION



NOTE: * INDICATES THAT HEADS OF THESE SECTIONS, DIVISIONS OR ADMINISTRATIONS ARE MEMBERS OF ADVISORY COUNCIL.

The above chart shows the agencies through which it is anticipated the President will exercise those functions peculiar to his office in war, and which are considered essential to the successful prosecution of the war effort. It will be noted that new and independent agencies are proposed to carry out those measures which pertain strictly to the mobilization of resources for the prosecution of war. Existing governmental agencies will continue to perform normal functions, and will administer any assigned war missions for which they are naturally adapted. Thus, the Interstate Commerce Commission, the Maritime Commission, and various other departments and agencies normally perform duties which will be important to the wartime coordination of our industrial effort.

Detailed studies covering the anticipated organization and functions of the emergency agencies are prepared by the Army and Navy Munitions Board in the form of annexes, which are kept currently

revised to meet changing industrial conditions. These studies present a more complete treatment of the problems incident to industrial mobilization than is practicable in this document. Such annexes must necessarily be kept flexible, since operations under them will be carried out under conditions which cannot now be accurately predicted.

The earlier emergency agencies must function initially under delegated wartime powers of the President and such existing legislative authority as, for example, that contained in the National Defense Act of 1920 and the Naval Appropriation Act of March 4, 1917. The application of many of the control measures suggested in this plan would require additional legislation. Even more important, however, to the execution of these functions, is the support of public opinion, which is often stronger and more effective than any legal authority.

C. THE WAR RESOURCES ADMINISTRATION

1. GENERAL

All economic functions which must be exercised in time of war are interrelated and interdependent. It is therefore highly important that one major emergency agency be created to coordinate the performance of these functions and that other agencies be set up only as the necessity arises to supplement the work of the key agency.

It is considered highly desirable that the key superagency for wartime industrial coordination should be the War Resources Administration. In order that, wherever possible, planned measures may anticipate the problems which will inevitably arise to disrupt our national war economy, the War Resources Administration in skeleton form should be set up as early as practicable when an emergency is envisioned. The War Resources Administration should serve not only to facilitate the transition from a peace to a war economy but, pending the establishment of other suggested superagencies, it would, insofar as possible, perform those functions discussed later in detail under the caption of Other Emergency Administrations.

If the creation of the War Resources Administration is delayed, the Army and Navy Munitions Board should assume the responsibility for guidance during the transition period. Upon creation of the War Resources Administration, personnel and records of the Army and Navy Munitions Board should be used to assist in forming the nucleus of the new body.

The proposed War Resources Administration should coordinate the munitions requirements submitted by the armed services with the essential needs of other Government agencies and those of the civilian population. Where the requirements of the armed services exceed the supply available for their use, allocation as between the Army and the Navy will be determined by the Army and Navy Munitions Board. The extent and nature of the measures necessary to accomplish this task, as well as the elements which may require coordination, must be determined by this agency according to the nature of the particular war.

In general, peacetime procedure and methods should be modified only in case the results obtained therefrom fail to meet the requirements of the war. Any changes in normal business procedure which

may become necessary should be designed to distribute the war load as equitably as possible and to minimize the difficulties incident to post-war readjustment. A distribution of burden and profits, both socially and geographically, is desirable for a continued war effort.

Reduction of the activities of nonessential industries or partial conversion to more useful purposes may be considered necessary in order to divert their effort into the most essential channels. The civilian population may be depended upon to voluntarily reduce their requirements for items not absolutely needed, when the necessity becomes known, as part of their contribution to the war effort.

In accomplishing its mission, the War Resources Administration is visualized as the pivot around which wartime industrial mobilization will turn. It must be charged with the responsibility and clothed with adequate authority to make and enforce decisions. It should be emphasized, however, that actual administration should be the function of the agencies best fitted for the purpose.

The general outline proposed for the organization of the War Resources Administration and its principal divisions is shown on the chart opposite this page. The divisions shown on the chart provide points of contact between the coordinating agency and the various economic elements for which control may be necessary. Inclusion of these divisions in the organization chart does not necessarily mean that all the controls indicated will be required. Indeed, mere provision of points of contact with the general economic structure may prove adequate, in many cases, without further action of any nature. In any case, these divisions are advantageous for planning, in order that definite action may be taken, if required, without unnecessary delay.

The personnel to fill positions of responsibility in the War Resources Administration should be obtained from the patriotic business leaders of the Nation. They must be men who command the respect of the American people, as well as capable executives, thoroughly familiar with our resources. The effect of strong and intelligent leadership is more important and will do more to secure voluntary cooperation of industry and the civilian population than will any arbitrary regulations or organization charts that may be prepared, no matter how they may appear.

The powers and responsibilities of the War Resources Administration will be vested in an *Administrator*, appointed by and to be responsible to the President. Assisted by an Advisory Council, the Administrator should formulate the basic policies for the mobilization and utilization of our resources to meet the requirements of a major war. It is anticipated that basic priorities will take the form of classification ratings, in order that essential needs may be met first. These ratings would thus guide not only the coordinating divisions of the War Resources Administration but also those other agencies, both governmental and private, which may direct or exert an important influence on those phases of our industrial structure which require coordination. The institution of these automatic classifications would, in the majority of cases, obviate the necessity for decisions on individual requests for priority.

The *Advisory Council* should be composed of the heads of the coordinating divisions of the War Resources Administration, representatives of any other superagencies which may be created, and

representatives of the State, War, and Navy Departments. Such representation is essential to insure the maximum coordination within the War Resources Administration itself, with other super-agencies, and with the actual procurement agencies of the two Government departments most vitally concerned with the war effort. Only through the exercise of sound judgment of those called upon to deal with all the various phases of the critical problems which may arise in war can policies be evolved which will permit efficient coordination and at the same time avoid the adoption of a temporary dictatorial structure during both the period of national emergency and the post-war period of readjustment.

2. EXECUTIVE AND STAFF DIVISIONS

The Executive Division should be considered as the office for the study and coordination of general economic plans and programs, including those relating to priority, price control, clearance, conservation and post-war readjustment, and for the promulgation of broad policies to the appropriate administrative divisions and agencies.

The Executive Division should be assisted by the Staff Divisions, including the Administrative, Legal, and Statistics Divisions. The Administrative Division would perform the normal routine administrative duties concerning personnel, records, etc. The Legal Division should be concerned not only with legal advice but with the study of legal phases of war contracts and of legislative action which may become desirable. The Statistics Division is visualized as being responsible for the completion of statistical studies, and for the selection, compilation, evaluation, and presentation of data to serve as important aids to the administration in the guidance of our war economy. Duplication of effort within and without the War Resources Administration should be avoided, and advantage should be taken of pertinent information compiled by other agencies.

The Liaison Division should facilitate contact and cooperation between the War Resources Administration and any other control agencies which may be created. This division should include representatives from each of such agencies. It would provide a ready means for obtaining advice and assistance when required and for the dissemination of basic policies and information.

3. COORDINATING DIVISIONS

The Coordinating Divisions should be concerned with the specific yet harmonious application of the broad policies of the administration. They should in general be concerned primarily with the administration of approved policies and priorities within the respective divisions and with the conduct of research for definite means whereby requirements may be supplied. At the same time they must recognize the responsibility of established procuring agencies and allow the latter the greatest possible freedom of action in the discharge of procurement responsibilities. The staff of each of these coordinating divisions should include competent trained officer personnel from both the War and Navy Departments. Other governmental agencies interested in specific commodities or services should likewise be represented when conditions warrant. The various coordinating divisions must, in any event, maintain liaison with interested governmental agencies, such

as the Procurement Division of the Treasury Department, trade associations, and engineering, professional, and scientific societies. This liaison permits the reception and dissemination of information in the interests of cooperation and efficiency.

Facilities Division.—The primary mission of the Facilities Division should be assistance in meeting national requirements in those cases where existing productive capacity is inadequate to meet anticipated demands, through the application of priorities and through the direction of the extension, conversion, and construction of facilities. Existing facilities and available power, labor, and transportation should be used wherever practicable to fill war orders, and thus to promote early, rapid, and efficient production. Where increases in productive capacity are essential, consideration must be given to proper geographic and strategic distribution of the load on industry.

The primary means of application of basic priorities within this division should be the allocations of facilities to procurement agencies rather than the assignment of war orders to facilities. The Facilities Division will make necessary allocations upon the request of a procuring agency for specific facilities or upon a request for facilities adequate for the production of specific requirements.

Copies of all data on facilities assembled by the War and Navy Departments and by the Army and Navy Munitions Board will be available as a nucleus of information for the Facilities Division. Close liaison with other coordinating divisions, other major Government procuring agencies, and with industry represented by the various War Service committees will further assist the Facilities Division.

Commodities Division.—It is contemplated that the Commodities Division, through the Commodity Sections into which it should be subdivided, will be concerned with assurance of the availability of materials indispensable for the production essential to meet the requirements of the armed forces and the civilian population.

To accomplish this mission, it must ascertain the aggregate requirements for each commodity and ascertain potential sources of supply. Necessary action may then be taken to alleviate actual or anticipated shortages by measures designed to stimulate production, encourage conservation and the use of substitutes, especially by less essential industries and control the distribution of available supplies. This division should also be responsible for the application of authorized price-control measures pertaining to commodities.

While price control, necessary publicity, and other aids may be invoked to stimulate both production and the use of substitutes, priorities in accordance with basic policies established for finished products will be mandatory for the control of the distribution of commodities. These priorities may take any of the various types described in part I, section A. On the basis of established priorities, distribution may be made or controlled by the War Service committees themselves, or by other designated agencies.

Power and Fuel Division.—The mission of the Power and Fuel Division should be to assure an adequate supply of power and fuel to facilities essential to war production while giving due consideration to essential civilian requirements.

To accomplish this mission, it may initiate necessary measures governing use, encouraging conservation, and promoting the development of additional sources of supply. It should cooperate with exist-

ing regulatory bodies in securing the removal of peace time restrictions impeding war production. The measures set up by this division may be executed by established regulatory bodies or by the division itself, as circumstances may render advisable. The activities of the Power and Fuel Division must be coordinated closely with those of the other coordinating divisions, particularly with the Facilities and Transportation Divisions.

Transportation Division.—It is anticipated that the Transportation Division will be concerned with coordination of the general operation and use of all modes of transportation in the zone of the interior, in accordance with basic priority policies. As the growing industrial war load imposes heavier burdens on the Nation's transportation facilities, new policies and regulations may be required to govern their operation. Shippers and consignees must cooperate with all concerned in order that most urgent needs may be satisfied first.

Necessary coordinating measures should be administered by established Federal regulatory bodies, with the advice and assistance of the appropriate War Service committees.

D. OTHER EMERGENCY ADMINISTRATIONS

Other administrations for the coordination of various phases of our national economy may be organized as required by the circumstances.

1. PUBLIC RELATIONS ADMINISTRATION

The mission of this administration should be the coordination of the dissemination of information for the public. This information should insure adequate presentation to the people of the purposes, views, and progress of the Government in the prosecution of the war.

The administration must maintain close liaison with all other emergency administrations and other agencies. The maintenance of a high national morale is a continuing function of this administration.

2. SELECTIVE SERVICE ADMINISTRATION

The creation of this administration should follow the enactment of selective-service legislation. While its powers and responsibilities will be prescribed largely by the terms of such legislation, the general mission should be the selection of personnel for, and their induction into, the armed services. Due weight must be given to the assurance of the supply of necessary labor to industry for the support of these armed forces.

3. WAR FINANCE ADMINISTRATION

It is anticipated that this administration will be staffed by representatives of existing public and private financial agencies, such as the Treasury Department, Federal Reserve Board, and the Federal Loan Agency, with the Secretary of the Treasury as ex-officio Chairman. It should advise the President on the financial policies appropriate to governmental and private needs and coordinate the administration of those policies.

In time of war, functions which must be carried out under policies approved by the proposed War Finance Administration would be identical in nature to those now performed by such existing agencies as

the Treasury Department, the Federal Reserve Board, the Reconstruction Finance Corporation, the Securities and Exchange Commission, and the Export-Import Bank. These functions, of course, would be greatly expanded during a period of national emergency. Since they are identical in nature, however, it is considered that their actual administration should be left in the hands of existing agencies.

The wartime financial needs of the Government should be coordinated with those of private enterprise to insure the provision of working capital for productive facilities. The financial factors which will come within the jurisdiction of this administration include tax policies, credit and inflation, the effects of the issue of securities, both Government and private, and the direction of the flow of capital.

4. WAR TRADE ADMINISTRATION

It is anticipated that the primary mission of this administration will be the regulation of imports and exports in such fashion as best to further the economic interests of the United States and to damage those of the enemy. The closest liaison must be maintained between the United States Maritime Commission, the Departments of State, Commerce, and Agriculture, and the Commodities Division of the War Resources Administration. The results obtained by this administration may affect materially the success of the military effort.

Where the imposition of controls proves to be necessary, those measures might best include the issuance of export and import licenses, the formulation of policies for economic pressure on the enemy, reciprocity, and trade negotiations with allied and neutral countries, and the administration of applicable established control measures.

5. WAR LABOR ADMINISTRATION

It should be the mission of this administration to provide the machinery for the equitable and voluntary distribution of labor to industry and agriculture during war by maintaining close cooperative relations between labor, industry, and the Government. The closest cooperation between the Selective Service, War Labor, and War Resources Administrations will be essential if the necessary augmentation of the armed services is to be accomplished without undue adverse effect upon productive industry, which must simultaneously support the armed forces and provide for essential civilian needs.

Industries should be classified as war industries and nonwar industries according to the essentiality of the materials and services which they provide. Labor requirements should then be determined for each of these classes, with primary attention directed toward furnishing adequate supplies of labor for the more important industries, thus keeping the job and the worker together as far as circumstances permit.

6. PRICE-CONTROL AUTHORITY

The desirability of the creation of this proposed emergency agency will be dependent upon the nature and magnitude of current or anticipated price fluctuations which might tend to throw our economic structure out of equilibrium. Control of prices should be limited largely to reliance upon the voluntary cooperative pressure which an

enlightened public opinion will bring to bear upon interests which fail to cooperate.

Although some provision may well be made to prevent profiteering, the primary attention of such an authority should be given to the study of the causes, rather than the effects, of price fluctuations. The adoption of appropriate preventive measures to be applied at the source appears to be a sounder approach to the problem of preserving economic stability than reliance upon remedies after the disorders have appeared.

The authority should be composed of representatives of industry, of the War Resources Administration, of labor, and of those permanent Government departments and agencies most concerned with price control. In general, this body should determine price policies, leaving their administration to the temporary and permanent agencies best fitted for such work.

E. WAR SERVICE COMMITTEES

War service committees are proposed as valuable points of contact between emergency coordinating agencies and industry. They would afford the best possible means of presenting to industry national needs and requirements and of informing the emergency administrations of industry's prospective ability to meet those requirements.

The committees should be composed of trusted representatives of their respective industries working with, but not designated officially as a part of, any emergency agency. When each committee is formed, care should be exercised to see that it represents all interests in the particular industry, both large and small, and that members are selected from among the ablest and best informed men in that field. Only such care will insure the respect and confidence of the industry as a whole.

F. POST-WAR READJUSTMENT

This plan contemplates that the proposed coordinating agencies will be temporary in nature and that they will be demobilized upon the termination of the emergency.

This plan takes cognizance of the fact, however, that although winning the war is of primary importance, post-war rehabilitation is a very important secondary wartime consideration. During the course of a national emergency, therefore, the War Resources Administration will undoubtedly give proper weight to rehabilitation factors in formulation of its wartime policies. In fact, the War Resources Administrator, as the termination of the emergency is approached, might well study the desirability of proposing the creation of a new and entirely separate agency to deal with the rehabilitation problem. In the event of the creation of such an agency during the national emergency, contact with the War Resources Administration might be provided through the Liaison Division of the latter agency.

On the other hand, it may be considered advisable, upon the termination of the emergency, to continue the War Resources Administration as a post-war readjustment agency. Decision as to the organization and composition of such an agency will depend upon personalities, the degree of rehabilitation required, and political and

economic factors which would then obtain. Decision must therefore be deferred until controlling conditions are known or can fairly accurately be forecast. The important consideration for the purposes of this plan is that due consideration must be given the problem of post-war readjustment.

PART II. ARMY AND NAVY PROCUREMENT PLANNING IN TIME OF PEACE

In the preceding pages there has been discussed the types of supervision and control that may be required for the utilization of our national resources in the event of a war emergency of major proportions. The organization proposed for obtaining this coordination has also been outlined. It has been pointed out that, while Army and Navy officers, with the cooperation of qualified civilians, are responsible for the preparation of plans for the establishment of these coordinating agencies, their operation will be undertaken by civilian administrators appointed by the President.

Army and Navy officers will, of course, assist wherever possible in establishing the coordinating agencies, but it is recognized that the proper sphere of activity of such officers in war is in the field of actual procurement of the munitions needed by the services. Part II of this pamphlet is therefore added to indicate only roughly the policies and organization now established to plan for the essential procurement activities in order that the relationship of procurement to industrial mobilization may be seen.

A. POLICIES

Procurement planning must be based on policies proceeding from sound principles and involves the study and determination, in time of peace, of methods which will insure the timely and orderly supply of munitions required by the Army and Navy during a national emergency.

Some of the more important principles and policies are outlined below:

It is fundamental that the determination of military requirements must be the concern of the armed services. The accuracy with which these requirements are determined will, in large measure, determine the value and effectiveness of any coordinating measures found necessary in war.

While procurement plans of the two departments must make due allowances for differences in organization and administration of procurement functions, the following steps should be considered in the preparation of the procurement plans of both armed services:

- (1) Proper estimates of the quantities and types of munitions required.
- (2) Comparison of requirements with the Nation's ability to satisfy these needs.
- (3) The methods and organization necessary for the execution of the procurement program, including specific plans for the procurement of the required items, the control or acquisition of essential commodities, the development of suitable contract forms, and the augmentation of personnel necessary for the expansion of peacetime procurement organizations.

(4) Frequent revision of procurement plans based upon constant study is essential if such plans are to remain in conformity with changing strategic plans and current industrial conditions.

(5) Intelligent distribution of the war load will reduce to a minimum disruption of the normal economic life of the country.

(6) Army and Navy procurement planning must be coordinated, and due consideration must be given to the essential needs of the civil population.

(7) The procurement plans which are prepared should endeavor to reduce competitive procurement efforts between Government purchasing agencies for commodities or the output of facilities to a minimum. To avoid such competition and to assure sources of supply, procurement plans should provide for the allocation of industrial facilities to the Army and Navy in cases where the ratio between productive capacity or availability and the combined estimates of requirements of the armed services indicate the need therefor. The necessity for, and the extent of, such allocations should be determined by the authorized coordinating agency.

B. ORGANIZATION FOR PEACETIME PLANNING

(a) *Coordination of peacetime planning.*—While the scope of the problems involved in the preparation of plans for the industrial support of the armed forces in war extends far beyond the normal provinces of the War and Navy Departments, and while this matter is of vital importance to the entire Nation, these departments alone are charged by legislative mandate with (and are now actively engaged in) the preparation of such plans. The Army and Navy Munitions Board has been established by joint action of the Secretary of War and the Secretary of the Navy as the official agency for coordinating war procurement problems involving Army and Navy interests.

(b) *Functions of the coordinating agency.*—The Army and Navy Munitions Board is authorized and directed to—

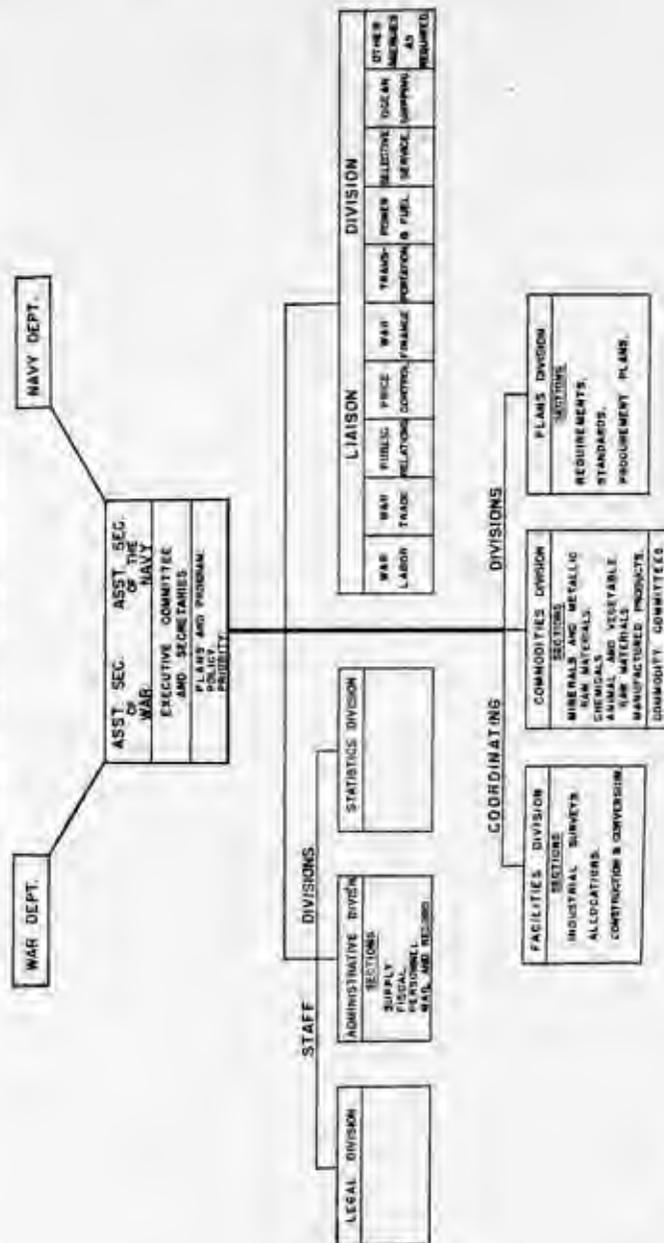
(1) Formulate and keep up-to-date such pertinent plans and policies as in the opinion of the two departments should be adopted by the Federal Government for coordinating and controlling national industrial effort in an emergency.

(2) Assure the necessary coordination in the procurement war plans of the Army and Navy, and in all plans, studies, and appendices thereto intended to facilitate the Government's efforts to promote orderly mobilization of industry in an emergency.

(3) Coordinate, when a war emergency is imminent and until the War Resources Administration is functioning, all Army and Navy procurement programs. It is considered fundamental that the War Resources Administration should be created promptly when war is imminent. It is essential, however, that should there be any delay in the creation of the War Resources Administration the Army and Navy Munitions Board must assume the responsibility for such limited guidance of industrial effort as it may be qualified to assume. Its operations during this period should be such as to facilitate the assumption of responsibility for industrial coordination by the War Resources Administration.

(4) Transfer to the War Resources Administration, upon creation of that agency, such personnel and records of the Army and Navy Munitions Board as may be found useful in organizing the new body.

ARMY - NAVY MUNITIONS BOARD



(c) *Adjudication of disputes.*—Approval of action taken by the Army and Navy Munitions Board is not required, except that any plans prepared by it that affect joint war plans and joint Army and Navy policy relative to the national defense are required to be referred to the Joint Board for consideration. Problems upon which the Munitions Board cannot reach agreement are forwarded to the President, as per military order dated, "The White House, July 5, 1939," and effective July 1, 1939.

C. ARMY AND NAVY MUNITIONS BOARD

ORGANIZATION OF ARMY AND NAVY MUNITIONS BOARD

The Army and Navy Munitions Board consists of the Assistant Secretary of War and the Assistant Secretary of the Navy, assisted by an executive committee and by various divisions and committees, as shown on the chart opposite this page. One representative from each Department serves on each division and committee.

1. Executive Committee

(a) *Organization.*—The executive committee consists of three officers of the Army and three officers of the Navy, on duty in the War and Navy Departments, as selected by the Secretary of War and the Secretary of the Navy, respectively.

(b) *Functions.*—The executive committee is responsible for the coordination of the work of the divisions of the Board; the submission annually, on May 1, of a schedule of proposed subjects for future consideration and study; the preparation and submission on May 1 and November 1 of each year of a progress report of joint procurement planning; the initiation of a joint study to be made annually of the several parts of the Industrial Mobilization Plan, and the submission, as of May 1 of each year, of a report on the status of this plan, together with any recommended changes; and the adjustment of conflicting provisions arising in plans for war procurement. Any deficiencies which may develop in a war procurement plan supporting a joint plan of operations which may affect the execution of the joint plan are referred to the Joint Board for a military priority decision. Recommendations relating to the personnel to be assigned from the Army and Navy to the office of the Administrator of War Resources are provided for in part I of this plan.

(c) *Secretary.*—One officer from the Army and one officer from the Navy, selected by the respective departments, will be assigned to duty in the Army and Navy Munitions Board, the senior officer to be executive secretary of the Board.

2. Staff Divisions

(a) *Legal Division.*—The functions of this division are to study and develop drafts of proposed legislation necessary for carrying into effect the provisions of the Industrial Mobilization Plan; to promote uniform wartime contractual procedure; and to advise the Army and Navy Munitions Board on legal matters.

(b) *Administrative Division.*—This division administers required functions of supply, finance, personnel, and mail and record.

(c) *Statistics Division.*—This division is responsible for the selection, compilation, and use of such statistics as will insure that all processes in the industrial mobilization program are submitted to adequate scrutiny. Contact and liaison with permanent and emergency governmental agencies, for the purpose of avoiding duplication in statistics, will be a continuing responsibility of this division.

3. Liaison Division

This division maintains liaison with the peacetime agencies dealing with labor, trade, public relations, price control, and finance; keeps the Army and Navy Munitions Board informed on all conditions pertinent to these subjects; and assists in the development of plans pertaining thereto.

4. Coordinating Divisions

In addition to the responsibility for a detailed knowledge of all procurement plans and requirements, these divisions determine the general progress of procurement plans; study procurement problems to include the determination of desirable standards and probable choke points and unbalanced production; and maintain liaison with other procurement agencies of the Government.

(a) *Facilities Division.*—The function of this division is to coordinate the plans of the War and Navy Departments for the utilization of facilities which will be required for the production of munitions, either directly or indirectly.

This coordination is accomplished by the allocation of existing facilities, recommending the location of new facilities necessary to increase production in essential industries and coordinating plans for the extension or conversion of existing facilities to meet the joint industrial war load of the Army and the Navy.

(b) *Commodities Division.*—The Commodities Division is organized into such number of commodity committees as may be found necessary to investigate the availability of strategic and critical raw materials required to support joint plans of operations; to recommend the distribution of available supplies in accordance with the military priorities, when necessary; and to promote the development and use of substitutes to relieve probable acute shortages. Each committee representative will be one whose normal duties require detailed knowledge of the uses in his department of the commodity under study in the committee to which he is appointed.

The work of the several commodity committees is coordinated by two commodity division representatives, one designated by the Office of the Assistant Secretary of War and one designated by the Office of the Chief of Naval Operations.

(c) *Plans Division.*—The Plans Division, in addition to the responsibility for a detailed knowledge of all procurement plans and requirements, determines the general progress of procurement; studies procurement to include the determination of standards, choke points, and unbalanced production; operates a contract and purchase information service, and maintains liaison with other procurement agencies of the Government.

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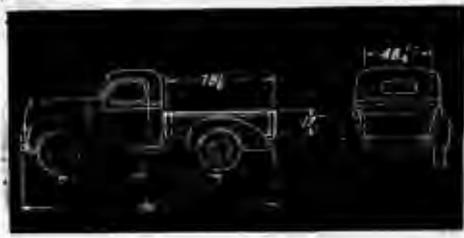
DODGE *Job-Rated*
MODEL WC
1/2-Ton Pick-up
 WITH NEW
MORE POWERFUL
Job-Rated **ENGINE**

116" W.B.

DODGE 1/2 TON PICK-UP

MAJOR MECHANICAL SPECIFICATIONS

Engine: 217 cu. in. displacement, 95 HP @ 3000 RPM
 Transmission: 3 speeds forward, 1 reverse
 Axle Ratio: 4.1:1
 Tires: 6.00x16 - 4 ply, front and rear. Two spare
 6.00x16 - 4 ply.
 Specifications, inspections, and tests in accordance with Chrysler
 standard commercial practices.



DELIVERY SPECIFICATIONS

	F A B R I C A T E D			B A W			Grand Total
	Jan.	Feb. 1-25	Total	Feb. 25-31	Mar.	Apr. 1-23	
1/2 Ton - Express	1,250	2,045	3,295	1,329	6,968	5,415	13,712

PRIORITIES: A-1-f priority required with expediting help on particular items where necessary - particularly rubber items.

PAINTING: Army O.D. color in standard commercial finish.

ACCEPTANCE: By midnight, December 31, 1941.

PRICES: F.o.b. Factory, Detroit, Michigan

	Unit Price	Federal Excise Tax Excluded	Tire Weight Tax to be added
Dodge 1/2 Ton Chassis, Closed Cab and Pick-Up Boxer, if desired, \$127.25 ea. Camouflage \$3.50 ea. additional	\$ 481.37	\$ 21.25	\$ 6.45

DISCOUNTS: A discount of \$25.00 per unit will be allowed for payment within 30 days after invoicing.

BOXING: In accordance with Chrysler standard export boxing practice.
 Chassis - One to a box with wheels, fenders, running boards, radiator and h. & removed.
 Cabs - Two to a box.
 Pick-up Box - Two to a package.

SPARE PARTS: Can be supplied, if desired. Prices to be quoted later. Ability to ship concurrently with vehicles depends on promptness in placing order.

DODGE Job-Rated
MODEL WC
1/2-Ton Canopy
 WITH NEW
MORE POWERFUL
 Job-Rated ENGINE



116" W.B.



DODGE 1/2 TON CANOPY

MAJOR MECHANICAL SPECIFICATIONS

(SAME AS 1/2 TON PICK-UP)

Specifications, inspections, and tests in accordance with Chrysler standard commercial practices.

DELIVERY SPECIFICATIONS

	F A B R I C A T E D			P A C K A G E D				Grand Total
	Jan.	Feb. 1-25	Total	Feb. 25-3/1	Mar.	April-23	Total	
1/2 Ton - Canopy	-	36	36	15	84	62	161	197

PRIORITIES: A-1-f priority required with expediting help on particular items where necessary - particularly rubber items.

PAINTING: Army O.D. color in standard commercial finish.

ACCEPTANCE: By midnight, December 31, 1941.

PRICES: f.o.b. Factory, Detroit, Michigan.

	Unit Price	Federal Excise Tax Excluded	Tire Weight Tax to be added
Dodge 1/2 Ton Canopy	\$ 555.66	\$ 24.93	\$ 6.45
Boxing, if desired, \$161.49 each.			
Camouflage \$3.50 each additional.			

DISCOUNTS: A discount of \$25.00 per unit will be allowed for payment within 30 days after invoicing.

BOXING: In accordance with Chrysler standard export boxing practice.
 Chassis - One to a box with wheels, fenders, running boards, radiator and hood removed.
 Canopy Body - One to a box.

SPARE PARTS: Can be supplied, if desired. Prices to be quoted later. Ability to ship concurrently with vehicles depends on promptness in placing order.

DODGE Job-Rated
MODEL WC
1/2-Ton Panel
 WITH NEW
MORE POWERFUL
 Job-Rated ENGINE



116" W.B.



DODGE 1/2 TON PANEL

MAJOR MECHANICAL SPECIFICATIONS

(SAME AS 1/2 TON PICK-UP)

Specifications, inspection, and tests in accordance with Chrysler standard commercial practice

DELIVERY SPECIFICATIONS

	<u>F A B R I C A T E D</u>			<u>B A W</u>				<u>Grand Total</u>
	<u>Jan.</u>	<u>Feb.1-25</u>	<u>Total</u>	<u>Feb.25-3/1</u>	<u>Mar.</u>	<u>Apr.1-23</u>	<u>Total</u>	
1/2 TON PANEL	100	1,295	1,395	-	-	-	-	1,395

PRIORITIES: A-1-F priority required with expediting help on particular items where necessary - particularly rubber items.

PAINTING: Army O.D. color is standard commercial finish.

ACCEPTANCE: By midnight, December 31, 1941.

PRICES: f.o.b. Factory, Detroit, Michigan

	<u>Unit Price</u>	<u>Federal Excise Tax Excluded</u>	<u>Tire Weight Tax to be added</u>
Dodge 1/2 Ton Panel	\$ 539.48	\$ 24.12	\$ 6.45
Boxing, if desired, \$161.49 ea. Camouflage \$3.50 ea. additional.			

DISCOUNTS: A discount of \$25.00 per unit will be allowed for payment within 30 days after invoicing.

BOXING: In accordance with Chrysler standard export boxing practice.
 Chassis - One to a box with wheels, fenders, running boards, radiator and hood removed.
 Panel Body-One to a box.

SPARE PARTS: Can be supplied, if desired. Prices to be quoted later. Ability to ship concurrently with vehicles depends on promptness in placing order.

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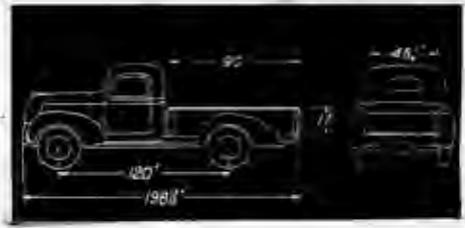
DODGE Job-Rated
MODEL WD-15
3/4-Ton Express
 WITH NEW
MORE POWERFUL
Job-Rated ENGINE

120" W.B.

DODGE 3/4 TON EXPRESS

MAJOR MECHANICAL SPECIFICATIONS

Engine: 217 cu.in. displacement, 95 HP @ 3000 RPM
 Transmission: 5 Speeds forward - 1 reverse.
 Axle Ratio: 4.1:1
 Tires: EA-15 front and rear.
 Specifications, inspections, and tests in accordance with Chrysler standard commercial practices.



DELIVERY SPECIFICATIONS

	<u>F A B R I C A T E D</u>			<u>B A W</u>			<u>Grand Total</u>	
	<u>Jan.</u>	<u>Feb.1-25</u>	<u>Total</u>	<u>Feb.25-3/1</u>	<u>Mar.</u>	<u>Apr.1-23</u>		<u>Total</u>
3/4 Ton Express	-	959	959	240	1,260	949	2,449	3,408

PRIORITIES: A-1-f priority required with expediting help on particular items where necessary - particularly rubber items.

PAINTING: Army O.D. color in standard commercial finish.

ACCEPTANCE: By midnight, December 31, 1941

PRICES: F.o.b. Factory, Detroit, Michigan

	<u>Unit Price</u>	<u>Federal Excise Tax Excluded</u>	<u>Tire Weight Tax to be added</u>
Dodge 3/4 Ton Express with EA-15 Tires front and rear with spare	\$ 521.04	\$ 22.00	\$ 10.10
Boxing, if desired, \$130.55 each.			
Camouflage \$3.50 each additional			

DISCOUNTS: A discount of \$25.00 per unit will be allowed for payment within 30 days after invoicing.

BOXING: In accordance with Chrysler standard export boxing practices.
 Chassis - One to a box with wheels, fenders, running boards, radiator and hood removed.
 Express Body - Two to a bundle.
 Cab - Two to a box.

SPARE PARTS: Can be supplied, if desired. Prices to be quoted later. Ability to ship concurrently with vehicles depends on promptness in placing order.

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DODGE Job-Rated
MODEL WD-15
3/4-Ton Stake
 WITH NEW MORE POWERFUL
 Job-Rated ENGINE

120" W.B.



DODGE 3/4 TON STAKE

MAJOR MECHANICAL SPECIFICATIONS

(SAME AS 3/4 TON EXPRESS)

Specifications, inspections, and tests in accordance with Chrysler standard commercial practices.

DELIVERY SPECIFICATIONS

	<u>F A B R I C A T E D</u>			<u>B A W</u>				<u>Grand Total</u>
	<u>Jan. Feb.1-25</u>	<u>Total</u>		<u>Feb.25-3/1</u>	<u>Mar.</u>	<u>Apr.1-25</u>	<u>Total</u>	
3/4 Ton Stake	-	95	95	33	173	138	344	439

PRIORITIES: A-1-f priority required with expediting help on particular items where necessary - particularly rubber items.

PAINTING: Army O.D. color in standard commercial finish.

ACCEPTANCE: By midnight, December 31, 1941.

PRICES: f.o.b. Factory, Detroit, Michigan

	<u>Unit Price</u>	<u>Federal Excise Tax Excluded</u>	<u>Tire Weight Tax to be added</u>
3/4 Ton Closed Cab and Stake Body 78" wide by 7' long - with TA-15 single tires and one spare	\$ 549.99	\$ 23.65	\$ 10.10
Boxing, if desired, \$130.55 each.			
Camouflage \$3.50 each additional.			

DISCOUNTS: A discount of \$25.00 per unit will be allowed for payment within 30 days after invoicing.

BOXING: In accordance with Chrysler standard export boxing practice.

- Chassis - One to a box with wheels, fenders, running boards, radiator and hood removed.
- Cab - Two to a box
- Stake Body - Two to a bundle.

DODGE Job-Rated

MODELS WD-20 and WD-21

1-Ton Express

WITH FULL-FLOATING REAR AXLE
AND NEW MORE POWERFUL
Job-Rated ENGINE



133"WB.



DODGE 1 TON EXPRESS

MAJOR MECHANICAL SPECIFICATIONS:

Engine: 230 Cu. In. Displacement 105 HP @ 3600 RPM
Transmission: 3 Speed
Axle Ratio: 4.3:1
Tires: See Delivery Specifications
Specifications, inspections, and tests in accordance with Chrysler standard commercial practices.

DELIVERY SPECIFICATIONS:

	F A B R I C A T E D			R A W			Grand Total	7.00x16-6 7.50x16-8 Single	6.50x16-6 Dual Rear	6.00x20-6 Dual Rear
	Jan.	Feb. 1-25	Total	Feb. 25-3/1	Mar.	Apr. 1-23				
1 Ton 120" Express	15	15	16	85	67	168	183	183		
1 Ton 133" Express	285	285	252	1323	1004	2579	2864	1815	1049	

PRIORITIES: A-1-F priority required with expediting help on particular items where necessary - particularly rubber items.

PAINTING: Army D.D. color in standard commercial finish.

ACCEPTANCE: By midnight, December 31, 1941.

PRICES: F.o.b. Factory, Detroit, Michigan

	Unit Price	Federal Excise Tax Excluded	Tire Weight Tax to be Added
1 Ton (120" Wheelbase) Chassis, Closed Cab and Express - tires 7.00x16 - 6 ply front, 7.50x16 - 8 ply single rear, 7.50x16 - 8 ply spare tire	\$580.99	\$24.03	\$12.82
1 Ton (133" Wheelbase) Chassis, Closed Cab and Express - tires 7.00x16 - 6 ply front, 7.50x16 - 8 ply single rear, 7.50x16 - 8 ply spare tire	590.78	24.52	12.82
1 Ton (133" Wheelbase) Chassis, Closed Cab and Express - tires 6.50x16 - 8 ply single front, dual rear with 6.50x16 - 6 ply spare tire	\$612.53	24.72	13.30

DISCOUNTS: A discount of \$25.00 per unit will be allowed for payment within 30 days after invoicing.

BOXING: In accordance with Chrysler standard export boxing practice.

Chassis - one to a box with wheels, fenders, running boards, radiator and hood removed.

Cabs - two to a box

Express bodies - two to a box or bundle

Boxing for 120" wheelbase vehicle if desired - \$130.55 each

Boxing for 133" wheelbase vehicle if desired - \$139.01 each

If camouflaged - \$ 3.50 additional

SPARE PARTS: Can be supplied, if desired. Prices to be quoted later. Ability to ship overseas vehicles depends on promptness in placing order.

Regraded Unclassified



DODGE 1 TON CANOPY

MAJOR MECHANICAL SPECIFICATIONS:

Engine: 230 Cu. In. Displacement 105 HP @ 3600 RPM
 Transmission: 3 Speed
 Axle Ratio 4.3:1
 Tires: See Delivery Specifications
 Specifications, inspections, and tests in accordance with Chrysler standard commercial practices.



DELIVERY SPECIFICATIONS:

	F A B R I C A T E D		H A W				Grand Total	7.00x16-6	6.50x16-6 Dual Rear	6.00x20-6 Dual Rear
	Jan.	Feb. 1-25	Total	Feb. 25-3/1	Mar.	Apr. 1-23		Total		
1 Ton Canopy	34	34	12	60	35	107	141	141		

PRIORITIES: A-1-f priority required with expediting help on particular items where necessary - particularly rubber items.

PAINTING: Army O.D. color in standard commercial finish.

ACCEPTANCE: By midnight, December 31, 1941.

PRICES: f.o.b. Factory, Detroit, Michigan.

	Unit Price	Federal Excise Tax Excluded	Tire Weight Tax to be Added
1 Ton Canopy with 7.00x16 - 6 ply front and 7.50x16 8 ply rear with 7.50x16 - 8 ply spare	\$676.32	\$28.80	\$12.92
Boxing if desired	-	\$178.32 each	
Camouflaging	-	\$3.50 each additional	

DISCOUNT: A discount of \$25.00 per unit will be allowed for payment within 30 days after invoicing.

BOXING: In accordance with Chrysler standard export boxing practice.

Chassis - One to a box with wheels, fenders, running boards, radiator and hood removed.
 Canopy Body - One to a box.

SPARE PARTS: Can be supplied if desired. Prices to be quoted later. Ability to ship concurrently with vehicles depends on promptness in placing order.

DODGE Job-Rated
MODEL WD-21
1-Ton Panel
 WITH FULL-FLOATING REAR AXLE
 AND NEW MORE POWERFUL
 Job-Rated ENGINE



133" W.B.

DODGE 1 TON (133" WHEELBASE) PANEL

MAJOR MECHANICAL SPECIFICATIONS:

Engine: 230 Cu. In. Displacement 105 HP @ 3600 RPM
 Transmission: 3 Speed
 Axle Ratio: 4.3:1
 Tires: See Delivery Specifications
 Specifications, inspections, and tests in accordance with Chrysler standard commercial practices.



DELIVERY SPECIFICATIONS:

	F A B R I C A T E D		R A W		Grand Total	7.00x16-6	6.50x16-6	6.00x20-6
	Jan. Feb. 1-25	Total	Feb. 25-3/1	Mar. Apr. 1-23		Total		
1 Ton Panel	383	383			383	383		

PRIORITIES: A-1-f priority required with expediting help on particular items where necessary - particularly rubber items.

PAINTING: Army O.D. color in standard commercial finish

ACCEPTANCE: By midnight, December 31, 1941.

PRICES: f.o.b. Factory, Detroit, Michigan.

	Unit Price	Federal Excise Tax Excluded	Tire Weight Tax to be Added
Dodge 1 Ton (133" Wheelbase) Panel	\$654.83	\$27.72	\$12.82
Boxing if desired	- \$178.32 each		
Camouflaging	- \$3.50 each additional		

DISCOUNT: A discount of \$25.00 per unit will be allowed for payment within 30 days after invoicing.

BOXING: In accordance with Chrysler standard export boxing practice.

Chassis - One to a box with wheels, fenders, running boards, radiator and hood removed.

Panel Body - One to a box

SPARE PARTS: Can be supplied if desired. Prices to be quoted later. Ability to ship concurrently with vehicles depends on promptness in placing order.



DODGE Job-Rated

MODELS WD-20 and WD-21

1-Ton Stake

WITH FULL-FLOATING REAR AXLE

AND NEW MORE POWERFUL Job-Rated ENGINE



DUAL REAR WHEELS are available at low cost. White stake body meet with dual wheels.

133 WB

DODGE 1 TON STAKE

MAJOR MECHANICAL SPECIFICATIONS:

Engine: 230 Cu. In. Displacement 105 HP @ 1600 RPM
 Transmission: 3 Speed
 Axle Ratio: 4.3:1
 Tires: See Delivery Specifications

Specifications, Inspections, and tests in accordance with Chrysler standard commercial practices.

DELIVERY SPECIFICATIONS:

F A B R I C A T E D

R A W

	F A B R I C A T E D		R A W		Grand Total	7.00x16-6 7.50x16-8 Single	6.50x16-6 Dual Rear	6.00x20-6 Dual Rear	
	Jan. Feb. 1-25	Total	Feb. 25-3/1	Mar. Apr. 1-23					Total
1 Ton 120" 7' Stake-78"	156	156	29	152	124	305	461		
7' Stake-84"	53	53	6	32	22	60	113		
1 Ton 133" 9' Stake-78"	58	58	16	90	72	178	236		
9' Stake-84"	136	136	52	273	206	531	667		
							236	386	281

PRIORITIES: A-2-F priority required with expediting help on particular items where necessary - particularly rubber items.

PAINTING: Army O.D. color in standard commercial finish.

ACCEPTANCE: By midnight, December 31, 1941.

PRICES: f.o.b. Factory, Detroit, Michigan

	Unit Price	Federal Excise Tax Excluded	Tire Weight Tax to be Added
1 Ton 120" Wheelbase, Closed Cab and Stake Body - 78" wide & 7' long - 7.00x16 - 6 ply and 7.50x16 - 8 ply tires front and rear with 7.50x16 - 8 spare tire	\$609.91	\$25.48	\$12.82
1 Ton 120" Wheelbase, Closed Cab and Stake Body - 84" wide & 7' long - 6.50x16 - 6 ply tires, dual rear and same spare	\$616.20	\$25.55	\$13.30
1 Ton 133" Wheelbase, Closed Cab and Stake Body - 78" wide & 9' long - 7.00x16 - 6 ply front and 7.50x16 - 8 ply rear tires with 7.50x16 - 8 spare	\$625.77	\$26.27	\$12.82
1 Ton 133" Wheelbase, Closed Cab and Stake Body - 84" wide & 9' long - 6.50x16 - 6 ply tires, dual rear and same spare	\$632.05	\$26.93	\$13.30
Same vehicle with 6.00x20 - 6 ply tires dual rear and same spare	\$627.15	\$26.40	\$14.28
Boxing if desired:			
120" Wheelbase Stakes	-	\$130.55 each	
133" Wheelbase Stakes	-	\$139.01 each	
Camouflage	-	\$ 3.50 each additional	

DISCOUNTS: A discount of \$25.00 per unit will be allowed for payment within 30 days after invoicing.

BOXING: In accordance with Chrysler standard expert boxing practice.

Chassis - One to a box with wheels, fenders, running boards, radiator and hood removed.

Stake Bodies - Two to a bundle - Cabs - two to a box.

SPARE PARTS: Can be supplied if desired. Prices to be quoted later. Ability to ship concurrently with vehicles depends on promptness in placing order.

WAR DEPARTMENT
OFFICE OF THE UNDER SECRETARY
WASHINGTON, D. C.

December 29th, 1941.

MEMORANDUM FOR THE SECRETARY OF THE TREASURY:

Colonel Abrand has told me of the conference this morning.

I think that I should point out that Mr. Swilmer's statements regarding delays in projects undertaken by the Chrysler Company are inaccurate in several respects. On the airplane project, wherein Chrysler is to make parts for production of the Glenn Martin B-26, there has been no such delay as Mr. Kelleher intimated. On the Bofors gun project, Mr. Kelleher is in error in saying that they are rated as "A-1-9" priority. There is no gun rating as A-1-9. The rating of this gun is A-1-8, which is the highest regular bracket. Chrysler is making the gun for the Army and a like gun for the Navy. The progress to date has been very good.



Robert P. Patterson,
Under Secretary of War.

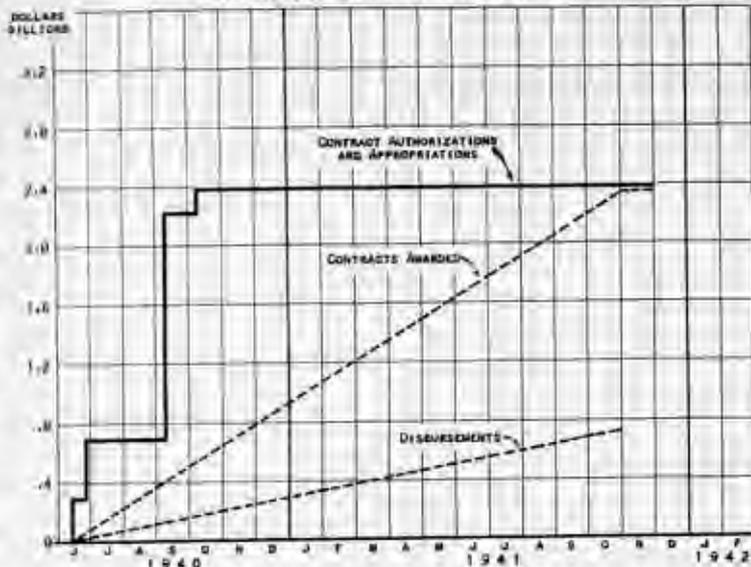
100-111



STATUS OF APPROPRIATIONS TO ARMY AIR CORPS

STRICTLY CONFIDENTIAL

"Air Corps, Army, Fiscal Year 1940 - '41"



Description of Appropriation Acts

(millions)

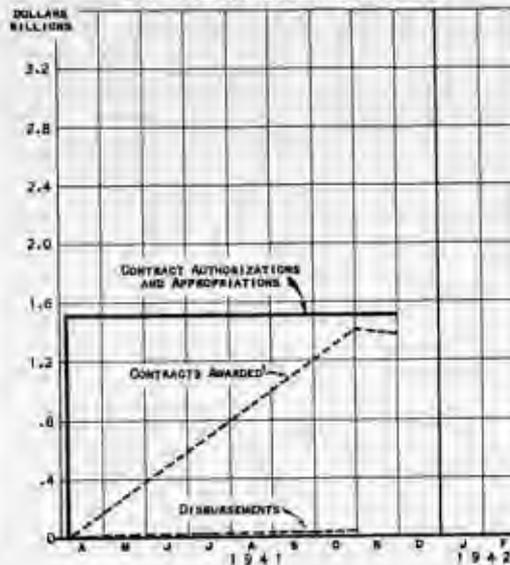
Military Appropriation Act, 1941, approved June 13, 1940.....	\$290
First Supplemental National Defense Appropriation Act, 1941, approved June 26, 1940..	803
Second Supplemental National Defense Appropriation Act, 1941, approved September 9, 1940.....	1,523
Third Supplemental National Defense Appropriation Act, 1941, approved October 2, 1940.....	171
TOTAL.....	\$2,787

Data in millions of dollars

	Sept. 30 1941	Oct. 31 1941	Nov. 30 1941	Dec. 31 1941	Jan. 31 1942	Feb. 28 1942
Cumulative						
Appropriations.....	2,387	2,387	2,387			
Contracts Awarded.....	"	2,338	2,338			
Disbursements.....	678	719	"			
	June 13 1940	Oct. 1 1941	Nov. 30 1941	Dec. 31 1941	Jan. 31 1942	Feb. 28 1942
	Sept. 30 1941					
Noncumulative						
Appropriations.....	2,387	-	-			
Contracts Awarded.....	"	2,338 ¹	"			
Disbursements.....	678	42	"			

¹Not Available
²From June 13, 1940 through October 31, 1941

"Air Corps Appropriation 1941 - '42"



Description of Appropriation Act

(millions)

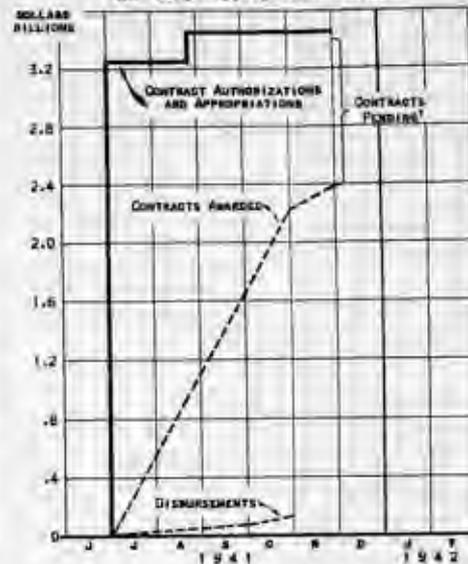
Fifth Supplemental National Defense Appropriation Act, 1941, approved April 5, 1941.....	\$1,507
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Data in millions of dollars

	Sept. 30 1941	Oct. 31 1941	Nov. 30 1941	Dec. 31 1941	Jan. 31 1942	Feb. 28 1942
Cumulative						
Appropriations....	1,507	1,507	1,507			
Contracts Awarded.....	"	1,406 ¹	1,378 ¹			
Disbursements.....	25	35	"			
	Apr. 5 1941	Oct. 1 1941	Nov. 30 1941	Dec. 31 1941	Jan. 31 1942	Feb. 28 1942
	Sept. 30 1941					
Noncumulative						
Appropriations....	1,507	-	-			
Contracts Awarded.....	"	1,406 ¹	37 ¹			
Disbursements.....	25	11	"			

¹Not Available
²Reduction due to cancelled contracts and other credits
³From April 5, 1941 through October 31, 1941

"Air Corps Appropriation 1942"



Description of Appropriation Acts

(millions)

Military Appropriation Act, 1942, approved June 30, 1941.....	\$3,245
First Supplemental National Defense Appropriation Act, 1942, approved August 29, 1941.....	304
TOTAL.....	\$3,549

Data in millions of dollars

	Sept. 30 1941	Oct. 31 1941	Nov. 30 1941	Dec. 31 1941	Jan. 31 1942	Feb. 28 1942
Cumulative						
Appropriations.....	1,449	3,449	3,449			
Contracts Awarded.....	"	2,221	2,379 ¹			
Disbursements.....	67	63	"			
	June 30 1941	Oct. 31 1941	Nov. 30 1941	Dec. 31 1941	Jan. 31 1942	Feb. 28 1942
	Sept. 30 1941					
Noncumulative						
Appropriations.....	1,449	-	-			
Contracts Awarded.....	"	2,023 ¹	151 ¹			
Disbursements.....	67	63	"			

¹Not Available
²Unobligated funds consist mainly of (1) Approximately \$600 million for about 600 heavy bombers and 100 pursuit which are now development types awaiting final specifications and negotiations, and (2) Approximately \$400 million of contracts now being negotiated for gasoline trucks, other organization equipment and certain government-furnished equipment.
³From June 30, 1941 through October 31, 1941

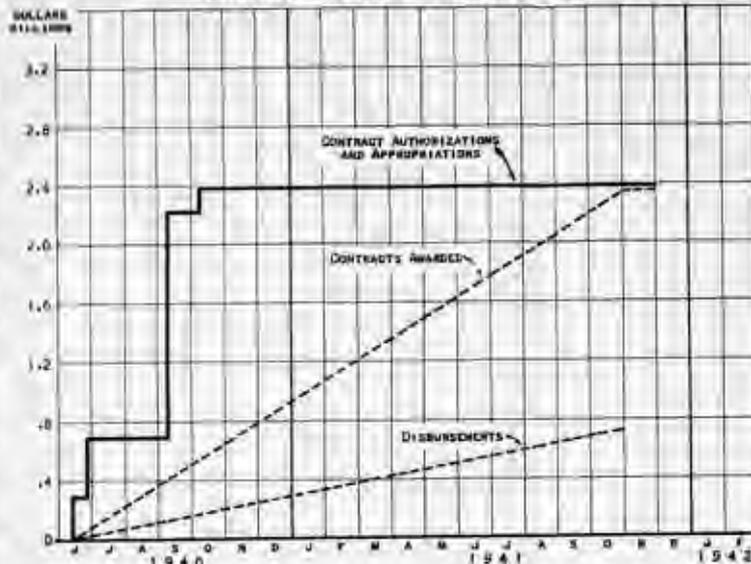
SHAWNEE BANK DEPARTMENT

UNTI PAYROLLS, SUBSISTENCE, TRAVEL, ETC. ARE INCLUDED IN (1) CONTRACT AUTHORIZATIONS AND APPROPRIATIONS, AND (2) DISBURSEMENTS.

STATUS OF APPROPRIATIONS TO ARMY AIR CORPS

STRICTLY CONFIDENTIAL

"Air Corps, Army, Fiscal Year 1940 - '41"



Description of Appropriation Acts

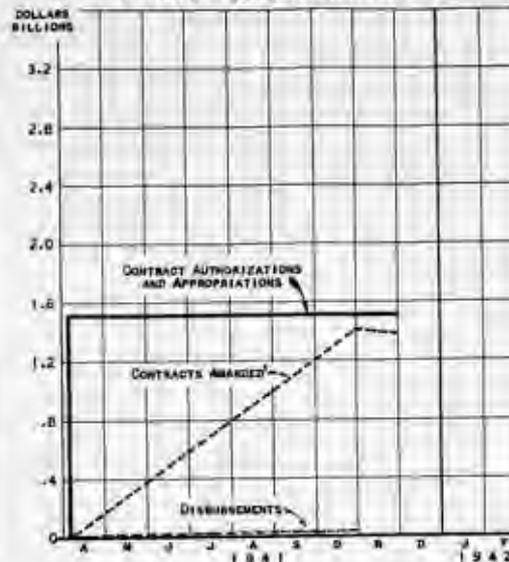
Description of Appropriation Acts	(millions)
Military Appropriation Act, 1941, approved June 13, 1940	1,345
First Supplemental National Defense Appropriation Act, 1941, approved June 28, 1940	800
Second Supplemental National Defense Appropriation Act, 1941, approved September 9, 1940	2,325
Third Supplemental National Defense Appropriation Act, 1941, approved October 8, 1940	171
Total	\$4,587

Date in millions of dollars

	Sept. 30 1941	Oct. 31 1941	Nov. 30 1941	Dec. 31 1941	Jan. 31 1942	Feb. 28 1942
Cumulative						
Appropriations.....	2,387	2,387	2,387			
Contracts Awarded.....	*	2,338	2,338			
Disbursements.....	578	729	*			
	June 13 1940 - Sept. 30 1941	Oct. 1 1941 - Dec. 31 1941	Nov. 1 1941 - Nov. 30 1941	Dec. 1 1941 - Dec. 31 1941	Jan. 1 1942 - Jan. 31 1942	Feb. 1 1942 - Feb. 28 1942
Noncumulative						
Appropriations.....	2,387	-	-			
Contracts Awarded.....	*	2,338	-			
Disbursements.....	578	151	*			

*Not Available
†From June 11, 1940 through October 31, 1941

"Air Corps Appropriation 1941 - '42"



Description of Appropriation Act

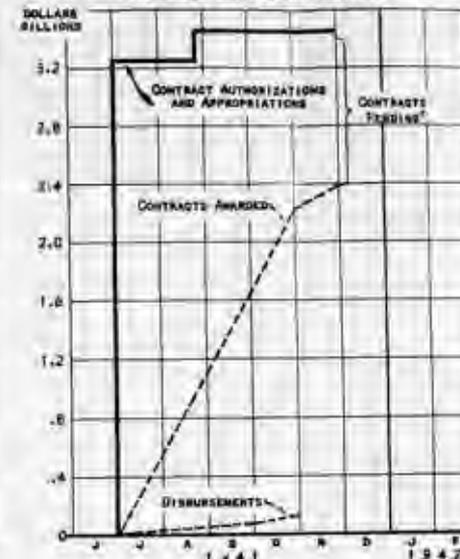
Description of Appropriation Act	(millions)
First Supplemental National Defense Appropriation Act, 1941, approved April 5, 1941	\$1,507

Date in millions of dollars

	Sept. 30 1941	Oct. 31 1941	Nov. 30 1941	Dec. 31 1941	Jan. 31 1942	Feb. 28 1942
Cumulative						
Appropriations....	1,507	1,507	1,507			
Contracts Awarded.....	*	1,408	1,378			
Disbursements.....	25	35	*			
	Apr. 5 - Sept. 30 1941	Oct. 1 1941 - Oct. 31 1941	Nov. 1 1941 - Nov. 30 1941	Dec. 1 1941 - Dec. 31 1941	Jan. 1 1942 - Jan. 31 1942	Feb. 1 1942 - Feb. 28 1942
Noncumulative						
Appropriations....	1,507	-	-			
Contracts Awarded.....	*	1,408	27			
Disbursements.....	25	11	*			

*Not Available
†Reduction due to cancelled contracts and other credits
‡From April 5, 1941 through October 31, 1941

"Air Corps Appropriation 1942"



Description of Appropriation Acts

Description of Appropriation Acts	(millions)
Military Appropriation Act, 1942, approved June 30, 1941	\$3,245
First Supplemental National Defense Appropriation Act, 1942, approved August 25, 1941	204
Total	\$3,449

Date in millions of dollars

	Sept. 30 1941	Oct. 31 1941	Nov. 30 1941	Dec. 31 1941	Jan. 31 1942	Feb. 28 1942
Cumulative						
Appropriations	3,449	3,449	3,449			
Contracts Awarded.....	*	2,221	2,379			
Disbursements.....	57	131	*			
	June 30 - Sept. 30 1941	Oct. 1 1941 - Oct. 31 1941	Nov. 1 1941 - Nov. 30 1941	Dec. 1 1941 - Dec. 31 1941	Jan. 1 1942 - Jan. 31 1942	Feb. 1 1942 - Feb. 28 1942
Noncumulative						
Appropriations	3,449	-	-			
Contracts Awarded.....	*	2,221	157			
Disbursements.....	57	83	*			

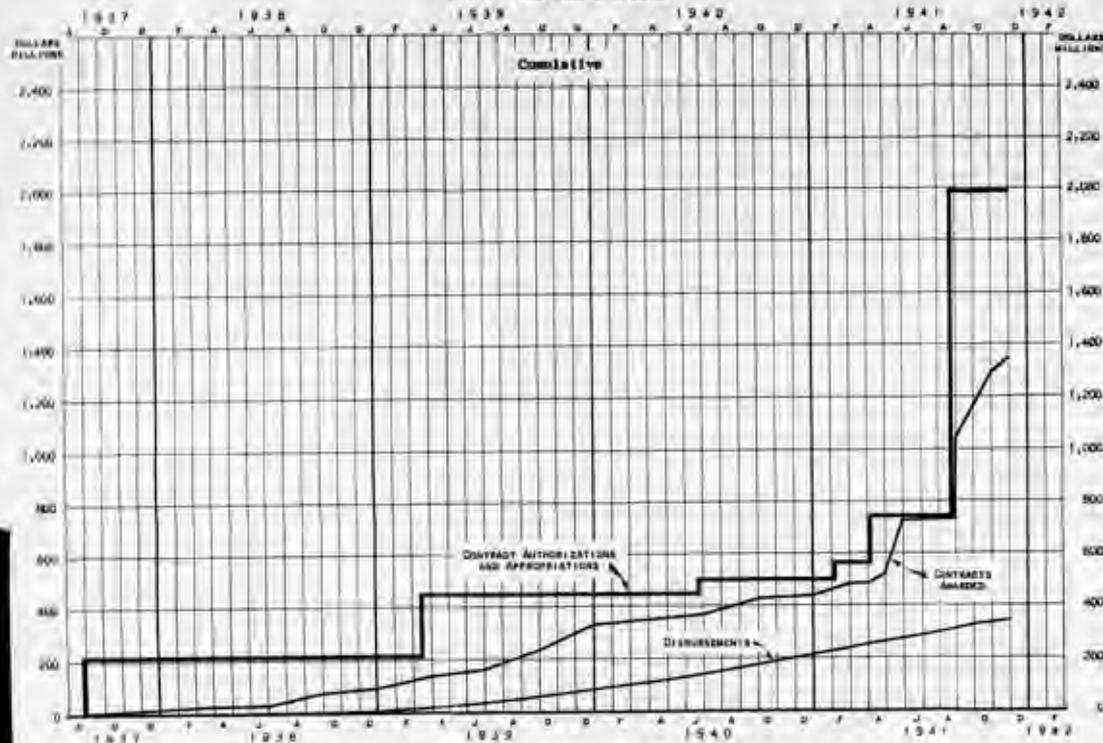
*Not Available
†Unobligated funds consist mainly of (1) approximately \$600 millions for about 800 heavy bombers and 100 pursuit which are now development types awaiting final specifications and negotiations, and (2) approximately \$600 millions of contracts now being negotiated for gasoline, trucks, other organization equipment and certain government-furnished equipment.
‡From June 30, 1941 through October 31, 1941

SHARED WAR DEPARTMENT

MAY 11 PAYROLLS, SUBSISTENCE, TRAVEL, ETC. ARE INCLUDED IN (1) CONTRACT AUTHORIZATIONS AND APPROPRIATIONS, AND (2) DISBURSEMENTS.

STATUS OF CONTRACT AUTHORIZATIONS AND APPROPRIATIONS TO THE MARITIME COMMISSION FOR SHIP CONSTRUCTION EXPENDITURES
Covering Acts Approved Since Inception

Ships - Long Range Program



Description of Appropriation Acts

Third Deficiency Appropriation Act, 1937, Approved August 26, 1937.....	\$213
Independent Office Appropriation Act, 1940, Approved March 16, 1939.....	30
Revised Deficiency Appropriation Act, 1940, Approved June 27, 1940.....	50
Emergency Cargo Ship Construction Act, Approved February 6, 1941.....	64
Independent Office Appropriation Act, 1941, Approved April 5, 1941.....	180
First National Defense Act, 1941, Approved August 25, 1941.....	1,247
Total Contract Authorizations and Appropriations.....	\$1,887

Data in millions of dollars

	Feb. 28 1937	May 31 1937	Aug. 31 1937	Nov. 30 1937	Feb. 28 1938	May 31 1938	Aug. 31 1938	Nov. 30 1938	Feb. 28 1939	May 31 1939	Aug. 31 1939	Nov. 30 1939	Feb. 28 1940	May 31 1940	Aug. 31 1940	Nov. 30 1940	Feb. 28 1941	May 31 1941	Aug. 31 1941	Nov. 30 1941	Feb. 28 1942	May 31 1942	Aug. 31 1942	Nov. 30 1942		
Cumulative																										
Appropriations	315	315	315	345	345	375	435	475	560	560	740	740	740	740	740	1,040	1,258	1,258	1,258	1,258	1,258	1,258	1,258	1,258	1,258	
Contracts Awarded.....	-	26	93	162	230	310	415	498	480	480	513	522	522	522	522	703	1,040	1,040	1,040	1,040	1,040	1,040	1,040	1,040	1,040	
Disbursements.....	3	2	9	25	46	139	223	252	252	252	252	252	252	252	252	252	252	252	252	252	252	252	252	252	252	
Emergency																										
Appropriations	215	-	-	230	-	90	-	-	60	-	180	-	-	-	-	1,247	-	-	-	-	-	-	-	-	-	
Contracts Awarded.....	16	10	67	68	180	33	74	23	29	-	70	103	-	1	117	118	118	118	118	118	118	118	118	118	118	
Disbursements.....	4	-	-	37	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	

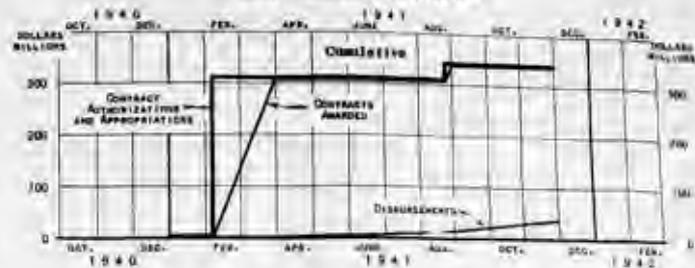
SHOULD UNITED STATES MARITIME COMMISSION.

NOTE: EMERGENCY SHIP CONSTRUCTION PROGRAM FOR WAR AND NAVY DEPARTMENTS ANTICIPATING \$20 MILLIONS.

THE EMERGENCY SHIP PROGRAM IS FOR \$207 MILLIONS. IN WHATEVER DISTRIBUTION BETWEEN WAR AND NAVY DEPARTMENTS IS DEEMED DESIRABLE. THE PRESENT DISTRIBUTION ALLOWS \$50 MILLIONS FOR FACILITIES.

THE AMOUNT OF CONTRACTS AWARDED OVER CONTRACT AUTHORIZATIONS AND APPROPRIATIONS IS DUE TO THE USUAL LAG OF FUNDS CARRIED OVER FROM FACILITIES.

Ships - Emergency Ship Program



Description of Appropriation Acts

Fleet's Allocation from Military Appropriation Act, 1941, Allocated December 26, 1940.....	\$70
Emergency Cargo Ship Construction Act, Approved February 6, 1941.....	130
First National Defense Act, 1941, Approved August 25, 1941.....	50
Total Contract Authorizations and Appropriations.....	\$250

Data in millions of dollars

	Feb. 28 1941	Mar. 31 1941	Apr. 30 1941	May 31 1941	June 30 1941	July 31 1941	Aug. 31 1941	Sept. 30 1941	Oct. 31 1941	Nov. 30 1941
Cumulative										
Appropriations	51	51	51	51	51	51	51	51	51	51
Contracts Awarded.....	-	318	318	318	318	318	318	318	318	318
Disbursements.....	-	-	-	4	5	5	5	5	5	5
Emergency										
Appropriations	50	-	-	-	-	-	31	-	-	-
Contracts Awarded.....	-	310	-	-	-	-	30	-	-	-
Disbursements.....	-	-	-	4	1	4	4	4	4	4

Facilities



Description of Appropriation Acts

Fleet's Allocation from Military Appropriation Act, 1941, Allocated December 26, 1940.....	\$70
First National Defense Act, 1941, Approved August 25, 1941.....	59
Total Contract Authorizations and Appropriations.....	\$129

Data in millions of dollars

	Feb. 28 1941	Mar. 31 1941	Apr. 30 1941	May 31 1941	June 30 1941	July 31 1941	Aug. 31 1941	Sept. 30 1941	Oct. 31 1941	Nov. 30 1941
Cumulative										
Appropriations	36	36	36	36	36	36	36	36	36	36
Contracts Awarded.....	33	35	37	39	41	41	43	43	43	43
Disbursements.....	-	-	3	5	8	12	18	20	24	28
Emergency										
Appropriations	36	-	-	-	-	-	69	-	-	-
Contracts Awarded.....	33	2	6	6	6	6	36	9	-	17
Disbursements.....	-	-	4	2	5	4	6	7	7	8

The total consists of \$50 million for the Long Range Program (from DRA Act of August 25, 1941) and \$50 million for the Emergency Ship Program.

December 29, 1941.

MEMORANDUM FOR THE SECRETARY'S FILES

Conference in Secretary Morgenthau's Office
December 29, 1941
11:15 A.M.

Present: Secretary Morgenthau
Mr. Clark, Deputy Finance Minister of Canada
Mr. Carswell
Mr. McKim
Mr. White

The conference was held at Mr. Clark's request. Mr. Clark stated that developments in the past few months have caused Canada to lose more of their dollar resources than they had anticipated. During the last two months they were some \$30 million behind. If that rate of loss would continue, their dollar position by the late summer would be serious. Mr. Clark stated that he was negotiating with the Army to receive advance payments of some \$40 million on contracts they were working on for the U. S. Army. If they received those payments, their situation would be improved for the next few months. But the dollar position anticipated for 1942 would be altered for the worse if Mr. Young's statement of the position of Lend-Lease attitude toward certain purchases from Canada were sustained.

Mr. White said the matter was then under study and that the Treasury and the Lend-Lease people were awaiting further information which Mr. Carswell had promised to submit. When the Treasury received the information they would review the whole situation in the light of the new developments and submit the matter to the Treasury for final decision. The Secretary suggested that if Mr. Clark would get together with Mr. White and present all the material, he (the Secretary) would then be in a position to proceed. Mr. Clark said that he had to leave for home that afternoon but would begin working on it right away.

(The meeting adjourned to Mr. White's office and after some discussion it was decided that Mr. Clark and his colleagues would go back to their own offices and prepare the material Mr. White had asked for, and return to the Treasury with it as soon as it was ready.)

Conference in Mr. White's Office, December 29, 1941, on Revised
Canadian Exchange Outlook for 1942

Present: Messrs. Clark, Carswell and Mc Kim for the Canadian
Government, and Messrs. White, Coe, Hicks, Kistler and
Willis for the U. S. Treasury.

Dr. Clark presented two documents to Mr. White. The first of
these presented a brief for the continuation without change of the
original policy of purchasing finished products in Canada for trans-
fer under Lend-Lease to the United Kingdom. The second document,
prepared at the verbal request of Mr. White, outlined in a general
way the reasons for expecting a decline in Canada's receipts of
U. S. dollar exchange during the year 1942.

A brief discussion of the first document disclosed that about
84 percent of the \$223 million of outstanding United States Govern-
ment contracts with "War Supplies Limited" (i.e. the total U. S.
Government contracts in Canada exclusive of ships, aluminum and other
base metals) are for articles which could be classified as "complete"
or "finished" articles and which may be destined for the United
Kingdom.

Dr. Clark summarized very briefly the second memorandum by stating
that Canada's gold and U. S. dollar balances, as of January 1, 1942,
would be \$36 million less than anticipated in November, or \$185 million;
and also that the Canadian dollar position should not deteriorate
seriously during the first half of 1942, provided that an anticipated
\$40 million in advance payments is forthcoming. However, he felt that
failure to abrogate Mr. Young's adverse ruling, coupled with an
expected sharp curtailment of tourist receipts and a probable gradual
decline in gold production, would necessitate a sharp downward revision
in the estimated U. S. dollar receipts for the second, third and fourth
quarters of 1942. Dr. Clark also pointed out that receipts from ship-
building are likely to fall below the earlier estimates as a result of
the difficulty in obtaining steel plates and other materials in the
United States.

Mr. White thanked Dr. Clark for the data provided and promised
to take up the problem with Lend-Lease Administration at the earliest
possible moment in an effort to reach a decision satisfactory to the
Canadian Government, Lend-Lease Administration and the Treasury.

Memorandum Regarding
Hyde Park Declaration - April 20, 1941

Request that there be no change in the U.S.A. policy under which Canada has been permitted to supply certain finished defence articles and components to the U.S. Government for transfer under Lend Lease to the U.K.

The President and the Secretary of the Treasury of the United States and the Prime Minister of Canada have agreed to certain principles having largely to do with increasing U.S. purchases of defence articles in Canada. These principles were formulated in the Hyde Park Declaration.

To implement this agreement conferences were held between officials of the Canadian and the U.S. Governments as a result of which a Canadian corporation known as "War Supplies Limited" was created in early May, 1941, to negotiate contracts with the U.S. Government and sub-let to Canadian suppliers. Some 90 orders have already been placed having a total value of about \$503 million. About \$184 million, or over 37% of this total, is for finished articles purchased under Lend Lease for transfer to the U.K. including Universal carriers, ammunition, artillery, airplanes, .303 rifles, etc. (see schedule attached)*.

In continuation of this procedure further requisitions have recently been filed, an example of which is:

BSC 4961 filed Sept. 4, 1941 - 1,000 Scout Cars.

We are, however, informed by a letter of November 26 from Mr. Philip Young of the Office of Lend Lease Administration that this requisition is disapproved since it covers "finished articles produced in the British Empire for transfer to the U.K."

We hope that this ruling will not stand and that the very important policy under which we have been operating since the Hyde Park discussions may be allowed to continue undisturbed by what we feel is a technicality.

In support of our request we wish to call attention to the following:

* We have classified the articles in accordance with our interpretation of Mr. Young's ruling. There may, of course, be some difference of opinion as to what would be regarded as a "complete" or "finished" article.

- (1) In the discussions which led to the Hyde Park Declaration it was assumed that the U.S. would purchase defence articles in Canada to the limit of Canada's existing or potential surplus capacity for the production of such articles. In the negotiations leading up to this agreement, no distinction was made between completed articles and components nor between purchasing for U.S. own defence needs or for lend-leasing to Britain, China, South America, etc.
- (2) Until the ruling aforementioned was given by Mr. Young, the representatives of both Governments had proceeded on the assumption that it was the policy to purchase completed articles as well as components, not only for the direct use of the U.S. but also for lend-leasing to Britain (as well as to China, etc.). In fact, a compilation of the sales made by War Supplies Limited as at November 22, 1941, (excluding ships, aluminum and other base metals) shows that, out of a total of such firm orders of \$223M, no less than \$188M or 83.6% represented defence articles which could be classified as "complete" or "finished" articles as distinguished from components and were purchased under Lend-Lease for transfer to Britain.
- (3) Under present circumstances it is impossible to say that defence articles purchased originally for transfer under Lend-Lease to Britain will not in fact be diverted to direct U.S. war uses in various other parts of the world. There have already been instances of such diversion and it is probable that the necessities of a world struggle being fought on several continents will require to an increasing degree some kind of pooling of war materials and the ability to divert articles from the common pool from one to another theatre of war as the best interests of the common cause may demand.
- (4) Unless this ruling is reversed, it is obvious that Canada's exchange difficulties will be further increased. It has already meant the cancellation of requisitions for certain articles, negotiation for the sale of which were far advanced. It will also mean that renewal orders for articles which have already been contracted for in substantial quantities cannot be expected. This point is more fully developed in an accompanying memorandum.
- (5) It is hoped that if the fear of political repercussions was in any way responsible for the ruling in question, this fear may have been removed by developments of recent weeks, including particularly the following:
 - (a) the express approval given by the Governments of both the U.S. and Canada to a policy of closer integration of the two war economies in the interest of the most effective prosecution

of the war.

(b) the necessity, heightened by recent developments in the Pacific, of securing the maximum production of defence articles by all the belligerent democracies and of pooling economic resources in the most effective way for the success of the common war effort; and

(c) the fact that because of the tremendously increased war demand for defence articles of all kinds, the problem that now faces both the U.S. and Canada is not that of unemployment or under-utilization of plant facilities and materials but rather the shortage or inadequacy of these economic resources to meet an urgent demand.

WAR SUPPLIES LIMITED

List of Firm Orders as at November 22, 1941.
Grouped by Estimated Date of Completion of Deliveries

	<u>\$</u>	<u>Total</u> \$	<u>Complete</u> <u>Units</u> <u>Under L.L.</u> <u>for G.B.</u> \$
<u>ready Complete</u>			
Activated Charcoal	40,000		
Universal Carriers	16,056		
Spares chore horse generator sets	15,728		
Hexachlorethane	10,503		
Pratt and Whitney engines	39,870		
Tracks, Universal Carriers	292		
Ink	5,141		
Cable	8,120		
A.S.V. Spares	9,909		
Tubes, Driv.bands 6-pdr. shot	<u>15</u>	14,5,634	
<u>Completed by Dec. 31. 41</u>			
Motor Trucks	8,150		
Canvas, cotton	1,570		
Norseman Planes	263,280		
Anhydrous Ammonia	123,200		
Discs and Gaskets	149		
Tires and Tubes	19,138		
Rubber bushings	35		
Tires and Tubes	28,436		
Anhydrous Ammonia	77,000		
Tires and Tubes	68,940		
A.S. Directors	<u>64,163</u>	654,061	116,514

2.

	\$	Total \$	Complete Units Under L.L. for G.Brit. \$
<u>Completed by Jan. 31/42</u>			
14 Aldis Lamps	26,648		
22 Cotton Duck	2,479		
53 Hexachlorethane	97,500		
54 Run flat tires, etc.	116,650		
56 Power distr. units	220		
66 Secret recorders and spares	<u>49,250</u>	292,747	143,298
<u>Completed Feb. 28/42</u>			
40 N.W. G.L. and G.C.I. Sets	164,545		
52 Rifle slings	18,750		
55 Flannel	115,600		
68 Barium chlorate	4,370		
62 Tires and Tubes	<u>30,924</u>	334,189	30,924
<u>Completed Mar. 31/42</u>			
8 A.S.V. Devices	587,070		
11 Wool cloth vulcanized	76,043		
21 Wool gloves	65,132		
49 Test Set - Type 28	<u>4,350</u>	732,595	-
<u>Completed Apr. 30/42</u>			
17 Tiger Moths	1,234,570		
71 Rolls - Secret paper	10,800		
79 Tires and Tubes	<u>558,878</u>	1,804,248	1,234,570

2.

	\$	Total \$	Complete Units Under L.L. for G.Brit. \$
<u>Completed by Jan. 31/42</u>			
14 Aldis Lamps	26,648		
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62 Tires and Tubes	<u>30,924</u>	334,189	30,924
<u>Completed Mar. 31/42</u>			
8 A.S.V. Devices	587,070		
11 Wool cloth vulcanized	76,043		
21 Wool gloves	65,132		
89 Test Set - Type 28	<u>4,350</u>	732,595	-
<u>Completed Apr. 30/42</u>			
14 Tiger Moths	1,234,570		
71 Rolls - Secret paper	10,800		
79 Tires and Tubes	<u>558,878</u>	1,804,248	1,234,570

	<u>\$</u>	<u>Total</u> \$	<u>Complete</u> <u>Units</u> <u>Under L.L.</u> <u>for G.Brit.</u> \$
<u>Completed by May 31/42</u>			
2 Tires and Tubes	135,229		
4 Astro-graphs and compasses	90,160		
4 Tires and Tubes	<u>217,856</u>	443,245	353,085
<u>Completed by June 30/42</u>			
4 Cotton duck	826,815		
9 #19 Radio Set	2,100,000		
5 Steel tracks tank Mk.III	<u>506,250</u>	3,433,065	2,100,000
<u>Completed by July 31/42</u>			
4 Universal Carriers	<u>13,885,600</u>	13,885,600	13,885,600
<u>Completed by Aug. 31/42</u>			
1 Anti-gas clothing	1,760,504		
2 75mm. Smoke Shells	5,950,000		
7 6-pdr. 7 cwt. MkI Carriage	<u>1,750,000</u>	9,460,504	7,710,504
<u>Completed by Sept. 30/42</u>			
1 Anti-gas gloves	375,920		
9 Cotton duck	359,568		
10 Can. G.L. Equip.	24,000,000		
11 2" Mk.I Bomb Thrower	2,914,125		
12 3.7" A.A. Spare barrels	<u>4,750,000</u>	32,399,613	27,290,045
<u>Completed by Nov. 30/42</u>			
12 40mm. H.E. A.A. Shells	10,000,000		
13 Link Trainers	2,132,250		
14 6-pdr. 7 cwt. Mk.II Gun	<u>3,500,000</u>	15,632,250	15,632,250

4.

Complete
Units
Under L.L.
for G.Brit.

Completed by December 31/42

	\$	Total	\$
.55 A.P. MkII Ammunition	7,500,000		
A.C.V. Devices and spares	18,114,996		
Tires and Tubes	8,580		
Propeller blades	525,000		
Tires and Tubes	<u>208,395</u>	26,356,971	7,716,975

Completed by Jan. 31/43

3.7" H.E. Shells	13,625,000		
.303 Lee Enfield Rifles	6,000,000		
Boys A.T. Rifles	5,000,000		
Propellers and spares	<u>687,700</u>	25,312,700	24,625,000

Completed by Feb. 28/43

Harvard Trainers (A.T.16)	<u>18,000,000</u>	18,000,000	18,000,000
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Completed by Mar. 31/43

40mm. Bofors barrels	3,736,000		
6-in. A.P. Shot	36,000,000		
Tires, Tubes, Tow Ropes and Chains	<u>1,224,814</u>	40,960,814	37,224,814

Completed by April 30/43

3.7" Complete Equipments	<u>30,000,000</u>	30,000,000	30,000,000
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Completed by May 31/43

Torpedo boxes	<u>216,399</u>	216,399	
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Completed by Oct. 31/43

6.5" Q.F. A.A. Spare barrels	<u>3,000,000</u>	3,000,000	
		<u>223,064,635</u>	<u>186,063,579</u>

Slugs
A.P.160
75

RAR SUPPLIES LIMITED
Forecast - Cash Receipts
Contracts Negotiated Under Hyde Park Agreement
(Prepared as of November 22, 1941)

FROM ORDERS		Grand Total	Year Ending March 31/42	Period to Dec. 31/41	Quarter Ending March 31/42	Year Ending March 31/41	June 30/42	Quarter Ending			Year Ending March 31/41
Material								Sept. 30/42	Dec. 31/42	Mar. 31/43	
ARMY DEPARTMENT											
Amcoss:	Universal Carriers	13,901,658	6,219,652	15,056	6,203,596	7,652,004	6,126,000	1,556,004	-	-	-
	Steel Tank Trucks	506,250	506,250	202,500	303,750	-	-	-	-	-	-
	Infantry Barrels	3,736,000	1,350,000	600,000	750,000	3,386,000	750,000	750,000	750,000	136,000	-
	3.7" Guns	30,000,000	-	-	-	30,000,000	6,000,000	9,000,000	15,000,000	-	-
	2" Bomb Throwers	2,924,125	684,375	46,875	637,500	2,229,750	1,158,750	1,071,000	-	-	-
	3.7" Barrels	4,750,000	2,500,000	1,000,000	1,500,000	2,250,000	1,900,000	750,000	-	-	-
	4.5" Barrels	3,000,000	240,000	-	240,000	1,710,000	375,000	435,000	450,000	410,000	1,050,000
	.303 Rifles	6,000,000	1,050,000	-	1,050,000	4,950,000	1,900,000	1,950,000	1,900,000	-	-
	6 Pdr. Gun	3,500,000	1,225,000	175,000	1,050,000	2,275,000	1,050,000	1,225,000	-	-	-
	6 Pdr. Carriage	1,750,000	1,050,000	175,000	875,000	700,000	-	-	-	-	-
	Boys Anti Tank Rifle	5,000,000	-	-	-	5,000,000	225,000	2,400,000	2,080,000	-	-
	40MM. Shells	10,000,000	1,250,000	-	1,150,000	8,750,000	2,625,000	2,625,000	2,625,000	-	-
	6 Pdr. A.P. Shot	36,000,000	2,400,000	-	2,400,000	33,600,000	8,400,000	9,000,000	9,000,000	7,300,000	-
	3.7" Shell	13,625,000	5,450,000	-	5,450,000	8,175,000	8,175,000	-	-	-	-
	75 Mm. Shells	5,950,000	1,275,000	212,500	1,062,500	4,675,000	2,550,000	2,125,000	-	-	-
	.45" Ammunition	7,500,000	750,000	-	750,000	6,750,000	2,250,000	2,250,000	2,250,000	-	-
	Sundry	280,628	280,628	230,628	50,000	-	-	-	-	-	-
Amcoss:	Gas. G.L.	24,000,000	4,800,000	-	4,800,000	19,200,000	10,200,000	9,000,000	-	-	-
	#19 Radio	2,100,000	420,000	-	420,000	1,680,000	1,680,000	-	-	-	-
	A.S.V. Devices	18,114,996	3,110,100	296,200	2,813,900	15,004,896	4,443,000	5,924,000	1,037,400	-	-
	Radar Devices	164,545	164,545	4,545	160,000	-	-	-	-	-	-
	Sundries	10,130	10,130	10,130	-	-	-	-	-	-	-
Corps:	Aldis Lamp	26,648	26,648	26,648	-	-	-	-	-	-	-
	Ushore Horse Spares	15,728	15,728	15,728	-	-	-	-	-	-	-
	Harwards	18,000,000	450,000	-	450,000	17,550,000	3,740,000	7,900,000	3,740,000	2,170,000	-
	Tiger Motor	1,234,570	925,927	-	925,927	308,643	308,643	-	-	-	-
	Link Trainers	2,132,250	936,190	375,270	560,920	1,194,060	560,920	562,920	60,232	-	-
	Soreman	263,201	263,201	263,201	-	-	-	-	-	-	-
	Propeller Blades	525,000	125,000	-	125,000	400,000	800,000	200,000	-	-	-
	Propellers	607,700	-	-	-	607,700	26,450	236,050	317,400	105,800	-
	F. & W. Aero Engines	39,870	39,870	39,870	-	-	-	-	-	-	-
N. S.	Textiles	2,176,434	2,176,424	1,176,424	1,000,000	-	-	-	-	-	-
	Chemicals	108,003	108,003	108,003	-	-	-	-	-	-	-
N.	Textiles	834,966	834,966	534,966	300,000	-	-	-	-	-	-
	Tires, etc.	1,234,815	984,540	584,540	350,000	240,275	121,421	39,626	39,626	39,600	1,050,000
		220,072,505	11,624,227	5,508,630	16,114,827	177,398,328	64,962,178	59,001,594	62,452,154	10,275,402	1,050,000
NAVY DEPARTMENT											
	A.S.V. Devices	587,070	587,070	587,070	-	-	-	-	-	-	-
	Textiles	552,469	552,469	276,240	276,229	-	-	-	-	-	-
	Recorders & Directors	113,413	113,413	-	113,413	-	-	-	-	-	-
	Auto Gyrois & Compasses	90,160	90,160	-	90,160	-	-	-	-	-	-
		1,343,112	1,343,112	863,310	679,802	-	-	-	-	-	-
NAVY											
	Ink	5,141	5,141	5,141	-	-	-	-	-	-	-
	Pipes and Tubes	1,453,566	1,227,237	129,851	2,047,386	216,329	140,543	46,832	16,945	-	-
		1,458,707	1,232,378	134,992	2,047,386	216,329	140,543	46,832	16,945	-	-
GOVERNMENT SALES											
	Sundry Pipes	29,450	29,450	-	29,450	-	-	-	-	-	-
ANTICIPATED ORDERS											
NAVY DEPARTMENT											
	Scout Cars	14,000,000	6,300,000	-	6,300,000	7,700,000	6,300,000	1,400,000	-	-	-
	#19 Radios	2,340,000	-	-	-	2,340,000	-	2,520,000	420,000	-	-
	Optical Glass	78,606	-	-	-	78,606	78,606	-	-	-	-
	3.7" Barrels	1,250,000	1,125,000	375,000	750,000	125,000	75,000	50,000	-	-	-
	2" Mortar Bunks	1,125,000	337,500	-	337,500	787,500	675,000	112,500	-	-	-
		19,393,606	7,762,500	375,000	7,387,500	11,631,106	7,138,606	4,082,500	420,000	-	-

CANADA'S U. S. DOLLAR EXCHANGE POSITION

December 29, 1941

RESULTS OF THE YEAR 1941

- (a) Canada began the year 1941 with a reserve of gold and U. S. dollars of \$330 millions (US). It now appears that at the end of the year this reserve will have been reduced to approximately \$185 millions - a loss of about \$145 million dollars during the year.
- (b) Results during the last quarter of the year have been particularly disappointing. Forecasts filed as at November 1st indicated a loss of \$20 millions in October, a gain of \$5 millions in November and a loss of \$22 millions in December. Actually the loss in October was only \$17 millions but November showed a loss of \$21 millions instead of a gain of \$5 millions and it now appears probable that the loss in December will be about \$35 millions. For the quarter as a whole, results therefore were \$36 millions worse than had been forecast.
- (c) The reserve remaining at December 31, 1941 is of unduly small proportions. If, for instance, the rate of loss which ruled in the last quarter of 1941 were to continue, the reserve would be fully wiped out by August or September 1942. It may also be noted that the reserve in U. S. dollars alone (that is, excluding gold) is now so low that if the drain were to continue, it would be necessary to start shipping gold from gold reserves almost immediately.

COMMENTS ON THE FORECAST MADE AS AT NOVEMBER 1, 1941

- (a) Two months ago we had reason to hope that if our total sales of defense articles and aluminum (but excluding other base metals) to the U. S. under the Hyde Park Agreement might reach a figure of \$465 millions (including freight to border and \$160 millions of ships, ~~the~~ contract for which has been signed.) On this basis and assuming also that we would be able to save \$64 million (US) as a result of the other main provision of the Hyde Park Agreement (namely, that enabling U.K. to obtain under Lend-Lease components for British orders in Canada,) our U. S. dollar exchange position would not fall below \$153 millions as at March 31, 1942. On the assumed distribution by quarterly periods of sales made to the U. S., it was expected that our reserves at December 31, 1941 would be \$221 millions; at March 31, 1942, \$241 millions; and at December 31, 1942, \$205 millions.
- (b) The above estimates were contingent on certain other assumptions, chiefly the following:
- (i) that down-payments or progress payments would be received in accordance with then-held expectations, namely, \$32 millions in the last quarter of 1941 and \$36 millions in the first quarter of 1942;
 - (ii) that prices in the U. S. would not increase significantly; and
 - (iii) that the possibility of shortage of supplies restricting imports from the U. S. or exports to the U. S. would not materialize in a significantly more acute form.
- (c) It may be noted that our failure to realize our estimates for the last quarter of 1941 were due in very large part to failure to receive down-payments on War Supplies Limited orders estimated at \$32 millions. (Negotiations are now almost completed as a result of which down-payments of about \$40 millions should be received in January or February.)

There were certain other factors which contributed to the failure to realize our forecast for the last quarter of 1941, including lower exports from Canada than were originally estimated, a decline in gold shipments, under-estimating of dividend payments and capital payments to the U. S., and over-estimating of saving from the lend-leasing for U. K. of U. S. components necessary for the completion of British orders in Canada. There were of course partially offsetting factors on the favorable side.

OUTLOOK FOR NEXT 12 OR 15 MONTHS

1. Accurate revision of our forecasts for the calendar year 1942 and for the fiscal year 1942 - 1943 cannot be made for another two or three weeks when new forecasts will be filed with the Treasury. The estimates which are given below are based on a somewhat hasty revision of the November 1st forecast made chiefly as a result of re-examination of orders placed through War Supplies Limited and of the effect of certain adverse factors which have recently appeared or are now appearing on the horizon.
2. Among these adverse factors of which account must now be taken may be mentioned the following:
 - (a) the probability of a fairly sizeable decline in Canada's net receipts from the tourist trade as a result of the rationing of gasoline and various other restrictions in both countries on the purchase and use of private automobiles. For 1942, U. S. tourist expenditures in Canada were estimated at \$91 millions, and for the first quarter of 1943 at \$10 millions. Canada's travel expenditures in the U. S. were estimated at \$20 millions for 1942 and at \$6 for the first quarter of 1943. Canada's travel expenditures in the U. S. is not likely to show much, if any, decrease, but it is not improbable that U. S. tourist expenditures in Canada, which is to a very large extent based on automobile travel, will fall off materially - perhaps by as much as \$25 to \$50 millions.
 - (b) There is likely to be a gradual but steady falling off in the production and shipment to the U. S. of newly-mined Canadian gold. The amount of this reduction it is impossible to estimate but it may be noted that November shipments were \$3 millions lower than anticipated - probably due in considerable part to the Kirkland Lake strike.
 - (c) There have been delays in securing steel for Canada's shipbuilding program. While this difficulty may now have been largely solved, it is probable that the November 1st estimated of sales of ships to the United States (for which no contracts have been signed) may prove to be optimistic, particularly for the first half of 1942.
 - (d) Probably the most serious adverse factor is the ruling recently made by Mr. Philip Young to the effect that purchases could not be made in Canada for "complete" or "finished" defense articles to be transferred to U.K. under Lend-Lease. The effect of some of the adverse factors listed might be offset if sales to the U. S. through War Supplies Limited could be maintained and increased. If, however, negotiations that have been under way for the sale of certain complete or finished articles cannot be concluded and further sales of the same type cannot be made either by way of renewals of existing orders or by new orders, then Canada's exchange difficulties will be

perceptibly increased.

In a schedule to an accompanying memorandum making representations in regard to this ruling, there is given a list of firm orders placed through War Supplies Limited classified by probable date of full completion of the order and also showing the items which would probably be affected if Mr. Young's ruling were allowed to stand. Below there is shown a summary of probable deliveries by quarterly periods up to March 31, 1943 (with more complete details given in the table attached hereto)

Period to December 31, 1941	- - - - -	\$6,573,000
Quarter ending March 31, 1942	- \$37,640,000	
" " June 30, 1942	65,100,000	
" " Sept. 30, 1942	59,100,000	
" " Dec. 31, 1942	42,475,000	
Calendar Year 1942		204,315,000
Quarter ending March 31, 1943		10,975,000
Thereafter		<u>1,050,000</u>
TOTAL - - - (approximately)		\$222,913,000

It will be noted that deliveries are expected to reach a peak in the second quarter of 1942 and thereafter they decline rapidly, particularly towards the end of 1942.

- (e) It will be remembered that on the basis of the November 1st forecast, we expected to end the year 1942 with \$205 millions of U. S. dollars and gold. This, however, assumed that we would start the year with \$221 million, instead of about \$185 millions as will actually prove to be the case. If, therefore, we deduct \$36 millions we arrive at an adjusted estimate of \$179 millions for the exchange reserve at December 31, 1942.

Further adjustments must, of course, be made for the adverse factors outlined above. It is now obvious that if Mr. Young's ruling is allowed to stand, we have overestimated, probably by a substantial amount, the receipts from sales through War Supplies Limited, particularly in the second, third and fourth quarters of 1942. We must also take account of the probable decline in net receipts from the tourist trade, the probable decline in the production and shipments of newly mined gold, and the possibilities inherent in the shipbuilding program. It is very difficult, without much greater study of the figures, to make a precise estimate of the effect of all these factors and of the timing of that effect but it would be unwise to assume that without some change in the outlook, Canada's U. S. Dollar reserves will not be unduly low and declining seriously by sometime in the second half of 1942.

DEC 29 1941

mailing

Attention: W. J. Cameron

Reference is made to my letter of February 26, 1936, enclosing a form letter which I approved and which I authorized and requested you, as fiscal agent of the United States, to write to the Bank of Canada, Ottawa, Ontario, Canada, respecting the purchase of newly-mined Canadian silver, and also to my letters of May 13, 1936, November 5, 1936, January 26, 1938, March 29, 1940 and September 14, 1940, in this connection.

It is my understanding that the Bank of Canada has advised you that it wishes to renew, for the month of January, 1942, the arrangement provided for by your letter to it of February 29, 1936 as amended and clarified by your letters of May 27, 1936, November 10, 1936, January 27, 1938, March 30, 1940 and September 24, 1940. This is to advise you that you are authorized and requested, as fiscal agent of the United States, to renew such arrangement for the month of January, 1942, all as stated in your letter to the Bank of Canada above mentioned, as amended and clarified, except that during January, 1942, you may purchase newly-mined Canadian silver which according to the production date marked on the bars was produced in Canada during December, 1941, January or February, 1942, and so to advise the Bank of Canada, and to carry out during such month the transactions contemplated by your letters of February 29, 1936, May 27, 1936, November 10, 1936, January 27, 1938, March 30, 1940 and September 24, 1940.

It is understood that the terms of the Department's letter to you of June 19, 1934, regarding the purchase for the account of the United States of silver, at home or abroad, shall apply to the action taken by you pursuant to the foregoing, except that the silver purchased pursuant to this authorization need not be of the degree of fineness, or carry the marks, required for "good delivery" in the market of the place where the purchase is made or where delivery is to be taken.

Very truly yours,

HENRY H. HOGENTHAU, JR.

Secretary of the Treasury.

Federal Reserve Bank of New York,
33 Liberty Street,
New York, N. Y.

FD:mas 12/19/41

FEDERAL RESERVE BANK
of New York

December 8, 1941.

S i r : Attention: Mr. H. Merle Cochran

We enclose a copy of a letter dated December 5, 1941, received from the Bank of Canada, Ottawa, stating that it would be glad to renew for the month of January, 1942, the arrangement for the purchase of newly-mined Canadian silver outlined in our letter of February 29, 1936, as amended by our letters of May 27, November 10, 1936, January 27, 1938, March 30 and September 24, 1940.

We should appreciate receiving your instructions regarding the request of the Bank of Canada for a renewal.

Respectfully,

/s/ D. J. Cameron

D. J. Cameron,
Manager, Foreign Department.

The Honorable,
The Secretary of the Treasury,
Washington, D. C.

Enc.

Copy:hmd:12/22/41

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C O P Y

Bank of Canada

Ottawa, December 5th, 1941.

D. J. Cameron, Esq.,
Manager,
Foreign Department,
Federal Reserve Bank of New York,
New York, N. Y.

Dear Sir,

With reference to the arrangement outlined in your letter of February 29th, 1936, and amended in your letters of May 27th, 1936, November 10th, 1936, January 27th, 1938, March 30th, 1940, and September 24th, 1940, in regard to the purchase from us of newly-mined Canadian silver, I write to say that we should be glad to renew the arrangement for the month of January 1942, all the terms and provisions of the letters referred to being continued.

Yours truly,

(Signed) L.P.J. Roy
Deputy Secretary

Copy:hmd:12/22/41

December 29, 1941
11:35 a.m.

HMJr: Hello.

Operator: Judge Patterson will be tied up all day. She says that he may be in for a couple of minutes about twelve-thirty, and then he won't be back again until about five.

HMJr: He'll be tied up all day?

Operator: That's what she said. He may be in a few minutes around twelve-thirty, she isn't sure.

HMJr: Well, I can't talk to him at twelve-thirty. Isn't he in?

Operator: He's not there now, Mr. Secretary. He'll be out of the building all day.

HMJr: Well, leave a message I called.

Operator: Right.

HMJr: And where did Judge Frank - Jerome Frank call from?

Operator: He called from New York.

HMJr: All right. Try him now.

Operator: All right.

HMJr: Do it over the Fed.

Operator: Right.

December 29, 1941
11:36 a.m.

HMJr: Hello.

General
Watson: Hello.

HMJr: Yes.

W: The President said ten-thirty tomorrow. Is that too early or what?

HMJr: No, that's fine.

W: All right.

HMJr: What's that for?

W: Harold Smith on this tax matter.

HMJr: Now, I'd like to bring some of my people with me.

W: All right.

HMJr: And if it's agreeable, I'd like to bring Daniel Bell.....

W: Uh huh. You just bring him.

HMJr:now wait a minute - Randolph Paul.....

W: Yeah.

HMJr:and Assistant Secretary John Sullivan.

W: Yeah. All right, just bring them right over. I won't put them down.

HMJr: Will you?

W: I'll just put you down.

HMJr: All right.

W: And then I'll just say, "Secretary of the Treasury, Director of the Budget, et al."

HMJr: Et al is right.

W: All right.

HMJr: Thank you.

W: All right. Ten-thirty. Thank you.

December 29, 1941
11:38 a.m.

HMJr: Hello.

Jerome
Frank: Hello, Henry. Jerome.

HMJr: How are you?

F: Pretty good. I want to bother you just for a minute.

HMJr: Take all the time you want.

F: My old pals at the SEC were talking to me, and they're concerned about whether and when something is going to be done about capital issues.....

HMJr: Oh, are they?

F:and if they'll play a part.

HMJr: Yeah.

F: You remember you and I talked about it.

HMJr: Sure.

F: And the reason they're concerned at the moment is that if they are going to, and it seems to me they certainly ought to be in it with their resources, that at least some of their staff ought to stay in Washington.

HMJr: Yeah.

F: You know there is a projected move.

HMJr: Oh, I see.

F: So if you could talk to them about it soon in.....

HMJr: Well.....

F: They're going to see the Budget soon.....

HMJr: I get you.

F:on the question of their moving.

- 2 -

HMJr: I see. Well, I've had it on my mind; but I'll be very honest, with this damn Budget message and tax message, we've been so - with everything else - we've been so snowed under.....

F: Oh, of course.

HMJr:and this thing didn't seem so urgent; but Eicher has a call in for me this morning and I'll talk to him now.

F: Well, I'll tell you another thing. I got a tip from the President the other day indicating that Eicher is going to be moving out.

HMJr: Oh, really?

F: Yes. He's going to put him on the Court.

HMJr: I see.

F: This is very confidential.

HMJr: Yeah.

F: He asked me, and he asked Bill Douglas and me as to whom should be his successor.

HMJr: Yeah.

F: The chances are it will be - this is very confidential.....

HMJr: Sure.

F: My guess is that it will be Purcell.....

HMJr: I see.

F:whom you've met.....

HMJr: That's right.

F:and who's a crackerjack fellow.....

HMJr: Yeah.

F:and on this sort of thing would be excellent.

- 3 -

HMJr: I see.

F: All right. Sorry to have bothered you.

HMJr: You haven't bothered me. As I say, it's just been the terrific drive; but I'll call him up right away.

F: Fine. How's Randolph getting along?

HMJr: Oh, swell.

F: Isn't he grand?

HMJr: Yes, he is.

F: Okay.

HMJr: Swell.

December 29, 1941
11:45 a.m.

RE SEC MOVE

Present: Mr. Bell
Mr. Foley
Mr. Haas
Mr. Morris
Mrs. Klotz

H.M.JR: There is all this pressure on me on this capital issues stuff. Eicher called me and Jerome Frank. The reason they say, is, some people are going to move out of Washington and they want to go before the Bureau of the Budget, you see, and work this thing, and they want to leave some of their people in Washington.

MR. FOLEY: They have been ordered to go to Philadelphia by the Bureau of the Budget, and they don't want to go because they claim they are vital for defense.

H.M.JR: They want something to do.

MR. FOLEY: And they want something to do.

H.M.JR: That is the hurry, you see.

MR. FOLEY: And Ed Burke, one of their Commissioners, asked me if I would intercede with you to get you to see what you could do about having the order changed, and I haven't done it.

H.M.JR: Well, who knows this thing?

MR. MORRIS: Well, I think I have the history

- 2 -

finally. Perfectly frankly, what happened was that some of our records weren't complete, and I had some difficulty finding the back history.

H.M.JR: Well, we will skip that. Give me - I will give you three minutes.

MR. MORRIS: All right.

Purcell came over and saw you on the twelfth of December and as a result of that on the sixteenth I sent to all the people involved copies of their proposals and asked them what they thought about it. I also sent on the sixteenth a letter to Purcell enclosing him copies of letters that I had written everybody. On the seventeenth--

H.M.JR: Since when have you joined the Pennsylvania Railroad? You are a regular time table.

MR. MORRIS: On December seventeenth Eicher goes - sends this memorandum to the President saying, "Before I leave I would like to give my colleagues a green light from you. We are armed to the teeth for the job." I thought Eicher having come and seen you four days before, it was not playing very nicely to send this to the President, but I understand that is usual around here.

H.M.Jr; Yes, that is right.

MR. BELL: Just routine.

MR. FOLEY: Sometimes they don't even come to you.

MR. MORRIS: Then about four days later Purcell calls me up again--

H.M.JR: Does he criticize me to the President in his letter?

MR. MORRIS: No, he doesn't say anything about you. He just ignores you.

- 3 -

H.M.JR: That is all right.

MR. FOLEY: No, he just took it up direct after he had come here and asked you to consider the matter.

MR. MORRIS: He doesn't wait for you to answer or do anything. He just goes to see the President about it.

H.M.JR: I see.

MR. MORRIS: And then Purcell calls me up and says they have this order to get out and if they are needed for this vital defense thing - now, I am in the unfortunate position of agreeing entirely with the Chairman of the Federal Reserve Board on this thing, that there is no practical need for them.

H.M.JR: What does he think?

MR. MORRIS: He thinks it is a waste of time. However, as a result of my letter on Saturday, Appleby from Agriculture called me up and said they thought that it might be advisable to talk about it, and they would be glad to cooperate any time I was ready to.

H.M.JR: Well, what the hell? What is this committee, anyway? (Laughter) What does it do?

MR. BELL: You mean this one here--

H.M.JR: No, I mean, I know this committee. I recognize them. No, I recognize this committee, but I meant, what is the Capital Purchase Committee?

MR. MORRIS: The theory of it is that capital funds will be spread around in dividends, they will be spread around in every way, the way people want them to do, and that we ought to get to work and hit everybody over the head and put the money in Government bonds and give them no chances to spend any money.

H.M.JR: Well, I mean, does it - have you set up

- 4 -

a committee? Does it have to function? Can't it be like all the other committees? Can't it be like OPM?

MR. MORRIS: Well, not if you let SEC get busy on it, because they have nothing else to do and they will take it and just run it for all it is worth. They are just looking for something to do and make a big splurge, and they want to put their whole force on it.

H.M.JR: Well, you have got a Committee on Moving Pictures, a Committee on War Posters, you have got a Committee on Censorship, and--

MR. BELL: All for the same purpose, keeping some of these non-defense agencies in town?

H.M.JR: That is right. Well, I am just - the only thing that I am afraid of is that if we buck it too hard they may have a committee that Treasury will be left off.

MR. BELL: Well, they will have nothing to do.

MR. MORRIS: Here is one way you can answer it.

H.M.JR: Am I not chairman of this committee?

MR. MORRIS: Yes, you are chairman of it.

MR. BELL: For the moment.

H.M.JR: What other Departments are going to be on it?

MR. MORRIS: Agriculture, SEC, Federal Reserve.

MR. BELL: And the Federal Loan Administrator.

MR. MORRIS: And the Federal Loan Administrator.

Then I didn't know how much you wanted to tell the

President about the current history or not.

H.M.JR: No, no, he isn't interested. He will say to me, "Do you want this or don't you?" Do you (Bell) think you need it?

MR. BELL: Not if what Gilbert says is true. If this priorities and allocations is going to work, you don't need a capital expenditures committee.

MR. MORRIS: Can I say this? You know you asked the Federal Reserve of New York to send us lists of capital issues and we have had those. As a matter of fact, until they brought this up ten days ago, Dan and I were just about coming in with a recommendation to you that it could be discontinued because nobody is doing anything that they shouldn't. They can only do it if they have priorities. Now SEC brings up the fact they will distribute the money in dividends. It will go to taxes and people can buy our own bonds in their own way.

H.M.JR: How do you feel about it, George?

MR. HAAS: I feel just like Dave.

H.M.JR: How do you feel, Ed?

MR. FOLEY: I don't think we need to do anything about it right now, and I think it ought to be taken off the President's lap and put over here, and the President ought to tell Eicher he has asked you to continue your study of the matter and for him to get in touch with you, and then we will let the thing ride along.

H.M.JR: Well, what did the President say to him?

MR. FOLEY: He just asked him for a recommendation.

H.M.JR: I had better read this.

Well, why don't I tell Eicher until this budget message is through he can keep his shirt on, and I want

- 6 -

some examples why he thinks this is necessary? How would that be?

MR. MORRIS: Well, you can do that or you can say, "As you know, I have already sent letters to everybody."

H.M.JR: But supposing I say, "I am not convinced of the urgency of this thing?"

MR. FOLEY: Well, haven't you got to do something with the President?

H.M.JR: Oh, yes, we will simply tell the President that we are--

MR. FOLEY: You are taking the matter up and send that letter to Eicher.

H.M.JR: "Henry Morgenthau, Jr."

MR. MORRIS: Excuse me. I ought to know something about juniors too.

H.M.JR: That is all right.

MR. FOLEY: That will take it off the President's lap and put it over here, and then you can ask them for examples.

MR. MORRIS: I can tell Eicher that as he knows we have already sent literature out to everybody.

H.M.JR: I think that is the way to handle it. That ought to go out today, though, to the President. The President is seeing us tomorrow. I told your secretary, Dan, ten-thirty tomorrow.

MR. BELL: Really? On what, budget?

H.M.JR: Yes. I am taking private lessons on how to put out bombs. The Battalion Chief of the Fire

- 7 -

Department of New York - I won't be able to come tonight. They tell me they have got the most God awful man giving these lessons in my district. He made sort of a social event of it, and why wouldn't I come? So I just told him I couldn't come, that I am taking private lessons. (Laughter)

MR. BELL: Is that up in your district?

H.M.JR: Yes. I am taking private lessons from our own air warden who spent eleven weeks in London. That is true. He has been assigned to Treasury. He is a great big fellow. He is Battalion Chief in New York. They have got some fellow that was in the Chemical Warfare in the last war, and he gets up there and puts a little magnesium on the desk and says, "This is what happens." He puts a little on the desk and it goes "Pffft," and he says, "Isn't that wonderful?" Personally, I think it is a waste of magnesium.

MR. BELL: People are taking this thing very seriously.

H.M.JR: LaGuardia got one more siren for Washington. I asked him where the sirens were.

MR. BELL: There is going to be a blackout tomorrow night.

H.M.JR: Yes.

(The Secretary held a telephone conversation with Mr. Eicher as follows:)

December 29, 1941
11:53 a.m.

HJr: Hello.

Edward
Eicher: Hello, Mr. Secretary. This is Ed Eicher talking.

HJr: Are you feeling all right again?

E: Oh, yes, indeed. I'm pretty well over my cold.

HJr: Good.

E: How are you?

HJr: Well, I'm alive and kicking.

E: Well, that's fine.

HJr: Yeah. Now, the President sent me the memorandum that you sent him.

E: Oh, yes.

HJr: And to be very frank, I don't see where the fire is; and if you fellows can even see where the smoke is and give us some examples, I'd be glad to get it. But I can't get terribly excited over this thing, because there doesn't seem to be any private issues.

E: Well, we're afraid that unless we start locking the stable door before the horse is stolen, that we may find ourselves missing the train again - a good deal like Congress has done in delaying authority for price regulation.

HJr: Well, the thing is - if you're going to use the horse as an example - I think we've run out of oats, so I think that the horse is just going to collapse.

E: Well, now the immediate occasion for my calling you, Mr. Secretary, is this. You know, we're right under the guns so far as removal of all of our offices.

HJr: Oh. So again using the horse, that's a horse

- 2 -

of a different color.

- E: That's a horse of a different color. Well, now that's the occasion for my calling you this morning. We meet the Director of the Budget tomorrow.....
- HMJr: Oh, I see.
- E:Mr. Smith, to discuss all alternative possibilities as to how our future should be worked out - whether we should remove entirely or part of us should stay here.....
- HMJr: Yeah.
- E:on how far we should remove, whether or not it might be worked out whereby we'll stay somewhere in the metropolitan area, so as to be in - still remain in easy contact with departments like yours - all of those things are going to be explored tomorrow morning.
- HMJr: Yeah.
- E: Now, we heard a rumor just this morning that you were setting up in your department a capital issues study.
- HMJr: No. No.
- E: That's a mistake, is it?
- HMJr: No, that's fifth columnists.
- E: Ha ha.
- HMJr: No. No, that's not right.
- E: Uh huh.
- HMJr: No, we've - the only thing that I've studied is your memorandum to the President.
- E: I see. I see.
- HMJr: But I frankly can't get - I mean, I realize you're

up against the gun on this moving business, but I've got to be sincere in this work, and if the Budget - you use us and say that there's great necessity.....

E: Yeah.

HMJr:neither the Federal Reserve nor ourselves see it.

E: I see.

HMJr: Now, I think eventually we may come to it; but I get reports every week of private issues, and there practically aren't any.

E: Uh huh.

HMJr: And I'd like to help a fellow out; but gee, in these times you've got to have some pretty good reasons.

E: Oh, certainly; there's no question about that. Well, now that answers our Commission's question, because we had - we thought what we thought was pretty definite information that you were beginning to tackle the problem.....

HMJr: No, no. I just - as I say, if I tackled it, you'd be the first I'd call.

E: I see. I see.

HMJr: No, no.

E: Well, now thank you. That's all I want to bother you about.

HMJr: Well, you haven't bothered me; and as I say, if the situation gets aggravated, why - but our boys - and Dave Morris is supposed to keep in touch with you.

E: Yeah.

HMJr: But both here and in the Fed there's no excitement about it.

E: Uh huh.

HMJr: Now, we may be all wrong, but we're willing to be educated.

E: I see. Well, we'll probably begin shooting you some stuff as soon as we get more excited.

HMJr: Well, you work on Dave Morris.

E: All right.

HMJr: Thank you.

E: Thank you very much. Good-bye.

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(Mrs. Klotz entered the conference.)

H.M.JR: He almost had the colic. He talks in terms of horses. He said, "You will be too late for this SEC security thing, because the barn will be locked and the horse will be gone," so I said, "If you are going to talk about horses, what happens if there is no oats and the horse can't eat?" Then he just collapses. So then he said, "Well, to be perfectly honest, we have got to go before the Budget, and we would like to say there is this work so they will keep us in Washington." I said, continuing the analogy, "That is a horse of a different color." He (Morris) almost passed out. Now I have got to tell my old story of old man Nathan Straus.

Are you in a hurry?

MRS. KLOTZ: No.

H.M.JR: Old man Nathan Straus who used to raise trotting horses. They were awfully good. He drove them himself, and I think he prided himself that he never paid over five hundred dollars for a trotting horse. He was a queer old duck. He used to drive these himself. He would tell the story about when he went up with this farmer and says, "Now, in the summertime I want to - " you have heard the story?

MRS. KLOTZ: No.

H.M.JR: "I want to put my horses out on pasture with you and board them." So the farmer said, "Well, that will be thirty dollars a month, Mr. Straus." This is the old man. He is dead. He founded Macy's. So Nathan says, "Oh, that is too much." He haggled and haggled, and finally he got the farmer down to seventeen dollars and fifty cents a month. So finally he says, "All right." And Nathan Straus said, "Now what about the credit on the manure?" The farmer said, "Mr. Straus, at that price there ain't going to be no manure." (Laughter) I wanted to work that story in, but he didn't give me a chance.

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MRS. KLOTZ: Is this meeting finished?

H.M.JR: Yes.

MR. MORRIS: It has been a good meeting.

H.M.JR: All right. I am glad you are awake.

December 29, 1941.

My dear Mr. President:

In accordance with your request of December 23rd, asking me to prepare a reply to Mr. Eicher's memorandum to you of December 17th, I enclose one herewith. I also enclose Mr. Eicher's memorandum to you.

Sincerely yours.

(Signed) E. Morgenthau, Jr.

The President.

The White House.

*Copies to Stamps
N. M. C.*

DEM, Jr. / mch / dwb

MEMORANDUM FOR MR. HICHER:

I have your memorandum of December 17, 1941, giving me the Security and Exchange Commission's current thoughts on the desirability of a Capital Funds Committee.

As you know, this matter has come up at various times during the past year or so - the last time being in April 1941, when Henry Morgenthau, Jr., following a talk with Jerome Frank, discussed it with me.

In view of this, I am asking him to go into the matter again and give me a recommendation. In the meantime, I suggest you get in touch with him.

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THE WHITE HOUSE
WASHINGTON

December 23, 1941.

MEMORANDUM FOR THE
SECRETARY OF THE TREASURY:
FOR PREPARATION OF REPLY.
F.D.R.

12/17/41

TO : The President
FROM : Edward C. Eicher, Chairman
Securities and Exchange Commission

Here is a subject we believe vital to Defense which I had no opportunity to discuss with you yesterday. I would like, before I leave, to give my colleagues a green light from you. We are armed to the teeth for the job!

THE WHITE HOUSE
WASHINGTON

December 23, 1941.

MEMORANDUM FOR THE

SECRETARY OF THE TREASURY:

FOR PREPARATION OF REPLY.

F.D.R.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON

OFFICE OF THE CHAIRMAN

THE WHITE HOUSE
DEC 18, 1941
December 17, 1941
RECEIVED

MEMORANDUM FOR THE PRESIDENT

Re : Capital Funds Control

The too hasty conclusion that we do not need capital funds control at this time because there is no shortage of capital seems dangerously erroneous. It disregards the vast problem of conservation of industrial assets for war and post-war purposes.

A simple but striking example of the tendency of corporations to dissipate the increased earnings resulting from defense activities is found in the alarming number of increased dividends and extra dividends that have been declared this year-end. Such dividend distributions are inflationary in character and must inevitably dilute the funds available for investment in defense. A portion, of course, is absorbed in taxes, and another portion is used to purchase Defense Bonds; but the bulk unquestionably goes into peacetime consumers goods.

If these dividends were retained by the corporations, they could either be invested in necessary additional defense plant and production, or they would be easily available for large-scale investment in Defense Bonds. With the latter type of investment the corporations would have a comfortable cushion of cash reserves to be used when they are most needed for the protection of the business and the security holders.

Other examples of the need for powers to prevent the diversion of corporate resources from the defense requirements can be given.

Because of its vast experience in corporate affairs, this is a job which could be done by the Securities and Exchange Commission much better than by any other agency. It would be simply an extension of our work under many sections of the Holding Company Act. It could and should be done either in cooperation with the Treasury or other appropriate Defense agency, such as the Economic Defense Board, in order that it be integrated with the entire Defense effort.


Edward C. Eicher
Chairman

December 29, 1941
12:22 p.m.

WJr: Alben?

Alben
Berkley: Yeah.

WJr: This is your pal, Henry.

S: Yes, sir. How are you?

WJr: All right. How are you?

S: Suppose you had a nice Christmas.

WJr: Very. And yours?

S: Very. The quietest one I ever had, but enjoyable.

WJr: That's nice.

S: Our children are all away, and nobody but my wife and me here. We just loafed.

WJr: Good. Alben, I'm calling up about Dean Jim Landis.

S: Well, I'll tell you, I never did get to talk to Alben. He got away that Monday.

WJr: Yeah.

S: And he hasn't been back. I'm just waiting for him to come back again.

WJr: Well.....

S: Didn't he ever let you know anything about it?

WJr: Yeah, I got a telegram. He was to have let me know last Tuesday, and he didn't.

S: Yeah. Well.....

WJr: And then - I'd better tell you, because you'll hear it from him. I got some of my Democratic

- 2 -

friends up in Massachusetts to go and talk to him.

B: Uh huh.

HMJr: See?

B: Yeah.

HMJr: The Commander of the American Legion, and Mayor Tobin - some of those people. John McCormack said he'd talk to him if he could get to him, you see.

B: Yeah.

HMJr: Because he kept saying the Democratic State organization didn't want Landis. So this is the telegram, so you might just as well get it from me. It came in this morning from Walsh.

B: Uh huh.

HMJr: "I regret to notify you that I resent your getting prominent people in Boston to bring pressure upon me to favor the confirmation of Dean Landis. You knew my position on this matter. You know my position is a matter based on principle, and no pressure from politicians or men of my own political party in Massachusetts will or can change my conviction as to the unsuitability of your selection. As I said to you before, you can select Dean Landis for any position that does not require my approval, but I cannot be a party to his confirmation by the Senate. David I. Walsh."

E: Well, I guess there's no use to fool with him any more.

HMJr: Well, can I go ahead without him?

B: Well, I don't know whether you can or not. I'm not able to say.

HMJr: Yeah.

B: I mean.....

HMJr: That's the point.

- 3 -

B: That's it. I would have to wait until the Senators get back here and sort of take a poll.....

HMJr: Will you do that?

B:of the Committee, in the first place, and see what it would do.

HMJr: That's right, but I wanted to let you know about this.

B: Yeah. Yes. Well, I mean, there's no use for me to see him.....

HMJr: No.

B:after that.

HMJr: Do you think - well, I made up my mind I was going to fight.

B: Well.....

HMJr: Do you think I was wrong?

B: Well, I don't know. If you get licked in the Senate, you're wrong. It won't do Landis any good or you either.

HMJr: Well, I won't bring it up unless you can assure me that you've got the votes.

B: Well, I'll have to take it up first with members of the Finance Committee and see how they feel about it.

HMJr: Yeah. Well, I.....

B: And if they would report unfavorably, why you couldn't get it over in the Senate.

HMJr: No, I wouldn't ask you to - I wouldn't burden you with that unless I could get the assurance.

B: Yeah. Well, I'll have to - it'll take several days, because the members are not back.

HMJr: I see.

- 4 -

B: They won't be back until probably next Monday.
HMJr: Right.
B: All right.
HMJr: Thank you.
B: Good-bye.

URGENT 12/28/41

ORIGIN: NY DEC 28 1941

TO: HENRY MORGENTHAU JR

1941 DEC 29 AM 7 46

DEPT OF THE TREASURY

AN IMPORTANT PERSONAL MATTER HAS OCCURRED TO PREVENT
YOUR VISIT TO NEW YORK MONDAY STOP WILL TELEPHONE FOR
YOUR APPOINTMENT AT YOUR CONVENIENCE

WALTER SWOPE.

DEC 29 744AM.

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December 29, 1941
2:50 p.m.

HMJr: Hello.

Gerard
Stone: Hello, Mr. Secretary.

HMJr: How are you?

S: Very well, but I was sorry that I couldn't keep that date for luncheon today, because some - you got my telegram?

HMJr: Yes.

S: Yes. Now, I wanted to ask what is your convenience?

HMJr: Well.....

S: How about Wednesday or Thursday or Friday? I can't do it tomorrow, but I can do it Wednesday, Thursday, or Friday.

HMJr: Well, Thursday, you know, is New Year's Day.

S: I know that, but I didn't know but what maybe you worked; and if you did, I'd come down.

HMJr: Well, how about Wednesday morning?

S: Wednesday morning? I can be there just as early as you get there.

HMJr: Well, I won't ask you to do that, but.....

S: Well, no, I'll take the night train down. I'll do anything you want.

HMJr: Well, let's say - I'm just thinking, because - I mean - I tell you what I'd like you to do. Well, I know definitely I could make it eleven o'clock Wednesday.

S: That's all right with me.

HMJr: Is that all right?

S: Yes. Eleven o'clock at your office.

HMJr: At my office. Definitely, unless something.....

S: Eleven o'clock at your office. I'll be there.

HMJr: Right.

S: Now, how do I get in? I understand there's some difficulty about it. (Laughs)

HMJr: Well, you come - it's the Fifteenth Street side.

S: Fifteenth Street side.

HMJr: Yes, it's the Fifteenth Street side. And when people come to my office, there'll be somebody down to meet you and bring you up.

S: All right. I'll be there at a few minutes before eleven.

HMJr: And there'll be somebody there to bring you up.

S: On the Fifteenth Street side. I'll be there at a few minutes before eleven Wednesday morning.

HMJr: That's right.

S: Thank you, and a Happy New Year to you.

HMJr: Same to you.

S: Good-bye.

December 29, 1941
3:00 p.m.

RE DEFENSE SAVINGS STAFF

Present: Mr. Graves
Mr. Sloan
Mr. Haas
Mr. Odegard
Mr. Sparks
Mr. Coyne
Mr. Olney
Mr. Touchstone
Mr. Fowler
Mr. Roth
Mr. O'Malley
Mr. Iseby
Mr. Shackelford
Mr. Bruce
Mr. Blair
Mr. Ford
Mr. Smith
Mr. Johnston
Mr. Kuhn

MR. GRAVES: I think that among the group here, Mr. Secretary, we have the pretty good information about the status of the payroll allotment plan all over the country. We have not only our own staff, but we have asked representatives of Missouri and Michigan and New York and Connecticut to come.

Mr. Blair is here as an observer, because we are thinking of putting him to work somewhere, and we thought he might get some benefit out of coming with us.

Now, if you would like me to suggest the order of--

- 2 -

H.M.JR: Well, I would like to tell them what is in my mind first.

MR. GRAVES: Please.

H.M.JR: The reason I asked you gentlemen to come in is this. This whole plan of selling Defense Savings Bonds, as far as I am concerned, will be a success or a failure dependent upon the success of the payroll deduction plan.

Now, I am tickled to death to get the money from the sales that we have been getting in the last ten days, but until this payroll deduction plan - until we get these people regularly taking something out of their payroll each week and setting it aside, I am not satisfied, and I want to give the American people a real chance to do this thing on the voluntary basis, but in order to do that we have got to help them. We can't expect them to just go out and fight and break down the doors in order to buy these things. I don't care whether it is the finest automobile in the world at the lowest price, unless you have got a salesman, it isn't going to sell itself any more than an electric icebox. In this country the way we are set up, it takes salesmanship, and you have just got to make it easy.

(Mr. Kuht and Mr. Odgaard entered the conference.)

H.M.JR: Come in, Peter. Come up near me, and you can hear what I have got to say. I want to repeat it.

As I say, I don't - the success or failure, as far as I am concerned, of the whole Defense Savings plan will depend upon how successful the volunteer payroll deduction plan is, and if that isn't a success, then as far as I am concerned, the whole thing is a failure. You can't expect people to break down doors in order to get these things. You have got to make it easy for them.

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Now, I am not convinced that we have done it, and I am not convinced that we have even gotten started. When I went out to Chicago and made a speech, about thirty-five million working people - reaching them and trying to get them each week to set aside a part of their savings, that was a mouthful, and I was sincere. I meant what I said. If we, here in the Treasury, and you people who are in the states and in the field can't make a success, they will just pass legislation forcing the people to do the thing, and I hope that won't be necessary, because it is just the difference - I may be wrong on this, but we are talking in the family - as between the morale in the Navy which is based on volunteer people being in the Navy and the men who are in the Army through the draft.

Now, maybe you don't agree with me. I happen to have a son in the Navy, and I have seen a lot of the Navy people, and the morale there is so much higher, and I think it is because the fellow went into the Navy because he wanted to go and not because somebody passed a law saying he had to go. As I told Harold Graves - I mean, I am so sincere about this thing, hoping that this will be done the American way, the volunteer way, that I don't - as far as - I will go in any state with you, which is high, which is tough, and see if we can't solve this thing. I don't think we have hit this thing hard enough. I don't think we have begun to reorganize, and when I put it up to Graves on Saturday, he tells me you haven't got enough clerical hire and so forth and so on.

Well, it is up to you men to tell us what is the matter. Now, I don't know what each of your responsibilities are, but certainly from this chair I am going to put on the heat the way I haven't done it since the President gave me the job to stop the farmers from losing their farms all through this country, and I did stop it through Farm Credit, and I just worked day and night and I worked the way - well, I mean it was a passion. You have to put that feeling into this thing, to keep these farmers from losing their homes and keeping

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them from having gone with shotguns at the court and disrupting the entire law of this country and saying, "You can't foreclose this thing," and everything that went with it.

Now, that was one thing. Now, we licked that, which was as tough a job as I ever tackled, and I know that we can lick this if we really go out. This isn't just a pep sales talk, because, as I say, I am going to surround myself with the people that can do the job. I don't know whether I am surrounded now with people in that field who can do the job, but if they can't, we will get the people who will do the job, and we will get enough people and those of you that believe in this thing, if you will simply tell Graves what you need, and then it is up to him to get you the tools to work with. Then if you don't make a success after you have gotten everything you have asked for, then it is your fault, but we here in Washington don't know what you need.

Now, it is up to you and that is what we brought you in here for, to say, "Well, these are the tools we need to work with," and as far as I am concerned, the first tool that I need to work with is accurate statistics. I have got to know as this thing goes along - to tell me twelve or fifteen million men have signed up, but not to know how many of them are saving each week and how much they save is meaningless. That is my story.

MR. GRAVES: Would you like me to call on certain ones here to contribute some information?

H.M.JR: Yes.

MR. GRAVES: Would you tell me how much time you have allotted?

H.M.JR: Yes. I have got until ten minutes of four.

MR. GRAVES: Well, I think maybe we had better get

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right down to some specific states. There will be the important states from the point of view of payroll allotment.

H.M.JR: Peter, sit up here next to me, will you?

MR. GRAVES: Suppose, Frank, you tell us how Michigan stands with reference to the number of concerns that have adopted payroll savings plans, the number of employees and so on.

MR. ISEBY: Well, they have got a hundred and twenty-one firms in Michigan, Mr. Secretary, employing over a thousand men. A hundred and two of them have plans in effect or will be employing plans by January 10. We have four hundred fifty-seven firms in Michigan employing a thousand or less. We have two hundred twenty-nine of the plans in effect, and a hundred and eighteen firms out of business by the change-over. We will have all of them by January 20.

H.M.JR: I have got to interrupt you a minute.

Those figures on the people out of business, before you leave Washington please leave with Harry White a memorandum, because I am doing a job for the Automobile Workers out of work in Detroit, and I am working on that, so if you have something on that and can give that to White, because I was at that all morning.

MR. ISEBY: Fine. I was in and out of all the plants yesterday in Flint.

H.M.JR: Well, I had Keller and representatives of the shop foremen from the Dodge main plant here this morning trying to get work for them. So if you have got anything on that, leave it with White. He is preparing a memorandum.

MR. ISEBY: All right. And in this group we have between seventy-five and eighty percent of the employees in this group who are covered, being offered this payroll

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savings plan.

Now, the range runs from sixty percent to a hundred percent. The plants that we have taken on in the last ten days are going from seventy-five to a hundred percent.

Great Lakes Steel, as I explained to Mr. Graves, a hundred percent. Ford, and reports are coming in from there, is a hundred percent down through the line now. Some of the other groups didn't want to put the plan in until after January 1 because of the change-over and new types of employees on the defense program so that now as we start converting there, I see no question but what we will have the plans into effect in every plant in Michigan.

H.M.JR: Now let me ask you some questions. How frequently do you visit a plant or the management or the workers and find out what they are doing or what can you do to help them? How frequently do you call on them?

MR. ISEBY: Well, first of all we have got them now to the point of where we appoint a union man in the plant plus a man from management and they represent the Defense Savings program in that plant. What they are all calling for, Mr. Secretary, is a flag or something over that plant to show that they are from ninety to a hundred percent. All the unions are calling for it now. They demanded of me to get something or they are going to get some type of flag, that they get recognition that they have over ninety percent of the men in that plant signed up on payroll savings and that way they will keep it that way or else the flag comes down. There is a certain amount of psychology there.

The average payroll deductions are from about three dollars and a half a week. Some of Ford's cards, they are deducting a bond a week, eighteen dollars seventy-five cents.

H.M.JR: How many men have you got helping you on this?

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MR. ISEBY: I can go over seventy-five percent of all the payroll plans in Michigan myself and one other man. I didn't take on the six men authorized, and I took on two and paid them out of my own pocket.

H.M.JR: Well, that is wrong.

MR. ISEBY: We have a peculiar situation of two hundred thousand men in Michigan out of work at the moment, but that is going to turn over, and I believe that if you get some kind of a plaque or a flag that will be all that is necessary to keep that plant right up to par on steady savings.

H.M.JR: Well, Frank, you can't keep in contact with all those plants yourself and visit them. Is it unreasonable when I ask that each plant be visited once a week by representatives of the Treasury?

MR. ISEBY: No.

H.M.JR: A minimum of once a week?

MR. ISEBY: No. Once in two weeks, Mr. Secretary, would do the job. Labor is on fire now. They are all out.

H.M.JR: Well, you have got no equipment in man power to visit once in two weeks.

MR. ISEBY: No, not now.

H.M.JR: Well, you ought to have.

MR. ISEBY: Yes. But I should like to finish the job of having all the plants in under the payroll savings plan, which we will have in the next fifteen days, and then cover these plants. A lot of them, management plus labor, you can depend on, but you do need men to make a check on these plants.

H.M.JR: Why haven't you got more? Why didn't you get the six?

MR. ISEBY: I wanted to keep down the cost and try to do the best job I could at the lowest cost.

H.M.JR: Well, it is kind of penny wise and pound foolish.

MR. ISEBY: Well, of course, we have got a pretty good coverage there. You had to have this little added crystallization of Pearl Harbor. Labor was holding back, there is no question about it, on this deal, and then they got too busy worrying about their jobs in the conversion of these plants and now they are starting to see the light and they want some recognition now that they are going all out for this program. Even the CIO-UAW has put it in now in their office.

H.M.JR: How are you fixed for clerk hire in your own office?

MR. ISEBY: Well, we have four stenographers who take care of sending out - they are busy. I am working them twelve hours a day.

H.M.JR: On this question of needing more help, what would you need out there?

MR. ISEBY: Well, if we were going to cover these plants, we would at least need - I would need the six men. They are the men to have. With these six men, men from the unions - they are doing it now, covering every union local. I have a report here. It is amazing how many they have covered, these two men. Of course, now you can get more than you could before because there are so many of them out. Once every two weeks, if you covered the plant, would certainly keep this right up to par. We are only out on this here. The difference here is, as far as your plants are concerned - your difference in covering that seventy-five and a hundred percent is the stores. I haven't taken in the stores like J. L. Hudson's and S. S. Kresge's, who have fifty thousand employees.

H.M.JR: As to the flag, Frank Knox says the flag

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works very well as far as the Navy goes. They have got a flag that they give for something or other, and they fly the Navy flag, I think with an "E" on it or something like that.

MR. ISEBY: That is right. I stood up in the Fisher Building, Mr. Secretary, with Bill Fisher and Al Fisher and three of the General Motors officials, and the buttons were flying off their vest to show me out of the window that "E" flag that was flying over this Fisher plant. They thought more of that than anything else in the place.

H.M.JR: Frank Knox said it has done more good than anything else.

MR. GRAVES: That is something we have been considering.

H.M.JR: It might come out of this meeting today.

MR. GRAVES: For any concern that has attained such a percentage.

H.M.JR: Frank Knox says it has done wonders for him.

MR. GRAVES: Suppose, Mr. Ford, you tell us where we stand on the payroll allotments in New York?

MR. FORD: May Mr. Bruce report on that? He is score keeper. I would like to touch on the other phases you raised, Mr. Secretary, if I may, before we get through.

H.M.JR: Please.

MR. BRUCE: The figures we have are based on proof that the plan is somewhat in effect and operating. Therefore it is somewhat lower than it would be if we counted those who promised to put plans into effect. On December 1 we had about two hundred plants who were

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actually operating two hundred plans. The exposure was about a million and a half employees and about two hundred thousand are actually participating. The number of concerns that we have contact with who have promised to put in payroll allotment plans is considerably more than that. I should imagine something over fifteen hundred so far. We have only been at that a few months.

H.M.JR: How many people have you got, so to speak, out in the field helping?

MR. BRUCE: In the city proper of greater New York, we have between three hundred fifty and four hundred canvassers. Up state they are working mostly by the committee plan and the committees in New York City haven't been thoroughly organized yet so we depend mostly on these canvassers so far.

H.M.JR: What hope can you offer me that you really will cover these plants and really get to them?

MR. BRUCE: We are down now to the employers of three hundred fifty or more. We are working from the big ones down. We are down to about three hundred fifty now.

MR. FORD: We can cover every one of them, Mr. Secretary, and in the near future. I have had to hold back on it for this reason that through nobody's fault down here, it was congestion of the mails, we haven't been able to get payroll allotment cards up there. We have got a lot of managers sold on the allotments, and Bruce has been over it with the comptrollers and shown them how to set it up. The cards did arrive Friday. I got two hundred thousand, and we sent eighty-five thousand out Saturday morning and more are going out today. That means that a great many prospects who haven't begun to produce yet will immediately go into production. I think we have got that rectified, and we arranged this morning to have a periodic supply sent us so we will always have them on hand. I am speaking of the state

as a whole. That is what held us back. It hasn't been anybody's fault. They had the cards made up down here, but they couldn't get them up to New York.

MR. GRAVES: What are those?

MR. FORD: Those are the record cards that they need in mechanically installing the plan.

MR. GRAVES: Oh, a card for each employee?

MR. FORD: Yes. It is a minor thing, but the plan won't work without that little cog.

MR. GRAVES: I didn't know before that we were furnishing cards for companies, individual cards. Are we?

MR. BRUCE: This has reference to the authorization cards that the individual employees sign.

MR. GRAVES: Well, usually the firm prints its own authorization cards, doesn't it?

MR. BRUCE: A few of the very large firms do, but most of them depend on us for them.

MR. FORD: We are having the same problem--

MR. ISEBY: If we sent cards to all the companies that had only a couple of hundred employees, you would have an awful lot of cards.

MR. GRAVES: Well, I considered asking this question. Do we see daylight on this thing? Are we going to succeed--

MR. FORD: Yes, we have broken through--

MR. GRAVES: ...this payroll allotment thing in New York and, if so, how quickly.

MR. FORD: I don't see any reason why we can't really

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go ahead with a real rush now as Bruce said. We have got about three hundred men trained to solicit. What I did there, I approached it a little bit differently than in Michigan. Instead of using deputies in the office, I got volunteers from various insurance people, the Investing Bank Association and so forth. We have been running a school for these fellows and training them as fast as we could because we didn't want to release people that didn't know what it was about.

H.M.JR: Do you pay them?

MR. FORD: No, sir. They are all volunteers. That was the easy part of the problem. The more difficult part was to have the other half of the payroll allotment which is under Mr. Bruce who comes from the Telephone Company, the Comptroller's Department, to train a crew of men who could go over and handle the mechanical difficulties, and the Comptroller said, "Well, there is difficulty in putting another deduction on that check," or "it won't fit our machines," or that sort of thing. We have got that pretty well worked out now.

General Motors Acceptance loaned me several men from their Treasury Department on a voluntary basis so we have now got that in the payroll allotment up where it can keep pace with the field solicitation of the thing. I see no reason now why we shouldn't move right ahead very rapidly up there.

MR. GRAVES: Mr. Shackelford, will you tell us briefly about Missouri?

MR. SHACKLEFORD: Well, as of December 1 there were five hundred twenty firms in Missouri actively on payroll allotment lists with two hundred twenty-eight thousand five hundred twenty-four employees exposed, a hundred - there is only a hundred and thirty-three firms employing five hundred or more in the state. A hundred and six of those firms are actively using this plan. Seven of them that have headquarters in Missouri are not, but were contacted by phone before I came up

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here and promised they would by the first of the year. There are twenty firms whose headquarters are outside of the state with whom we have had no success whatever because it is more or less a sort of passing-the-buck proposition that they would say, "You will have to take it up with the home office," and whether they did or not, of course, I can't say, but neither they nor we have had any success with them so far.

There are eighteen thousand employers under Title 9 or above eight employees in the state. We have the Life Underwriters Committee which has been trained, taking regular courses of schooling, and they are handling that situation very nicely.

In St. Louis there is sixty percent of Missouri's industries concentrated in St. Louis.

H.M.JR: If I took a poll of ten thousand employees, how many would say that they knew what this plan was?

MR. SHACKLEFORD: I could only speak for Missouri, but I will guarantee that every employee in every plant knows about it at least, because there isn't a plant in Missouri that hasn't had something on payroll allotment on the bulletin board or through the pay check envelope every month.

MR. FORD: Mr. Secretary, might I make a suggestion on that point? In your general broadcast on the Treasury Hour, would it be possible, perhaps, to devote five or ten minutes of the hour to explanation of payroll allotment?

Now, Major Bowes on his hour about two weeks ago referred to payroll allotment. I didn't happen to hear it and he didn't go into any great detail, but immediately the next morning we had calls from five large concerns wanting to know about payroll allotment, and I think you could save a great deal of the time element for all of us all over the country if some one got on the--

H.M.JR: We could devote a week to it.

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MR. FORD: ... got on the air and just explained the payroll allotment a little bit in detail the way my solicitors are doing as they go around.

H.M.JR: We could devote a week to it.

MR. FORD: That would promote an immediate acceleration.

MR. KUHN: General Electric already did it by way of showing what a good job they were doing and talking to their employees and that way they got a whole lot of other employees interested.

MR. FORD: The more people come in that we see, the more people come in that we haven't seen, to make an Irish statement.

H.M.JR: You ask our friends up in Boston to make a poll for me on workmen, how many of them know the payroll allotment plan? Ask if they couldn't make it quick and check on that. This is the Gallup. They will do it coast to coast. If they could do it very promptly, I think we will find that they don't know. I hope I am wrong.

MR. ISEBY: I challenge you to send them out to Michigan.

H.M.JR: They will do a coast to coast spot check.

MR. ISEBY: I agree with you on that.

H.M.JR: You think they will know?

MR. ISEBY: No, I think they won't know.

H.M.JR: You think they will not know?

MR. ISEBY: Not enough of them.

MR. SMITH: I don't think the Gallup people can get the right answer. The average fellow, if he hasn't

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joined up--

MR. GRAVES: We can do it and see what we get.

MR. KUHN: Mr. Secretary, the MacLeish office has a public opinion testing outfit using Gallup and a lot of other people. We could ask them to do it.

H.M.JR: Well, between Graves and Odegard and Kuhn, fix me up an honest questionnaire. (Laughter)

MR. GRAVES: Suppose we have Mr. Smith of Connecticut tell us where he stands now in Connecticut on the payroll allotments.

MR. SMITH: Personally my opinion is that we are in much better shape than we can prove or we can show here. The whole problem in our office has been, we haven't had help.

MR. GRAVES: You mean help to make the reports?

MR. SMITH: That is right and go to the factories.

MR. GRAVES: How many firms up there have you got that have adopted the plan, Tom?

MR. SMITH: Two hundred fifty.

MR. GRAVES: What proportion of the total job would you estimate that would be?

MR. SMITH: I would say sixty-five or seventy per cent.

H.M.JR: I think the radio thing is good, Ferdie. I think you ought to do it.

MR. SMITH: I got that report up very hurriedly today, Mr. Morgenthau. That isn't a bad--

H.M.JR: Well, Mr. Smith, that simply shows how

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many people working for the Whitney-Blake. Whitney-Blake has eight hundred sixty-six but it doesn't say how many of those--

MR. SMITH: To get those figures you have to have one man doing nothing else but calling on these factories.

MR. GRAVES: You recall on that point, Mr. Morgenthau, that Mr. Haas' plan--

H.M.JR: That is where Haas is coming in. It is very impressive and it may be wonderful, but I want to know. Do you see what I mean? Of the eight hundred sixty-six, what I want to know is how many of those eight hundred sixty-six are on it, and how much are they taking out. But that is George's job.

MR. GRAVES: Yes, and he is all set.

H.M.JR: Has he explained to these people?

MR. GRAVES: He hasn't, but I undertook to explain it myself.

MR. SMITH: We are going to get the additional assistance in the office?

H.M.JR: If you don't, it will be your own fault. Just yell loud enough.

MR. SMITH: All right, sir.

MR. SHACKLEFORD: Mr. Secretary, our percentage, if you care for that at the present time, is forty-two percent, or was December 1.

H.M.JR: Of the people?

MR. SHACKLEFORD: Over-all percentage.

H.M.JR: For December 1, I would say that was good.

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MR. SHACKLEFORD: I have no report for December yet. That will be submitted on January 1.

MR. OREGARD: What was the figure you gave me, Mr. Shackelford, about one percent of the purchasers out of each ten thousand or something like that of Missouri?

MR. SHACKLEFORD: Oh, no, that I wrote on that card for you. I only cited one instance of where the percentage of participation did not actually reflect the sales being made among the employees of a given organization. For instance, one airline company has sixteen hundred and twenty-five employees. They adopted the payroll allotment plan in July or August and yet they only show a one percent participation, but by actual survey, each of the employees, one hundred percent, are buying not less than a bond every payday.

MR. GRAVES: But buying through other means.

MR. SHACKLEFORD: The question arose in my mind as to whether I should disturb that and run the risk of building a resentment among those employees by insisting on them signing a payroll allotment plan or let a good situation rest as is.

MR. GRAVES: That is an isolated case. It really doesn't mean a thing, Peter. It is a peculiar situation about the one company. Mr. Touchstone, suppose you tell the Secretary a little about such states as Illinois and Ohio and California that are not represented here.

MR. TOUCHSTONE: Mr. Secretary, we tried to develop man power as fast as we could so that we would have these people that you were talking about like Mr. Iseby needed over there to do his job. We felt that the best way to do it was to get men whose business training would fit them to do this job in the quickest way, so we accepted the offer of the help of the National Association of Life Underwriters throughout the country wherever and in whatever state that the

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administrator wanted them to help. It just happened that Mr. Iseby had a peculiar situation up in his state, and he didn't want it, but I might tell you that we now have ready trained and ready to do this job and some of them have been doing it for quite a while something like fifteen thousand men out of the Life Underwriters Association who can be assigned not over three cards to a man. It is his duty to go out and contact the concern and to help put the plan in force and to stay with it until he brings the participation up to the required percentage of participation or as best it can be made. And the State of California, we have, starting at San Diego, a hundred and twenty-five men down there trained to do this job, and they are doing it right now. At Long Beach we have fifty. At Los Angeles we have over four hundred. In San Francisco we have around three hundred. In all the other principal cities of the state they are now organized so that they could go in there and put the plans in force and do the required work that is necessary to do. You are very much right on the fact that it has to be sold. It takes personal contact.

H.M.JR: No question about it.

MR. TOUCHSTONE: And there is another thing about it, though, and especially since Pearl Harbor. All you have got to do is go in there and have the meeting and call it to their attention, what is wanted of these people to do, and they will do it a hundred percent. So near a hundred percent that it makes the same thing.

H.M.JR: Well, you are saying what I feel, that at least these workmen and the management can have somebody from the Treasury come as often as necessary until he is convinced that they will or won't.

MR. TOUCHSTONE: That is right.

H.M.JR: And for people in this town who want enforced savings and try to force me on the thing, until you people have had a chance is why I am so anxious.

Now, I just don't know how Iseby does it with himself and two other people when it takes three hundred in New York City, and I am not convinced that it isn't - that once a week is too often to have somebody drop in and say, "Hello, boys, how is the thing going? Have you got plenty of cards?" or "Have you got this?" or "Have you got that?" and "What is the matter?" "I am here from the Treasury, and we would like to help you. If there is anything we can do - " it doesn't seem too often where you are asking them to put up thousands of dollars. A Fuller Brush man would come around at least once a week.

MR. TOUCHSTONE: That is right.

H.M.JR: And as I say, I know it takes time and it takes man power, but we set ourself out to reach thirty-five million people, and to reach thirty-five million people we need salesmen.

MR. TOUCHSTONE: Well, in the State of Illinois, we have now approximately a thousand men doing the very same thing. Ohio is organized the same way. Texas, Oklahoma. In fact, thirty-six out of the forty-eight states are organized in this way to do it.

MR. JOHNSTON: Forty-eight organized and thirty-six working.

MR. TOUCHSTONE: I say thirty-six out of forty-eight organized to do it. There are forty-eight organized but thirty-six of them working at it. Some of them didn't want them. Some of them had other plans and they had already made other arrangements before we had gotten the offer of their help.

H.M.JR: As I understand it, you are in charge of this for Mr. Graves. Is that right?

MR. TOUCHSTONE: Yes, sir.

H.M.JR: How many assistants have you got to cover

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the forty-eight states?

MR. TOUCHSTONE: Actual assistants, about a half dozen.

H.M.JR: It is not enough.

MR. TOUCHSTONE: No, it is far short. We should at least have one man to do the thing that I do in every Federal Reserve District, and that would be little enough. That would be twelve.

H.M.JR: That is too few, because you ought to have one man alone for each of the big industrial states.

MR. TOUCHSTONE: We could very well have for all the big industrial states one man alone, and he would have a big job to do, and he could help the thing, because you have to stay there and keep up the enthusiasm.

H.M.JR: That is right.

MR. TOUCHSTONE: And a lot of these men know what to do and exactly how to do it, but some of them don't, and they have to have people there to do it and see that the thing is made a success. You can put these plans in any concern. There is no trouble at all. We haven't been turned down on a single concern absolutely in this country if we ask them to put in a payroll allotment plan. But the percentage of participation on many of them is absolutely nil.

H.M.JR: Well, just take the - it is an important thing because it is a bottleneck. If you had a man in New York State representing you, and you found out they needed a couple of hundred thousand cards, they couldn't get them, and on account of Christmas traffic you could put them in a Treasury truck and run them up there over night.

MR. FORD: We thought of putting them in a station

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wagon, but it wouldn't hold them.

H.M.JR: I want to get that snap into the organization that it is a matter of minutes and not a couple of months. I want to get this thing stepping on a minute basis, that every minute counts, and it does count.

MR. TOUCHSTONE. That is right. I would like to make this one more statement, if I may. I have been now in about thirty states and it is my personal opinion from the experience I have had in it that in thirty days' time you will absolutely be amazed at what we will accomplish with the organizations we have now. If we had a few more men it would help out a lot.

H.M.JR: Well, again, ask for what you want and don't - Graves is now convinced that we are going to need more money and new men. After great difficulty he has convinced me of that. (Laughter) I don't expect you to be unreasonable, but I think you will find that Graves will give you the men just as fast as you can train them, isn't that right, Harold?

MR. GRAVES: That is right.

H.M.JR: And I think for every important industrial state, I think at least one man. In New York you might need two. In Michigan you might need more than one, with upstate and downstate a thousand miles from tip to tip, isn't it? Isn't it about a thousand miles?

MR. ISEBY: The first thing, Mr. Secretary, you have got to get these bonds or you are going to have a flood here that is going to react.

H.M.JR: I knew you would say that.

George, show them my chart.

MR. ISEBY: It is bad in Michigan now.

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H.M.JR: How many days' supply have you got on the twenty-five dollar bonds? They have at least got this thing so I can understand it.

MR. ISEBY: It is six weeks getting these bonds to our plants and they are all complaining about them.

MR. GRAVES: I just told Mr. Iseby this morning about the larger corporations being permitted to become issuing agents of their own bonds. I think that is going to meet the point he has.

MR. FORD: That would help us enormously in New York.

H.M.JR: That went out Friday.

MR. GRAVES: Saturday.

MR. FORD: Splendid, that is good.

MR. GRAVES: And I think that meets Mr. Iseby's point entirely.

MR. FORD: Could that be done with the larger department stores?

MR. GRAVES: Yes, any outfit that can qualify with the Federal Reserve Bank.

H.M.JR: Now, the only nigger in this woodpile is, we have still got one glass eye down here, and that is they are going to make these people pay for them in advance.

MR. FORD: I don't think they would object to that, Mr. Secretary.

H.M.JR: Well, we will try it on that basis first. I think they will when they see the amount of money involved, but they won't have much trouble down here with reputable concerns, letting them have a stock of them.

MR. GRAVES: What we did, Mr. Morgenthau, was to give them the option of either putting up collateral or repaying.

H.M.JR: But that went out Saturday?

MR. GRAVES: Saturday, to the Federal Reserve Banks.

H.M.JR: Yes, and each Federal Reserve Bank is to do it. That will take care of your department stores.

MR. FORD: It will help us enormously in New York and with the bigger concerns too, because the Federal has been in an awful jam up there.

H.M.JR: What is that, George?

MR. HAAS: Here is the reply, yes. He worked on Sunday. That is the over-all. There may be shortages in certain communities.

H.M.JR: Have you seen this, Harold?

MR. GRAVES: Yes, I have.

MR. HAAS: There is thirty-four days' supply of the E Bond now. In other words, they are up - it is just a question of distribution, if they are short anywhere.

MR. SMITH: They are short in New England.

MR. HAAS: Are they?

MR. SMITH: Yes.

MR. GRAVES: It is a matter of two or three days then, I would say, Tom.

H.M.JR: According to these statistics, we have got thirty-four days' supply of twenty-five dollar bonds

- 24 -

in hand. But George, you will have to do the same thing you did before. This is Washington. Now, you will have to just follow it through the Federal Reserve and the Post Office and right down to see where is the shortage.

MR. HAAS: That is all over, everything, Mr. Secretary. That includes all bonds that have gone out of Washington, but there are local shortages like New England and so on. You might have to get a report from each Federal Reserve District.

H.M.JR: Well, get me enough so that I know, will you? And then also make a note, I want to know how many - as they begin to put in these places of - to sell, how many places we have distributing. But we will have to find out if there are shortages in New England and New York, just where are they and why.

MR. ISEBY: Are you qualified through the Federal Reserve Bank now?

MR. GRAVES: Yes, that is, any bank that qualifies through the Federal Reserve Bank.

MR. ISEBY: Ford offered voluntarily to buy them.

H.M.JR: Won't that announcement go on the air?

MR. GRAVES: We gave this to Mr. Callahan today. It will go on the air and out in a release.

H.M.JR: Good.

MR. FORD: Mr. Secretary, here is something that would help us in New York enormously, but it may be entirely impractical. If we could be removed from the Civil Service requirements, it would solve an awful lot of our problems. Harold knows, I think. He gave me tools to work with on paper a month ago at least. We haven't got the people yet.

H.M.JR: I am afraid--

MR. GRAVES: I think we can fix that.

MR. FORD: That applies also to supplies. If there could be some way devised, call them free funds, and you can hold me personally responsible or Lew Douglas or anybody you want to and we will account for it so as these emergencies come up we can deal with it locally.

H.M.JR: There is no reason why they shouldn't get supplies.

MR. BRUCE: Particularly desks and chairs. We can get volunteer help, but we have got no place to put them.

H.M.JR: There is no excuse in the world why you shouldn't have all the desks and supplies you want in twenty-four hours.

MR. FORD: Working through the Procurement Division, there seems to be a time lag that makes it very difficult.

MR. ISEBY: I am still going on borrowed desks in my own office.

H.M.JR: All right, we will bring the fellow over here who is in charge. Bring Cliff Mack over here.

MR. GRAVES: It would be Cliff Mack's New York man.

H.M.JR: But let Cliff Mack - there are a lot of states represented. Let Cliff Mack come over here and take it on the chin.

MR. GRAVES: There is no state represented that is in this difficulty, as far as I know except New York.

H.M.JR: Michigan says they are.

MR. SHACKLEFORD: Missouri is in the same fix.

MR. GRAVES: You will find these fellows have never asked for any.

H.M.JR: Well, nail him down. Cliff Mack can handle himself.

MR. SHACKLEFORD: As far as desks are concerned, Mr. Graves--

MR. GRAVES: Have you asked for anything?

MR. SHACKLEFORD: Yes, desks. We are still using chairs.

MR. GRAVES: Well, I think myself that we might stick to the subject here because desks and chairs are matters that Mr. Ford needn't bother the Secretary about. Nobody has ever called my attention to this. This is the first time Mr. Ford has ever mentioned this from the time I was in New York to me. So I think we might stick to payroll allotments.

H. M. JR: All right, we have got five more minutes.

MR. GRAVES: Mr. Touchstone, will you tell us about railroads and something about public employees?

MR. TOUCHSTONE: Yes. We have all the railroads with a plan in force. The percentage of participation is very low. It averages around twelve percent. One reason for that was because of the fact that they had their strike program on and the people wouldn't do anything about it until that was over with. About two weeks ago I asked the - Mr. Pelley to let me appear before the railroad presidents in Chicago to tell them what we want to do. He wouldn't let me do that because he said they had other ways of handling it. I was there and saw a great many of the presidents. In fact, I had contracted about thirty different railroads in the past three weeks, their executives, and put in a plea for a plan for something that they could do that would help

this program. I asked each president to get out a letter, an additional letter to every employee telling them how important it was that they get in and do their share to call his labor men together and explain the thing to them again and tell them how important it was that they pass the word down. That they have all done all over the country. Those that I didn't see we had somebody else contact them and get them to do that, so I think that the percentage in participation on the railroads, and we have a plan in in every railroad in this country, will go up very perceptibly in the next thirty days.

MR. GRAVES: Is that the Brotherhood's men?

MR. TOUCHSTONE: The Brotherhood's men have all approved it, and they are all as cooperative as they can be where we have been.

MR. SMITH: The New Haven Road is buying at the banks instead of through the railroad.

MR. TOUCHSTONE: We don't care where they buy it. You mean the employees are?

MR. SMITH: Yes.

MR. TOUCHSTONE: They have in a payroll allotment plan.

MR. SMITH: They are buying at the banks. I think if we get some personnel that you will be surprised, Mr. Secretary. This is a lot better than it looks.

MR. GRAVES: I might sum this thing up this way, that as a result of the telegram to be sent out Saturday, I think that by the tenth of January, which is the deadline fixed in that telegram, we will have complete or substantially complete reports from all states that will give the names of the concerns that have subscribed to this plan with the number of employees for each concern and that in turn we intend to turn over

- 28 -

to George who will use that as his master list for a monthly canvass of all these participating concerns in the course of which they will report the total number of employees they have, their total wage account, as I understand, the total number of employees participating, and the total amount of their monthly purchases, and I think that from that time on we ought to be able to satisfy your need for the statistical picture of this thing.

H.M.JR: Well, the statistical picture is the tool I need to work with, and then what we want is the results. Then once we get the statistical picture, you and I will know how good or how bad each state is.

MR. GRAVES: That is right.

MR. SMITH: Do these requisitions we have got in now - does that mean that the personnel will be allotted immediately?

MR. GRAVES: Yes.

MR. SMITH: Can we do that, Mr. Graves?

MR. GRAVES: It is between you and Bob Sparks, as far as I am concerned.

MR. SPARKS: You let me have your requirements right away and we will work on it.

MR. SMITH: They have been down here for months.

H.M.JR: Down here for how long, a month?

MR. SMITH: No, I don't mean that critically. It is a Civil Service standard they set up, and we are hesitant about--

MR. GRAVES: You see, we have to submit all these cases that come to us through the Civil Service Commission for approval, to Mr. Irey's organization for investigation,

and you know how Mr. Ireys organization has been swamped.

H.M.JR: Well, you had better put them in and investigate them afterward.

MR. GRAVES: We have been doing that.

H.M.JR: Better investigate them afterward.

MR. SMITH: Here is a suggestion I would like to make. Why couldn't we turn these men over immediately to the Intelligence Unit before sending--

MR. GRAVES: Well, that is something I want to work out.

H.M.JR: Well, anyway, I am glad you are all here. I think you will go away with the feeling at least of how serious I am about it. This is the guts of the whole thing. Don't hesitate to criticize or make constructive suggestions. We want them. But I have got to get results and you are the men that will have to help us. From a civilian standpoint, I don't know of anything which would be a better demonstration as to the morale of this country than to make this particular piece of work a success.

MR. ISEBY: We have got to give them, Mr. Secretary - Canada has put that plan across. You have got to give them a plaque or recognition or a flag. They must have it, and then you are set. That flag will never come down.

H.M.JR: If it is as easy as that, I will give you a flag tomorrow.

MR. ISEBY: I will bring the union leaders here and they will guarantee to do it.

H.M.JR: If that is all you need, you can have a flag right now. Here is one here.

1214

September 29, 1941

To the Heads
of Treasury Bureaus and Divisions.

SUBJECT: Purchase of Defense Savings
Bonds and Stamps

On May 22, 1941, I established a plan for the voluntary participation of Treasury employees in the Government's campaign for the sale of Defense Savings bonds and stamps.

While the number of pledges received, on the basis of monthly reports, indicates that a large percentage of Treasury personnel, in our combined field and departmental services, have signified their intention to participate in the campaign, the total amount of Defense Savings bonds and stamps purchased by them up to this time through the Department's group agents reflects a relatively low per capita average of monthly purchases. In this connection it is realized, of course, that some employees prefer to buy their bonds and stamps from post offices, banks and similar agencies, so that all purchases are not included in the figures reported by the Department's group agents. This is particularly true in the case of our field services.

The declaration of war places a new and increased responsibility on Defense Savings Committees and others engaged in the important task of promoting the sale of Defense Savings securities. Local committees throughout the country have been urged to re-double their activities and to conduct a sales campaign which by its response will demonstrate that America to a man is behind our greatest national test.

Employees of the Federal Government should be among the leaders if not foremost in the vast army of wage-earners who throughout the country are so generously responding, by setting aside part of their earnings each pay-day or each month for the purchase of Defense Savings bonds and stamps.

The heads of sections and units of Treasury bureaus and divisions in Washington and throughout the several field services can render invaluable service by reminding their employees of the opportunity thus offered whereby they may voluntarily provide a stimulating example to workers everywhere by actually putting aside as much of their income as they feel they can spare each month for investment in these securities. In so doing, they will not only help their Government, but will at the same time provide for their own financial security in the years that lie ahead.

I feel sure that I shall have your complete cooperation in this matter, and I feel equally confident that Treasury employees everywhere will respond to this call.

Very truly yours,

(Signed) W. H. C. H. H. H.

Secretary of the Treasury.

CPS/m

*W. H. C.
File to Sherman
in Simpson*

DEC 29 1941

Dear Eleanor:

I have your note dated December 24, about Nell Hunter.

I suggest that you have Miss Hunter come in to see Mr. Graves of my staff about the middle of next week, when we will try to work out some arrangement for using her services in the Defense Savings Bond program.

Affectionately,

(Signed) Henry

Mrs. Franklin D. Roosevelt,
The White House.

HMG/mff

*By Secret Service
Photostat + copies to Hanger*

THE WHITE HOUSE
WASHINGTON

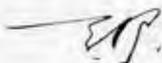
December 24, 1941

Dear Henry:

Nell Hunter, who brought the Negro Singers from North Carolina to sing for us when the King and Queen were here, has been with the N.Y.A., but must now find another place because of the curtailment of that program. It has been suggested to me that she would be a grand person for the Bond Selling Division of the Treasury, as with her talents she could bring crowds together and induce them to buy war stamps and bonds.

I am glad to pass the word along to you and hope that there may be a chance of using Miss Hunter's services in this way.

Affectionately,



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 29, 1941

TO Secretary Morgenthau

FROM Dave H. Morris, Jr.

Subject: Purchases of Government bonds by the Federal Reserve System and the Treasury Department during the week of December 22-27, 1941.

The first purchase since December 11th was made on December 23rd. Of the total daily purchases, as given below, the Treasury Department took half (roughly, depending upon the rounding of figures).

	<u>2½% bonds</u>	<u>2% bonds</u>
December 23	\$6,793,000	
December 24	4,345,000	\$ 550,000
December 26	7,320,000	1,619,000
December 27	7,410,000	1,432,000

Summary for week

2½% bonds	\$25,868,000
2% bonds	<u>3,601,000</u>
Grand total	\$29,469,000
Treasury half	\$14,734,000 (approximate)

December 29, 1941
4:14 p.m.

EMJr: Hello.

Operator: Mr. Murray.

EMJr: Yes.

Operator: Go ahead.

EMJr: Hello.

Philip
Murray: Hello, Mr. Secretary. How are you?

EMJr: Fine.

M: That's good. This is Philip Murray talking.

EMJr: I know it is.

M: I'm sorry I couldn't get over to see you at noon today, but I got tied up in that conference with the Secretary of Labor.

EMJr: I hear they sent a sheriff's warrant after you to appear over there.

M: That's right. That's right. (Laughs) I'm told by Lee and the boys around here that you're manifesting a great interest in this situation.

EMJr: Well, I'm doing the best I can and I wanted to tell you about it and see what else I could do.

M: Well, say, could I see you around eleven in the morning?

EMJr: Let me - I'm sorry. I'm due over at the White House.

M: Well, what other time might suit you?

EMJr: Well, I'm free in the afternoon; but I'm due over at the White House tomorrow morning.

M: Very fine.

EMJr: How about - how are you around three o'clock tomorrow?

December 29, 1941

The following people received letters signed by the Secretary, extending his greetings and good wishes for the coming year. Copies were sent to Mr. Thompson.

Harry J. Anslinger
Edward S. Bertelt
W. L. Bell
Frank A. Birgfeld
Ray Blough
William B. Broughton
Preston Delano
Edward H. Foley, Jr.
W. L. E. Forbush
Herbert E. Gaston
Harold A. Graves
George C. Haas
W. M. Hall
Guy T. Helvering
James L. Houghteling
Elmer L. Ireby
W. A. Johnson
William A. Julian
Ferdinand Kuhn, Jr.
Clifton E. Mack
Dave Morris
John W. Pehle
B. A. Right
Mrs. Nellie Tayloe Ross
Charles Schwarz
Eugene W. Sloan
John L. Sullivan
Thomas M. Tarleau
J. T. Thompson
Harry D. White
Frank J. Wilson
T. F. Wilson
George Buffington
Star Admiral R. R. Weesche

December 29, 1941

Dear Mr. Bell:

To you and to all your associates I should like to extend my most sincere greetings and my good wishes for the coming year.

I am grateful to all of you for loyalty and good work in the year that is closing. Your intelligent devotion to duty enables us to face with confidence the labors that lie ahead.

A Happy and Victorious New Year to all.

Sincerely,

(Handwritten signature)

Honorable Daniel W. Bell,
Under Secretary of the Treasury,
Treasury Department,
Washington, D. C.

*Copies to Mr. Thomson
M.C.*

tg

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 29, 1941

TO Secretary Morgenthau
 FROM Mr. Thompson

In compliance with your memorandum of December 22, 1941, requesting that an estimate be submitted to you covering the cost of installing shatter-proof glass in the various Treasury buildings, you are advised as follows:

<u>Buildings</u>	<u>No. of Panes Glass (3 sq. ft. each)</u>	<u>Estimated Cost</u>	<u>Total</u>
Bureau of Engraving & Printing (Main)	34,000	\$ 340,000	
Bureau of Engraving & Printing (Annex)	11,000	110,000	
Auditors	4,000	40,000	
West & Miscellaneous	3,000	27,000	
Liberty Loan	9,300	<u>75,000</u>	\$ 592,000
Main Treasury	9,256		<u>92,560</u>
Total Cost			\$ 684,560

There are many buildings, Federal and rented, that are occupied by Treasury employees throughout the United States, over which the Treasury Department has no jurisdiction. The Public Buildings Administration operates, and is in complete charge of, these Federally owned buildings.

Mr. J. C. Runyon, Engineer of the Bureau of Engraving and Printing, stated:

- 1) That it would take 600 men 5 weeks @ \$20.00 per day to install the panes of glass.
- 2) That it is questionable whether we could get the glass.
- 3) That a tempered glass (Herculite), costing $1\frac{1}{2}$ times as much as the shatter-proof glass, is superior to shatter-proof glass in that the Herculite glass will, upon being hit, crumble into small grains (about the size of a grain of rice) while the shatter-proof glass will be blown into fragments. This feature makes shatter-proof glass less safe than the Herculite glass.

Your Safety Committee, upon the advice of Chief D. A. Deasy, has recommended that the windows be covered with wire hardware cloth (1/4 inch mesh). This will catch the particles of glass that may be broken or blown out. The hardware cloth should be placed on frames to permit opening of windows, etc., when not needed. Any action in this direction will depend on the decision of the Public Buildings Administration and the appropriation of the necessary funds to carry out their program for protection of all Federal buildings.

John

TREASURY DEPARTMENT

145

INTER OFFICE COMMUNICATION

DATE December 29, 1941

TO Secretary Morgenthau
FROM Mr. Thompson

Jan

In accordance with your memorandum of December 27, I have had a review made of the situation with respect to the automobiles and chauffeurs who wait outside of your door. We do not have too many of them. In fact, we are unable to meet the peak calls for automobiles since there is much use of these cars by the officials of the Department who make frequent trips to the Capitol and other departments and agencies of the Government. I reported to you on this matter orally today and I understand that we are to continue on our present basis.

Jan

December 29, 1941.

Dear Eleanor:

You will remember that on December 18th you sent me a letter from David Kahn of the Arthurdale Association in regard to securing Government contracts.

I am enclosing copies of two memoranda submitted to me by Clifton Mack, the Director of Procurement. One is dated December 23rd, and the other December 26th. These are self-explanatory and cover the various negotiations between Mr. Kahn and the Procurement Division.

As you will note, Mr. Mack is keeping in touch with Mr. Kahn with a view to possible future cooperation. If I have any further information, I shall of course be glad to send it to you.

Affectionately,

(Signed) Henry

*By Secret Service
n.m.c. file*

Mrs. Franklin D. Roosevelt,

The White House.

Enclosures.

GMF/dbs



TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

December 26, 1941

MEMORANDUM TO THE SECRETARY:

Supplementing my memorandum of December 22, 1941, the bids on wood desks were opened this morning at 10:00 and we did not receive a bid from the Arthurdale Association.

As pointed out in prior memorandums representatives of the Procurement Division visited the Shop at Arthurdale, West Virginia, and reported that it does not have the facilities to advantageously manufacture desks; that their work has been largely along assembly lines rather than manufacturing but that we nevertheless sent an invitation to Mr. Kahn offering him an opportunity to quote on the pending purchase of wood desks.

In view of the statements contained in Mr. Kahn's letter to Mrs. Roosevelt indicating that he is interested in manufacturing wood articles we have placed his name on our mailing list so that he will receive copies of all future invitations or requests for quotations on such items. Further, that if Mr. Kahn will keep in touch with this office we will be pleased to assist him in any way possible.

Clifton E. Mack
Clifton E. Mack,
Director of Procurement

THE SECRETARY OF THE TREASURY
WASHINGTON

December 22, 1941.

Handwritten signature

Dear Eleanor:

As soon as I received your note of December 18th, enclosing Mr. Kahn's letter of December 12th, I asked the Director of Procurement, Clifton Mack, to give me a further report on the situation in regard to furniture making at Arthurdale.

Since it goes into some detail, I am sending you a copy of the memorandum that Mr. Mack has just sent me. After December 26th, when I hear from him further as to the results of the bidding, I shall be glad to pass on any word I may have to you.

I am returning Mr. Kahn's letter herewith.

Affectionately,

Mrs. Franklin D. Roosevelt,
The White House.

Enclosure.

FOR DEFENSE



BUY
UNITED
STATES
SAVINGS
BONDS
400 23478



OFFICE OF THE DIRECTOR

149

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

December 22, 1941.

MEMORANDUM FOR THE SECRETARY

Following Mr. Kahn's visit to the Procurement Division, the chief of the Purchase Division and a special assistant were sent to the project at Arthurdale on November 19, 1941. They found that the plant was engaged in assembling and finishing two types of radio cabinets and were told that formerly dressers, beds, household tables and other similar items had been assembled and finished but that these items had been abandoned because they had proved unprofitable. Several desks were shown our representatives but it was explained by the Superintendent at Arthurdale that these were not manufactured in the customary and accepted way because the plant was not equipped to do so.

The plant at Arthurdale is adapted to the assembly and finishing of furniture items but does not have equipment to manufacture piece-part stock, nor to make plywood panels or built-up tops, although the buildings and equipment they have is well above the average.

Mr. Kahn was afforded the opportunity to quote on the medicine cabinets as this was an item on which there was authority to negotiate a purchase and was one not requiring any special equipment to make.

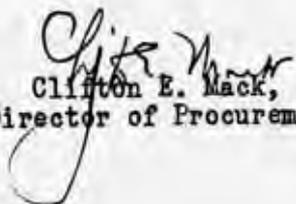
Invitations to bid on wood desks were sent to the Arthurdale Project at the same time invitations were sent to others with the thought in mind that perhaps Mr. Kahn might decide to make such changes as would permit him to

FOR DEFENSE



-2-

manufacture wood desks. The bid opening is scheduled for December 26th and you will be advised as to the result. As you know, legislation was passed the latter part of last week which will permit the negotiation of such purchases upon delegation of authority by Executive Order which is now being prepared, but at the present time purchases of other than Lend-Lease, Strategic Materials, Red Cross and Defense Housing equipment are on a competitive basis.


Clifton E. Mack,
Director of Procurement.

THE WHITE HOUSE
WASHINGTON

December 18, 1941

Dear Henry:

I thought your man said they couldn't
make desks?

Affectionately,



COPY

152

SEE CRAFT SHOP"

"THE FORGE"

THE ARTHURDALE ASSOCIATION
(MOUNTAINEER CRAFTSMEN'S SHOPS DIVISION)

Arthurdale, W. Va.

December 12, 1941

Mrs. Eleanor Roosevelt
White House,
Washington, D. C.

My dear Mrs. Roosevelt:

Your letter of December 8th no doubt crossed mine in the mail. I had already written Mr. Peed who is the chief of the procurement division that I did not feel we should endeavor to make medicine chests in this plant because we are geared up to manufacturing items the size of a fine desk or radio cabinet, secretary or breakfront and the like. We should have items running from \$30.00 to \$50.00 each. We are limited in floor space and in man power, of which I am sure you are fully aware.

I would appreciate it very much if you would make this suggestion to Mr. Secretary Morgenthau as I am sure they are going to buy thousand of desks and we are fully prepared to make them at good advantage to the project as well as to the government.

I sincerely hope that you will be able to find at least a day to see what we are accomplishing and to see the people at work so you will have a better idea of what we can and should do here. Also, I wrote you some time ago that I was holding the first radio that came off the line at Arthurdale which I desired to send you for your personal enjoyment and I would like to have you choose the model you prefer here where you can see and feel the enthusiasm that goes into the manufacture of the Brunswick models.

I am also prepared to fully consider total defense work to back up our Commander in Chief in this mighty struggle and that, too, I would like to submit to your good business judgement one or two plans and then follow the one that is best for this project. I would be pleased to see you either here or in Washington whichever is most convenient to you.

David E. Kahn/eb

Faithfully,
(s) David E. Kahn

"THE CRAFT SHOP"

"THE FORGE"

THE ARTHURDALE ASSOCIATION
(MOUNTAINEER CRAFTSMEN'S SHOPS DIVISION)

Arthurdale, W. Va.

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David E. Kahn/eb

Faithfully,
(s) David E. Kahn

TREASURY DEPARTMENT

153

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE December 29, 1941

TO Secretary ~~Morgenthau~~
FROM Mr. Haas
Subject: The Business Situation,
Week ending December 27, 1941.

Summary

(1) The effect of our entry into the war is reflected to a limited extent in the statistics now becoming available:

(a) The general price level has risen 2 percent in the first 2 weeks of the war, which carries it 25 percent above the pre-war August 1939 level. Quick and extensive price control actions by the OPA, however, have reduced the threat of general price inflation, and have been largely responsible for a levelling-out in basic commodity prices.

(b) Exports from New York have increased to a new high figure, while receipts of freight for export have reached an even higher level. Storage space for export freight has become more fully occupied.

(c) Business activity appears to have shown further moderate expansion, despite a sharp drop in the output of automobiles and other civilian goods. The New York Times index of business activity in the week ended December 20 again rose fractionally to a new high at 133.5.

(2) Freight carloadings are showing less than the usual seasonal downturn. The large unfilled orders of the railroad equipment industry have been recently augmented by substantial orders for export.

(3) The critical steel scrap situation may be relieved to some extent by last week's OPA action revising the price schedules for scrap, intended to increase the flow of scrap to mills. The steel operating rate for this week is raised to 96.1 percent of capacity, after declining only 4.5 points to 93.4 percent during Christmas week.

General situation

An appraisal of the effects of the outbreak of war on the domestic business situation is hindered by the limited statistical data thus far available. Aggregate business activity, however, appears to have continued to expand moderately. The New York Times index of business activity, after rising slightly in the first week of the war, showed a further small gain in the succeeding week. The steel industry has maintained a steady production rate despite the scrap shortage, and last week showed a much smaller decline than usually occurs during the Christmas holiday week.

The production of electric power (widely used in defense industries) reached a new record high in the week ended December 20, although the gain was somewhat less than seasonal. Cotton mill activity continues at a high level, and defense industries are being pushed to expand output. Freight carloadings have shown strong resistance to the usual seasonal decline. On the other hand, automobile production has dropped sharply and last week ran 71 percent under year-earlier levels. In addition, various other civilian goods industries have had their production cut sharply.

Commodity prices make further gains

Our entry into the war has caused a renewed rise in commodity prices, which the OPA is combatting with many restrictive orders. The BLS all-commodity index, covering wholesale prices of nearly 900 commodities, rose another 1 percent during the week ended December 20. This makes a gain of 2 percent in the two weeks since the war began. The index of 94.0 represents an increase of 18 percent over the corresponding week of last year, and 25 percent over the pre-war August 1939 level. The increase in the latest week was chiefly due to higher prices for farm products, particularly livestock and poultry.

Rapid as the price rise has been during 1941, it shows evidence of more effective price control than during the corresponding period after the beginning of the first World War. (See Chart 1, upper section.) In the case of foods, however, wholesale prices have followed very closely the first World War trend. (See lower section of chart.)

Our formal entry into the present war has anticipated by about four months the timing of our entry after the outbreak of the first World War. Price control measures adopted

shortly after we entered the war in April 1917, it will be recalled, proved relatively effective in restricting further advances in general commodity prices for the duration of the war. It seems likewise probable that the present threat of price inflation has been lessened by our change to a full war economy.

Basic commodity prices steady

Quick and extensive price control actions taken by the OPA since the Japanese attack have been effective in preventing further general advances in basic commodity prices since the initial upturn. The BLS price indexes for basic foodstuffs and industrial raw materials have levelled out for the third successive week. (See Chart 2, upper section.)

Among the individual basic commodities (lower section of chart), the industrial materials group showed moderate price increases last week in flaxseed and print cloth, which were largely offset by a decline in rosin. The Department of Agriculture reports that Argentina has a burdensome supply of flaxseed. The carryover in that country is the largest on record. The 1941-42 crop is the largest since 1936-37, and storage facilities are already completely filled with flaxseed and wheat, necessitating the storing of large quantities in the open. The Argentine Government has agreed to purchase the entire new crop from the growers.

Among the basic foodstuffs, prices of hogs and steers advanced noticeably last week, while certain other prices showed moderate declines. The rise in livestock prices has been partly in response to the outbreak of war. Prices have also been strengthened by a temporary reduction in marketing of hogs, and by a recent greater-than-seasonal decline in cattle marketings following an exceptionally heavy movement during October.

Agricultural benefit payments in 1942

The Department of Agriculture has announced the rates of benefit payments for 1942, showing reductions for all major crops except wheat (for which a curtailment of production is planned). As in former years, farmers may earn two types of payments: one for cooperating in the planting of soil-depleting crops within special allotments, and the other for carrying out soil-building practices. The follow-

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ing table compares the 1941 and 1942 rates for major crops, based on normal yields:

<u>Crop</u>	<u>1941</u>	<u>1942</u>
Corn (commercial area), cents per bu.	9.0	8.0
Cotton, cents per lb.	1.37	1.25
Wheat, cents per bu.	8.0	10.5
Rice, cents per 100 lbs.	5.5	3.0
Peanuts, ton	\$2.25	\$1.45
Potatoes (commercial) cents per bu.	2.3	2.0
Flue-cured tobacco, cents per lb.	0.8	0.7
Burley tobacco, cents per lb.	0.8	0.7
Fire-cured tobacco, cents per lb.	1.5	1.4
Dark air-cured tobacco, cents per lb.	1.0	0.9
Virginia sun-cured tobacco, cents per lb.	0.8	0.7

Export freight movement at New York higher

The outbreak of war has been followed by a sharp increase in exports from New York, while receipts of freight for export at New York have increased to an even higher level. (See Chart 3.) Receipts for export at other North Atlantic ports and at Pacific ports, however, have declined somewhat.

Receipts for export at New York have continued at a higher rate than actual exports, which has resulted in a steady increase since last September in the accumulation of lighterage freight in storage in New York harbor. (See Chart 4.) The volume in storage on December 19 stood at 20,377 carloads. Storage space was still available on that date, however, for 12,526 carloads.

Heavy backlog of railroad equipment orders

In view of the rise in the volume of export freight, and the probable increase in freight traffic in connection with the war effort, the adequacy of our railroad equipment has lately received increased attention.

New domestic freight car orders in recent months have fallen off sharply from the peak level reached last June. (See Chart 5.) Nevertheless, at the beginning of December the railroads still had nearly 77,000 new freight cars and 572 new locomotives on order. To meet next fall's anticipated traffic peak, the railroads have ordered or will order for delivery by October 1 of next year, 114,000 freight cars and 970 locomotives, according to the Association of American Railroads.

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Railroad equipment makers have not been able to meet original production schedules due to difficulties in obtaining adequate supplies of steel, but some improvement in the situation is now anticipated. This will be a welcome development, because in addition to their large backlogs of domestic orders, railroad equipment producers have recently received substantial export orders. These have included orders for 200 locomotives for lend-lease purposes, 20 locomotives for the Yunnan-Burma railway in China and 33 locomotives for the National Railways of Mexico.

Railroad earnings hit by higher operating costs

Despite the rise in freight carloadings in October, net railway operating income fell below the levels of the previous three months, owing to increased operating costs originating largely from the wage increases granted railway employees. (Refer to Chart 5.) While the earnings figures reported for October are subject to qualifications due to lack of uniform practice in allowing for retroactive wage increases negotiated after the close of the month, preliminary reports for November reveal a substantial cut in earnings as a result of the wage increases. The railroads have petitioned the Interstate Commerce Commission for an increase in both passenger and freight rates to offset the higher wage costs.

In order to cope with war-time domestic transportation problems and to coordinate governmental policies in that connection, the Office of Defense Transportation was established last week by executive order. This agency, which will be headed by Joseph B. Eastman of the Interstate Commerce Commission, will be expected (among other functions) to estimate the requirements to be imposed upon domestic transportation facilities by the war effort, and the adequacy of existing facilities to handle such requirements.

Steel scrap price schedule revised

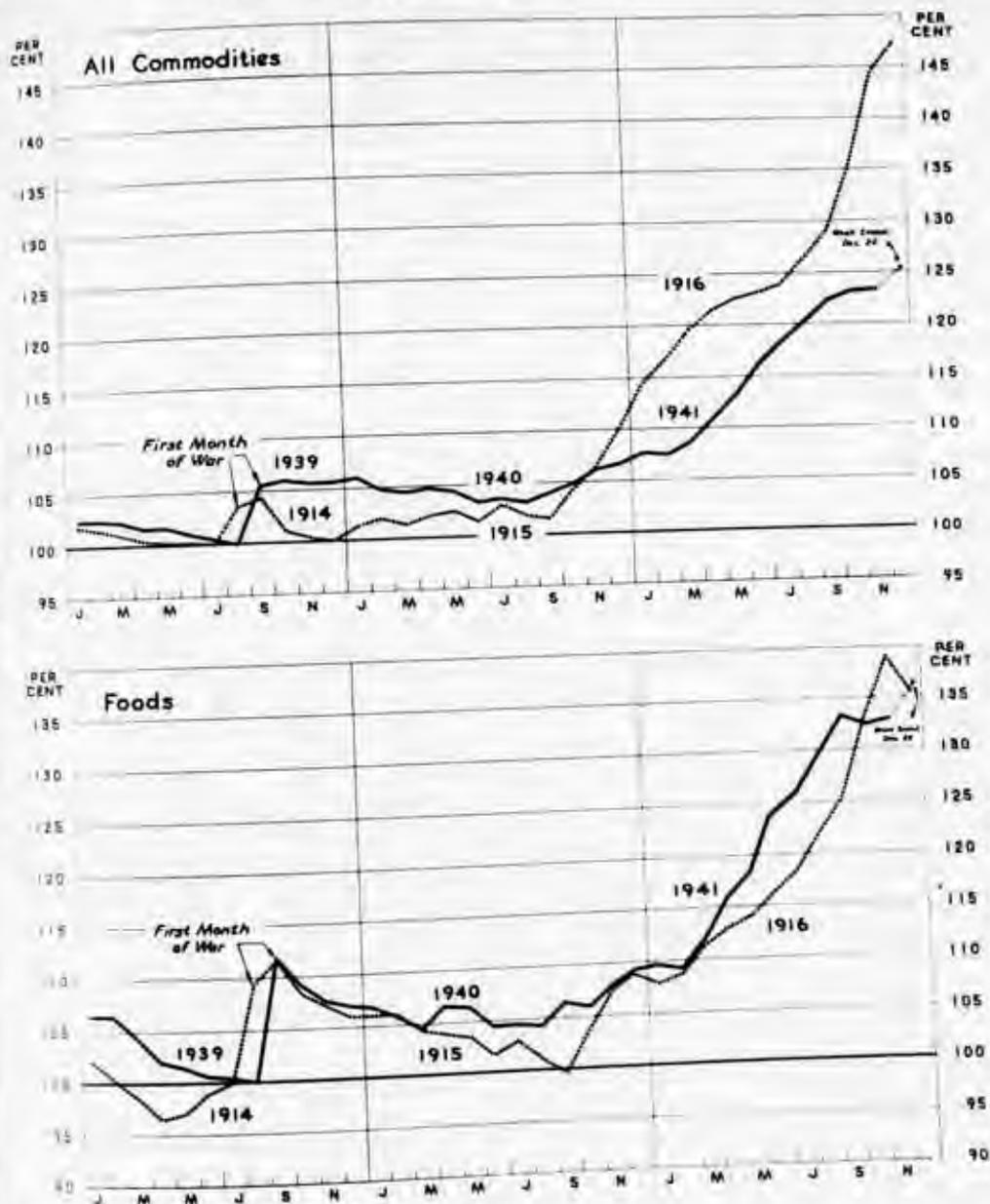
In an effort to increase the flow of steel scrap to steel mills, the OPA last week effected substantial revisions in its schedule of prices for iron and steel scrap. While the price was not raised for No. 1 heavy melting scrap, dealers will get a better price for lower grades under the revised schedule. Furthermore, in computing maximum scrap prices at the shipping point, dealers may now quote on the basis of the most favorable shipping point rather than the nearest one. Steel operations last week showed much less than the customary Christmas week decline and decreased only 4.5 points to 93.4 percent of capacity. Operations during the current week are scheduled to rebound to 96.1 percent of capacity.

Department store sales improve somewhat

Department store sales in the week ended December 20 widened their gain over year-earlier levels to 7 percent, as compared with only 2 percent in the previous week, when sales were adversely affected by the outbreak of the war. The widest gain over 1940 levels was scored by the Richmond district with an increase of 14 percent. The poorest showing was made by the San Francisco district, where sales were only 1 percent above the corresponding week of 1940. Despite the moderate improvement in sales in the last full week before Christmas, this year's holiday trade failed to come up to earlier expectations, and in terms of actual volume, appears to have fallen slightly below year-earlier levels.

PRICES, 1939-41 COMPARED WITH 1914-16

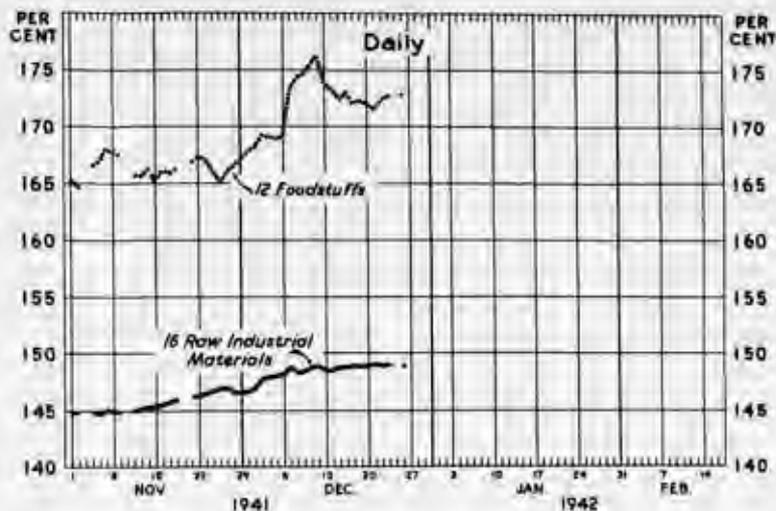
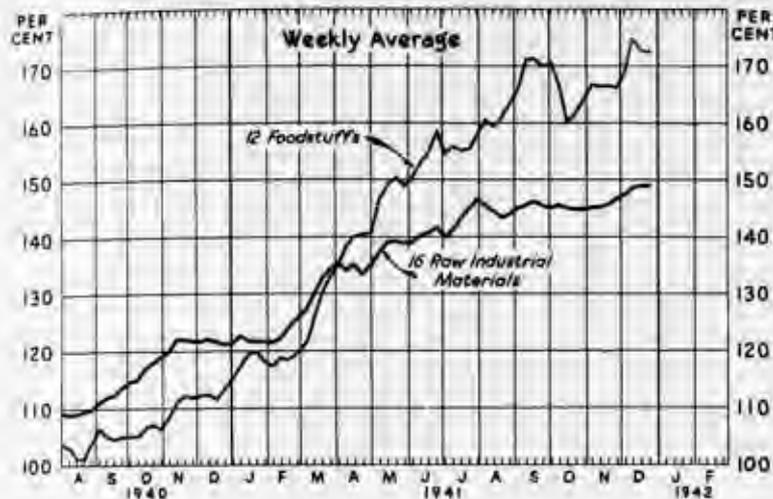
July 1914=100 World War Period; Aug 1939=100 Present Period



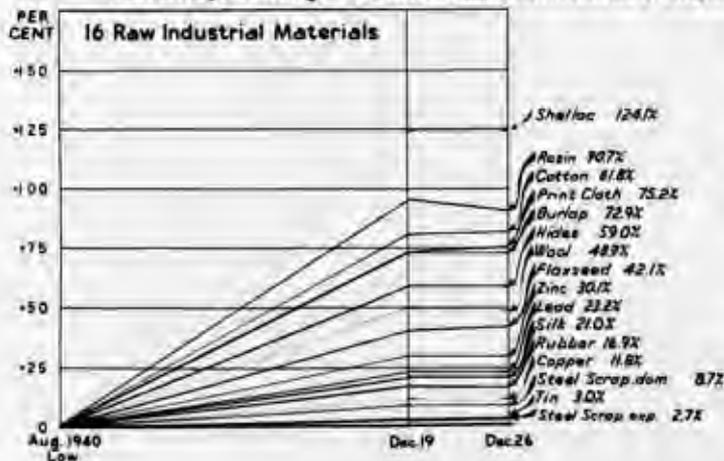
Source: B.L.S.

MOVEMENT OF BASIC COMMODITY PRICES

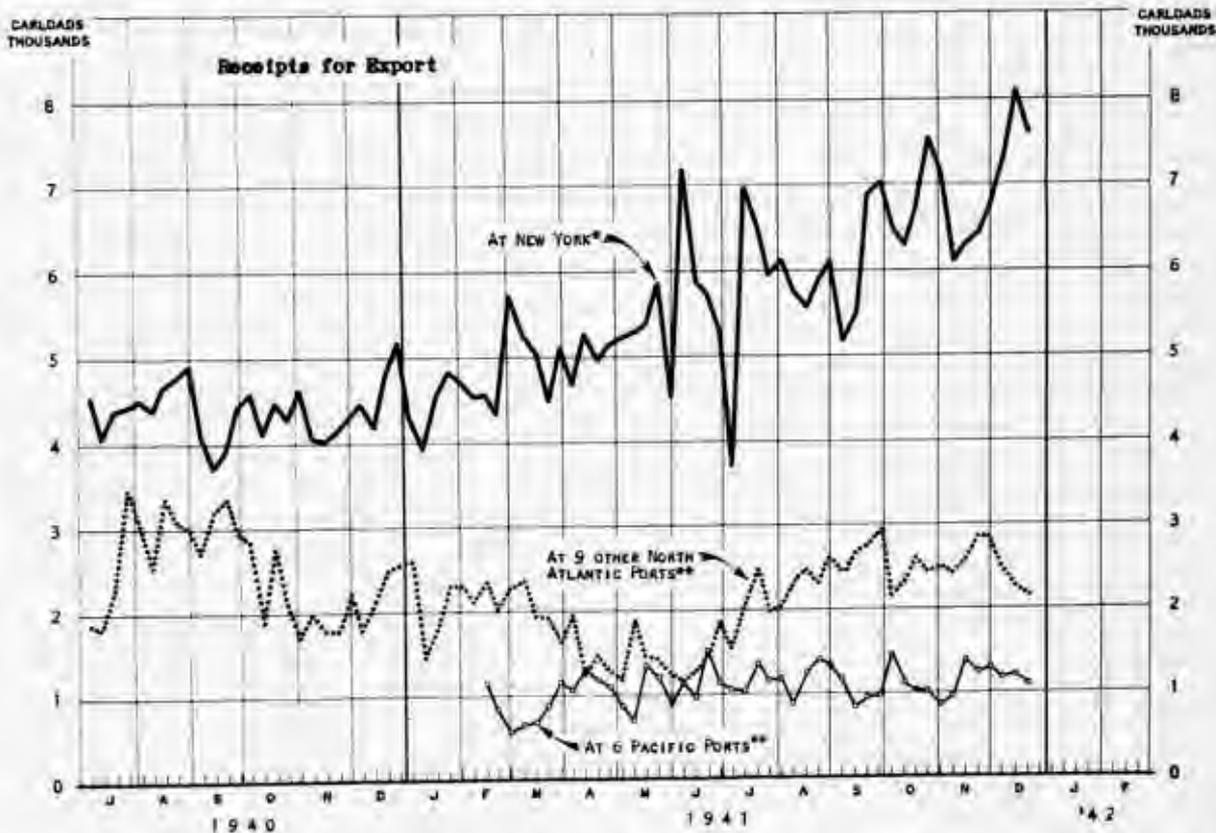
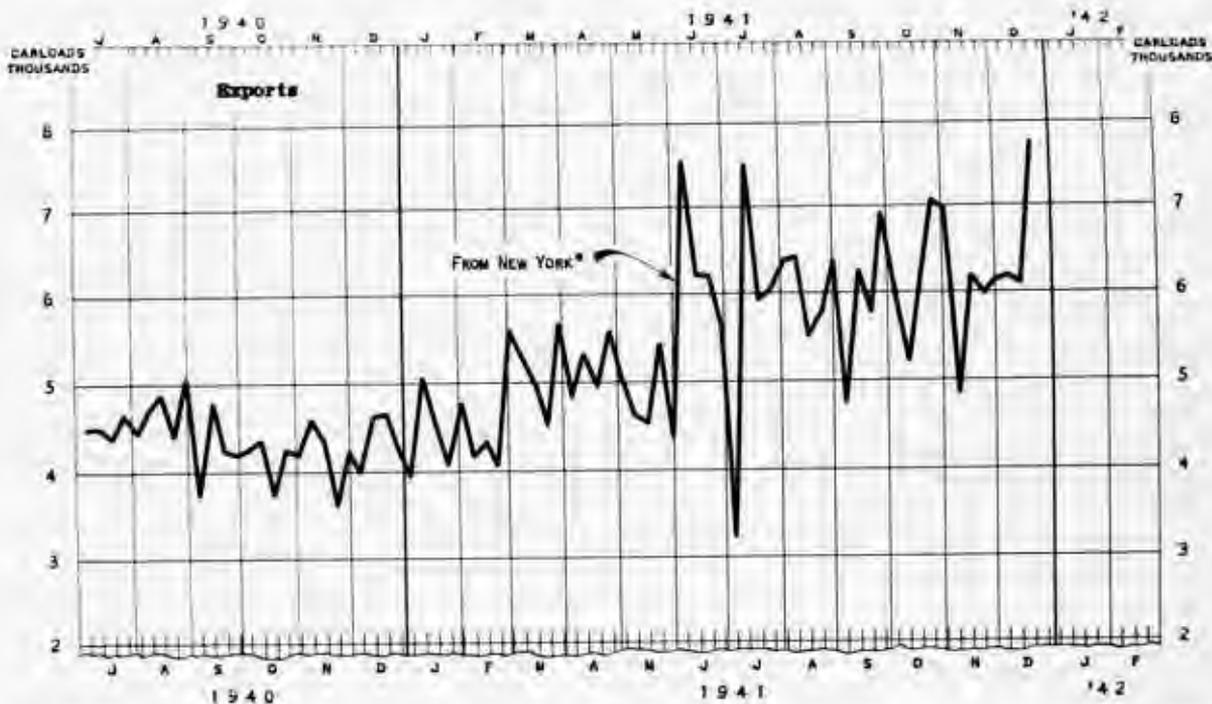
AUGUST 1939-1940



Percentage Change for Individual Commodities, August 1940 Low to December 19 and to December 26, 1941

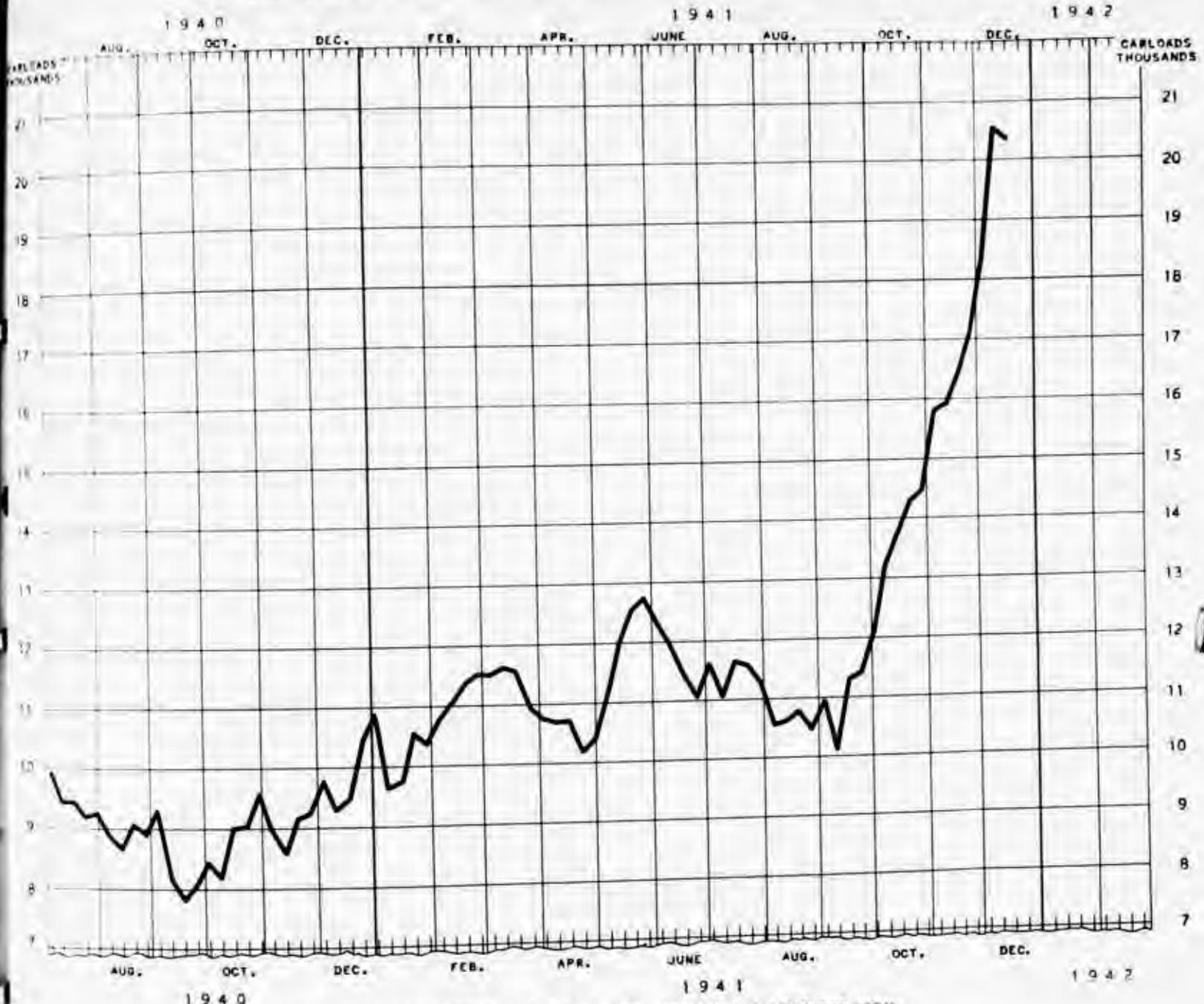


EXPORT FREIGHT MOVEMENT



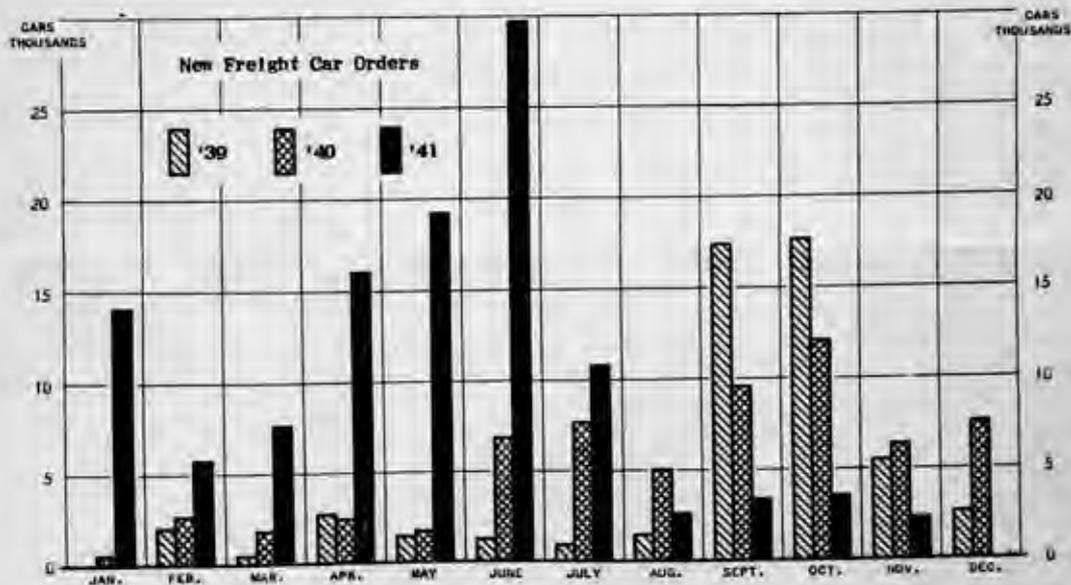
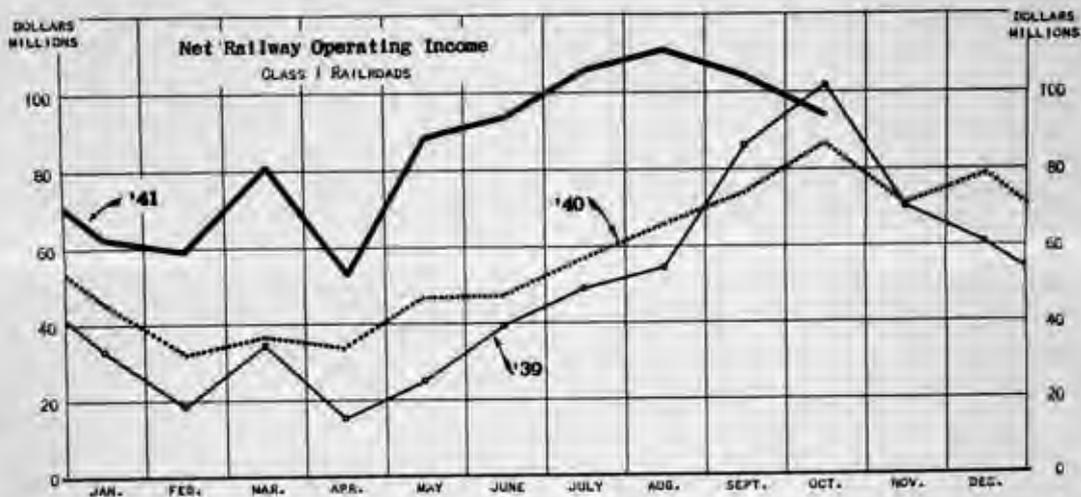
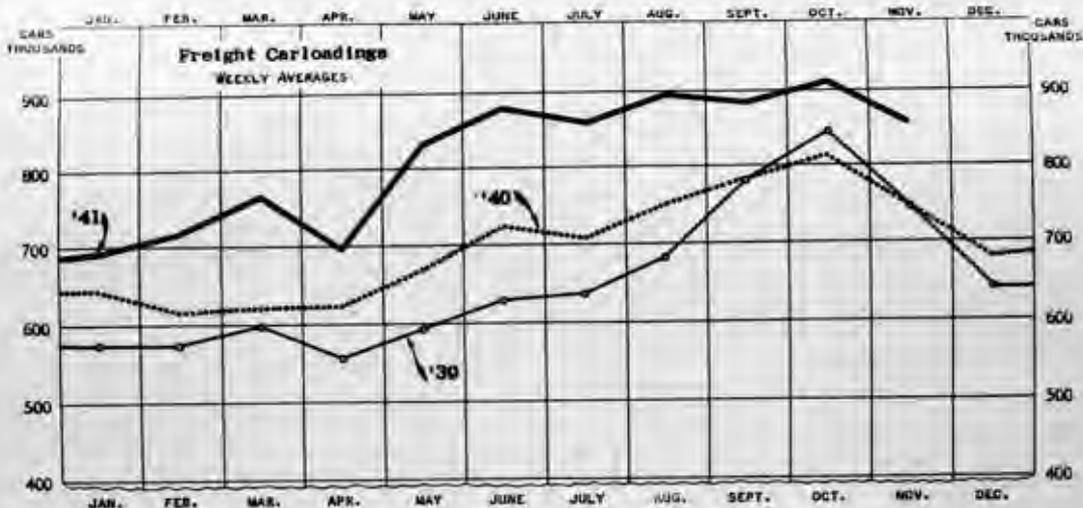
*AS ESTIMATED FROM DATA OF GENERAL MANAGERS' ASSOCIATION OF NEW YORK.
 **ASSOCIATION OF AMERICAN RAILROADS.

LIGHTERAGE FREIGHT IN STORAGE AND ON HAND FOR UNLOADING IN NEW YORK HARBOR *



* LARGELY EXPORT FREIGHT, BUT ABOUT 10% REPRESENTS FREIGHT FOR LOCAL AND COASTAL SHIPMENT. FIGURES EXCLUDE GRAIN.

RAILROAD SITUATION



OFFICE OF PRICE ADMINISTRATION

Washington, D. C.

December 29, 1941

MEMORANDUM

To: Mr. Randolph Paul

From: Mr. Richard V. Gilbert

Subject: Notes on our discussion of the 1942 tax program.

1. The proposed tax program to yield two billion of new revenues in fiscal 1942 and ten billion in new revenues in fiscal 1943 represents, in our view, the maximum increase consistent with effective prosecution of the war. Indeed, while there is little question in our minds but that the country will ultimately accept an even more drastic increase, we have serious doubts whether the proposed program does not constitute too sudden and too sharp an increase.

2. So far as preventing inflation is concerned, these sums represent more than is needed in the near future, and probably more than is required in fiscal 1943.

(a) The chief pressure of government demand is in the field of durable production. To satisfy the government demand, it is absolutely necessary drastically to curtail private expenditures in this field. Such curtailment, exercised through priorities, allocations, and other direct controls will reduce private expenditures by an amount very little short of the increase in government expenditures. The details of these calculations were indicated in the memorandum I submitted to you earlier this week.

(b) Only one-third of the new taxes proposed should be of the type aimed to restrict consumption rather than to raise revenue. Curtailment of expenditures on consumption beyond this level will unnecessarily restrict employment and production in this field.

(c) We estimate collections in fiscal 1943 on the basis of existing taxes at 18.5 to 19 billion, as compared to the Treasury's estimate of 16.5 billion. An additional 10 billion of revenues would therefore permit the financing of half total government expenditures rather than defense expenditures through taxation.

3. Mr. Henderson believes that there is no justification for including a sales tax in the new program.

(a) A sales tax has price raising effects which make it extremely difficult for the Office of Price Administration to perform its function. It is the policy of this Office in determining maximum prices to make allowance for excise taxes and sales taxes as well as other costs of doing business. This policy, arrived at after intensive study, we regard as virtually a legal necessity because such taxes are intended by the Congress to be passed on to the consumer. The passage of new taxes of this type would oblige us to raise ceiling prices by the amount of such taxes.

The inflationary effect of the sales tax, unfortunately, does not stop there. A rise of industrial prices by increasing the prices of goods that farmers buy raises parity prices for farm products, with the result that ceilings on farm prices would have to be raised irrespective of whether the sales tax bore on them directly or not. A sales tax would thus both directly and indirectly increase the cost of living.

We estimate that a sales tax to yield three billion would increase the cost of living by 7 percent. In view of the fact that the cost of living has already increased 12 percent since August 1939, 10 percent of which has taken place since March, and in view of the fact that the cost of living is now rising at 1.5 percent per

Mr. Randolph Paul

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December 29, 1941.

month, such an increase in the cost of living would give rise to new and insistent demands for higher wages and enormously increase the difficulties of preventing general inflation.

(b) To accept a sales tax is to accept a regressive principle against which we have fought bitterly in the past. The low income groups are already paying a high percentage of their incomes in taxes of one form or another and the passage of the sales tax would increase the burden upon them out of proportion to their ability to pay.

(c) The anti-inflationary effects for which a sales tax is desired can be achieved by taxes based upon income, and they can be achieved more efficiently and more equitably by such taxes.

4. A value added tax, if it has no exemptions for wages paid, is exactly like a sales tax so far as the determination of maximum prices by this Office is concerned. The passage of such a tax would have all of the undesirable effects mentioned in section 2 above.

A value added tax which exempted wage payments from the tax base would in substance be closer to a gross income tax than to a sales tax. In setting maximum prices, however, we should be obliged to recognize the fact that the tax had not been passed in the form of a gross income tax but in the form of a tax on value added with certain exemptions. We should therefore have to take it into account in determining maximum prices.

Even if we could force the immediate tax-payer to absorb the tax--which is doubtful--the tax would be undesirable.

(a) It is less equitable than net income or excess profits taxes, which differentiate in their rates between large and small incomes.

(b) If the Census definition of value added were used, depreciation and depletion would be included. In our opinion there is little justification for taxing them.

(c) The claim made for this tax that it would not meet as much resistance from business as increased net income or excess profits taxation has, in our opinion, no foundation whatever. The nature of such a tax would soon be obvious; business would object to it just as much as to increased net income or excess profits taxation and with better reason.

5. As against a value added tax or a sales tax we would much prefer a 15 percent withholding tax with existing credits and exemptions. We are opposed to further reductions of credits and exemptions on the double ground that (a) the standard of living of people below the present level of exemptions and credits is already dangerously low, especially when account is taken of the recent and prospective increases in the cost of living, and (b) the taxation of this group will contribute very little to the prevention of inflation.

Failure to lower credits and exemptions will of course restrict the yield of this tax. We believe that additional revenue should be raised by increasing surtax rates in the \$4000 to \$50,000 brackets. Despite the changes made by Revenue Act of 1941, people in these brackets are still taxed relatively lightly in terms of their ability to pay and the fact that we are at war. With this change the combined additional yield of the income tax and the withholding tax can be made to yield between \$4 and \$5 billion.

In view of the fact that so large a sum is not immediately necessary in order to choke off inflation, the Congress should be asked to authorize the withholding tax, leaving the determination of the timing and magnitude of the tax to be determined by the executive. Or, if the Social Security program is expanded, with an increase in payroll taxes to yield \$2 billion, the withholding tax might be dropped in favor of an increase in normal and surtax rates to be effective in 1943.

Mr. Randolph Paul

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December 29, 1941.

If the withholding tax is to be immediately effective, some means must be found of softening the blow. We heartily concur in the proposal that some fraction of the funds raised through this tax should take the form of deferred income payable at a later date. The lower the income, the higher this fraction should be. Such an arrangement is necessary to soften the blow. It is also desirable both from the point of view of equity and of post-war adjustment.

6. A tax program as severe as the one outlined here must be severe all along the line if it is to be acceptable to the country. Loopholes must be closed and estate and gift taxes increased. Furthermore, taxes on corporate income and excess profits must be increased sharply. The following figures show that corporate profits both before and after taxes have increased disproportionately since the war began.

	1939	1940	1941	Percentage Increases		
				1940 over 1939	1941 over 1940	1941 over 1939
Corporate profits before Federal taxes .	4.2	6.4	12.8	53	100	205
Corporate profits after Federal taxes . .	3.0	3.7	7.0	23	89	133
Farm income before taxes .	8.7	9.1	11.2	5	23	29
Wages and salaries before taxes	44.3	48.2	58.3	9	21	32

Roughly speaking, the increase in corporate profits after federal taxes between 1939 and 1941 is four times the increases of cash farm income (including benefit payments) and wages and salaries, both before taxes. This disproportionality, which is reflected in published earnings statements, goes a long way to explain the demands being made by farmers and workers.

Mr. Randolph Paul

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December 29, 1941

Last spring, wage rates in the basic industries were raised approximately 10 percent. Since that time, the cost of living has also risen 10 percent, completely offsetting the improvement in labor's position resulting from the rise of wage rates. By next spring, when many of these wage contracts come up for renewal, the cost of living will have risen by an additional 5 percent. Labor will unquestionably demand a 15 percent increase in hourly rates. To grant such an increase would make impossible the prevention of inflation. Not to grant such a wage increase will be extremely difficult in the light of the increase of the cost of living, on the one hand, and in the light of the past and prospective increase of profits, on the other, unless taxes on profits are drastically increased. We estimate that corporate profits before taxes will be \$19 billion in 1942 and that corporate profits after reserves for existing taxes will be \$10.6 billion--an increase of 52 percent over 1941. The proposal to raise an additional \$1.5 billion from corporate taxes would leave corporate profits after tax reserves about 30 percent higher than they were in 1941. This proposal does not go far enough to make the wage situation manageable. \$2.5 or \$3 billion, in our judgment, represents a figure which the Treasury should shoot for.

Richard V. Gilbert

discussed at 915 meeting
12/30/41

December 29, 1941

Program for Revenue Bill of 1942

	Approximate Revenue (Millions of dollars)
I. Individual income taxes	\$1,000
II. Estate and gift taxes	200
III. Corporate taxes	2,000 - 3,000
IV. Closing of tax loopholes	500 - 1,000
V. Elimination of inequities	-100 (Loss)
VI. Excise taxes	500
VII. Social Security	2,000
	<hr/>
Total	\$6,100 to \$7,600

PROGRAM FOR REVENUE BILL OF 1942

I. Individual income taxes.

- a. The surtax rates applicable to individual incomes should be substantially increased. Attached hereto is a schedule showing the proposed rates for incomes up to \$10,000. The rates applicable to incomes over \$10,000 will, of course, also be increased.
- b. A system of collection at the source should be instituted through a withholding of tax at the rate of 16 percent (normal tax of 4 percent plus first bracket surtax rate of 12 percent) or less.
- c. Flexibility should be introduced into the tax system by making it possible to institute collection at the source as suggested above at the time it is needed instead of stipulating a fixed time in the law. Such flexibility might even extend to the rate of withholding.
- d. Consideration should be given to the desirability of introducing forced savings in the lower brackets.
- e. The personal exemptions of \$1,500 for married couples and \$750 for single persons should not be reduced. If, however, they are reduced, the reduction should be accompanied by a forced savings scheme.

II. Estate and Gift Taxes.

- a. The rates of tax applicable under the estate and gift taxes should be substantially increased.
- b. The exemptions applicable under the estate and gift taxes should be substantially reduced.

III. Corporate Taxes.

- a. The present excess profits tax would be retained, with some corrective amendments, such as: (1)

- 2 -

Reductions in capital under the average earnings method should be applied at the 8 percent rather than the 6 percent level, to place them on the same basis as increases in capital; (2) The permission to count a deficit base period year at zero should be eliminated; (3) A limitation should be placed on the amounts that may be deducted for advertising expenditures, salaries, etc.; (4) The average earnings credit might be reduced from 95 percent to 75 percent.

It is not deemed advisable to revise further the excess profits tax at this time. Disparities within and between industries now exist which should be examined before a further revision is made. Further, our limited experience with this tax and the complexities that further revision would involve make such further revision undesirable at a time when relative simplicity of administration is especially desirable.

- b. There should be imposed upon all corporations an additional income tax at graduated rates. The rates and graduations should be such as to yield from 2 to 3 billion dollars additional revenue, in conjunction with the proposal under III. a. above

A graduated income tax applicable to corporation incomes is justified by the fact that definite economic advantages are obtained by corporations having large amounts of assets and income.

- c. The declared value capital stock tax and the declared value excess profits tax should be repealed.

IV. Closing of Tax Loopholes.

The following major tax loopholes should be closed:

Income Tax

1. Tax exempt securities--Future issues of State and municipal obligations should be fully taxable. Outstanding issues of such securities should likewise be taxable, but with a credit designed to offset the differential in interest rates existing by reason of the tax exemption hitherto granted.

2. Percentage depletion--The present system of depletion should be revised, in cooperation with OPM, to encourage wildcatting and not give a special bonus to owners of settled production.

3. Family income--Mandatory joint returns would be required for husband, wife, and minor children, with a limited credit for the working wife. This would automatically take care of community property, and solve many trust problems.

4. Corporate bond interest--The present deduction for corporate bond interest would be eliminated for future issues of corporate bonds, and would be gradually withdrawn as respects outstanding issues.

5. Insurance companies and banks--The present system of taxing the insurance companies and banks should be revised. For example, in the case of life insurance companies the deduction for reserves would be reduced to 3 percent of the mean of the reserve, and a double deduction would not be allowed for tax exempt securities.

6. Capital gains and losses--The present rate of tax on capital gains would be increased and at the same time taxpayers would not be permitted to offset capital losses against ordinary income.

7. Pension trusts--The possibilities of tax evasion now present through the use of pension trusts should be terminated.

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8. Property transmitted at death--The tax basis of property transmitted at death should be revised to prevent the escape from tax that now exists with respect to the appreciation in value that has occurred in the hands of the decedent.

9. The March, 1913, earnings--The present exemption accorded to a distribution of corporate earnings traceable to the period prior to March 1, 1913, should be eliminated.

Estate and Gift Taxes

1. Powers of appointment--The present escape from tax that is permitted through the utilization of special, and unexercised general, powers of appointment should be eliminated.

2. Life insurance--The inclusion of insurance in the gross estate should be strengthened so as to reach those forms of life insurance that now escape the tax.

V. Elimination of Inequalities

The following major technical tax inequalities should be eliminated:

Income Tax

1. Consolidated returns--Corporations permitted to file consolidated returns for the corporate excess profits tax should likewise be permitted to file consolidated returns for the corporate income tax.

2. Investment expenses--Taxpayers should be allowed a deduction for expenses incurred in the production of income even though such income is not trade or business income.

3. Personal holding company tax--The inequities in the present personal holding company tax arising out of the disparity between earnings and profits and net income should be eliminated so that personal holding companies which distribute all of their income should not be subject to the personal holding company tax, as occurs in some cases today.

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4. Deductions for bad debts and worthless stock losses--The uncertainties that surround the deduction for bad debts and worthless stock losses should be eliminated so that taxpayers would not lose such deductions because of the difficulty of determining the year in which they belong.

5. Alimony--The present method of taxing alimony should be revised to the end that alimony payments are taxable to the wife rather than to the husband in all cases.

6. Accrual of income upon death of taxpayer--The inequities that now occur because of the system of accruing future income in the year of the taxpayer's death should be eliminated.

7. Lessee's improvements-- The present method of including in the lessor's income in the year of forfeiture or termination of the lease the value of improvements made by the lessee should be revised so as to eliminate the hardship that may be caused by placing all of such income in one year.

Estate and Gift Tax

1. Exemption for gifts in trust--An exemption should be allowed for gifts in trust similar to the exemption now accorded outright gifts.

2. Charitable pledges--The present uncertainty surrounding the deduction for legally enforceable pledges to charity should be eliminated so that taxpayers are not deprived of a deduction on account of such pledges.

VI. Excise Taxes

A number of additional excise taxes would be imposed on those articles whose consumption must be discouraged in order to further the utilization for defense purposes of the materials involved. The articles to be taxed and the rates of taxation are to be worked out in cooperation with the other agencies concerned.

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VII. Social Security Taxes

The recommendation in the Budget Message respecting social security taxes should be followed.

Attachment

SUGGESTED NEW SURTAX SCHEDULE

<u>SURTAX NET INCOME</u>	<u>SURTAX SUGGESTED RATE</u>	<u>SURTAX PRESENT RATE</u>
0 to \$2000	12 percent	6 percent
\$2000 to \$4000	15 percent	9 percent
\$4000 to \$6000	18 percent	13 percent
\$6000 to \$8000	20 percent	17 percent
\$8000 to \$10,000	22 percent	21 percent

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE
December 29, 1941TO Secretary Morgenthau
FROM Mr. Kuhn

You may be interested in this preliminary report of press comment on the Byrd Committee. There will be a more detailed report, of course, at the end of the week.

J. K.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 29, 1941

TO Ferdinand Kuhn, Jr.

FROM Joseph Melia

First Press Reactions to the Byrd Committee Report.

Conservative, Eastern metropolitan newspapers want no "yes--but..." answer from Congress on the report of the Byrd Committee. Many fear, however, that because of political pressure Congress may balk at some of the economies advocated.

Most of the liberal newspapers, including the New York Post and the Chicago Sun, have failed as yet to comment on the report. But PM, which rarely prints editorials, bitterly attacked Senator Byrd and the type of economies suggested by the Committee, and also devoted a full page to reprinting Senator La Follette's dissent. Otherwise, Senator La Follette's statement has so far been ignored by most editorial writers -- and even by most news editors -- in large Eastern centers.

Secretary Morgenthau's suggestion that a bigger cut could and should be made in agricultural payments is winning practically unanimous approval.

In general, the Eastern press maintains that, because of the war and defense program, the present rate of expenditure is no longer justifiable for public works, youth aids, farm benefits, or work relief. Most editorial writers point out as significant that the Committee's suggested economy program in these fields follows, in the main, frequent demands made by such groups as the National Economy League. This, they argue, proves beyond a doubt that the recommendations are sound and that Congress should act accordingly, regardless of "pork-barrel" pressures.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE
December 29, 1941TO Secretary Morgenthau
FROM Ferdinand Kuhn, Jr.

The National Gallery is moving about one hundred of its most precious and irreplaceable paintings and sculptures to a place of safety for the duration of the war. The shipment will be made during the first week in January. The art treasures will be taken by train, in the care of Gallery guards, to Biltmore House, the Vanderbilt estate outside Asheville, North Carolina. No announcement of the transfer will be made until after the pictures are safely stored, and the place will, of course, be kept a secret.

This was the chief business at today's meeting of the Board of Trustees, with Chief Justice Stone presiding. The Board will have full discretion to move still more art objects from the Gallery if that should be thought necessary.

Reports are attached.

F. K.

F. Kuhn

A G E N D A

OF

Special Meeting of the Board of Trustees of the National Gallery of Art to be held in the Board Room of the Smithsonian Institution, Monday, December 29, 1941 at 11:30 A. M.

Ag-506e. Article V, Section 4:

"Special meetings may be called at any time by the Chairman of the Board, by the President or by any two members of the Board, and shall be held at the place in Washington, D. C., and at the time and for the purpose or purposes specified in the call * * *

(This meeting has been called for the purpose of determining upon measures to be taken for the protection of the Gallery and the collections of works of art during the war period; and for the transaction of such other business as may come before the meeting.)

1. Minutes of last meeting.

Copies of minutes of the last meeting of the Trustees held September 8, 1941 have been made available to all of the Trustees, and if agreeable to the Trustees, the reading thereof may be dispensed with and the minutes may be ordered to stand approved.

Report by the President on measures which have been taken for the protection of the National Gallery during the war period and recommendations of the officers of the Gallery concerning the removal of works of art from the building in case of emergency.

3. Loan of works of art to the National Gallery of Art, report on by Director.
4. Reports of Committees.
 - A. Executive Committee - Nothing to report.
 - B. Finance Committee - Nothing to report.
 - C. Acquisitions Committee - ?
 - D. Committee on the Building.
Administrator to report on alterations and improvements to building.
5. Appointment of Consultant Architect to the National Gallery of Art.
6. Report of the Administrator on the budget estimates for the fiscal year 1943 in so far as public funds are concerned.
7. Report of the Treasurer on the opening of a checking account in the name of the "National Gallery of Art General Fund".
8. Other Business.

The President reviewed the confidential report of the executive officers of the Gallery on measures which have been taken for the protection of the National Gallery of Art during the war period and their recommendations for the removal of works of art from the building in case of emergency.

Resolutions approving measures which have been taken for the protection of the National Gallery of Art during the war period and recommendations of the President concerning the removal of works of art from the building in case of emergency.

R E S O L V E D

That the joint confidential report of the Secretary-Treasurer, the Director, the Administrator, and the Chief Curator to the President of the Gallery, dated December 23, 1941, on measures which have been taken for the protection of the National Gallery during the war period, read to the members of the Board of Trustees present at this meeting, be and it hereby is approved;

RESOLVED FURTHER, that the action of the several officers of the National Gallery of Art in carrying out the measures so reported be and hereby it is approved:

RESOLVED FURTHER, that the recommendation of the President that authority be given the several executive officers of this Gallery to proceed with the removal of the works

of art covered by said confidential report, as soon as funds are available for that purpose and if such action is found to be not in conflict with the general policy of the government, be and hereby it is approved;

RESOLVED FURTHER, that the President and Vice President of the Gallery, or either of them, be and hereby they are authorized and empowered at any time, in their discretion, to direct the removal of such objects of art under the conditions and in accordance with these resolutions.

Mr. Bruce stated that in his opinion it would be desirable for the Board to appoint a Consulting Architect for the Gallery, who could from time to time be called upon for advice in the event that the Committee on the Building finds it desirable to make alterations or improvements in the Gallery building and grounds.

He said that Messrs. Otto R. Eggers and Daniel P. Higgins of New York, who served as architects in the construction of the Gallery following the death of Mr. Pope, had been approached and had indicated their willingness to serve as Consulting Architects for the National Gallery of Art. In making this suggestion to the architects they were advised that at the present time the Gallery has no funds for the payment of architectural fees or expenses and the position would be purely honorary, except, if there are any changes in the Gallery layout or the utilization of reserve spaces where additional funds have been provided, provision would undoubtedly be made for architectural service, but in all other matters the services would be merely advisory, covering only minor changes or improvements.

Mr. Bruce said that he had been informed by the architects that "I may advise you that as Consulting Architect we expect no remuneration or the payment of a fee for such architectural services as may be required from us in this capacity. Within the scope of this designation we would consider ourselves obligated to provide such consultations as are normal wherein a building is completed. We would be glad to consult with you on problems which may arise at the Gallery. This might necessitate a trip to Washington now and then, correspondence, reference to our files and drawings, and services of a similar nature. Wherein we may be called upon to render services which would be apart from those which we are glad to render without remuneration, we will consult in advance before executing work, making drawings, or proceeding in any way wherein a fee or charge would be the normal procedure."

Resolution covering appointment of Consulting Architect.

R E S O L V E D

That this Board does hereby authorize and

the President to appoint the firm of Eggers and Higgins (Otto R. Eggers and Daniel P. Higgins) of New York, New York as Consultant Architects for the National Gallery of Art, to serve without compensation as such officer of the Gallery;

RESOLVED FURTHER, that the President be and hereby is authorized, empowered and directed, in making such appointment, to confirm the understanding as to the duties of the Consulting Architect and the remuneration for such services as may be required, according to the advice given to the Board at this meeting;

~~RESOLVED FURTHER, that no alterations or improvements shall be made to the Gallery building, or the landscaping of the site thereof, except upon the advice of the Consultant Architect.~~

The Treasurer reported that pursuant to authority granted by the Board, designating the National Metropolitan Bank of Washington, D.C. as a depository wherein funds of the National Gallery of Art may be deposited, and pursuant to such designation, he had opened a checking account with that bank in the name of "National Gallery of Art - General Fund", and that he had advised that bank that all checks of this particular account should bear two signatures of officers of the Gallery, one officer authorized to sign and one authorized to approve, as follows:

Checks to be signed by either:

D. D. Shepard, Treasurer, or
Charles Zinener, Acting Treasurer

Checks to be approved by any one of the following:

Charles Zinener, Assistant Treasurer
H. A. McBride, Administrator
G. T. Heckert, Assistant Administrator

The Treasurer further stated that he was investigating and would report to the Board at its next meeting as to the desirability of those officers authorized to sign and/or approve checks on this account giving bond, and, if found to be desirable, he would recommend the amount of bond to be given in each instance, and cost of such bond.

Resolution covering opening of checking account with the National Metropolitan Bank in the name of "National Gallery of Art - General Fund".

R E S O L V E D

That the action of the Treasurer in opening a checking account with the National Metropolitan Bank of Washington, D. C. in the name of "National Gallery of Art - General Fund", and his designation of officers of the Gallery authorized to sign or approve checks on this account, namely, D. D. Shepard, Charles Zinener, H. A. McBride, and G. T. Heckert, be and hereby is approved;

RESOLVED FURTHER, that the Treasurer report to the Board at its next meeting his recommendations in the matter of bonding all or any of the officers authorized to sign or approve checks on this account.

CONFIDENTIAL

December 23, 1941.

Memorandum to Mr. David K. E. Bruce,
President,
National Gallery of Art,
Washington, D. C.

REPORT ON MEASURES WHICH HAVE BEEN TAKEN FOR THE PROTECTION OF THE NATIONAL GALLERY DURING THE WAR PERIOD, AND RECOMMENDATIONS CONCERNING THE REMOVAL OF WORKS OF ART FROM THE BUILDING IN CASE OF EMERGENCY.

Protective Measures

Under the Civilian Defense program, it is planned that the officials in charge of each Government building will arrange for their own personnel to take care of air raid or any similar attacks which might occur. During the week of December 7, 1941, plans were put into effect for the care of the Gallery building, its occupants and the works of art in any such emergency, under the control of a Coordinating Committee composed of Mr. McBride, Mr. James, Mr. Heckert, Mr. Eagleton, and Mr. Brearton. Beginning December 8th, arrangements were made for an immediate complete blackout of the building which could be effected on a moment's notice, and the cleaning and other night staffs started working under dimmed lights. All exterior lights were eliminated entirely.

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The following five defense units have been established:

Police, under Captain Buckner (42 members);
Fire, under Sergeant Wiseman (53 members);
Medical, under Miss Warfield (25 members);
Engineering & Maintenance, under Mr. Dueno
(37 members);
Emergency Evacuation Services - Art,
under Mr. Walker (12 members).

The five unit chiefs have already organized the individual units, choosing picked members of the Gallery staff for each of the five crews. These units are now being trained in their exact duties in case of emergency, and the chief of each unit will receive all possible training from the Civilian Defense authorities now functioning in the District. None of the units will, however, await such outside training if it is not immediately available, but will form its own plans for the defense and care of the building and its contents in case of emergency.

The extra defense supplies required are being purchased or assembled as rapidly as possible: fire extinguishers, sand buckets, wheelbarrows, bales of cotton, packing material, tools, helmets, gas masks, medical supplies, etc. These are being distributed to certain fixed points throughout the building.

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Evacuation of Works of Art

Considerable study has been given to the procedure which should be followed to protect the works of art in the present circumstances. It is felt that the Gallery has not only a great responsibility to provide for the safety of the collections, but also a duty as a unit of the Government establishment to do nothing which would increase nervousness or cause alarm on the part of the public.

Mr. Finley represented the National Gallery at a meeting on December 11, 1941, of the Governmental Committee on the Conservation of Cultural Resources, attended by representatives of certain Government museums, libraries and similar agencies, including Mr. MacLeish of the Library of Congress. A resolution was passed recommending to the National Resources Planning Board, for the approval of President Roosevelt, an outline of policy to be followed during the present emergency. This policy contemplated that there should be no general evacuation of the Government's museums, libraries, etc., but that all preparations should be made for the safety of the collections in their present

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locations and for later evacuation to places of greater safety if, on the advice of military and naval authorities, this should be deemed advisable.

On receipt of the above resolution, the Chairman of the National Resources Planning Board, on December 20, 1941, informed the Committee that it had been constituted to advise the various agencies as to what they should do; and, at a meeting on December 22, 1941, the Executive Committee of the Committee on the Conservation of Cultural Resources again addressed a letter to the National Resources Planning Board, pointing out that, while the Committee now has powers to plan, it does not have powers for execution, and requesting an Executive Order to give the Committee definite authority to procure information from the War Department and other agencies and to act as a central service unit in assisting agencies to secure trucks and places to which collections may be evacuated if, in the judgment of the various agencies, this should become necessary.

The representative of the War Department, who was present at the meeting, advised, informally, that military authorities could, of course, give no defi-

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nite assurance that, under war conditions such as at present exist, there is no danger of at least a token raid and that it would be impossible for the military authorities either to know or to advise, very far in advance, of any impending danger from enemy aircraft, etc.

So far as the National Gallery is concerned, all possible precautions have been taken for the protection of the works of art, both while in the building and in removing them to a place of greater safety, if that should appear advisable. A definite plan has been worked out by Mr. Finley and Mr. Walker as to the manner in which works of art would be shipped and stored if such an emergency should occur. Trained crews under Mr. Walker have been organized and packing materials prepared for the expeditious removal of works of art, should this become necessary.

Some months ago, arrangements were made for adequate and safe storage space in a fireproof building on the Biltmore Estate, near Asheville, North Carolina. Messrs. Finley, Walker, Shepard and Reed visited the Estate and agreed that, under the circumstances, it was a desirable place to store the works of art in the event of an emergency. Funds were supplied by The A. W.

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Mellon Educational and Charitable Trust for the additional construction necessary in order that the space to be used for the purpose would be suitable and in readiness for occupancy at any time. Arrangements have been worked out with the Railway Express Agency and the Southern Railway for the transportation of works of art by truck and rail to Biltmore. It is understood that the space being prepared will be in readiness by January 1, 1942. One of the trustees of the Biltmore Estate has advised Mr. Finley that they were ready to cooperate in carrying out any arrangements which might be made for the reception and storage of works of art.

Funds Required

Insofar as costs of evacuation are concerned, five or six railway express cars will be required at a charge of something over \$400 per car, which would include the transportation from the Gallery to the Biltmore Estate. If six cars were used, the total amount for transportation one-way would be about \$2,500, or \$5,000 to Biltmore and return. The guarding of the collections, if they are sent to Biltmore, is also a matter in which costs would have to be considered. One of the officers of the Gallery should always be on duty there, and it is estimated that about

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ten guards would have to be employed -- possibly sending four or five from the Gallery and employing the others locally. This item of additional emergency protection would probably amount to some \$14,000 per annum. It is possible that the cost of emergency protective measures of this kind may be met from special Government appropriations supplied for that purpose, and every effort will be made to obtain Government funds to take care of this situation. However, pending the availability of funds from such an appropriation, it is suggested that The A. W. Mellon Educational and Charitable Trust be approached to ascertain whether it would be willing to provide an emergency fund of \$20,000 to \$25,000 for the immediate defense and evacuation of the works of art if this became necessary, under condition that it will be reimbursed from any available Government funds or funds to become available to the Gallery by the establishment of an Endowment Fund.

Insurance

On any works of art which may be removed from the Gallery building and taken to Biltmore for safe storage, the question of insurance arises:

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1) Insurance in transit. It is understood that works of art belonging to the Government, i.e., those in the permanent collection, would be covered by the Government "insurance in transit" policy. It is further believed that works of art on loan, which would appear in the same Government bill of lading, would be covered by this policy, unless the owners carried private insurance which would cover this item.

In order, however, to make any claim against this policy which might be necessary in case of damage, a valuation will have to be placed upon each work of art. In many instances, no such valuation has been furnished by the donors, and in such instances it would be necessary that some declaration of value be made. The Gallery staff is, of course, not equipped to appraise works of art so as to evaluate them for insurance purposes. However, it is planned, if it becomes necessary, to request the curatorial staff to place a value upon all works of art which are removed from the Gallery building and for which no value is indicated in the Treasurer's books, using whatever information they may have at hand. Necessarily, in most of such cases, the value placed on such works of art by the staff will be more or less arbitrary.

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2) Insurance in storage space, Biltmore House.

There is no provision for insurance on Government property (except in transit), and therefore the works of art belonging to the Government, once installed in Biltmore House, would not be covered by insurance. It is therefore suggested that, if and when the transfer of works of art is directed, the Treasurer's office notify the owners of any works of art on loan which may be moved to this place of safekeeping, in case they should desire to place insurance upon works of art belonging to them, while in storage at Biltmore House.

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Recommendations

The Trustees of the National Gallery would appear to have the authority and also the responsibility to take adequate steps for safe-guarding the collection. It is desirable, if possible, that any action taken should be in conjunction with other Governmental agencies, such as the Library of Congress, the U. S. National Museum, the Government's Archives, etc. The policy adopted by the National Gallery would, undoubtedly, be followed to a large extent by other museums in the country, and it is important, therefore, that no steps be taken without giving careful consideration to the effect on these institutions.

Mr. Finley and Mr. McBride attended a meeting of the Association of Art Museum Directors, held at the Metropolitan Museum on December 20, 1941; and Mr. Walker and Mr. James were present at a second session on December 21, 1941. The Association adopted a resolution to the effect that no evacuation of museums should take place at the present time and that the museums should be kept open and continue their activities and even increase them, so far as practicable in wartime, because of the responsibilities which these institutions owe to the public as sources of education and recreation.

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The Association, however, recommended that each institution should take every precaution to insure the safety of its own collection by removal, if it should seem desirable, of the most valuable and irreplaceable objects to a place of greater safety whenever, in the judgment of each institution, the military situation might warrant.

The Metropolitan Museum has decided to pack some of the more fragile and irreplaceable objects and to remove them in an orderly manner to a place of greater safety outside of New York City. This will be done quietly, and the objects removed will be replaced by others in the Museum's collection now in storage.

It is recognized that if even a few of the most important works of art in the National Gallery collections should be removed at this time, some public comment might be caused and it might have an adverse effect on the number of visitors to the Gallery. Nevertheless, we feel that, in view of the location of the Gallery, a risk exists and that, while the entire collection, of course, should not be evacuated at this time, the Gallery would be justified in removing as soon as possible a limited

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number of the most important works of art in the collection to the place which has been prepared at Biltmore. This would involve about seventy-five paintings and twenty-five pieces of sculpture. The selection has been carefully made by Mr. Finley and Mr. Walker and Mr. Seymour; packing cases and other materials are in readiness for the removal of these objects; and we recommend, therefore, to the Board of Trustees that authority be given to proceed with the removal of these objects of art as soon as funds are available for that purpose.

Before any removal actually takes place, however, it is felt that inquiries should be made of the Committee on the Conservation of Cultural Resources, National Resources Planning Board, to ascertain whether such action would conflict in any way with the general policy of the Government.

/s/ D. D. Shepard
Secretary-Treasurer

/s/ H. A. McBride
Administrator

/s/ John Walker
Chief Curator

/s/ David E. Finley
Director

1-2-41 202



NATIONAL GALLERY OF ART
SMITHSONIAN INSTITUTION
WASHINGTON, D. C.

December 24, 1941.

Dear Mr. Secretary:

Notice is hereby given that a Special Meeting of the Board of Trustees of the National Gallery of Art has been called by its President, to be held in the Board Room of the National Gallery of Art, Washington, D. C., at 11:00 A.M., Monday, December 29, 1941, for the purpose of determining upon measures to be taken for the protection of the Gallery and the collections of works of art during the war period; and for the transaction of such other business as may come before the meeting.

Very truly yours,

Secretary.

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

December 29, 1941

ORDER

Effective immediately, J. W. Flatley, Acting Chief, Contract and Purchase Branch, Procurement Division, is authorized and empowered to execute any contract connected with and pertaining to the activities of the Procurement Division, Treasury Department, with respect to Lend-Lease purchases.

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

H.M.C.
Original to Mr. Thompson



OFFICE OF THE DIRECTOR

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TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON

December 29, 1941

ORDER FOR THE SECRETARY

Mr. W. W. E. Greenen, Chief, Contract and Purchase Branch, Procurement Division, was granted authority in Order of November 13, 1941 to execute any contract connected with and pertaining to the activities of the Procurement Division, Treasury Department, with respect to Lend-Lease purchases.

Mr. Greenen has been called into the active service as a Lieutenant Commander in the Navy and Mr. J. A. Flatley has assumed the duties of Acting Chief, Contract and Purchase Branch, Procurement Division.

The purpose of this order is to extend to Mr. Flatley the same authority exercised by Mr. Greenen in connection with the execution of contracts pertaining to Lend-Lease purchases.

FOR DEFENSE



BUY
UNITED
STATES
SAVINGS
BONDS
AND STAMPS

John A. Beck
John A. Beck
Director of Procurement

OFFICE OF LEND-LEASE ADMINISTRATION
FIVE-FIFTEEN 22d STREET NW.
WASHINGTON, D. C.

E. R. Stettinius, Jr.
Administrator

December 29, 1941

Dear Mr. Secretary,

Your letter of December 1, 1941, to General Burns has just been turned over to me. I apologise for the delay in its acknowledgment, but hasten to supply you with the information you requested.

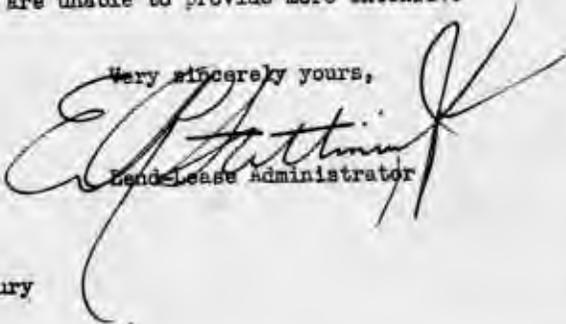
You asked whether this office has any information concerning the terms upon which the British Government has supplied the Russian Government with 300 light bombers from British contracts placed in the United States prior to the passage of the Lend-Lease Act.

We have no information as to whether the British gave these planes to the Russians or called for payment in dollars, gold, or some other consideration.

It is our understanding that at the time of the Moscow Conference the British agreed to supply from its own dollar contracts in this country a certain portion of the light bombers requested of the United States by the Soviet Government. We understand that the British were to make their own arrangements with the Russians concerning the question of payment. The United States, in turn, indicated to the British that if funds were made available by Congress, it would consider sympathetically a Lend-Lease requisition for a similar number of planes to be delivered during the months of July, August, and September, 1942, or earlier if found practical.

I regret that we are unable to provide more extensive information.

Very sincerely yours,



E. R. Stettinius, Jr.
Lend-Lease Administrator

The Honorable

Secretary of Treasury

SECRET
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OFFICE OF LEND-LEASE ADMINISTRATION
FIVE-FIFTEEN 22d STREET NW.
WASHINGTON, D. C.

December 29, 1941.

The Honorable

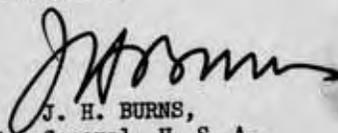
The Secretary of the Treasury

Dear Mr. Secretary:

At the request of Mr. Clifton Mack,
I inclose for your information the following
secret document:

"Confidential Protocol of the
Conference of the Representatives
of the U.S.A., U.S.S.R. and Great
Britain which took place in Moscow
from September 29th till October 1st,
1941."

Sincerely yours,



J. H. BURNS,
Major General, U. S. A.,
Executive Officer.

1 inclosure

SECRET

Confidential Protocol

of the Conference of the Representatives of the U.S.A., U.S.S.R. and Great Britain which took place in Moscow from September 29th till October 1st, 1941.

The Conference of the representatives of three powers - the U.S.A., U.S.S.R. and Great Britain which met in Moscow on September 29th 1941 and was held till October 1st 1941 has, on the basis of the statements made by the said representatives and of the investigation of submitted data, arrived at the unanimous decision concerning the provision of supplies, which will be made available at British and U.S.A. centres of production, for the Soviet Union by Great Britain and the United States of America within the period beginning from October 1941, till the end of June 1942. Great Britain and the U.S.A. will give aid to the transportation of these materials to the Soviet Union and will help with the delivery. The list is as follows:-

	<u>Enquired for by the</u> <u>U.S.S.R.</u>	<u>Satisfied.</u>
- <u>Aeroplanes.</u>	400 planes monthly, of which 300 bombers of short distance action and 100 fighters.	400 planes monthly of which 100 bombers and 300 fighters. From Great Britain - 200 fighters monthly and from the U.S.A. 100 fighters and 100 bombers monthly.
2. <u>Tanks.</u> (gun-type.)	1,100 monthly, small or medium, or both in any proportion.	500 tanks monthly, of which small tanks not exceeding 50%. In addition to that, from Great Britain will be supplied per month 200 tankettes (with machine-guns), after that the number will be increased

- 5. Anti-Aircraft Guns 300 pieces per month 152 anti-aircraft guns, 90 mm, over the period of 9 months with ammunition from the U.S.A.

37 mm. or up (45 mm., 75 mm., 90 mm.) with ammunition.
- 4. Anti-Tank Guns 300 pieces per month 500 guns, 2-pdrs (about 40 mm), with 1000 rounds per gun, within 9 months from Great Britain and 756 guns, 37 mm, before the end of 9 months from the U.S.A. Total 1256 guns.

37 mm or up to 60 mm with ammunition.
- 6. Anti-Tank Rifles 2000 per month 14 mm - 200 rifles per month, with 200 rounds per rifle. After the end of this year the number will be increased to 250 rifles per month; and from March 1942 to 300 rifles per month and after that with a greater increase of the number of rifles and rounds from Great Britain.

from 12 mm to 19 mm with ammunition.
- 6. Scouting Cars 2000 cars per month and 10,000 lorries (3, 3, and 1½ tons) per month. 5,000 cars in the next 9 months from U.S.A. Mr. Harriman proposes to investigate the possibility of increasing this number of scouting cars, and also to define the number of lorries to be delivered.
- 7. Field Telephone Apparatus With phonoinductor call 60,000 pieces per month; without feeding source 60,000 pieces monthly.
- 8. Field Telephone Cable 100,000 kilometers monthly (Seven strands type)

Underwater Telegraph Cable 50 kilometers per month (gutta-percha)

Submarine Cable 100 kilometers per month
- 11. Aluminium 4,000 tons per month (excluding 5,000 tons shipped in September) and 500 tons of Rolled Duraluminium per month. In addition to 5,000 tons already on the way, 2000 tons per month will be supplied from Canada during 9 months.

ENQUIRED FOR BY THE U.S.S.R.

Satisfied.

Besides, Mr. Harriman will investigate the possibility of supplying from the U.S.A. 2000 tons of Aluminium and 500 tons of rolled duraluminium per month.

- | | | | |
|-----|--|----------------------|---|
| 13. | <u>Tin.</u> | 1,500 tons per month | 1,500 tons per month from Great Britain. |
| 13. | <u>Lead.</u> | 7,000 tons per month | 7,000 tons per month from Great Britain. |
| 14. | <u>Nickel.</u> | 800 tons per month. | The question of supplying this metal will be immediately investigated in Great Britain and in the U.S.A. |
| 15. | <u>Molybdenum.</u> | 300 tons per month. | 300 tons per month from the U.S.A. |
| 16. | <u>Cobalt.</u> | 10 tons per month. | 10 tons per month from Great Britain. |
| 17. | <u>Copper Electrolytic</u> | 3000 tons per month. | 3000 tons per month from Great Britain. |
| 18. | <u>Rolled Brass.</u> | 5000 tons per month. | Part will be supplied by the U.S.A. and the balance will be taken into account with a view of finding supplies if possible. |
| 19. | <u>Magnesium alloys.</u> | 300 tons per month. | The quantity of possible deliveries will be cleared up in London and Washington. |
| 20. | <u>Zinc Electrolytic.</u> | 1500 tons per month. | Great Britain guarantees the supply of 1500 tons per month, hoping that one-half of this quantity will be supplied from the U.S.A. without binding, however, the American Government. |
| 21. | <u>Bimetal.</u> | 3000 tons per month. | Great Britain and the U.S.A. will examine the possibility of this metal being supplied. |
| 22. | <u>Tubes and other manufactures of copper.</u> | 300 tons per month. | Mr. Harriman will recommend the supply of these materials. |

Required for by the
U S S R

Satisfied

1. <u>Ferro-silicon</u>	7,000 tons per month	} The amounts of supplies will be examined in Great Britain and the USA.
2. <u>Ferro-chrome</u>	2,000 tons per month	
3. <u>Armour plate for Tanks</u>	10,000 tons per month	
4. <u>Hard alloys and cutting tools</u>	500,000 dollars per month.	The amounts of supplies will be investigated in Great Britain and in the U.S.A.
5. <u>Silver-Steel</u>	50 tons per month	The enquiry will be investigated; it is possible that deliveries will be effected.
6. <u>High-Speed Steel</u>	500 tons per month	} The supply of these articles will be taken into consideration upon receipt of specifications.
7. <u>Tool Steel (carbon and alloy)</u>	1,500 tons per month	
8. <u>Calibrated Steel (carbon and alloy)</u>	15,000 tons per month	
9. <u>Hot-rolled Steel (carbon and alloy)</u>	7,000 tons per month.	
10. <u>Steel Billets, Chrome-Silicon-Manganese.</u>	5,000 tons per month	} The question will be investigated in Great Britain and in the U.S.A.
11. <u>Cold-Rolled Steel Strip.</u>	8,000 tons per month	
12. <u>Cold-Rolled Steel Sheet.</u>	8,000 tons per month	} This has been examined by the American Delegation which assumes it possible that the Soviet enquiries will be satisfied. The answer can be given only upon investigation of the matter in the USA.
13. <u>Ingots</u>	4,000 tons per month	
14. <u>Steel-Wire, in accordance with specification</u>	7,000 tons per month	
15. <u>Steel-Wire-Ropes</u>	1,800 tons per month	
16. <u>Steel Alloy Tubes</u>	500 tons per month	
17. <u>Stainless Steel Wire</u>	50 tons per month	

Enquired for by the
U S S R

Satisfied

Nickel Chrome
Wire

70 tons per month

80 tons are already being supplied by the USA. This enquiry for 70 tons per month will be satisfied as far as possible by the USA.

Waxed Wire

4,000 tons per month

It is assumed that this quantity can be supplied from the USA.

Toluol

4,000 tons per month

1,250 tons per month will be supplied beginning November 1941 from the USA. The possibility of these supplies being increased will be examined. Besides, 10,000 tons of TNT will be shipped early as possible, the monthly quantity to be advised from Washington as soon as possible.

Nitroglycerine
Brister.

3,000 tons per month

The matter is to be examined by the corresponding authorities in London and Washington. The USA will always be ready to receive suggestions for maintaining necessary stocks in the USSR.

Phenol

1,500 tons per month

Petroleum-
Products

80,000 tons monthly

(Aviation Gasolines, Components to Aviation Gasolines, Lubricating Oils and Greases, Motor Gasolines, and Gas-oil) according to specification.

Ethylene Glycol

190 tons per month

The question of satisfying this enquiry will be investigated in Washington.

Sodium Bromide

100 tons monthly

Information is not available here and the matter is to be examined in the USA.

Phosphorus

100 tons monthly

Will be supplied from the USA.

Dibutyl-Phthalate

300 tons monthly

The investigations will take place in London and Washington.

Dimethylmaline

300 tons monthly

Dibenzylamine

300 tons monthly

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Enquired for by the
U.S.S.R.

Satisfied.

	<u>Enquired for by the</u> <u>U.S.S.R.</u>	<u>Satisfied.</u>
32. <u>Colloxylin</u> <u>Nitrocellulose.</u> <u>Varnish.</u>	300 tons monthly.	The investigations will take place in London and Washington.
33. <u>Metal Cutting</u> <u>machine-tools</u> <u>in accordance</u> <u>with specification.</u>	1,200 pieces monthly.	It is assumed desirable to supply the Soviet enquiries, but there can be no guarantee of particular types or classifications. All machine-tools that can be furnished will be supplied to the USSR from Great Britain and the USA.
34. <u>Electric Furnaces.</u>	50 pieces monthly.	
35. <u>Forging and Press</u> <u>Equipment,</u> <u>according to</u> <u>specification.</u>	4,000,000 dollars monthly.	
36. <u>Various Industrial</u> <u>Equipment.</u>	3,000,000 dollars monthly.	
37. <u>Diamonds.</u>	150,000 dollars monthly.	Will be supplied from Great Britain.
38. <u>Abrasives.</u>	300,000 dollars monthly.	These articles can undoubtedly be supplied, but investigation in the USA is essential.
39. <u>Graphitized</u> <u>Electrodes.</u>	400 tons monthly.	Will be supplied from the USA.
40. <u>Cresble Graphite.</u> <u>(Ceylon)</u>	100 tons monthly.	Some can be supplied from Great Britain and after investigation the exact quantity will be advised to Moscow.
41. <u>Rubber.</u>	6,000 tons monthly.	
42. <u>Jute.</u>	4,000 tons monthly.	The enquiry will be satisfied by Great Britain.
43. <u>Shells.</u>	300 tons monthly.	
44. <u>Sole Leather.</u>	1,500 tons monthly.	The USA has already released 3,000 tons. More might be released after investigation in Washington.
45. <u>Wool.</u>	2,000 tons monthly.	Will be released by Great Britain.
46. <u>Army Boots.</u>	400,000 pairs monthly.	The figures of monthly supplies will be defined precisely in London and Washington.
47. <u>Army cloth.</u>	1,200,000 meters monthly.	
48. <u>Wheat.</u>	200,000 tons monthly.	Is available in Canada, where there are large stocks.
49. <u>Sugar.</u>	70,000 tons monthly.	Great quantities are available in the Philippines and in the Dutch East Indies.

Enquired for by the
U.S.S.R.

Satisfied.

- 70. Cocoa Beans. 1,500 tons monthly. Supplies will be from Great Britain.
- 71. The enquiry for the Navy (in accordance with the Annex) will be considered in London and Washington.
- 72. The enquiry for Medical Supply (in accordance with the Annex) will be considered in London and Washington. The American Red Cross has already agreed to give some of the items.

The enquiry of Great Britain for supplies from the U.S.S.R. (in accordance with the Annex) will be considered in Moscow.

In the event of the war situation changing and the burden of defence being transferred to other theatres of war it will be necessary for the 3 countries concerned to consult together, and to decide what adjustment of the present arrangement is necessary.

Moscow, October

1941.

W. C. Clegg
Chairman of the Delegation
of the U.S.A.

Chairman of the Delegation
of the U.S.S.R.

Bevan
Chairman of the Delegation
of Great Britain

Program

of requirements for the Navy beginning from
October, 1941, till the end of June, 1942.

Naval Ships.

- | | | |
|---------------------------------------|----------------------------|-----------|
| a) Destroyers | till the end of 1941 | 8 pieces. |
| b) Antimagnetic Minesweeping Trawlers | till the end of 1941 | 9 pieces. |

Naval Armaments.

- | | | |
|--|--------------------------------|---------------------|
| a) 130 mm 55 calibre gun barrels complete with locks and spare parts (Vickers) | till the end of 1941 | 150 pieces. |
| b) 127 mm "double purpose" guns complete with full set of spare parts and accessories, spare free tubes and set of ammunition. | till the end of 1941 | 100 pieces. |
| | in the first half year of 1942 | <u>200 pieces.</u> |
| Total | | 300 pieces |
| c) 25-37 mm Naval automatic Anti-Aircraft guns complete with spare barrels, with spare parts and accessories and set of ammunition | till the end of 1941 | 500 pieces. |
| | in the first half year of 1942 | <u>1000 pieces.</u> |
| Total | | 1500 pieces. |
| d) 12.7 - 34 mm Anti-aircraft Machine Guns on the ship's mounting complete with spare parts and set of ammunition. | till the end of 1941 | 1800 pieces |
| | in the first half year of 1942 | <u>2000 pieces</u> |
| Total | | 3000 pieces. |

Diesels and Motors for Ships complete with apparatus.

- | | | |
|---|-------------------------------|-------------|
| a) Capacity 1,100 - 1,800 H.P.
500 F.P.M. | in the first halfyear of 1942 | 150 pieces. |
| b) Capacity 180 - 210 H.P.
450 F.P.M. | in the first halfyear of 1942 | 40 pieces |
| c) Spare parts for Diesels "Ruston"
Capacity 75 H.P. | till the end of 1941 | 80 sets |

- 2 -

- | | | |
|---|---|------------|
| d) Spare parts for Diesels "Ruston"
Capacity 48 H.P.
till the end of 1941 | - | 80 sets |
| e) Gasolene or Diesel marine
motors complete with all aggregates
Capacity 1,000 - 1,200 H.P.
2,000 r.p.m.
in the first halfyear of 1942 | - | 300 pieces |
| f) Diesel-generators of direct current
220 Volts 18 - 20 kwt
800 r.p.m.
in the first halfyear of 1942 | - | 100 pieces |
| 115 Volts 50 kwt
600 - 700 r.p.m.
in the first halfyear of 1942 | | 50 pieces |
| <u>Ship Apparatus "Asdic"</u>
till the end of 1941 | | 150 pieces |

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Program

of Enquiries for Medical Instruments
Medicaments and Chemicals.

Relating to from October 1941 till 31st and of June 1942

<u>No No:</u>	<u>Names of goods</u>	<u>Quantities</u>
1	Cocainhydrochloricum	1000 kgs
2	Novocain	3000 "
3	Xeroform	5000 "
4	Pilocarpin hydrochl.	30 "
5	Chloramin	100.000 kgs
6	Strophantin amp.	750.000 amp
7	Lanolin anhydricum	100.000 kgr.
8	Sulfapyridin	30.000 "
9	Sulfanilamid	65.000 "
10	Pyramidon	30.000 "
11	Luminal	5.000 "
12	Coffein purum	20.000 "
13	Radix ipecacurhae	3.000 "
14	Theobromin purum	20.000 "
15	Acidum benzoicum	10.000 "
16	Cardiasol	500 "
17	Natrum bromatum	30.000 "
18	Kalium bromatum	30.000 "
19	Smetin hydrochloricum	25 "
20	Azer-Azer	100.000 "
21	Papton sic.	3.000 "
22	Mannit	500 "
23	Maltosa	500 "
24	Lactosa	1000 "
25	Lactus sic.	150 "
26	Glum ceirae pro micr.	150 "
27	Leucoplatt in assort- ment of various sizes	500.000 pieces
28	Anatomical Nippers	250.000 "
29	Chirurgical Nippers	200.000 "
30	Koher's nippers size 5"	200.000 "
31	Pean's nippers size 5 1/2"	200.000 "
32	Syringes "Record" 1/2 pr. with 2 needles	200.000 "

<u>No No:</u>	<u>Names of goods</u>	<u>Quantities</u>	
33	Syringes "Record" à 5 gr. with 2 needles	50.000	pieces
34	Ditto - à 10,0 cc.	200.000	"
35	Ditto - à 20,0 cc.	50.000	"
36	Needles with canulae "Record" No 28 size 0,70x35 mm.	5.000.000	"
37	Ditto No 26 size 0,80x35 mm	3.000.000	"
38	Ditto No 23 size 0,90x40 mm	1.000.000	"
39	Ditto No 16 " 1,20x50 mm	1.000.000	"
40	Needles for Blood Transfusion	150.000	"
41	Still's Scissors for removal of gypsum bandage	25.000	"
42	Wound enlargers Gosse	5.000	"
43	Downer Fricher's hooks	10.000	"
44	Folkman's hooks, sharp, à 4 teeth.	15.000	"
45	Drills for intruding	5.000	"
46	Autoclaves 11,5/8 x 21" with 2 bix. sets and one lamp for warming	1.000	"
47	Electromagneto of Milinger's type (for eyes)	50	"
48	Transportable Rontgen apparatus	100	"
49	Translucent screens 30x40 cm.	1.000	"
50	Ear Nippers	5.000	"
51	Backhouse's clamps	20.000	"
52	Scalpels No 1	100.000	"
53	Scalpels No 3	100.000	"
54	Amputation knives	20.000	"
55	Cooper's scissors	100.000	"
56	Lister's scissors	25.000	"
57	Strait scissors with blunt points	100.000	"
58	Babcock's spinal needles	20.000	"
59	Mattew's needles Holders	25.000	"
60	Sterilizers of various sizes	50.000	"
61	Mayo-Roger's needle holders 6 inch box lock	25.000	"
62	Farabeuf's hooks	25.000	"
63	Engel's saws	30.000	"

<u>No No:</u>	<u>Names of goods</u>	<u>Quantities</u>
64	Link Downen's Respirators	5.000 pieces
65	Farabeuf's curved respiratories	15.000 "
66	Farabeuf's Forceps	5.000 "
67	Dalgren's cranial rongeurs	5.000 "
68	Trachea tubes No 2	10.000 "
69	Trachea tubes No 4	5.000 "
70	Trachea tubes No 6	5.000 "
71	Whiting's rongeurs, curved	5.000 "
72	Downen's	5.000 "
73	Surgical gloves, pairs	500 thousand
74	Anatomical gloves, pairs	100 " pairs
75	Rubber warming pan	250 "
76	Regular 1 1/2 tests (lens) sets	300 pieces
77	Amputation saws	15.000 "
78	Curved forceps	30.000 "
79	Ice rubber bags	150 thousand pieces
80	Oilcloth	1,000.000 meters
81	Haemostatic braids	100.000 "
82	Rubber tube for blood transfusion 5 mm	3.000 mgr.
83	Richardsons balls	150 thousand pieces

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INDEX No. 3

SUPPLIES WHICH GREAT BRITAIN DESIRES
TO OBTAIN FROM THE SOVIET UNION

Commodity.	Quantity requested	Terms of delivery requested
ARCHANGEL PITCH	50 tons.	Within 6 - 8 months.
AMMONIUM PERCHLORATE.	50 tons.	Within 6 - 8 months.
ANILINE or NITRO-BENZINE.	3,000 tons.	6 monthly deliveries, November to April.
BARIUM CHLORATE.	50 tons.	ditto.
BEEES WAX	100 tons.	Over 12 months.
BELLADONNA LEAVES.	Up to 10 tons.	Not urgent.
BELLADONNA ROOT.	Up to 10 tons.	Not urgent.
BRISTLES.	200 tons.	Over 12 months.
CHROME ORE.	10,000 tons.	Urgently.
CHINESE WAX.	5 tons.	Over 12 months.
DMETHYL-ANILINE.	200 tons.	6 - 8 months.
EPHEDRA.	10 tons.	6 - 8 months.
ETHANENE.	Up to 5 tons.	
HORSEHAIR.	300 tons.	
LICORICE ROOT.	Up to 500 tons.	
LYCOPODIUM.	4 tons.	6 - 8 months.
MAGNESITE.	15,000 tons	6 - 8 months. 5,000 tons already shipped. Great Britain would return to the Soviet Union the mag- nesium yield of the quan- tities supplied by the Soviet Union.
MURIATE OF POTASH.	5,000 tons.	By December.
OIL OF CORIANDER.	Up to 500 kgs.	Not urgent.
OIL OF FENNEL.	Up to 500 kgs.	Not urgent.
PINE TAR.	Up to 1,000 tons	Urgent.
PLATINUM.	1,400 kgs.	Urgent. 700 kgs. at once.
POTASSIUM PERCHLORATE	50 tons	6 - 8 months.
RIFLES and AMMUNITION	250,000, plus 1,000 rds each	Urgent.
SANTONIN.	1 ton.	6 - 8 months.
SILK or SILK WASTE	500,000 lb.	by end 1941.

Commodity.	Quantity requested.	Terms of delivery requested.
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TIMBER CANNED SALMON.	In quantities as shipping available.	
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Commodity.	Quantity requested.	Terms of delivery requested.
TIMBER CANNED SALMON.	In quantities as shipping available.	

12-29

DEC 29 1941

00115541

Attention: D. J. Casson

Reference is made to my letter of November 19, 1941, enclosing a form of letter which I approved and which I authorized and requested you, as fiscal agent of the United States, to write to Banco de Mexico, S. A., Mexico City, Mexico, respecting the purchase of newly-mined Mexican silver.

It is my understanding that Banco de Mexico has advised you that it wishes to renew, for the month of January, 1942, the arrangement provided for by your letter of November 21, 1941, to it. This is to advise you that you are authorized and requested, as fiscal agent of the United States, to renew such arrangement for the month of January, 1942, all as stated in your letter to Banco de Mexico above mentioned, except that during January, 1942, you may purchase newly-mined Mexican silver which according to the production date marked on the bars was produced in Mexico during December, 1941, January or February, 1942, and so to advise Banco de Mexico, and to carry out during such month the transactions contemplated by your letter of November 21, 1941.

It is understood that the terms of the Department's letter to you of June 19, 1934, regarding the purchase for the account of the United States of silver, at home or abroad, shall apply to the action taken by you pursuant to the foregoing, except that the silver purchased pursuant to this authorization need not be of the degrees of fineness, or carry the marks, required for "good delivery" in the market of the place where the purchase is made or where delivery is to be taken.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Federal Reserve Bank of New York,
33 Liberty Street,
New York, N. Y.

*Original file cancelled
2-1-42*

YD:mas 12/19/41

FEDERAL RESERVE BANK
OF NEW YORK

December 11, 1941

Sir:

Attention: Mr. H. Merle Cochran

We enclose a copy of a telegram dated December 11, 1941, received today from the Banco de Mexico, Mexico City, stating that they wish to renew for the month of January, 1942, the arrangement for the purchase of newly-mined Mexican silver outlined in our letter to them of November 21, 1941.

We should appreciate receiving your instructions regarding their request for a renewal.

Respectfully,

(Signed) D. J. Cameron

D. J. Cameron
Manager, Foreign Department.

The Honorable,
The Secretary of the Treasury,
Washington, D. C.

Enc.

COPY:lap-12/22/41

C O P Y
INCOMING CABLEGRAM
DECEMBER 11, 1941

Mexico City, December 11, 1941

R U S H

Federal Reserve Bank of New York

New York

No. 22

We wish to renew for January our existing arrangements respect purchase of silver as set forth in your letter to us of November 21, 1941. Please advise us if such renewal is acceptable.

Banco de Mexico.

COPY:lap-12/22/41

December 29, 1941.

The Honorable

The Secretary of the Interior.

Dear Mr. Secretary:

Supplementing my telephone reports of Friday and Saturday, the 26th and 27th, I am enclosing a summary of petroleum products shipments to French West Africa, French West Indies and Spain since August 1. Shipments to French West Africa and Spain have not been resumed since outstanding licenses were canceled on November 22. On that date there were in Port Arthur, Texas, three ships laden with petroleum cargoes for Spain, the *CARRERA*, the *CAMPESANO* and the *CAMPECANO*. The last named ship had been held for several months at the request of Foreign Funds Control in this department, that office not having been in position to approve the terms of the transaction by which title to the vessel was acquired by Campea, the Spanish oil monopoly, and the flag and name of the vessel were changed. (The vessel was formerly the *Palaemon* of Greece, owned by a Greek now resident in Spain.) The *CAMPESANO* discharged her cargo on December 18 and the other two vessels have moved from their anchorage in the outer harbor to a Port Arthur dock.

On December 18 the Coast Guard took custody of the tanker *TOURNAI* at New Orleans, the tanker *SMEN-RAZADE* at Seattle and the tanker *BAHRAH* at the Island of St. Thomas. The *BAHRAH*, under charter to Standard Oil of New Jersey, had stopped at St. Thomas to discharge part of her cargo and was enroute to ports in Martinique and Guadeloupe, French West Indies, with additional cargo, including 3,625 tons of fuel oil and 602 tons of diesel oil, said to be for electric power plants in those islands. The vessel was enroute from Carapito, Venezuela, where all the cargo apparently was laden as there is no record of departure from any point in the United States. On December 18 the *BAHRAH* was permitted to proceed to Martinique.

It is understood that the Maritime Commission hopes to requisition the *TOURNAI* and the *SMEN-RAZADE* but is awaiting advice from the State Department.

Very truly yours,

Herbert S. Gaston
Assistant Secretary of the Treasury.

HEG/mah

December 29, 1941

Mr. Haston

Mr. White

Subject: Recent U. S. Petroleum Exports

1. French Africa (not including Madagascar)

(a) Exports

August - None

September - 42,079 bbls. Kerosene (Morocco)

52,642 bbls. Residual Fuel Oil (Morocco)

9 bbls. Lubricating Oil (Other French Africa)

13 bbls. Cylinder Oil (Other French Africa)

October - 30 bbls. Lubricating Oil (Other French Africa)

150 pounds Lubricating Grease (Other French Africa)

1 bbl. Petroleum Asphalt (Other French Africa)

November - 670 bbls. Lubricating Oil (Other French Africa)

23,701 pounds Lubricating Grease (Other French Africa)

December - (to date)

2 tons Petroleum Asphalt (Other French Africa)

347 bbls. Lubricating Oil (Other French Africa)

24,650 pounds Lubricating Grease (Other French Africa)

Source: August-September, U. S. Department of Commerce

October-December, U. S. Treasury Department, Foreign Funds Control

(b) All shipments to French North Africa were stopped on November 22, in accordance with a letter from Assistant Secretary of State Mason to Secretary Morgenthau, requesting the cancellation of all outstanding foreign funds licenses.

2. French West Indies

(a) Exports

August - 41 bbls. Cylinder Oil

September - None

October - 12 bbls. Kerosene

397 bbls. Cylinder Oil

7,065 pounds Lubricating Grease

25 pounds Petroleum Jelly

November - Not available (Export Control is tabulating its licenses issued.)

Source: U. S. Department of Commerce

(b) A letter of December 26, 1940, from the State Department outlined an agreement regarding the French West Indies. The original agreement has been amended several times. It now calls for supplying the French West Indies with 1,000 tons (7,500 barrels) of bunker fuel and 200 tons (1,500 barrels) of diesel oil per month.

3. Spain

(a) Exports

August -	143,100 bbls. Fuel and Gas Oil
	49,800 bbls. Lubricating Oil
September -	15,500 bbls. Fuel and Gas Oil
	127,700 bbls. Gasoline
	2,000 bbls. Lubricating Oil
October -	44,800 bbls. Fuel and Gas Oil
	67,600 bbls. Gasoline
Nov. 1 - Nov. 8	
	127,700 bbls. Fuel and Gas Oil
Nov. 8 - Nov. 30	None
December (to date)	None

Source: U. S. Treasury Department, Office of Merchant Ship Control

(b) Exports of petroleum products to Spain were stopped by an Export Control telegram to the Collectors of Customs, cancelling all outstanding licenses as of November 22, 1941.

~~SECRET~~

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December 26, 1941.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Caston

In response to Secretary Ickes' request, made in his telephone conversation with you this morning, I called him up at 4:30 this afternoon and informed him:

(1) The three French tankers in United States ports on December 12 were taken over by the Coast Guard on that date - the SABLERAZADE at Mobile, the TOURNAINE at New Orleans and the BARRAM at Charlotte Amalie, Virgin Islands. The BARRAM, however, was released on December 18 to continue her voyage to Martinique.

(2) Shipments of petroleum products to Spain have been stopped by Export Control. The last shipment was on November 6.

(3) Shipments to French North African ports also have been stopped, the last shipment having been made in October. We are informed, however, that the question of reopening shipments to North Africa is under consideration.

I informed Mr. Ickes that we will give him a more detailed report on Saturday. He asked particularly when and where the BARRAM loaded her cargo.

W.C.G.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

208

DATE December 29, 1941

TO Secretary Morgenthau
FROM Mr. Kamarck

Subject: Shipments of Planes to British Forces

Summary

1. In the week ending December 23, a total of 93 planes (68 combat planes) were sent to British forces.
2. Thirty-two Grumman-Martlet aircraft carrier fighters, it appears, were delivered directly to a British aircraft carrier at an American port.
3. Twenty-one Lockheed Hudson bombers were shipped to Australia. This represents the first shipment of American bombers to British Pacific forces since September.

Table A - Shipments by Area
(From February 1, 1941)

	<u>Week Ending December 23</u>	<u>Total Reported to Date</u>
<u>To the United Kingdom</u>		
Light and medium bombers	4	1,026
Heavy bombers	0	98
Naval patrol bombers	0	82
Pursuit	33	268
Army Cooperation	<u>0</u>	<u>21</u>
Total to the United Kingdom	37	1,495
<u>To the Middle East</u>		
Light and medium bombers	0	299
Heavy bombers	0	5
Pursuit	0	748
Trainers	<u>0</u>	<u>142</u>
Total to the Middle East	0	1,194
<u>To the British Pacific Forces</u>		
Light and medium bombers	21	57
Naval patrol bombers	0	12
Pursuit	0	119
Trainers	<u>0</u>	<u>93</u>
Total to Pacific Forces	21	281
<u>To the British Forces in Russia</u>		
Light and medium bombers	<u>0</u>	<u>44</u>
Total to Russia	0	44
<u>To the Canadian Forces</u>		
Light and medium bombers	10	48
Naval patrol bombers	0	13
Pursuit	0	42
Trainers	<u>25</u>	<u>1,122</u>
Total to Canadian Forces	35	1,225
<u>Totals</u>		
Light and medium bombers	35	1,474
Heavy bombers	0	103
Naval patrol bombers	0	107
Pursuit	33	1,177
Army Cooperation	0	21
Trainers	<u>25</u>	<u>1,357</u>
Total	93	4,239

Table B - Shipments by Types
(From February 1, 1941)

	<u>Week ending December 23</u>	<u>Total Reported to Date</u>
Bell Airacobra	0	154
Boeing B-17	0	21
Boston III	0	39
Brewster Buffalo	0	119
Cessna T-50	8	552
Consolidated Catalina	0	107
Liberator I	0	22
Liberator II	0	60
Curtiss Kittyhawk	0	382
Tomahawk	0	416
Douglas Boston II	0	29
Boston III	0	449
Fairchild-24	0	12
Glenn Martin Baltimore	0	68
Maryland I	0	114
Maryland II	0	1
Grumman Martlet II	32	41
Lockheed Hudson II	0	1
Hudson III	22	319
Hudson IV	13	22
Hudson V	0	380
North American Harvard II	17	805
Mustang	1	65
Pitcairn Autogiro	0	5
United Chesapeake	0	52
Vultee Stinson-049	0	4
Grand Total - All Types	<u>93</u>	<u>4,239</u>

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Table C - Plane Shipments to the British by Weeks
(From February 1, 1941)

<u>Week Ended</u>	<u>Light and medium bombers</u>	<u>Heavy Bombers</u>	<u>Naval Patrol Bombers</u>	<u>Pursuit</u>	<u>Army Coopera-tion</u>	<u>Trainers</u>	<u>Total</u>
35 Weeks (February 1-October 7) TOTAL	1,241	47	95	741	6	916	3,046
35 Weeks (February 1-October 7) WEEKLY AVERAGE	35	1	3	21	0.2	26	87
October 14, 1941	45	9	1	68	0	44	167
October 21, 1941	21	9	1	50	0	57	138
October 28, 1941	10	12	3	38	4	19	86
November 4, 1941	19	2	3	45	0	31	100
November 11, 1941	13	1	2	34	2	42	94
November 18, 1941	5	7	1	67	0	38	118
November 25, 1941	6	5	0	23	3	28	65
December 2, 1941	19	5	1	47	0	64	137
December 9, 1941	34	5	0	14	6	20	79
December 16, 1941	26	0	0	17	0	19	62
December 23, 1941	35	0	0	33	0	25	93
February 1-December 23, 1941 - Total	1,474	103	107	1,177	21	1,357	4,239

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 29, 1941

TO Secretary Morgenthau

FROM Mr. Kuhn

For years before the war Lord Beaverbrook was an out-and-out isolationist, and his newspapers were the most powerful of all the editorial forces that made for complacency and blindness among the masses of the British people.

His attitudes on foreign affairs were governed by the policy that became an obsession with him: the policy of economic union within the British Empire. With this "crusade," as he called it, he sometimes coupled the advocacy of military and naval alliance with the United States. All other alliances, he felt, were evil; all other commitments, to him, were bound to end in disaster.

Accordingly, his newspapers ridiculed the League of Nations and deplored Great Britain's connection with it. He attacked the Treaty of Locarno as a dangerous commitment. He saw no reason for the British to interfere in any way with the Japanese seizure of Manchuria in 1931. His Daily Express approved and welcomed the Anglo-German naval agreement of 1935. He opposed French policy at every turn; he always opposed cooperation with Russia, a "half-oriental Power," although his attitude was based on a horror of foreign commitments rather than on a horror of Communism as such.

He approved Germany's reoccupation of the Rhineland, opposed sanctions against Italy as "madness," shrugged his shoulders impartially at the Spanish Civil War, called Churchill a "Cassandra" on frequent occasions, and assured his readers that there would be no war in Europe if Great Britain and France only minded their business.

In 1938 and 1939 his most important paper, the Daily Express, carried eight-column streamers on its front page, saying "The Daily Express Tells You There Will Be No War This Year or Next Year Either." On the first of every month he often published an editorial paragraph saying, in effect, "we told you so," because there still was no war and because the Express had been proved right.

He applauded Munich, he bitterly opposed the British guarantee to Poland, he urged almost to the last that Great Britain keep her hands off the Continent. In all his record of those years there are only a few extenuating items: (1) he was prompt and emphatic in attacking the Nazis for their persecutions; (2) he had no use for Mosley or the other avowed Fascists in England; (3) he attacked the caste system in British schools and in the army, and (4) in spite of his isolationism, he called increasingly for a stronger Navy and Air Force. Otherwise he and his papers must bear a large share of responsibility for the mental unpreparedness of the British people and for the tragedies that sprang therefrom.

With the outbreak of war his newspapers changed their tune completely. They saw the true meaning of the "phony" war period in 1939, and begged the British people and their leaders to wake up while there was time. They have been fearless in attacking incompetence in high office, they helped to bring Churchill to power, and they have been perhaps the strongest of all forces of mass opinion in bracing the British people to the realities of total war.

J. K.

Treasury Department
Division of Monetary Research

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Date December 25, 1941 19

To: Secretary Argentina

This is in reply to your inquiry of
December 16th. It has taken this time to
pull this material down.

I think you will be interested in the
enclosure.

H.W.S.

MR. WHITE
Branch 2058 - 214½

TREASURY DEPARTMENT

318

INTER OFFICE COMMUNICATION

DATE December 29, 1941

TO Secretary Morgenthau

FROM Mr. White

Subject: The Banque Worms, Pierre Pucheu and their associates

The appended memorandum, prepared by Mr. Bass of this Division, reveals the following:

1. The Banque Worms and Pierre Pucheu are quite well known to students of the French "400 families". They are prominent supporters of French fascism.
2. This bank has, at the very least, some \$2,250,000 in the United States as well as a share in an 18 percent interest in an American corporation with assets of about \$22,000,000 (the General American Investors Corporation of Delaware).
3. Pierre Pucheu is Vichy Minister of the Interior. His only known asset in the United States is an account of \$1,645 held at the Banque Belge pour l'Etranger Ltd. This account was opened on October 13, 1939, six weeks after France had gone to war and quite probably in violation of French exchange control laws.
4. Many applications have been received by Foreign Funds Control from Worms, of which a few relatively unimportant ones have been approved and the important ones denied.
5. The Banque Worms has family and business ties in the United States, notably with J. P. Morgan, Lazard Freres, Brown Bros. Harriman and other international banking firms. If Worms and associates continue to be active in the Western hemisphere, as Mr. Tyler suggests, they must be acting through these banking and investment connections.
6. Further investigation of the activities of Worms and associates in the Western hemisphere would involve inquiries of these banking houses. I am raising the question with the Foreign Funds Committee and will let you know their view. In any case, I would suggest that they should not proceed further with this until you indicate that you wish to do so.

Worms and associates

There are two banking organizations with the name Worms in Paris. These are H. Worms and A. Worms. The more important is H. Worms, known as Worms and Cie, 45 Boulevard Haussmann, Paris (now removed to 38 Rue Grignan, Marseille). A. Worms published the Petit Bleu and was concerned in several other enterprises, including colonial ones.

In the pre-war period the Banque H. Worms was not merely a private bank but an investment company interested in colonial development, coal importing, ship building, petroleum and related enterprises. This bank had a large hand in the French Society for Dredging and Public Works, which operated in Indochina, and of which Paul Baudoin (later Vichy foreign minister) was president. The bank was also concerned (along with Morgan's, Lazard's, and Kreuger) in the French and Foreign Investment Corporation of Quebec (\$12,000,000 capital). Through Jacques Barnaud it exercised directorships in Air-France, in Dutch petroleum companies and in various other enterprises. It acted as banker for the Renault Motor Co., the Japanese N Y K lines and other important firms.

Important personalities in the Worms circle are H. Worms (head of the concern), Jacques Barnaud (who has conducted economic negotiations between Vichy and the Germans), Gabriel Leroy-Ladurie (a director of Worms), Francois Lehideux (private banker and industrialist).

H. Worms married Anns Morgan and has business as well as family relations with Morgan and Company.

F. Lehideux married the daughter of Louis Renault, the automobile magnate, and is now reputed to be the key figure in the "corporative" organization of the French automobile industry. Worms have acted as banking agents for Renault.

Worms & Cie held, on June 14, 1941, a total of \$1,795,383 with Brown Bros. Harriman & Co., N.Y. (as reported on TFR 300). Inquiry at the Federal Reserve Bank of N.Y. has elicited the further information that Worms has about \$450,000 with the Guaranty Trust Co. (not yet reported or not yet tabulated on TFR 300). Applications to F.F.C. indicate that Worms must have at least \$153,000 at J.P. Morgan and Co. Delafield and Delafield, N.Y., has a credit balance of \$12,908 for Worms. In the present incomplete state of the TFR 300 inventory, it is not possible to give a total balance for all the property held by Worms and Cie in this country.

The French and Foreign Investment Corp. of Quebec (\$12,000,000 capital) may be a company through which Worms, Pucheu and their associates act in the Western hemisphere, since Worms and Barnaud were "in" at its organization. Lazard Bros. and Morgans may be able to give some information about Worms activities through this Quebec Corp. because they also -- as well as Ivar Kreuger -- were involved in its original organization.

The French and Foreign Investment Corporation now is known under the name of Fasic Investment Corporation. Fasic is reported on TFR 300, by General American Investors Corporation, to have owned, on June 14, 1941, 235,424 common shares of General American Investors Corporation. These shares are listed on the New York Stock Exchange and today are selling at 4-1/8. This would give Fasic interests in General American a market value of just under one million dollars.

General American Investors Corporation is a Delaware corporation. It is an investment trust holding principally common stocks listed on the New York Stock Exchange but also certain preferred stocks and bonds. A majority of the directors of General American and its key executive officers come from Lazard Freres and Lehman Brothers. The company has 1,300,200 common shares outstanding. On September 30, 1941, it listed its total assets as having a value of \$22,057,992. During the first nine months of 1941 this corporation had a total income of \$889,848 -- entirely from interest and dividends.

Fasic's 235,424 shares of the common stock of General American constitute about 18 percent of the total common stock outstanding. This 18 percent may be the controlling interest. In any case it would be a sufficiently great interest to justify our making General American a blocked national if we wished to do so.

In addition to the holdings of Worms and Cie (and in addition to the account of Pierre Pucheu mentioned on page 1 above), two small Lehideux accounts have been reported on TFR 300. Messrs. Lehideux & Cie (private bankers) have \$13,142 with the Irving Trust Co., N.Y. Madame Francois Lehideux (nee Marie Louise Françoise Renault) has \$12,895 of the common stock of the American Tel. and Tel. Co. Other accounts for members of this group may turn up as further TFR reports are tabulated.

F.F.C. applications from Worms and associates

The following F.F.C. applications from Worms and associates have been approved:

- (a) Licenses to pay for the import of machine tools into France on behalf of the Renault Selling Branch, representing orders placed prior to the armistice (but not, in several cases, actually shipped until after the armistice). These were applications NY22644, NY26678, NY20645 and NY20176.
- (b) Licenses to pay for the import into France of calculating machines, typewriters and tractors (NY151563, NY160318 and NY193224).
- (c) Licenses for the living expenses of Pierre Coutot, a Worms partner (NY247951, NY277543 and NY191598).
- (d) Licenses to pay Worms and Co., Algiers, acting as storage agents for the Japanese N Y K Lines, handling shipments from Tangiers to New York (NY203819 and NY165566).
- (e) License to credit an Escrow account in Boston for construction work near Marseille (NY101721).

The following F.F.C. applications from Worms and associates have been denied:

- (a) Licenses to transfer \$183,000 to Worms and Co., Marseilles, from J.P. Morgan and Co., representing the proceeds of a sale of wood pulp (NY210749, NY142444, NY173601).
- (b) Licenses to transfer funds from the account of Worms and Co. to certain Swedish banks (NY130518, NY202222, NY157800, NY291155, NY259085 and NY220800).
- (c) Licenses to transfer securities from the account of Worms and Co. to Pierre Coutot in France (NY225666 and NY253928).

Several other applications, involving less than \$500, have not been examined. These are: NY314414, NY299776, NY277543, NY247951, NY243279, NY240547, NY234734, NY220432, NY192814, NY191598, NY160329, NY159032, NY133601 and NY93112.

Appendix

Extract from "Report from France", Fortune, November 1941,
p. 180 f.

"A mysterious influence is said to have been exercised on the governments of France during the war and has persisted ever since the armistice. It is the influence of Vorms et Cie, a name that covers huge commercial coal and shipping operations whose business stretched before the war to Great Britain and the Scandinavian countries. Jacques Barnaud, power in the Vorms company, is attacked from both sides of the fence since he has directed the economic relations between France and Germany; in Paris by the French-Hitler press, which accuses him of being at the service of capitalist trusts; in Vichy by those who treat him as the servant of Germany. Enemies of "collaboration" reproach Gabriel Leroy-Ladurie, Director of Vorms, with having "pushed" into the ministry one pro-Nazi after another, including Paul Baudouin, Foreign Minister, who gave the original impulse to the anti-British campaign.

"The Action Francaise, jealous of its prerogatives, joined these critics with its own argument and denounces the Vorms company for maintaining secretly a sort of occult government. It is not explained how an enterprise whose interests were so closely allied to the fate of Britain should today serve a political point of view essentially anti-British. Its adversaries maintain that it is precisely to safeguard certain vested interests that this mysterious influence is exercised.

"Last July strange rumors began to fly around Vichy. In a town where even official cars are scarce, a sudden influx of police cars was naturally conspicuous. Soon there was talk of house-to-house searches, inquiries, and investigations. A strange story was whispered of the mysterious death in Paris of a man called Jean Coutrot and of a compromising document found among his effects. It was a project for state reorganization entitled "Synarchie," interpreted by the police as a project for a coup d'etat, and attached to it was a list of names of possible sympathizers. Among them were Bouthillier, Lehideux, and Pucheu — all the politicians suspected of being Vorms proteges, as well as a number of important capitalists.

The arrest of all those on the list was predicted. But no one was arrested. When news of the police activity reached the ears of Bouthillier, he rushed off to Petain, who knew nothing about the affair. Neither did Darlan, who was then made to realize that someone in the Ministry of the Interior must supervise the police. The net result was the nomination of Pierre Pucheu himself as the new Minister. It was said that the police who found the "Synarchie" document were Action Francaise men and glad of an opportunity to compromise the Vorma company."

Personal

U.S. Consulate

241

Geneva

26 Nov. 1941

My dear Mr. Secretary,

You may likely have this in mind already, but I'm mentioning it as it might be important: The main spring of the Kichy gang around Puchet is the Banque Worms, which is their source agent in every kind of transaction. I am told the Banque Worms is operating in US and Latin America, it would be a good thing to throw a monkey-wrench into that machine.

It seems that General Odie, lately in command of military operations in French W. Africa, has declared for the Gaulle and has gone over to the U.S.A. I know him, and have reason to think that he is trustworthy. He sent his blessing to me in Gibraltar last year, after Dakar, but he has grown up since then. I believe his views on how to proceed with regard to W. Africa deserve serious consideration.

With kind regards

Yours sincerely,

Reginald Tyler

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE December 29, 1941

TO Secretary Morgenthau

FROM Mr. Districh

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£87,000
Purchased from commercial concerns	£14,000

Open market sterling remained at 4.03-3/4, and there were no reported transactions.

The Canadian dollar remained at a discount of 13-7/8% until mid-afternoon, subsequently moving off to close at 14-1/8%.

The Venezuelan bolivar declined 10 points to close at .2690.

The Cuban peso, which has been quoted at par during the past week, improved to a premium of 1/8% this afternoon.

In New York, closing quotations for the foreign currencies listed below were as follows:

Argentine peso (free)	.2355
Brazilian milreis (free)	.0516
Colombian peso	.5775
Mexican peso	.2065
Uruguayan peso (free)	.5310

We sold \$1,995,000 in gold to the Central Bank of Bolivia, which was added to its earmarked account.

The State Department forwarded a cable to us reporting that the Westminster Bank, London, shipped \$346,000 in gold from England to the Chase National Bank, New York, for sale to the New York Assay Office.

In London, spot and forward silver were unchanged at 23-1/2d and 23-9/16d, respectively. The U. S. equivalents were 42.67¢ and 42.78¢.

The Treasury's purchase price for foreign silver was unchanged at 35¢. Handy and Harman's settlement price for foreign silver was also unchanged at 35-1/8¢.

We made no purchases of silver today.

TREASURY DEPARTMENT

243

INTER OFFICE COMMUNICATION

DATE December 29, 1941

TO Mr. White

FROM Mr. Friedman

Subject: Digest of telegram received from American Embassy, Chungking, summarizing Sir Otto Niemeier's oral statements on the financial position of China.

1. Expenditures of the Chinese Government for 1940 reported as about Ch. \$6 billion; for 1941 the reported figure is about Ch. \$7 billion, but the actual expenditures are nearer Ch. \$10 billion.
2. Revenues of all kind have totalled about 10 percent of the 1940 expenditures, and the deficit for the year has been met almost entirely by the issuance of about Ch. \$7 billion of new currency.
3. The circulation of Chinese national currency has increased from 2 1/2 billion in 1937 to about 14 billion at the end of 1941.
4. In 1942, taking the Chinese estimates of revenue of Ch. \$5 billion from tax increase and from collection of the land tax in kind, the deficit will be Ch. \$10 billion should the budget estimates be maintained. Note circulation will go close to Ch. \$25 billion, if the deficit is met by the issuance of further currency.
5. With reference to the suggested \$500 million loan, Sir Otto feels that it would be a mistake to grant a loan in that amount since it would be impossible to utilize it effectively. He suggests consideration be given to a loan permitting the issuance of bonds in the value of Ch. \$2 billion; 1/2 to be supported by the United States Government and 1/2 by the British Government. Ambassador Gauss reports that he is told by the British Ambassador that the British Treasury is considering this and may approach the United States concerning it later.

PARAPHRASE OF TELEGRAM RECEIVED

244

FROM: American Embassy, Chungking, China.

DATE: December 21, 1941, 10 a.m.

NO.: 516.

Reference is made to the Embassy's telegram No. 515, dated December 21, 9 a.m.

The following summarizes Sir Otto Niemeyer's oral statements made to Vincent for my information on the financial position of China:

Expenditures of the Chinese Government for 1940 were reported as about \$6,000,000,000 Chinese national currency; for 1941 the reported figure is about \$7,000,000,000 but the actual expenditures are nearer \$10,000,000,000; revenues of all kinds have totaled about 10 per cent of the 1941 expenditures; the deficit for the year has been met almost entirely by the issuance of roughly \$7,000,000,000 of new currency. Whereas national currency in circulation in 1937 was some 2 1/2 billions, it was about seven billion dollars at the end of 1940 and will be about fourteen billions at the end of 1941. There is obvious ground for alarm over the rate of increase. For 1942 it is said the deficit will be thirty billions one hundred and one reduced to 16 1/2 billion. One billion 500 million of this is for provincial rather than National Government demands. Taking the Chinese estimate of revenues of \$6,000,000,000 from

from tax increases and from collection of the land tax in kind (in rice), the deficit in 1942 would be ten billions should the budget estimates be maintained, which is not to be expected. The note circulation will go close to \$25,000,000,000 if the deficit is met by the issue of further currency.

With regard to the known but unofficial fact that the Chinese Government (?) a request to the Government of the United States for a \$500,000,000 loan in United States dollars (which would be roughly equivalent to the amount of the 1941 budgetary obligations at the stabilization rate). It is Niemeyer's feeling that it would be a mistake to grant a loan in that amount since it would be impossible to utilize it effectively and it would therefore be misleading. He suggests that consideration be given to a loan permitting the issuance of bonds in the value of \$2,000,000,000 Chinese currency; half to be supported by the U.S. Government and half by the British Government. (I am told by the British Ambassador that the British Treasury is considering this and may approach the U.S. concerning it later).

The rest of Niemeyer's observations were on lines reported in telegram No. 515 of this date.

GAUSS

RECORDED

216

DEPARTMENT OF STATE
WASHINGTON

December 29, 1941

In reply refer to
FD

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses copies of telegram no. 326, dated December 27, 1941, to the American Embassy, Chungking, China, transmitting a message for Mr. A. Manuel Fox from the Secretary of the Treasury.

Enclosure:

To Embassy, Chungking,
no. 328, December 27,
1941.

Copy:lc:12/30/41

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247

TELEGRAM SENT

CJ

PLAIN

December 27, 1941

AMERICAN EMBASSY,
CHUNGKING, (CHINA)

328, twenty-seventh.

FROM SECRETARY OF THE TREASURY FOR FOX.

QUOTE. On December 26 the President extended the Freezing Order to Hong Kong. The new Executive Order also provides for automatic freezing of assets of any other territory occupied by Axis forces.

As of same date Treasury Department issued Public Circular No. 10, revoking General License No. 57; amending General License No. 13 by deleting Hong Kong and Penang; amending General License No. 53 by excluding occupied territory from "generally licensed trade areas"; and also containing the following provision: "The offices within Hong Kong and occupied China of banks named in Schedule A of General License No. 58, shall, as of the date hereof, cease to be appointed banks, and, as of the date hereof, such offices shall also cease to be generally licensed nationals within the meaning of General Licenses Nos. 59, 60, or 61, and such general licenses are to such extent hereby revoked. UNQUOTE.

HULL
(FL)

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DEPARTMENT OF STATE

In reply refer to
FD

Washington

December 29, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses copies of the paraphrase of telegram no. 2215, dated December 27, 1941, from the American Embassy, Rio de Janeiro, Brazil, concerning a telegram received by the Bank of Brazil from the Banque Nationale Suisse Zurich.

Enclosure:

From Embassy,
Rio de Janeiro,
no. 2215, December 27,
1941.

Copy:msd:12/29/41

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249

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro, Brazil

DATE: December 27, 1941, 3 p.m.

NO. : 2215

The following telegram has been received from the Banque National Suisse Zurich by the Bank of Brazil.

"Concerning our account with you in United States dollars, please telegraph if you agree to transfers to Instituto Moneda Estranjera, Madrid, or to the Banco Portugal, Lisbon, on United States dollar accounts with you."

The total of the dollar balance is \$1,384,592.88 with the Bank of Brazil. The latter is going to ask for more information and I have been informed by the Director of Exchange that the transfers will not be authorized by him.

CAFFERY

eh: copy 13-29-41

BRITISH EMBASSY
WASHINGTON, D.C.

December 29th, 1941

PERSONAL AND SECRET

Dear Mr. Secretary,

I enclose herein for your personal and secret information copies of the latest reports received from London on the military situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

(For the Ambassador)

R. J. Campbell

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

BRITISH MOST SECRET

(U.S. SECRET)

OPEL No. 52

Information received up to 7 a.m., 27th December, 1941.

(I) NAVAL

MEDITERRANEAN. A Greek schooner arrived at TOBRUK on 19th with enemy cargo and was taken in prize.

23rd. H.M.S. Schooner TIBERIO capsized and sank off MERSA MATRUH. One fatal casualty.

26th. A Polish ship of medium tonnage carrying troops and supplies was sunk by U-boat north-east of TOBRUK. All the troops and the crew were rescued.

HAIFA. The British tanker reported on fire in OPEL No. 51 is burnt out, but the fire in the Norwegian tanker is under control and her tanks are intact.

FAR EAST. CHINA. A Dutch submarine has sunk three large transports and a tanker off the SARAWAK coast. A Dutch submarine is overdue from patrol in the Gulf of SIAM and must be considered lost. United States submarines claim to have sunk recently one transport and one mine-sweeper and to have sunk probably a second transport and possibly a sea-plane tender.

(II) MILITARY

LIBYA. The pursuit of the enemy by our forward troops is being pressed as fast as maintenance problems and bad going permit. In the BENGHAZI sector our troops are rounding up Italian stragglers north east of the town. BENGHAZI Harbour is extensively damaged but one mole is largely intact. The power station is in working order. Considerable war material was found abandoned at BARGE. Further south our columns report that there are no enemy east of a line from REGIMA (30 miles east of BENGHAZI) to 10 miles north of HEDA FOMI (half-way between SOLUK and JEDABYA). The bulk of the remaining German forces appear to be still in and around JEDABYA. They are being continually harried and pursued by our mobile columns. A portion of our forces are operating on their southern flank. There is no news from the old frontier area where pressure on BARDIA and HALFADA continues.

MALAYA. No further report of land operations received.

(III) AIR OPERATIONS

WESTERN FRONT. 26th. Eleven enemy aircraft operated against the United Kingdom of which two flew overland.

Regraded Unclassified

26th/27th. 10 aircraft were plotted, two of which crossed the Cornish coast.

MEDITERRANEAN. LIBYA. 24th/25th. 15 Wellingtons (of which one is missing) bombed and machine-gunned small groups of M.T. near EL AGHEILA. Little traffic was observed.

25th. Hurricanes machine-gunned a concentration of M.T., armoured fighting vehicles and artillery nine miles to the south east of JEDABYA. One of our aircraft was shot down by A.A. fire but the pilot is safe.

MALTA. 25th/26th. Hostile aircraft dropped bombs on the island without causing damage, one enemy aircraft was probably destroyed by ground defences.

26th. Two attacks made. The first was driven off but the second resulted in the destruction on LUQA aerodrome of six of our aircraft and damage to five more. One enemy aircraft was probably destroyed by A. A. fire.

FAR EAST. MALAYA. 25th. Enemy aircraft were active in attacking railway communications at SEGAMAT (95 miles north west of SINGAPORE). One enemy bomber shot down by A.A. fire at PORT SWETTENHAM. Air reconnaissance reported 34 transports off SINGORA. 68 aircraft at SINGORA and 33 at PATANI numerous aircraft at SUNGAI PATANI aerodrome.

HURMA. Military sources report that on 25th a further raid on RANGOON and on MINNALDON aerodrome was carried out by 54 Japanese bombers escorted by 30 fighters. Comparatively little damage was done and more than 20 enemy aircraft were shot down. Our losses 6 aircraft (including two of the American Volunteer Group) and two more were destroyed on the ground. Further report of raid on 23rd gave latest casualty figures as 1,000 killed and 700 injured.

SARAWAK AND BORNEO. 25th. SINKATANG (NORTH BORNEO) aerodrome was heavily bombed and rendered temporarily unserviceable.

26th. Air reconnaissance reports one large cruiser, one destroyer, four transports (one burning) and a number of barges off KUCHING. No land operations were observed.

(IV) INTELLIGENCE

CHINA. A Japanese force of approximately four divisions is reported to have moved to attack CHANGSHA in CENTRAL CHINA on 23rd December.

(V) JAPANESE TACTICS.

G.O.C. MALAYA describes the Japanese forces in Northern MALAYA as a highly trained army of gangsters equipped with a high proportion of Tommy guns and mortars and employing all kinds of ruses in an attempt to lower the morale of our troops.

BRITISH MOST SECRET

(U.S. SECRET)

OPVCL No. 43

Information received up to 7 a.m., 28th December, 1941.

(I) NAVAL

A small Spanish merchant vessel has been intercepted in the Atlantic and is being sent into GIBRALTAR. During an unsuccessful attack by enemy aircraft upon an East-coast convoy yesterday evening, one of the aircraft was shot down by gunfire from the escort ships.

(II) MILITARY

LIBYA. On the evening of the 26th the main German Force, with possibly some Italians, was in position around JEDABAYA, where it was being harassed by one of our Armoured Brigades. The enemy artillery in this area is reported to include eight 105 mm guns, some 88 mm, and anti-tank guns, and possibly some dug-in tanks. Our forces are closing in on JEDABAYA from the North East and South, although facilitating the withdrawal of the Italians, the German stand at JEDABAYA may give us the opportunity to get behind and destroy them. Wireless silence prevents us knowing exact position of our outflanking force.

MALAYA. The situation is materially unchanged, although severe casualties are believed to have been inflicted upon the enemy in local counter-attacks. Slight contact has been made on the River PERAK, where the enemy is preparing bridges and rafts.

RUSSIA. The Russians are advancing on a broad front West and South West of TULA, and are also exerting heavy pressure on the Germans east of KURSK and in the DONETS area.

(III) AIR OPERATIONS

WESTERN FRONT. 27th. A total of 22 aircraft were despatched to the Norwegian Coast to attack gun positions near STADLAND, and aerodrome north east of BERGEN and shipping off EILERSUND. At the aerodrome, many hits were made on the runways, a merchant vessel was sunk off EILERSUND and near misses were scored on another. Eight of our aircraft are missing. 27th/28th. 206 aircraft were sent out - DUISSELDORF 132, BOULOGNE 34, BREST 29, a Dutch aerodrome 6, sea mining 5, seven are missing and one crashed on return. Only ten aircraft operated against this country.

MEDITERRANEAN. LIBYA. 26 Blenheims attacked mechanical transport on the road west of JEDABAYA, and others from MALTA bombed two 1,500 ton merchant vessels in ZOUARA Harbour, one of which blew up. 26th/27th. Wellingtons

- 2 -

dropped twenty six and a half tons of bombs on TRIPOLI (L) Harbour, two hits and one near miss on shipping were obtained.

MALTA. 26th/27th. Enemy aircraft attacked the island during this night and the following day, causing slight civilian damage. One Junkers 88 was destroyed by our fighters.

FAR EAST. MALAYA. 26th. Enemy aircraft made several attacks on the railway south of TAPAH. Near TAMPIN, 20 miles north of MALACCA, it was cut but was repaired the same night.

(IV) AIRCRAFT CASUALTIES IN OPERATIONS OVER AND FROM THE BRITISH ISLES

German - destroyed 27th 1

British - missing 27th 8

27th/28th 7

Total 15

(V) There is cumulative evidence that a base for supplying fuel oil on a big scale is being established at or near MARSEILLE under German control, the oil is being sent to this area by River and canal from GERMANY through FRANCE via LYON and the RHONE. Reports of the quantity vary from 27,000 to 40,000 tons, including both diesel oil and petrol, suitable for submarines and motor torpedo boats. U-boats in the MEDITERRANEAN are at present using SPEZZIA but there is no evidence that any of this oil is to be shipped there. It may be intended to use the MARSEILLE area as an alternative supply base for German Forces in the MEDITERRANEAN.

TREASURY DEPARTMENT

255

INTER OFFICE COMMUNICATION

DATE December 30, 1941

TO Secretary Morgenthau
FROM Mr. Kamarok
Subject: Summary of Military Reports

Far East

British Military Intelligence analyzes the Far Eastern situation as follows:

The two clues to Japan's actions are (1) time and (2) Russia. Japan must obtain quick results in view of her difficult economic situation and the inevitability of defeat, if the United States and United Kingdom are given time in which to build up their strength against her. Japan is also anxious not to start another front in the north, while fighting is still in progress on the southern and China front. Therefore, after the initial phases of the war are over, the position of Japan will become precarious, if operations are opened on her northern front by Russia, and if there is sufficient time for the United Kingdom and United States to strengthen their positions in the Far East.

The gravity of the situation in Malaya is mainly due to the fact that the Japanese, who already are 4 divisions strong with at least 150 tanks in Malaya, are able to disembark reinforcements unhindered from the air. In the whole Far Eastern Theater, the Japanese have the advantage of being able to move forces with freedom from one front to another.

(U.K. Embassy, Operations Report, December 23, 1941)

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 29, 1941

TO Secretary Morgenthau
FROM Mr. KAMEROK
Subject: Summary of Military Reports

Far East

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(U.K. Embassy, Operations Report, December 23, 1941)

It is reported that the Japanese have been mobilizing 10 new divisions since December 15. This will bring the total Japanese strength up to 72 divisions (1,500,000 - 2,000,000 men) - which the British believe is the maximum that Japan can equip and maintain. Reports indicate that the Japanese are employing 60,000 men in Luzon against Manila and 20,000 men in Mindanao. (There are 100,000 Filipino soldiers, 10,000 Filipino Scouts officered by Americans, and 30,000 American regulars in the Philippines, according to our Military Intelligence.)

(U.K. Embassy, Operations Report, December 24, 1941)

Russo-German Front

There is no evidence that any German divisions have yet been pulled out for refitting. (Evidently, the Germans do not feel that the front is stabilized, in spite of their assertions to the contrary.)

(U.K. Embassy, Operations Report, December 23, 1941)

A member of the Finnish Diet stated that the members of the Diet no longer believe that Germany can win, but still feel that they are tied to the Nazi war machine. The Finns are war-weary and anxious over their casualty list.

(Office of the Coordinator of Information,
"The War This Week", December 18-24, 1941)

Sweden

The Germans have been trying to maintain the morale of their troops in northern Finland by periodic furloughs in the south. Sweden has refused a German request, made in the middle of December, to allow German troops to pass through Sweden in transit to and from Finland.

The Swedes have also ignored Nazi suggestions that they demobilize. This apparent courage of the Swedes results from the Nazi reverses in Russia.

(Office of the Coordinator of Information,
"The War This Week", December 18-24, 1941)

Mediterranean and North Africa

In the week December 11 to 18, there was little U-boat activity in the North Atlantic. The general movement of submarines to the Mediterranean seems to have continued. A number have passed Gibraltar and there are indications that several may have turned back after having been attacked and damaged.

(U.K. Embassy, Operations Report, December 23, 1941)

The Germans are reported to be concentrating 2,000-3,000 planes in Italy. Spain is reported to have informed the Portuguese Government that the Germans will move troops into Spain in late December.

(Office of the Coordinator of Information;
"The War This Week," December 18-24, 1941)

A convoy of 20 merchant ships, to be escorted by French warships, is reported to be formed at Casablanca, Morocco, for Marseilles. Such a convoy is about four times the usual size for this route. (This may be a French attempt to provoke an incident.)

(U.K. Embassy, Operations Report, December 23, 1941)

The French are developing two airfields near Dakar and three along the Liberian frontier. German planes based on the first two bases would menace Bathurst (south of Dakar), an assembly point for British convoys. The latter three bases menace the Pan-American air base in Liberia. All could be used in operations against the Cape Verde islands.

(Office of Coordinator of Information;
"The War This Week," December 18-24, 1941)

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G-2/2657-223; No. 383

M.I.D., W.D.

11:00 A.M., December 28, 1941.

SITUATION REPORTI. Pacific Theater.

Philippines: Fighting continues on a reduced scale along all ground fronts. No report of any change in the general situation. According to the press, Manila has been subjected to another heavy air raid. The city itself was bombed four times and the port once. Casualties heavy. Hawaii: No further reports of hostile activity have been received. Malaya: Confused reports. Apparently no change in the situation. Sumatra: The press reports a Japanese air raid on the airport at Medan (east coast of Sumatra). Parachutists were said to have been dropped about ten miles outside of that city. West Coast: No further reports have been received.

II. Eastern Theater.

Ground: Both sides report hard fighting. The Soviet Information Bureau states that Russian forces have occupied Likhin (west of Tula), Novosil (east of Orel) and Tim (east of Kursk). No situation map will be issued today because of the lack of important changes on the front.

Air: German High Command claims that German Air Forces sank 2 Russian transporters in the Straits of Kerch.

III. Western Theater.

No further reports have been received.

IV. Middle Eastern Theater.

Ground: British are attacking main axis forces in the vicinity of Agedabia. Mopping up operations continue south of Bengasi.

Air: The British High Command announced that R.A.F. and Free French bomber aircraft made heavy attacks on Tripoli, smashing ships and stores. Other R.A.F. bomber formations attacked Bardia and scored hits on defense positions and motor vehicles and set fire to barracks buildings.

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G-2/2657-220; No. 385

M. I. P., W. D.

11:00 A.M., December 28, 1941.

SITUATION REPORTI. Pacific Theater.

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II. Eastern Theater.

Ground: Both sides report hard fighting. The Soviet Information Bureau states that Russian forces have occupied Lisbon (west of Tula), Novosil (east of Orel) and Tim (east of Kursk). No situation map will be issued today because of the lack of important changes on the front.

Air: German High Command claims that German Air forces sank 2 Russian transport in the straits of Kerch.

III. Western Theater.

No further reports have been received.

IV. Middle Eastern Theater.

Ground: British are attacking main axis forces in the vicinity of Agadabia. Mopping up operations continue south of Bengasi.

Air: The British High Command announced that U.A.F. and Free French bomber aircraft made heavy attacks on Tripoli, smashing ships and stores. Other R.A.F. bomber formations attacked Bardia and scored hits on defense positions and motor vehicles and set fire to barracks buildings.

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G-2/2657-220; No. 56L M.I.D., J.D. 11:00 A.M., December 29, 1941.

SITUATION REPORT

I. Pacific Theater.

Philippines: Japanese air activity continues. Fighting is continuing in the northwest and southeast, with the heavier pressure in the southeast. There has been no substantial change in the last twenty-four hours. Manila is cleaning up after severe raids in violation of its status as an open city. Hawaii: Negative military reports received. Malaya: Japanese have crossed the Perak River above Ipoh, and there is increased pressure on British in the vicinity of Ipoh. Active enemy patrolling continues on the east coast. Borneo: According to press reports, believed reliable, the Japanese have landed and taken landing in Sarawak. Sumatra: The press reports that Japanese parachutists who landed yesterday near Medan (northeast Sumatra) have been blocked about ten miles from that city. West Coast: No further reports of hostile activity.

II. Eastern Theater.

Ground: The Russians report hard fighting along the general front. No important changes have been reported.

Air: German High Command claims that a Russian troop ship has been sunk and six other Russian vessels damaged by German Air Force operations over the Black Sea.

III. Western Theater.

According to the press, the R.A.F. made heavy attacks upon submarine bases at Wilhelmshaven and Emden, the Rhineland industrial areas, German airdromes in Holland, and the docks at Dunkirk, France. The press also states that British long-range bombers attacked the German airfields, while Coastal Command planes attacked ships off Netherlands' coast.

IV. Middle Eastern Theater.

British pressure was increased on Axis forces in the Agedabia region. The area between Agedabia and Bengasi is practically clear of hostile forces.

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