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January 12, 1942
9:30 a.m.

GROUP MEETING

Present: Mr. Bell
Mr. Buffington
Mr. Paul
Mr. Viner
Mr. Thompson
Mr. Blough
Mr. Foley
Mr. Kuhn
Mr. Gaston
Mr. Haas
Mr. Sullivan
Mrs. Klotz

H.M.JR: Norman?

MR. THOMPSON: We are starting a Civilian Defense Training School this afternoon, after hours. We will train about four hundred volunteers on how to handle bombs, gasses --

H.M.JR: Bonds?

MR. THOMPSON: Bombs, if we have an air raid. I thought you might like to have that sheet for your files.

H.M.JR: Right.

MR. THOMPSON: I think the time has come for us to go on an eight-hour basis. Other departments are doing it.

H.M.JR: What are we on now?

MR. THOMPSON: We are on seven now.

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H.M.JR: It wouldn't bother me any.

MR. HAAS: We are just making it official.

H.M.JR: Everybody in this room, I am sure, would be glad.

MR. PAUL: I don't know, I sort of feel that it is foolish to just make people stay here and do nothing. There is a lot of resentment. If they have to work, then it ought to be on a nine or ten hour basis.

MR. THOMPSON: They have all got work to do. There is no question about that. In fact, every branch of the Treasury is working voluntarily over time, but we want to regularize it so that the traffic situation can be --

MR. VINER: You mean forty-eight or forty-four?

MR. THOMPSON: Forty-four. Five days of eight hours, and on Saturday four hours.

MR. VINER: The rest of Washington is doing it fast.

MR. BELL: The other departments are doing it. I think we have got to fall in line.

H.M.JR: There will be plenty to do. No one will sit here. I will walk through the building and look at them.

MR. PAUL: I am not worried about the people associated with me --

MR. BELL: Every office is asking for increased personnel.

MR. THOMPSON: Yes, and some of them are asking for authority to work over time. I think it should be Washington and the field.

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H.M.JR: I don't think forty-four hours is too much for anybody, eight hours and four on Saturday.

MR. THOMPSON: Well, the hours are staggered now. Internal Revenue, for instance, works from eight forty-five, nine, nine fifteen, and nine thirty. Some of them add a half hour on in the morning, and some in the evenings.

MR. BELL: It would be nine to five?

MR. THOMPSON: Yes.

H.M.JR: I think it is all right, if you can work it out. What else?

MR. THOMPSON: We have been working on a booklet which is somewhat of an encyclopedia of information for new employees. It covers all of the official matters that they should know, and in addition, all of the recreational and educational and other facilities. There is a foreword we would like to put in for your signature. I will read it.

H.M.JR: Go ahead.

MR. THOMPSON: "To the new employee. I wish to use this means of" --

H.M.JR: I can't hear until Jake Viner comes to attention. He is a hell of a teacher.

MRS. KLOTZ: You always do that to him, too.

MR. THOMPSON: "To the new employee. I wish to use this means of welcoming you to the Department. I should like to do this personally, but unfortunately the size of our organization makes it impossible for me to do so. We are engaged in a great public service, which affects the life of every person in the United States. No matter what your particular job may be, I want you to know that the work which you are going is important

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to the Department, and to our country. As public servants we must discharge our duties faithfully and to the best of our ability. I sincerely hope that your association with the Department will be a long and pleasant one."

H.M.JR: It sounds all right.

MR. THOMPSON: If you would sign that, we will get it out. It is going to be a valuable little booklet. It covers everything the new employee should know.

H.M.JR: Wonderful. What else?

MR. VINER: Mr. Secretary, are you sure that you hope the association will be a long one, of these new emergency employees?

MR. THOMPSON: "Association with the Department will be a long and pleasant one."

H.M.JR: This is the employee, not me.

MR. VINER: But I mean some of these are coming in for the emergency, aren't they?

MR. THOMPSON: Well, this is for the rank and file of Civil Service employees. Most of them who come for the emergency stay anyway.

MR. VINER: I didn't know you were willing to say you hoped they would.

MR. THOMPSON: That is all.

MR. BELL: Here is the circular for the bonds that we get out today.

H.M.JR: For a minute I thought the President wasn't going to sign that thing.

MR. BELL: I got word Saturday night that he was going to sign it Sunday.

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That is all that came in Saturday night on that Chinese thing.

H.M.JR: Oh, yes.

MR. BELL: I haven't distributed that to anybody.

H.M.JR: Stanley Hornbeck is coming in to see me at ten fifteen.

MR. BELL: I sent you some material Saturday.

H.M.JR: I read it very carefully. There is one thing which is missing, this letter from this fire warden as to what we should do up at the house.

MRS. KLOTZ: I didn't know there was such a letter.

H.M.JR: Yes.

MRS. KLOTZ: Oh, on the farm?

H.M.JR: Yes.

MR. BELL: There are a lot of rumors around over the country that the Government plans to confiscate savings accounts. I have signed a good many letters denying them. I wonder if it wouldn't be well to put out a statement. We could send out that statement in reply to those letters.

H.M.JR: It is all right with me.

MR. BELL: It is becoming rather widespread.

H.M.JR: It is all right with me.

MR. BELL: I will work it out with Schwarz.

MR. KUHN: It could be done at the press conference, Mr. Secretary.

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H.M.JR: Oh, I don't want to get into it. I would rather do it this way.

MR. BELL: I would like to have a formal statement, so that we could send it out in reply to these inquiries.

H.M.JR: What else?

MR. BELL: That is all I have.

H.M.JR: Any back-talk or after-talk after the financing?

MR. BELL: No. the bonds went up a little in the last hour, on the assumption that it was going to be a note issue, but only a couple of thirty-seconds.

H.M.JR: You (Thompson) had better look these over. There are three to sign at once. Anything else, Dan?

MR. BELL: That is all I have.

H.M.JR: How long will you be at that Red Cross meeting?

MR. BELL: Well, they usually last right up until one, but I don't have to stay that long.

H.M.JR: Well, if I need you, I can send for you.

MR. BELL: Yes.

H.M.JR: Who watches the bond thing while you are gone?

MR. BELL: Hadley.

H.M.JR: If anything goes wrong, tell him to let me know.

MR. BELL: I will have him call me also.

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H.M.JR: Will you? George, have you got a pencil? When these statistics of the tenth come in, you know, asking on the payroll allotment plan--

MR. HAAS: Oh, they won't - all we will have on the tenth, Mr. Secretary, is a report from the companies who have - are under the plan.

H.M.JR: Well, I asked Harold Graves this question. He said you would get them all from the tenth. Let me ask you my question. He said those all would be coming in to him. I wanted to know how many states have adopted the payroll allotment plan, and then within each state how many counties and cities or any other - townships, any other form of government.

MR. BELL: You mean the local governments?

H.M.JR: Yes. In other words, let's take the State of New York. We start with the State. Has the State adopted it, how many counties, how many townships, how many cities, you see. He said you would have all of that. I questioned it.

MR. HAAS: When you asked him he asked us to get it, so we are working on it.

H.M.JR: Well, he passed - but--

MR. HAAS: He passed it on.

H.M.JR: But that wouldn't come through normally?

MR. HAAS: Normally it wouldn't, no, sir. We wouldn't know, and I think our people misunderstood it. We thought he was talking about the classification of corporations by counties and states.

H.M.JR: I want to know the various forms of units of government, how many of them are adopting this and how many are not, and for instance, all of these committees, the honorary chairman is the Governor.

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MR. HAAS: Yes, sir.

H.M.JR: So I could write to the Governor of Arkansas, "My dear Bill, why don't you get your State," and so forth, and this is what the other States are doing, and get the States and various units of government. How many employees are there working for government, outside of the Federal Government?

MR. BELL: I don't know.

H.M.JR: Well, there must be several million.

MR. HAAS: There are.

MR. BLOUGH: At least two and a half million.

H.M.JR: Well, you get the two and a half million there, and a million and a half, more or less, on the Federal Government, and there is around four million right there.

MR. HAAS: There may be a question - Ed Foley will probably know. Will the law permit them to deduct from payrolls? The Federal Government is not doing it.

MR. BELL: Yes, we are. Yes, we are providing for it. We are going to put a plan into effect next payday, the 24th, beginning the 24th of January. Some of the states have adopted - New York City has adopted it and the State of Illinois has adopted it. I have got telegrams from them. They want to be designated as an issuing agent, which we are also getting ready to do.

H.M.JR: Well, get the answer soon as you get each state lined up, shove it in there. Now, when are you going to get next month's statistics on payroll allotment?

MR. HAAS: Well, we probably won't have any figures until maybe about two weeks from today.

H.M.JR: But I mean, didn't we ask for something special?

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MR. HAAS: On the tenth, Mr. Secretary. The companies are to - they are sending a list of the companies which have adopted the payroll deduction scheme, each State Administrator is sending it in.

H.M.JR: Well, the 31st is a Saturday again. Let's certainly find out where we stand as of the 31st.

MR. HAAS: Yes, sir.

H.M.JR: On the payroll allotment, will you please?

MR. HAAS: Yes, sir.

MR. BELL: You will get a report tomorrow of agents, and in that report will be included the corporations that have adopted the payroll deduction, plus the issuing agencies.

H.M.JR: Ferdie, would you ask somebody over in the bond thing what we are doing to contact colleges to sell Defense Stamps?

KUHN: Yes, sir.

H.M.JR: And then other units of schools, high schools and private schools.

MR. PAUL: Mr. Day, the president of Cornell, reported at a Federal Reserve meeting the other day that you ought to have --

H.M.JR: Pardon?

MR. PAUL: Mr. Day thought you should put the rate up to three per cent.

H.M.JR: I see. I think OCD has an organization over there that contacts colleges particularly.

MR. KUHN: I think this is being done, but I don't know just what is being done.

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H.M.JR: Well, will you find out?

MR. KUHN: It has been talked about many times.

H.M.JR: We can't find any stamps in Vassar College. The girls have raised the question. This nice Houghteling boy was down here. They can't buy any stamps at Exeter, for instance. I mean, I would rather have too many places than too few places. And then the list would go to Dave Morris, or rather Bell. I don't know, Bell started it. What about this suggestion of having desks manned outside of post offices?

MR. BELL: I turned that over to Dave.

H.M.JR: Ask Dave Morris about that, Mrs. Klotz.

MR. BELL: I told him what I had done up to the point he started in on it.

H.M.JR: Right.

MR. BELL: And he is looking into that, together with the other. George Harrison suggested this morning that you might designate the branch offices of insurance companies throughout the country on Savings Bonds. He said he had a hundred and four offices that he would be tickled to death to have designated.

H.M.JR: Will you pass that along to Dave?

MR. BELL: Yes, I have done that. I sent him a note.

H.M.JR: Anything else, George?

MR. HAAS: I have got a few more things. Do you want me to give these charts for Procurement Division to Mr. Swope?

H.M.JR: Yes.

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MR. HAAS: Do you want to look at them?

H.M.JR: Not particularly. I think it would be nice to take them in yourself and explain them.

MR. HAAS: Yes, I have been in to see him. I thought you would like to see how those statistics looked in red, white, and blue. That is the reporting form. Here are the tax notes for the five months they have been out. You notice the total of the tax notes and all the series of Savings Bonds is about equal, two and a half billion.

H.M.JR: I don't get it.

MR. HAAS: The totals.

H.M.JR: I see. Gosh, it is just a dribble.

MR. HAAS: That is right. Do you want us to try to get the figures on airplanes, tanks, and so on?

H.M.JR: Has he ever seen that thing?

MR. BUFFINGTON: We are almost back to where we started before I came down.

MR. HAAS: Would you like to have us try to get those airplane figures for December?

H.M.JR: Yes.

MR. HAAS: On these British reports, you remember we thought we would liquidate it and get it out around the first of the year, and get out of it. You know the British have a mission here in town. Why not have the Government agencies interested in these figures contact the British direct? We do that, more or less, on particular items anyway.

H.M.JR: Why don't you take it up with Sir Frederick

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Phillips, and he will contact this man from the British Treasury that is reorganizing their offices, and tell him this is something we want to get out of. I would do it through Sir Frederick Phillips. You know, the Treasury in England is different than it is here. It outranks all other Departments. Their man is here reorganizing. Did you meet him, Dan?

MR. BELL: Yes, when he first came over.

H.M.JR: But do it through Phillips.

MR. HAAS: Yes, I will do it.

H.M.JR: Is that all, George?

MR. HAAS: That is all.

H.M.JR: How is the housing situation?

MR. VINER: I think I have something, but I am not quite sure, yet.

H.M.JR: You don't want to tell me because you are afraid I would tell it to somebody else? (Laughter). There is what you call confidence.

MR. VINER: That is one consideration. The question is, my banking references (laughter).

MR. PAUL: Always modest, aren't you, Jake?

H.M.JR: Jake, have you seen all this stuff on the Chinese thing? Let me give it to you and I would like you to read it, because you will be in on it, and do you mind sending word back to Coe to be on his toes on this thing? We will have to think up something on the thing. Here is another one. I would like you to sit in on that.

MR. BELL: You have the letter I got this morning, haven't you?

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H.M.JR: I haven't read that yet myself. This is pretty important, Jake. You might - Coe, and what is this other? Shattuck?

MR. VINER: Southard.

H.M.JR: You might tell them to be on their toes on the thing. I hope to get away Wednesday morning at nine o'clock. We have to do it between now and then.

MR. BELL: It is pretty big. This is a better suggestion, probably. It cuts it down a little.

H.M.JR: Well, I will read it. I will have this photostated and send you a copy.

MR. VINER: Mr. Secretary, if you leave on Wednesday, are you going to do anything about that small loans business before you leave?

H.M.JR: No, unless you tell me I have got to.

MR. VINER: I think you ought to say yes or no or that you are not going to take a part in it, because I think the Treasury is holding that up.

MR. BELL: Can't we have a conference on that before you leave?

H.M.JR: Sure.

MR. BELL: With you?

H.M.JR: Sure. Ten fifteen tomorrow morning.

MR. BELL: It will have to be tomorrow, because Dave Morris --

H.M.JR: Ten fifteen tomorrow morning.

MR. VINER: Otherwise --

H.M.JR: Ten thirty, I won't rush myself. Are you ready to give me a definite recommendation?

MR. VINER: No, I am not. I think it is important that the Treasury either step out, or make a definite recommendation, because we have taken it on enough so that they are waiting for us.

H.M.JR: Well, I didn't know that.

MR. VINER: I think that is wrong.

H.M.JR: Well, you are making a contribution when you bring it to my attention now. I was not conscious of that. I did not know that I was holding it up.

MR. VINER: Well, in a sense --

MR. BELL: We didn't have the final information until probably Thursday or Friday. Dave had his last conference with the War and the Navy and the Federal Reserve Board.

H.M.JR: Well --

MR. BELL: He has been working on it.

H.M.JR: Well, for the record, I can't hold a thing up that isn't brought to my attention. You are the first man that has said to me that you are ready.

MR. VINER: Well, I don't say we are ready. I haven't had that sort of a part in it. I say the Treasury ought to move on and not hold it up, and if you are going away for a week, I think it would be a pity that we should be in a position to say we can't say anything.

H.M.JR: I will say yes or no tomorrow morning. What else?

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MR. VINER: That is all.

H.M.JR: Roy?

MR. BLOUGH: Nothing this morning.

H.M.JR: Ferdinand Kuhn, Jr.

MR. KUHN: The --

H.M.JR: You know, on the telephone, when I call you long distance, they say, "What is the name?" I say, "Ferdinand." They don't get it. I say, "You know, Ferdinand the bull." (Laughter).

MR. KUHN: I have done that many times myself, and it always works.

H.M.JR: It always clicks.

MR. KUHN: There is to be a Toscanini concert a week from Saturday. Do you want to get a list of fifty people to whom tickets should be sent, or can you leave that to others?

H.M.JR: Listen, Mr. Robert Moses threw an inkwell at a fellow for much less than that. I will leave it to you --

MR. KUHN: If you have any wishes about it --

H.M.JR: No.

MR. KUHN: I can send them out.

H.M.JR: No. When is it?

MR. KUHN: A week from Saturday.

MRS. KLOTZ: I can't go that night. Change it, Mr. Kuhn;

MR. KUHN: A rain check.

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MRS. KLOTZ: Yes.

H.M.JR: I would offer my parents a couple of tickets and also Mrs. Lewisohn.

MR. KUHN: If there is anybody in here who would like to go in there, let me know.

H.M.JR: Let them see Mr. Kuhn; What else?

MR. KUHN: That is all.

H.M.JR: George?

MR. BUFFINGTON: Nothing.

MR. PAUL: If you are going away Wednesday, I think we ought to have a conference before then about the tax program.

H.M.JR: All right. When are you ready?

MR. BUFFINGTON: Well, we can see you any time. We want to clear the main outlines of the program that we are for.

H.M.JR: When do you want to do it?

MR. PAUL: I would prefer to do it tomorrow, but I can do it today.

H.M.JR: About eleven thirty tomorrow night?

MR. PAUL: Sure (laughter).

H.M.JR: Three o'clock. I will give you all the time possible to get ready.

MRS. KLOTZ: Tomorrow?

H.M.JR: Tomorrow, yes. All right?

MR. PAUL: Yes.

H.M.JR: I don't know whether George was awful smart or not in letting out that this was a twelve billion dollar program. What do you men think?

MR. SULLIVAN: I don't get it. I have a conference with him this morning, with Eddie Greenbaum, on this repeal of the certificate of non-reimbursement. We had a hearing, a long hearing Friday afternoon and the committee finally reported it out without a minority report. They were in so much trouble they decided that they ought to do some advance missionary work in the Senate, so I am going up this morning, and I thought that casually I would refer to that, and I think I can find out.

H.M.JR: You don't get it either?

MR. SULLIVAN: Oh, it doesn't make sense, no. He is smarter than that.

H.M.JR: Yes.

MR. PAUL: After it was let out the press called up and I thought since it was out, it ought to be out straight and accurately, so I gave them the real picture on that. They didn't understand it.

H.M.JR: My own feeling is if they had asked me to put it out, I would have said "No," but now that it is out, I am glad. After all, it is in the budget, and I don't think anybody understood it.

MR. PAUL: I think somebody would have gotten it eventually, so it is just as well to flush it.

H.M.JR: From the standpoint of the Director of the Budget, as a result of this meeting that came out, it is a corrected interpretation.

MR. BELL: It is his interpretation, so far as I have been able to see from the paper. It is not the interpretation we have put on it.

H.M.JR: Is that what it said?

MR. BELL: I thought it was a seven billion dollar cash basis.

MR. SULLIVAN: Tom Connally gave a breakfast yesterday morning and Senators Byrd, Hill, Lucas, and Chandler were there, and Bob Patterson, and Forrestal, and about fifteen in all. He wanted to have an off the record discussion of various things. Berle was there. The only thing they were interested in, from me, the only thing I would talk about, was our interpretation of the budget message, and I let them have it, and they seemed very much relieved, so I know that they haven't got it straight up on the Hill yet.

H.M.JR: Well, what I - I called up Randolph Paul in the middle of the night, when was it, Sunday morning?

MR. PAUL: I don't like to have you call it in the middle of the night for me. It was pretty late in the morning.

H.M.JR: I told him to create not the Maginot Line, but the Harold Smith line on those charts. I mean, we have got a chart which shows what Canada has done in taxes, what England has done, and what the present tax bill is. Then comes along the Treasury interpretation of seven billion dollars, but now we are going to have a Harold Smith line.

MR. SULLIVAN: Now, wait a minute. Are you going to let that out?

H.M.JR: It depends upon how good it is.

MR. SULLIVAN: Well, I don't think you had better, and I will tell you why.

H.M.JR: No, that isn't what I had in mind, but I wanted to show it to the President.

MR. SULLIVAN: Then suppose Harold comes back and says, "No," here is the Harold Smith line with three billion dollars in sales taxes?

H.M.JR: Well, that is all right. It doesn't make any difference. I want to know where - well, let's see what it looks like.

MR. SULLIVAN: Let me have a crack at it before you do anything on it, will you please?

H.M.JR: Let's take a look at it. I want to see the Harold Smith line. You (Sullivan) can see it before it leaves my office.

MR. SULLIVAN: You can't tell where the line would be.

H.M.JR: No, it is like everything else that you do, you ask for a legal opinion, and how do you know what you are going to get? (Laughter)

MR. PAUL: You don't ask unless you do.

H.M.JR: All right. Are you all right?

MR. SULLIVAN: Sure, I am all right, but you haven't given me a chance here yet.

Oh, incidentally, up at the hearing Friday afternoon one of the newspaper boys came up and said, "I want to ask a question. Do you know whether the Secretary had a bet with Doughton on who was going to give out about this conference Friday?" I said, "No, why?" He said, "Well, at the Appropriations hearing, I asked him about this conference and he said, 'Why don't you go see Mr. Doughton?'" I had a great chance to win that bet.

H.M.JR: Do you want to know what happened?

MR. SULLIVAN: He went to Doughton and Doughton gave it to him.

H.M.JR: No, I came out of the conference room and the three men said, "We understand that you are having a meeting tomorrow morning," and he said - and I said, "Who told you that?" He said, "Senator George. Will you confirm it or deny it?" I said, "No, I can't say anything because I happen to have a bet on it."

MR. SULLIVAN: Oh, is that where he got it?

H.M.JR: I said, "Who did you get it from?" He said, "Senator George." He said, "Won't you tell us?" I said, "No, I can't tell you, because I happen to have a bet on it," but he already had it. I tell you, John, I have got one rule. If I ever do anything like that, it will be at least ten million dollars, not for one package of cigarettes. I can only do it once in this town. I won't do it for a package of cigarettes.

MR. SULLIVAN: Well, I thought it was just coincidence, and I would like to report it to you.

H.M.JR: No, I won't sell out for one package of cigarettes.

MR. SULLIVAN: As a matter of fact, it didn't disturb me because after you told Harold Smith about it - (Laughter) no, this was the day after you told Harold Smith about it, and I knew it was out of the bag then.

H.M.JR: I wouldn't do it for one package of cigarettes.

MR. SULLIVAN: You remember Stan wrote you and made a formal demand for certain information.

H.M.JR: Yes.

MR. SULLIVAN: A letter is prepared for your signature.

Ed and I are in accord with it. Ed thinks you shouldn't answer it. I think you should. The letter talks to you and talks about what I have not done, and I don't think it would be right for me to answer it.

H.M.JR: O.K. What does it say?

MR. SULLIVAN: It says that we can't do it that way. We can't agree to furnish that information. Do you want me to report to you after I see George?

H.M.JR: Yes, I would like to hear it. What else?

MR. SULLIVAN: That is all.

H.M.JR: I don't want to start a long discussion, but if the three of you would have a talk, getting back to the Morris Ernst proposal, and I told him to come in to see both of you, in which we would just issue the orders to the Internal Revenue to examine all tax-free associations, benevolent - any organization, also going back to the thing that the burden of proof once a year is on every organization, and they are entitled - I mean, permanents are cancelled. Anybody that wants to be tax free for '42 - the burden of proof is on him that he entitled to be tax free.

MR. PAUL: You mean Ed and John and I?

H.M.JR: The three of you. Any organization that was tax free, that that privilege is cancelled as of '41. Now, if they want to be tax free for '42, it is a clean cut thing, and they have to start all over.

MR. SULLIVAN: There is a regulation being drafted on that.

H.M.JR: Well, would the three of you get together on it? If you could get together on it, let me know, but that was my thought, just simply say, "Gentlemen, no organization is tax free for '42. The burden of proof is on you." I made the suggestion three or four

years ago and it never happened. This is my solution.

MR. PAUL: I think it is a good thing to do.

H.M.JR: Just wipe the slate clean, and I think the public would like it. And if you had a little time between now and Tuesday to sit down with Kuhn, I would appreciate it.

MR. PAUL: I will.

MR. SULLIVAN: That is all, sir.

MR. FOLEY: Here is a memorandum of that telephone conversation on General Aniline and Dye and a copy of the letter to these people.

H.M.JR: Fine. Thank you.

MR. FOLEY: You asked about the Christenberry matter.

H.M.JR: Yes.

MR. FOLEY: There were two calls to me from Justice, one from Gordon Tweedie and one from Linton Collins.

H.M.JR: I don't know either of them.

MR. FOLEY: Well, Tweedie is in the Tax Division and Collins is in Jim Rowe's office. He was Mat McGuire's assistant, and there was a transition period when Linton Collins was doing the work. They asked whether or not you would write a letter to the Department of Justice on your own, not without - without any request from them, objecting to Christenberry, and I said--

H.M.JR: Objecting?

MR. FOLEY: Yes. I said that was a very unusual request, and they said that the two Senators were pushing very hard, and they didn't have anything that they thought they could hang their hat on and they would like you to write them a letter. I said, "Well, I will have to find out what we have on Christenberry," so I asked the

Intelligence Unit for a report, which I have here, and they have nothing on Christenberry. They say that he wasn't in on the Louisiana scandals at all, and that he - from reliable sources gained from their investigation down there, he is honest and efficient and so forth, so when they called the second time I said if they wanted to find out what we thought about him they should write a formal letter, and they said they didn't want to do that. They wanted us to take them off the spot, and I said, "We can't do it."

H.M.JR: Well, just for the record, this is the first time you have communicated that to me.

MR. FOLEY: Yes, that is right.

MR. VINER: Hasn't Pegler something on that this morning?

H.M.JR: This is the first time you ever told me.

MR. FOLEY: That is right.

H.M.JR: You never sent me a report on that either.

MR. FOLEY: No, I didn't think I should bother you about it. Here is the investigation report--

H.M.JR: No, wait a minute. I am just cleaning up my record on this thing.

MR. FOLEY: Yes.

H.M.JR: What?

MR. FOLEY: That is right, I didn't talk to you about it.

MR. GASTON: Ed asked me at that time to see what the Intelligence Unit had to say, and I asked Irey to get that report. Then my later contact with it was that on December 19 Jim Rowe called me up and said that - I wrote a memorandum to Ed about it, and I said, "They are still on the limb as to whether to recommend Christenberry. Justice didn't like it, but they are

being pursued by Ellender and Barkley who said it was essential to keep Ellender happy." He wanted to know what our position was, and I told him we hadn't found anything definite. He indicated that they would probably turn it down, and he wanted to know if they could say that Treasury and their tax division were both opposed to it, and I said, yes, they could say that, but it must be clear that we had nothing definite against this particular man on which to hang an objection.

H.M.JR: What do you say?

MR. GASTON: He asked me--

H.M.JR: Who is "he."

MR. GASTON: Jim Rowe. He said their disposition was, they were in a dilemma, they didn't know which way to go, but their present disposition was to turn it down on the ground that neither their tax division nor the Treasury Department liked it, and I said - he asked if that would be all right with us, and I said it would be all right with us, but it must be clear that we hadn't anything definite against this particular man, that it would have to be just on the general principle that he was one of the Long outfit.

H.M.JR: Well, you see, he didn't get that from Foley, and then you gave him what he wanted.

MR. GASTON: No, I didn't give him--

MR. FOLEY: He didn't give him a thing. They tried to get us to do it affirmatively.

MR. GASTON: I told him naturally we wouldn't like one of the Long gang, but it must be clear that we had nothing definite against the man on which to support that position.

MR. FOLEY: That is right.

MR. GASTON: Other than general dislike of the Long gang.

MR. FOLEY: I didn't clear Christenberry. I said, "Why didn't you call down there if you wanted to get something on him?"

H.M.JR: No, you misunderstood him. They wanted you to have me write an affirmative letter, but you also didn't say anything negative. Herbert sort of threw a shadow on the man.

MR. GASTON: They wanted to know if he could say that the Treasury didn't like the nomination, and that the tax division - whether we would object to their doing that, and I said, "No, we would not - I did not think we would object to doing that," but he must understand that we have nothing definite against this particular man.

H.M.JR: That is all right. Just one second, please. Mrs. Klotz, this is the record. We are all right on it. I just wanted to make sure that we are all right. We are. Just make a note and put this in my file and say this was handed to me today, but I have not yet read it, you see. There is the rest of it.

MR. GASTON: You will probably want this too. That is a memorandum of my conversation with Rowe.

H.M.JR: Mark this the same way, Mrs. Klotz. What else did you have on that? Does that clear you?

MR. FOLEY: Yes.

H.M.JR: Now, I have got one thing that I want you lawyers to do for me. Here is an investigation of Thomas I. Emerson, for assistant general counsel in the office of Henderson. Have we got the letter from Henderson?

MRS. KLOTZ: I don't know whether it came to me.

MR. GASTON: We tried to trace one Friday and there hadn't been any.

H.M.JR: I have read this thing three times. Have you read it?

MR. GASTON: Yes.

H.M.JR: The reason I would like the lawyers to get in on it is this. When it gets down to what this man - I mean, some of the statements, for instance, by Ida Klaus and Morris Ernst are amazing to me, to say the least. If you would make a note, evidently this man has seen this report. Somebody from the Department of Agriculture says that he was a member out in Seattle of a Communist setup, but he has never been in Seattle.

MR. GASTON: That is the thing that aroused my curiosity as I ran through it. There was no confirmation that he had been in Seattle.

H.M.JR: He has never been in Seattle, but there are these two lawyer organizations which he still is a member of and from which he hasn't resigned. One is the Lawyers Guild, which I am familiar with, but the other one I am not familiar with and that he has stayed on and that is called - that is a new one to me. Do you remember the name of it, Herbert? International J-u-r-i-d-i-c-a-l Association. Do any of you men know about it?

MR. FOLEY: Never heard of it.

MR. GASTON: That is the first I had heard of it.

MR. PAUL: What part of the country does he come from?

H.M.JR: He comes from New York.

MR. PAUL: The reason I asked that question was because the closer a man is to New York, the more he

should have gotten out of the Lawyers Guild.

H.M.JR: Well, the Lawyers Guild is something else, but the Juridical Association is an affiliate of the International Labor Defense, a defense agency for Communists in the United States, which is in turn affiliated with a Communistic agency in Moscow. Also members are counsel for Harry Bridges and Earl Browder, John P. Davies, Isaac Ferguson, and so forth.

Well, he has stayed on and also - this is all very much in the room, because I mean I don't know - please note that practically everything that he has done, Judge Pollier's husband is in the same boat. It is she who brought it to Mrs. Morgenthau. She stays with these people here in Washington, but everything practically that has been said about this fellow Emerson is also said about Pollier.

MR. PAUL: How much time do we have on this?

H.M.JR: Well, this report is written November 12 and the difficult thing on it is going to be, Hoover has a report on it and so has Dies.

MR. PAUL: I can probably get some information if I have some time.

H.M.JR: Well, it has been hanging fire since the twelfth. The point that I would like to make to all of you is this. I mean, if you don't mind my saying it, Herbert, there is a lot of just sheer bunk in that report. People who belong to the Shoppers Union, you see. A lot of people belong to the Shoppers Union. My wife belonged to the Shoppers Union and she got out when they started boycotting the Japanese because she didn't think she should do it as the wife of the Secretary. The man who wrote the report for Irey is not a first class man. The thing that I don't want to be a party to here is, after all, people should be permitted to belong to liberal organizations that stand for liberal matters and certainly through Irey's organization

and the rest of it, I don't want to even approach hounding people, you see. On the other hand, if people like this want to be in a defense agency and did have real Communistic connections, that is one thing, but you have got to read that thing three times to get it, because he quotes a book, pages from a book. No, that was on that girl.

MR. FOLEY: Well, the fellow who would know most about Tommy Emerson is Charlie Fahy, the Solicitor General, because he worked for Tommie.

H.M.JR: Well, it gets down to the fight with Fahy - when he got out of the National Labor Relations Board he was kicked out with Fahy, and a new group came in. That is one thing, but again I want to say I am the last person in the world who wants to say that people can't belong to a liberal organization or even a left wing organization as long as it wasn't Communistic.

MR. GASTON: I think they make a positive statement there that he ought not to be appointed. I told Elmer that the general thing was for our men simply to set forth the facts as they found them and not make any recommendation on it.

H.M.JR: Well, you agree that that is not a well written report?

MR. GASTON: Yes, I agree. I noticed there was no check-up on that Seattle end at all.

H.M.JR: And he claims he never was there.

MR. GASTON: Yes. I hadn't seen the thing until I got it then and sent it right in.

MR. FOLEY: He - Emerson had a very good record in law school. He was on the Law Journal and was second or third in his class.

H.M.JR: He was editor of the Law Journal.

MR. FOLEY: And he worked for Pollock in New York on those Russian insurance cases before he came down here about 1934. I have never seen the report, but I know Tommy Emerson.

H.M.JR: Well, the unfortunate thing is, you see, whoever this man is, he gives references from the mayor where he lives. That is the only place he went to check up. The man in the home town he comes from says he is a swell boy and then in the report he says but he didn't investigate other references. But we have all this stuff, Shoppers Union and Lawyers Guild and all the rest of that stuff and then this Seattle stuff and then this goes over and this is on this man's record. I don't know how much more, but I would like you to talk to Irey pretty stiff on this thing.

MR. GASTON: Yes.

H.M.JR: Will you, Herbert, because you of all people--

MR. GASTON: Yes, I have been over that same ground before.

H.M.JR: It directly comes under you, and you of all people--

MR. GASTON: I don't see those reports, that is the difficulty. I haven't been seeing them. I think maybe I ought to clear them before they go over.

H.M.JR: I don't want you to clear all of them, but certainly it would be worth hiring--

MR. GASTON: Where they turn a man down on grounds he is a radical--

H.M.JR: Get a left-wing lawyer to sit at your elbow.

MR. GASTON: I am a left-wing lawyer.

MR. PAUL: I used to be in the Lawyers Guild.

H.M.JR: Yes, but you fellows all got out.

MR. PAUL: That is right.

MR. FOLEY: He was one of the organizers.

MRS. KLOTZ: You can't blame them for putting everything in that they know or find out.

MR. FOLEY: Well, he shouldn't make a recommendation, Mrs. Klotz.

MRS. KLOTZ: That is another thing.

MR. FOLEY: I objected on my fellows, too, because they make an investigation and the fellow came out of law school and he can have a perfect record from law school and we are hiring him because of his record, and yet they say he has no experience and shouldn't be hired. I am the one who makes that recommendation, and we had that out with Herbert and Elmer and they agreed to leave that out of the report. On these reports, I don't think they should make a recommendation either. They should set forth what they know and let the fellow who is going to assume the responsibility for hiring or not hiring determine from the facts in the record what the decision should be.

MRS. KLOTZ: My point is that he should put in the report everything that he finds out.

H.M.JR: If he is sure that it is correct, but like, for instance, he says that--

MRS. KLOTZ: That Seattle business?

H.M.JR: A man in the Department of Agriculture who formerly was a Communist says that this man belonged to a Communist setup in Seattle and he says he has never been to Seattle. He is taking somebody else's word, but they have never checked it up.

MR. GASTON: He is talking about this Tommy Emerson who is one of the CIO Board who worked with us on the Coast Guard training.

MR. VINER: Seamens Union?

MR. GASTON: Yes, Merchant Marine Union. He is talking about that Tommy Emerson there.

MR. VINER: There is a Tommy Emerson there, that is right.

H.M.JR: Is there? Well, that is pretty dumb. Well, it is the kind of thing which I as a human being would very much like to avoid.

(Mr. Sullivan left the conference.)

H.M.JR: I realize we make all these investigations, but certainly I didn't feel very happy after reading this thing. But will you people do it--

MR. PAUL: I would like to make a little investigation of my own.

H.M.JR: You would?

MR. PAUL: I would hate to see the fellow excluded because he was--

MR. FOLEY: He is not excluded. He is working over there. They are hiring five hundred lawyers and Tommy Emerson is among them.

H.M.JR: What I would like to do as long as we have done this, I would either like to see that the man has Communistic affiliations or he is a good American citizen. I think we ought to do that, don't you?

MR. GASTON: Yes, I think we should, but at the same time I would go further than that. I think this law - this ex post facto law that if a man ever belonged

to the Communist Party, he can't work for the Federal Government is just as clearly unconstitutional as anything could possibly be.

H.M.JR: Well, anyway--

MR. PAUL: I don't think it is so much whether he belonged to the Party, but how he feels now.

H.M.JR: Do you know Tommy Emerson?

MR. FOLEY: Yes.

H.M.JR: All right. Let's see, Herbert, see if you can't clean that Emerson thing up, possibly this week.

MR. GASTON: Yes, surely we will clear it up.

H.M.JR: What I am going to do is ask Judge Pollier that when you give her a call would she come over and see you. Now, would you (Foley) get your gang lined up and I will see Herbert a minute.

MR. FOLEY: Right away.

January 12, 1942

This was handed to the Secretary by Mr. Foley, but the Secretary did not read it.

Christenberry, Herbert W.

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December 20, 1941.

MEMORANDUM

TO: Mr. Foley
FROM: Mr. Gaston

Jim Rowe called me Friday afternoon in his first political contact with me since he went to Justice. They are still in a dilemma as to whether to recommend the appointment of Herbert W. Christenberry, the present First Assistant District Attorney at New Orleans and brother of Huey Long's former secretary, to be District Attorney. Justice doesn't like it, but they are being pursued by Ellender and by Barkley, who says that it is essential to keep Ellender happy. He wanted to know what our position was and I told him we had not found anything definite on which we could protest against the Christenberry nomination; that the only thing we knew against him was his relationship with the Huey Long crowd. He thought the Attorney General might wish to turn the nomination down on the general ground that the Tax Division and the Treasury didn't like it. I told him I didn't think we would have any objection to that, but it must be made clear that we had nothing specific against this particular man.

35

January 12, 1942

This was handed to the Secretary by
Mr. Foley, but the Secretary did not
read it.

Dr

Mr. Foley 36

67-11-78
M T C A I

MS

FROM: MR. GASTON



OFFICE OF
CHIEF, INTELLIGENCE UNIT
BUREAU OF INTERNAL REVENUE

TREASURY DEPARTMENT

WASHINGTON

December 5, 1941.

37

WHW:ENP

PERSONAL AND CONFIDENTIAL

TO: Mr. Gaston.
FROM: Mr. Woolf.

With reference to recent telephone conversation, there is attached for your information a copy of a communication of Special Agent George A. Lambert concerning Mr. Herbert W. Christenberry. The original of this memorandum was sent air mail from New Orleans on December 3 and as yet has not reached this office. The carbon copy was sent in the ordinary mail and arrived here this morning.

While Agent Lambert has gone into considerable detail, I believe that you will be able to obtain such information as you see fit for your purpose.

Enclosure.



INTELLIGENCE UNIT

TREASURY DEPARTMENT
INTERNAL REVENUE SERVICE

318

New Orleans, Louisiana, December 3, 1941.

(S-211100)

SI-Special



Chief, Intelligence Unit,
Bureau of Internal Revenue,
Washington, D. C.

In re: Herbert W. Christenberry,
Assistant United States Attorney,
New Orleans, Louisiana.

This report relates to the background, reputation, and connections of Herbert W. Christenberry, First Assistant United States Attorney, Eastern District of Louisiana, New Orleans, Louisiana, and is being submitted at the verbal request of Mr. W. H. Hoelf, Acting Chief, Intelligence Unit.

Herbert W. Christenberry is a native of Covington, Louisiana. He is approximately forty-two years of age, married, and lives with his wife and two dependent children at 3319 Bell Street, New Orleans, Louisiana. During World War I, he was in the United States Navy. Thereafter, he was employed as office manager for a New York brokerage firm for a period of approximately eight years and made his home in Brooklyn. After serving his connections in New York, he came to New Orleans and studied law at Loyola University, from which he was graduated. He was later admitted to the bar of the State of Louisiana. It is understood that for a period of time after being admitted to the bar, he either shared offices or was in a partnership to practice law with Sidney Mitchell and Shirley O. Ribberly, New Orleans, Louisiana. Later, he was employed by the Debt Moratorium Commission, State of Louisiana, working under the supervision of the late B. W. Cason. Mr. Christenberry resigned his position with the Debt Moratorium Commission to accept the position of Assistant District Attorney for the Parish of Orleans under Charles Byrne, which position he held for a period of three or four years. He resigned this position in 1937 to accept the

In re: Herbert W. Christenberry

position of First Assistant United States Attorney, Eastern District of Louisiana, New Orleans, Louisiana, which position he still holds.

Herbert W. Christenberry is a brother of Earle J. Christenberry, a professional secretary and former secretary to the late Senator Huey P. Long and Senator Rose McConnell Long.

For a number of years Herbert W. Christenberry has been a close follower of late Senator Huey P. Long and the successors of his political machine. The Debt Moratorium Commission was created during the administration of the late Oscar K. Allen, governor of the State of Louisiana. The late B. W. Cason, under whom Mr. Christenberry worked while employed by the Debt Moratorium Commission, was a staunch member of the Huey P. Long political machine. Shirley Wimberly, with whom Mr. Christenberry at one time either shared offices or practiced law on a partnership basis, was a close friend and follower of the late Huey P. Long during his last years, and is a very close friend of Earl K. Long. Mr. Wimberly managed Earl K. Long's gubernatorial campaign in the City of New Orleans during the 1939-1940 campaign. District Attorney Charles Byrne, former District Attorney for the Parish of Orleans, was named to that position by the late Oscar K. Allen, when Eugene Stanley, the present Attorney General for the State of Louisiana, was forced to resign, apparently through political maneuvers.

Some of the men with whom Mr. Christenberry has been associated and worked under in the past do not enjoy good reputations and the respect of the public in general. Charles Byrne was forced to resign his position as District Attorney for Orleans Parish as the result of his "whitewashing" the investigations of the so-called tax reduction racket which operated in the City of New Orleans, reported under the cases of Joseph H. and Mary H. Connolly, SI-17511-F, and Arthur A. Steiner, SI-17718-F. B. W. Cason, during his term of office as Labor Commissioner for the State of Louisiana, was indicted by a Federal grand jury for the Western District of Louisiana at Lake Charles, Louisiana, on a charge of perjury in connection with his testimony regarding forced contributions to the American Progress, a newspaper founded by the late Huey P. Long and later published by Richard W. Leche, former governor of the State of Louisiana now under a ten-year penitentiary sentence for using the mails in a scheme to defraud the State of Louisiana. He was later convicted of this crime.

Shirley G. Wimberly and B. W. Cason were indicted by a grand jury in Orleans Parish, Louisiana, on June 26, 1940, four indictments

In re: Herbert W. Christenberry

charging embezzlement and one charging extortion. Specifically, they were charged with carrying the names of persons on the labor department payroll who performed no services. The status of these cases is unknown.

Herbert W. Christenberry was not involved in the matters forming the basis of the so-called Louisiana "scandals" investigations. In the first series of Louisiana investigations (1934-1936) he was questioned regarding the receipt of \$800 from W. L. Stevens, Jr., SI-10625-F, who asserted the payment was a commission. Mr. Christenberry testified the payment represented a legal retainer for which he performed no services.

From usually reliable sources, it was learned that Mr. Christenberry is thoroughly honest and that his official acts since becoming Assistant United States Attorney have never been questioned. While under suspicion at one time because of his political and personal connections, these doubts were soon dispelled. It was learned that he has conducted the work assigned to him in a credible manner and has prosecuted all cases vigorously.

There is now pending in the United States District Court for the Eastern District of Louisiana, New Orleans, Louisiana, an indictment against James A. Noe, Monroe, Louisiana, who is charged with having conspired with Seymour Weiss and others to defeat and evade taxes due by Win or Lose Corporation, New Orleans, Louisiana. Briefly, the facts in this case are as follows: The late Governor Oscar K. Allen granted to James A. Noe, on October 23, 1934, an oil and gas lease on river bottoms in Ouachita and Morehouse Parishes, Louisiana, without cash consideration. On November 20, 1934, James A. Noe organized the Win or Lose Corporation. The incorporation papers show that he subscribed for ninety-eight shares of its capital stock; Seymour Weiss subscribed for one share; and Earle J. Christenberry subscribed for the remaining one share. During the year 1935, the lease in question was sold for \$320,000 cash. For that year the gross income of the corporation was \$347,937.50.

On August 27, 1935, the corporation distributed \$200,000 to its stockholders, who were James A. Noe, thirty-one shares; Husy P. Long, thirty-one shares; Oscar K. Allen, twelve shares; Seymour Weiss, twenty-four shares; Earle J. Christenberry, one share; and Alice Lee Grosjean, one share. The return filed by Win or Lose Corporation for the year 1935 showed that for that year it paid

In re: Herbert W. Christenberry

salaries of \$75,000 each to James A. Roe and Seymour Weiss, and commissions of \$17,396.88 each to James A. Roe and Seymour Weiss. The balance of the distribution of \$200,000 was shown to have been a dividend.

James A. Roe admitted to Acting Special Agent in Charge Frank W. Lohn, on November 23, 1939, that the corporation had never paid salaries or commissions, but that the \$200,000 withdrawn on August 27, 1935 was a dividend which he distributed to the stockholders in proportion to stockholdings.

During the course of the investigation at the Win or Lose Corporation case, minutes of meetings of directors were produced for inspection, purporting to show that the directors of the corporation had authorized the payment of the salaries and commissions shown in the tax return. James A. Roe admitted in the conference of November 23, 1939 that the minutes supporting the deductions claimed in the tax returns were prepared "a long time after the return was filed." He did not say who prepared the minutes which were presented to support the false claim made on the Win or Lose Corporation tax return. There is strong suspicion that the false minutes were prepared by Earle J. Christenberry, but there is no proof in support of this belief.

The case against James A. Roe has not as yet been set for trial. No date is expected to be set on this case until after the Supreme Court renders its decision in the Molasky case, which is expected soon. It is expected at this time that the James A. Roe case will go to trial either in February or March of 1942.

It was learned from a reliable source that at the time the Win or Lose case was under consideration by the Federal Grand Jury at New Orleans, Mr. Christenberry informed the then United States Attorney Rapp A. Vlosca that he did not want to know anything about the case, or participation therein; and that he purposely stayed away from the office because of the possibility of the grand jury returning an indictment against his brother.

Geo. A. Lambert
George A. Lambert,
Special Agent.

OAL:ms

DEPARTMENT OF STATE

42

ADVISER ON POLITICAL RELATIONS

January 12, 1942.

To: The Secretary of
the Treasury.

From: Stanley K. Hornbeck.

I have informed the Secretary
of State of our conversation of
this morning and of this communica-
tion to you.

SKH



DEPARTMENT OF STATE
WASHINGTON

Dear Mr. Secretary:

I enclose herewith for your confidential information a copy in paraphrase of the telegram of which I gave you information this morning and of which you requested a text.

In that telegram there was conveyed a message from the President to General Chiang. As bearing on the matter to which that message related, I enclose also a memorandum regarding a telegram sent to the Consul at Rangoon on December 30 informing the Consul of action taken by and a desire expressed by the Secretary of War in regard to the same matter.

I further enclose a memorandum giving an account of a telegram sent to the Ambassador at Chungking on December 30 on the same subject.

Yours sincerely,

Stanley K. Hornbeck
Adviser on Political Relations

Enclosures.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury,

Washington, D. C.

CONFIDENTIAL

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STRICTLY CONFIDENTIAL

PARAPHRASE

A telegram no. 336 of December 31, 1941 to the American Ambassador at Chungking instructs the Ambassador immediately to convey to General Chiang Kai-shek a message from President Roosevelt to the following effect:

Reports in regard to the recent incident in which was involved the matter of disposal to British authorities in Burma of Lend-Lease materials destined to and awaiting in Burma onward shipment to China has received the personal attention of the President who desires to assure the Generalissimo that the action taken was contrary to this Government's policy which is directed toward supplying to China all the aid which is possible. It is the President's desire to assure the Generalissimo further that it is not this Government's policy to transfer material intended for China under the Lend-Lease program unless the matter has been discussed with the Chinese Government in prior conferences and consultations. While sending these assurances to the Generalissimo, the President wishes to express his deep appreciation of the Generalissimo's unselfish and statesmanlike attitude in agreeing, in the interest of the common cause to which we are all dedicated, to the transfer to the British in Burma of certain material apparently greatly needed for defense in that region.

STRICTLY CONFIDENTIAL

STRICTLY CONFIDENTIAL

PARAPHRASE

On December 30, 1941 the Department of State sent to the Consul at Rangoon a telegram stating that the Secretary of War had sent to General Magruder a telegram approving the attitude adopted by General Magruder; that the Secretary of War could not support any such sequestration without General Chiang Kai-shek's consent; that the Secretary of War suggested that in view of the importance of Burma to China's defense and the need for making decisions locally, General Chiang might send to Rangoon a representative having authority to make arrangements with the British as to what materials, if any, could be turned over to them, materials not thus turned over to be sent forward to China at once. The Secretary of War desired that the British authorities be informed that this Government was not willing to divert to the British materials which were destined for China without Chiang Kai-shek's consent first being obtained.

STRICTLY CONFIDENTIAL

PARAPHRASE

On December 30, 1941 the Department of State sent to the Ambassador at Chungking a telegram stating that the Secretary of War had sent to General Magruder a telegram approving the position which General Magruder had taken in regard to sequestration by the British of Lend-Lease materials and stating that the Secretary of War did not support any such sequestration without General Chiang Kai-shek's assent.

January 12, 1942
10:29 a.m.

HMJr: Hello.

Lauchlin
Currie: Hello.

HMJr: Hello, Lauch.

C: Hello, Mr. Secretary.

HMJr: Yes.

C: I was just arranging transportation by air from China for Owen Lattimore to come back for consultation.

HMJr: Yes.

C: And I was wondering if you'd like me at the same time to do anything about Fox on this loan proposition.

HMJr: Well, I'm just getting into it this morning.

C: Yeah.

HMJr: Between now and sunset I'll know more about it.

C: Fine.

HMJr: I've just gotten a letter from Mr. Hull which I've not yet read.

C: Right. Lattimore is leaving Chungking on the thirteenth. That's tomorrow. And I think I might be able to arrange for the military command to pick up Fox too, if you were interested.

HMJr: Well, I'd bring Fox back.

C: Yeah.

HMJr: Bring him back.

C: Yeah. I think Chiang Kai-shek would like to have him back to explain all these things, too. I've got an intimation of that.

HMJr: Well, I think I'd do it.
C: Fine.
HMJr: I'd appreciate it.
C: All right, thanks. Good-bye.

January 12, 1942
10:31 a.m.

HMJr: Hello.

Judge
Poller: Hello.

HMJr: Henry Morgenthau.

P: Oh, good morning.

HMJr: How are you?

P: Fine.

HMJr: Justine, over the week-end I read that report very, very carefully, and I'm not at all proud of it. Now what I've done is, I've asked four people - Mr. Gaston, Randolph Paul, Mr. Foley and Mr. Sullivan - all to study the thing, and I hope to get away Wednesday. Would it be agreeable to you if you got a call from Mr. Gaston to drop over and see him and talk about it?

P: I'd be very happy to.

HMJr: Herbert Gaston. He's Assistant Secretary, and this comes under him.

P: Fine.

HMJr: And Ed Foley knows what's-his-name.....

P: Clark?

HMJr:personally. Yes. You see - and Randolph Paul's been teaching up at Yale.

P: Yes.

HMJr: And we already found out there's another Tommy Emerson of the CIO, most likely, who they had in mind in Seattle.

P: Oh.

HMJr: It was something to do with the Marine Union out there.

- 2 -

- P: Oh, I see. Well, do you think that that got over to Dies?
- HMJr: Well, I don't know; but they most - the chance - I mean, Gaston, who handled these CIO things for me several years ago immediately said, "Well, they're thinking of Tommy Emerson of CIO, of the Marine Union", you see.
- P: I see. Of course, a thing like that could do such instant damage.
- HMJr: Oh, yes. Well, what we're going to do is this. We're going to go all the way through with it, and when we come out we'll either say that the man definitely should not be or he definitely should be.
- P: Well, there's nothing more one can ask for than that.
- HMJr: I mean, it'll be one or the other.
- P: Good.
- HMJr: I mean, it'll be clean-out. Either we'll recommend that he should stay in the Government, or we'll recommend that he should not. And within a day or two they'll hear from you.
- P: Well - you mean I'll hear from them.
- HMJr: Yes. And I'm very much obliged for your bringing it to my attention.
- P: By the way, Elinor said that Henderson - that you had not yet gotten the letter from Henderson, his complete reply detail by detail.
- HMJr: There's no letter from Henderson this morning. There's nothing that's come from Henderson.
- P: Because Tom was told it had gone over a week ago.
- HMJr: No. Henderson - we called Henderson's office Friday, and he said he hoped to write it Friday. He never wrote it, and it hasn't come here yet.

P: That's funny, because Ginsberg said it had gone.
All right.

HMJr: No, he wasn't telling you the truth.

P: I see.

HMJr: And - let me ask you something. Has - I take it
Emmerson has seen this report, hasn't he?

P: I don't know whether he saw it or Ginsberg dis-
cussed it with him.

HMJr: I see. No, we have not yet received any letter
from Henderson as of five minutes ago.

P: All right. Swell.

HMJr: But thank you very much for bringing it to my
attention, because I'm very unhappy about it.

P: Thank you.

HMJr: All right.

P: Good-bye.

January 12, 1942
11:07 a.m.

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HMJr: Hello.

Senator
Lucas: Yes.

HMJr: Senator?

L: Yes.

HMJr: Could I ask your advice and opinion in strict confidence about a gentleman?

L: Certainly.

HMJr: Well, Senator Lucas, I haven't talked to this man yet; but before I did, I wanted to know how you and the Democracy would feel about Edward Brown, the president of the First National, Chicago, if I could get him to come down here to help me.

L: Well, I think Brown would be all right. I don't believe there'd be much question about that. That would be my first reaction. I think he's been pretty sympathetic towards our position, even though he's head of a large bank out there. And as to his ability and his integrity, I think he would be all right, although I'd like to check up just a little further.

HMJr: Well, my understanding was he publicly came out and voted for Roosevelt in '40.

L: That's true.

HMJr: What?

L: I think that's absolutely true, sir.

HMJr: Well, under those circumstances, how could there be any question?

L: Well, there can't be any question, but you called me up and asked me about it. I think he's all right.

HMJr: Yes.

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L: But I just want - if I might.....

HMJr: Sure.

L:just a little more time on it. I don't think there's any question about it at all.

HMJr: But I am correct, didn't he - that he publicly.....

L: I think that's true. I think that's true. And I mean - I was in that campaign out there - all through it - and I'm pretty sure Brown was all right.

HMJr: Yeah.

L: And that's what - that's one thing I wanted to check on for sure.

HMJr: Well.....

L: I'm sure President Brown was a hundred per cent with us out there.

HMJr: Yeah. Well, as far as I know, he was the only bank in the middlewest that was.

L: (Laughs) Well, that's right.

HMJr: And what I'm trying - as I say, I haven't talked to him, but what I have him in mind for is Under Secretary.

L: Yeah.

HMJr: You see?

L: Yes.

HMJr: And I've looked high and low for a year. Dan Bell wants to be Fiscal Secretary, and we have that position vacant.

L: Yes.

HMJr: He's been after me for a year to let him resign as Acting Under Secretary, and become fiscal assistant.

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L: Yes.

HMJr: The position is there, and I've been looking for a man - a banker - who publicly voted for Roosevelt. Now, they tell me, for instance, that Walter Cummings, if he did vote for Roosevelt, he kept it a secret.

L: Well, not only that, but the fellow was openly out for the Republican Governor out there. I won't say it was openly, but everybody knows that he was for Green for Governor.

HMJr: Yeah.

L: Now, as far as Cummings is concerned, I don't - I'll just say no.....

HMJr: Well, I'm not considering him.

L: No. Well, you're right.

HMJr: (Laughs)

L: Now, this other fellow's got a hell of a lot on the ball, too.

HMJr: Yeah, I checked him with Charlotte Carr.

L: Yes.

HMJr: And she's all for him. She said he's one of the rare God-sends that Chicago's ever had.

L: Well, I think she's right about that. I mean.....

HMJr: He was a director of Hull House.

L: Yes.

HMJr: Did you know that?

L: Yes, I knew that he was interested in it. I didn't know that he was a director. But I know he's been a very, very philanthropic sort of a fellow and civic minded man, and on the liberal end of it.

HMJr: Yeah.

L: Let me call you back in thirty minutes, if I may.

HMJr: Could you call me between now and twelve?

L: Yes.

HMJr: That would be wonderful. He's coming down - I don't want you to feel I'm rushing you.

L: No. Well, I'll call you back.

HMJr: He's going to have lunch with me. If you could let me know between now and twelve, because I have looked; and on the other hand, unless you were enthusiastic and could tell me that you'd support me on the Hill, I wouldn't want to start something.

L: I think I can do it, and let me call you back, Mr. Secretary, between now and noon.

HMJr: Thank you.

L: All right.

January 12, 1942
11:13 a.m.

HMJr: Hello.

Operator: Mr. Sproul.

HMJr: Good morning.

Allan
Sproul: Good morning.

HMJr: How are you? Hello.

S: Hello.

HMJr: Henry Morgenthau.

S: Yes, sir.

HMJr: How's she going?

S: She's going all right, so far.

HMJr: Very much churning?

S: Well, there's some churning, some selling of the - like the two's at '48-'50 and buying of the rights, but not a great deal yet. It's been fairly quiet so far this morning, and the attitude of the market seems to be that it isn't quite what they expected. It's taking them a little time to see what they're going to do, and that the exchange will probably go through without much churning and it will be after the books are closed that we'll be able to tell whether there's going to be a lot of churning or not.

HMJr: I see.

S: But that the exchange will go through without much churning is the expectation now.

HMJr: Well, I hear that the rights went up a little bit since Saturday.

S: Yes, that's right. It's around twenty-two now,

and that's to be expected, I think, inasmuch as the Saturday expectation was based at least on a part of the issue being notes with lesser value.

HMJr: Good. Good. Well, we'll watch it.

S: Right. We're watching it closely.

HMJr: There's nobody feels badly about it, do they?

S: I don't think so.

HMJr: Good.

S: I think they think this offering is an attractive offering. The only question in the minds of anyone is what it may do to some of the other offerings of about that - around that maturity.

HMJr: Well, we'll watch it.

S: Yeah.

HMJr: Thank you so much.

S: All right.

January 12, 1942
11:30 a.m.

FREEZING - GENERAL ANILINE AND FILM

Present: Mr. Klaus
Mr. O'Connell
Mr. Pehle
Mr. Bernstein
Mrs. Klotz
Mr. Foley

MR. FOLEY: I think we had better let Joe do the talking.

H.M.JR: You are getting a little weak, Joe.

MR. FOLEY: He got married, you know, since we put him into General Aniline and Film, and he never got a honeymoon.

H.M.JR: You ought to know.

MR. FOLEY: I ought to know. At least I did better than he did. I got two weeks (laughter). When did you get away, Saturday afternoon?

MR. O'CONNELL: Sunday afternoon.

MR. FOLEY: And he went to work Monday morning.

MR. O'CONNELL: I thought I was bearing up pretty well. I didn't know I looked weak.

H.M.JR: Listen, who in the Aniline Dye Works during the last couple of years has been doing things

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which are to the disinterest of the United States Government?

MR. FOLEY: That is a big order.

MR. O'CONNELL: Well, it is difficult to cut it that fine, Mr. Secretary.

H.M.JR: Well, how long do you want?

MR. O'CONNELL: Well, our position is that we could give you a list of five men who have been for years, maybe fifteen or twenty years, so closely associated with the I.G. Farbenindustrie in Germany, and with the German Dye Trust, and that association has continued right down until practically our freezing order as a matter of company policy. Those men are so definitely associated with German interests and their ties are so close to them, that the conclusion is justifiable that those men ought not to be permitted to participate in the activities of this company.

H.M.JR: You have got five?

MR. O'CONNELL: We have five top men. We have a list here of thirty men who are generally of the same category, in the sense that they are all I.G. Farben men, all Germans sent over here in the early '30's under contract with I.G. Farben, and have continued to maintain their contacts with Germany. They have all taken out citizenship except a few.

H.M.JR: Let me look at one.

MR. KLAUS: Vom Roth would be the best one.

H.M.JR: No, give me the first one. Dr. Hans Aichelein, vice-president. Sixty thousand dollars. Naturalized. Well, what have you got against the fellow?

MR. O'CONNELL: That. That is all.

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H.M.JR: What?

MR. O'CONNELL: In his particular case, his German background and connection with I.G. Farben.

H.M.JR: Well, how do you - how do you know, for instance that he is performing his duties well.

MR. O'CONNELL: Well, I know that he is a very competent chemist.

H.M.JR: How do you know he would be doing anything disloyal?

MR. O'CONNELL: We don't know, other than his connections and background. It wouldn't necessarily follow, unless you assume as we have, and we have come to the conclusion that the I.G. Farbenindustrie as an organization dominated by the German Government has been in effective control of this company by I.G. Farben men.

H.M.JR: Let's do it another way. Have you got the names of anybody who has been doing some dirty work?

MR. KLAUS: Yes. Mr. Vom Roth.

MR. O'CONNELL: You might glance at these. These are the worst cases, I should think.

H.M.JR: He lives here on Kalorama Road?

MR. KLAUS: One of his homes is on Kalorama Road.

H.M.JR: There is nothing there that would ... What is ozalid?

MR. O'CONNELL: Ozalid is the process in one of its divisions of the company. They manufacture a machine which reproduces drawings, blue prints, and so forth. Ozalid is the process, I think. They manufacture the sensitized paper used in the development of those

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things, and the machine is in general use in most of the defense plants in the country, or at least in some thirty-five hundred of them, and it is our feeling that because of the character of the organization, it affords a very good opportunity --

H.M.JR: There is nothing in here.

MR. O'CONNELL: Well sir, we haven't anything on anyone, and I don't think we ever will have anything that will justify putting a man in jail.

H.M.JR: No, but I mean that you could publicly say that he did so and so and so and so, and therefore we don't think he should be connected with the Government.

MR. KLAUS: Well, he sent these reports to Germany.

H.M.JR: Well, this doesn't say so.

MR. KLAUS: Well, that is the process that was followed.

H.M.JR: There is nothing in this thing that says that he has done anything.

MR. O'CONNELL: Well, I wouldn't want to - that alone he could also justify saying that it was in the ordinary course of business between his company and the German company which had licensed them under a patent, you see.

MR. PEHLE: DuPont and General Electric and everybody else have sent things to Germany.

MR. O'CONNELL: What was being done in this country during '38 and '39 has probably been done by a lot of other big organizations which have unquestionably exchanged information with Germany.

H.M.JR: Look at the insurance companies.

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MR. KLAUS: But this is part of their plan. Kalle and Company sends Von Meister in here, and he has just come straight from the Zeppelin Works, and he gets this elaborate organization for defense plans, and he gets in former Zeppelin employees to do it, and they get into Government laboratories and forts and other places.

H.M.JR: That doesn't say that.

MR. KLAUS: This is just his personnel file.

H.M.JR: There is nothing in there that says that.

MR. O'CONNELL: Well, frankly, regardless of all --

MR. KLAUS: That is in the memorandum that I gave you the other day.

H.M.JR: You gave me no memorandum the other day.

MR. O'CONNELL: The one you read first, that short memorandum which described the activities of that division headed by Mr. Von Meister. We said it was headed by Mr. Von Meister, formerly of Zeppelin.

H.M.JR: Well, let me ask you this. Do you feel - now think very carefully before you answer, and I am asking this man (O'Connell), not Sam. Have you gone into this thing far enough, rather than - that you feel that it is inimical to this country that these Germans should be there, and we should remove all of them?

MR. O'CONNELL: Sure I do, but I don't think we ought to do it today.

H.M.JR: When?

MR. O'CONNELL: When we have developed the facts a little further. We are proposing that five men who are the top men, and on whom we have very little more

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than we have on thirty or forty or a hundred others, we are proposing that we insulate those men by saying to the company, "You have got to get rid of those men," that on the others we block their accounts so that we will - and then we will subject them to a very close scrutiny as to financial transactions, see to it that they spend money only for purposes that we think are proper, we will accelerate our investigation, get some more people to continue the process that we have started, but which, the time being of the essence, we have got to accelerate. We can't do it now, I don't think.

H.M.JR: I have got a suggestion to make. I don't think we are moving fast enough. How would it be - there are five and thirty, is that right?

MR. O'CONNELL: Yes.

MR. KLAUS: Well, a little more than thirty. It might be fifty.

H.M.JR: Well, Sam, when I want to ask you - do you mind, please.

MR. KLAUS: Sorry.

H.M.JR: When I want to ask you something, I will ask you.

Whatever the group is, five and some other group, how would it be to say pending your being ready, that we serve notice on John E. Mack that these people be kept off the premises, not separate from the payroll, but kept off the premises?

MR. O'CONNELL: You mean the five?

H.M.JR: Five or a hundred, I don't care. Whatever you think is the group that might be dangerous.

MR. O'CONNELL: Well, I don't get the distinction between that and firing them.

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H.M.JR: Well, there is all the distinction in the world. You are keeping these people off the premises because you are suspicious. That gives you time to develop your case. You say you are not ready to try today.

MR. O'CONNELL: Oh, no.

H.M.JR: Then you can keep them off the premises while you are developing the case, because it might take you weeks.

MR. O'CONNELL: It certainly might very well take us weeks.

H.M.JR: You don't know what they might do. But they are off the premises. They can do no damage.

MR. FOLEY: They can do damage.

H.M.JR: How?

MR. FOLEY: Well, they have all got their confidential people in the companies. They would be telephoning them. They would be having access to those people.

H.M.JR: Well, would you put them in jail?

MR. O'CONNELL: No.

H.M.JR: Are you going to put them in jail eventually?

MR. O'CONNELL: I don't know what we are going to do.

H.M.JR: They are at least not going into the office and having access in the files.

MR. O'CONNELL: We have people in the office who are in a pretty good position to protect against any destruction of the files or anything of that sort.

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H.M.JR: Too slow.

MR. O'CONNELL: As far as isolating them in the sense that we say they can't come on to the premises, it seems to me that is another way of saying, "We will stop this company from operating."

H.M.JR: Do you want to stop it?

MR. O'CONNELL: Well, if we take a hundred men who are almost all the key men of the organization and say, "Keep them out of here, we don't want them around the place at all" - if we are not going to fire them, and I don't believe we ought to go that far until we develop the facts, it seems to me that we ought to freeze their accounts and put them under closer scrutiny than we have so far. I don't think we protect by putting them off the premises.

H.M.JR: Well, I am giving you an idea. Think about it, will you please?

MR. O'CONNELL: Sure.

MR. FOLEY: It is - I think if you look at that organization chart of just the operating end, and see the names, Mr. Secretary, you --

H.M.JR: What do you think?

MR. KLAUS: Off the premises, frankly I don't think would be - these boys don't operate on the premises. They operate by phone and by - they have got - their job, the top man's job, is to see the little fellows do their work. They don't have any functions to perform.

H.M.JR: Well, the fact that a man has got a German name doesn't mean anything.

MR. FOLEY: Well, there is Foley.

H.M.JR: Yes (laughter). That proves the point.

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MR. O'CONNELL: We are investigating Foley, too.

MR. KLAUS: Those are all men who were sent in by I.G. Farben.

H.M.JR: There is the point. Moody is one.

MR. FOLEY: Shultz.

MR. O'CONNELL: The men with the black stars and some others are I.G. Farben men.

H.M.JR: Look, boys, I am not going to sit here for a couple of weeks while you fellows - I know these lawyers' investigations. They go on for months. If this is going to be one of those regular lawyers' - you fellows would be going on for months, and God knows what those fellows would do.

MR. FOLEY: Mr. Secretary, they have got a double job to do there. Joe's people are watching the transactions and clearing the transactions, because the controls have been decentralized, and in addition to that with this whole problem of the APC thing unresolved, and with all the difficulties we have because John E. Mack is not cooperating with us, he thinks that we are just passing fancies, and that it will be only a week or so before we are all out and the Justice crowd will be in. It isn't the easiest thing in the world.

H.M.JR: What does he think you are?

MR. FOLEY: Passing fancies, birds of flight (laughter).

H.M.JR: I just wanted to get that straight. Are you talking for yourself or your cohorts?

MR. FOLEY: Well, I don't know whether I am or not.

MR. O'CONNELL: There isn't any doubt about Mack's attitude. He thinks we are going to be gone shortly, and

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he has been giving lip service to the idea of cooperation.

H.M.JR: Well, where I differ with Mr. Foley, see, is this. One of the ways - that is the reason I sent for you. I wish I had more time, but you fellows think this over and I will see you again before I go home. One of the ways to prove the worthiness of this job is not to fool around with this thing, you see, and if you fool around with this thing, somebody will write in, "My God, the Treasury has had this thing for months. What have they done? Nothing."

MR. FOLEY: But that is a whole lot more than anybody else has done, Mr. Secretary.

H.M.JR: Ed, I am saying what Pegler might say or somebody else might say or Walter Winchell, somebody who is a friend, you see. I don't think you got my point.

MR. FOLEY: I got your point all right.

H.M.JR: What I am saying is, somebody might criticize us for being slow, and use that as an excuse to get it out of the Treasury, and in to Justice, so therefore the reason I sent for you was to satisfy myself why you fellows don't move faster. I make a suggestion, it might not be any good, and you make a counter-suggestion, but if you are going to sit around and wait here for months while you investigate this thing, I can't wait that long.

MR. O'CONNELL: Look, at present, Mr. Secretary, we are doing two things and we haven't nearly as many people as we ought, to do it as rapidly as we ought to do it. We have got fifty people covering about eight or ten places where this does business.

MR. FOLEY: With how many thousand people?

MR. O'CONNELL: There are six thousand people employed in the company, and they spend five to six

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thousand dollars a month in payroll and purchase of materials.

H.M.JR: Don't get me wrong. Normally, what am I trying to do? I am trying to build up a case and keep everything here so that this particular part of the work will be well done. I don't give a damn. Listen, I can function as Secretary of the Treasury, with the alien property over there with Leo Crowley. I will go on with it that way. But the boys have done a good job and I am trying not to let them down. Now, that is the whole idea. I am not sending for you to criticize you. I mean, it takes up my time, and I burn up my energy. Why? Because these boys have done a good job and I am trying to back you up. Now, go back and get some new ideas, see, and see how you can move in on this thing and in some way or other so that it isn't the usual legal thing, my God, until - it took him (Klaus) two years to do the liquor thing. He did a good job. Two years to find out where the liquor control was. Didn't it?

MR. KLAUS: Liquor was only six months.

H.M.JR: Well, six months. And that was a baby, compared to this. Six months. Two years on Annenberg. I can't wait that long. See me after four o'clock. Put some pep into this thing. As I say, I am not criticizing Ed or you or Pehle or anybody else, but I am telling you boys you have got to move, because these boys over there, Crowley and his fellows, are trying to think up ways to criticize you. Have you got it straight?

MR. FOLEY: If we go too fast and we go too far, then we can get criticized too, because they can say that these fellows are taking action that isn't justified.

H.M.JR: Who is going to say that?

MR. FOLEY: Biddle and Crowley.

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H.M.JR: Well, I would rather have them say that than the other.

MR. O'CONNELL: Of course the problem that I have here now is whether what we think would be justified is going too fast.

H.M.JR: Well, take another look at it, do it so I don't get into hot water.

MR. O'CONNELL: That is right.

H.M.JR: And come back and see me after four o'clock. Take a new look at it, but don't think I sent for anybody this morning to criticize them. I am trying to be helpful.

MR. FOLEY: This is the type of letter we get from the Army Engineers.

H.M.JR: We told them not to do business, didn't we?

MR. FOLEY: We told them the facts. We said, "Secretary Morgenthau sends the suggestion that Government departments and agencies having to do with this take action so that the matter will not be repeated."

MR. O'CONNELL: Then, Mr. Secretary, within a day or two before that Judge Mack wrote a letter to a friend of his in the Department of Justice complaining because we were --

H.M.JR: I know, and he is one of the passing fancy men Ed spoke of.

MR. FOLEY: Well, don't ever fool yourself about John E. Mack. He is playing all the angles here all the time.

H.M.JR: I know John E. Mack. He is my counsel.

MR. FOLEY: He can get ninety thousand dollars a year for this.

H.M.JR: All right. I will see you all after four o'clock.

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11:35 a.m.

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HMJr: What happened, John?

John

Sullivan: Well, he asked me to stay after Eddie Greenbaum and the Army fellows had left.

HMJr: Yeah.

S: And he had a couple of things he wanted to talk over, including excess profits.

HMJr: Yeah.

S: He has come to the conclusion that if we were to repeal it and put on a high or corporate rate, to be known as the War Profits Tax, so that two hundred and fifty thousand corporations rather than thirteen would be paying it, if the Treasury took an affirmative position on the matter, he felt very sure that the Congress and the country would understand and applaud.

HMJr: Yes.

S: I told him that we hadn't yet come to any conclusion about the matter, but that I'd report his views.

HMJr: Yeah.

S: Then I said that I was a bit confused by the interview in which he referred to the amount of money to be raised, and he said well, it hadn't quoted him correctly, but that in substance it was right; and I sort of smiled and said, "Well, I rather gathered that you were putting the target up so that when you pulled it down a bit, the boys would think you'd accomplished something."

HMJr: Yeah.

S: And he said, "Well, I definitely had that in mind."

HMJr: I see.

S: Then he went on - of course, what they have in

their minds on the Hill was that five is the top.

HMJr: What's that?

S: Up on the Hill, they've pretty well decided that five is the top.

HMJr: I see.

S: But he said.....

HMJr: Five is the top?

S: That's right.

HMJr: I see.

S: And he said this morning that he thought that if we collected five or maybe perhaps six in the fiscal year, we'd be doing very well. Well, of course, if we collect five or six in the fiscal year, that's a tax bill which at an annual rate is substantially in excess of seven.

HMJr: Uh huh. Well, you're going to tell this all to Paul, aren't you?

S: Oh, I've already told him.

HMJr: Wonderful.

S: Yes, sir.

HMJr: Thank you so much.

S: Righto.

HMJr: Thank you.

S: Right.

January 12, 1942
11:55 a.m.

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HMJr: Hello. Jim?

James

Forrestal: Oh, Henry, I was just wanting to see if you were free for lunch.

HMJr: Unfortunately I'm not.

F: Well, I thought you probably were not, but.....

HMJr: I've got a man from out of town.

F: Okay. Well, I'll check with your secretary to see if you're free any other day in the week.

HMJr: Thank you.

F: All right.

January 12, 1942
11:55 a.m.

FINANCIAL ASSISTANCE TO CHINA

Present: Mr. Southard ✓
Mr. Coe ✓
Sir Frederick Phillips ✓
Mr. Currie ✓
Mr. Viner ✓
Mr. Bell ✓
Mr. Bernstein ✓
Mr. Foley ✓

H.M.JR: Here is the proposition I want to talk to you people about. The President and the State Department want me to make a loan to China. I don't know what the status is of the Export Import Bank; but, Dan, if you would make a note to find out just where we stand, that is number one. Will you please?

MR. BELL: You mean stand with respect to credits to China and how much they have got left?

H.M.JR: Yes.

MR. BELL: We probably have that. White is the representative of the Treasury on the Board, and I expect he has that information.

H.M.JR: Well, let's get it anyway.

MR. BELL: Right.

H.M.JR: That is number one. Then I got this impression that what they were worried about was the fall of Singapore, but Hornbeck was here and said he

was worried about the fall of Manila, or rather the balance of the Philippines. Anyway, they are worried, and I got this letter from Mr. Hull. I have asked T. V. Soong to come in at three. I thought I would see him alone and see if he might talk and see what he has in his mind. I also - while you gentlemen are here, I will ask what the English are going to do. Then I want to ask Lauch if he thought - is this something that I can kid the Chinese along on until these people get back from Chungking.

MR. CURRIE: Yes. At the meeting - two meetings I have sat in on this thing, one at the State Department and one over here, it was the general thought that we might agree to the principle of the thing, the need for financial assistance to China, but of course there are many questions about the amount, the rate of exchange, who shall do it, what fund, what Congressional authorization there may be, the possibility of perhaps doing it through Lend-Lease. That is something you might explore. There are many questions like that that we really have to go into and it takes some time, but we are sympathetic and--

H.M.JR: Do you think that is enough?

MR. CURRIE: I think so.

H.M.JR: Bernie, where do I stand on making a loan to China as to what I have said to Congress?

MR. BERNSTEIN: I think pretty clearly you would have to go up to the Congressional committees just as you did previously on the China loan.

H.M.JR: You do think so?

MR. CURRIE: There is another little complication, Mr. Secretary, we discussed at our meeting the other day, and that is whether we should do this on our own or another one of these joint Anglo-American things. The Chinese would much prefer to have them separate.

H.M.JR: Separate?

MR. CURRIE: Yes.

H.M.JR: Somebody told me, I can't remember where I get these things from, that it is the English - the way they have treated Chiang Kai-shek that has made him so sore. They treat him like he was Shah of Persia or something like that, or rather the King of Albania.

MR. CURRIE: Some one told me that Niemeyer began to talk in terms of obligating certain Customs receipts for payment.

H.M.JR: Was it you that told me that? I got it somewhere.

MR. CURRIE: I get a lot of that all the time.

H.M.JR: What I would like to do, frankly, gentlemen, this is what I would like to do, and I need your help. I would like to do this thing in the way that we could sort of kind of feed it out to them if they keep fighting, but I would hate to put three hundred million dollars on the line and say, "Here, boys, that is yours."

MR. CURRIE: I think it will have to be very frankly regarded as a subsidy, as a war measure, and not as a loan.

H.M.JR: Well, the President as much as said that, but also I would like to keep it and kind of feed it out. Couldn't you work out something - as I say, I will have Soong in at three. You see, here is my trouble, so that you know it. The President being willing, I am going to leave here Tuesday night, I hope, for a week, so if we are going to do anything in the way of some kind of an agreement - I spoke to Soong Saturday night at ten o'clock and told him I had just gotten this thing by hand, and I was interested so that word went over, and I will see him this afternoon. Now, I am going to ask him - I think it is much better,

point blank. Now, look, Fox and Lattimore are on the way back. Can we wait until they get here? I am definitely interested. We are going to do something. Is that enough?

MR. CURRIE: They can be brought back within two or three weeks, I should say.

H.M.JR: Is it as long as that? Hornbeck says he can't wait until they get back. I have never seen the State Department - Hornbeck, speaking for them, is anxious. I told him this morning, "I love to be pushed by the State Department. It is a unique experience." He has also forgotten - you know, he takes full joint credit for the first loan. He forgets he wrote a memorandum to Hull recommending we shouldn't do it, the first twenty-five. He has a short-lived memory like Arthur Krock's idea, you have got to go back to nineteen hundred and two when Mr. Hull introduced a bill for strategic materials to justify Hull's position.

MR. COE: It would look from what State has said and also from some of the messages addressed to you that if they got an agreement to negotiate that that would solve the first--

H.M.JR: Who said that? I didn't see that.

MR. COE: Well, in one of the messages which came through originally from Gauss, it said the first thing--

H.M.JR: Will you dig that out? Why don't you send for it?

MR. FOLEY: Mr. Secretary, on going to Congress, don't you think the situation is different now that we are at war?

H.M.JR: I don't know. We can find out.

MR. FOLEY: You said you wouldn't make a loan out of the Stabilization Fund to a country at war, but the consideration for that statement was the entanglement

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and now that we are at war, it seems to me the situation is just as different as it can be.

H.M.JR: Well, I think the thing to do, Ed, if we are going to go into this thing - Wagner is back. He is Chairman of the Committee. The thing to do would be for you to go up and see Wagner and ask what he thinks. Tell him we have got a Chinese deal on, see, do I have to come up there.

MR. FOLEY: All right.

H.M.JR: And he could sound out the Committee. That is the easiest way.

MR. FOLEY: Yes, I think that is right.

H.M.JR: That is why I wanted everybody in on it.

MR. CURRIE: There is this other possibility you might keep in mind, Mr. Secretary, and that is that this is strictly a political war measure. It is not a loan.

H.M.JR: It is what is known as silver bullets, isn't it?

MR. CURRIE: That is right. It might be possible to get an amendment on the Lend-Lease appropriation for us to take over part of the cost of part of the Chinese army. It would amount to the same thing. Then they could issue bonds here, you see.

H.M.JR: Now, wait a minute, you are going a little fast for me, Lauch, I am just a country boy. I can't keep up with you.

MR. CURRIE: We could make quite a case against a committee.

H.M.JR: Do you realize we have got two Canadians employed here? (Laughter)

MR. CURRIE: Do you know when you first employed

me, I was an alien?

H.M.JR: Yes, and I know how you got fixed up. I didn't know it then, but I know it now.

MR. CURRIE: Really? I remember Jack's consternation when he learned that. He rushed me up to Boston to take out my final papers.

H.M.JR: Viner keeps a lot of bad things from me.

MR. VINER: That was pretty bad.

H.M.JR: I will say it was.

MR. CURRIE: I think a fairly convincing case can be made before a Congressional committee on the grounds that we have been unable to render them a lot of material help, the Chinese, in the Lend-Lease program, partly because of the bombing of the Burma Road and partly because of other reasons. This would be a very substantial form of help to take over what would amount to part of the cost of their army. They are maintaining a huge army and it may amount to three hundred million dollars, you see, and then that would be strictly Lend-Lease and there wouldn't be this loan. It is not a loan. There is not the slightest chance of ever being any repayment.

H.M.JR: I like your idea, and then you can come to whatever the agreement is on Lend-Lease, the tangible, direct, or indirect benefits we would get from it.

H.M.JR: Would you need an amendment?

MR. CURRIE: Yes.

H.M.JR: I think this is a marvelous idea.

MR. FOLEY: Why would you need an amendment, Lauch?

MR. CURRIE: I don't think you have authority to

do it under the present loan.

MR. FOLEY: Why not?

MR. CURRIE: It is for the purchase of articles or personnel to service those articles. That would have several advantages, Mr. Secretary. It would keep your loaning record a little bit cleaner from the point of view of eventual defaults. It would enable us to take unilateral action without reference to the British, which the Chinese would like. It would put the loan on its proper basis as a war measure, as a question of military export, not as a commercial loan.

H.M.JR: I think that is a good idea. Let me ask you this, Lauch. How much do I have to clear with the State Department on this? Let me put it another way--

MR. CURRIE: Well, at the meeting the other day, Harry White took the position as the discussion developed that obviously this was a political matter and couldn't be treated as a Stabilization loan. Therefore, he thought that you would require a letter from the Secretary of State so informing you, that it was to be treated on political rather than economic grounds.

MR. BELL: That is the reason for that letter.

MR. CURRIE: And that is the letter.

H.M.JR: But I don't have to call up Mr. Berle and say please, do I, as long as I have got Hornbeck advising me and keeping him informed?

MR. CURRIE: Well, Berle has assumed the initiative in the State Department on this thing.

H.M.JR: Well, I don't know he exists on this.

MR. CURRIE: That is a very difficult matter.

H.M.JR: Well, I will work with Hornbeck, that is

all, and see what happens. The reason that - Berle has got so many trick ideas, if I bring him in to this thing whatever we suggest he will want to modify it. Well, why don't I have what's-his-name in, Phillips?

MR. BELL: Yes.

(Mr. Phillips entered the conference.)

H.M.JR: The reason I asked you to come over here is that the President and Mr. Hull have asked us to take up the question of financial assistance to the Chinese Government, and I just wondered - we are just getting started on it - whether you would care to tell me how far you people have gone, how far you expect to go, whether you want to do it together or separately.

MR. PHILLIPS: Well, sir, I did send you a little note. I will give it to you in three points. The first point, there was a suggestion put out by Sir Otto Niemeyer for the Chinese to issue an internal loan to be guaranteed by the United States and the United Kingdom. The guarantee suggested was forty million dollars and ten million pounds. The purpose of the loan is to mop up some of this surplus bank notes floating around China. That we are definitely in favor of. The second point, there were various reforms--

H.M.JR: And that you are in favor of? That would be done through what agency?

MR. PHILLIPS: For discussion.

H.M.JR: But mop up, you say, buy up some of their currency?

MR. PHILLIPS: Yes.

H.M.JR: Yes.

MR. PHILLIPS: The second point, there are a whole series of reforms, the way banks are controlled, the

way interest rates are fixed, and various other detailed points, on which I think you will find that the United States Ambassador in Chungking is in full sympathy with suggestions that our people out there have made and that there is agreement to represent them jointly or separately to the Chinese Government. I am afraid I don't carry all those details in my head, but there is a reform program. Now, the final point is that Chiang Kai-shek has seen the British Ambassador. I assume he has seen also the United States Ambassador. He has represented that his position is not too safe. The Chinese public are impressed by Japanese advances and so on, and that, therefore, he must have some psychological support, and what he suggests is that--

H.M.JR: Your Ambassador suggests?

MR. PHILLIPS: Not, this is what Chiang Kai-shek asked for from our Ambassador. What he suggested was we should advance a hundred million pounds, and you should advance five hundred million U. S. dollars.

H.M.JR: That is the Generalissimo's suggestion?

MR. PHILLIPS: Yes, which would add up to one billion dollars, more or less, which is about what Russia got, which I should think is the real precedent they are trying to follow.

H.M.JR: I see. Which Russia got which was promised.

MR. PHILLIPS: Through Lend-Lease.

H.M.JR: But she hasn't got it.

MR. PHILLIPS: Well, it was promised to her. Well, we don't know much about that suggestion.

MR. CURRIE: On the same basis, Mr. Secretary, the Chinese have got six hundred million.

MR. BELL: Through Lend-Lease, wasn't it?

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MR. CURRIE: Yes. They haven't got it, but on the same basis.

H.M.JR: Six hundred from us?

MR. CURRIE: Those are the allocations set up.

H.M.JR: They have been promised? You see, I am going to school on this, because I haven't been in on this.

MR. PHILLIPS: Well, there is this huge demand from Chiang Kai-shek for money. Frankly, we don't know what he will do with the money. He has got no serious foreign exchange problem left because of course Hongkong and Shanghai are out of it and the only Chinese imports is stuff that is coming up the Burma Road and nearly all that is Lend-Leased, so we don't know what he wants with foreign exchange in those quantities, but he has asked for it.

H.M.JR: How fast could you act on this forty million dollars, ten million pound thing.

MR. PHILLIPS: In principle we could act pretty fast. The details would take a lot of working out.

H.M.JR: But in principle?

MR. PHILLIPS: In principle we could get a decision pretty quick.

H.M.JR: How fast?

MR. PHILLIPS: This week, I should think. I suppose we should have to have an act of Parliament, and I am not sure how you would do it.

H.M.JR: Well, Mr. Foley is going to go up to see the Chairman of my committee to see whether I need anything or not.

MR. PHILLIPS: But it is just a scheme. It is just an outlined proposal at present.

H.M.JR: Well, that is within the realms of possibility, isn't it?

MR. BELL: That might be worked out as an amendment to the old agreement to increase the amount.

MR. PHILLIPS: Of course, you know they have never drawn that - what was it, fifty million dollars you gave them. They have never even touched it, as far as I understand.

H.M.JR: Is that right, gentlemen?

MR. BELL: That is right.

MR. SOUTHARD: They have never asked you to buy the yuan, Mr. Secretary.

H.M.JR: So that fifty million is intact?

MR. SOUTHARD: Yes.

MR. BELL: They are getting close to there--

MR. SOUTHARD: But this is of course not a foreign exchange problem and isn't presented as a foreign exchange problem, this present problem that you are now considering.

H.M.JR: Which one, the forty million?

MR. SOUTHARD: No, the whole new request, in whatever form.

H.M.JR: But this thing that Sir Frederick is talking about is a foreign exchange problem.

MR. SOUTHARD: Domestic problem.

MR. PHILLIPS: As I say, they are paying for their

war by printing bank notes, and there are too many bank notes now. This proposition is, the Chinese Government go to their citizens and borrow or take from them a great amount of this currency and we guarantee that when the time comes the Chinese will repay that in sterling or dollars.

MR. BELL: Up to eighty million dollars?

MR. PHILLIPS: Yes.

H.M.JR: Well, I got the idea, you see - I am hoping to get away - off the record, tomorrow night for a week. That is why I am trying to push this thing.

MR. PHILLIPS: Yes.

H.M.JR: So if we do anything - whatever is in my mind, I will get in touch with you before I go.

MR. PHILLIPS: Yes.

H.M.JR: Thank you.

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12:03 p.m.

HMJr: Hello.

Operator: Senator Lucas.

HMJr: I'll take it.

Operator: Go ahead.

HMJr: Hello.

Senator
Lucas: Mr. Secretary.

HMJr: Talking.

L: I see no reason why I can't go along with Brown and shall be glad to support him when he's sent up here for confirmation.

HMJr: Well, that's awfully nice. Now, mind you, I haven't talked to him yet.

L: Well, I understand.

HMJr: And I haven't got the foggiest idea whether he'll be interested.

L: Well, I won't say one word.

HMJr: But with you it's all right?

L: That's right.

HMJr: Don't you think it would be good?

L: I think it would be an excellent appointment, I really do.

HMJr: Thank you.

L: And you can tell him that I said so, if you want to use me at all, and tell him that I hope that he'll take it.

HMJr: I will do that, because I know that'll have an influence.

L: All right. Thank you so much.

HMJr: I'll let you know just as soon as I know.

L: Yes. Okay.

HMJr: Thank you very much.

January 12, 1942
2:00 p.m.

HMJr: Hello.

Frank Walker: Hello.

HMJr: Frank?

W: Hello, Henry.

HMJr: How are you?

W: All right, sir. How are you?

HMJr: I hear you want an appointment for this man on the twenty-first?

W: Well, I tell you, he's coming to New York, Henry, a week from today.

HMJr: Yeah.

W: And he wanted to come down here Wednesday or Thursday, whichever is agreeable to you.

HMJr: Well, my trouble is, I don't think I'll be here.

W: Would you be here for the dinner on the twenty-second?

HMJr: Oh, yes. That's right. That's right.

W: That's right.

HMJr: Wednesday. Well, I.....

W: I took it for granted you'd be here the - when is the dinner, the twenty-second, isn't it?

HMJr: I'm not sure.

W: I think so.

HMJr: Well, is he coming down especially for this?

W: Oh, he's coming on another matter.

HMJr: Well, then - I meant if I didn't come - wasn't

here on the twenty-second, it wouldn't be too much of a disappointment.

W: Well, it would be quite a disappointment to him, because he's very anxious to put this over.

HMJr: Yeah. Well, I - but I haven't done any of that, you know, Frank.

W: Any of what?

HMJr: The kind of thing that he wants.

W: Well, he wants to do it, and he wants the Treasury to do it, you see. Oh, you mean you haven't - about those stars going out, you mean?

HMJr: Yeah. We haven't done that. We've discouraged it.

W: We have Lamour out now.

HMJr: Well, she's just in New York.

W: Uh huh.

HMJr: That was something they put over. We had nothing to do with it. If they had put it up to me, I'd have turned it down.

W: Yeah.

HMJr: Will he be here on the twenty-second?

W: Yes.

HMJr: What?

W: Yes.

HMJr: How about eleven o'clock on the twenty-second?

W: Fine.

HMJr: And that is - his name is Frank.....

W: Frank Freeman. He's head of Paramount. He's up at Zukor's place.

HMJr: Oh. Frank Freeman.

W: Yeah.

HMJr: Of Paramount.

W: Yeah.

HMJr: Well, I appreciate your interest, as always.

W: Well, I'll go over it with him and we'll talk it over, and you make your own decision then.

HMJr: He's the head of Paramount.

W: Yeah. He's in charge of production; and in addition to that, he's the head of all the producers on the Academy Award and head of the Producers Association, you know, out there.

HMJr: I see. Well, I realize he's an important fellow, and I'd like to see him and I'd be delighted if you'd bring him over.

W: He says he'll get you a hundred million.

HMJr: Well, it's a tidy sum.

W: All right, Henry.

HMJr: Thank you.

W: Good-bye.

January 12, 1942
3:31 p.m.

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HMJr: Yes.

Grace
Tully: Mr. Secretary.

HMJr: Talking.

T: The President said okay on leaving Wednesday.

HMJr: Fine.

T: And also you can come in at quarter of ten in
the morning.

HMJr: Okay.

T: At the house.

HMJr: At the house?

T: That's right.

HMJr: That's tomorrow?

T: Tomorrow morning.

HMJr: Tomorrow morning.

T: At quarter of ten.

HMJr: Wonderful.

T: That's right.

HMJr: I'm amazed.

T: What do you mean you're amazed?

HMJr: Overwhelmed.

T: Are you insulting me? (Laughs)

HMJr: No, at the President.

T: Oh, I see.

HMJr: You never amaze me any more.
T: Oh, I see. (Laughs)
HMJr: No, at the President.
T: All right, fine.
HMJr: At a quarter of ten.
T: That's right.
HMJr: Thank you.
T: All right, Mr. Secretary. Good-bye.
HMJr: Good-bye.

January 12, 1942
3:50 p.m.

FINANCIAL ASSISTANCE TO CHINA

Present: Mr. Foley
Mr. Bernstein
Mr. Coe
Mr. Viner
Mr. Bell

H.M.JR: This is as much for the record as it is for you, without trying to --

(Mr. Viner entered the conference).

H.M.JR: T.V. Soong just left here, and he went through a long rigamarole, trying to work himself up into the position to justify this loan. He said when he first got it, he couldn't present it, he hadn't been here long enough - I mean, he had been away from China too long. He said he didn't know how to present it. So they worked out this thing of five hundred million dollars from us and the same from the English, and the Generalissimo said, talking like a general, "I can't tell you where I am going to put my troops. I have got to have my troops, and then I will tell you where I will put them."

Well, I said, "In the first place, if it is Russia vis-a-vis China, you have got more out of Lend-Lease than Russia, China has." He says, "Yes, we have been promised six hundred thirty million dollars."

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I said, "You have got all the stuff you want at Rangoon, and you can't move it." He said, "Yes, that is right." I said, "You have got the fifty million dollar fund, and you haven't used it." He said, "Yes, that is right. It is hard to explain." So I said, "Well, it is the troops you are thinking of, isn't it?" He said, "Yes." So I said, "How about if we could pay these troops with silver dollars, U.S. dollars? How would they like it?" His face lit up. He says, "Now, that is something. But the trouble is with the silver dollar, U.S. dollar, it hasn't got a dollar's worth of - there are some doubts in the fellow's head. A dollar bill would be just as good. It would be better, because it would be easier to transport." Well, I did a little - I said, "Would you pay them five dollars a month?" "Oh, no, no." Then he got to thinking, fifteen dollars in Chinese money, and then he got - he said, "Well, maybe five dollars won't be too much a month. Well, of course a million troops, that is five million dollars a month. So they have got to buy clothing for them, they have got to build our - what do you call it?"

MR. BELL: Barracks?

H.M.JR: And so forth and so on. So I said, "Well, what I am thinking of, Doctor Soong, once a month to make you an advance for a month." I said it about three times, so there is no doubt in his mind. I told you this morning I was trying to think of some way so that while the boys fight they get their money, and if they don't fight, no money. He got it. So I said, "This is just my idea, personally. I haven't consulted Mr. Hull, and I haven't consulted the President. This is my idea." So I said, "Won't you please talk it over and send a wire?" And he said he would.

Then I pulled a boner. I told him I was going to Florida. And he said, "Wonderful. My wife has always wanted to go to Florida, and can't she and I come down

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and visit you?" You (Bell) have got to keep that from happening. He said his contact would be with you, so you can tell him I am not well, or I am in bed, or I caught the measles or something.

MR. BELL: I will tell him I don't know where you are.

H.M.JR: If I told that to my wife tonight, she would say she wasn't going to go for my sake. So you have got to tell him that the Secretary really isn't well, or something.

MR. BELL: I will make up some good story.

H.M.JR: Now I am going to see the President at a quarter of ten tomorrow, and I am going to ask whether he likes this idea, and I told Soong I would call him. Tell Mrs. Klotz to be sure and remind me when I come back from the President to call T.V. Soong (Speaking to the reporter).

Couldn't, in the absence of Harry, you (Coe) give this thing to Doctor Hornbeck, not over the phone, but tell him the suggestion I have made, you see.

MR. COE: Yes.

H.M.JR: And pass it along to Mr. Hull and also you give it to Lauch Currie, will you?

MR. COE: All right.

H.M.JR: But during my absence, any communication with T.V. Soong, I want it through Bell. I want Bell to have any communications with T.V. Soong during my absence, so we keep that straight, you see. Coe is a young fellow, and he can do a little leg work. We will let him let Lauch Currie know, and let Doctor Hornbeck know. Now, you legal guys --

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MR. FOLEY: How are you going to do it?

H.M.JR: Well, that is your worry (laughter).

MR. VINER: May I say a word?

H.M.JR: Should I worry?

MR. VINER: No.

MR. BELL: It has got to be done through Lend-Lease.

MR. VINER: I think that is the solution to the problem. I think it is all right. But I want to report a little conversation I had with Lauch Currie this morning. I was trying to work out something on the same lines, but I suggested gold. If you are really willing to go along this way and to make it really helpful to them, you have got two things there. You have got one thing, the payment of the soldiers. The other thing is that they can do a little bit of mopping up of their own money. Give them double that amount, instead of the ten million a month, ten million for the Army and ten million for money control purposes over there, so they can buy up their own currency and burn it. Soong may not have seen that. Otherwise, this won't adequately meet their problem.

H.M.JR: Let the English finance that.

MR. VINER: Between the two it may mean only ten, whatever the amount is, but there is that other problem.

H.M.JR: Well now, I have got another idea that I want you monetary experts to think about. I wasn't entirely on the surface. Supposing you think a minute in terms of the U.S. dollar as the currency of the world. Think that over. Now, they can mop up - Jake - this is a bottomless well. They will print the damn thing faster. But you give them ten million dollars of U.S. dollar bills which we send in our bombers which are going

out there now, these four-engine bombers, and they take this stuff out with them. It begins to infiltrate decent money into a hopeless situation. You think this over. But buying the stuff up and destroying it, they will print it just as fast as you get it. But you put ten million a month into the country, and another ten million, and you begin to get some solid money into the world.

MR. VINER: Yes, but you - in Poland, you see, they operated on that basis, and the result was that --

H.M.JR: What basis?

MR. VINER: They used dollars instead of their own currency.

H.M.JR: When was that?

MR. VINER: During their inflation.

MR. BELL: They used gold certificates.

H.M.JR: How did it go?

MR. VINER: It went very well, as far as the gold certificates were concerned, but it just worked hell with their own currency.

Date January 12, 1942 19

To: Secretary Morgenthau
From: V. F. Coe

The appended memoranda may be helpful to you:

1. A statement of "pros" and "cons" of your proposal.
2. Drafts of suggested public announcements of the loan by the President and yourself, either or both of which you might want to show the President.
3. A draft telegram to Dr. Kung, to start the ball rolling.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE January 12, 1942

TO Secretary Morgenthau
FROM W. J. Coe

SUBJECT: Secretary's Proposal for Loan to China.

- I. The proposal of the Secretary is that the United States should assist China in financing her military expenditures, and particularly the pay and maintenance of the Chinese soldiers.

Preliminary examination indicates that a loan to China along the above lines can achieve the major objectives which should be the goals of this government in relation to the present loan. It would be desirable, if the President agrees, to tell the Generalissimo that the Secretary is ready to discuss his proposal, among others, and to make a public announcement that negotiations have begun.

However, there are a number of different ways in which the Secretary's proposal might be carried out, and each of them needs to be explored.

In view of the fact that a good deal of information essential for a decision is lacking, and that each of the possible ways for carrying out the Secretary's proposal has its strong and its weak points, it would seem desirable that the announcement should be general, and not be confined to a specific proposal.

- II. Some of the possible ways whereby the United States could finance Chinese military expenditures are the following:
1. Shipment of United States' currency to China and its issuance there as pay for soldiers and other military expenditures.
 2. Shipment of United States' currency to China and its issuance there for the purchase of rice and other products for distribution to and use by the army.

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3. Giving China dollar accounts in the United States, against which she could issue bonds, the fapi proceeds of which could be used for military expenditures.
4. Giving China earmarked gold, against which bonds could be issued as above.

In order to evaluate these and other proposals, we ought to know more than we do as to how the Chinese Government is now paying its soldiers.

Our present information is only that some yuan payments are made and some rice payments are made, and that there is considerable variation in the amount and method of payment. Particularly with regard to the proposal to distribute United States currency in China, either for pay or for supplies, it is necessary to obtain more information as to how the people and the Government would react to this procedure.

III. A preliminary listing of the pros and cons of the most novel of these proposals, (proposal number 1 above) is given below.

IV. Advantages of using United States' currency to pay soldiers and to meet other military expenditures in China.

1. This proposal is in accordance with the political aim of the loan -- to assist Chinese military effort.
2. This kind of loan would meet the political necessity of making a large and spectacular loan. By relating the size of the loan to the size of Chinese military expenditures, this proposal helps to settle the question of how large the loan should be.
3. The Secretary's objective of paying out the money in installments, while fighting was going on, would be achieved.

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4. This loan should secure the good-will toward the United States of the soldiers, ordinary people and the Government. This would be particularly true, if the amount paid out to the army meant that the effective purchasing power of the average soldier was increased.
5. This proposal is in the direction of attempting to make the U.S. dollar currency into an international money.
6. In so far as the soldiers and suppliers of military goods would accept U.S. dollars, the fight against inflation would be helped, since the need to issue more Chinese currency for these purposes would be eliminated.
7. Because the dollars would be hoarded by some people, the tendency to hoard goods would probably be diminished. Not only because of the inflation, but also because Chinese traders and merchants have had considerable experience with various currencies, it would be more feasible in China than elsewhere to introduce a foreign currency into the monetary system.
8. It would be possible to meet these payments from lend-lease, if this method is thought preferable to use of the Stabilization Fund or to an authorization from Congress to lend to China.

A number of the above advantages could also be achieved by the issuance of bonds, payable, when due, in U.S. dollars. The use of U.S. currency to pay for rice to be distributed to the troops would also share in some of the above advantages. If it proves to be true that the amount of yuan now paid to the troops is not large, and if it is doubtful that the troops would accept pay in U.S. currency, the proposal to buy rice and other supplies with U.S. currency may be more feasible than proposal II 1.

V. Disadvantages of the proposal.

1. Chinese soldiers and ordinary people might be unwilling to accept United States' dollars, because all their purchases are made in yuan; because of the novelty of the currency; and because the denominations which could be eventually shipped, would be too large for their purposes. Accordingly, the government would have to provide yuan equivalent and there would be no diminution in the amount of Chinese dollars printed.
2. The United States' dollars which were issued would be hoarded and speculated in only by the wealthy. There would be thousands of black markets with rates different from the official one.
3. The Chinese people might interpret the issuance of the new currency to mean that the yuan were to be recalled, or abandoned. Therefore, the confidence in the Chinese currency might be still further undermined. The Japanese, along with the Chinese speculators, would want to obtain United States' dollars for the plentiful stocks of fapi which they held. Their throwing of these fapi on the market would further decrease the value of Chinese currency.
4. The difficulties of safe transport would be large. \$10 million worth of \$1. United States' notes weigh over ten and a half tons, or, just about what the same value of gold would weigh. \$10 million worth of \$5. notes weigh over two tons. Shipment of this amount of small notes by air would, therefore, be a considerable undertaking, at a time when much precious cargo must be flown. The transport of this precious cargo over the Burma Road would require a good deal of armed protection. Both governments would use up a good deal of energy and administrative ability on this problem of a safe transport. (The transport difficulties could, of course, be greatly reduced if the United States' currency were used to purchase supplies, and not for the pay of soldiers.)

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5. Payment of United States' dollars to the troops might increase corruption in the army. There might be, in addition to the incentive to profiteer on the soldiers, a large number of spurious supply contracts.
6. Dissatisfaction of the soldiers with the rate of purchasing power of their pay might be deflected from the Chinese to the United States' Government.
7. Speculators, exchange traders and sharpsters of all sorts, would prey upon the poor persons who receive the United States' dollars, and would deprive them of the benefits which the dollar payments are intended to secure.
8. The Generalissimo and many other Chinese might regard this proposal as a method of making China dependent upon the United States through depriving her of a separate monetary system.

Weight of Various Amounts of United States Currency

<u>Denomination</u>	<u>Weight of \$5,000,000</u>	<u>Weight of \$10,000,000</u>
\$1	10,625 lbs.	21,250 lbs.
5	2,125	4,250
10	1,062½	2,125
20	531¼	1,062½

The above is for new currency as shipped by the Treasury to the Federal Reserve Banks. Notes are all shipped in packages of 4,000. Each package weighs approximately 8½ lbs. varying somewhat from package to package. The weight includes the paper wrapping each package and steel banding. The currency paper alone, unprinted, weights 8.0541 lbs. per 4,000 notes.

President Roosevelt announced today the United States stood ready to assist China by financing her military expenditures, including the pay of the Chinese soldiers. At the request of General Chiang Kai-Shek, he was asking the Secretary of the Treasury to open financial negotiations with the Government of China to this end.

The President said that this step was an example of the spirit which animated the United Nations Declaration and of the firm intention of the pledged nations to cooperate in all ways possible to achieve their common objective. The President pointed out that the Chinese have been fighting for four and a half years; that they were continuing to fight, and that just the other day at Changsha, they had won a brilliant victory over the Japanese army. Not only were there millions of Chinese soldiers fighting the common enemy, but virtually the whole population was resisting the invader.

The President said that these huge military operations called for immense expenditures by the Government of China and the effort of meeting these huge expenditures had severely strained the financial and economic system of China. The President expressed complete agreement with the statement made by the Generalissimo in a note to the President that it was essential to the common war effort that the economy of China should be made as strong as possible. The President pledged that the United States Government would render every possible assistance to help feed and clothe the brave soldiers and people of China and do all possible to strengthen China's financial and monetary system.

Proposed Statement by Secretary Morgenthau on Loan to China

Secretary Morgenthau announced that at the President's request, he was opening negotiations with the Chinese Government for additional financial assistance. The Secretary said that the purpose of this assistance was to help China in meeting its enormous war expenditures and to keep its fighting soldiers paid and fed and clothed.

Secretary Morgenthau said that even before December 7, this government had, through the Stabilization Fund and the Export-Import Bank, rendered important financial aid to China. The Secretary said that despite the most difficult circumstances under which the Chinese Government had had to operate, it had scrupulously lived up to the terms of all of its financial agreements.

Secretary Morgenthau stated that the cost of the war to China was extremely large in relation to the financial resources of the country. Nevertheless, the Generalissimo, the Government, and the people had not hesitated to throw everything that they possessed into the struggle. The Secretary said that he was sure that the attitude of the whole American people was stated by the President and that our people would want to help the Chinese people in the financing of this war.

The Secretary said that he was particularly interested in exploring ways whereby the United States could help in paying and maintaining the Chinese armies. The Chinese financial problem, the Secretary stated, is a problem of paying for an army of millions of men. In the effort to meet this situation, the financial resources of the government and the people have been drained. Prices have risen and are rising very rapidly. The

internal financial and economic situation is serious. The Secretary said that he was convinced that it was essential to the Chinese war effort that China should be assisted in meeting these financial burdens and in maintaining an efficient economy.

The Secretary announced that he was recalling Mr. A. M. Fox, the American member of the Chinese Stabilization Board, for advice and participation in the discussions concerning financial assistance to China.

DRAFT TELEGRAM FROM SECRETARY MORGENTHAU
TO FINANCE MINISTER KUNG

In answer to your message, dated January 9th, transmitted through Mr. Fox, I am happy to inform you that the President has asked me to begin negotiations with the Chinese Government relating to financial assistance. The President suggests that we explore all the possibilities whereby this Government could reduce the financial burdens on China of her war expenditures, including those of paying the brave Chinese soldiers. The President is making public this decision.

I am aware of the financial difficulties you have had and recognize the force of your statements that your soldiers and people must be fed and clothed, that your financial and economic system must be strengthened, and that the United Nations must help each other to meet the economic trials of war. The people of the United States and their Government know that your people has fought this war long and well. We will gladly cooperate to help you to meet your economic problems.

I shall welcome all proposals from you as to the ways by which the United States can help finance your military expenditures or strengthen your monetary and financial system.

We feel that the political and military purpose of the loan you proposed would be best achieved through an arrangement by which the United States could help finance your current military expenditures. This idea, however, will require detailed consideration, and I shall be glad to receive your ideas on the subject. We especially need information as to

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the different ways in which you make these military expenditures, including pay to the soldiers.

I am hopeful that the negotiations can be carried forward rapidly.

We have informed the British Government of this reply to your message.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE January 12, 1942

TO Secretary Morgenthau
FROM V. F. Joe

Following your instructions, I called on Mr. Hornbeck and Mr. Currie and gave them the outline of the tentative proposal you had been canvassing with Mr. T. V. Soong, namely, that an arrangement be worked out whereby a certain sum of money be advanced monthly to China for pay of the soldiers and possibly for other military expenses, and that this money might actually be paid out to the soldiers in the form of U. S. currency. I also told them that you were inviting them to a conference in your office tomorrow morning at 9:15 a.m.

Mr. Hornbeck sent his thanks for the information and for the invitation. He said that he would pass the information along to Secretary Hull and Mr. Berle and that he would be present tomorrow morning. (Mr. Hornbeck seemed to think that since the information concerned "operations", it should have been communicated to either Mr. Berle or Mr. Livesey, instead of himself. He said he would talk to you about this. In view of this, you may want to consider inviting Mr. Berle to your conference.)

Mr. Currie thanked you for the information and said that he would be present in the morning.

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the point that he was not just talking as the Generalissimo but as the voice of the people of China.

I indicated to the Generalissimo that I was positive of the spirit and attitude of the leaders of the United States, even though I could not commit them, and that they would take a broad view as to the political necessity of a loan to China; that if it were necessary to create a new spirit in America toward China, the task we were now undertaking would be impossible, but knowing the sympathetic attitude existing in America, especially among administration leaders, our task was considerably simplified.

.....

The Generalissimo turned to me and said, "I suppose Lattimore told you that when the war broke out on December 8th we were on the threshold of reducing our army from 5,300,000 to 2,800,000 as that was the only real way in which we could cut the budget and economize".

February 18, 1942

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Sir Otto Niemeyer's Activities in China

A brief statement on the activities of Sir Otto Niemeyer in China and his more important pursuits may be briefly summarized as follows:

Economic Mission. For some time before he and Merle Cochrane reached Chungking, the newspapers carried many stories of the impending arrival of a U. S. Economic Mission and of the conferences which it was to hold in Chungking. Subsequently all of the sessions but one were devoted to consideration of the revision of the U. S. Freezing regulations with the development of a new matter beyond those suggestions which had already been communicated to Washington. These so-called economic discussions caused considerable resentment among the Chinese because even before proceeding to Chungking the sessions were held in the British Colony of Hongkong without any Chinese representation.

Deflationary Movement. Soon after reaching Chungking, Sir Otto took an active part in the budget deliberations which were then going on, and set in motion a deflationary movement. This had a bad effect and tended to retard production of essentials and various new industrial developments.

Loan. When the interest in a foreign loan became apparent in Chungking, Sir Otto Niemeyer with the support of the British Ambassador took an active part in proposing a British loan. They offered to the Minister of Finance a loan of 10 million pounds, suggesting that customs receipts be pledged as collateral. When they could not make headway with Dr. Kung they approached the American Ambassador and suggested that since the loan was in the nature of a political loan that he should join them in going directly to the Generalissimo. This Ambassador Causse refused to do. Sir Otto's attitude with the Generalissimo likewise was such as to antagonize and raise resentment against the "National attitude" which was being exhibited.

To build up Sir Otto in Chungking, the British community headed by the Ambassador, carried on a campaign of villification against the American Member of the Stabilization Board. The latter took no steps to counteract this for if the allegations were true, denials would do no good, and, if untrue, time would soon disprove them.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE January 12, 1942

TO Secretary Morgenthau

FROM V. F. Coe

Subject: Telegram (No. 30, January 9) from Fox on China loan.

The telegram indicates that for psychological and political reasons:

- (1) There should be an early announcement of the loan.
- (2) The loan should be "large."
- (3) Although formal controls or conditions are desirable in order to make sure that the loan is used to strengthen China, it may be wise to postpone this matter until later in the negotiations.

Mr. Fox asks whether if it is not feasible to tie the Stabilization Board in with the loan, it would be possible to provide some American "representation" in order to assure effective use of the money.

From the discussions with Messrs. Berle and Currie, it would seem that there is rough agreement with Mr. Fox on the above points.

SUMMARY
PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China

DATE: January 9, 1942, 3 p.m.

NO.: 30

The following is telegram TF-14 from Fox for the Secretary of the Treasury. QUOTE. I submit the following comment relating to telegram TF-13. During the past few days what had been an attitude of despair here has changed to an attitude of firm insistence on financial aid. I doubt the possibility of imposing any formal restrictions now, although to assure that China and the Chinese people get the maximum benefit, some form of control would be highly desirable. It is my belief that if a large loan could be announced at an early date, this would produce desired psychological effect and a better opportunity to obtain some informal safeguards in case it proves impossible to establish any controls. In case it is not feasible to tie the Stabilization Board in with the loan, would it be possible to provide American representation not for the purpose of protecting the United States but with a view to making certain that the funds would be used in the way which would most effectively strengthen China's economic and financial structure?

LAWES

Correct-12-42

January 12, 1948
4:01 p.m.

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Operator: Go ahead.

HMJr: Hello.

Nelson
Rockefeller: Hello, Mr. Morgenthau.

HMJr: Who is this?

R: Nelson Rockefeller.

HMJr: Hello.

R: How are you, sir?

HMJr: Nelson, this is - I'm okay. In answer to your letter - I've been trying to answer it, where you - I think somebody wrote it and you signed it - where you want to know everything that we're doing with the Stabilization Fund in South America.

R: Well, that's putting it pretty broadly; but that's what we want to know - the agreements that you had already made, the terms of those agreements.....

HMJr: Well, a little knowledge is a dangerous thing.

R: Well, I agree with you on that, and I hesitated to.....

HMJr: If you just want to know what the agreements are, we'll let you know what the agreements are.

R: Yeah.

HMJr: But if you want to know the operations, that's something else. If you want a copy of the agreements, we'll give you those.

R: Oh, you will? Well, now that would be very much appreciated; and what I would like would be to have one person here who could have a relationship with somebody - Harry or somebody

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else - of such a nature that we can explain the problems we have in other areas so that we can talk frankly to that person and say, "Now, if we did this, how would that affect your activities." Because we don't want to be thinking in economic warfare or in some other areas of plans that might run at cross purposes with what you're doing.

HMJr: Well, Harry's away. Frank Coe's here.

R: Frank Crowe.

HMJr: Coe.

R: Coe.

HMJr: C-o-e.

R: Of course, I know him, you bet.

HMJr: So I'll tell him to furnish your people with copies of any agreements that we've made - or a summary of them, you see?

R: Right.

HMJr: A summary of what we've done in South America. And then if you people think you're going to do something to hurt the currency in those countries, why let us know; or, if you think we ought to help them more, let us know.

R: All right. Well, that'll - we'd like to have it so we could talk frankly.

HMJr: Who will your man be?

R: Well, I'd like to have Mr. Nitze.

HMJr: Nitze?

R: Paul Nitze.

HMJr: Yeah. Paul.

R: Yeah. He came down first with Jim Forrestal, a partner of Dillon, Reed.....

HMJr: Do you know whether he's a Nazi or not?
R: Well, I can guarantee you on that.
HMJr: You sure?
R: Yeah.
HMJr: You'd better make sure.
R: (Laughs)
HMJr: I've heard about him.
R: Okay.
HMJr: But - well, I want to ask more about him.
R: Fine.
HMJr: As I'm talking here, somebody's raised his eyebrows in the room.
R: Swell. Well, I'd like to - well, as a matter of fact I'd like to talk to you about the whole thing sometime yourself.
HMJr: Okay.
R: If I might, because I'd like to tell you a little about what we're doing.
HMJr: Well, why don't you do that?
R: May I do that?
HMJr: Sure.
R: Well, I want to give your - say, how about lunch on Friday of this week?
HMJr: Well, I hope to be away. I'd love to do it, but I hope to get away for two or three days.
R: You do? Well, then I'm going to call you, Mr. Secretary, for a day next week.
HMJr: Fine.

R: And go over a little bit what we've - some of the areas we're working in with Milo Perkins now on that Joint Economic Warfare Board.

HMJr: Well, in the meantime, if you want anything, Frank Coe won't give you anything more than you're entitled to.

R: Okay.

HMJr: All right.

R: Thanks very much, Mr. Secretary.

HMJr: Thank you.

R: Good-bye.

January 12, 1942
4:18 p.m.

Allan
Spraul:

Hello, Mr. Secretary.

HMJr:

Allan, I've got to see the press in a minute or two, and they'll ask me how this refunding has gone and I wondered what you thought would be a fair statement.

S:

Well, I should say that there's no question about the refunding going.

HMJr:

Yes.

S:

However, I don't think you can say that the reception has been outstanding or that the market has reacted enthusiastically to it.

HMJr:

No. Can I say that it's been well received? Would that be an overstatement?

S:

I think you can say it was well received, and that the market has acted well and that there's no question about its going.

HMJr:

Supposing I say, "It's been well received, and I'm confident of its success."

S:

I think that's a statement you can make.

HMJr:

Is that all right?

S:

Yeah.

HMJr:

Do you think it struck a bottom at par seventeen?

S:

Well, you can't say that yet. The selling was still drifting in along late in the afternoon, and you can't be sure that it's all out of the way, and as the day progressed there wasn't very strong buying.

HMJr:

Yeah. Well, we'll see tomorrow. They may go better.

S:

Yeah. But you couldn't say that yet. You'll have to see it again tomorrow.

HMJr: Okay. Thank you very much.

S: But the day - well, it wasn't a big day at any time, either in the new bond or in the rest of the market, so that what's happened hasn't been on a big scale.

HMJr: All right.

S: All right.

HMJr: Thank you.

January 12, 1942
4:45 p.m.

General
Watson:

E. M. W.

HMJr:

H. M., Jr.

W:

They called up from the Capitol - some Congressman Wolcott - and said he'd been told by Steagall that there's going to be a Banking and Currency meeting with the President tomorrow. Do you know anything about it?

HMJr:

Never heard of it.

W:

I never have either.

HMJr:

No.

W:

Well, then we'll just forget that.

HMJr:

Sounds like a phony to me.

W:

Sounds like somebody's trying to pull one. We'll forget that.

HMJr:

Some of this fifth column stuff.

W:

All right. All right.

HMJr:

Good-bye.

W:

Good-bye.

TO:

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THE SECRETARY:

You will note that the average rate for bills dropped was .110% for the week of January 7 to .119% for the week of January 14. This is due to the fact that Chicago is buying these bills for April tax purposes.

*\$142M of 9/50 went to Chicago
SWB*

January 12, 1942

Office of the Under Secretary

TREASURY BILLS

	<u>Jan. 14</u>	<u>Jan. 7</u>	<u>Dec. 31</u>	<u>Dec. 24</u>
Amount offered	\$ 150 M	\$150 M	\$ 150 M	\$ 150 M
Bids tendered	385	352	317	353
Low rate	0 $\frac{4}{2}$	0 $\frac{3}{2}$	0 $\frac{3}{2}$	0 $\frac{1}{2}$
High rate146%	.335%	.346%	.320%
Average rate119	.304	.310	.295
Amount in New York	\$ 6 M	\$126 M	\$ 117 M	\$ 99 M
Amount in Chicago	143	13	9	32
Amount in San Francisco ..	0	1	1	4
Amount in balance of country	1	10	23	15

1/ \$220,000 bid at 100.000, next low rate .149%
 1/ \$ 80,000 bid at 100.000 and slightly above, next low rate .185%
 1/ \$540,000 bid at 100.000 and slightly under, next low rate .243%
 1/ \$2,160,000 bid at 100.000; \$300,000 bid at 100.002.

January 1, 1941

JAN 12 1942

Dear Mr. Stam:

This is in reply to your letter of January 6, 1942, requesting that there be sent to you all memoranda prepared by the Income Tax Unit and the Chief Counsel's Office of the Bureau of Internal Revenue, relating to the improvement of the operation of the income tax laws, the closing of income tax loopholes, and the removal of tax inequities.

I believe you will agree that it has been our practice, once our policies with respect to tax legislation have been formulated, to confer with you for the purpose of exchanging information and views even before we have been called upon to make our recommendations to the Committees of Congress. We intend to continue this policy in the future so that information of the nature you request will thus become available to you in this manner.

I feel that this is the only method which we can follow in this matter. A moment's reflection

- 2 -

will indicate the obvious impossibility of complying with so sweeping a request as one for all memoranda of the nature mentioned. Requests for specific information can, of course be handled within the framework of the practice mentioned above which we have observed in the past. Further, it seems to me from the viewpoint both of the proper functioning of the Treasury Department and of a broader governmental policy respecting relations between the Executive Departments and the Congress, that it would be undesirable for memoranda of the nature you request to be sent to the Congress in advance of a definite formulation within the Treasury Department of its policies respecting tax legislation. For this reason, I believe that a continuance of our prior policy in this regard is the most feasible method of imparting information of the type in question.

With respect to possible requests by you for statistical information, we shall, of course, make

- 3 -

such information immediately available to you to the extent of our facilities. I believe you will agree with me that when specific requests by you for material of this nature have been sent to us, we have always been willing to comply with them.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Colin F. Stam,
Chief of Staff,
Joint Committee on Internal
Revenue Taxation,
House Office Building,
Washington, D. C.

By Messenger Dixon 11:50
File to Thompson
Photo File - N.M.C.

SSS:hdr 1-9-42

COLIN P. STARR
Chief of Staff
A. G. CHRISTEN
Asst. Chief of Staff

CONGRESS OF THE UNITED STATES

JOINT COMMITTEE ON INTERNAL REVENUE TAXATION

Washington

January 6, 1942.

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

Dear Mr. Secretary:

At the request of the Chairman, I am submitting herewith a copy of a letter dated November 27, 1941, addressed to the Commissioner of Internal Revenue, requesting memoranda prepared by the Income Tax Unit including the Chief Counsel's Office, relating to improving the operation of the income tax laws, closing income tax loopholes and removing inequities. This information was requested pursuant to section 5011 of the Internal Revenue Code which gives the Joint Committee on Internal Revenue Taxation authority to investigate the operation and effects of the Federal system of internal revenue taxes, the administration of such taxes by the Bureau of Internal Revenue or any executive department, establishment, or agency charged with their administration and to investigate measures and methods for the simplification of such taxes, particularly the income tax. I understand that this material has been submitted to Mr. Sullivan but has not, as yet, been transmitted to the Staff.

Recently I submitted to Mr. Sullivan a copy of the Bureau's suggestions which was furnished to us in 1934, pursuant to section 1203 of the Revenue Act of 1926 (now section 5011 of the Internal Revenue Code). This was submitted as a sample to show the type of material we have been getting in the past from the Bureau and to emphasize the fact that our request of November 27, 1941, was in accordance with the practice which has been followed for many years. A copy of this letter is also enclosed herewith.

I hope that you may be able to find a satisfactory solution of this problem which has been a troublesome one in connection with the last three revenue acts.

Respectfully yours,

Colin P. Starr
Chief of Staff.

1-Encls.
173-1c

C
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Y

November 27, 1941.

Honorable Guy T. Helvering,
Commissioner of Internal Revenue,
Washington, D. C.

Dear Mr. Commissioner:

By virtue of the authority conferred upon me by the Joint Committee on Internal Revenue Taxation pursuant to sections 55 and 5011 of the Internal Revenue Code, I hereby request to be furnished forthwith any memoranda prepared by the Income Tax Unit, including the Chief Counsel's Office, relating to improving the operation of the income tax laws, closing income tax loopholes and removing inequities.

Respectfully yours,

(Signed) Colin F. Stam,
Chief of Staff.

CFS-ic

C
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Y

December 26, 1941.

Honorable John L. Sullivan,
Assistant Secretary of the Treasury,
Treasury Department,
Washington, D. C.

Dear Mr. Sullivan:

I will appreciate it if you will return to me the copy of the Bureau suggestions which was furnished to us in 1934 pursuant to section 1203 of the Revenue Act of 1926 (now section 5011 of the Internal Revenue Code). I merely submitted this to you as a sample to show the type of material we have been getting in the past from the Bureau and to emphasize the fact that my request to the Commissioner was in accordance with established practice.

Sincerely yours,

(Signed) Colin F. Stam,
Chief of Staff.

CPS-ic

January 12, 1942.

Secretary Morgenthau

George Buffington

Recently I have been asked by such organizations as the New York Stock Exchange, Investment Bankers Association, Outdoor Advertising Agencies Association, and others where their services and/or facilities would be most useful in the war program. Usually we are able in the Treasury to find immediate use for these facilities and/or services. The thought has occurred to me that we may at some time accept and use facilities and/or services which might be used to better advantage by some other department such as the War Department, Navy Department, or D. E. M.

It might be advantageous to consider appointing a coordinator through whom these questions could be cleared. Much time will probably be saved by having one well informed person direct people to the Government Department to which the facility and/or service offered would be most effective. If you are interested I should like to discuss the matter further.

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

Mary Pickford
Pickfair
Beverly Hills California

Deeply appreciate your offer. May I suggest that you communicate your ideas to Fred Beeton Chairman of our excellent motion picture committee for Defense Savings care of Motion Picture Producers Hollywood. You can help us most usefully by cooperating with this committee. We all remember your help in last war and want to enlist you in this one

Henry Morgenthau, Jr.
Secretary of the Treasury

FK/hkb

TREASURY DEPARTMENT
WASHINGTON

132

CHARGE TREASURY DEPARTMENT, APPROPRIATION FOR

Official

(The appropriation from which payable must be stated on above line)

U. S. GOVERNMENT PRINTING OFFICE 2-14117

January 12, 1942

WS21 55 NT

7-2-19

TDS BEVERLYHILLS CALIF JAN 8

HON HENRY MORGANTHAU

SECRETARY OF TREASURY TREAS DEPT

I HAVE A PLAN I BELIEVE COULD BE OF HELP TO OUR NATION I
 LOVED SERVING MY COUNTRY IN THE LAST WAR AND FEEL I MUST
 AGAIN BUT BEFORE PROCEEDING FURTHER WOULD APPRECIATE THE
 BENEFIT OF YOUR VIEWPOINT WOULD YOU KINDLY WIRE ME
 PICKFAIR BEVERLYHILLS WHEN I MAY CALL YOU LONG DISTANCE
 PHONE. MOST CORDIALLY

MARY PICKFORD.

8:55AM JAN 9.

//

134

HAUGHEY

1942 JAN 12 AM 7 43

WAA17 DH

HOLLYWOOD CALIF JAN 10

K OFC

NT 8 HONORABLE HENRY MORGENTHAU SEC OF TREASURY

SGD MARY PICKFORD CFM DLY ENDEAVOR

SECURE ANS

MCLEOD.

TREASURY TELEGRAPH TREASURY

Soldier Hitches Plane Ride With Morgenthau

Private Gets Lift
From N. Y. Here
Without 'Thumbing'

Without benefit of thumb, a young Army private hitchhiked a ride from New York to Washington last night aboard the Coast Guard plane of Secretary of the Treasury Henry Morgenthau.

Not a whit abashed by distinguished company, Private James E. Hughes 38, climbed out with the Secretary when the plane arrived at the National Airport at midnight, and prepared to catch a train for the next stage of his journey from his home in Rochester, N. Y., to Camp Stewart, Ga.

Explains Predicament

While the Secretary stood by smiling, Hughes explained to reporters that he and his buddy, Private Joseph McCarl, 27, had made

reservations on the 8:30 American Airlines plane from New York last night, but when they arrived at La Guardia Field only one seat aboard the plane remained.

Telling McCarl to take the seat, Hughes, a husky, 200-pound former policeman, wandered about the airdrome investigating the possibilities of catching a ride. He saw Lieut. W. E. Sinton gassing up the Coast Guard plane and asked him where he was bound. When Sinton said he was about to take Secretary Morgenthau to Washington, Hughes replied:

"Fine, how about a lift? I've gotta get back to camp."

Morgenthau Helpful

Morgenthau arrived at his juncture, and Lieutenant Sinton put the soldier's case to the Secretary. When Morgenthau heard all the circumstances he readily agreed to give Private Hughes a hitch.

The soldier was unable to give the Secretary his views on high finance and taxation matters, whatever they might be, because he sat with Pilot Sinton on the flight down from New York.

When they left the plane here, however, Hughes thanked his benefactor and said he thought Morgenthau was "a swell guy." The private also graciously consented to pose for newspaper photographs with the Secretary, with the comment:

"Sure, this is a democracy, ain't it?"

BOARD OF ECONOMIC WARFARE
~~ECONOMIC DEFENSE BOARD~~
WASHINGTON, D. C.

136

AM

In reply refer to: OPR-CHES

JAN 12 1942

The Honorable
The Secretary of Treasury

Dear Mr. Secretary:

The Vice President has called my attention to and asked me to thank you for the list of "MATERIALS HELD BY FOREIGN NATIONALS IN THE UNITED STATES," which you sent him.

The list is invaluable to the people in our Requisitioning Division and, accordingly, I am sending it on to them with instructions that they contact, as you suggest, Mr. John Fehle, of your Foreign Funds Control Division, for any additional information that may be needed in order that these materials may be made available for defense uses.

Sincerely yours,

W. L. Perkins

Executive Director

A STUDY OF PEOPLE'S MOTIVES
FOR BUYING DEFENSE BONDS AND STAMPS

Based upon 790 interviews, 570 in 12 urban centers, 220 in 11 rural areas, widely scattered throughout the country. This study was made at the request of Mr. H. Paul Warwick of Warwick and Legler by the Psychological Corporation under the direction of Henry C. Link and associates.

Assignment received January 5, 1942.

Report submitted January 12, 1942.

The Psychological Corporation
522 Fifth Avenue
New York, N. Y.

The Psychological Corporation

A nationwide organization of psychologists of recognized scientific standing which conducts consumer surveys on products, advertising and sales appeals; applies scientific methods to the selection, training and productivity of sales, office, and factory personnel; acts as counsel on the psychological aspects of sales, personnel and public relations policies.

INCORPORATED IN 1921

Main Office
522 FIFTH AVE., NEW YORK, N. Y.
Telephone: MURRAY HILL 2-1145

Mechanism of This Study

This study, like other studies of the Psychological Corporation, was conducted with the cooperation of psychologists located at various colleges and universities throughout the country. These psychologists, acting as correspondents, have under their direction trained interviewers, consisting of graduate and undergraduate students in psychology. Assignments for field work are made to these psychologists who then select the interviewers for the particular type of study, give them the special instructions necessary, make the exact assignments in regard to streets and localities in which each interviewer is to work, and check up on each interviewer's returns.

These psychologists are professors and assistant professors and in some cases instructors, and therefore men not only of unusual professional standing but men specially trained in the scientific measurement of people's minds and motives.

One hundred twenty-five psychologists located in every state of the union and with a standing force of well over six hundred trained interviewers are available for studies under the direction of this office.

The importance of the prestige of this method of investigation, aside from its scientific thoroughness and accuracy, is illustrated by an incident that occurred in connection with the present study.

In Denver, Colorado, one agitated or suspicious woman called the police and had the interviewer arrested. The local psychologist identified the interviewer to the police who released him and permitted him to complete his interviewing.

Henry C. Link
Director of Social and Market Research

T A B L E O F C O N T E N T S

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Bonds and Stamps Already Bought	8-9
Where Defense Bond Advertising Was Seen or Heard	10
Summary of Principal Findings	11
Why People Should Buy Defense Bonds and Stamps	12-14
Quotations from the Questionnaires	15-22
What People Think Should be Done to Increase the Sale of Defense Bonds	23-24

PHYSICAL SECURITY

100

A QUALITATIVE STUDY

The purpose of this study was to develop a method for discovering people's reasons for buying Defense Bonds and Stamps. The reasons we wanted to discover were not so much those which had prompted people to purchase these bonds and stamps in the past as it was to discover the reasons which would most effectively motivate such purchases in the future.

Above all, it was the purpose to discover those reasons or motives in terms of people's own words and manner of expression. As Mr. Warwick pointed out, having people's reasons in their own words would provide excellent material for educational and promotional copy. Moreover, it would provide a much better basis upon which to evaluate people's reasons and motives than would be obtainable from having them check a list of suggested reasons, as is often done in studies of this kind.

Although some factual information was also obtained in this study, everything was subordinated to the main purpose outlined above.

PROCEDURE

To accomplish the above purpose, informal or "depth" interviews rather than formal interviews were decided upon. Ten interviewers especially trained in depth interviewing were used for a series of four test interviews all conducted in the New York Metropolitan area, totaling 205 interviews. The last 150 of these interviews were tabulated in a preliminary report submitted December 31, 1941, and are incorporated in the tables of this report.

These series of test interviews furnished an adequate check upon the method used and served to illustrate the type of results which might be expected. On the basis of this preliminary or test-tube approach, the study was extended to other representative parts of the country to include 440 interviews made in 11 urban centers and 220 interviews made in 11 rural areas. These are shown in detail in the table on

page 7. The rural interviews in each area were equally divided between people in small towns and villages of 2,500 population or under and people living on farms.

This sample which totals 790 interviews, including New York City, is not intended to be a perfect cross-section of the population. Its primary purpose is to determine the extent of uniformity of the ideas of people about Defense Bonds. If this study shows uniform opinions and beliefs, then the probability that a large representative cross-section would show any large differences is quite remote.

Sample Questionnaires and Interviews. Following are several interviews exactly as made out in the field and illustrating the type of data on which this report is based.

Number of Interviewers. A total of 54 interviewers participated in this study, averaging 15 interviews each. This number of interviewers is important in a sample of 790 interviews because personal bias on the part of any one interviewer has no significant influence upon the final result.

People Interviewed. It was agreed in advance that our interviews should be confined to the middle income groups, those representing the large mass market. The lowest income groups were not interviewed in this study.

Tabulation of Results. The tables presented in this report are based on 780 interviews in 11 urban centers and 10 rural areas. These interviews have been broken down by a grouping of the 11 urban centers into Eastern, Mid-Western, Southern, and Western cities. The purpose of this breakdown is to show the extent to which the results are uniform. Several tabulations have been made to see whether or not any difference exists between responses of men and women. No differences have been found, so tables have not been presented on sex differences in order to speed up the preparation of this report. No differences were found between people in upper and lower middle-class income groups.

Los Angeles interviews, representing an important west coast urban center, were not received until Monday morning, January 12. Since we were asked to complete this

report in the shortest possible time, these 40 interviews could not be included in the tables prepared and typed on Saturday, January 10. A note on these interviews appears on page 11. Twenty rural interviews made in the vicinity of Atlanta, Georgia, have not been included in the tables because they also were received on Monday morning. These were typical of the other rural areas.

Interviewing Conditions. Below zero temperatures were experienced by our interviewers in several places. This was not ideal for interviewing since it tended to reduce the responses obtained. Also people in rural areas were less responsive than the people in urban centers. However, people in the two southern cities were very responsive as will be seen on the table on page 14. While they had more to say the principal difference is found in more frequent mention of those reasons which occur with low frequency in other areas.

In spite of these difficulties the interviewing in the field proceeded with good cooperation generally and people responded willingly to the questions asked.

are asking - study of what people know or think about U.S. Defense Bonds and Stamps, for example:

Q. Have you seen or heard any advertising about these bonds? Yes No
 (If yes) Where? 1) News paper 2) Radio - at the radio & nearby
 3) Billboards 4) Placards in the post office

Q. What did the advertising say people should buy bonds and stamps? To help
the war, preserve democracy for the rest of the
to the defense of the Americas! Uncle Sam
dollars & dimes - ^{your} money matters & save a

Q. What do you think is the best reason why people should buy these bonds or stamps?
 (quote) Because the nation has to raise this
amount of money & it is better for the
government to give us buy bonds with
our money than to just give money if we
buy bonds willingly they might have just had to
print money & give you nothing in return
something you can use in later

Q. What other good reasons are there why people should buy these bonds and stamps?
 (quote) It is a good investment, a good way of saving and
is a safe investment; for patriotic reasons -
people who will carry a gun for his life would
do nothing for the government and there is
no doubt that it would be good to have
before after the war is over after the
is over

Q. What should the government do to sell more of these bonds and stamps? (Get specific answers)
in places where you can get them in the best
possible stores without having to wait in long
lines like lunch box, like in a store I saw
it was so long. They can show how they can
and divide to sell - Bonds are all the same but
might 4 or 5 different
 (over)

7. Have you bought any U.S. Defense Bonds? Yes No ; Stamps? Yes No
(If "stamps") are you buying the stamps regularly or just once in a while

8. (If bonds or stamps bought) Have you had any difficulties in trying to buy bonds or stamps? Yes No (If yes) What were they? I had to stand in line a very long time to get the bonds.

9. Comments of any kind:

Box F Age 42

Economic Group: B C

Family Prosperous Average Poor

ST. & NO. (or RFD) 1801 - 1st St CITY Birmingham, Ala

Date Jan 7, 1942 Interviewer B. E. L.

We are making a study of what people know or think about U.S. Defense Bonds and Stamps, for example:

1. Have you seen or heard any advertising about these bonds? Yes No

2. (If yes) Where? 1) Radio 2) Paper

3) _____

3. How did the advertising say people should buy bonds and stamps? For defense.

To keep our soldiers performing all the duties.
To help the President, they ask everybody to help.

President in the good work he's carrying on, & we're seeing
our boys to fight, we have to back them up.

4. What do you think is the best reason why people should buy these bonds or stamps?

(quote) Our government needs the money &
all it can get. Every little bit can help to
prepare all the ammunition & to prepare the
army and navy for their work & try to save
our country just as fast as they can.

5. What other good reasons are there why people should buy these bonds and stamps?

(quote) So our country can be free and have our
liberty. Our president is wonderful. We will
come in handy later on for children's education.
If we can spare it, it's best to let it stay there
as long as we can.

6. What should the government do to sell more of these bonds and stamps? (Get specific

answers) Make all concerns make pamphlets to buy
them, each & everyone to give something for defense.
It's get behind the flour mills & all like that so that
the P will be saving in groceries & if the housewife can
get her things more reasonable, she can help
more.

7. Have you bought any U.S. Defense Bonds? Yes No ; Stamps? Yes No
 (If "stamps") are you saving the stamps regularly or just once in a while ?
8. (If bonds or stamps bought) Have you had any difficulties in trying to buy bonds or stamps? Yes No (If yes) What were they?

9. Comments of any kind:

The man leaves so much money from [he works in a railroad office] and well at a bond when these times occurred. Paper for them to sign stipulating the amt they would hold out of pay were passed around the office. She said she'd heard the government was buying the sugar mills & other prices. She was very envious for her little grandson to have his nickels for stamps and he said he was

Box F Apt. 50Community Group: A CFloor: First Room: Living Year: 1945ST. & NO. (or RD.) 6909 Ave E City DenverDate Jan 7 Interviewer Carolyn Brown

Research - study of what people know or think about U.S. Defense Bonds and Stamps, for example:

1. Have you seen or heard any advertising about these bonds? Yes
-
- No
-

2. (If yes) Where? 1) Letters 2) 3) Let's them everywhere.

3. How did the advertising say people should buy bonds and stamps?
- To

help the country.

4. What do you think is the best reason why people should buy these bonds or stamps?

(Quote) This money has got tocome from somewhere, if youlistened to Pres. Roosevelt's speechyou'd know it had to comefrom somewhere.

5. What other good reasons are there why people should buy these bonds and stamps?

(Quote) Helps people to take careof their money and saveit.

6. Should the government do to sell more of these bonds and stamps? (Get specific

reasons) Could compel some peopleto buy them, sometimespeople will do more for childrenthat way. If they don't get yourmoney one way they'll get itanother, this way it's better thanbeing too compulsory.

DISTRIBUTION OF THE 790 INTERVIEWS

7. Have you bought any U.S. Defense Bonds? Yes No Stamps? Yes No
 (If "stamps") Are you buying the stamps regularly or just once in a while ?
8. (If bonds or stamps bought) Have you had any difficulties in trying to buy bonds or stamps? Yes No (If yes) What were they?

9. Comments of any kind:

She or a lot of people that same, this way they can help out and don't mind it. This lady seemed to be the expenses of running a farm prohibited them from buying Bonds or stamps.

Sex F Age 35Economic Group: B C
 Fact: Prosperous Average Poor ST. & NO. (or RFD) R. F. D 1CITY Lebanon, Mo.Date 1-7-42Interviewer Edw. H. ...*Har*

By City:

	Urban	Rural (Small Towns and Farm Areas)
East		
Syracuse, N. Y.	40	Hanover, N. H. (Enfield, Etna, Lebanon) 20
Philadelphia, Pa.	40	State College, Pa. (Scoolburg, Pine Grove Mills) 20
Pittsburgh, Pa.	40	Ithaca, N. Y. (Dryden) 20
New York, N. Y.	150	
Mid-East		
St. Louis, Mo.	40	Springfield, Ohio (Cedarville, Clifton) 20
Minneapolis, Minn.	40	Urbana, Ill. (Philo, St. Joseph) 20
Omaha, Neb.	40	Columbia, Mo. (Ashland) 20
Des Moines, Iowa	40	Ames, Iowa (Neveda, Colo) 20
		Wichita, Kansas (Kechi) 20
South		
Birmingham, Ala.	40	Jonesboro, Ark. (Nettleton) 20
Houston, Texas	40	Davidson, N. C. (Cornelius, Mecklenberg) 20
		*Atlanta, Ga. (Tucker, Decatur) 20
West		
Denver, Colo.	40	
*Los Angeles, Cal.	40	
Total	570	220

By Economic Group:

Urban	#
Upper middle class	270
Lower middle class	300

Rural

In small town and farm areas people were interviewed in the large middle income groups typical of the areas in which the interviewing was conducted.

By Sex:

Men	395
Women	395

* There were received on Monday, January 12, 40 urban interviews from Los Angeles, Cal., and 20 rural interviews from Atlanta, Ga. As noted previously, these were received too late to be included in this report and the following tables, therefore, do not include the results of these two areas.

SUMMARY OF ACTUAL BEHAVIOR IN TERMS OF
BONDS AND STAMPS ALREADY BOUGHT

This study is not concerned with discovering quantitative facts about people's past purchases of bonds and stamps, where they had bought them, what amounts they had bought, what difficulties they had had buying them, etc., etc. However, a minimum amount of information on these points was considered desirable and a few questions were retained accordingly. As a result we have the following facts based on the answers to Q.7:

<u>Purchases</u>	<u>Urban</u> %	<u>Rural</u> %	<u>Total</u> %
Bought bonds only	17	8	15
Bought bonds and stamps	28	4	18
Bought stamps only	26	16	23
Neither purchased	54	72	44
Total	100	100	100

All these interviews were made after Christmas when the number of people making such purchases had increased considerably as compared with the number before Christmas or while we were making our first test interviews. However, it is likely and quite possible that there is some inflation in these figures due to people's growing realization that they ought to buy bonds and stamps even if they have not done so thus far. The people interviewed in this study do not include the lowest 20 per cent by incomes, nor the top 5 per cent.

Of the 56 per cent who had made purchases, 88 per cent claimed to have experienced no difficulty in making their purchases.

Of the 41 per cent who had bought stamps, 60 per cent said they had planned to buy such stamps regularly, and 40 per cent expected to buy stamps only occasionally. (Based on answers to Question 8.)

DIFFICULTIES IN BUYING BONDS

Q.8 (If bonds or stamps bought) Have you had any difficulties in trying to buy bonds or stamps? Yes___ No___ (If Yes) What were they?

Of the people who reported difficulties in buying bonds, the principal problem was shortage of bonds or stamps. The difficulties reported were:

	<u>No. of People</u>
Supply of Bonds or Stamps had run out	41
Banks don't take books for bonds, only cash	1
Clerks seem annoyed when you ask for them	1
Working hours are inconvenient for buying at most places	2
Didn't remember difficulty	4
 Total Answers	 49

WHERE DEFENSE BOND ADVERTISING WAS SEEN OR HEARD

Q.1 Have you seen or heard any advertising about these bonds?
Yes___ No___

Q.2 (If Yes) Where?

Based on the answers of 730 men and women. The table below shows these results by a broad geographic grouping of the urban centers to show the uniformity in these results. Percentages are based upon the number of people interviewed as shown in the last line of the table.

All the 730 people interviewed said they had seen or heard some advertising of bonds or stamps. These 730 people recalled a total of 2019 places or media in which they had observed this advertising.

	<u>East</u>	<u>Mid</u>	<u>South</u>	<u>West</u>	<u>Total</u>	<u>Rural</u>	<u>Grand</u>
	<u>%</u>	<u>West</u>	<u>%</u>	<u>%</u>	<u>Urban</u>	<u>%</u>	<u>Total</u>
		<u>%</u>		<u>%</u>	<u>%</u>		<u>%</u>
Radio	86	92	94	95	90	84	88
Newspapers	64	79	68	80	70	64	69
Post Office	7	16	19	5	11	29	16
Magazines	14	18	24	25	17	11	15
Billboards	18	16	29	15	19	5	14
Banks	15	14	20	5	15	6	12
Stores	10	12	11	28	12	7	11
Posters	14	6	10	10	11	4	9
Car Cards	11	9	6	5	9	1	7
Movies & Theatres	7	7	24	15	9	1	7
Department Stores	1	1	11		2		2
Miscellaneous*	22	29	34	25	26	26	26
Total Answers							2019
Total Inter-views							730

* Included in miscellaneous are such places as: schools, factories, clubs, churches, newsstands, offices, mail, cartoons, railroad stations, etc.

SUMMARY OF PRINCIPAL FINDINGS

The table on the opposite page gives an abstract of the principal findings in regard to people's reasons for buying Defense Bonds and Stamps. The pages following give in considerable detail actual quotations from the interviews in respect to Questions 4 and 5, that is, people's own reasons for buying these bonds and stamps in the future.

The striking difference between the reasons which have been given to people through promotion and the reasons they give themselves is, of course, obvious. The most obvious fact seems to be this: People are thinking of the war and the purchase of bonds and stamps largely in personal terms. We might almost say that they are thinking in materialistic rather than in idealistic or altruistic terms.

While it does not show up as a statistical result, many of the details of this study convince us that the term "Defense Bonds and Stamps" is very firmly established in people's minds. All the people interviewed had heard about them, and a very definite mental category has been established. The strength of such a mental category or habit is a very important factor in considering any change in the name of these bonds and stamps.

Though today such a term as "Victory Bonds and Stamps" may seem more appropriate from a logical point of view, from a psychological point of view any sudden change in names might do more harm than good. Moreover, it should also be remembered that once a name has become established, any changes in the emotional background of the war and its conduct attach themselves to the term already established. That is to say, the term "Defense Bonds" comes to stand, in people's minds and feelings, for victory, for war, for liberty, and for any other number of ideas which might arise.

Los Angeles people gave the same reasons for buying bonds as people in other sections with one exception. They speak of "Providing War Material for the Army and Navy" and of needing the money to step up production about five times as often as in other sections. This is not surprising in an area concentrating on airplane production. These Los Angeles people speak of "Beating Hitler" or the "Japs" or the "Axis" no more frequently than in other sections.

WHY PEOPLE SHOULD BUY DEFENSE BONDS
AND STAMPS

The table below is a comparison of the reasons for buying bonds which people recalled from advertising and the reasons they believe are the most important. Percentages are based upon 730 men and women interviewed.

- Q.3 Why did the advertising say people should buy bonds and stamps?
- Q.4 What do you think is the best reason why people should buy these bonds or stamps?
- Q.5 What other good reasons are there why people should buy these bonds and stamps?

	<u>Q.3</u> %	<u>Q.4 & 5</u> %
Good investment	3	51
Good way to save	3	30
Patriotic duty	4	18
Help win the war	19	17
Help finance the war	15	17
Preserves our liberties	9	16
Provides war materials for Army and Navy	14	15
For defense of the United States	27	15
Help the Government	13	15
We can't fight but we can buy bonds	1	8
Prevent inflation	1	7
Defeat Hitler	5	7
Avoids increased taxes	1	5
An aid to England and our allies	1	1
Miscellaneous	2	5
Don't remember	5	
 Total Answers	 866	 1650
Total Interviews	730	730

REASONS FOR BUYING BONDS AND STAMPS WHICH
PEOPLE RECALLED FROM THE ADVERTISING

Q.5 Why did the advertising say people should buy bonds and stamps?

The answers given by 730 men and women are shown by a geographic grouping of cities and rural people. All percentages are based upon the number of men and women interviewed as shown at the bottom of each column.

	<u>East</u>	<u>Mid</u>	<u>South</u>	<u>West</u>	<u>Total</u>	<u>Rural</u>	<u>Grand</u>
	<u>%</u>	<u>West</u>	<u>%</u>	<u>%</u>	<u>Urban</u>	<u>%</u>	<u>Total</u>
		<u>%</u>		<u>%</u>	<u>%</u>		<u>%</u>
For defense of the United States	51	24	26	28	28	26	27
Help win the war	15	18	19	25	16	28	19
Provides war materials for Army and Navy	14	16	24	10	16	10	14
Help finance the war	9	16	26	18	14	9	15
Help the government	17	10	6	10	13	14	15
Preserves our liberties	10	8	24	5	11	6	9
Defeat Hitler	2	11	4	5	5	4	5
Patriotic duty	3	1	5	5	3	6	4
Good investment	2	2	20	3	4		3
Good way to save	5	1	9		4	1	3
Prevent inflation	1		3		1		1
We can't fight but we can buy bonds	1	1	5		2		1
An aid to England and our allies	1				1	1	1
Avoids increased taxes	*		5		1		1
Miscellaneous	1	1	3	10	2		2
Don't remember	5	1	1		3	5	3
Total Answers	291	175	143	45	654	212	866
Total Interviews	250	160	80	40	530	200	730

* Less than .5%.

REASONS PEOPLE BELIEVE ARE MOST IMPORTANT
FOR BUYING BONDS AND STAMPS

- Q.4 What do you think is the best reason why people should buy these bonds or stamps?
Q.5 What other good reasons are there why people should buy these bonds and stamps?

The table below shows a summary, in broad categories, of the answers of 720 men and women to these questions. This table is also shown by the geographic grouping of cities and by rural people.

	<u>East</u>	<u>Mid</u>	<u>South</u>	<u>West</u>	<u>Total</u>	<u>Rural</u>	<u>Grand</u>
	<u>%</u>	<u>West</u>	<u>South</u>	<u>West</u>	<u>Urban</u>	<u>Rural</u>	<u>Total</u>
	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>
Good investment	49	53	61	63	53	47	51
Good way to save	27	31	47	28	31	28	30
Patriotic duty	19	17	15	10	17	23	18
Help win the war	16	17	14	15	16	22	17
Help finance the war	12	19	31	15	17	17	17
Preserves our liberties	18	18	19	15	18	12	16
Provides war materials for Army and Navy	14	9	31	13	15	15	15
For defense of the United States	15	11	9	28	14	17	15
Help the Government	13	19	9	18	14	11	13
We can't fight but we can buy bonds	7	4	22	3	8	8	8
Prevent inflation	6	9	20		9	1	7
Defeat Hitler	6	4	5	5	5	12	7
Avoids increased taxes	5	4	20	3	7	2	6
An aid to England and our allies	1		1		1	1	1
Miscellaneous	11	3	1	8	7	1	5
Total Answers	548	343	245	88	1224	426	1650
Total Interviews	250	160	80	40	530	200	730

HOW PEOPLE EXPRESS THEIR REASONS FOR
BUYING DEFENSE BONDS

The quotations on the following seven pages illustrate in greater detail the actual responses of people to:

- Q.4. What do you think is the best reason why people should buy these bonds or stamps?
- Q.5. What other good reasons are there why people should buy these bonds and stamps?

These quotations have been grouped under several headings which seemed to classify the statements of people. Where a number appears in front of the quotations it means that the identical words (or practically identical) were used by that number of men and women.

Preserves Our Liberties

- 8 To enable our government and our democracy to survive.
- 5 The United States is the best place in the world - I'd like to help keep it that way.
- 11 To preserve the freedom of life - our way of living.
- 6 Country needs the money for defense of the country and our way of living.
- 9 We have to preserve Democracy.
- 4 One way in which people could really show the government they're behind it and want this type of government to continue.
- 5 We've had a Bill of Rights for 150 years, and we're going to take care of it now.
- 5 To uphold the Bill of Rights.
- 4 We're preserving our own rights.
- 2 To maintain the same form of Government we have now.
- 6 To save our freedom of the Democracy.
- 5 Protection for your family and your future.
- 2 To help make our country safe for democracy - I love freedom and bonds will help keep it.
- 5 To make our country free.
To insure our way of living for our children.
- 2 We want to help keep our country a democracy and safe for our children.
- 2 To insure the continued independence of our country. We are all part and parcel of that responsibility.
- 2 Through buying stamps, our country will be a free country.
- 4 Insures protection of our way of living.
To safeguard democracy. It's the government's money to start with.
Very selfish if you don't buy.
- 5 To save our country.
If we want to keep our country free or to preserve our rights, this must be done.
- 5 To insure our freedom.
Establish freedom for the generations to come.
Do your duty and save your hide.
Life or death of nation - can't afford to let them run us.
So they may enjoy the liberties as they always have. Freedom, etc.
- 2 Our way of life is entirely different from Axis nations' way of life.
We must save and aid democracy and in order to do this we must contribute whatever we can.
We must buy bonds or put up with slavery.
The most important thing is to protect the government.
It is protecting our country our lives and our freedom. People should sacrifice anything for this.
- 2 We don't want their dictating over here.
To help along in our victory.
Help the government to save democracy.
Free from threats of present military tyrants.
To save the security of the United States - freedom of speech and not be dictated to.

Provides War Materials For Men in Army and Navy

- 2 We have used so much material to help Great Britain that we need to replenish and buy the badly needed materials.
- 15 To help build good ships and planes.
- 15 Government needs more cash for equipment; government needs the money for ammunition and equipment.
- 6 To support our War Program which needs money to build and maintain the best Army and Navy.
- 7 Ships, planes and tanks cost money and that's our way of getting it.
- 5 The more money, the more armaments.
- 11 To buy defense material; so government can have the funds for war materials.
- 10 It will help our boys doing the fighting.
- 4 To prosecute the war.
- 2 Protects all the boys who have to go.
- 4 The Army, Navy, and Air Force must be kept up.
- 5 We need the materials that can be bought with this money.
- 5 Building war material.
To beat the war in providing material.
The more money they can get to put in materials the quicker this war will be over.
To help clothe the Army.
Help get bombs to kill the Japs.
- 6 Need to supply the Army.
So we can have enough ammunition to keep people from invading our country.
To buy guns.
- 2 Helps arm the nation.
Through buying these bonds it helps in manufacturing in which I work, keeps me busy, and helps in keeping me out of war.
If we are going to lick the Nazis, need lots of money to build war munitions.
To have enough materials to stop the Japs.
Country does need the money to buy defense materials, to lick the Japs, nobody worries about Hitler any more.
Gives boys medical care and things they need.

Good Investment

- 196 Good (solid) investment; perfect investment; safe investment.
- 11 Pay more interest than banks - and you'll have something to look forward to 10 years from now when they mature. Like an annuity. Safe as Rock of Gibraltar.
- 4 Best investment, for if we lose this war, nothing will be of value not even the money we did not buy Bonds with.
- 47 The safest and best investment and would help the government through this war - for if our government is not a good investment, nothing is good.
- 19 Best investment for your money's safety and pays better interest than keeping in savings bank.
- 24 Carries the best possible interest; pays good interest; gives a good return.
- 4 A good sound investment - which can, if needs be cashed in 60 days. A good investment - we bought them for the children as part of their Christmas gifts, there's nothing better for security than Government bonds.
- 7 Good investment that carries good rate of interest and can be cashed any time you need the money.
- 12 If the bonds aren't any good then your money isn't any good.
- 8 It's the safest investment, for if we don't give now, our money will be worthless if we lose.
- 4 If you have any children, it's good to buy as an investment.
- 8 You get your money back and well over in 10 years.
Good way to diversify your investments.
- 6 If we win the war they will be a good investment.
A reason for safety is that it can't drop below a certain figure. Even if it weren't a good investment which it is, we should do all we can.
Better return on money than anything outside of real estate.
Safest investment - if country falls, bank falls.
Protection.
It's a good investment and this way is as good as banks.
Invest in the government and defeat Hitler and Japan.
Better than taxes, at least you get your money back.
We may have a depression later on.
People that buy them can get a little interest at the end of war.
To help pay back our debt and there is going to be hard times.
Good return on your money.
Type of person to whom bonds appeal wouldn't save in any other way - good investment for poor.
It would be much better to give now than to have those other countries (Germany - Japan) take it from you.
We might get something out of the investment.
A loan and not a gift to Uncle Sam and your investment is protected.
Tax-free.

Good Way to Save

- 115 Good way to save money; easy way to save; good thrift idea.
- 2 To save money it's a good investment.
It's a good way to save - you buy stamps as you get a few cents and then you can eventually get a bond.
- 7 Good way to save and help our government at the same time.
- 5 Good way to save so that in 10 years you'll have something.
- 6 It's a blessing for those who haven't the will-power to save otherwise.
- 6 Good savings plan - you can save to put child through college or for future vacations.
- 6 A good way to save, but I would not want to tie up the money for 10 years.
- 5 A good savings - even better than Liberty Bonds.
It's good savings - interest is greater and if you buy stamps with small change you can build up to a bond.
- 4 It's a reliable "bank" that gives you a good way to save your money.
- 5 It's a nice way to save and show your loyalty at the same time.
- 5 Save money for the depression that's coming.
- 2 Systematic savings now means a future for everyone.
- 6 It's a good savings - better interest rate than banks pay.
- 2 Thrift back of it is sound.
- 6 Save your money in a helpful way.
- 2 Good form of compulsory saving.
- 5 A good way to save small amounts.
- 5 Save some money and get it all back at the end of the war.
Instills new methods of savings for young and old.
- 2 Save for a rainy day.
- 4 Save money that might otherwise be spent foolishly.
- 5 Something for the future.
- 2 Ten years from now that money will come in handy.
Laying out money for yourself by buying bonds.
- 3 Like putting money in the bank.

We Can't Fight But We Can Buy Bonds

- 15 If we can't fight in the thing at least we can supply money to those who go.
Gives every real American a chance to do his bit.
- 9 Most of us can't help in any other way.
- 18 Everyone can help fight this way.
- 2 To defend our country and to let the boys in our Army know we are standing behind them.
- 4 You feel like you are doing your bit for the government.

Patriotic Duty

- 63 Patriotic duty to the country; a patriotic gesture; it's time to show our patriotism.
- 5 This is a debt we owe to both our country and our boys.
Patriotic purpose only (don't think they are good investment).
- 5 It's our duty - anybody who earns a living here should be glad to buy all they can.
- 5 It's the duty, of the people to help the country.
If we help our country in time of need we help ourselves as well - we must all do our share.
As far as saving is concerned it makes no difference - only as a help to the government, that's why everyone should want them.
To invest in and assist our government is our patriotic duty - it's what our forefathers did and our duty is to keep it.
Everybody should do their bit for the government - it's really a duty and people should be made to realize it.
- 2 Our duty to help all we can to save our country.
- 2 Buying bonds is patriotism in action.
- 15 A good way to show our loyalty to the country.
- 4 If we are citizens we should be willing to sacrifice for our future.
- 5 The president wants us to and we should cooperate.
- 4 A good way to show faith in our country.
- 18 A citizen's duty to his country.
- 3 Best time to prove that Democracy is a living thing.
- 2 Expression of confidence in our type of Government.
- 3 A good American's duty.

Prevent Inflation

- 51 This gives us a chance to ward off inflation; prevents inflation.
Best way to protect value of the American dollar.
This money will buy arms, etc., so that government would not have to borrow money which we in turn would have to help pay back through taxes.
To invest in these bonds when country needs money will probably prevent inflation.
- 4 To prevent inflation and people putting money into luxuries.
- 4 Keep off depression.
- 5 The boys in the service are doing their part - therefore, the ones at home should do their part by buying bonds and stamps.
- 2 The people who've got the money should buy bonds because the government needs the money to fight the war.

Help Win the War

- 78 To fight this war and win; to help win this war.
- 5 To win this war and to keep a good sound government in America.
- 4 To help the government now to carry out the war by getting money into the treasury.
- Every dollar brought into the government will help towards a victorious campaign.
- 10 To get enough money to win the war.
- It is our country that is going to win this war and we should all do our share.
- 2 To save the United States from losing the war.
- 5 It's the one way we can win the war.
- Because we cannot win the war without the necessary defense.
- 10 To win this war as fast as possible.
- 2 It's a good way to raise the money to help win the war.
- It will end the war quicker.
- To help the war situation.
- To do all we can to help and to do all we can.
- You help the government and you help yourself.
- Our country needs it. If we don't win this war, it won't be good to us anyway - the money won't.
- We should use spare money to help win the war.

For Defense of the United States

- 48 For the defense of the country, protect the country.
- 8 If we don't give the government enough money to keep things rolling, Japs or Germans will come and take all this away from us anyway.
- 6 To help support the Defense Program.
- 4 Should do our best to defend our country in this fight.
- Because if we are interested in our country and in our future it's money to build an Army and Navy so that no one in future would dare to declare war against us.
- 7 Keep America safe.
- 5 Cheaper to buy bonds now rather than have to pay some foreign power who might take us over.
- 7 To help build up defenses of the United States.
- To make the country more unified.
- 2 We have to protect ourselves.
- 4 Prepare for our national defense.
- To help our government arm.
- 8 For defense.
- 2 Keep our country intact.
- 5 Protect our country from invasion.
- For the self-preservation of our people.
- For the security of the country.
- To save the country.
- Home defense.
- For the safety of the country.
- Build strong defenses so nobody will defeat us.
- Defense of English speaking people of world so we can be free of tyrants opposed to our Democratic way of living.

Defeat Hitler

- Give government money so we can proceed in whipping out
Hitlerism so we may have a better way of life here.
- 11 To build up defenses so we can defeat the Japs and Hitler.
 - 3 Beat the Axis.
Elimination of the yellow peril.
Clean out Europe—Nasism.
 - 4 To keep Hitler from coming over.
 - 3 Prevent Japs from coming over here.
Beat the hell out of Hitler and his gang.
 - 2 Defeat Hitlerism.
I don't want to live in a country run by Hitler.
Destroy the dictators.
To help against Japan.
 - 3 To whip the Japs.
Keep the Japs over there.
Kill those scoundrels over there.
 - 2 Beat Hitler.
Beat Japan.
Can't have such things here as they have in Germany.
 - 4 To whip Germany and Japan.
Keep other countries off our soil.
Cooperation to lick Hitler.
Beat countries fighting the U.S.A.
Help Uncle Sam win the war against Japan.

An Aid to England and Our Allies

- Country needs money to help the others.
Help England who is sort of fighting for us.
Keep up our aid to England.
Not only to help ourselves, but to help other nations.

SUMMARY OF WHAT PEOPLE THINK SHOULD BE DONE
TO INCREASE THE SALE OF DEFENSE BONDS

Q.6 What should the government do to sell more of these bonds and stamps? (Get specific methods)

The table below shows, for urban and rural areas a broad classification of people's answers. Some typical answers illustrating each of these categories are reported on the following page. Percentages are based on the number of men and women interviewed.

	<u>Urban</u> %	<u>Rural</u> %	<u>Total</u> %
Do what is being done only more so	15	19	16
More pressure by the government	8	7	8
More pressure by the employers	8	2	6
Government doing a good job now	22	24	25
Wage and salary deductions	17	11	15
House to house canvassing	8	11	9
Miscellaneous*	19	11	17
Don't know	12	26	18
 Total Answers	 584	 216	 800
Total Interviews	550	200	750

* Includes such suggestions as: furthering sales through school, churches and fraternal organizations; reduce unemployment; give store-change in stamps; reduce minimum price of bonds; reduce cost of living; etc.

TYPICAL ANSWERS TO Q.6 ILLUSTRATING THE
CLASSIFICATIONS SET UP IN THE PREVIOUS TABLE

Do what is being done only more so

Carry on more campaigns because it doesn't get out as much
in the smaller towns
There should be more radio programs about it
The main thing is to keep up the publicity
Available everywhere - keep the supplies large enough so they
will always be on hand
Plug them on radio and in newspapers as often as possible

More pressure by the government

Might have the government make it compulsory to buy them
If the government needs the money they should make it compulsory
They should go out and make the people buy them - a little
push helps a lot
The government should make people buy according to their
circumstances

More pressure by the employers

Think every employer should make them buy 5% of salary
Business employers should put it up to their employees on pay day
They could have the working people in the offices just take so
much of it a month
Put stamps and bonds in hands of reliable firms and then sell
to employees

Government doing a good job now

I am afraid I have no other ideas that the government is not
using at present
I think you can get them most anywhere
They are contacting people in every possible way except forcing
them to buy
There has been no means (methods) left undone
They have covered the field thoroughly

Wage and salary deductions

I think that wage earners getting time and a half should take
their half time wages in bonds
Should pay defense workers part of salary in stamps or bonds
Deduct percentage on a sliding wage scale

House to house canvassing

Interest people more - mail the people information about bonds
and stamps - representatives going from door to door ex-
plaining bonds and stamps to people
Get organization committees to call from house to house
Canvass from house to house - like you sell anything else
There should be soliciting of the bonds and stamps

(All figures in '000)

Day	Unfilled orders at opening of business	New orders received today	Bonds manufactured today	Unfilled orders at close of business	Stock of "B" type bonds on hand	IBM deliveries this day
Dec. 31	919	285	375	829	61	350
Jan. 1	829	none - no mail	400	429	61	350
2	429	932	370	991	61	400
3	991	600	420	1,171	61	400
4	1,171	none - no mail	none - closed	1,171	61	400
5	1,171	257	445	1,255	373	310
6	1,255	425	450	1,408	511	500
7	1,408	639	450	1,597	511	500
8	1,597	460	450	1,597	511 ^{1/2}	450
9	1,597	649	500	1,471	236	550
10	1,471	155	525	1,101	236	575

Office of the Secretary of the Treasury,
Division of Research and Statistics.

January 12, 1942

^{1/2} 375,000 pieces included in this figure were in transit and had not reached the Federal Reserve Banks on this date.

UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During
 First Nine Business Days of January 1942 and December and November 1941
 (November 1-12, December 1-10, January 1-10)
 On Basis of Issue Price

(Amounts in thousands of dollars)

Item	Sales			Amount of Increase or Decrease (-)		Percentage of Increase or Decrease (-)	
	January 1942	December 1941	November 1941	January over December	December over November	January over December	December over November
Series E - Post Offices	\$ 54,038	\$ 17,903	\$ 16,583	\$ 36,135	\$ 1,320	201.8%	8.0%
Series E - Banks	135,858	32,572	27,677	103,286	4,895	317.1	17.7
Series E - Total	189,896	50,475	44,260	139,421	6,215	276.2	14.0
Series F - Banks	21,050	7,463	8,019	13,587	- 556	182.1	- 6.9
Series G - Banks	84,142	52,340	50,762	31,802	1,578	60.8	3.1
Total	<u>\$295,087</u>	<u>\$110,278</u>	<u>\$103,041</u>	<u>\$184,809</u>	<u>\$ 7,237</u>	<u>167.6%</u>	<u>7.0%</u>

Office of the Secretary of the Treasury, Division of Research and Statistics.

January 12, 1942.

Source: All figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States savings bonds.

Note: Figures have been rounded to nearest thousand and will not necessarily add to totals.

UNITED STATES SAVINGS BONDS

Daily Sales - January, 1942
On Basis of Issue Price

(In thousands of dollars)

Date	Post Office Bond Sales Series E	Bank Bond Sales				All Bond Sales			
		Series E	Series F	Series G	Total	Series E	Series F	Series G	Total
January 1942									
1	\$ 3,982	\$ 10,229	\$ 1,964	\$ 7,605	\$ 19,798	\$ 14,211	\$ 1,964	\$ 7,605	\$ 23,780
2	4,802	10,736	2,056	7,779	20,571	15,538	2,056	7,779	25,373
3	4,457	9,557	1,278	5,453	16,289	14,015	1,278	5,453	20,747
5	9,684	26,724	3,240	13,704	43,668	36,408	3,240	13,704	53,352
6	6,711	7,659	1,341	6,778	15,778	14,369	1,341	6,778	22,489
7	6,748	21,267	3,692	18,832	43,790	28,015	3,692	18,832	50,539
8	7,509	21,297	3,821	12,871	37,989	28,806	3,821	12,871	45,498
9	5,746	12,359	1,798	4,765	18,923	18,105	1,798	4,765	24,669
10	4,398	16,031	1,858	6,355	24,244	20,429	1,858	6,355	28,641
Total	\$ 54,038	\$135,858	\$ 21,050	\$ 84,142	\$241,049	\$189,896	\$ 21,050	\$ 84,142	\$295,087

Office of the Secretary of the Treasury, Division of Research and Statistics.

January 12, 1942.

Source: All figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States savings bonds.

Note: Figures have been rounded to nearest thousand and will not necessarily add to totals.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE January 12, 1942

TO: Secretary Morgenthau
FROM: Mr. Haas
SUBJECT: The Business Situation
Week ending January 10, 1942

Summary

(1) Despite the huge quantities of war materials to be turned out for the war program, the combined volume of war and civilian goods production will be limited to the available supply of raw materials and labor. Raw materials shortages and capacity limitations have caused a levelling off in the output of some important industries since last summer. As a result, the unadjusted FRB index of industrial production rose only 5 points from June to December.

(2) The shortage of iron and steel scrap has become more acute and is limiting further expansion in steel operations. The Great Lakes Steel Corporation, which is working almost entirely on defense orders, had to close down one-fourth of its open hearth furnaces at Detroit last week due to a lack of scrap. Other shutdowns occurred in the Cleveland and Youngstown districts.

(3) Commodity prices continue to rise. The all-commodity index in the week ended January 3 rose to a new high since October 1929, and stood 2.3 percent above the level prevailing before the attack on Pearl Harbor. The index is now 25.7 percent higher than the August 1939 pre-war level.

(4) The BLS index of basic commodity prices rose to a new high last week despite OPA ceilings on 17 out of 28 commodities in the index, partly because of inflationary aspects of the amended price control bill. The index of basic foodstuff prices has now risen nearly 30 percent since the outbreak of the war in Europe.

(5) The forthcoming cessation of automobile production for civilian use will have repercussions extending far beyond the manufacturing branch of the industry. The country's more than 40,000 automobile dealers and their employees will be especially hard hit. The freezing of car stocks, pending the working out of a rationing program, has added to dealers' difficulties.

General situation

The magnitude of the war program outlined by the President last week raises the question whether the production of these huge quantities of war materials in the allotted time will not require a severe curtailment in civilian goods production, on a scale perhaps sufficient to offset entirely (in terms of total industrial production) the effect of further increases in the output of war materials. The critical time factor will require that the needs of civilian industries be almost ruthlessly disregarded, hence shortages of even minor quantities of scarce materials may cause widespread shutdowns. The prospective elimination of passenger automobile production after this month is likely to have an important influence on total industrial production, particularly since several months will be required to re-tool the plants for use in the war effort.

Assuming that the production of war materials will be pushed to the utmost, and that the required capacity for such materials will eventually be available, the combined volume of war and civilian goods production will be determined chiefly by the supply of raw materials and of labor. Whenever a point is reached where no further increase in supplies of essential raw materials (or of labor) is possible, the over-all production volume will tend to level out, since the production of civilian goods must decline as rapidly as the production of war materials increases.

Evidence that we are approaching such a level is beginning to accumulate. Production in a number of important industries has levelled out since last summer, indicating that output has been limited either by a shortage of materials (as in the rubber goods industry), a limited capacity (as in the production of non-ferrous metals and their products), or a restricted demand due to shortages elsewhere (as in the building materials industries). In Chart 1 is shown the trend of actual output for a group of these industries making up a total weight of 39 percent in the FRB production index, in comparison with the production trend for the other industries in the FRB index, and with the trend for the combined index. In order to show the actual levels of production, the indexes are not seasonally adjusted.

It will be noted that the rapid advance in the combined FRB index to June 1941 was made possible by rising production in both component groups, interrupted only by the coal strike in April. A distinct flattening out has been apparent since last June. The unadjusted FRB index in December, according to confidential preliminary data, was only 5 points (3 percent) above the June figure, and 2 points lower than in October.

Shortage of steel scrap becoming more acute

A factor which will contribute toward a levelling-out of production in an important section of industry is the shortage of iron and steel scrap, which appears to be growing more serious. Cold weather has curtailed the collection of scrap, and stockpiles at mills are not available in the usual volume for carrying operations through the winter months. This is tending to limit the output of steel ingots, and although there is probably no question of the adequacy of the steel supply for war material production, it may mean that less and less will be available for the civilian goods industries.

During the past week the Great Lakes Steel Corporation at Detroit, which is reported to be working almost entirely on defense orders, was forced to close down 4 of its 16 open hearth furnaces due to a lack of scrap. Likewise the Otis Steel Company at Cleveland had to close down 2 open hearth furnaces for the same reason and was confronted with the possibility of additional curtailment this week. In the Youngstown district, further shutdowns raised the number of open hearths made idle by the scrap shortage to 10.

Despite the scrap shortage, the steel operating rate is scheduled this week to increase 1.4 points to 98.8 percent of capacity. This rate, however, still does not quite equal the rate prevailing just before the holidays.

Steel and pig iron production records set in 1941

In view of the scrap shortage, it is of interest that steel ingot production was maintained in December at 98.1 percent of capacity as compared with 98.3 percent in the previous month. Production for the entire year reached almost 83,000,000 net tons, a gain of 24 percent over the previous peak figure set in 1940. Pig iron production also rose to new heights last year, exceeding the previous record set in 1929 by 18 percent. In view of the heavy demand for pig iron, it is encouraging to note that daily average production in December rose 3 percent above the previous month, and total monthly output exceeded 5,000,000 net tons for the first time on record.

Commodity prices continue upward trend

The BLS all-commodity index in the week ended January 3 rose 0.5 percent, making a total gain of 2.3 percent since the Pearl Harbor attack. (See Chart 2). This further gain carries it to the highest level since October 1929, and represents a total rise of 25.7 percent since the August 1939 pre-war level.

A further rise in the all-commodity index seems probable for the second week of January, since the BLS index of basic commodities in that week again turned sharply upward, reflecting in part the inflationary aspects of the Senate amendments to the price control bill. (See lower line on Chart 2).

Although the advance in the all-commodity index since the Pearl Harbor attack was led by a sharp increase in prices for farm products, amounting to 6.7 percent, this increase was almost equalled by a 6.0 percent advance in prices for chemicals and allied products. Prices for this group touched a 14-year peak. The sharp increases in prices of chemicals reflected increased demands for agricultural purposes, more extensive substitution of plastics for metals, and higher requirements by Canada for manufacture of explosives.

The BLS price indexes of basic commodities, both foodstuffs and raw materials, rose to noticeably higher levels last week despite the fact that 17 of the 28 commodities are under price restrictions. (See Chart 3).

The foodstuffs index again rose sharply, and at the end of the week was nearly 80 percent above the level at the outbreak of the war in August 1939. Among the domestic commodities, cottonseed oil and rosin made the largest individual increases. Grains showed substantial strength and cotton prices reached a new seasonal high. Among the imported commodities, sugar, flaxseed, and wool prices advanced. The sugar price rise resulted from increasing the ceiling on raw sugar prices. At the close of the week an amendment was made to the schedule of refined sugar prices to bring them into line with the prices of raw sugar.

Price control bill amended

Amendments to the price control bill added by the Senate would almost eliminate farm products from any effective control, and if the bill is adopted in its present form its usefulness for preventing an inflation spiral will be seriously in doubt. As the bill now stands, the Secretary of Agriculture must approve any action taken with respect to farm products, and no ceiling price may be established on any agricultural commodity below the highest of the prices determined on the following bases:

- (1) An "emergency wage parity price," calculated on a new basis, in which wage rates are included with a weight of 20 percent, and the former index of costs of goods bought by farmers is given a weight of 80 percent. According to Senate testimony, this would raise the parity level approximately 21 percent.

- (2) The average price for such commodity in the period from July 1, 1919, to June 30, 1929.
- (3) The market price on October 1 or December 15, 1941, whichever is higher.

Commodity Credit Corporation offers cotton stocks for sale

Government-owned stocks of cotton were offered for sale by the Commodity Credit Corporation on January 5, with the announced purpose of making available to the mills certain desirable grades and staples. Since the offering price of 19 cents (based on 15/16 inch middling cotton in Carolina mill areas) is not much above current market levels, the offer should have considerable effect in stabilizing prices. This follows earlier action to release wheat and corn from Government stocks, which has already had a dampening effect on speculative activity in the grain markets. According to one current trade report, "The main dampening influence on bullish activity in wheat and corn is the Commodity Credit Corporation's offering of corn at practically the current cash market basis and of wheat only a little above the present price level..... It is estimated that the Government agency has sold 7,000,000 or 8,000,000 bushels (of corn) in the past week or so."

The Commodity Credit Corporation also announced last week that total sales of cotton for export to foreign countries under the export subsidy plan, through January 2, amounted to 214,000 bales, of which 178,000 bales were sold to Canada. At the same time, it was announced that the Surplus Marketing Administration, under its program for the export of cotton to Canada, had sold nearly 177,000 bales. Both of these programs were put into effect last September.

Automobile production for civilian use to be stopped

The recent announcement of Administrator Henderson that production of passenger cars and light trucks for civilian use will be stopped around the end of this month was followed last week by an announcement that the production of medium and heavy trucks for civilian use will come to an end after March 1. Coincident with these announcements, it was indicated that recent output schedules for passenger cars and trucks in the interim will be revised upward, reportedly to allow manufacturers to use up stocks of parts and materials. Thus output of around 200,000 passenger cars will be permitted this month, whereas the January quota had originally been slashed to 102,000 units. Likewise, the February production quota for heavy and medium trucks is being revised upward.

Automobile output ban to have wide repercussions

In connection with the ban on automobile production, the EPW also prohibited the sale of new cars and trucks pending the working out of a rationing program. This move froze an estimated 450,000 new cars in the hands of dealers, who are confronted with serious financing problems as a result.

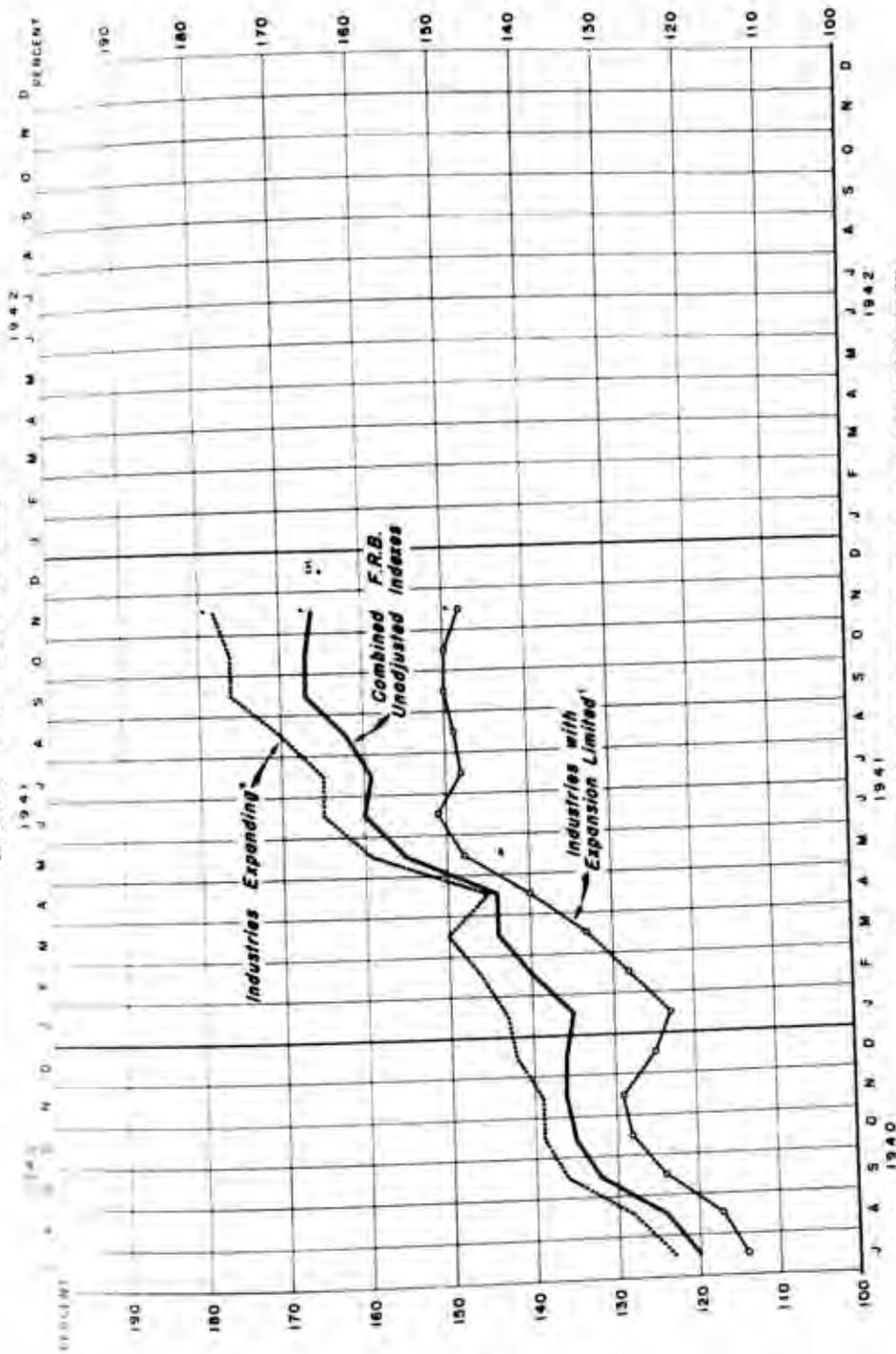
While much attention has centered on the dislocations which the ban on civilian automobile output will impose on the manufacturing branch of the industry, those engaged in the selling branch are likely to be harder hit. After a transitional period, most manufacturers and their employees will doubtless become heavily engaged in the production of war materials. On the other hand, the country's more than 40,000 dealers soon will be receiving no additional new products to sell and will be able to dispose of existing stocks only under prescribed limitations. Moreover, many employees of motor vehicle dealers, who numbered more than 300,000 in 1939, will be thrown out of work. In addition to these more immediate and obvious effects, the ban on civilian automobile output will have repercussions extending far beyond the industry itself. Among others, an important source of Federal excise tax collections will be cut off.

National income at \$97 billion level

Retail trade has been strongly supported by the sharp upward swing in national income, which got under way around the middle of 1940. This upward trend continued in November when national income rose to a new high at an annual rate of nearly 97 billion dollars. Moreover, since the rise in national income in November was more rapid than the rise in living costs, the estimated purchasing power of national income also moved up to a new high. (See Chart 4).

As a result of the rapid rise in consumer incomes, merchants generally had anticipated a somewhat higher level of business in December than actually developed. Following relatively narrow gains over year-earlier levels in the two weeks after the Pearl Harbor attack, department store sales in the week ended December 27 rose 40 percent above the corresponding period in 1940, though the comparison is affected by an extra pre-Christmas shopping day in that week this year. The sales gain in the week ended January 3 declined, but still was 27 percent above year-earlier levels. (See Chart 5).

PRODUCTION TRENDS BY SELECTED INDUSTRY GROUPS
Based on F.R.B. Unadjusted Indexes



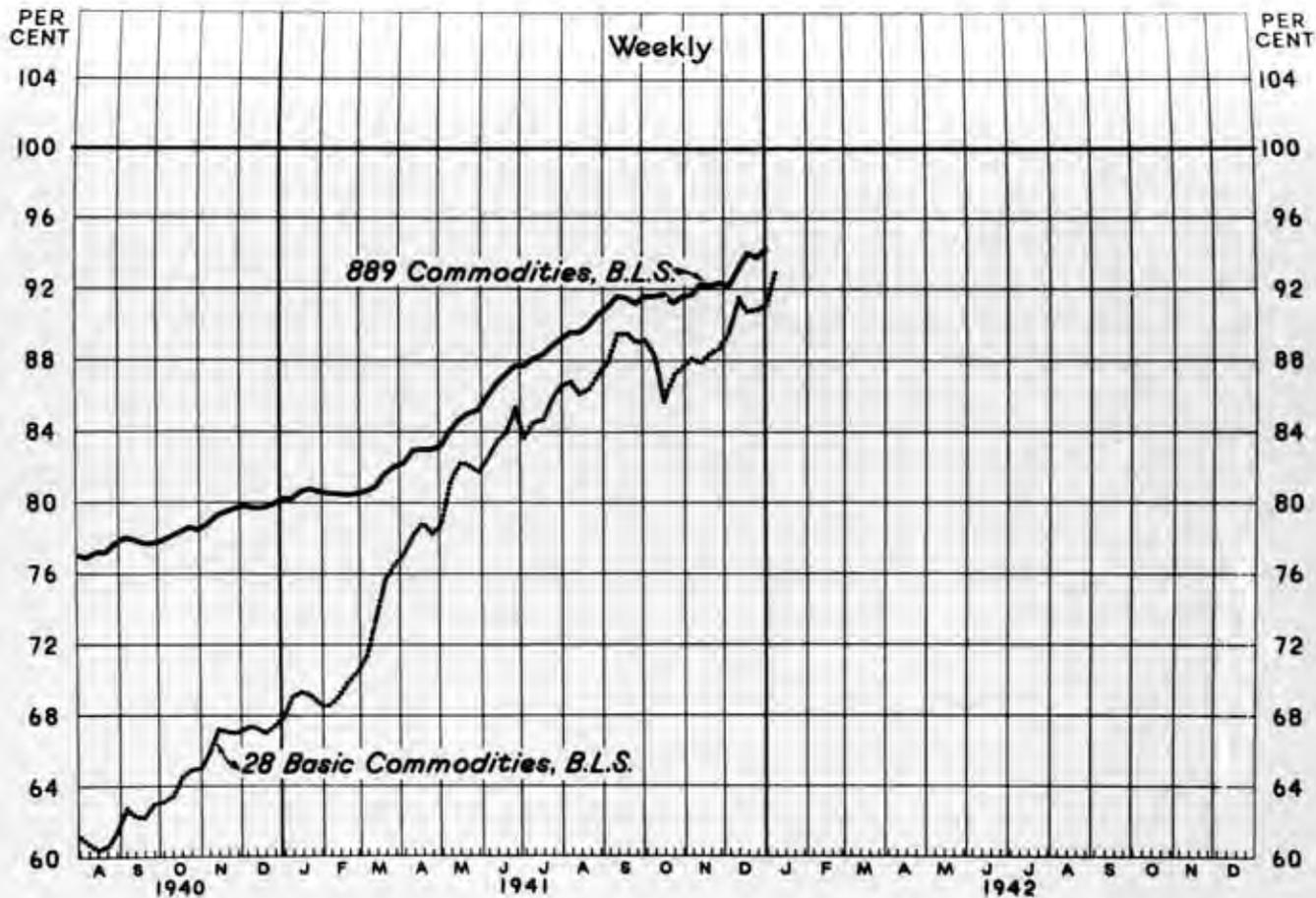
*INCLUDES IRON AND STEEL, MACHINERY, TRANSPORTATION EQUIPMENT, DRUGS, FUELS, PETROLEUM AND COAL PRODUCTS, TOBACCO PRODUCTS, MANUFACTURED FOODS.
†INCLUDES LUMBER AND PRODUCTS, NON-FERROUS METALS AND PRODUCTS, METALS (MINING), STONE, CLAY AND GLASS, PAPER AND PRODUCTS, PAINTING AND PUBLICATIONS, TEXTILES AND PRODUCTS, LEATHER AND PRODUCTS, RUBBER PRODUCTS, ALCOHOLIC BEVERAGES.

Office of the Secretary of the Treasury
Bureau of Research and Statistics

C-416

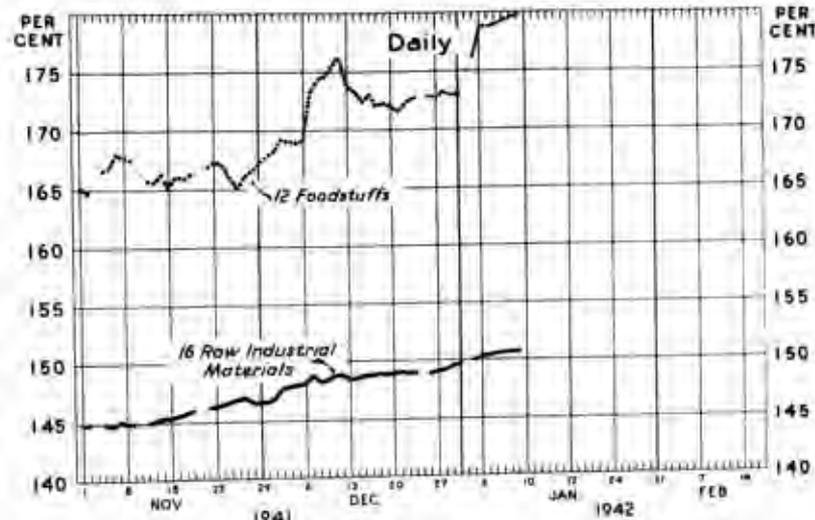
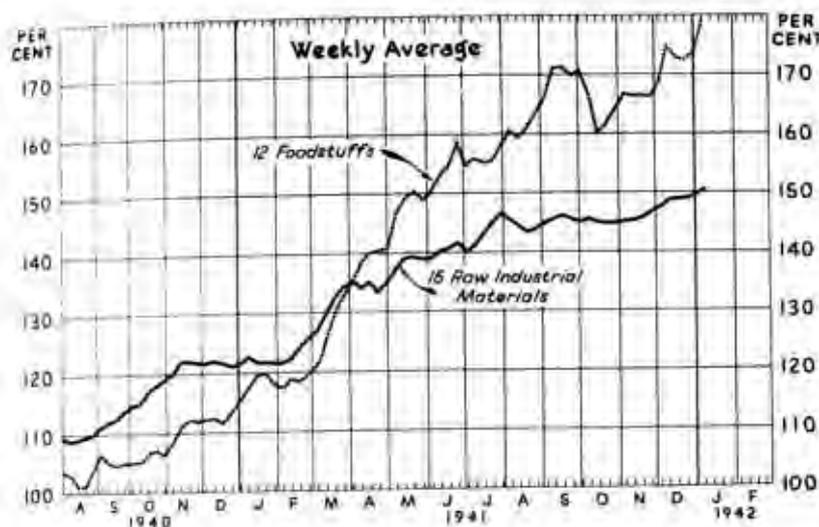
COMMODITY PRICES

1926=100

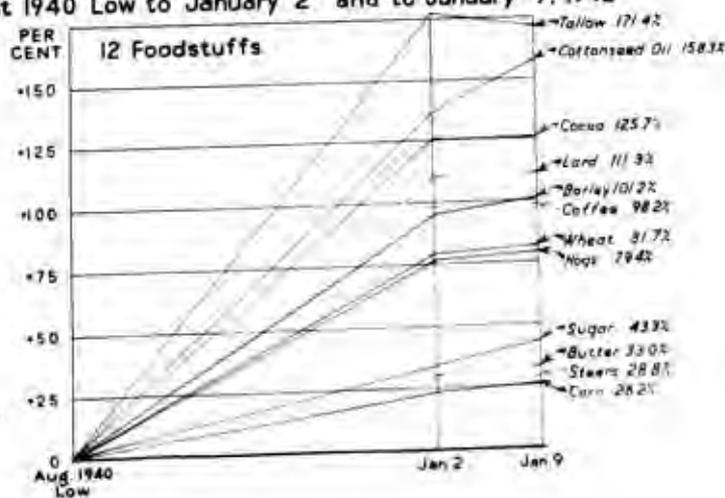
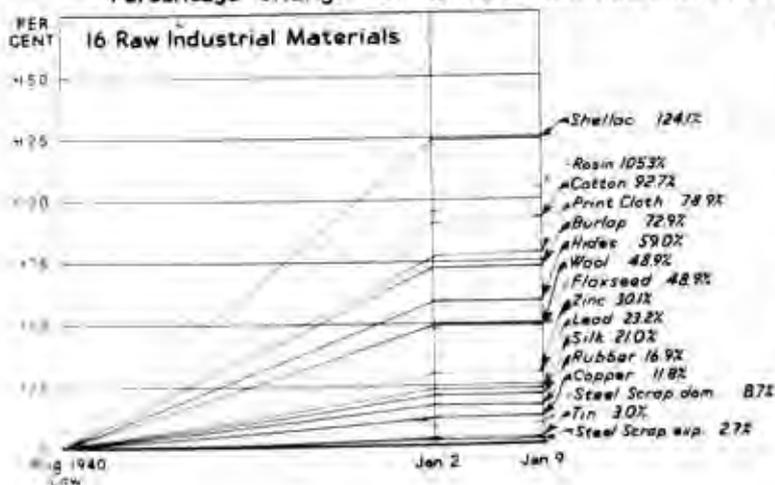


MOVEMENT OF BASIC COMMODITY PRICES

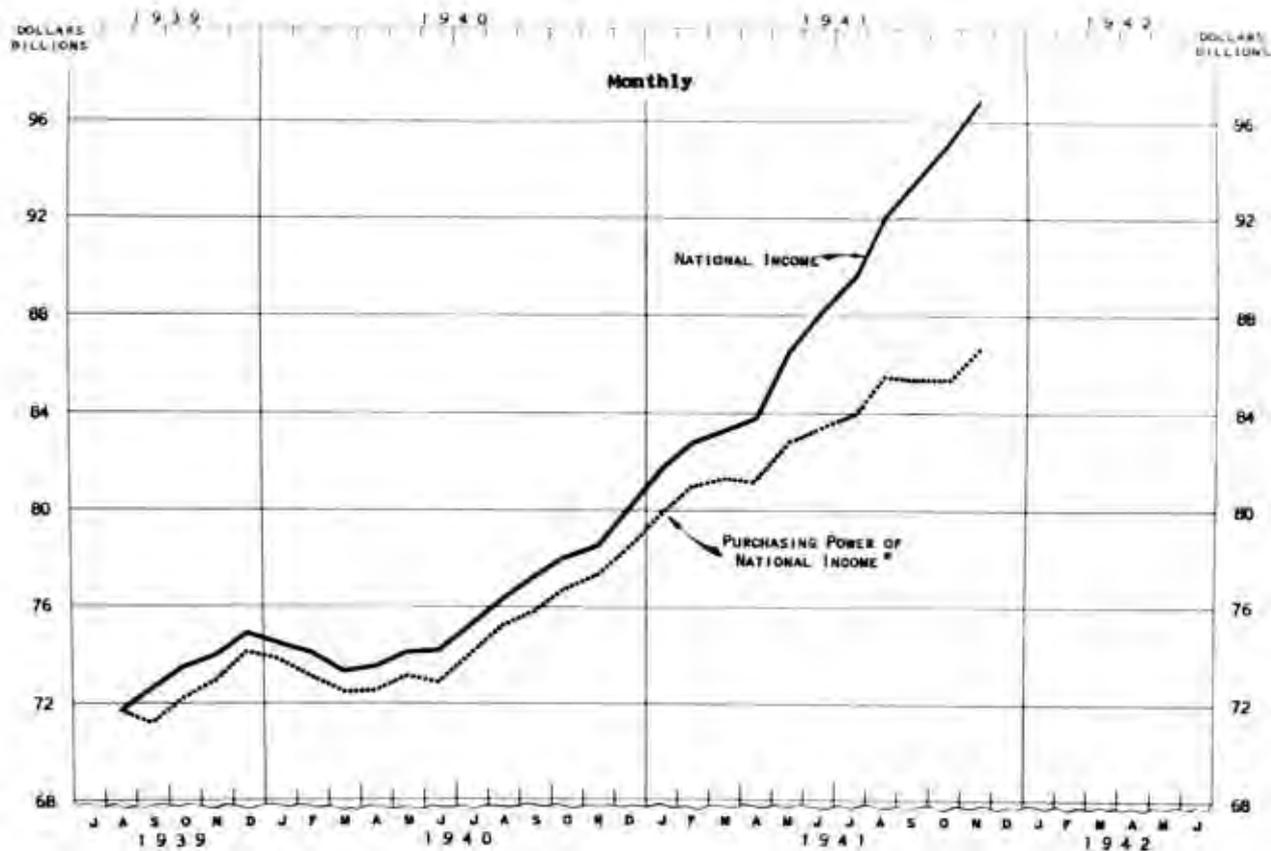
AUGUST 1939=100



Percentage Change for Individual Commodities, August 1940 Low to January 2 and to January 9, 1942



NATIONAL INCOME AND ITS EQUIVALENT PURCHASING POWER



*BASED ON COST OF LIVING INDEX OF B.L.S. AUG. 1939 = 100

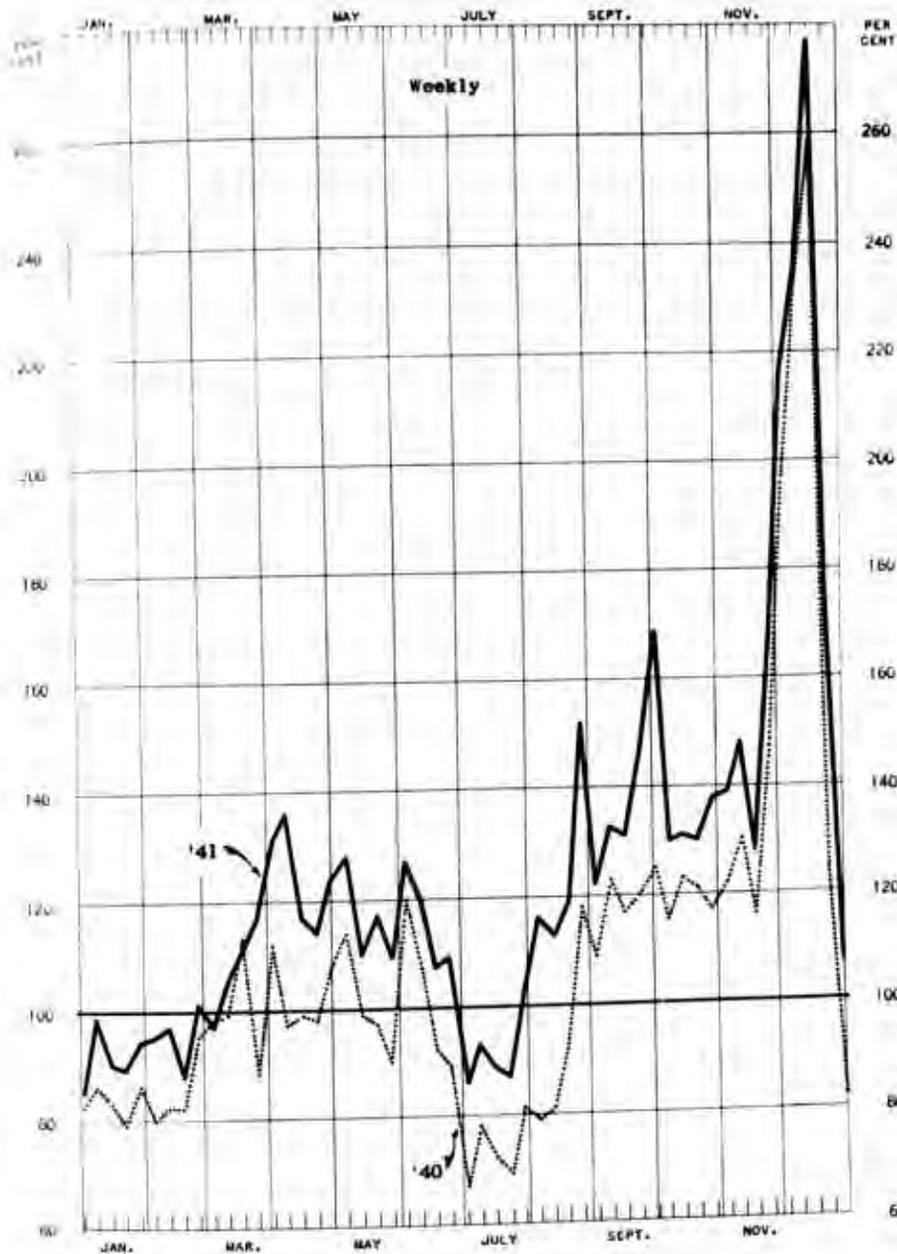
Office of the Secretary of the Treasury
Division of Research and Statistics

C - 415

Chart 4
176

DEPARTMENT STORE SALES

1935 = 1939 = 100, UNADJUSTED



Office of the Secretary of the Treasury
Division of Research and Statistics

D - 350

TREASURY DEPARTMENT

178

INTER OFFICE COMMUNICATION

DATE January 12, 1942

TO Secretary Morgenthau

FROM Mr. Hagg



Employment under the Work Projects Administration dropped from 1,046,000 persons to 1,041,000 persons during the week ended December 30, 1941. This was 5,000 less than the previous week's employment and 19,000 less than the number of persons employed at the end of November.

Attachments

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Weekly
United States

Week ending 1941	Number of Workers (In thousands)
May 7	1,519
May 14	1,497
May 21	1,474
May 28	1,464
June 4	1,442
June 11	1,423
June 18	1,410
June 25	1,368
July 2	1,172
July 9	1,030
July 16	1,016
July 23	1,025
July 30	1,036
August 6	1,041
August 13	1,042
August 20	1,043
August 27	1,045
September 3	1,043
September 10	1,037
September 17	1,035
September 24	1,033
October 1	1,032
October 8	1,037
October 15	1,040
October 22	1,044
October 29	1,047
November 5	1,050
November 12	1,056
November 18	1,058
November 25	1,060
December 2	1,063
December 9	1,060
December 16	1,055
December 23	1,046
December 30	1,041

Source: Work Projects Administration

WORK PROJECTS ADMINISTRATION
 Number of Workers Employed - Monthly
 United States

	Number of Workers (In thousands)
1939	
July	2,200
August	1,842
September	1,790
October	1,902
November	2,024
December	2,152
1940	
January	2,266
February	2,324
March	2,288
April	2,092
May	1,926
June	1,665
July	1,701
August	1,691
September	1,704
October	1,779
November	1,821
December	1,878
1941	
January	1,895
February	1,867
March	1,708
April	1,560
May	1,464
June	1,368
July	1,036
August	1,045
September	1,033
October	1,047
November	1,060
December	1,041

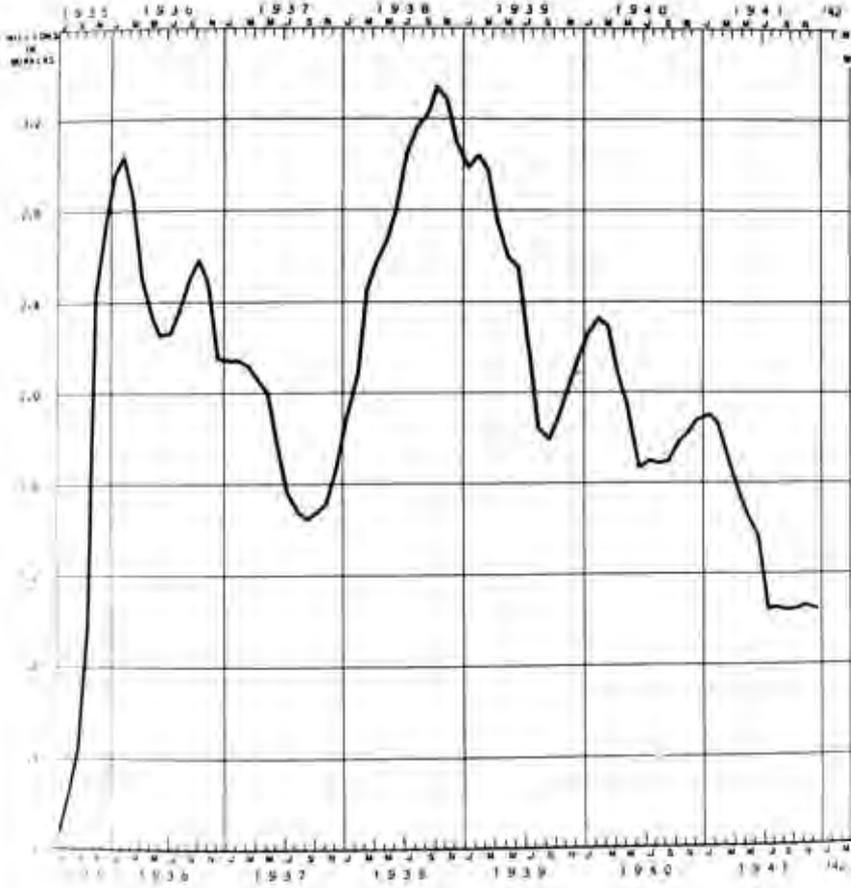
Source: Work Projects Administration

Monthly figures are weekly figures for the latest week of the month.

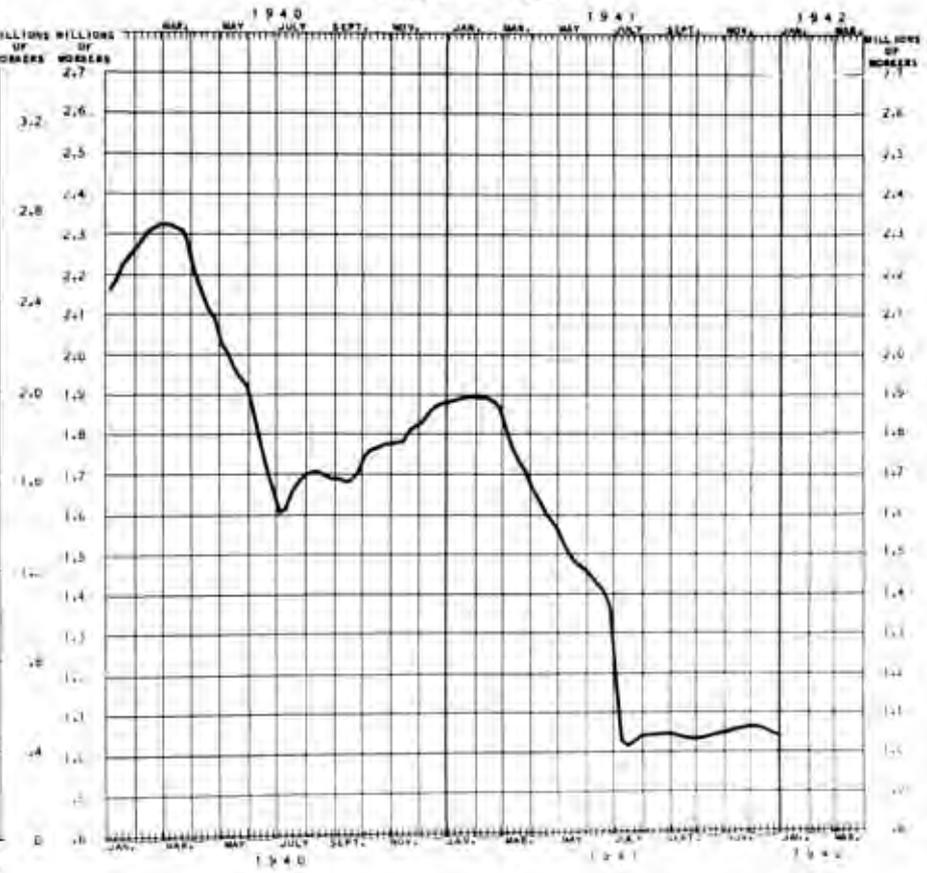
They include certified and noncertified workers.

WORK PROJECTS ADMINISTRATION
 Number of Workers Employed
 United States

Monthly W.P.A. Employment



Weekly W.P.A. Employment



SOURCE: WORK PROJECTS ADMINISTRATION

U.S. Office of the Secretary of the Treasury
 Bureau of Economic and Statistics

TREASURY DEPARTMENT

182

INTER-OFFICE COMMUNICATION

DATE January 12, 1942

TO Secretary Morgenthau

FROM Mr. Dietrich

STRICTLY CONFIDENTIAL

Official sales of British-owned dollar securities under the vesting order effective February 19, 1940:

	<u>\$ Proceeds of Shares Sold</u>	<u>\$ Proceeds of Bonds Sold</u>	<u>Total</u>	
Dec. 30	Nil	Nil	Nil	
31	Nil	Nil	Nil	
Jan. 1	Nil	Nil	Nil	
2	Nil	Nil	Nil	
3	Nil	Nil	Nil	
	Nil	Nil	Nil	
Sales from				
Feb. 22, 1940 to				
Dec. 27, 1941	<u>281,856,896</u>	<u>37,437,648</u>	<u>319,294,544</u>	
Sales from				
Feb. 22, 1940 to				
Jan. 3, 1942	<u>281,856,896</u>	<u>37,437,648</u>	<u>319,294,544</u>	319,294,544
proceeds of non-vested securities sold				
Dec. 22, 1941 - Dec. 27, 1941			800,000	
proceeds of non-vested securities sold				
Sept. 1, 1939 - Dec. 20, 1941			<u>240,000,000</u>	
proceeds of non-vested securities sold				
Sept. 1, 1939 - Dec. 27, 1941			<u>240,800,000</u>	<u>240,800,000</u>
			GRAND TOTAL	<u>560,094,544</u>
10 Units sold from Aug. 18, 1941 - Jan. 3, 1942 for				\$ 42
11 Shares Stock Dividend sold Aug. 18, 1941 - Jan. 3, 1942 for				\$ 123
55,328 Rights sold from July 24, 1941 - Jan. 3, 1942 for				\$102,928

TREASURY DEPARTMENT

183

INTER-OFFICE COMMUNICATION

DATE January 12, 1942

TO Secretary Morgenthau

FROM Mr. Dietrich

STRICTLY CONFIDENTIAL

Official sales of British-owned dollar securities under the vesting order effective February 19, 1940:

	<u>No. of Shares Sold</u>	<u>\$ Proceeds of Shares Sold</u>	<u>Nominal Value of Bonds Sold</u>	<u>\$ Proceeds of Bonds Sold</u>
Dec. 29	N11	N11	N11	N11
30	N11	N11	N11	N11
31	N11	N11	N11	N11
Jan. 1	N11	N11	N11	N11
2	N11	N11	N11	N11
3	N11	N11	N11	N11
	<u>N11</u>	<u>N11</u>	<u>N11</u>	<u>N11</u>
Sales from Feb. 22, 1940 to Dec. 27, 1941	<u>9,847,581-3/18</u>	<u>281,856,896</u>	<u>45,610,016</u>	<u>37,437,648</u>
Sales from Feb. 22, 1940 to Jan. 3, 1942	<u>9,847,581-3/18</u>	<u>281,856,896</u>	<u>45,610,016</u>	<u>37,437,648</u>

TREASURY DEPARTMENT

184

INTER OFFICE COMMUNICATION

DATE January 12, 1942

TO Secretary Morgenthau
FROM Mr. Kamarck
Subject: Shipment of Planes to British Forces

Summary

1. In the week ending January 6, a total of 72 planes (63 combat planes) were shipped to British forces. The bulk of the shipments, 61 planes, were sent to the Middle East.

2. Since January 1, 1941, Curtiss Wright has shipped over a thousand pursuit planes to the British. The Curtiss fighters, together with four other main types, provided 3,800 (or about 80 percent) out of the total of 4,870 planes shipped since January 1, 1941.

Main Plane Types Shipped

	<u>Number</u>
Curtiss Tomahawk and Kittyhawk Pursuit	1,005
North American Harvard Trainers	905
Lockheed Hudson (I,III,IV,V) Bombers	820
Cessna T-50 Trainers	549
Douglas Boston (I,II,III) Bombers	<u>521</u>
(Total of above)	3,800

Table A

Week ending
January 6, 1942

Total Shipped since
January 1, 1941

To the United Kingdom

Light and medium bombers	0	1,124
Heavy bombers	0	104
Naval patrol bombers	0	102
Pursuit	0	311
Army Cooperation	4	36
Trainers	0	24

Total to the United Kingdom 4 1,701

To the Middle East

Light and medium bombers	23	353
Heavy bombers	0	5
Pursuit	30	878
Army Cooperation	0	10
Trainers	8	150

Total to the Middle East 61 1,396

To the British Pacific Forces

Light and medium bombers	0	95
Naval patrol bombers	0	27
Pursuit	0	168
Trainers	0	105

Total to Pacific Forces 0 395

To the British Forces in Russia

Light and medium bombers	0	44
Pursuit	0	49

Total to Russian Forces 0 93

To the Canadian Forces

Light and medium bombers	1	55
Naval patrol bombers	5	13
Pursuit	0	42
Trainers	1	1,175

Total to Canadian Forces 7 1,285

Totals

Light and medium bombers	24	1,671
Heavy bombers	0	109
Naval patrol bombers	5	142
Pursuit	30	1,448
Army Cooperation	4	46
Trainers	9	1,454

Total 72 4,870

Table B - Shipments by Types

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	<u>Week ending January 6, 1942</u>	<u>Total shipped since January 1, 1941</u>
Bell Airacobra	0	154
Boeing B-17	0	20
Boston III	0	39
Brewster Buffalo	0	168
Cessna T-50	1	549
Consolidated Catalina	5	142
L.B.30 (B-24)	0	6
Liberator I (B-24A)	0	19
Liberator II (B-24B)	0	64
Curtiss C.W. 20	0	1
Kittyhawk	30	412
Tomahawk	0	593
Douglas Boston I	0	1
Boston II	0	81
Boston III	0	439
D.C. II	0	10
Fairchild 24 R-9	4	26
Glenn Martin Baltimore	23	91
Maryland	0	150
Grumman Martlet II	0	41
Lockheed Hudson I	0	1
Hudson III	0	351
Hudson IV	0	70
Hudson V	1	398
North American Harvard II	8	905
Mustang	0	80
Pitcairn Autogiro	0	5
Vought Sikorsky Chesapeake	0	50
Vultee Stinson-049	0	4
	<hr/>	<hr/>
	72	4,870

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Table C - Plane Shipments to the British by Weeks

<u>Week Ended</u>	<u>Light and medium bombers</u>	<u>Heavy Bombers</u>	<u>Naval patrol bombers</u>	<u>Pursuit</u>	<u>Army Cooperation</u>	<u>Trainers</u>	<u>Total</u>
Weekly Average of Shipments in 1941	32	2	3	27	1	28	92
January 6, 1942	24	0	5	30	4	9	72
TOTAL-Shipments since January 1, 1941 to date	1,671	109	142	1,448	46	1,454	4,870

January 12, 1942

Mr. Livesey

Mr. Dietrich

Will you please send the following cable to the American Embassy, Chungking:
"For Fox from the Secretary of the Treasury."

Reference cable No. 27, your TF-12, dated January 8, 1942. Your inquiry is not entirely clear to us. Paragraph 3(a) of Agreement of April 1 describes the procedure for making U.S. dollars available to the Board. The Treasury has not as yet purchased yuan with dollars because no request to that effect has been received by the Federal Reserve Bank of New York from the Central Bank of China. As soon as Central Bank has notified the Federal Reserve Bank of New York as prescribed in paragraph 3(a), the appropriate amount in U.S. dollars will be credited to the Fund."

FD:dm:1/12/42

PURCHASES OF TELEGRAM BANT

TO: American Embassy, Chungking, China

DATE: January 12, 1942, 6 p.m.

Serial 17

This telegram is from the Secretary of the Treasury and is for Mr. A. Manuel Fox.

This telegram refers to no. 27 dated the 2nd of January, 1942, your TF-12.

We could not comprehend very clearly your inquiry. A description of the method for making dollars in American currency available to the Board is given in Paragraph 3(a) of Agreement of April 1, 1941. As yet there has not been any yuan purchased by the Treasury with dollars because the Federal Reserve Bank of New York has not received from the Central Bank of China a request to that effect. The Fund will be credited the appropriate amount in American dollars just as soon as the Federal Reserve Bank has been notified by the Central Bank in the method prescribed in paragraph 3(a).

HULL

KD

PLAIN

Chungking

Dated January 12, 1942

Rec'd. 6:36 a. m.

Secretary of State,
Washington.

URGENT.

33, January 12, 11 a. m.

TF 15.

CONFIDENTIAL FROM FOX FOR THE SECRETARY OF THE
TREASURY.

"Have been requested by Generalissimo and Dr.
Kung to return for brief period to report to you
on the Chinese internal financial and economic
situation. Leaving tomorrow at 24 hours notice."

GAUSS

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Department of State
Washington

In reply refer to
FD 811.51/4112

January 12, 1942

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of despatch No. 3172, dated December 23, 1941, from the American Embassy, Habana, Cuba, concerning sale of United States Defense Bonds in Cuba.

The Secretary of State would appreciate being advised as to the reply to be made to the Embassy concerning the despatch under reference.

Enclosure:

Despatch No. 3172, dated
December 23, 1941, from
Embassy, Habana, Cuba.

encl copy
1-13-42

C
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P
Y

192

No. 3172.

Habana, December 23, 1941

Subject: Sale of United States Defense Bonds in Cuba.

The Honorable

The Secretary of State,

Washington.

Sir:

I have the honor to enclose copy of a self-explanatory memorandum dated December 19, 1941, prepared by the Commercial Attache, with regard to the sale of the United States Defense Bonds in Cuba.

I agree with the views expressed in the enclosed memorandum by the Commercial Attache, and in my opinion, the possibility of selling United States Defense Bonds abroad appears to be worth studying, especially insofar as the sale of such bonds in Cuba is concerned.

Respectfully yours,

George S. Messersmith

Enclosure:

Memorandum dated
December 19, 1941.

AFM/mp - 820.

A true copy of the
signed original.

sh:copy
1-13-42

(COPY)

Habana, December 19, 1941

MEMORANDUM

Sale of United States Defense Bonds in Cuba

(Mr. Ambassador
(Mr. Briggs

Miss Wheeler of the American Chamber of Commerce called me yesterday to say that at the last Board Meeting of the Chamber, on December 17, the directors had decided to offer the services of the Chamber in the sale of United States Defense Bonds if it were found that their services would be useful. Miss Wheeler inquired whether the Embassy had any suggestions to offer in this connection.

I told Miss Wheeler that according to my information, which has been confirmed by Mr. Findlay of the Chase Bank, United States Defense Bonds cannot be sold abroad and can be sold in the United States only to United States citizens. If this is correct, and Mr. Findlay assures me that this is the case, I wonder whether it would serve any useful purpose for the Embassy to inquire of the Department whether any change in these regulations can be made.

During the last world war Liberty Bonds were sold in Cuba in large quantities and the American Consulate at Cienfuegos, where I was Vice Consul at the time, organized a number of Liberty Bond drives which produced very substantial amounts. Sales were not restricted to American citizens and, in fact, the largest buyers in the Cienfuegos Consular District were the well-to-do Spaniards.

I believe that it would in many ways be to our interest if the sale of United States Defense Bonds could be permitted in Cuba and in other countries of the Western Hemisphere. Many American citizens residing in Cuba as well as Spaniards and other sympathizers of the democracies would doubtless wish to purchase these bonds, and in the case of the large number of wealthy Spaniards in Cuba who, as you are aware, consider themselves as being somewhat under a cloud, they would be afforded a tangible way of expressing their adhesion to our cause by purchasing our Defense Bonds to the limit of their capacity. Moreover, the psychological effect which the purchase of these bonds would have upon their owners is also a factor that might be taken into consideration.

A few days ago there came over my desk a despatch from the Vice Consul at Havana in which he also calls attention to the desirability of authorizing the sale of our Defense Bonds abroad.

WJ/sd

A. S. J.

CONFIDENTIAL-13-42

AF

PLAIN

Stockholm

Dated January 12, 1942

Rec'd 3:23 a.m.; 13th

Secretary of State,
Washington.

54, twelfth.

Third Swedish defense loan will be floated this week. It is divided into three different forms of bonds: a 3.5% forty year loan, a 3% five year loan and savings bonds bearing interest at 3.5% for six and one-half years. In connection with floating of new defense loan holders of Swedish 4% bonds of 1931 and of 4.5% bonds of 1932 are invited to convert them into new 3.5 or 3% bonds. Total amount outstanding on state loans of 1931 and 1932 thus to be converted is 234 million crowns. In addition to this amount it is estimated that third defense loan will amount to at least 700 million crowns but no total amount of subscriptions has been fixed. Subscriptions to 3.5% bonds may be made between January 15 and February 28, 1942 and to 3% bonds between January 15 and February 28, 1942 and to 3% bonds between January 15 and May 15, 1942. Extensive propaganda campaign for third defense loan will be launched under slogan "In Defense of Sweden's Peace and Future".

At press conference yesterday for this loan Minister of Defense gave some advance information on Government's five year plan for national defense which will be laid before Riksdag

shortly. Part of this plan has already been realized by recent Riksdag decision to adopt a new conscription law by which initial training period for conscripts was raised to 450 days. In army no quantitative expansion is possible as replacement reserves have already been given full training in past year. Instead quality of troops and their equipment will be improved. Army will be given greater striking force and mobility by acquisition of more automatic weapons, strengthened artillery, more and larger armored cars and tanks, and more anti-tank guns and by setting up of more motorized and bicycle infantry. Two infantry regiments and two cavalry regiments will be converted into tank detachments. In navy stress will be laid on construction of light craft. New submarines are now being built in almost continuous stream, more motor torpedo boats are being turned out and a new torpedo carrying destroyer of between 1700 and 1800 tons is being planned. This type will be equipped with four 12 centimeter guns and strong anti-aircraft artillery. In addition to two cruisers already agreed to by Riksdag Government intends to propose construction of third cruiser of same type. On other hand there are no plans for construction of any larger ships to replace the three old battle cruisers. Coast artillery will be equipped with considerable number of new mobile batteries which may also be able to operate in conjunction with army. In air force five year plan is dependent on output of domestic aviation industry but it is expected that total of sixteen air flotillas may be set up except for air school. Costs involved were estimated at about 700 million crowns per annum which was only 6% of national

income and would therefore not have any decisive influence on standard of living. In addition to 750 million crowns of ordinary expenditures there were current expenditures for mobilization which may range from 600 to 800 million crowns per annum and non-recurring expenditures for material totalling about 500 million crowns.

JOHNSON

EMB

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TREASURY DEPARTMENT

197

INTER-OFFICE COMMUNICATION

DATE January 12, 1942

TO Secretary Morgenthau

FROM Mr. Dietrich

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	475,000
Purchased from commercial concerns	247,000

Open market sterling remained at 4. 3-3/4, and there were no reported transactions.

The Canadian dollar continued to react from its recent recovery, with practically no business being transacted. Today's final quotation was 11-5/8% discount, as compared with 11% on January 9 and 11-5/8% on December 30, low point of last month's decline.

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)	.5250
Venezuelan bolivar	.2675
Cuban peso	Par

We sold \$19,950,000 in gold to the Swiss National Bank, which was sold to the earmarked account. Of the gold used in this transaction, \$10,000,000 was accounted by us from the General Fund, through the New York Assay Office.

The Federal Reserve Bank of New York reported that the Central Bank of the Colombian Republic will ship \$3,080,000 in gold from Colombia to the Federal for its own account. Disposition unknown.

In London, spot silver was again fixed at 23-1/2d, equivalent to 42.67%. The forward quotation advanced 1/16d to 23-3/16d, equivalent to 42.78%.

The Treasury's purchase price for foreign silver was unchanged at 35%. The Bank of America's settlement price for foreign silver was also unchanged at 35-1/8%.

We made no purchases of silver today.

BRITISH EMBASSY
WASHINGTON, D.C.

PERSONAL AND
SECRET

January 12th, 1942

Dear Mr. Secretary,

I enclose herein for your personal and secret information a copy of the latest report 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.

COPY NO 13MOST SECRET
(US SECRET)AFTEL NO. 11

Information received up to 9 A.M. 10th January, 1942.

1. Naval

One of H.M. Destroyers was mined and sunk off Sheerness on the afternoon of the ninth. There are about 50 survivors and 10 missing. Same afternoon a naval minesweeper was damaged by an acoustic mine. She is able to steam and no casualties were reported. H.M. Ships bombarded MALPAGA Pass on the eighth.

4th. One of H.M. Submarines torpedoed an Italian 5,200 ton vessel east of PALERMO off which she was later seen in tow.

5th. 2.30 P.M. One of H.M. Submarines attacked an enemy battleship escorted by a cruiser and five destroyers approaching TARANTO. Four torpedoes were fired at long range and a very heavy explosion indicated a possible hit on the battleship.

2. MilitaryLibya

8th. Our advance from JEDABYA continues. On the road to EL AGHEILA the Coldstream Guards were held up in the evening fifteen miles from JEDABYA and twenty miles further south our columns were in contact with enemy armoured cars and artillery. Other columns are following the general line of the FADI EL FARASH forty miles South of JEDABYA but they have been delayed by bad going and have been attacked by dive bombers.

Malaya

8th. Our forces were heavily engaged during the day. No detailed reports yet available. British North BORNEO - CUSSELETON must now be considered under enemy control.

3. Air OperationsEastern Front

8th/9th. BREST 176 tons, CHERBOURG 16 tons. Visibility was poor but bursts were seen in the target areas followed by fires. Two bombers missing.

9th. Two Spitfires attacked a factory near ETAPLES and shot down two out of four enemy fighters which attacked them.

/9th/10th. 83 bombers...

Regraded Unclassified

- 2 -

9th/10th. 83 bombers were sent to BALST. A few other aircraft were sea-mining. Reports not yet received.

Mediterranean Libya

Water-logged aerodromes in the forward area have restricted our operations.

8th. A squadron of Maryland's bombed a coastal vessel and stores dumps near BAS EL ALI. Blenheims bombed HALFAYA defences intermittently during the day scoring hits on gun emplacements M.T. and dumps. In the JEDABYA area ten R.A.A.F. Kittyhawk fighters attacked 24 bombers escorted by 28 fighters which were dive-bombing our troops. Eleven enemy aircraft were destroyed, four probably destroyed and four damaged. One Kittyhawk is missing. Beaufighters set fire to a 300 ton ship off MARBAT EL HSUNI.

Far East - Malaya

7th. Four Junco scored four hits and several near misses on a 600 ton Japanese ship 260 miles East of KOTA BHANG and on 7th and 8th a Cataline bombed GONG KEDANG Aerodrome (South-East of KOTA BHANG).

A. Aircraft casualties in operations over and from the British Isles. German 2 Destroyed British 8th/7th, 2 missing 8th/10th, 1 missing equals 3.

Late News.

BALST. 8th/10th, one bomber missing, one crashed on return, crew safe. Six R.C.A.F. bombers back port without casualties.

TREASURY DEPARTMENT

201

INTER OFFICE COMMUNICATION

DATE January 19, 1942

TO Secretary Morgenthau
FROM Mr. Kemerok

34 (221) Summary of C.C.I. Report: "The German Military and Economic Position."

1. The Germans had 7.2 million men in the age group, 15-45, and most of these have been withdrawn from industry into the army. Any losses of these men of the best fighting ages are virtually irreplaceable. Based on the rate of German losses in the Polish campaign, the Germans have probably had 1.5 million battle casualties in the Russian war, up to December 10. (This number must be far below the real figure, since the fighting in Russia has been several times more fierce than in Poland. Our Military Intelligence believes that the most reasonable estimate of German casualties to December 1 is 2.0 to 2.5 million men.)

2. The seven million men that left German industry for the armed forces since the war began, have been partly replaced by other workers totalling a little more than four million. These new workers consist of foreign civilians -- Italians, Poles, Croats, etc. -- a million and a half prisoners of war, and German women. Qualitatively, of course, the recruits are not as good workers as the Germans they replace. This impairment in the labor force, together with some material shortages and transportation difficulties, must have caused a decline in the volume of industrial output in Germany. The British estimate this decrease to be as much as 20 percent. All of the decline in output, however, has been concentrated on the goods and services available for consumers. Production of war materials has increased.

3. There is no reliable evidence that either the quality or the quantity of military production has suffered, as yet, as a result of shortages of metals. The British believe, however, that there will be a crisis in copper and chrome during 1943.

Practically all the estimates of the German petroleum position indicate that Germany is maintaining its consumption by drawing on its petroleum stocks. The British indicate that the present rate of consumption, if maintained, will exhaust German resources in 1942. The O.C.I. study, however, believes that complete exhaustion of stocks is unlikely in 1942.

The Russian campaign has imposed an additional burden on the German transportation network, resulting in some symptoms of a transport shortage, such as the accumulation of coal at pit-heads and the delayed movement of cross.

4. There is no evidence of a collapse in German morale. The Propaganda Ministry is presenting the alternatives facing the German people as being total victory or total annihilation. If the German people are made to believe firmly that an Allied victory will bring vengeance and disaster, it will take many severe defeats to bring about a collapse of morale.

RESTRICTED

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10-2/2657-220: No. 598 M.I.D., W.D. 11:00 A.M., January 12, 1942.

SITUATION REPORT

I. Pacific Theater.

Philippines: Air activity continues limited. Japanese patrols and artillery active as more Japanese troops move toward the Luzon front. On January 9 United States planes bombed Japanese forces in the Davao Bay area, scoring a direct hit on a shore based anti-aircraft battery and another direct hit on a battleship in Malalag Bay, setting the latter on fire. Hawaii: Negative reports. Malaya: Press reports that the Japanese have occupied Kuala Lumpur, and that British forces have withdrawn slightly south of that city. No further reports from the east. Burma: Light air activity constitutes the only action. Netherlands East Indies: No further reports on the landing at Tarakan, northeast of Borneo, but the press reports that other landings have been made in Minahassa (northern tip of Celebes Island). West Coast: No further reports of hostile activity have been received.

II. Eastern Theater.

Operations continue on the central sector of the eastern front. Russian pressure is being extended west of Kaluga. The Russians claim the capture of Lyudinovo (70 miles west of Bolev) and Tikhonovo Pustyn (north of Kaluga). There are no important operations reported on the remainder of the front.

III. Western Theater.

Air: Air Ministry stated this morning that British bombers again attacked Brest last night. All the planes returned safely.

IV. Middle Eastern Theater.

Ground: Diminishing of activity in the Agheila-Agedubia sector is probably due to shortage of fuel and supplies for both forces. Continued aerial, naval and artillery bombardment, broken by minor raids over activities in the Salum-Halfaya sector.

Air: Bombing of rear supply areas is continued by both British and Axis air forces. Axis air forces continue bombing Malta.

RESTRICTED

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, January 13, 1942.
1/12/42

Press Service
No. 29-49

Secretary of the Treasury Morgenthau announced last night that the subscription books for the current offering of 2 percent Treasury Bonds of 1949-51, open to the holders of Treasury Notes of Series A-1942, maturing March 15, 1942, the 3 percent Federal Farm Mortgage Corporation Bonds of 1942-47, called for redemption on January 15, 1942, the 2-3/4 percent Federal Farm Mortgage Corporation bonds of 1942-47, called for redemption on March 1, 1942, and the Reconstruction Finance Corporation notes of Series R maturing January 15, 1942, will close at the close of business Tuesday, January 13, except for the receipt of subscriptions from holders of \$15,000 or less of the two issues of Federal Farm Mortgage Corporation bonds. The subscription books will close at the close of business Wednesday, January 14, for the receipt of subscriptions of the latter class. The offer to apply the proceeds of payment of the 3 percent Federal Farm Mortgage Corporation bonds and the Reconstruction Finance Corporation notes, and the offer to purchase 2-3/4 percent Federal Farm Mortgage Corporation bonds, in each case the principal proceeds of payment to be applied to payment for a like par amount of the new Treasury bonds will also terminate at the time the books close for the receipt of subscriptions of the respective classes.

Many smaller holders of the bonds do not have as immediate access to their securities, and are not as conversant with the manner of entering subscriptions, as the larger holders, and for these reasons they are given an extra day in which to take advantage of the offering.

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Subscriptions of either class addressed to a Federal Reserve Bank or Branch, or to the Treasury Department, and placed in the mail before 12 o'clock midnight of the respective closing days, will be considered as having been entered before the close of the subscription books.

Announcement of the amount of subscriptions and their division among the several Federal Reserve Districts will be made later.

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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, January 13, 1942.
1/12/42

Press Service
No. 29-50

The Secretary of the Treasury announced last evening that the tenders for \$150,000,000, or thereabouts, of 91-day Treasury bills, to be dated January 14 and to mature April 15, 1942, which were offered on January 9, were opened at the Federal Reserve Banks on January 12.

The details of this issue are as follows:

Total applied for - \$384,694,000
Total accepted - 150,047,000

Range of accepted bids: (Excepting one tender of \$300,000)

High	-	100.				
Low	-	99.963	Equivalent rate	approximately	0.146	percent
Average						
Price	-	99.970	"	"	"	0.119 "

-oOo-

January 13, 1941
9:15 a.m.

FINANCIAL ASSISTANCE TO CHINA

Present: Mr. Currier
Mr. Foley
Mr. Bell
Mr. Viner
Mr. Bernstein
Mr. Coe
Mr. Southard
Mr. Bell
Mr. Hornbeck
Mrs. Klotz

A.S.JR: Am I supposed to read this? Has anybody else got copies?

MR. COE: I just finished it last night.

H.M.JR: Can you give copies to these two gentlemen? My heavens, it is a long memorandum.

MR. COE: It is all on the first page.

H.M.JR: Well, here is the point. The Chinese will have to decide whether they like U. S. dollar currency or not. I made the proposal yesterday to L. W. Boone, and he seemed to like it very, very much, and to give you the back-ground, I was wholly indiscreet last night and enjoyed it. I first tried it out on Halifax, and it was all right. Then for one hour I got Mr. Churchill thinking about China. For one hour we talked about China. He is not supposed to be in Washington. He isn't supposed to be here. So I got him quite excited and I got Lord Beaverbrook quite excited

- 2 -

with the result that they are going to recall Sir Otto Niemeyer, so he said, "He is a penny-pinching so-and-so of a Treasury man. He said, "He was there when I was in Treasury. I know what kind of a fellow he is. Whoever sent him out there?" So the last thing as I left Halifax said, "I would like to see the telegram that goes out tonight on Otto Niemeyer." He says, "It is going to be a pip." He didn't use that language, naturally. But the point that Churchill got, he could see that they might figure it would be a time where you couldn't count on the White races and the yellow races had better get together. I am talking officially now. He said, "If there is anything the United States Treasury wants to do, you take the leadership and we will go along with you. We will back you up a hundred percent." I didn't bring up with him the question of Rangoon, but Lord Halifax told me that they have had several cables from the Government there and the thing isn't nearly as bad as it is made out to be, so I suggested, if it isn't, that he tell that to T. V. Soong.

MR. HORNBECK: You say not as bad?

H.M.JR: No, from the English standpoint. The last couple of days, he said, he has had their side of the story, and it wasn't nearly as bad. But at least I got Churchill's mind on it. He was very much interested. They all seemed to like the idea of this business of the soldiers. He raised a very good suggestion. He said, "Don't forget the Maria Theresa dollars that they used in Abyssinia. We might get up a special dollar for China."

(Mrs. Klotz entered the conference.)

MR. SOUTHARD: We used to have one didn't we, Mr. Secretary, many years ago?

MR. VINER: The China trade dollar. We had a special one.

H.M.JR: They would love that. What about the China trade dollar?

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MR. SOUTHARD: It was a heavy silver dollar.

H.M.JR: Meaning that they could--

MR. SOUTHARD: A little heavier than our standard dollar. To meet some competition--

MR. VINER: Of mints. It was a manufacturing prestige proposition. We made some profit on it, didn't we?

MR. SOUTHARD: Yes. We would have a transportation problem now, I suppose, in getting heavy money in there.

MR. VINER: Of course it is a question now of whether you want to get China back on anything like a metallic standard, and what that would do to the remainder of its paper standard. I would like to hear Currie on that.

MR. CURRIE: I am thinking over some difficulties of a mechanical sort, Mr. Secretary. When I mentioned the soldiers, I was thinking more of the bookkeeping end of it. We would set up the account here, an amount equal to being sufficient to look after so many soldiers. If we put our own dollars over there, Mr. Secretary, I fear that you will have about ten thousand black markets all over the place with the soldiers and the small people rather being victimized on the rates of exchange. With a bond issue, a dollar backed bond issue, it can only be exchanged at the official rate with American dollar bills. You will have an infinite number of quotations and speculations and a good medium for hoarding so I think on mechanical grounds there would be some difficulties.

H.M.JR: Oh, yes, but don't - look, give Soong a chance now. He likes this. I am looking ahead. I may be all wrong, but I thought it might appeal to the President and to Congress, the idea of establishing the dollar as the universal currency. I mean, we have got

to do something, and if we followed the lead, Lauch, that they gave of using our money to buy up their trash, it is a bottomless pit. They could use a billion dollars to buy up their trash, and then they would have nothing when they got through.

MR. CURRIE: Well, I don't want to be pedantic about it, Mr. Secretary, but there are usually two possibilities. On the earlier stage of inflation, if you put up good money, you run up against - bad money drives out good. This will be a medium for hoarding. At a very late stage of inflation, good money will probably drive out the bad. The other stuff ceases to circulate, such as the introduction of the new mark in Germany.

H.M.JR: I am amazed at you quoting Gresham's law. When has Gresham's law worked in the last ten years? Give me an example where it has worked in the last ten years.

MR. CURRIE: I don't think we have had any examples of two currencies circulating side by side.

MR. VINER: Each one freely issued.

MR. CURRIE: Each one freely issued and one being more valuable than the other. That is the only case where Gresham's law is supposed to apply. The only illustration I used to get when I taught at Harvard of exception was the gold in the Spanish War, and that was because they shot anybody who tendered a greenback.

H.M.JR: Mr. Churchill kept saying, "Can't you give them a little gold?" He says, "As far as I am concerned, if I could lay my hands on a little gold, I would be very happy."

MR. CURRIE: Gold would disappear immediately, Mr. Secretary, through hoarding.

MR. VINER: Gold is too expensive to circulate in

China and the smallest coin would be too big.

H.M.JR: Lauch - excuse me Jake.

MR. VINER: That is all.

H.M.JR: The coin would have to be so small that it would be insignificant, but I am not going to be certainly a party to what - and T. V. Soong told me honestly he couldn't present a case. I said, "After all, you have got all the woods you want in Rangoon, and you can't begin to move them. You haven't touched your fifty million dollar fund." And he said, "Now, I know that." He said, "I have got to put it in the language of the Generalissimo. He is a general. How can he say where is going to use five hundred thousand troops? He has got to have them in reserve and then use them." I said, "Now, you have told your story," and he kind of laughed. But when I got on this basis of paying the soldiers in U. S. currency, he liked it. Now the difference was, there are two important things. After all, the soldier idea was yours in the first instance, and the U. S. currency is mine. If we could get out of this thing for the next two or three months at five to ten million dollars a month, and I drove it home very hard that this was a month to month basis, then we get by the point, are they going to fight or aren't they going to fight. It doesn't give them the excuse to say, "Well, you refused us a billion dollar loan, and therefore we are going to make peace." So I am just saying this. I am not trying to lay down the law either. But if T. V. Soong would - and the Generalissimo would fall for this, and they would be willing to let us buy them off for five or ten million dollars a month for the next three months, Gresham's law or no Gresham's law, if I could see three months ahead I would recommend it. I don't know how you feel.

MR. CURRIE: It is just the difference of mechanics, Mr. Secretary, because as you say I suggested the soldier thing, but that is for the bookkeeping. We would take over the cost of operating the Burma Road or the cost of civil government or the cost of a million

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Chinese soldiers. We would pay into the Chinese an amount sufficient to equal at the current rate of exchange to that cost. They would issue the fapi, you see. As I recall, wasn't there some cables from Fox complaining about the circulation of some of the American dollars in China?

MR. BELL: In Shanghai.

MR. BERNSTEIN: That was in Shanghai.

MR. CURRIE: They were very worried over it.

MR. BELL: Don't you think, Lauch, that the hoarding would come after the circulation of this currency had done a lot of good? In other words, you would put these dollar certificates in the hands of the soldiers, and they would spend them, and then after that maybe somebody would hoard them.

MR. CURRIE: That is right.

MR. BELL: The good would have been done.

MR. CURRIE: My real fears come in there in the thousands and thousands of little black markets and the varying quotations and no two soldiers would ever get the same amount for their dollars.

MR. BELL: Couldn't the Government fix a rate?

MR. CURRIE: The money changers here--

MR. BELL: Couldn't the Government fix a rate at twenty to the dollar?

MR. COE: The Government could fix a rate for the soldiers. The quartermaster could be the exchange master. Thereafter it gets out.

MR. VINER: Into the market.

MR. SOUTHARD: Couldn't the black market be overcome by the Government using large denomination bills

and purchasing provisions and equipment, and then distributing that? It is a matter of large quantities of rice and you could give very large denomination bills, five hundred dollar bills and hundred dollar bills could be used by the Government. What difference would it make if they were hoarded by the rice dealers?

MR. BELL: That is a thought.

H.M.JR: Well, again, if what's-his-name is going to go Biblical on the money changers, I will go back - I don't like the idea of hiring a lot of Hessian soldiers either to fight our war. Now, what we are talking about is, can we hire a million soldiers to continue fighting until we get going? I mean, that is the bald fact of the thing.

MR. CURRIE: Well, I don't think it is quite that.

H.M.JR: Well, I am going you one better.

MR. VINER: They have something at stake too.

H.M.JR: No, but if you want to be sentimental or anything else about it, or moral, rather than sentimental, you are talking about renting a million soldiers as cheap as we can to fight our wars.

MR. BELL: I think the American currency might instill enlistments--

H.M.JR: That is worse. I wanted to make it worse.

MR. CURRIE: Since we are using these symbols, Mr. Secretary, I will say this smacks of imperialistic practices.

H.M.JR: I want to make it sound very bad, so that you will withdraw yours.

MR. CURRIE: Because it - that is something that you could very properly leave to the Chinese, after

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turning it into dollars. If they in turn want to turn the dollars into currency and take them back to China and use them that way, I assume we would have no objection.

H.M.JR: Now, that is nice.

MR. CURRIE: I mean, I would advise against it.

H.M.JR: Would you fight against it?

MR. CURRIE: I wouldn't want to interfere with their own setup.

H.M.JR: Would you fight against it?

MR. CURRIE: I would strongly advise against it. All I ever do in my life is to advise, anyway.

H.M.JR: You advise against our giving them U. S. currency to take back instead of a book credit?

MR. CURRIE: Yes.

H.M.JR: Are you with him, Viner, on that?

MR. VINER: Oh, I think that the one important thing is that we go ahead on something. I think that--

MR. CURRIE: It has got to be--

MR. VINER: Wait a minute. I was going on. I am impressed by his argument as to what circulating dollars would do in China, and my - I am also impressed by something that I have just seen in this memorandum that I certainly wouldn't have imagined beforehand, that dollar bills are more bulky than gold, and I was concerned with Leach's point yesterday that if you start shipping lots of gold over there, you are using up valuable transport space. We have got a transport problem even with dollar bills, but the issue isn't whether you - something shall be done, I think that is clear. It is a question of just

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what the mechanism is.

Now, you may recall that yesterday I said there is another phase that seems to me important. We have got to try to help them to mop up some of their currency. You are very pessimistic about that, and I have no judgment on it.

H.M.JR: It is impossible.

MR. VINER: You think you can't rely upon them at all. I don't mean so much to reduce the outstanding amount now, but as to act as a real brake to the extent to which they issue for their paper currency.

H.M.JR: As far as I am concerned, I think it is impossible. They can't control it. They haven't got the machinery.

MR. CURRIE: I wonder if you are getting together on this? I don't think you would say it is impossible for them to issue dollar backed bonds. What I think you have in mind is that they won't stop the printing presses.

H.M.JR: Yes, that is right. I don't know whether you agree with me on that.

MR. CURRIE: I would agree with you on that, sure.

MR. VINER: So you think that on that basis, there has to be two currencies in China to cure this situation, but you prefer it shouldn't be - the second one shouldn't be U. S. dollars and should be dollar backed bonds?

H.M.JR: Well, look, gents - does the State Department want to enter any objection? We are getting very technical now - on the approach that if it is acceptable to the Chinese, we do something to help them with their army, just that one thing? How we help them for the moment is unimportant.

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MR. HORNBECK: As far as helping them with the army is concerned, I am sure we would not enter any objection on that. As far as the idea of anything in which it would appear that we are doing the thing you characterized a little while ago, hiring Hessian soldiers, as far as that would appear, we would feel that that would be a pretty risky sort of thing from a political point of view. I talked with the Secretary about that and talked with Hamilton.

H.M.JR: And you are willing to have us give them the planes and the pilots to fly them?

MR. HORNBECK: Oh my, yes.

H.M.JR: But you are not willing for us to pay the Chinese--

MR. HORNBECK: When you actually begin to hire human beings to make it more or less our hired army - we haven't gone very far into it because, as you know, I only found out about this late last evening. We just had a sketchy sort of conversation about it. But may I make one observation. You have expressed twice the idea that we have the problem of getting by the next two or three months, getting by the period in which we are going to have reverses and so forth, presumably. Now, it would seem to me - I am just thinking out loud - that that is not so difficult a problem if we are in position to assure the Chinese that we will give them this financial backing to the extent of three hundred million or five hundred million or whatever it is when we come to an agreement with Chiang by which he understands that it is going to be forthcoming, the details to be settled later on. I think that would pretty well take care of this question you raised, the question of whether the Chinese are going to fight or not going to fight. As you realize, Chiang Kai-shek is absolutely determined to fight. The problem that we have is the problem of giving Chiang and his immediate and loyal entourage a sufficient amount of support to enable them to overcome any objections or defections or anything else of certain opposition groups, not disaffected groups by any

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means, but the defeatists and the appeaser groups and so forth and the Chinese articulate personnel. Now, if Chiang can say he has got the financial backing of the United States of several hundred million dollars, I think that would take care of that, and it doesn't have to be specified at this moment or in the next week or the next two weeks exactly how you are going to do that.

H.M.JR: Well, I don't - I won't argue now, but I don't agree with you. Whenever I have told the Chinese I am going to do something, I have thought it out and done it, and I haven't made them a promise, and then for some reason or other been unable to do it. He knows that. I mean, I wouldn't promise two or three hundred million dollars and then say, "We will work it out," and then have it come out twenty million dollars. Well, let me find out how the President feels. T. V. Soong has sent a message taking this suggestion. We will get a reaction from it. If you want to discuss this currency thing, Bell, if you would take this group into your room for a few minutes.

MR. BELL: All right.

H.M.JR: I would like you to discuss with them the pros and cons of sending this currency over there. I would like it very much. Could you give a little more time to this?

MR. CURRIE: Yes.

H.M.JR: And I will go over and see how the President feels about it.

Treasury Department
Division of Monetary Research

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Date January 12, 1942 19

To: **Secretary Morgenthau**

From: **V. F. Coe**

The appended memoranda may be helpful to you:

1. A statement of "pros" and "cons" of your proposal.
2. Drafts of suggested public announcements of the loan by the President and yourself, either or both of which you might want to show the President.
3. A draft telegram to Dr. Kung, to start the ball rolling.

January 12, 1942

Secretary Morgenthau

V. F. Coe

Subject: Secretary's Proposal for Loan to China.

- I. The proposal of the Secretary is that the United States should assist China in financing her military expenditures, and particularly the pay and maintenance of the Chinese soldiers.

Preliminary examination indicates that a loan to China along the above lines can achieve the major objectives which should be the goals of this government in relation to the present loan. It would be desirable, if the President agrees, to tell the Generalissimo that the Secretary is ready to discuss this proposal, among others, and to make a public announcement that negotiations have begun.

However, there are a number of different ways in which the secretary's proposal might be carried out, and each of them needs to be explored.

In view of the fact that a good deal of information essential for a decision is lacking, and that each of the possible ways for carrying out the Secretary's proposal has its strong and its weak points, it would seem desirable that the announcement should be general, and not be confined to a specific proposal.

- II. Some of the possible ways whereby the United States could finance Chinese military expenditures are the following:
 1. Shipment of United States' currency to China and its issuance there as pay for soldiers and other military expenditures.
 2. Shipment of United States' currency to China and its issuance there for the purchase of rice and other products for distribution to and use by the army.

W.F. to Secy 1/13/42.

3. Giving China dollar accounts in the United States, against which she could issue bonds, the fapi proceeds of which could be used for military expenditures.
4. Giving China earmarked gold, against which bonds could be issued as above.

In order to evaluate these and other proposals, we ought to know more than we do as to how the Chinese Government is now paying its soldiers.

Our present information is only that some yuan payments are made and some rice payments are made, and that there is considerable variation in the amount and method of payment. Particularly with regard to the proposal to distribute United States currency in China, either for pay or for supplies, it is necessary to obtain more information as to how the people and the Government would react to this procedure.

- III. A preliminary listing of the pros and cons of the most novel of these proposals, (proposal number 1 above) is given below.
- IV. Advantages of using United States' currency to pay soldiers and to meet other military expenditures in China.
 1. This proposal is in accordance with the political aim of the loan -- to assist Chinese military effort.
 2. This kind of loan would meet the political necessity of making a large and spectacular loan. By relating the size of the loan to the size of Chinese military expenditures, this proposal helps to settle the question of how large the loan should be.
 3. The Secretary's objective of paying out the money in installments, while fighting was going on, would be achieved.

Division of Monetary
Research

- 4. This loan should assure the good-will toward the United States of the soldiers, ordinary people and the Government. This would be particularly true, if the amount paid out to the army meant that the effective purchasing power of the average soldier was increased.
- 5. This proposal is in the direction of attempting to make the U.S. dollar currency into an international money.
- 6. In so far as the soldiers and suppliers of military goods would accept U.S. dollars, the fight against inflation would be helped, since the need to issue more Chinese currency for these purposes would be eliminated.
- 7. Because the dollars would be hoarded by some people, the tendency to hoard goods would probably be diminished. Not only because of the inflation, but also because Chinese traders and merchants have had considerable experience with various currencies, it would be more feasible in China than elsewhere to introduce a foreign currency into the monetary system.
- 8. It would be possible to meet these payments from Lend-Lease, if this method is thought preferable to use of the Stabilization Fund or to an authorization from Congress to lend to China.

A number of the above advantages could also be achieved by the issuance of bonds, payable, when due, in U.S. dollars. The use of U.S. currency to pay for rice to be distributed to the troops would also share in some of the above advantages. If it proves to be true that the amount of yuan now paid to the troops is not large, and if it is doubtful that the troops would accept pay in U.S. currency, the proposal to buy rice and other supplies with U.S. currency may be more feasible than proposal II 1.

v. Disadvantages of the proposal.

1. Chinese soldiers and ordinary people might be unwilling to accept United States' dollars, because all their purchases are made in yuan; because of the novelty of the currency; and because the denominations which could be eventually shipped, would be too large for their purposes. Accordingly, the government would have to provide yuan equivalent and there would be no diminution in the amount of Chinese dollars printed.
2. The United States' dollars which were issued would be hoarded and speculated in only by the wealthy. There would be thousands of black markets with rates different from the official one.
3. The Chinese people might interpret the issuance of the new currency to mean that the yuan were to be recalled, or abandoned. Therefore, the confidence in the Chinese currency might be still further undermined. The Japanese, along with the Chinese speculators, would want to obtain United States' dollars for the plentiful stocks of fapi which they held. Their throwing of these fapi on the market would further decrease the value of Chinese currency.
4. The difficulties of safe transport would be large. \$10 million worth of \$1. United States' notes weigh over ten and a half tons, or, just about what the same value of gold would weigh. \$10 million worth of \$5. notes weigh over two tons. Shipment of this amount of small notes by air would, therefore, be a considerable undertaking, at a time when much precious cargo must be flown. The transport of this precious cargo over the Burma Road would require a good deal of armed protection. Both governments would use up a good deal of energy and administrative ability on this problem of a safe transport. (The transport difficulties could, of course, be greatly reduced if the United States' currency were used to purchase supplies, and not for the pay of soldiers.)

Division of Monetary
Research

- 5 -

5. Payment of United States' dollars to the troops might increase corruption in the army. There might be, in addition to the incentive to profiteer on the soldiers, a large number of spurious supply contracts.
6. Dissatisfaction of the soldiers with the rate of purchasing power of their pay might be deflected from the Chinese to the United States' Government.
7. Speculators, exchange traders and sharpsters of all sorts, would prey upon the poor persons who receive the United States' dollars, and would deprive them of the benefits which the dollar payments are intended to secure.
8. The Generalissimo and many other Chinese might regard this proposal as a method of making China dependent upon the United States through depriving her of a separate monetary system.

a/cel
1/12/42

Weight of Various Amounts of United States Currency

<u>Denomination</u>	<u>Weight of</u> <u>\$5,000,000</u>	<u>Weight of</u> <u>\$20,000,000</u>
41	10,625 lbs.	21,250 lbs.
5	2,125	4,250
10	1,062½	2,125
20	531¼	1,062½

The above is for new currency as shipped by the Treasury to the Federal Reserve Banks. Notes are all shipped in packages of 4,000. Each package weighs approximately 8½ lbs. varying somewhat from package to package. The weight includes the paper wrapping each package and steel banding. The currency paper alone, unprinted, weighs 8.0541 lbs. per 4,000 notes.

GAZ:msk
1/12/42

100-100000

Draft of Statement by President on Loan to China

President Roosevelt announced today the United States stood ready to assist China by financing her military expenditures, including the pay of the Chinese soldiers. At the request of General Chiang Kai-shek, he was asking the Secretary of the Treasury to open financial negotiations with the Government of China to this end.

The President said that this step was an example of the spirit which animated the United Nations Declaration and of the firm intention of the pledged nations to cooperate in all ways possible to achieve their common objective. The President pointed out that the Chinese have been fighting for four and a half years; that they were continuing to fight, and that just the other day at Changsha, they had won a brilliant victory over the Japanese army. Not only were there millions of Chinese soldiers fighting the common enemy, but virtually the whole population was resisting the invader.

The President said that these huge military operations called for immense expenditures by the Government of China and the effort of meeting these huge expenditures had severely strained the financial and economic system of China. The President expressed complete agreement with the statement made by the Generalissimo in a note to the President that it was essential to the common war effort that the economy of China should be made as strong as possible. The President pledged that the United States Government would render every possible assistance to help feed and clothe the brave soldiers and people of China and do all possible to strengthen China's financial and monetary system.

1/21/42
1/21/42

Proposed Statement by Secretary Morgenthau on Loan to China

Secretary Morgenthau announced that at the President's request, he was opening negotiations with the Chinese Government for additional financial assistance. The Secretary said that the purpose of this assistance was to help China in meeting its enormous war expenditures and to keep its fighting soldiers paid and fed and clothed.

Secretary Morgenthau said that even before December 7, this government had, through the Stabilization Fund and the Export-Import Bank, rendered important financial aid to China. The Secretary said that despite the most difficult circumstances under which the Chinese Government had had to operate, it had scrupulously lived up to the terms of all of its financial agreements.

Secretary Morgenthau stated that the cost of the war to China was extremely large in relation to the financial resources of the country. Nevertheless, the Generalissimo, the Government, and the people had not hesitated to throw everything that they possessed into the struggle. The Secretary said that he was sure that the attitude of the whole American people was stated by the President and that our people would want to help the Chinese people in the financing of this war.

The Secretary said that he was particularly interested in exploring ways whereby the United States could help in paying and maintaining the Chinese armies. The Chinese financial problem, the Secretary stated, is a problem of paying for an army of millions of men. In the effort to meet this situation, the financial resources of the government and the people have been drained. Prices have risen and are rising very rapidly. The

internal financial and economic situation is serious. The Secretary said that he was convinced that it was essential to the Chinese war effort that China should be assisted in meeting these financial burdens and in maintaining an efficient economy.

The Secretary announced that he was recalling Mr. A. N. Fox, the American member of the Chinese Stabilization Board, for advice and participation in the discussions concerning financial assistance to China.

vrc/hal
1/12/42

DRAFT TELEGRAM FROM SECRETARY MORGENTHAU
TO FINANCE MINISTER KUNG

In answer to your message, dated January 9th, transmitted through Mr. Fox, I am happy to inform you that the President has asked me to begin negotiations with the Chinese Government relating to financial assistance. The President suggests that we explore all the possibilities whereby this Government could reduce the financial burdens on China of her war expenditures, including those of paying the brave Chinese soldiers. The President is making public this decision.

I am aware of the financial difficulties you have had and recognize the force of your statements that your soldiers and people must be fed and clothed, that your financial and economic system must be strengthened, and that the United Nations must help each other to meet the economic trials of war. The people of the United States and their Government know that your people has fought this war long and well. We will gladly cooperate to help you to meet your economic problems.

I shall welcome all proposals from you as to the ways by which the United States can help finance your military expenditures or strengthen your monetary and financial system.

We feel that the political and military purpose of the loan you proposed would be best achieved through an arrangement by which the United States could help finance your current military expenditures. This idea, however, will require detailed consideration, and I shall be glad to receive your ideas on the subject. We especially need information as to

- 2 -

the different ways in which you make these military expenditures, including pay to the soldiers.

I am hopeful that the negotiations can be carried forward rapidly.

We have informed the British Government of this reply to your message.

VFC:meh
1/13/42

1/13/42

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The Secretary brought back the original memorandum and gave it to Foley. The President verbally O.K'd it and told the Secretary to go ahead and take the steps proposed in the memorandum.

to:

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MISS CHAUNCEY

Mr. Foley carried the original to the Secretary this morning, and it is our understanding that the Secretary will carry it to the White House. Since all communications going to the President should be submitted in duplicate, am sending you two extra copies, one for your files.

MR. FOLEY

JAN 13 1942

Secretary Morgenthau

Mr. Foley

Last Saturday, in accordance with your instructions, I sent a copy of the memorandum, which you sent to the President last Friday, relating to our investigation of the General Aniline and Film Corporation, to the Secretaries of State, War, Navy, Agriculture and Commerce, the Attorney General, the Comptroller General, the Coordinator of Information, the Chairman of the Securities and Exchange Commission, and the Office of Emergency Management. These agencies have had relations, contract or otherwise, with General Aniline. In each letter of transmittal I suggested the advisability of taking steps to eliminate situations of the character described in the memorandum.

If you agree, we now propose to take the following additional steps:

(1) Freeze the funds and suspend and bar from the premises of the company the following officials who incarnate its I. G. Farben domination:

Rudolph Rutz	- vice president and director of the company - salary, \$80,000 a year,
Hans Aickelin	- vice president and production manager of the General Aniline works - salary, \$60,000 a year,
Leopold Sokler	- acting general manager Igfa Inaco Division - salary \$27,000 a year,
William von Rath	- vice president and secretary of the company, supervising the Osalid Division - salary \$40,000 a year,
F. W. von Weister	- general manager Osalid Division - salary, \$18,000 a year.

All of these officials are naturalized American citizens with German backgrounds who, prior to their arrival in this country from Germany, were associated with I. G. Farben.

(2) We propose to subject to freezing control, on a restricted special license basis, twenty-five additional employees of the company whose names appear on the attached list. Like the foregoing officials whom we propose to suspend from the company, these individuals have German origins (twelve of them being German aliens) and have been closely identified with I. G. Farben for many years. At the present time we do not intend to suspend these persons, but will supervise them through control of their funds pending further investigation.

The actual operations of the General Aniline and Film Corporation in all significant respects have been, and are, dominated and controlled by I. G. Farben, the German Dye Trust - which is the Nazi Government.

As I indicated in my memorandum of January 7, 1942, the Oswald Division of the company, whose active heads and guiding spirits are Wilhelm von Barth, known to have been connected with the German Secret Service in the United States and Switzerland during the last war, and F. W. von Helster, von Barth's relative and junior aide, constitutes a wide-spread organization with unparalleled access to industrial defense plants and government agencies. We have evidence that the operations of this division included the sending of information to Germany.

We have found that the Agfa Anso Division of the company has a number of government contracts for the development of film relating to vital military secrets. We have also found that, until recent weeks at least, the Division has been conducting experimental work in aerial photography and related subjects with the Army. The seriousness of this situation is amply indicated by the fact that film development work for the Army has been carried on under the supervision of German aliens and naturalized German aliens who personally I. G. Farben domination.

The General Aniline Division of the company, which is engaged in the production of chemicals and dyes, is also permeated by I. G. Farben men and, in many instances, by avowed Nazis. A major part of the work of this Division is the production of materials for other industrial concerns having government contracts and orders.

We already have ample evidence to support the foregoing conclusions and to justify the steps we propose to take. As we proceed with our examination of the affairs of the company and its personnel, additional moves will be indicated, including more definitive action with regard to the individuals referred to in this memorandum.

If this action meets with your approval we will issue the necessary instructions to the Federal Reserve Bank of New York and John E. Mack, the president of the company.

Approved:

330161gmb 1/13/42

Berner Alexewicz

Karl H. Braun

Franz Philipp Blumenthal

Ferdinand Busch

George F. Bretschneider

Fritz W. Darsch

Hermann Dürr, Dr.

Karl H. Foesten

Dr. H. W. Grimmel

Hermann Hoerlin

Carl Mueller

Fritz Walter Helmuth Mueller, Dr.

Paul Nasiesky

Erich C. Pott

F. Raeder

Ludwig Richter

Korot Sime

Bruno Charles Roehri

Dr. Erich Rosenloeh

Hans Werner Sachs

Dr. Billy J. Schmidt

Erich Schoder

Oskar Schultz

Emy Stoeckel

J. Rudolph Worch

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE JAN 13 1942

TO Secretary Morgenthau

FROM Mr. Foley

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E. W. 7h

Approved: JAN 13 1942

Wm. G.

Amesley
Barn
Gripp Blussemel
Basse
A. Brettschneider
A. Gersch
A. Durr, Dr.
A. Feesten
A. W. Grimmel
A. Hoerlin
Muller
Walter Helmuth Mueller, Dr.
Wisky

Erich C. Pott
P. Raeder
Ludwig Richter
Horst Rinne
Bruno Charles Roehrl
Dr. Erich Rossboch
Hans Werner Sachs
Dr. Willy A. Schmidt
Erich Schoeder
Oskar Schults
Emy Stoeckel
J. Rudolph Worch

January 13, 1942
10:40 a.m.

FREZZING - GENERAL ANILINE AND FILM

Present: Mr. Foley
Mrs. Klotz
Mr. O'Connell

H.M.JR: Well, it worked beautifully. I read the thing to the President and he was extremely interested, and when I got through he said, "Do you know what my answer is, Henry?" I said, "No, Mr. President." He said, "Well, in case anybody asks you, you can say that the President has read it and his answer is, 'Kill the son of a bitch.'" Excuse me, Mrs. Klotz. I apologize to you, but I am just repeating.

MR. FOLEY: Good.

H.M.JR: I am sorry, but this is what he said.

MRS. KLOTZ: I enjoy it.

MR. FOLEY: I think she probably feels the same way.

H.M.JR: I told you I was going to repeat what he said, but that was his language.

I am going to tell Crowley myself. He has made up his mind. I am going to tell him that you will furnish him with a copy of the memorandum.

MR. FOLEY: Right.

H.M.JR: And then the President said, he wants to know who in the Army sent this stuff up. So I am going

- 2 -

to, while you are here, call up Colonel Smith and say, "The President wants to know who in the Army sent films up to General Aniline to be developed.

MR. FOLEY: I think O'Connell knows. He knows from that angle.

H.M.JR: Well, send for him.

MR. FOLEY: Let's have him in here.

(Mr. O'Connell entered the conference).

MR. FOLEY: Joe, do you know who it is in the Army that has sent these films to General Aniline for development?

MR. O'CONNELL: No, I don't. We contacted Army Intelligence in New York.

MR. FOLEY: Who is the Army man in it?

MR. O'CONNELL: There is a man named - there were two Army men at Binghamton.

MR. FOLEY: Was that after we told them?

MR. O'CONNELL: Oh, yes, no Army man was near the place until after we told the Army Intelligence.

H.M.JR: But the Army has been sending film up there?

MR. O'CONNELL: Oh, yes. In the plant in New York, the small plant, we found film which had come from Aberdeen proving grounds showing --

H.M.JR: What plant is that in New York?

MR. O'CONNELL: Well, it is the Agfa Ansco division laboratory.

H.M.JR: Agfa Ansco, and you found film there?

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MR. O'CONNELL: We saw film taken at Aberdeen proving ground being developed.

H.M.JR: How long ago?

MR. O'CONNELL: It was about the 15th of December.

(The Secretary held a telephone conversation with Colonel Smith as follows:)

January 13, 1942
10:45 a.m.

Operator: Go ahead.

HMJr: Hello.

Colonel Smith: Yes, Mr. Secretary.

HMJr: Good morning.

S: How are you, sir?

HMJr: Colonel Smith - I'm fine - I just returned from the President and I gave him a story on the - this Aniline Dye Company, you know. Hello.

S: No, sir, I don't know.

HMJr: Well, they control the Agfa Ansco Film.

S: Oh, oh, yes, sir.

HMJr: And amongst other things, in a plant in New York. We found film there from the Aberdeen Proving Grounds.

S: Yes.

HMJr: Now the President said that he wants me to find out what Army officers, on what authority, have they been sending stuff to be developed at the Agfa Ansco Film.

S: Yes, sir. Agfa Ansco, yes, sir.

HMJr: Knowing that this is a German-controlled outfit.

S: Yes. You say they were up there from Aberdeen for development?

HMJr: That's right.

S: I see.

HMJr: Now, this is just one instance we run into.

- 2 -

S: Yes.

HMJr: So if you'd mind making inquiries what other - he wants to know what officers under whose - who ordered film to be sent there, you see?

S: Yes, sir.

HMJr: Because he was tremendously shocked to think that they'd be sending Army film to a German-controlled company.

S: Yes.

HMJr: Within the last month.

S: I'll find out, Mr. Secretary.

HMJr: And if I'm not here, will you tell Mrs. Klotz?

S: Yes, indeed.

HMJr: The President - he can't understand it any more than I can.

S: What was the nature of the film, Mr. Secretary, do you know?

HMJr: Well, just a minute. Just a moment. (talks aside)

One is a picture of a tank and another is of a - both tests - one a test of a tank and the other the test of a mobile gun.

S: I see. Thank you very much. I'll find out from the Ordnance.

HMJr: And we have pretty good reason to believe that all of these things have been copied and sent to Germany.

S: Yes, sir. Well, I'll find out right away and I'll let Mrs. Klotz know.

HMJr: Thank you.

S: Good-bye, sir.

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MR. O'CONNELL: We informed Army Intelligence of the situation that we found, both in New York and in Binghamton. The particular films that I referred to were sent from a Philadelphia firm which had a contract with the Army - in other words, the War Department sent film to be developed to a Philadelphia firm, which was either without facilities or --

H.M.JR: They didn't send it direct?

MR. O'CONNELL: No, they did not. They sub-contracted either with or without - that is all right, though. They can't sub-contract in any Government contract I ever saw, without the approval of the Department. This Philadelphia firm sent the film to Agfa Ansco. They do have some contracts with other divisions of the Army direct. When we first contacted the War Department, they said they had no contracts with Agfa Ansco. That is not true, and they, I think, are willing to admit that now. They have a contract with the Aeronautics organization which --

H.M.JR: Well, if you have anything that would help to guide Colonel Smith - what is he, Edward Smith? You (Mrs. Klotz) can give him the address. I would send it over to him.

MR. O'CONNELL: I could give the names of some of the Army people. For instance, Colonel Gregory, who is the G-2 man in charge in New York, has been in Washington.

MR. FOLEY: Do you want Joe to go see Colonel Smith? He can give him the background.

H.M.JR: Do that. Mrs. Spangler can arrange for you to go over. I think it would be good to go over there. Whisper to him so I don't have to tell him again, what the President said. The President said, "Go ahead." I am going to tell Leo Crowley myself. The President was delighted.

MR. O'CONNELL: Fine.

- 5 -

H.M.JR: The President's reaction was, "Kill the S.O.B." I mean, that is what he said. As long as the President feels this way, boys, now go to it.

MR. FOLEY: We will.

MR. O'CONNELL: We will.

H.M.JR: Go to it. Get tough. I want a copy of - write out a memorandum --

MR. FOLEY: Of your conversation with Colonel Smith.

MR. O'CONNELL: All right.

MR. FOLEY: And you and Sam get together before you go over and get the people and the films and the instances and the sub-contracts and the contracts.

H.M.JR: O.K. But I told Ed I didn't know what the reaction would be at the White House, but my hunch was all right, and if the President ever heard of Leo Crowley or an Alien Property Custodian or the Department of Justice, if he ever heard of it, you wouldn't know it.

MR. FOLEY: Wonderful.

MR. O'CONNELL: Couldn't be better.

H.M.JR: And I didn't raise it. I will tell Leo Crowley if he wants a copy of the memorandum, he can get in touch with you, but we are moving in now. That is all. I want that pleasure.

MR. FOLEY: Good for you.

H.M.JR: I may be wrong, but certainly when John E. Mack calls up the White House --

MR. FOLEY: The President will know about it.

H.M.JR: And the President's answer is, "Get tough, boys."