

**OFFICE OF CIVILIAN DEFENSE**

Washington, D. C.
January 20, 1942.

My dear Mr. Secretary:

It has been suggested to me that the name of the bonds could now be changed from Defense Bonds to Freedom Bonds. I give this to you as a question of stimulation.

Very sincerely yours,

Mrs. Franklin D. Roosevelt
Assistant Director

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

259
Unfilled Orders for Savings Bonds at the
Federal Reserve Banks and the Post Office Department
January 8 to date

(In thousands of pieces)

	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
Jan. 8	1,597	460	460	1,597	511	450
9	1,597	649	500	1,471	236	550
10	1,471	155	525	1,101	236	575
11	1,101	None-no mail	560	541	236	600
12	541	859	595	805	236	625
13	805	423	630	598	236	650
14	598	622	670	550	236	685
15	550	660	750	455	231	1,000
16	455	773	775	426	204	750
17	426	672	800	298	204	1,000
18	298	None-no mail	None-closed	298	204	600
19	298	204	800 <u>1/</u>	202	204	605
20	202	204	800 <u>1/</u>	86	184	1,000
21	86	411	800 <u>2/</u>	59	179	675

Office of the Secretary of the Treasury,
Division of Research and Statistics.

January 22, 1942

1/ Of this amount, 500,000 pieces were placed in inventory in Washington vaults.
2/ Of this amount, 367,000 pieces were placed in inventory in Washington vaults.

UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During
 First Eighteen Business Days of January 1942 and December and November 1941
 (November 1-24, December 1-20, January 1-21)
 On Basis of Issue Price

(Amounts in thousands of dollars)

Item	Sales			Amount of Increase		Percentage of Increase	
	January 1942	December 1941	November 1941	January over December	December over November	January over December	December over November
Series E - Post Offices	\$112,704	\$ 54,284	\$ 31,056	\$ 58,420	\$ 23,228	107.6%	74.8%
Series E - Banks	<u>327,031</u>	<u>106,487</u>	<u>56,543</u>	<u>220,544</u>	<u>49,944</u>	<u>207.1</u>	<u>88.3</u>
Series E - Total	439,735	160,770	87,599	278,965	73,171	173.5	83.5
Series F - Banks	48,178	16,298	14,600	31,880	1,698	195.6	11.6
Series G - Banks	<u>197,817</u>	<u>92,300</u>	<u>83,008</u>	<u>105,517</u>	<u>9,292</u>	<u>114.3</u>	<u>11.2</u>
Total	<u>\$685,730</u>	<u>\$269,368</u>	<u>\$185,208</u>	<u>\$416,362</u>	<u>\$ 84,160</u>	<u>154.6%</u>	<u>15.4%</u>

Office of the Secretary of the Treasury, Division of Research and Statistics.

January 22, 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
12	10,187	37,483	3,830	14,353	55,666	47,670	3,830	14,353	65,853
13	7,902	15,059	2,507	11,944	29,510	22,961	2,507	11,944	37,412
14	4,706	19,939	3,701	14,293	37,933	24,645	3,701	14,293	42,639
15	6,444	16,597	2,243	13,283	32,123	23,041	2,243	13,283	38,567
16	5,721	26,239	4,319	14,078	44,637	31,960	4,319	14,078	50,358
17	4,830	6,933	759	3,008	10,700	11,763	759	3,008	15,530
19	8,835	39,000	3,946	16,599	59,545	47,835	3,946	16,599	68,380
20	5,155	10,549	2,285	10,551	23,385	15,703	2,285	10,551	28,539
21	4,886	19,375	3,538	15,566	38,479	24,261	3,538	15,566	43,365
Total	\$112,704	\$327,031	\$ 48,178	\$197,817	\$573,627	\$439,735	\$ 48,178	\$197,817	\$685,730

Office of the Secretary of the Treasury, Division of Research and Statistics.

January 22, 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

DATE January 22, 1942

TO Secretary Morgenthau
 FROM D. H. Morris, Jr.
 Subject: Twelve Night Letters sent Wednesday, January 21st,
 at your request.

GROUP A

In the body of the sample telegram the amount left blank was filled in as indicated opposite the names listed below.

Chicago, Indianapolis & Louisville R.R. Chicago	\$ 1,800.
Chicago & Northwestern R. R. Co. Chicago	15,000.
International Harvester Co. Chicago	270,000.
Harnischfeger Corp. Milwaukee, Wisconsin	14,500.

Telegram sent to Group A:

Secretary Morgenthau asks me to convey his appreciation for your becoming qualified issuing agent for Series E bonds and is glad to hear you have already requisitioned \$ _____ face value of bonds. It would be appreciated if you would send a report to the undersigned stating how the plan is working out and giving any comments or suggestions which you may have in regard thereto.

(signed) Dave H. Morris, Jr.
 Assistant to the Secretary of the
 Treasury

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GROUP B

Chicago & East Illinois R. R.
Chicago

Chicago Great Western R. R. Co.
Chicago

Swift & Co.
Chicago

Milwaukee Journal
Milwaukee, Wisconsin

Tom Huston Peanut Co.
Columbus, Georgia

Michael Bros., Inc.
Athens, Georgia

Cain-Sloan Co.
Nashville, Tennessee

Telegram sent to Group B:

Secretary Morgenthau asks me to convey his appreciation for your becoming qualified issuing agent for Series E bonds. He notes that so far you have requisitioned no bonds and wonders whether this is due to complications or merely the lack of sufficient time for individual accumulations to require the issuance of any bonds. It would be appreciated if you would send a report to the undersigned covering this question and also giving any comments or suggestions you may have on the plan.

(signed) Dave H. Morris, Jr.
Assistant to the Secretary of the Treasury

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GROUP C

Louis Pizitz Drygoods Co.
Birmingham, Alabama

Telegram sent to Group C:

Secretary Morgenthau asks me to convey his appreciation for your becoming qualified issuing agent for Series E bonds. He notes that you requisitioned \$8,500 face value of bonds but through a misunderstanding the bonds could not be delivered because appropriate check was not received by Federal Reserve Bank. He hopes this has been straightened out and that plan is now operating satisfactorily. It would be appreciated if you would send a report to the undersigned covering your situation and also giving any comments or suggestions you may have on the plan.

(signed) Dave H. Morris, Jr.
Assistant to the Secretary of the
Treasury

D.H.M.

Copies to: Messrs. D. W. Bell
Graves
Sloan

January 22, 1942

Dear Mr. Watson:

After an absence of a few days from Washington, I find your letter of January 12 awaiting me.

Not only because of your personal interest, but because of the good work of the officers of your company, the deliveries have been quite satisfactory, and on three days recently your deliveries have been one million per day.

We have been able, therefore, to accumulate some stock here, and with your assurance that the rate of deliveries you are now maintaining will be continued, I am content to leave the situation as it is at present, with the understanding that if the demand increases still further you will be able to meet such requirements.

With sincere appreciation of your thoroughgoing and effective cooperation,

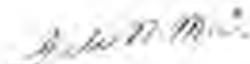
Very truly yours,

(Signed) E. M. Warshaw, Jr.

Secretary of the Treasury

Mr. Thomas J. Watson, President
International Business Machines Corporation
390 Madison Avenue
New York, New York

US:SLB



INTERNATIONAL BUSINESS MACHINES CORPORATION
300 MADISON AVENUE
NEW YORK

OFFICE OF
THE PRESIDENT

January 12, 1942

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

Dear Mr. Secretary:

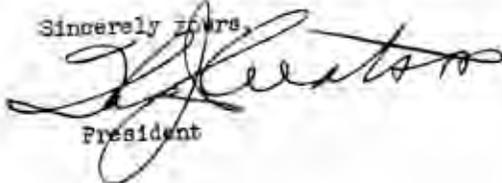
I have put off writing to you until I could give you something more definite in regard to our production of bond assemblies, and I am pleased to advise you that I have just been informed by Mr. Kirk, our Vice President in Charge of Manufacturing, that we are shipping 650,000 of these assemblies today. By Thursday we will be up to 750,000.

We have ordered all supplies and equipment necessary to bring us up to a million per day by January 25th. We have asked the manufacturers of equipment to work 7 days a week, 24 hours a day in order to insure prompt deliveries, and we are manufacturing a great deal of the material in our own factory on this same time schedule. Mr. Kirk states that all of the people handling this job have assured him that they will not fall down on the delivery requirements. He is in daily contact with the Bureau of Printing and Engraving for confirmation of each day's schedule.

I want you to know that we realize the importance of this task, and if you find that the demand is going to exceed one million per day, we will take steps to meet any new requirements as soon as we hear from your Department. We all appreciate the opportunity to cooperate with you in this important work.

Thanking you for giving your personal attention to calling me in regard to the matter, and with best wishes, I remain

Sincerely yours,



President

TJWB

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE January 22, 1942

to Secretary Morgenthau

from Mr. White

Subject: Exports to Russia, China, Burma, Hong Kong, Japan, France and other blocked countries, as reported to the Treasury Department during the week ending January 10, 1942.

1. Exports to Russia

Exports to Russia as reported to the Treasury during the week ending January 10, 1942 amounted to over \$8,000,000, as compared with approximately \$4,000,000 during the previous week. This is the highest figure for any single week since America's entrance into the war. The principal item was motor trucks and chassis. (See Appendix C.)

2. Exports to China, Burma and Hong Kong

Exports to Free China amounted to only \$91,000. (See Appendix D.) Exports to Burma, however, amounted to over \$1,000,000. (See Appendix E.)

No exports to Occupied China or Hong Kong were reported during the week under review.

3. Exports to Japan

No exports to Japan were reported during the week under review.

4. Exports to France

No exports to France were reported during the week under review.

5. Exports to other blocked countries

Exports to other blocked countries are given in Appendix A.

SUMMARY OF UNITED STATES
DOMESTIC EXPORTS TO SELECTED COUNTRIES
AS REPORTED TO THE TREASURY DEPARTMENT
FROM EXPORT DECLARATIONS RECEIVED
DURING THE PERIOD INDICATED ^{1/}

July 28, 1941 to January 10, 1942

(In thousands of dollars)

	July 28 to Dec. 27	Week ended January 3	Week ended January 10	Total Domestic Exports
U. S. S. R.	\$76,555	\$ 3,993	\$ 8,247	\$88,795
Free China	28,334	35	91	28,460
Burma ^{2/}	7,002	^{3/}	1,073	8,075
France ^{3/}	6	-	-	6
Occupied France	2	-	-	2
(Occupied France	^{4/}	-	-	^{4/}
Spain	2,329	•	-	2,329
Switzerland	5,060	1	11	5,072
Sweden	11,514	1	1	11,516
Portugal	4,472	16	155	4,643

Treasury Department, Division of Monetary Research

January 13, 1942.

- 1/ Many of the export declarations are received with a lag of several days or more. Therefore this compilation does not accurately represent the actual shipment of a particular week. The longer the period covered, the closer will these figures come to Department of Commerce revised figures.
- 2/ From September 11, 1941 to date — it is presumed that a large percentage of material listed here, consigned to Burma, is destined for Free China.
- 3/ Includes both occupied and unoccupied France through week ending October 4, 1941. Occupied and Unoccupied France separated thereafter.
- 4/ Less than \$500.

APPENDIX B
Exports from the U.S. to China, Burma, Hong Kong, Japan and U.S.S.R.
as reported to the Treasury Department, July 28, 1941 - January 10, 1942.
(Thousands of Dollars) 1/

	Exports to China			Exports to Burma <u>3/</u>	Exports to Hong Kong	Exports to Japan	Exports to U.S.S.R.
	Total	To Japanese controlled ports	To Chinese controlled ports				
July 28 - Aug. 2	937	542	395		654	1,657	4,523
Aug. 4 - Aug. 9	2,794	2,794	-		983	159	551
Aug. 11 - Aug. 16	1,278	969	309		235	42	986
Aug. 18 - Aug. 23	1,352	1,350	2		234	5	3,735
Aug. 25 - Aug. 30	736	735	1		742	-	1,023
Sept. 2 - Sept. 6	897	693	204		634	-	4,280
Sept. 8 - Sept. 13	3,038 <u>2/</u>	757	2,281 <u>2/</u>		456	-	5,217
Sept. 15 - Sept. 20	3,978 <u>2/</u>	156	3,822 <u>2/</u>		389	-	752
Sept. 22 - Sept. 27	462	352	110	449	810	-	2,333
Sept. 29 - Oct. 4	1,305	80	1,225	684	297	-	323
Oct. 6 - Oct. 11	5,864	552	5,312	1,157	1,233	-	6,845
Oct. 13 - Oct. 18	272	267	5	35	584	-	1,224
Oct. 20 - Oct. 25	668	399	269	403	1,243	-	5,623
Oct. 27 - Nov. 1	5,210	438	4,772	58	624	-	4,484
Nov. 3 - Nov. 8	1,836	164	1,672	342	283	5	4,552
Nov. 10 - Nov. 15	3,009	158	2,851	68	303	-	2,677
Nov. 17 - Nov. 22	1,701	473	1,228	1,021	600	-	3,581
Nov. 24 - Nov. 29	3,359	120	3,239	1,364	1,325	-	2,436
Dec. 1 - Dec. 6	852	61	791	64	-	-	3,609
Dec. 8 - Dec. 13	3,025	688	2,337	18	-	-	12,040
Dec. 15 - Dec. 20	123	12	111	8	-	-	4,580
Dec. 22 - Dec. 27	37	36	1	196	-	-	1,829
Dec. 29 - Jan. 3	35	-	35	2	-	-	3,993
Jan. 5 - Jan. 10	91	-	91	1,073	-	-	8,247
	<u>42,859</u>	<u>11,796</u>	<u>31,063</u>	<u>6,962</u>	<u>11,629</u>	<u>1,869</u>	<u>89,143</u>

1. These figures are in part taken from copies of shipping manifests.
2. Figures for exports to Free China during these weeks include exports to Rangoon which are presumed to be destined for Free China.
3. It is presumed that a large percentage of exports to Burma are destined for Free China.

APPENDIX C

Principal Exports from U.S. to U.S.S.R.
as reported to the Treasury Department
during the week ending January 10, 1942.

(Thousands of Dollars)

TOTAL EXPORTS

\$ 8,247

Principal Items:

Motor trucks and chassis	2,005
Military tanks and parts	746
Men's boots and shoes	647
Gun parts	570
Landplanes, powered	418
Barbed wire	392
Machine and heavy ordnance guns and carriages	380
Milling machines	326
Explosive shells and projectiles	270
Ethyl fluid (anti-knock compound)	260
Toluene	215
Aluminum plates, sheets, bars, strips and rods	203
Auto replacement parts	183
Refined copper	166
Metallic cartridges	165
Iso Pentane (anti-knock compounds)	131

APPENDIX D

Principal Exports from U. S. to Free China
as reported to the Treasury Department
during the week ending January 10, 1942.

(Thousands of Dollars)

TOTAL EXPORTS TO FREE CHINA

\$ 91

Principal Items:

Lubricating oils	24
Copper wire (insulated)	16
Alternating current generators	13
Relief supplies - hospital	7
Copper wire	6
Metallic containers	5
Relief supplies - biologics	3
Tires and tubes	3

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APPENDIX E

Principal Exports from U. S. to Burma
as reported to the Treasury Department
during the week ending January 10, 1942.

(Thousands of Dollars)

TOTAL EXPORTS \$ 1,073

Principal Items:

Motor trucks and chassis	315
Metallic cartridges	255
Copper wire (insulated)	150
Lubricating oils	109
Relief supplies - surgical and hospital	71
Auto replacement parts	29
Relief supplies - biologics	26

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 22, 1942

TO Secretary Morgenthau

FROM Mr. Coe

Subject: War-production plan introduced at Rio by Sumner Welles, Wayne Taylor and Warren Pierson

1. An 8-point war-production plan was reported yesterday providing for:
 - (a) Elimination of trade barriers on strategic materials during the war;
 - (b) Elimination of foreign exchange problems by devising a common denominator for international currency between anti-Axis countries;
 - (c) Joint use of merchant ships with convoys to be provided by the larger powers;
 - (d) United States leadership in construction of war-production facilities throughout the Hemisphere;
 - (e) Elimination of all alien-owned airlines in the Hemisphere;
 - (f) Assurance of essential imports to the various American Republics;
 - (g) Exchange of skilled workers throughout the Hemisphere;
 - (h) Operation of a Pan-American statistical union.

2. The second item in the program has been variously interpreted in the press here but no official text is available. It may only be a modification of the Stabilization Resolution approved by you, but some versions state that all gold resources, not only in the Hemisphere but among the United Nations, will be pooled, whereas the Resolution you approved was confined to the American Republics.

ID
This telegram must be
paraphrased before being
communicated to anyone
other than a Governmental
agency. (BR)

Rio de Janeiro

Dated January 22, 1942

Rec'd. 2:44 p. m.

Secretary of State,
Washington.

RUSH.

40, January 22, 4 p. m.

FOR SECRETARY MORGENTHAU FROM WHITE.

Mr. Welles feels that in view of recent
developments here it would be desirable for me to
fly down to Buenos Aires for a day. Unless I
receive a cable from you to the contrary I shall
go and return to Washington with the American
Delegation.

WELLES

HFD

January 22, 1942

My dear Mr. President:

I am forwarding the inclosed correspondence from Mr. T. V. Soong. Naturally, I am disappointed in the contents.

What do you suggest as our next move?

Sincerely yours,



The President,
The White House.

Copies to: The Secretary of State
 The Secretary of War
 The Secretary of the Navy

Sent By Secret Service at 11:15 A.M.

MINISTER FOR FOREIGN AFFAIRS
REPUBLIC OF CHINA

January 21, 1942

My dear Mr. Secretary:

During your absence from Washington I received the enclosed message for you from the Generalissimo.

Since Mr. Fox is due to arrive in Washington shortly, it occurs to me that you may like to have an opportunity of seeing him and hearing from him of the situation in China before you renew discussions with me. However I am at your disposal at any time, should you wish to see me earlier.

Sincerely yours,



T. V. Soong

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

CONFIDENTIAL

The Generalissimo deeply appreciates Secretary Morgenthau's efforts which have materialized in a proposal that the U. S. Government would undertake to pay for the maintenance of part of the Chinese army in U.S. Dollar notes. After careful consideration, however, he doubts whether this scheme is practicable. Payment of Chinese soldiers in U. S. currency would tend to create a cleavage between the army and the general economic structure in China which may actually hasten the collapse of the Chinese currency. Before Mr. Fox left Chungking the Generalissimo had a long discussion with him in which he pointed out a number of reasons why he considered the scheme difficult of application and which he asked Mr. Fox to convey to Secretary Morgenthau.

The Generalissimo urgently requests that careful consideration be given to his original proposal that the United States grant to China a political loan of 500 million U.S. dollars, which would be the only means to prevent an impending economic collapse. This loan should be regarded in the light of an advance to an ally fighting against a common enemy, thus requiring no security or other pre-arranged terms as to its use and as regards means of repayment.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE January 22, 1942

to Mr. White

from Mr. Friedman

SUBJECT: Digest of cable from Ambassador Gauss dated January 17, 1942.

1. American Embassy at Chungking reports that on the part of the Chinese press and Chinese officials with whom it is in contact it has found greater restraint and more reasonableness than it had expected in their reactions to statements made in the United States that emphasis should be placed primarily on the European end of the Axis combination. However, they emphasize the vital importance of continuing to hold Singapore and the Netherlands East Indies even at a greater cost.
2. Ambassador Gauss feels that the Chinese have recovered from the shock caused by our initial setbacks, the most serious of which in psychological effects was the fall of Hong Kong. The Generalissimo is completely committed to the policy of resistance and should be able successfully to maintain his commanding position.
3. The authority of the Government might be weakened by increasing difficulties in the economic field and it is suggested that a political loan might be of assistance towards checking developments of this type.
4. The Ambassador expresses absolute conviction that more concentrated and constantly greater efforts should be put forth toward moving over the Burma Road materials supplied by Lend-Lease for China.

C
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DEPARTMENT OF STATE
WASHINGTON

January 21, 1942

In reply refer to
FD

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits a paraphrase of a strictly confidential telegram from the American Ambassador at Chungking, dated January 17, 1942 regarding the situation in China including reference to a possible United States credit or loan.

Enclosure:

From Embassy, Chungking,
January 17, 1942.

Copy:ec:1-25-42

P A R A P H R A S E

A strictly confidential telegram from the American Ambassador at Chungking, dated January 17, 1942, reads substantially as follows:

The Embassy finds on the part of the Chinese press and Chinese officials with whom it is in contact reaction greater in restraint and more reasonable than it had expected to the statements by Mr. Knox and Mr. Alexander that emphasis should be placed primarily on the European end of the Axis combination. In those quarters the argument that Hitler must be defeated and the importance of sustaining the present offensive in Europe are given due recognition but the vital importance of continuing to hold Singapore and the Dutch East Indies even at greatest cost are emphasized, point being made that the Japanese would, if those areas came into their possession, be in strong position to render costly and protracted the war in the Pacific, to attack the Soviet Union in Siberia, and to give substantial aid, indirect or direct, to their German ally, with attendant embarrassment to the united nations in the operations in Europe.

The Ambassador feels that, now that they have overcome the substantial shock which was caused by our initial setbacks, the most serious of which in psychological effects was the fall of Hong Kong, Chinese morale has regained
composure.

composure. A good deal of newspaper comment has been occasioned by the fall of Manila and the current jeopardy of Singapore, but the Ambassador has not found evidence of a defeatist attitude.

The Ambassador feels that, while the intensity of or the amount of enthusiasm for resistance may at intervals vary, but in scrutiny of the present situation, he does not expect development of any change in the fundamental aspects of China's attitude. The Generalissimo is completely committed to the policy of resistance and should be able successfully to maintain his commanding position. Naturally, the Chinese feel disappointment over the likelihood that the war in the Pacific will be prolonged. At the same time, they nevertheless are confident of defeat for Japan at the hands of the United States.

Increasing difficulties in the economic field may be the cause of depreciation in the authority of the Government; a credit or loan political in character and use thereof promptly in such manner as might be practical might be of assistance toward checking developments of that type. Having in mind both the economic and the military aspects of the situation, the Ambassador is absolutely convinced that more concentrated and constantly greater efforts should be put forth toward moving over the Yunnan-Burma Highway materials

materials supplied by lease-lend for China. Transportation of such materials is practicable but to get the Chinese to act it appears that unremitting and constant efforts are required.

STRICTLY CONFIDENTIAL

Copy: ec:1-26-42

TELEGRAM SENT

HRL

PLAIN

January 22, 1942

AMERICAN LEGATION,
BERN, (SWITZERLAND).

185, twenty-second.

AMERICAN INTERESTS - FAR EAST

Please request Swiss Government to endeavor to ascertain and report by telegraph whereabouts welfare of T. Maxwell Anderson, James J. Saxon, Thomas Page Nelson, William L. Hetherd, Albert E. Price, Reynolds North of Foreign Funds Control staff formerly attached to the office of the High Commissioner at Manila. Above request made by Secretary of the Treasury. State cost reply.

HULL
(FvDA)

SD:WY:EKR:MEH

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DEPARTMENT OF STATE
Washington

In reply refer to
FD

January 22, 1942

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and informs him that telegram No. 28, dated January 22, from the United States High Commissioner to the Philippines, Manila (Fort Mills) Via N. R., in response to the Department of State's telegram No. 11, dated January 19, 1942, to the High Commissioner, corrects the High Commissioner's telegram No. 15, January 10, as received and paraphrased to the Treasury by substituting \$23,900 value of one dollar certificates instead of \$239 value as originally received, and verifies the total mentioned in the High Commissioner's telegram No. 15 to be \$379,185.

NOTE: Attached is a copy of the High Commissioner's telegram #15 of January 15, 1942, corrected for the above-mentioned changes.

F.D.

eh:copy 1-23-42

CORRECTED COPY

PARAPHRASE OF TELEGRAM RECEIVED

FROM: U.S. High Commissioner, (Manila) Fort Mills
via N.R.

DATE: January 10, 1942, 11 a.m.

NO. : 15.

The following telegram is for the Treasury.

Three. In addition _____ referred to in our's of January 7, three boxes jannine accepted from officials of the Commonwealth here containing U.S. Treasury certificates in the total value of \$379,185 as follows:

<u>CERTIFICATES</u>	<u>VALUE</u>
1	23,900
2's	3,000
5's	37,215
10's	92,780
20's	197,540
50's	7,550
100's	9,200
500's	2,000
1000(1)	1,000

SAYRE

ehicopy
1-23-42

DEPARTMENT OF STATE

Washington

In reply refer to
FF 840.51 Frozen Credits/5089

January 23, 1942

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith a copy of an air mail despatch, no. 1972, dated January 15, 1942, from the American Legation, San Salvador, reporting that the Salvadorean Government has adopted the same measures as the United States in regard to business and financial transactions in which Italy or Germany or any blocked national has any interest.

Enclosure:

Despatch from San Salvador,
dated January 15, 1942.

eh: copy
1-24-42

SUBJECT: Salvadoran Application of Freezing Control Measures to Germany and Italy.

The Honorable
The Secretary of State
Washington, D. C.

Sir:

Reference is made to the Department's circular telegram of December 15, 1941, 10 p.m., regarding the application of freezing control measures to Germany and Italy and blocked nationals thereof, and to my telegram No. 125 of December 17, 1941, 3 p.m. to the effect that all measures recommended therein had been adopted by the Salvadoran Government, except that measures regarding businesses of enemy nationals were still under consideration.

I now have the honor to report that the Salvadoran Government has also adopted the same measures as the United States in regard to business and financial transactions in which Italy or Germany or any blocked national has any interest. In this connection, the Minister of Finance declares that the measures will always be applied in agreement with this Legation.

RESPECTFULLY YOURS,

Robert Frazer,
American Minister.

GG/eme
711.3/711

A true copy of
the signed orig.
EME

eh:copy
1-24-42

FEDERAL RESERVE BANK
OF NEW YORK

Date: January 22, 1942.

To: Mr. Knoke

From: P. Leng

With reference to my memoranda of January 13 and 15, 1942, I learned from Mr. Spaulding yesterday that one of the refiners in this market received inquiries about the possibility of sale of silver for export to Uruguay. This seems rather strange in the light of a recent article which appeared in the Foreign Commerce Weekly of December 27, 1941, a copy of which is attached. According to this article, silver coins held by the Uruguayan Treasury would be re-minted at a fineness of .720 which compares with the current fineness of .900 for the one peso piece and 50 centesimo coins and a fineness of .800 for the 20 centesimo coins. According to the Handbook of Foreign Currencies, the weight of the fine silver in monetary use in Uruguay as of June 1935, was estimated by the Bank of the Republic to be about 122,375 kilograms or 3,954,000 ounces.

Mr. Dietrich mentioned that you had spoken to him about the question of whether an export license was required on silver shipments to Uruguay. He also told me that the Treasury had received a State Department Dispatch dated December 13, dealing with the question of re-minting of silver coins in Uruguay. Apparently we have not received this Dispatch and I have asked Mr. Dietrich to send us a copy.

You may also be interested in the fact that according to a recent Consular report from Ecuador, an Executive Decree was published on October 15, 1941, which authorizes the coining of 3,600,000 silver coins worth 5 sucres each and 1,000,000 coins worth 2 sucres each. On the basis of the

- 2 -

silver content of the existing silver coins in Ecuador which have a fineness of .720, approximately 2,315,000 ounces of silver would be required in order to mint the new coins.

Pan American Trust Company has heard nothing further in connection with their recent inquiry from Mexico.

Another item of interest in connection with silver is that Irvington Smelting & Refining Works have opened up an office in Mexico and are apparently endeavoring to purchase Mexican silver directly from Mexican producers.

PL:DB

Copy:vw:2-5-42

TRB
This telegram must be
paraphrased before being
communicated to anyone
other than a Governmental
agency. (BR)

Madrid

Dated January 22, 1942

Rec'd 4:24 a.m., 23rd

Secretary of State,
Washington.

97, January 22, 8 p.m.

Refer to your 35, January 13, 7 p.m.

Director of Foreign Exchange Institute informed
me today that within the next 8 days he will suspend
all purchases of American currency.

WEDDELL

KLP

TREASURY DEPARTMENT

291

INTER-OFFICE COMMUNICATION

DATE January 28, 1942

TO Secretary Morgenthau
FROM Mr. Dietrich

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	43,000
Purchased from commercial concerns	10,000

Open market sterling held at 4.03-1/4, with no reported transactions.

For account of the Central Bank of China in Chungking, the Federal Reserve Bank of New York purchased £200,000 from the Bank of England at 4.03-1/2. We understand that the sterling will be paid to the Bank of China, London, for account of the latter bank's Rangoon office.

The Canadian dollar moved off to a discount of 12-3/16 by mid-afternoon, but subsequently recovered on the appearance of the Post Office as a buyer. The final quotation was 11-7/8, as compared with 11-3/4 yesterday.

The Argentine free peso moved off slightly to close at .2365.

In New York, closing quotations for the foreign currencies listed below were as follows:

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 added to its earmarked account. Of the gold used in this transaction, \$10,000,000 was purchased by us from the General Fund, through the New York Assay Office.

The Federal Reserve Bank of New York reported that the Bank of Canada shipped \$10,064,000 in gold from Canada to the Federal for account of the Government of Canada, for sale to the New York Assay Office.

In London, spot and forward silver remained at 23-1/2d and 23-9/16d respectively, equivalent to 42.67% and 42.78%.

The Treasury's purchase price for foreign silver was unchanged at 35¢. Gandy and Harman's settlement price for foreign silver was also unchanged at 35-1/2¢.

We made no purchases of silver today.

BRITISH EMBASSY,
WASHINGTON, D. C.

22nd January, 1942.

PERSONAL AND SECRET

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.

BRITISH MOST SECRET

(U.S. SECRET)

OPTEL No. 25

Information received up to 7 a.m., 21st January, 1942.

1. NAVAL

Nothing to report.

2. MILITARY

LIBYA. Our troops remain in contact with the enemy in the AGHELA position.

MALAYA. 20th. MERSING Area, no change. GENAS area, no increase in enemy pressure. Strong enemy pressure during the 19th along road LUAR-YONG FENG, where situation is confused. Small parties also reported working up the River five miles south of BATU PAHAT.

BURMA. Our reinforcements have reached YE, 80 miles south of MOULMEIN, and in the North Chinese Forces have been ordered to take up positions. Enemy strength in MESOD area reported 5,000.

BORNEO. Governor of Straits Settlements reported 20th that all telegraphic communication with SANDAKAN has ceased.

RUSSIA. The Russians have announced the capture of MEZHAISSK and are attacking North of TAGANROG. In the CRIMEA, the Germans have made further progress towards the KERCH Peninsula.

3. AIR OPERATIONS

WESTERN FRONT. 30th/21st. 25 aircraft were sent to attack EMDEN. Four are missing.

SICILY. 19th/20th. Eleven Wellingtons dropped 14 tons of bombs on CATANIA aerodrome. 20 fires from burning aircraft were seen, and one Junkers 88 and possibly others were destroyed whilst landing.

MALTA. Between 19th and 20th inclusive, a total of 93 enemy aircraft attacked. No aerodromes were hit. Other details not yet available.

LIBYA. Bad weather and water logged landing grounds again restricted our operations.

MALAYA. 18th. SINGAPORE. Civilian air raid casualties 41 killed and 41 disabled. 19th. Our aircraft bombed shipping, mechanical transport and troops in the LUAR area and the aerodrome at KUALA LUMPUR. Enemy aircraft attacked our troops near MERSING and bombed roads south of SEGAMAT without serious effect. We lost seven aircraft, including three Dutch. Two enemy aircraft were destroyed, one probably destroyed and one damaged.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

291

DATE January 22, 1942

TO Secretary Morgenthau
FROM Mr. Kamarok

Subject: For the Files: Military Intelligence request for
Treasury data

Military Intelligence would like to receive from us the weekly figures on exports to blocked areas which are being compiled in the Division of Monetary Research. They would also like to have any information and data which we might have on the economic situation in China.

Is it all right to furnish this material to Military Intelligence?

(Above request made verbally to the Secretary, morning, January 22, 1942. He approved of the request, stating that as a matter of principle, maintaining reciprocity was important.)

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NUMBER 15

SECRET

COORDINATOR OF INFORMATION

THE WAR THIS WEEK

January 15-22, 1942



Printed for the Board of Analysts

Copy No. 3

Secretary of the Treasury

January 15-22, 1942

SECRET

Coordinator of Information

THE WAR THIS WEEK

January 15-22, 1942

Current Axis successes reveal nothing more clearly than the advantages of coordinated effort and the full exploitation of the initiative. With Singapore not yet invested, a blow has been struck against exposed Burma. With American forces isolated in the Philippines, the new Japanese base at Davao is being utilized for a drive southward toward Java, strategic way-station on the road to Australia.

Repercussions of these Far Eastern successes are clearly evident in the Mediterranean area where the British offensive in Libya has been brought to a halt and where an Axis attack on British naval forces may soon cause further deterioration of the Allied position in that area. The only successes for the opponents of the Axis are being won in Russia, and there present evidence indicates the continuance of an essentially orderly, if difficult, German withdrawal to prepared positions in the rear.

British Retreat on Singapore

On the Malayan front the British Imperial forces have been rapidly yielding ground and have now retired to points only 65 miles from Singapore. A leading British military authority has pointed out, however, that there is a defensible line some 60 to 70 miles north of Singapore which would extend from

Mersing on the east coast to a point near the mouth of the River Bekok on the west coast.

This line offers certain advantages: it is 80 miles long with only 200 miles of coast in the rear to protect; and it has a lateral highway behind and rivers paralleling it in front. It appears to be the last defensible line on the mainland from a topographic point of view.

Social and Economic Conditions in Singapore

With the mixed population and economic insecurity of the island of Singapore, a siege might create extremely serious problems for the British authorities. According to a 1940 estimate, there are on Singapore Island, in round numbers, 14,000 Europeans out of a total population of 751,000. The numerically significant groups in the population are: Chinese (584,000), Malays (75,000), and Indians (60,000). There are no means of foreseeing how these large and racially diverse Asiatic groups will react to the dangers and hardships to which inhabitants of a beleaguered city are subjected in modern war. The British are respected chiefly insofar as they are protectors of the island.

From an economic point of view, Singapore is largely dependent on the outside world for its supplies. Even before the Japanese attack, however, an acute shipping shortage had severely reduced imports. The price of rice, the subsistence food of the majority of the population, is very high. The loss of foreign markets has paralyzed such secondary industries as those making copra and palm oil, and the re-export trade in pepper. The tin and rubber industries are faced by the loss of their raw material sources. In short, an attack on Singapore would find the island in the throes of an acute economic crisis.

Invasion of Burma.

Japanese and Thai troops have struck into Burma from a point some 60 miles northeast of Moulmein, following upon the bisection of Lower Burma at Tavoy, and the latter is apparently already being used by the Japanese as an air base. From Moulmein the railroad leads to Rangoon, reception port and nerve center for the crucial Burma Road system.

The invasion of Burma in this area offers no great difficulties, as was pointed out in last week's analysis. At least one Japanese division could cross by the central route from the Thai railway at Pitsanulok through Raheng to the Burmese border at Meshod, and thence to the Burma railroad at Moulmein. The Japanese have been concentrating planes at the Raheng air base, and several days ago 5,000 troops were reported by MID in the Raheng-Meshod area.

At least two Japanese divisions can use the northern route from Chiengrai to Kengtung (in the Shan states) and proceed thence straight west across the Salween into central Burma. There are some indications of preparations in this northern area as well. Although the British estimate that there are only four Japanese divisions in Thailand and Indochina, MID believes this figure to be closer to seven, with three or four in Thailand. Hence Japan may already have in Thailand the troops necessary for the employment of both central and northern invasion routes.

One observer has pointed out that, of the Allies, only the Chinese are in a position which makes it practically possible for them to reach Burma by land, that the Chinese have been prepared for some time to send troops by way of the Burma Road, but that unfortunately Chinese troops in Burma are a distasteful prospect both to the Burmese and the British. Latest press reports indicate that some Chinese troops have already entered northern Burma.

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Chinese Reactions to the Course of the War

The Chinese themselves have not been happily affected by the references of Secretary Knox and Mr. A. V. Alexander to the predominant importance of the defeat of Hitler. Dr. Sun Fo, Chairman of the Legislative Yuan and son of Sun Yat-Sen, goes so far as to suggest that, if the Anglo-Saxon powers propose to remain on the defensive in the Pacific, China might do well just to "sit tight" until Hitler is eliminated.

Chinese officials, however, have apparently taken a more reasonable view, according to a cable from Ambassador Gauss, but they do insist that Singapore and the Netherlands Indies must be held if the war is not to be excessively long. In the event they achieve these successes, the Japanese might be able to invade Siberia and exert an unfortunate effect upon the war in Europe.

Recovering from the original impact of early Japanese successes, the morale of the Chinese has now been stabilized, Mr. Gauss continues; Chiang Kai-Shek will undoubtedly stay in the saddle, and he is irrevocably committed to driving out the Japs. The Chinese are of course deeply anxious about the danger to Rangoon, and recent editorials in the Chinese press have criticized British conduct of the war and inadequate Allied preparations.

The Japanese Assault on the Indies

The assault on the Netherlands Indies continues unabated, with Java, the main defense base of the Indies, as its ultimate objective. The Japanese aim to take Java in a great pincer movement. The western prong is being thrust southward through the Singapore area, while the eastern prong is based on Davao and is being driven between the Celebes and Borneo through the Straits of Macassar.

SECRET

In this latter drive the Japanese have already occupied Tarakan in Borneo and the Peninsula of Minahassa in the Celebes. Bombing attacks on the Dutch naval base at Amboina in the Moluccas and on New Guinea and the islands on the route to Australia are apparently aimed to prevent these points from being used for flanking operations and to further possible future operations against Australia.

The Raw Materials of the Indies

The strategic raw materials of the East Indies are largely concentrated in Java, Sumatra, the west coast of Borneo, and the small islands between Sumatra and Borneo. This area produces the bulk of East Indian rubber, oil, and bauxite, and all of its tin. Tarakan did not produce a great amount of oil, but the oil there lies near the surface and needs little or no refining for use as fuel oil. The south-central Sumatra field alone produces over half of the oil of the East Indies, and northern Sumatra another million barrels of the total production of eight million barrels. As long as Singapore stands and Japan does not control the key points on Sumatra, Java, West Borneo, and the smaller islands in this general area, nor the naval base on Amboina, the shipment of important raw materials to the United States by way of the Pacific could be interrupted at the source only with great difficulty.

The Battle of the Mediterranean?

Cumulative evidence points to the imminence of an Axis blow against the British naval position in the central Mediterranean which would destroy or neutralize the British hold on Malta, assure the position of Rommel in western Cyrenaica, and perhaps even make it possible for the Axis forces in Africa to take the offensive.

SECRET

Preparations have been in progress for some weeks. Various German air units have been withdrawn from Russia and elsewhere and have been concentrated in great force in southern Italy and Sicily. At least until January 3, gasoline and Diesel oil were being shipped from Germany to Italy at the rate of 1,800 tons a day. Rommel has been very substantially reinforced; military opinion generally believes that the British cannot now push their offensive further to the west; and even British broadcasters are not optimistic about the Libyan front. Finally, air attacks on Malta reached a new high this week with 74 alarms.

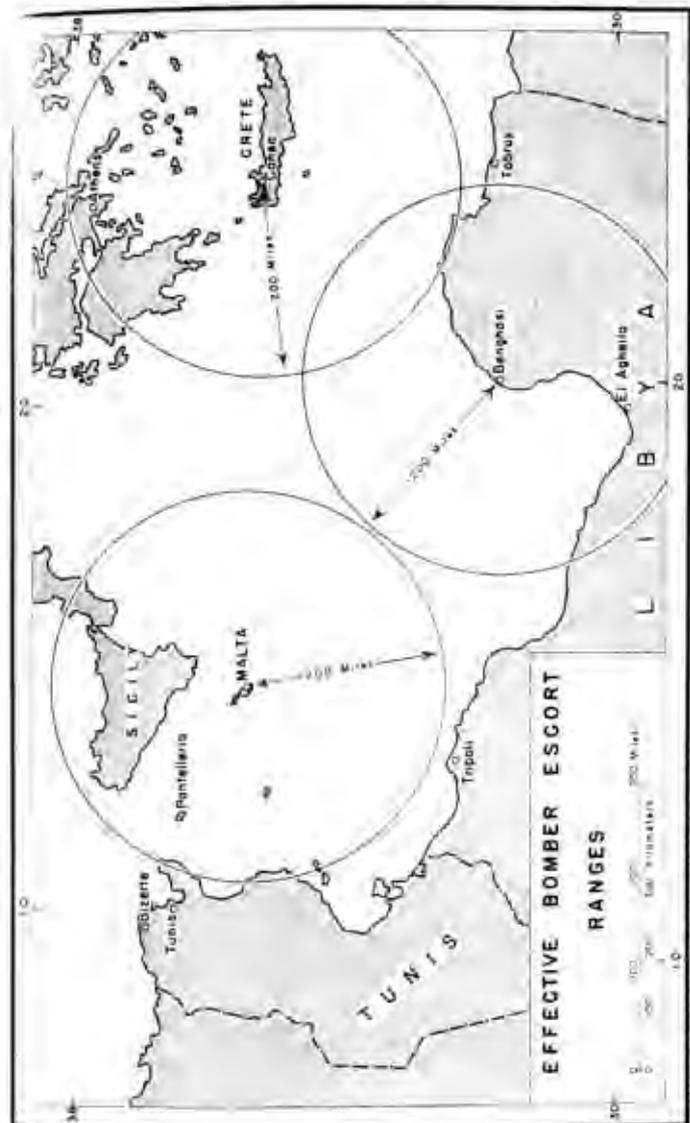
The Importance of Malta

Malta is the center of British strategy in this middle Mediterranean area, as the map indicates. Competent military opinion discounts the present usefulness of Malta as a naval base, but as a land base for fighter planes, and as a refueling station for bombers, it has remained a constant menace to the Axis. Experience has demonstrated that the effectiveness of bombing operations is more than tripled when bombers are escorted by fighters. The map shows escorted bomber ranges in the middle Mediterranean area.

From Malta, fighter planes can sweep all of Sicily and the tip of southern Italy (scene of present German air concentrations), and can reach out to the eastern shores of Tunisia and roughly to the littoral of Tripolitania. This is precisely the vital area through which the Axis must convoy troops and supplies to Rommel's army.

If Malta Falls

If Malta can be captured (or even neutralized by repeated heavy bombings) the Axis would be in a far more favorable



SECRET

position to reinforce Rommel, and the British would have no base of any importance in the central Mediterranean except Benghazi, which was very heavily damaged by air bombardment prior to its recent capture. Benghazi is supplied both by sea and by the shore road from the east, which has been completely liberated by the capture of Halfaya. But these supply routes are even now within escorted bomber range from Crete (see map) and have recently been subject to heavy bomber attacks. If Malta were in enemy hands, Benghazi would be even more exposed to air attack, and the position of the British in this area would probably become precarious.

If we go one step further and envisage the exclusion of British naval forces from the central Mediterranean, then the mobility of the fleet would be vastly reduced at a time when the transfer of units to and from the Far East may be necessary at any time and on very short notice.

All Quiet in the West.

With the stabilization of Rommel's position in Tripolitania and Axis preparations for action in the central Mediterranean, interest appears definitely to have shifted from western Europe, at least for the present. Southwestern France is lightly held, and on balance, troops are moving out of, not into, France.

Occupied elsewhere, the Nazis are apparently content for the moment to let sleeping dogs lie. The Germans dissociate themselves from recent Paris press attacks on Vichy, according to the Berlin correspondent of the *Basler Nachrichten*, and the Nazis will not even be displeased if France fails to join the New Europe—only the willing are wanted, and a state not participating in a German-led Europe would sink to a position of insignificance anyway.

SECRET

In characteristic response to Nazi difficulties, French morale is reported as stiffening in Morocco and in the navy, where the officers are represented as being as much affected by the German defeats in Russia as French army officers have been. The same source believes that collaboration is at an end.

Nazi Retirement Toward the "Winter Line"

The retirement of the Germans on the eastern front must still be described as a withdrawal. There are no evidences to date of a "rout," the number of prisoners recently claimed by the Russians is small, and the movement is on the whole deliberate and apparently toward a "winter line," about which even the German press now talks.

The Russians have made some progress in the Kharkov and Leningrad sectors (where they are attacking Schluesselburg). But the only notable developments this week have come on the Moscow front, where the Soviets have entered the burning ruins of Mozhaïsk, tip-end of the salient facing Moscow. At the same time they have driven deeper the wedges both north and south of Mozhaïsk, and they claim that German troops in this salient are in peril of early envelopment with large, but unspecified, numbers of prisoners already taken.

German Difficulties in Russia

It is still too early to assess the importance of the Russian offensive, but apparently it will become a serious menace to the Germans in the Moscow sector only when Smolensk is threatened. Meanwhile German anxiety is evident in the steady movement of troops from France to the eastern front. Since mid-December seven or eight divisions are reported to have left France for Russia, or to be in the process of leaving.

SECRET

And what are believed to be the remnants of three divisions have arrived in France from the eastern front. Between the Loire River and the Pyrenees only one panzer and four infantry divisions remain, it is said, a situation which must be regarded as a serious denudation of this area.

It is reported from Bern that Ribbentrop has demanded that five Hungarian regiments be despatched to the Merlyat front, but that Horthy, who has become anti-Nazi, rigorously objects. Keitel's current visit to Buda-Pest may not be unconnected with this report.

The Germans are also continuing to exploit the alleged agreement of Eden and Stalin to turn large parts of Europe over to the Bolsheviks. It has been suggested that when the Germans became aware of the army's difficulties on the eastern front, the Propaganda Minister decided to make capital out of adversity. A barrage of lurid descriptions of the sufferings of German soldiers in their crusade to save Europe from Bolshevism was the result. The latest variant of this campaign is the statement by *Dienst aus Deutschland* that a victorious Russia is not only to be rewarded with Finland (including the Aaland Islands) but is also to be allowed to expand across northern Scandinavia, embracing the Swedish iron deposits and acquiring a window on the Atlantic at Narvik.

Appearance of Typhus

Typhus has appeared in the German armies, in Nazi-controlled areas, and in Russia, although there are no indications that it has reached critical proportions. It was recently reported from Vichy that the prevalence of the disease among German troops withdrawn to France from the eastern front had caused Nazi authorities to cancel all leaves for visits to Germany. Press reports have indicated the

SECRET

presence of typhus in the ghetto in Warsaw. A Stockholm newspaper reports from Berlin that all the churches in Lithuania have been closed in an effort to halt the spread of typhus in that country.

German experts visiting Madrid told Spanish officials that the Nazis in Poland were able to produce only enough anti-typhus serum to vaccinate 4,000 persons a month. Further press reports from Stockholm noted that the Germans had created a special Typhus Institute at Cracow, but that serum there was also too scarce for general use. Medical opinion holds that none of the various typhus vaccines (even when they can be produced in adequate quantities) is comparable in effectiveness to those used against typhoid fever.

Character of Typhus as a War-Time Scourge

The spread of typhus might prove a significant factor in the present war. The principal world center of typhus has always been in Europe, and Russia and Poland have been the two major endemic foci, according to a special memorandum prepared in the Office of the Surgeon General for the Coordinator of Information.

The disease is caused by a virus and carried from person to person by the human body louse. It is particularly prevalent during the cold months of the year when more clothes are worn and people are crowded into small quarters in an effort to keep warm. Under campaign conditions, when opportunities for bathing and change of clothing are limited, the louse propagates and transmission of this communicable disease is made easy.

The record of typhus fever as a wartime scourge is formidable. It persisted in an epidemic form for the duration of the Napoleonic wars, and was one of Russia's greatest allies in the defeat of the Emperor in the disastrous campaign of 1812. During the Serbian epidemic of 1915, the most

SECRET

severe in modern times, the mortality varied between 30 and 60 percent and at times reached 70 percent. During a six-month period there were 150,000 deaths from typhus in Serbia alone. The Serbian Army was paralyzed, and the opposing forces were likewise seriously hampered.

The Axis at the Rio Conference

In the unanimous agreement by the twenty-one American Republics on a resolution to sever relations with the Axis powers, American diplomacy has won a signal victory in behalf of hemisphere solidarity. But this victory came only after the Axis powers had spared no efforts to dissuade the countries of Latin America from aligning themselves more closely with the policy of the United States. Threats by the Axis were generously proffered certain of the South American countries, it is reported, and Italy, for example, warned the Brazilian foreign minister that severance of relations with the Axis would mean war with Japan and consequent disturbances among the Japanese in Brazil.

Gentler tactics were likewise employed in an effort to persuade certain Latin American countries that they would soon be needed as intermediaries for the achievement of a compromise peace. Pétain and Darlan are reported to have told the Brazilian Ambassador at Vichy that they hoped that Brazil would not break off relations with the Axis, and it is said that a similar request may have been made in Lisbon by Salazar.

A variant of this only too obviously Nazi scheme was presented to our Ambassador in Madrid in a memorandum approved by Franco and contemplating the establishment of a group of neutral states consisting of Spanish-speaking countries in the Western Hemisphere plus Spain. This transparent scheme has also been advocated by the Chilean Ambassador in Madrid as a means of bringing Spain back to a position of "neutrality."

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE January 22, 1942

TO Secretary Morgenthau
FROM Mr. Kamarok

Subject: Battle of the Atlantic (see attached charts)

1. Since the preoccupation of Germany with Russia, and the increasing participation of the United States in the war, losses have been averaging around 200,000 tons a month. In the preceding six months period, losses averaged more than double this figure, or 450,000 tons a month.

2. In spite of the somewhat increased shipping losses during December, launchings were ahead of sinkings for the second consecutive month. As the American shipbuilding program continues to expand, the surplus of launchings over sinkings should grow larger and larger. German hopes of eliminating one of her opponents, England, by starvation, thus are beginning to vanish inexorably.

TREASURY DEPARTMENT

296

INTER OFFICE COMMUNICATION

DATE January 22, 1942

TO Secretary Morgenthau
FROM Mr. Kamaeck

Subject: Battle of the Atlantic (see attached charts)

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RESTRICTED

G-2/2657-220: No. 608 M.I.D., W.D. 11:00 A.M., January 22, 1942

SITUATION REPORTI. Pacific Theater.

Philippines: The enemy is increasing pressure along our lines in Luzon. New hostile forces are being landed in the Lingayen Gulf. There is no change in Mindanao, where enemy air activity is light. Hawaii: No further reports of hostile activity. Malaya: No important change reported. Ground troops are being supported by aircraft in confused fighting on all fronts. Burma: A strong Japanese thrust toward Moulmein resulted in sharp fighting. Thai troops are reported operating with the Japanese. Australasia: Heavy Japanese air activity over New Britain and New Guinea suggests imminent invasion attempt. West Coast: No further reports of enemy activity.

II. Eastern Theater.

Ground: Fighting continues at various points along the Russian front. There have been no changes reported in the situation this date. (A situation map will not be issued today).

Air: According to The German High Command, German planes operating on the Kerch Strait off the Crimea damaged a large merchant ship. Other planes were said to be active in the support of land operations in this area.

III. Western Theater.

Air: On the night of the 21st, the R.A.F. carried out attacks on the Ports of Bremen and Emden, on airdromes in Holland, and on the docks of Boulogne.

IV. Middle Eastern Theater.

Ground: There is no change in the general situation. The British successfully brought a large convoy into Malta on the 19th.

Air: The press reports that the R.A.F. is continuing its air attack on Sicily.

RESTRICTED

The Secretary of the Treasury, by this public notice, invites tenders for \$150,000,000, or thereabouts, of 91-day Treasury bills, to be issued on a discount basis under competitive bidding. The bills of this series will be dated January 28, 1942, and will mature April 29, 1942, when the face amount will be payable without interest. They will be issued in bearer form only, and in denominations of \$1,000, \$5,000, \$10,000, \$100,000, \$500,000, and \$1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, two o'clock p. m., Eastern Standard time, Monday, January 26, 1942. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of \$1,000, and the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 10 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Secretary of the Treasury of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on January 28, 1942.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, shall not have any exemption, as such, and loss from the sale or other disposition of Treasury bills shall not have any special treatment,

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as such, under Federal tax Acts now or hereafter enacted. The bills shall be subject to estate, inheritance, gift, or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States shall be considered to be interest. Under Section 42 and 117 (a) (1) of the Internal Revenue Code, as amended by Section 115 of the Revenue Act of 1941, the amount of discount at which bills issued hereunder are sold shall not be considered to accrue until such bills shall be sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418, as amended, and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

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CONGRESS OF THE UNITED STATES
JOINT COMMITTEE ON REDUCTION OF
NONESSENTIAL FEDERAL EXPENDITURES

There will be a meeting of the Joint Committee in
Room 314 Senate Office Building, on Friday, Jan. 23,
at 10:30 a.m.

Mr Bell Attended

To

HARRY FLOOD BYRD,
Chairman.

TREASURY DEPARTMENT
WASHINGTON

January 23, 1942.

MEMORANDUM ON MEETING OF THE JOINT
COMMITTEE ON REDUCTION OF NON-DEFENSE EXPENDITURES

A meeting was called at 10:30 A. M., Friday, January 23, in the Senate Finance Committee Room in the Senate Office Building. There were present:

<p>Senators: Byrd McKellar George Nye LaFollette Congressmen: Treadway</p>	<p>Bureau of the Budget: Mr. Lawton Mr. Dodd Mr. Patterson Treasury: Under Secretary Bell General Accounting Office: Mr. Tyler Mr. Barger</p>
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Senator Byrd explained that the meeting had been called to hear representatives of the Bureau of the Budget give an explanation of the various agencies of the Government engaged in housing activities. He stated that before this was done he wanted to call the Committee's attention to a complaint which he had received from Judge R. E. Green of the Probate Court at Greensboro, Alabama, against the practice of the Farm Security Administration in paying the poll taxes of people in that community. The Committee authorized Senator Byrd to contact Judge Green and invite him to present his protest to the Committee.

There then followed a general outline by representatives of the Bureau of the Budget with respect to the various agencies of the Government engaged in housing activities; the extent to which funds have been appropriated to such agencies, and the amount of housing activities undertaken by them. During the course of the hearing the representatives of the Bureau of the Budget were asked to submit for the record extensive information concerning the Government's housing activities and the money spent thereon.

Thereupon the meeting adjourned at 12:00 o'clock Noon.

FOR DEFENSE



Wnt

January 23, 1942
10:40 a.m.

CLEVELAND SPEECH ON TAXES

Present: Mr. Sullivan
Mr. Blough
Mr. Kuhn
Mr. Odegard
Mrs. Klotz

H.M.JR: I went all through this. It is terrible that Paul isn't here. Have you got a copy?

MR. KUHN: Yes, I have one here.

H.M.JR: It is all right down to separate returns for husband and wife. I guess you have got my copy, Ferdie.

MR. SULLIVAN: I have it here.

H.M.JR: All right. On 17, what the President wants - I will address myself to Roy - is, "The removal of community property alone," and so forth - the point that the President wants us to make, and I know they have worked out a scheme, that it is all right to treat husband wife as one as far as their income, royalties, and so forth - that part which is in the income tax blank, you see, but the part where the husband and wife earn separately should be treated separately. Now, we have got something like that in the law, but he wants us to spell it out, you see.

MR. ODEGARD: The earned income?

H.M.JR: The earned income. Take this down, Roy. He says, "I am not talking about separate earnings of husband and wife, but compensation for the work that they do," you see. In other words, the compensation

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for the work that they do, that should be treated - taxed separately, but for the income, royalties, so forth and so on that they have on their investment, that should be joint, which is more or less the same position that I took last year.

MR. SULLIVAN: Yes, that is the principle you were for.

H.M.JR: Well, he wants that spelled out.

MR. SULLIVAN: Good.

H.M.JR: And with that spelled out, it is all right. Now, that has to be done, and it must be changed. And spell it out. Now, as soon as you are ready on that, let me know.

MR. KUHN: All right.

H.M.JR: Could you write that, Roy?

MR. BLOUGH: Yes. I will get together with Tarleau and we will write that.

H.M.JR: Well, if you could get it and write it, and then show it to Sullivan and the rest of the people and --

MR. BLOUGH: I don't think it will take much of a change.

H.M.JR: And then while you are doing that, because that is technical, I can be talking to Kuhn about my Sunday speech. How is that? How does that strike you?

MR. SULLIVAN: I feel very much better. That takes care of the situation I outlined to you in that memo yesterday.

H.M.JR: Yes. Well, if you and Tarleau would write it, then consult with Sullivan and Paul and then these two fellows, and then as soon as you have got a meeting of the minds - but I have got to have this thing, if

possible, by twelve o'clock.

MR. BLOUGH: That ought to be easy.

H.M.JR: All right. But otherwise, there is nothing else.

MR. KUHN: I would like to tell them to hold up their mailings and then I will come right back.

H.M.JR: Will you stay, Peter, please?

Are you satisfied on that, John?

MR. SULLIVAN: Oh, I am very much pleased, sir.

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

H.M.JR: Let me read this thing. This will be my last chance. I might have something, you see. I didn't like this part at all. I didn't want to say anything in front of John Sullivan, but this part about the joint returns, he hesitated a long time over it.

(Discussion off the record.)

H.M.JR: How much is the total Defense Bonds?

MR. KUHN: It must be way over three billion. It was two billion five at the end of December.

MR. ODEGARD: It will be nearly a billion this month.

MR. KUHN: But we have never announced that it was over three billion. Nobody has ever said that.

MR. ODEGARD: No.

H.M.JR: At the bottom of five, that is new, isn't it?

MR. KUHN: No. There is nothing changed in there.

H.M.JR: At the top of nine, "in the statute books" or "on the statute books"?

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MR. KUHN: It could be either.

H.M.JR: Which is better?

MR. ODEGARD: They usually say "on the statute books" or "in the statutes."

H.M.JR: I prefer "on". It is a little awkward. I mean, just for my reading.

MR. KUHN: Either way. "In the statutes."

H.M.JR: Well, it is just this one page. I would like it.

MR. KUHN: "On the statute books."

H.M.JR: If you don't mind. On the West Coast I wouldn't bother with one word. You will have to fix up the other thing.

MR. KUHN: But you mean only for your own reading copy?

H.M.JR: No, I want this changed.

MR. KUHN: For all of them?

H.M.JR: Yes. I mean, I wouldn't bother with what you have already mailed out.

MR. KUHN: That will be killed anyway.

H.M.JR: Then just change this whole thing. When I come to tax exempt securities, my guess is that it will be a bombshell. I don't think you are going to get it, but I think you ought to say it.

MR. KUHN: Those figures improved it a great deal.

MR. ODEGARD: I should say.

H.M.JR: It makes the speech, Ferdie.

MR. KUHN: Yes, it is very good.

H.M.JR: It makes it. It just points it up, doesn't it?

MR. ODEGARD: Sure.

H.M.JR: It points it up. Well, that is the advantage of working together. I mean, we work so pleasantly together.

MR. KUHN: Some of that community property stuff you hadn't seen. That is, it was the spelling out that you asked Roy to do.

H.M.JR: Yes, he had that yesterday.

MR. KUHN: Not quite in this way, you see. It was rearranged.

H.M.JR: Well, I am going to skip the separate returns for husband and wife. The President didn't read this depletion. "Have you got it in there, that after they have written it off they have got to continue to write it off?" he said. I said, "Yes, that is the whole point." He said, "Will the Texas boys holler when they read this?" I said, "Well, they are going to holler when they read everything." I said to the President, "When I climb out on the end of the limb, I want to make sure you haven't got a saw in your hand." He laughed. He liked that. I said, "It is too much to ask you to climb out on the same limb with me, but at least I want to know you haven't got a saw in your hand." That is telling him, isn't it?

MRS. KLOTZ: Very nicely (laughter).

H.M.JR: We have four seasons of this every year.

MRS. KLOTZ: You have to go through it four times a year.

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H.M.JR: Now I want to read this last part here. You say here, "on the statute books." You don't want to make it more obvious and say, "as taxpayers and as voters"?

MR. KUHN: That is throwing down a red rag to Congress.

H.M.JR: A little bit too tough?

MR. ODEGARD: It is almost asking them to write in.

MR. KUHN: More than that, it is to throw out any Congressman who doesn't vote for these things.

H.M.JR: Too tough.

MR. KUHN: I would say so.

H.M.JR: What do you mean, national income? Do you mean it can't handled too roughly?

MR. KUHN: I think you have got to guard it. Don't allow anything to exist which might interfere with it.

H.M.JR: You don't say that.

MR. KUHN: For this reason, that I am going to fight the things which may injure it.

H.M.JR: Why a paragraph?

MR. KUHN: We can change that.

MR. ODEGARD: Don't you think it helps to emphasize it, off as a paragraph?

H.M.JR: Not in this case, no.

MR. ODEGARD: You don't think so?

H.M.JR: No, I am for more paragraphs, but not in this case. I mean, if you want to break the paragraph,

I would break it, "We need nine billion dollars of additional revenue." I would start a new paragraph there, but I think that other sentence should be in the last paragraph. I always feel diffident when talking with an editor and a professor, but do you agree with me on that?

MR. ODEGARD: Yes, I do.

H.M.JR: Is that all right?

MR. ODEGARD: Yes.

H.M.JR: It is splendid.

MRS. KLOTZ: It is very, very good.

H.M.JR: It is good. She blows.

MR. KUHN: That is the end of it?

H.M.JR: Well, Ferdie, without the help of you and Peter, I never would have tried to do three speeches in three days.

MRS. KLOTZ: Who is going to do your reading copy?

MR. KUHN: The usual --

MRS. KLOTZ: It doesn't get done like this, you know. It ends on a sentence.

MR. KUHN: Oh, I think they know how to do the reading copy. Entirely different. They were going to send the reading copy over to the President, and I said, "No, we want a regular run like that."

H.M.JR: Now, while we are waiting to hear from the boys, let's go on to Detroit.

I am very happy to be with you in Cleveland this afternoon, because this great city, far from any battle line, is one of the places where the outcome of this war and the future of this country is being decided.

Here in the Cleveland area you have a great concentration of the forges and the assembly lines which are America's real front lines at this moment. Day and night your industrial wheels are turning, your hammers pounding, your fires burning, your workers toiling, to win the war. You in Cleveland are showing what our free people can do when they are aroused, and I take my hat off to you.

D-c 9.30 1/23/42

You and all the others of our 130 million people have begun to speak in the only language that tyrants understand -- the language of tanks and planes, guns and ships, and men with the courage and conviction to carry that message all the way to Tokyo and Berlin.

What has happened, I wonder, to those who used to say that the pioneer spirit was dead? The pioneers who opened Ohio did not let danger or hardship daunt them; they regarded every danger as a challenge, every hardship an adventure. You in Cleveland have not lost that spirit. It is alive and strong, here in your State and in every State.

Already we have answered the shock of Pearl Harbor by dedicating ourselves to the greatest job that ever confronted our country. We have shown that we can take marching orders by accepting and applauding the great task the President set for us the other day, the task of making such an overwhelming number of weapons that the Nazis and the Japanese will be utterly unable to match us.

If any further proof of our determination were needed, let any of our enemies look at the magnificent response to the sale of Defense Bonds and Stamps in the past few weeks. The

total has now passed three billion dollars, and the response in January has set new records in every direction.

Whatever test may be given to us, we are going to surmount it. Whatever hardship may be in store for us, we are ready to take it and give it back to our enemies a hundredfold until victory is won. That was the pioneer way in the old Ohio days; that is the American way today. That is the way we shall keep faith with the pioneers and with the promise of a better world which they foresaw.

We have only just begun to fight; we have only begun to learn what this war effort will

involve. In the near future, for example, we shall face a new challenge of a kind which I think too few of us have planned for or even considered. That is the challenge of paying for the war. It will come first on March 16th, when fifteen million Americans will be called upon to pay income taxes for the waging and the winning of this war. It will come later in the payment of the vastly increased war taxes which we shall have to impose upon ourselves in the new financial year. I am confident that we shall meet those new requirements, and any requirements,

without flinching. We know, as I have said before, that it's a million times cheaper to win a war than to lose one.

This is not the time for me to discuss the new tax program. The President has said we must have nine billion dollars in new revenue. We have no more right to fall short of that goal than we would have to fall short of the President's announced goal of sixty thousand planes and forty-five thousand tanks in 1942.

It will produce hardship; of course it will. Since when have the American people been daunted by hardship? It is part of our American

tradition to face the facts, however harsh the facts may be. You know, without my saying so, that we cannot divert half of our national income to war production without "dislocating" our economy from its customary routine. You know, without my saying so, that we cannot spend forty billion dollars in this year 1942 without "disturbing" ordinary business and ordinary living. You know, too, that we cannot fight and win a life-and-death struggle, a war that encircles the whole planet, without discarding old habits, old fears, old notions of business-as-usual.

We are, however, entitled to lay down just this one premise: that whatever hardship may be in store, we shall face it together; that it shall be distributed fairly and borne by all in their fair proportion, in accordance with their ability to carry it. And that brings me to the chief subject I should like to discuss this afternoon.

This Administration has tried hard for years, and with a good deal of success, to remove tax injustices. Such injustices are of two kinds: those which permitted some to escape their fair share of tax payments, and those which bore down too harshly upon certain taxpayers.

For eight years at the Treasury I have fought against the remaining vestiges of unfairness in the statute books, and in almost every one of those eight years Congress has closed some loopholes and enacted some remedial provisions.

In the Revenue Act of 1937 there was a whole series of reforms which made it impossible, among other things, for anyone to escape taxation by incorporating his yacht or country estate, or by creating a personal holding company. These devices have now been outlawed. Since then the struggle to perfect the statutes has gone on without stopping.

Now that we are at war, the fight becomes more necessary than ever. The President has spoken again and again of the need of making our taxes not only effective but equitable as well. Only the other day, in his Budget message, he repeated that "a fair distribution of the war burden is necessary for national unity."

War knows no avoidance. As the President said, "When our enemies challenged our country to stand up and fight they challenged each and every one of us." Every one of us has a direct stake in the outcome of this war, and each of us must, therefore, pay his fair share of the cost.

Yet I am sorry to say that the present tax structure still falls short of the requirements of equity and the insistent needs of a nation at war. In spite of all our efforts of recent years our tax laws are still weakened by loopholes; it is still possible for a few thousand individuals to escape their fair share of the burden and to pass their share onto the shoulders of the rest of us. I asked our Treasury tax experts the other day to compute the total amount of revenue that had to be passed onto the shoulders of other taxpayers because of the existence of loopholes in the law. The answer was almost a billion dollars, about one-eighth of the entire

receipts from income tax in the fiscal year that ends in June. How can the war efforts of our people reach their peak level until such a situation has been remedied? Can we be sure of getting the maximum response from everyone until everyone feels that the tax laws are as fair as it is humanly possible to make them?

In wartime, when we are drafting young men to fight and risk their lives for their country, any special privilege for a few becomes inexcusable.

So that you may know exactly what I have in mind, I should like to turn now to four

specific examples of tax loopholes -- and I could name a great many more than four -- which have been allowed to remain on the statute books at the expense of the majority of our taxpayers.

Tax-Exempt Securities

The first is the continued existence of tax-exempt securities. At present, as you know, the interest from State and municipal bonds is exempt from Federal income tax. This provision gives some wealthy taxpayers a refuge, not from some income tax, but from all income taxes. No matter how much money may be needed for the war,

no matter how high the tax rates may be for others, a taxpayer is not obliged to contribute anything in this hour of his country's peril, if only he can afford to lay his hands upon a sufficient amount of tax-exempt securities.

The Federal Government last year took a first step toward remedying this situation by stopping the issuance of tax-exempt Federal securities. Now that we are at war, now that the revenue needs of the Government have soared beyond all previous conceptions, it is high time, in my opinion, to tax the income of State and municipal securities -- not only the income from future issues, but also the income from those issues now outstanding.

The existence of this loophole costs the Treasury, at present tax rates, about \$200,000,000 a year.

Community Property

A second source of tax discrimination exists in the nine States having what is called the community property system. In a community-property State the law assumes that the income of the husband belongs equally to the husband and wife. Yet since the husband has full management and control of the whole income, he is, in practical effect, in no different position from a husband in a non-community-property State. Both of them

have the management and control of the income and in both cases the income is devoted to the family purposes.

In a community-property State a husband who earns a \$10,000 salary is allowed to report only \$5,000 of that salary as his income and his wife may report the other \$5,000 as hers. The two of them together will pay a total tax of \$965. In the thirty-nine other States, however, the husband who earns a \$10,000 salary must report that salary as his income and must pay a tax of \$1,305 on it. Thus the married citizens of nine out of forty-eight States are

able to escape their fair share of the load at the expense of the married citizens in the rest of the country.

The existence of this community-property tax privilege costs the Treasury, on the basis of existing rates, about \$65,000,000 a year.

Separate Returns for Husband and Wife

The removal of this community-property privilege alone would not, however, reach a still more widespread form of avoidance, namely, the method of separating taxable income between husband and wife, in such a manner that two families having virtually the same economic position pay vastly different taxes. Under the

present law, if a husband has income and his wife has income, each pays a tax on the separate income. Because the income-tax rates are progressive -- that is, because the higher the income the greater is the rate of tax -- a family in which both husband and wife have income pays less tax, in many instances, than a family having the same amount of income all of which is received either by the husband or the wife.

Let us take the case of a married taxpayer in the upper brackets having a \$100,000 income from securities. Under the present law he would pay a tax of \$52,748. But if he gives

half of those securities to his wife, he will pay a tax of \$20,926 and his wife will pay a tax of the same amount. This couple, at the cost of a moderate gift tax, has thus secured a perpetual reduction of \$10,896 in its income-tax liability under present rates. The loophole could be closed and the unfairness to the great mass of taxpayers removed by taxing each married couple as a unit. The married couple is the economic unit, and a realistic tax would treat it as such.

The existence of separate tax returns for husband and wife cost the Treasury, on the basis of present rates, about \$285,000,000

a year, in addition to the revenue that is lost because of the community-property tax privilege.

Percentage Depletion

The final loophole which I shall mention this afternoon is one against which the Treasury has struggled for years without avail. If you use a machine in your business and that machine can be expected to last for ten years, you are permitted to deduct each year for ten years one-tenth of the cost of that machine. Because you will probably have to buy a new machine at the end of ten years, this deduction is a fair and reasonable method of allowing you to recover

your capital. Needless to say, you are not permitted to deduct more than the cost of the machine.

Metal

But you may be surprised to learn that this is not true of mines and oil wells whose owners are permitted over the years to deduct far more than the amount of money which they have put into the property for the conduct of their business. The so-called percentage depletion provision of the income-tax law allows these companies, not simply to deduct a percentage of the cost of their wells and mines each year until the entire cost has been made good, but to deduct an arbitrary percentage

50%

of their income indefinitely. An oil company which may long ago have recovered tax free many times the cost of the wells which it is operating is still permitted a deduction of 27 1/2 per cent of the gross income from those very same wells.

The allowance of percentage depletion costs the Treasury, on the basis of existing rates, at least \$80,000,000 a year.

I have pointed out the most glaring examples of these loopholes, but there are others, all of them unfair to the many for the advantage of the few, all of them dangerous to the unity we need to win this war. Perhaps

the American public has been inclined to shrug its shoulders at the defects in our tax laws; yet they are not small matters, either morally or materially, nor are they matters beyond the control of the people themselves.

It has been difficult until now to correct our tax laws because taxpayers have been too few and too indifferent. Until the great body of American taxpayers becomes thoroughly aroused to the injustices which have been left on the statute books year after year, we cannot expect to correct the laws. The remedy lies in your hands as taxpayers.

We Americans can be proud of the unity that has been shown by all sections of our people since Pearl Harbor. But national unity is a precious thing. It will be subjected to many strains in the months and years of trial ahead.

For this reason, with your help, I am going to fight for the speedy removal of any defects in the tax laws which may injure our national morale. We need nine billion dollars in additional revenue; I should like the very first billion of that amount to be obtained by closing the remaining loopholes.

If this is accomplished it will be a contribution to the financing of the war, the morale of our people, and the victory of our cause.

-oOo-

January 23, 1942
10:47 a.m.

Colonel Smith: Good morning, Mr. Secretary.

HMJr: Good morning. Smith, you know your memorandum of January 14th where you referred to a certain lieutenant.....

S: Yes, sir.

HMJr:in the photographic section.

S: Yes, sir.

HMJr: The President asked - directed me to ask you whether it was your opinion whether the matter should be dropped or that this case should be turned over to some authorities in the Army.

S: No, I think it should be dropped.

HMJr: You think it should be dropped?

S: Yes, sir. I had the G-2 people go into the thing very carefully; and it's very evident that this is a young, inexperienced kid who didn't have enough judgment to realize what might be involved.

HMJr: Well, the President wondered whether it was your judgment should it be turned over to G-2 or not.

S: Well, G-2 has been handling it.

HMJr: But it's your opinion it should not.

S: I don't think that any disciplinary action should be taken, if that's what you have in mind.

HMJr: Well, I don't know. He simply said, "Ask Colonel Smith whether we should go any further in the matter or whether the matter should be dropped."

S: Well, my judgment would be, sir, that it should be just left up to our own G-2 people.

HMJr: Uh huh. But it has been turned over to them?

- 2 -

S: Yes, they got it direct. As a matter of fact, from your own investigator. I understand they're in pretty close liaison.

HMJr: What's that?

S: They got it direct from your own people before I had heard from you about it.

HMJr: I see.

S: And they had gone into it in collaboration with your men.....

HMJr: Right.

S:and knew the whole story when I called them up.

HMJr: Okay.

S: So they think that it was just a case of lack of experience and judgment.

HMJr: Well, then I'm going to dismiss it from my mind.

S: Yes, sir. They've taken care of it all right.

HMJr: And the responsibility is the Army's.

S: That's right, sir.

HMJr: Okay.

S: How about Kamarck, Mr. Secretary?

HMJr: Yes.

S: Have you - I asked your personnel man to write a little note for your signature, asking that Kamarck's services be made available to you, if and when he's called to active duty. I know you want to keep him.

HMJr: Well, I don't - I'm going to - I may not do that.

S: Well, whatever you want; but if you want him.....

HMJr: Yes.

S:and I know he's valuable over there.....

HMJr: Yes.

S:why that's a very small thing for us to do for you.

HMJr: Well, I'll have to cross that bridge, because we have a lot of other cases; and I appreciate that, but I'm going to take a little time - what I've decided here, Colonel, is this. Now that we're in war, I'm not going to ask for any deferments for anybody. Hello.

S: Yes, sir. Well, of course, on the other hand, you're entitled to run that little Intelligence Service of yours that he runs.

HMJr: Well.....

S: If you decide you want him, Mr. Secretary, we can take care of that.

HMJr: Well, that's very kind; I may do it. I don't know. I'd like to think that over over the week-end.

S: All right, sir. How's your Coast Artillery outfit coming along?

HMJr: I haven't been around. They asked for a couple of weeks, and I thought one of these days I'd get hold of you and we'd take a little ride together.

S: I think it would be nice. Were you favorably impressed by the new Colonel?

HMJr: Yes.

S: I think you'll.....

HMJr: By the Colonel, yes.

S: I think you'll fine a great change.

HMJr: But that General that brought him along, I want to talk to you.

S: (Laughs) I know what you're going to say. I feel the same way.

HMJr: Listen, how the hell - he's in charge of Interceptor, isn't he?

S: Yes, he's the big shot up there.

HMJr: Yeah. Well, I asked him how many planes he had, see?

S: Yes, sir.

HMJr: And whether he was getting any more planes.

S: Did he know?

HMJr: No, he didn't have the foggiest idea how many planes he had anywhere.

S: Yes, sir.

HMJr: What?

S: Yes, sir. I'm not surprised.

HMJr: Well, I was shocked, Smith. He had - and then he wanted to bring me into the camp and show me where all of this stuff was, and I said, "Oh, never mind."

S: (Laughs)

HMJr: But he had no idea. I had your little memorandum in my hand, so I knew; but I didn't let him know that I knew. But he had no idea how many planes or where he had any planes.

S: Well, the way I feel about the whole set-up is this, Mr. Secretary.

HMJr: Yeah.

S: If the man at the top had been the type - had

been on the job, why you never would have had to make the initial criticism.

HMJr: Well, I thought when we take a little ride we might have another little heart-to-heart talk.

S: I'd be very glad to.

HMJr: I liked your Colonel, but your General.....

S: Well, I didn't pick him out.

HMJr:you can have him.

S: I picked out the Colonel; I didn't pick out the General.

HMJr: (Laughs) Okay. Well, we'll have to put our heads together.

S: All right, sir.

HMJr: All right.

S: Good-bye, Mr. Secretary.

HMJr: Good-bye.

January 23, 1942
11:10 a.m.

DETROIT SPEECH TO UAW

Present: Mrs. Klotz
Mr. Kuhn
Mr. Odegard

MR. KUHN: Mr. Secretary, on the Detroit speech, I haven't got carbons in the usual way, but I can read aloud if you like or if you would like to read this--

H.M.JR: No.

MR. KUHN: And there are two or three little points left out which I am going to put in.

"It is a good and wholesome experience for any official from Washington to come here to Detroit to meet a great audience of automobile workers. We in Washington are much too accustomed to think that we sit at the center of the war effort. For the past few weeks Washington has been, in a sense, the capital of the world, the scene of war-time planning on a world-wide scale. The officials and generals and admirals of many countries have been working together in Washington, planning the military, naval, and economic strategy that will ultimately bring Japan and Germany and the systems they represent crashing to their inevitable downfall.

"The most brilliant and farsighted strategy in the world will not, however, accomplish its purpose until the materials of victory have rolled off the assembly lines of the United States. The heart of the war effort is not in Washington but right here in your factories

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and your workshops. The big push begins here, not in Malaya nor in Libya, nor even in Russia, but here in Michigan and Ohio and Pennsylvania or wherever there are lathes and tools and the willing hands of hundreds of thousands of Americans to produce the tools of victory. You are our greatest army of frontline soldiers in this phase of the war, and I am genuinely proud to be here among you today.

H.M.JR: Change the "frontline soldiers."

MR. KUHN: Yes. It isn't essential.

"This is not the first time that I have been privileged to come to the Detroit industrial area" --

H.M.JR: Excuse me. If you can sort of twist this thing around. You get too much impression of the factories and shops and lathes. I want much more the human action.

MR. ODEGARD: The whole rest of it is on the workers.

H.M.JR: But that is in the beginning. Let's get off to the start that it is the human action, the men and the women, and don't forget the women in those shops, too. I have seen them.

MR. KUHN: "Wherever there are men and women who work the lathes and tools," and so on --

H.M.JR: That is the idea.

MR. KUHN: "This is not the first time that I have been privileged to come to the Detroit industrial area. Some of you know that I had the honor of attending a meeting of shop stewards of the Fisher Body Plant at Pontiac last November."

H.M.JR: Instead of "honor", say "privilege".

MR. ODEGARD: "Pleasure."

MR. KUHN: Right. That is what I wanted, Peter.

"I came back to Washington from that meeting heartened and invigorated as seldom before. In that one evening I heard more sound common sense, more realistic judgments of our situation, than I had heard in many meetings in Washington or elsewhere. From that day I was convinced that American labor was far ahead of all of us in its desire to produce armaments to win the war, and in its willingness to take the consequences in long hours, in dislocation and even in genuine hardship.

"Two of your members, who are here in this hall, came to see me in my office last month to tell me of the shutdown that had come to their plant. And yet when I suggested that the answer to our production problem was the immediate stoppage of all automobile production and the quickest possible change-over to war production, I turned to your two fellow members and asked them whether they understood the consequences of such a stoppage. They answered without a moment's hesitation, 'We want it, we can take it, we are used to it,' and I was very glad to hear from Mr. K. T. Keller, president of the Chrysler Corporation, that he too felt the same way.

"Labor has every reason to feel as strongly as it does" --

H.M.JR: Instead of costs - what did you say?

MR. KUHN: "Whatever the costs, whatever the consequences."

H.M.JR: I would say "whatever the sacrifices and whatever the consequences." O.K., Peter?

MR. ODEGARD: Yes.

MR. KUHN: Yes. I am not keen on the word "sacrifice" --

MR. ODEGARD: Ferdie and I are going on a sit-down strike on it.

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MR. KUHN: We have struck the word "sacrifice" out of our dictionary.

H.M.JR: They are not interested in the cost in the sense of dollars. Something rather than the word "cost".

MR. KUHN: O.K. I just wanted you to get the tone of this.

H.M.JR: I know. It is good so far.

MR. KUHN: "Labor has every reason to feel as strongly as it does about the winning of this war. For this is labor's war, to a greater extent than any of the great struggles of human history. There are at least three reasons why I say it is labor's war.

"In the first place, as I have said, it is going to be won by labor; it can only be won by labor," --

H.M.JR: Is it labor's war, or the laboring man's war?

MR. ODEGARD: Labor's war.

MR. KUHN: "In the first place, as I have said, it is going to be won by labor; it can only be won by labor, for this is a war that can only be won by the production of an overwhelming number of weapons of all kinds. Upon your skill, your sweat, your capacity to make full use of all the productive apparatus of American industry, the outcome of this war will depend.

H.M.JR: Just one second. Let me give you a thought. I say all the individual bravery and all the daring of the individuals, of the soldiers which make up our armed forces cannot be successful unless they get the mass production.

MR. ODEGARD: Yes.

H.M.JR: See what I mean?

MR. ODEGARD: Yes, that is good.

H.M.JR: I mean, you have your Captain Kellys and your Major so-and-sos at this place, but all the individual daring and bravery of the thing - you see?

MR. ODEGARD: Yes.

H.M.JR: Those individual incidents cannot win unless they are backed up by the mass production. Don't you think that is a good thought?

MR. ODEGARD: I do.

MR. KUHN: Yes.

H.M.JR: You could say - you can refer, if you want to --

MR. KUHN: Kelly, MacArthur, any of them.

(The Secretary held a telephone conversation with Mr. Graves.)

MR. KUHN: Shall I go on?

H.M.JR: If you please. We had the first reason why this was labor's war.

MR. KUHN: "In the second place, this is a war against the enemies of the free labor movement in this and in every other country. Nobody needs to stand up before any group of labor men and women in this country and tell them what Fascism means."

H.M.JR: Go back, say it again.

MR. KUHN: This is the second reason why it is labor's war.

"In the second place, this is a war against the enemies of the free labor movement in this and in every

other country. Nobody needs to stand up before any group of labor men and women in this country and tell them what Fascism means. When Mussolini first came to power in Italy" --

H.M.JR: Should we say what Fascism means here or abroad?

MR. ODEGARD: No, I would say just what Fascism means, because it is generic.

H.M.JR: All right.

MR. KUHN: "When Mussolini first came to power in Italy, twenty years ago, when others praised him for making the trains run on time, organized labor in America took its stand against him as an enemy and has never deviated from that stand.

"Labor has never been dazzled by the military accomplishments of the dictators and their strutting armies. Labor has never made the mistake of imagining that theirs was in any sense a new order, or that their hateful systems could supply us with any guideposts to our future. Now, at last, the battle has been joined. As Hitler said quite truthfully, 'Two worlds are in conflict, one of them must break asunder.'

"But there is a third and still more compelling reason why labor has an immeasurable stake in this war. Labor in this country and elsewhere looks to a better world, a freer and a more secure future. Everything that labor has striven to attain for a hundred years would be swept away forever if the dictators were to win. Everything that labor seeks, for its children and its children's children, is bound up with the success of the free countries in the present struggle. As a matter of fact, the aims of the twenty-six nations which signed the solemn agreement in Washington the other day are the aims of American labor. These aims can be stated in a few words: that we may build a better world, a world in which the four freedoms -- freedom of speech, freedom of worship, free-

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dom from want, and freedom from fear -- may spread across the entire earth.

"I think I can describe those aims in a very few words by telling you about a great picture in the Grand Central Station in New York."

This is mine. You can't pin it on Peter.

"It is a unique picture in that it happens to be the biggest photo-mural in the world. We of the Treasury put it there to help the sale of defense bonds and stamps, and we took good care that everybody should see it, for we made it so big that it covers an entire wall of the station concourse.

"But what makes me so proud of it is not its size but its message and its spirit. The first of its three huge photographs, each of them eighty-five feet high, is a picture of an American farmer and his land, and the caption under it says, 'That we may defend the land we love.' The second is a panel of children's faces, with the caption, 'That these may face a future unafraid.' And the last is a picture of a worker looking up at a factory, and under it is the caption, 'That we may build a better world.' Those happen to be the objectives of the Defense Savings campaign, but they are also the objectives for which we are fighting this war, and they happen to be the objectives of American labor.

"It may seem unfeeling of me even to mention Defense Bonds and Stamps to an audience in which many of you have lost your jobs, suddenly and through no fault of your own, because of the change-over to war production in the automobile industry. I know what you in the Detroit area have been suffering in unemployment in the last few weeks; I wish as fervently as you do for the day when all our plants will be in full war production, and when those of you who are walking the streets will be back at your work-benches again."

This little section I am trying to cut, but I will read it as it is.

"Certainly I would never ask or expect any of you who are in trouble to buy a bond or a stamp at this time. The country does not ask it or expect it of you."

H.M.JR: Why are you cutting it?

MR. KUHN: There is too much of it.

"We at the Treasury have never asked anyone to take food from his children or clothing or shelter from his family to buy defense bonds. No one from the Treasury will ever high-pressure you to invest in these bonds or stamps if you cannot afford to, and if anyone pretends to represent the Treasury with such an appeal, he will be acting without the slightest sanction or authority from Washington. We received the other day, an elaborate sales promotion plan, based, frankly enough, upon 'the traditional dread among the American people of being held up to public ridicule and scorn.' The idea of this enthusiastic but misguided plan was to label as a slacker everyone who did not buy a bond. We replied that we disapproved and did not countenance anything of the sort. We replied that we did not believe in the effectiveness of intimidating Americans, and that whenever such tactics were proposed we would avoid them like the plague. We believe, and we have proved in the past eight months of the Defense Savings campaign, that we can make the best appeal to the American people by commendation and cooperation.

"We have a slogan at the Treasury, 'Let's make every payday Bond Day.' That certainly does not apply to those who must wait for weeks and sometimes months until their plants can reopen. But it does apply, with redoubled force, to those in this area and elsewhere who are earning regular pay. All of you who are working in good jobs, working for steady pay, have seen how suddenly a great dislocation can come. You have seen friends and neighbors hard at work one day, and thrown onto their

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unemployment insurance the next, as part of the price of preparing this country's factories for war. Isn't it better to guard against trouble in advance than to let it catch you unprepared? Isn't it better to build a reserve week by week, in Defense Bonds and Stamps than to wait until some unforeseen blow may fall upon you? Your country needs the money, and you need the security, that Defense Bonds can bring.

"I am not going to state the case for Defense Bonds this afternoon, or to try to enlist you in the great and growing army" --

H.M.JR: What are we doing?

MR. ODEGARD: They are already enlisted.

MR. KUHN: I can cut that.

MR. ODEGARD: I think you might say they are already enlisted.

MR. KUHN: It seems a little silly.

H.M.JR: Yes.

MR. KUHN: "I should like, however, to mention one reason for buying Defense Bonds which may not have occurred to you. It is true that Defense Bonds will help to pay for the raw materials and the finished weapons that will win the war. It is true that Defense Bonds soon translate themselves into guns and tanks and planes and military equipment of all kinds. But they also pay for labor, your labor. Every time you buy a \$75 bond you pay for the services of a skilled worker for" --

H.M.JR: Make it \$25 bond.

MR. KUHN: "....a skilled worker for an entire week."

H.M.JR: Oh, I see.

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MR. KUHN: "Every time you buy a \$25 bond you buy fingers to make shell cases or muscles to stoke the furnaces of the war effort. Every time you buy a Bond or even a Defense Stamp you are enabling the United States Government to pay" --

H.M.JR: I don't like that "fingers".

MR. KUHN: Well, we will change that. We are thinking of women's hands.

H.M.JR: No, I don't like that.

MR. KUHN: "... you are enabling the United States Government to pay you for your war work, and you are hastening the day when your plants will be in full production again.

"About a month ago, two of your brothers in the Dodge local came to see me in Washington, to discuss ways and means of hastening the conversion of their plants to war production. We accomplished something, partly because those two men had the initiative to come to my office, partly because of the fine cooperation of Judge Patterson, the Undersecretary of War."

H.M.JR: I wouldn't call him Judge, just Colonel.

MR. KUHN: Is he a colonel?

H.M.JR: Or why not say Mr. Patterson?

MR. ODEGARD: Richard Patterson?

H.M.JR: No, Robert (laughter).

MR. ODEGARD: That was a great mistake.

MR. KUHN: "But what I shall always remember about that meeting is the spirit that your representatives showed. I argued then, and I have said it for months to everyone who would listen, that the only way to arm this country in time was to order the complete and immediate stoppage of all automobile production, and the quickest

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possible conversion of the plants. Your representatives knew that that would mean immediate unemployment for great numbers of men; yet when I asked them how they felt about it they answered, without a moment's hesitation, "We can take it; we want it done."

"That was just a sample of the spirit we at the Treasury have found among American labor ever since we started the Defense Savings program. It is a sample of the spirit that the whole country has discovered in the weeks since Pearl Harbor. It is the spirit that is going to win the war.

"I said in Cleveland yesterday that the pioneers who settled this Middle Western country did not let danger or hardship frighten them. They regarded every danger as a challenge, every hardship as an adventure. That is the spirit with which you are meeting this greatest crisis that free men have ever undergone.

"You will not be satisfied until complete victory is won; you will not be satisfied even when victory comes, as it surely will. You do not intend to let a few vicious leaders set back the clock of human progress, nor do you intend to let that clock stand still. What will be the use of setting the whole world free if we are to let that freedom be threatened again?

"This is a C.I.O. meeting, but I am going to read you a few lines from a recent publication of the American Federation of Labor, because I think it is an admirable statement of what all American labor is fighting for."

H.M.JR: Do you think this is good, Peter?

MR. ODEGARD: I think it is all right. Ferdie thought it was a good idea.

MR. KUHN: "It is called 'For a New Birth of Freedom,' and it says, 'America is fighting for the freedom of mankind everywhere in the world. Our task is not only to save our own freedom. The workers of the conquered

countries, the enslaved workers of Germany itself, the workers of the entire world look to us and our allies to make freedom possible again on this earth.'

"Has there ever been a nobler mission? Has there ever been a cause more worth fighting for? You workers of Detroit are in the forefront of that fight, and you will see it through until the fight is won."

Now, there are three ideas which need to go in there, first a message from the President --

H.M.JR: Forget it.

MR. KUHN: Don't you want to put that in?

H.M.JR: No, I spoke to him and a shadow fell across his face.

MR. KUHN: Number two. They are bringing out these new Treasury flags in the Detroit area, and they would like very much to have you mention those somewhere in your speech, and also to mention some of the conspicuous payroll deduction schemes, the plants that have done wonderfully.

H.M.JR: That is all right.

MR. ODEGARD: Would you do it by name?

H.M.JR: I think you have got enough in there now, Ferdie, unless you want to mention some of the plants.

MR. KUHN: This is going to be tightened. You know, it is repetitious.

H.M.JR: Do you think you want to mention the plants? Do you want to say Ford and this and that?

MR. ODEGARD: No, I was raising the question. I wouldn't.

MR. KUHN: Just say, "Many plants."

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MR. ODEGARD: Yes, "Many plants."

H.M.JR: I think it is a swell start. You have got the right spirit.

MR. KUHN: That is what I wanted to find out this morning.

H.M.JR: You have got the spirit. I am delighted. It is good, isn't it?

MRS. KLOTZ: It is marvellous.

MR. ODEGARD: On this A. F. of L. Bulletin, Ferdie, why not just quote it and say it is a quotation from the January issue of Labor's Monthly Bulletin?

MR. KUHN: Afterward?

MR. ODEGARD: Without identifying it as an A. F. of L. publication.

MR. KUHN: I think you lose the point there. I think that labor is coming together. They are bound to. It is a silly little prejudice --

H.M.JR: No, but here is the point. I do it, and it looks as though ~~oh~~ they will read things into it.

MR. ODEGARD: Well, it might be, Ferdie, that they might reason this way. They might ~~say~~, why recognize these differences? I quote from Labor's Monthly Bulletin.

MR. KUHN: Then they would think the Secretary doesn't realize that is an A. F. of L. publication and he is totally deaf to it.

MR. ODEGARD: I suspect that ninety per cent of these people will not know that it is not a C. I. O. publication, because it is an economists' - it is put out by the economists.

MR. KUHN: I would rather not do it than fail to identify its source.

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H.M.JR: I surely think that it is - it will make them gasp.

MR. KUHN: I don't mind if they gasp.

H.M.JR: Well, Ferdie, you are introducing something which is unnecessary.

MR. ODEGARD: I don't think you need to identify it.

H.M.JR: Listen, Ferdie, save it for when I go on with Green. I am going on with Green, on the air. Why can't I use it then?

MR. ODEGARD: Sure, that is good.

H.M.JR: I am going on the air with Green.

MRS. KLOTZ: This is not the place.

MR. ODEGARD: It just seemed to me that the thing was so neat.

H.M.JR: Let me use it when I go on with Green.

MR. ODEGARD: Sure, that is all right.

MRS. KLOTZ: It is a beautiful thing. I hate to see it out.

MR. ODEGARD: It is from the most recent issue, too.

H.M.JR: What is this flag raising?

MR. KUHN: That is what they would like you to do in Michigan. They thought you were coming by train, and the flag raising is our flag that is going up, the Treasury Defense Savings flag.

MR. ODEGARD: When I looked at that schedule that Iseby made out, I asked Ferdie what you were going to do in your spare time.

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MR. KUHN: I wish you could do some of that.

H.M.JR: Do I have to go to the Great Lakes Steel?

MR. KUHN: I don't see why. I think it might be good if you could go to the Chrysler place.

H.M.JR: Why not cut out the Great Lakes Steel? I don't know when I am going to get there. Why not cut that out? Shall we go to the Chrysler plant?

MR. KUHN: I think it would probably be interesting to go and see the Chrysler tank plant, and have lunch with those two fellows and Keller again. I think you would like it.

H.M.JR: I will do that. Now, the tea business - well, here is the point. If I am going to return by air, I will go directly to my plane. If I can't fly, then I will go and have tea with them.

MR. KUHN: Yes. He never spoke about the tea until I got that.

H.M.JR: Well, if I have got to be there and the train - no, the train leaves at five o'clock.

MR. KUHN: Four forty-five.

H.M.JR: Then that is out. I can't do the tea thing.

MR. KUHN: All right.

H.M.JR: I will do the other, weather permitting. I will have to find out what time it gets in.

MR. KUHN: Ten thirty-five from Cleveland, it gets in. Two hours and something.

H.M.JR: I will do some sleeping when I get back.

MR. KUHN: I think you will feel pepped up.

MRS. KLOTZ: This is going to be very uplifting (laughter).

MR. KUHN: I talked to Henry yesterday.

MRS. KLOTZ: You know what Henry wants. He came down here to spend a day in the Treasury, and about four o'clock he came out side and he just collapsed in a chair and I said, "Henry, what is the matter?" He said, "Just watching Daddy has done this to me." So there you are.

MR. KUHN: I will take care of this.

H.M.JR: Well, this is the thing. You take care of that and I am thinking about the air. I don't know yet about the air, but if you want extra time to clean up my Detroit speech, you see, you could come by train at nine tonight. If I leave by air, I will be leaving around five. That will rush you, and you could work on the Detroit speech up until eight o'clock tonight, and then take the train.

MR. KUHN: Did you want me to come to Cleveland, or only to Detroit?

H.M.JR: No, on account of this thing, because I have got to work on this thing tomorrow. I mean, I won't have any more chance today to see my Detroit speech.

MR. KUHN: You won't?

H.M.JR: No, hell - excuse me - I haven't even gotten my Cleveland speech yet. What time does the train get to Detroit. Don't you think - there is no sense your coming by air with me.

MR. KUHN: I can take it by train and meet you any time you say tomorrow.

H.M.JR: You come to the hotel directly tomorrow morning, and when you get there I will be fresh, and it gives you a chance to work with Peter on this thing

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up until eight o'clock tonight. You will need that time.

MR. KUHN: Yes.

H.M.JR: Would you rather go with me by air?

MR. KUHN: No, I would rather have the extra time, and meet you in the morning.

H.M.JR: Be frank.

MR. KUHN: I really would. I would like to go by train and meet you there in the morning.

H.M.JR: What are you hesitating about?

MRS. KLOTZ: I think he hesitated because maybe he didn't intend to go to Cleveland.

MR. KUHN: No, it is the best chance we will have to work on this thing. I thought there might be a chance to have a look at it, but you can't. O.K.

H.M.JR: Well, Ferdie, stop - how can I? I haven't even finished my Cleveland speech.

MR. KUHN: And you have a Cabinet meeting.

H.M.JR: And I have a Cabinet meeting.

MR. KUHN: Yes, and just a few other things on your mind.

H.M.JR: And I haven't seen my mail. God knows what is in my mail, or Bell or anybody.

MR. KUHN: All right. I will meet you at the Statler in the morning.

H.M.JR: I don't know what you have got on your mind, but I don't see how else you are going to do it.

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MR. KUHN: I have nothing. I am perfectly free.

H.M.JR: All right.

Draft of Secretary Morgenthau's
address to
United Automobile Workers, Detroit, January 25

It is a good and wholesome experience for any official from Washington to come here to Detroit to meet a great audience of automobile workers. We in Washington are much too accustomed to think that we sit at the center of the war effort. For the past few weeks Washington has been, in a sense, the capital of the world, the scene of war-time planning on a world-wide scale. The officials and generals and admirals of many countries ~~have been~~ ^{are} working together in Washington, ^{at this very moment,} planning the military, naval, and economic strategy that will ultimately bring Japan and Germany ^{to their knees} ~~and their~~ ~~systems they represent crashing to their knees~~ ~~down.~~

~~It is the most brilliant and farsighted strategy in the world which cannot~~
~~not, however, accomplish its purpose until the materials of~~
~~victory have rolled off the assembly lines of the United States.~~
The heart of the war effort, ^{Therefore,} is not in Washington but right here in your factories and your workshops. ^{The big push is under way now -} The big push begins here - not in Malaya nor in Libya, ~~nor in Russia,~~ but here in Michigan and Ohio and Pennsylvania or wherever there are lathes and tools and the willing hands of hundreds of thousands of Americans to produce the ^{weapons} ~~tools~~ of victory. You are our greatest army of front-line soldiers in this phase of the war, and I am genuinely proud to be here among you today.

This is not the first time that I have been privileged to come to the Detroit industrial area in recent months. Some of you

Yet the most brilliant strategy in the world cannot ~~accomplish~~ accomplish its ^{decisive} purpose until the materials of victory have rolled off the assembly lines of the United States. All the individual ~~bravery~~ bravery of our men in uniform cannot win the war ~~was~~ unless it is backed by the mass production of the tools of war. The heart of the war effort, therefore, is not in Washington but right here in your workshops and factories. The big push begins here. The great offensive against the Axis is under way right now, here in ~~Michigan~~ Michigan, next door in Ohio and Pennsylvania, and wherever ~~there~~ great numbers of willing ~~men~~ men and women are producing the weapons of victory. You in this hall are in the front line in this phase of the war, and I am genuinely proud to be here among you today.

This is not the first time that I have been privileged to come to the Detroit industrial area in recent months. Some of you

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know that I had the ^{pleasure} ~~honor~~ of attending a meeting of shop stewards ~~of the Fisher Body plant~~ at Pontiac last November. I came back to Washington from that meeting heartened and invigorated as seldom before. In that one evening I heard more sound common sense, more realistic judgments, ~~of our situation~~, than I had heard in many meetings in Washington or elsewhere. From that day I ~~was~~ ^{have been} convinced that American labor ^{has been} far ahead of all of us in its desire to produce armaments to win the war, ^{whatever the cost; whatever} ~~and in its willingness to take~~ the consequences, ~~in long hours, in dislocation and even in genuine~~ ~~hardship.~~

Two of your members, who are here in this hall, came to see me in my office last month to ~~tell me~~ ^{discuss} the shutdown that had come to their plant. And yet when I suggested that the answer to our production problem was the immediate stoppage of all automobile production and the quickest possible change-over to war production, I turned to your two fellow members and asked them whether they understood the consequences of such a stoppage. They answered without a moment's hesitation, "We want it, we can take it, we are used to it," and I was very glad to hear from Mr. E. T. Keller, president of the Chrysler Corporation, that he too felt the same way.

Labor has every reason to feel as strongly as it does about ^{this conflict that now encircles the earth,} ~~the situation of the war.~~ For this is labor's war, to a greater extent than any of the great struggles of human history. ~~There~~

~~are at least three reasons why I say it is labor's war.~~

In the first place, as I have said, ~~it is going to be won by labor; it can only~~ ^{be won} ~~by labor, for this is a war that can only~~ be won by the production of an overwhelming number of weapons of all kinds. Upon your skill, your sweat, your capacity to make full use of all the productive apparatus of American industry, the ^{ultimate} outcome of this war will depend.

In the second place, this ~~is labor's war~~ it is a war against the enemies of the free labor movement in this and in every other country, ~~of the war~~. Nobody needs to stand up before any group of labor men and women in this country and tell them what ^{Fascism} ~~pacifism~~ means. ~~Why, twenty years ago~~ ^{twenty years ago,} when Mussolini first came to power in Italy, when others praised him for making the trains run on time, organized labor in America ^{instantly knew Fascism for what it was.} ~~took its stand against him~~ ^{with the creation of the German labor unions, you knew at once that he would} ~~as an enemy and has never deviated from that stand.~~ Labor has never been dazzled by the military accomplishments of the dictators, ~~and~~ ^{cannot you} ~~their strutting attitudes.~~ Labor has never made the mistake of imagin-

ing that there was in any sense a new order, or that their ^{medieval tyrannies} ~~hateful systems~~ could supply us with any guideposts to our future. Now, at last, ~~loose~~ the battle has been joined. As Hitler said quite truthfully,

"Two worlds are in conflict; one of them must break asunder." ^{We can tell him that it will not be our world which will break or die.}

But there is a third and still more compelling reason why labor has an immeasurable stake in this war. Labor in this country and elsewhere looks to a better world, a freer and a more secure future;

Everything that labor has striven to attain for a hundred years would be swept away ^{forever} if the dictators were to ^{win} triumph. Everything that labor ^{seeks,} ~~speaks for,~~ for its children and its children's children, is bound up with the success of the free countries in the present struggle. ~~As a matter of fact, the aims of the twenty-six nations which signed the solemn agreement in Washington the other day are the aims of American labor. These aims can be stated in a few words: that we may build a better world, a world in which the four freedoms - freedom of speech, freedom of worship, freedom from want and freedom from fear - may spread across the entire earth.~~

WA

I think I can ~~describe~~ describe those aims in a very few words by telling you about a great picture in the Grand Central Station in New York. It is a unique picture in that it happens to be the biggest ~~with three huge photographs, each of them eight-five feet high~~ photo-mural in the world. We of the Treasury put it there to help the sale of Defense Bonds and Stamps, and we took good care ~~that~~ *we made it so big that* everybody should see it, for ~~it covers an entire wall of the~~ station concourse. ~~But~~ *and its spirit.* But what makes me so proud of it is not its size but its message, ~~It has~~ *and its spirit.* ~~three huge photographs, each of them eight-five feet high.~~ The first ~~of its three huge photographs, each of them eight-five feet high,~~ ~~is a picture of an American farmer and his land, and~~ the caption under it says, "That we may defend the land we love." The second is a panel of children's faces, with the caption, "That ~~we may defend~~ these may face a future unafraid." And ~~that~~ the last is a picture of a worker looking up at a factory, and under it is the caption, "That we may build a better world." Those happen to be the objectives of the Defense Savings campaign, but they ~~are also the objectives~~ *also happen to be the objectives of American labor, and they drive the aims* for which we are fighting this war, ~~and they happen to be the objectives of American labor.~~

~~It~~ It may seem unfeeling of me even to mention Defense Bonds and Stamps to an audience in which many of you have lost your jobs, suddenly and

~~through~~ through no fault of your own, because of the change-over to war production in the automobile industry. I know what you in the Detroit area have been suffering in unemployment ~~xxx~~ in the last few weeks; I wish as fervently as you do for the day when all our plants will be in full

~~war~~ war production, and when those of you who are walking the streets will be back at your work-benches again. Certainly I would never ask or expect any

of you who are in trouble to buy a Bond or a Stamp ~~xxx~~ at this time. The

~~country~~ *the unemployed* *those who have no pay-days and no regular work. will never* country does not ask it or expect it of ~~xxx~~. We at the Treasury ~~have never~~

~~ask~~ anyone to take food from his children or clothing or shelter from his

family to buy Defense Bonds. ~~No one from the Treasury will ever~~ ~~pressure~~

~~you to invest in these bonds or stamps if you cannot afford to. And if anyone~~

~~pretends to represent the Treasury with such an appeal, he will be acting without~~

~~the slightest sanction or authority from Washington. We received~~

agently sent to ~~the other day~~ an elaborate sales promotion plan, based, frankly enough, upon

"the traditional dread among the American people of being held up to ~~scorn~~

public ridicule and scorn." The idea of this ^{*enthusiastic but*} misguided plan was to label as a

slacker everyone who did not buy a Bond. ~~xxx~~ We replied that we disapproved

and did not countenance anything of the sort. We replied that we did not believe

in the effectiveness of intimidating Americans, and that whenever such tactics

were proposed we would avoid them like the plague. We believe, and we have proved in the past eight months of the Defense Savings campaign, that ~~we~~^{we} can ~~make~~ make the best appeal to the American people by commendation and cooperation. ~~That has been our policy at the Treasury, and it has brought thrilling cooperation from labor and management alike, and from all sections of the country.~~

We have a ~~slogan~~ slogan at the Treasury "Let's make every pay-day Bond Day." That certainly does not apply to those who ~~do not have pay-days~~, who ^{must} ~~are~~ waiting for weeks ^{Sometimes} and months ~~too~~ until their plants can reopen. But it does apply, with redoubled force, to those in this area and elsewhere who are earning regular pay. All ~~of~~ of you who are ~~working~~ working in good jobs, working for steady pay, have seen how suddenly a great economic dislocation can come. You have seen friends and neighbors hard at work one ~~day~~ day, and thrown onto their unemployment insurance the next, as part of the price of preparing this country's factories for war. ~~It is~~ ^{Isn't it} better to guard against trouble in advance than to let it catch you unprepared? ^{Isn't it} ~~It is~~ better to build a reserve, week by week, in Defense Bonds and Stamps than to wait until some unforeseen blow may fall upon you? Your country needs ^{the} ~~some~~/money, and you need the security, that Defense Bonds can bring.

~~I am not going to state the case for Defense Bonds this afternoon, or to try to enlist you in the ~~greatest~~ growing Army of Bond-buyers. Our emergency~~

~~State chairman, Frank Leboy, and his fellow-workers in Michigan ~~have~~ are~~
~~doing a magnificent job, and they ~~do~~ not need help from the outside.~~

~~I should like, however, to mention one reason for buying Defense Bonds~~

~~which may not have occurred to you.~~ *Moreover,*
~~It is true that Defense Bonds will~~
not only help to pay for the ~~raw materials and the finished weapons~~ *guns and tanks and planes* that will win the

~~war. It is true that Defense Bonds soon translate themselves into guns and~~
~~tanks and planes and ~~submarine~~ military equipment of all~~

~~kinds. ~~But~~ Defense Bonds also ~~pay~~ labor, your labor. Every~~
they pay for
time you buy a \$75 bond you ~~pay~~ *pay for* the services of a skilled worker for an entire

~~week; Every time you buy a \$25 bond you ~~pay~~ ~~the~~ ~~finances~~ to make shells~~
~~cases or muscles to ~~stock~~ the furnaces of the war effort. Every~~

time you buy a Bond or even a ~~Defense~~ Defense Stamp you are ~~enabling~~

enabling the United States Government to pay you for your war work, and you
our fighting men will be able to carry the war to Tokyo and Berlin;
are hastening the day when ~~your plants will be in full production again.~~

About a month ago
~~Two of your brothers in the Dodge local came to see me in Washington,~~
to discuss ways and means of hastening the conversion of ~~the Dodge and~~ *their*

~~Chrysler~~ plants to war production. We accomplished something, partly because
~~xxx~~ those two men had the initiative to come to my office, partly because of

the fine cooperation of ~~Mr. J. Edgar Hoover~~ ^{Mr.} J. Edgar Hoover and Judge Patterson, the Undersecretary of War. But what I ~~remember~~ shall always remember ~~is~~ about that meeting is the spirit that your representatives showed. I argued then, and I have said it ~~for~~ for months to everyone who ~~would~~ would listen, that the only way to arm this country in time was to order the complete and immediate stoppage of all automobile production, and the quickest possible conversion of the plants. Your representatives knew that that would mean ~~an~~ immediate unemployment for great numbers of men; yet when I asked them how they felt about it they answered, without a moment's hesitation, "We can take it; we want it done."

That was just a sample of the spirit we at the Treasury have found among American labor ever since we started the Defense Savings program. It is a sample of the spirit that the whole country has discovered ~~in~~ in the weeks since Pearl Harbor. It is the spirit that is going to win the war. ^I I said in Cleveland yesterday that the pioneers who settled this Middle Western country did not let danger or hardship frighten them. They regarded every danger as a challenge, every hardship as an adventure. That is the spirit with which you are meeting this ^{Crisis, the} greatest ~~crisis~~ that free men have ever undergone.

You will not be satisfied until complete victory is won; you will not be satisfied even when victory comes, as it surely will. You do not intend to let a few vicious leaders set back the clock of human progress, nor do you intend to let that clock stand still. What will be the use of setting the whole world free if we are to let that freedom be threatened again? ~~and then to let it be threatened~~

This is a C.I.O. meeting, but I am going to read you a few lines from *the issue of Labor Monthly Bulletin published by* a recent publication of the American Federation of Labor, because I think it is an admirable statement of what all American labor is fighting for. |

~~It~~ It is called "For a New Birth of Freedom," and ~~its~~ ^{it} begins by saying:

"America is fighting for the freedom of mankind everywhere in the world. Our task is not only to save our own freedom. The workers of the conquered countries, the enslaved workers of Germany itself, the workers of the entire world look to us and our allies to make freedom possible again on this earth!"

Has there ever been a nobler mission? Has there ever ~~been~~ been a cause ~~more~~ worth fighting for? You workers of Detroit are in the ~~forefront~~ ~~forefront~~ ^{the} forefront of ~~the~~ fight, and you will see it through until the fight is won.

January 23, 1942
11:15 a.m.

HMJr: Hello.

Operator: Mr. Graves is on his way to the Twelfth Street Building.

HMJr: Well, as soon as he gets there, let him talk to me, will you?

Operator: Right.

HMJr: It's urgent.

Operator: Right.

January 23, 1942
11:22 a.m.

Harold Graves: Hello.

HMJr: Harold.

G: Yes, sir.

HMJr: Look, I'm here and I don't understand your telegram yet to this thing in St. Louis.

G: Yes.

HMJr: Now, if this hotel - the workers at this hotel are on strike.....

G: Yes.

HMJr:I don't think our people should go there.

G: Well.....

HMJr: I mean, just passing the buck to somebody else isn't going to satisfy anybody. Why the hell do we have to hold a meeting where there's a picket line?

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- G: Well, I don't think the employees are on strike. I'm not sure about that. This is a jurisdictional fight. I talked with Nee and Shackelford myself as soon as I saw those telegrams. They are in St. Louis now.
- HMJr: Yes.
- G: And they tell me this is a jurisdictional dispute between the A. F. of L. and the C. I. O.....
- HMJr: Oh.
- G:and that Mr. Shackelford, our Deputy Administrator, who is himself a labor man, former Commissioner of Labor for the State of Missouri, has been there working for the last two or three days trying to help settle this strike.
- HMJr: I see.
- G: And our relations - that is, the relations of our people - with the C. I. O. are entirely friendly. They have told our people, in fact, that they will give them credentials that will let them through their picket lines to attend this meeting at one-thirty.
- Now, I raised the question myself if it wouldn't be best to move that meeting to some other place.
- HMJr: Yes.
- G: And Mr. Nee and Mr. Shackelford told me no, that while that would satisfy the C. I. O., the A. F. of L. people have said that if they do move the meeting some other place, they won't go.
- HMJr: Oh.
- G: So since our people are very friendly with both factions.....
- HMJr: I see.
- G:I thought that the proper thing for us to

do here was simply to tell these people who are protesting to contact our people there.

HMJr: Then I've added this in my own handwriting.

G: Yes.

HMJr: The telegram reads to these people - International Representative, Retail, Wholesale and so forth.....

G: Yes.

HMJr: It reads, "Stop. As they are on the ground, suggest you discuss the matter with them." And I've added, "If, after talking with them, you are not satisfied, please telephone me collect."

G: Yes.

HMJr: Is that all right?

G: Well, I don't know. I think - here's this trouble - of course. One union is trying to.....

HMJr: I know, but.....

G:get an advantage over the other; but.....

HMJr:the way the telegram reads, it looks as though that I was trying to wash my hands of it. I said, "Now, go and talk to our people. If you're not satisfied, come back to me again."

G: Yes. Well, all I'm thinking about is that pretty soon we may be in the position of taking sides in this fight; and, of course, we wouldn't want that.

HMJr: Well, now wait a minute. Wait a minute. Peter's here. (Talks aside)

Well, Peter says leave it the way it's written.

G: Without that addition.

HMJr: Yeah.

G: I think so, because in the first place, I have complete confidence in our own people.....

HMJr: Yeah.

G:and I think that they're entirely friendly with both groups, and I was afraid that we might be put in the position of taking sides in the matter.

HMJr: Well, I didn't know. Now that I know what it is, I think, as usual, you've been wise.

G: Well, thank you very much.

HMJr: Okay.

G: Yes, sir. Good-bye.

HMJr: By the way.

G: Yes.

HMJr: Which state was it? Was it Pennsylvania or.....

G: No. Pennsylvania is in. The four states are this four that I named to you this morning - Louisiana, Delaware, West Virginia, and Indiana; and in West Virginia and Indiana the states show blank not because they didn't report, but because they didn't report the number of their employees.....

HMJr: Oh.

G:of the various concerns.

HMJr: I see.

G: There are only two states where we have a complete blank, and that's Delaware and Louisiana.

HMJr: I see. Okay.

G: Yes, sir.

HMJr: Thank you.

G: You're welcome.

January 23, 1942
12:50 p.m.

CLEVELAND SPEECH ON TAXES

Present: Mr. Blough
Mr. Paul
Mr. Kuhn
Mr. Odegard
Mr. Sullivan

H.M.JR: Where do I start?

MR. KUHN: Where the changes are in pencil.

"Separate investment income." Does that do the trick?

MR. SULLIVAN: I think it does. Randolph says there are some implications he thinks ought to be explained to you.

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

H.M.JR: Come on, fellows, we have got ten minutes to clean this up. This is my last crack.

"Investment income between husband and wife"- is that--

MR. PAUL: Well, we struggled with that word. We tried "unearned income," and that seemed to be the best we could get.

H.M.JR: Will anybody understand it?

MR. PAUL: I think it is a pretty good contrast with "earned income." We might say "unearned," but that would be confusing, because under the present statute you may have unearned income which is earned if it is over fourteen thousand.

H.M.JR: Well, you wouldn't want to say "investment income as in contrast to"?

MR. BLOUGH: Compensation.

MR. PAUL: That would be all right, if you don't think that is too complicated.

MR. SULLIVAN: It would clarify it, I think.

MR. ODEGARD: As distinguished from.

MR. SULLIVAN: Yes, that is the way to do it.

H.M.JR: As distinguished from?

MR. ODEGARD: As distinguished from.

MR. BLOUGH: Compensation for services.

MR. PAUL: If you do that at one point, you are all right. Then you can use it in the rest of it.

H.M.JR: Investment as distinguished from something else. These boys can fix it up.

MR. PAUL: Distinguished from compensation for services rendered.

H.M.JR: "Under the present law if a husband and wife both have such, each pay the tax on a separate income."

MR. PAUL: "Such" doesn't work now, Ferdie.

MR. KUHN: It would be both investment income--

MR. PAUL: Yes.

MR. KUHN: But you don't have to explain it more than once.

MR. PAUL: Just say "investment" instead of "such" there.

H.M.JR: "A famly in which both - investment income." That is all right.

Then you come down to loopholes to be closed. We are leaving out the married couple? We are leaving that out? Who crossed that out?

MR. KUHN: Roy.

MR. BLOUGH: It doesn't fit.

MR. PAUL: You are not taxing for all married income.

MR. SULLIVAN: That is right.

H.M.JR: As long as you can explain it to me tomorrow. Do you understand it?

MR. KUHN: Yes.

H.M.JR: Lucky man.

MR. PAUL: He understands this whole thing.

H.M.JR: Double lucky.

MR. KUHN: I think the public will understand investment as distinguished from the other.

H.M.JR: It is only fifteen million, is it?

MR. PAUL: Fifteen?

MR. BLOUGH: Twenty-five.

MR. PAUL: Dropped to twenty-five million. That raises a very important point which I think you should understand. With the help of a picture from Roy, you can understand it more quickly because I think this is very important. I don't want you to make this speech without understanding it.

H.M. JR: Go ahead.

MR. PAUL: It is best done by a picture.

MR. BLOUGH: Suppose you have a situation like this. (Illustrating with diagram) The husband makes compensation - his earned income is down here, five thousand dollars. That is husband's earned income. The husband has unearned income of say seven thousand dollars.

H.M. JR: That is investment.

MR. BLOUGH: That is right. And the wife has earned income of, say, four thousand dollars. That is the wife's earned income. Now, what we propose to do is this--

MR. PAUL: Unless you do this, you don't get any such figure.

MR. BLOUGH: It is to first compute the whole tax with the husband's earned income, that is this; and the wife's earned, that is this, and the unearned, the investment income, on top. This tax, the tax of this investment income up here, then would be added to the tax on this, and the tax on this down here. You would have a tax on the husband's earned, a tax on the wife's earned--

MR. PAUL: Separate tax on the husband's earned and on the wife's earned.

MR. BLOUGH: But the investment income would be figured at the top.

MR. PAUL: The top after the combination of their earned--

MR. BLOUGH: The husband's earned and the wife's earned would be put underneath that unearned, and it would be pushed up and put in the higher brackets.

H.M.JR: How else could you do it?

MR. PAUL: You could do it several other ways.

MR. BLOUGH: You could say there will be three returns, one on the husband's earned, one on the wife's earned, and a third on the unearned.

MR. PAUL: Combined.

MR. BLOUGH: Which would, in the case of this family, lower the tax, not raise it.

H.M.JR: Let me see if I understand it. The joint - this is the joint return?

MR. BLOUGH: This is the joint return.

H.M.JR: And at the base you first have the wife's or the husband's earned?

MR. BLOUGH: That is right.

H.M.JR: Do you tax that separately?

MR. BLOUGH: That would be taxed separately, that is right.

MR. PAUL: The only reason you put it there is to get the rate on the unearned.

H.M.JR: And then on the unearned, you put down - put that on the top?

MR. BLOUGH: That is right, and the base at a rate which is higher than it would be--

H.M.JR: Than if he was single, say?

MR. BLOUGH: If he was single or had no earned income.

H.M.JR: Doesn't that put it up pretty high? What advantage is this over what he had at first? How would it be the way it was written first?

MR. BLOUGH: The wife's earned instead of being taxed up here, which would be the case in the joint return, is taxed separately.

H.M.JR: Oh, it is taxed separately?

MR. BLOUGH: The wife's earned income is taxed separately.

H.M.JR: How about the husband's?

MR. BLOUGH: The husband's income is also taxed separately. The two earned incomes are taxed separately.

MR. PAUL: The unearned income is taxed in the joint return as if it included both the husband's and the wife's earned.

MR. SULLIVAN: And at the same rates as you had the speech written yesterday. The investment income would be taxed under this proposal at the same rate as under the version of the speech you had yesterday.

H.M.JR: Well, there is no change.

MR. SULLIVAN: So that the relief is given to the earned income.

MR. BLOUGH: Of one of the spouses.

H.M.JR: That goes back to what I said last year.

MR. SULLIVAN: That is right.

H.M.JR: That goes back to what I said last year.

MR. SULLIVAN: That is right.

MR. BLOUGH: In fact, that is where we got the estimate, was in doing what you said last year.

H.M.JR: What I said last year, the President approved, that on the earned income of either one, that that should be exempted from the combined income.

MR. BLOUGH: Well, that isn't done.

MR. KUHN: It isn't exempted?

MR. ODEGARD: Taxed separately.

H.M.JR: No, it pays at its own rate, stands on its own feet.

MR. BLOUGH: It stands on its own feet, but it is used to hike the rate on the investment income.

H.M.JR: Well, if it was left to me, I would do it this way, the way you have got it. I don't know whether it is pleasing to the President or not, but this would be a matter of negotiation with the Committee, wouldn't it?

MR. SULLIVAN: That is right.

MR. PAUL: I wanted to be sure you understand that.

H.M.JR: I understand it perfectly.

MR. PAUL: I wanted to be sure also that you understand that we could do it better than this because this is a tremendous break for the high earned income.

MR. ODEGARD: Does this mean this, Randolph, that if the husband has an earned income of five thousand dollars and the wife has an earned income of five thousand dollars, that earned income will be taxed at the rate of five thousand dollars?

H.M.JR: That is right.

MR. ODEGARD: But then they have another five thousand dollars of unearned income.

H.M.JR: That is right.

MR. PAUL: And that is taxed --

H.M.JR: At the rate of fifteen.

MR. PAUL: Ten to fifteen.

MR. SULLIVAN: As though one person had fifteen thousand dollars, that is right.

MR. KUHN: But that is not exactly exemption; it is a measure of relief. That is what the Secretary called it last year.

MR. PAUL: I think there is a much better way of giving relief, because the reason I don't like it is because it gives too much relief to high earned incomes. I think what would serve the purpose for the general public would be a limited earned income credit, which would only apply to earned incomes below five thousand dollars.

H.M.JR: I had it at ten last year, didn't I?

MRS. KLOTZ: Yes.

H.M.JR: I told them up to ten.

MR. SULLIVAN: I think it was up to fourteen one time.

H.M.JR: You are right, fourteen. It was up to fourteen. Look, it was up to fourteen. Now look, the only thing, you have got to have a figure - it is two sixty and in order to have a figure, you have got to have a plan, is that right?

MR. PAUL: That is right.

H.M.JR: This plan fits this figure.

MR. PAUL: I wanted to be sure you understood that.

H.M.JR: That is your business. But now wait a minute. I don't have to explain how I arrived at two sixty?

MR. SULLIVAN: No, I think Randolph's difficulty was that by mentioning this figure you would commit yourself to this particular device.

MR. PAUL: That is right.

H.M.JR: Well, that is a perfectly ethical and honorable device to have, isn't it?

MR. PAUL: Yes, it is really the application of the Glass plan in respect to tax exempt securities to individual incomes.

H.M.JR: But it also - well, I don't want to cross that. I don't want to say - but John, isn't this a hundred per cent the same as last year?

MR. SULLIVAN: Yes, sir.

H.M.JR: What?

MR. SULLIVAN: Yes, sir.

H.M.JR: Is there any difference between this and what I understood for last year?

MR. SULLIVAN: No, except that I think after this discussion we all have a little clearer idea of it than we had last year.

H.M.JR: When we went up on the Hill the only difference was we said we would only give the exemption up to fourteen.

MR. SULLIVAN: That is right, but they were impatient. You remember the first time we announced our position they were all ready to vote, and we never had

an opportunity to adequately explain this device to the House Ways and Means Committee, isn't that correct, Roy?

H.M.JR: What I am trying to get at is, if the President says, "Well, Henry, how did you do this?" I will say, "Mr. President, this is what I did last year, and I cleared it with you last year."

MR. BLOUGH: This is what we worked out from what you said last year.

MR. SULLIVAN: This is the very thing that we submitted to you. I walked over to the White House with you, and as we were going in the door I didn't go in. You said, "How would it be if we have some relief for earned income," and I said, "That would very materially weaken the opposition," and then this is what we worked out for you as a result of that remark to me.

H.M.JR: Well, as a shotgun proposition, I am safe, because I believed in it last year, and I believe in it now. The only difference, it would take care of Eugene Grace, if I had time - I would limit it to the fourteen.

MR. KUHN: This doesn't prevent you from limiting it, does it?

H.M.JR: No. Nobody knows this except in the room here.

MR. BLOUGH: I think the function of this explanation is this, that if later the President should insist on something more rigid, the revenue would be lower.

H.M.JR: More rigid?

MRS. KLOTZ: The other way around.

MR. ODEGARD: More liberal.

MR. BLOUGH: I am sorry, a more generous exemption. You would get less money --

H.M.JR: Of course, if he applies this - well, I won't finish that.

MR. PAUL: I can show you how you could have an earned income favoritism, I would call it, and have less tax than you now get.

H.M.JR: Under this?

MR. BLOUGH: Not under this particular scheme, no.

H.M.JR: Are you satisfied with this, Roy?

MR. BLOUGH: I am satisfied --

H.M.JR: For a shotgun proposition?

MR. BLOUGH: I am satisfied that this is a perfectly honorable and equitable method of doing this. This isn't just what I would do if we were doing it, but I think this is all right.

H.M.JR: But split seconds and the rest of the stuff, and knowing that the President wanted something like this, is it all right?

MR. BLOUGH: Yes, sir.

H.M.JR: Randolph?

MR. PAUL: I think it is all right. I think we ought to go - we might be able to satisfy the President with less, that is my point.

H.M.JR: Well, with less than this?

MR. PAUL: Less exemption, less favorable treatment of earned income.

H.M.JR: Well, the fourteen thousand would take care of that.

MR. PAUL: I would like it less.

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H.M. JR: All right. O.K.?

MR. ODEGARD: Yes, sir.

MR. SULLIVAN: Yes, sir.

The removal of this community-property privilege alone would not, however, reach a still more widespread form of avoidance, namely, the method of separating investment income between husband and wife, in such a manner that two families having virtually the same investment income pay vastly different taxes. Under the present law, if a husband ~~and~~ ^{and his wife} his wife ~~have~~ ^{has} income, each pays a tax on the separate income. Because the income-tax rates are progressive, that is, because the higher the income the greater is the rate of tax, a family in which both husband and wife have investment income pays less tax in many instances than a family having the same amount of such income all of which is received either by the husband or the wife.

Let us take the case of a married taxpayer in the upper brackets having a \$100,000 income from securities. Under the present law he would pay a tax of \$52,748. But if he gives half of those securities to his wife, he will pay a tax of \$20,926 and his wife will pay a tax of the same amount. This couple, at the cost of a moderate gift tax, has thus secured a perpetual reduction of \$10,896 in its income-tax liability under present rates. The loophole could be closed and the unfairness to the great mass of taxpayers removed by taxing the investment income of each married couple as a unit. The use of separate tax returns for the investment incomes of husband and wife cost the Treasury on the basis of present rates about \$260,000,000 a year in addition to the revenue that is lost because of the community property tax privilege.

January 23, 1942
4:29 p.m.

HMJr: Hello.

Operator: Go ahead.

HMJr: Mac.

William H.
McReynolds: Yes, sir.

HMJr: I'm going to talk a little bit fast, but I think I can explain. At Cabinet I brought up the question that we in the Treasury - Norman Thompson can tell you all about this - have decided not to ask the draft board for any deferment in the future for anybody.

Mc: Yeah.

HMJr: Number one. Number two, on this officers' pool which the War Department has - they're calling in people - we would tell the men they either got to go with the Army or, if they want to stay with the Treasury, that's their own decision.

Mc: Yeah.

HMJr: Now, I brought up the question that unquestionably other departments were doing things, and I asked the Solicitor General first. I said, "Now, over in the Department of Justice and FBI they're asking for deferments."

Mc: I know it.

HMJr: And here in Secret Service, in two cases, people attached to the President were not.

Mc: Yeah.

HMJr: And I said, "The thing should be made uniform."

Mc: I know it.

HMJr: Well, the President - I suggested that you do it, and the President said - he said to the Cabinet,

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"I want McReynolds to do it, and work with a committee of Army, Navy, and Treasury, and handle all questions of deferment and work out a uniform program."

Mc: Well, it needs uniformity.

HMJr: Uniformity.

Mc: And, of course, there hasn't been any; because they've had people resigning from one place and go and get hired at another so they could get deferred.

HMJr: Exactly. Now, I've got two or three lawyers who, I believe, because I won't give them deferment are going to get commissions with the Army and Navy.

Mc: Yes.

HMJr: And it's all wrong.

Mc: Yes.

HMJr: But my position is, I'm not giving anybody any more deferments.

Mc: I get you.

HMJr: Now, the President asked me to tell this to you. He said, "You loaned me McReynolds, but you're paying him, aren't you?" I said, "Mr. President, this is one of the few instances where you borrowed somebody that you're paying for it."

Mc: (Laughs)

HMJr: He loved it.

Mc: (Laughs)

HMJr: He loved it.

Mc: Yes.

HMJr: So the ball is yours. And he said Army, Navy, and Treasury.....

- 3 -

Mc: Okay. Army, Navy, and Treasury.

HMJr: That's right. And then each department, naturally, wants to be talked to.

Mc: Sure.

HMJr: So will you pick it up?

Mc: I will.

HMJr: And for us - I'll let Norman act for us.

Mc: Right, sir.

HMJr: All right?

Mc: Righto.

HMJr: And if you want to talk to me about it, I've got very, very strong ideas; and when I get in Monday, I'd like to talk to you.

Mc: Yeah. I'll want to talk to you before we get very far.

HMJr: Because I'm on my way to Cleveland now, but I've got very definite ideas on it.

Mc: Okay.

HMJr: And the things that are going on that the President doesn't know anything about, I think, are terrible.

Mc: Well, of course, there's no uniformity at all. Some people are all-out for deferment, and some people no deferment at all.

HMJr: Right. Okay.

Mc: Okay. And that isn't fair.

HMJr: Thank you, Mac.

Mc: Righto.

HMJr: Good-bye.

January 23, 1942.

MEMORANDUM FOR THE SECRETARY'S DIARY:

After the Secretary returned from the Cabinet today around 4:30 p.m., he told Mr. Foley of a conversation he had with Grace Tully to the effect that Leo Crowley had requested an appointment with the President to discuss his resignation from the Standard Gas and Electric and appointment as Alien Property Custodian at a salary of \$10,000. The Secretary said he was in a hurry and didn't question Grace further, and was troubled to know whether the event could have taken place prior to or after the talk Leo Crowley had with him on Wednesday when Crowley said he was going to withdraw and tell the President to give all of the power to the Secretary of the Treasury.

After the Secretary left for the airport to take a plane to Cleveland, Duffield called Mr. Foley and told him that one of his men had been told by Leo Crowley that Crowley was withdrawing from the Alien Property Custodian right and was leaving the field entirely to the Treasury. Duffield asked Foley if there was any truth in this. Foley said that Duffield should check the story directly with Crowley and asked that Duffield tell Foley what Crowley said. Duffield called back and said he had talked to Crowley and that Crowley said there was no truth in the story and he would appreciate Duffield not writing it as Crowley is seeing the President at luncheon tomorrow and any announcement should wait until after he had had a talk with the President. Duffield asked Foley to protect him and Foley told him that he would relay the story only to Secretary Morgenthau.

S. H. F. L.

MEMORANDUM

January 23, 1942.

TO: The Secretary

FROM: Mr. Sullivan

JVS

George Buffington phoned me at home last night to advise me that he is returning to Washington Saturday, January 24th with a finished print of the Disney tax picture. He advised me that 250 of these prints will be finished by Technicolor this afternoon and distribution to the theatres will start at once. The other 750 prints will be distributed by January 31st.

He also stated that he was arranging for some recorded spot announcements by the voice of Donald Duck.

On July 6, 1941, upon arrival at Bermuda of the S/S EXGAMBION, there were seized from Henri L. J. Robert, an employee of Coty, Inc., the cosmetic company of New York, certain essential oils valued by the British authorities at \$150,000, which were concealed in the baggage of Robert. The baggage was marked "J. Homer Butler." Butler was traveling on a special passport, by reason of which his baggage was not subject to examination.

On August 7, 1941, customs agents at New York were directed to investigate the matter, and on August 28, 1941, their report was submitted, which revealed the following:

Robert stated that he introduced himself to Butler on shipboard and explained that he was bringing to America some essential oils which were needed in this country; that he suggested to Butler that the baggage containing the oils be placed in his (Butler's) name to obtain the benefit of Butler's diplomatic immunity; that Butler did not like the plan, but when he was told that the matter did not involve any exchange of money between America and France nor any violation of American laws Butler said "All right, go ahead."

When Butler was questioned as to whether he had any idea of defeating the British blockade when he permitted labels bearing his name to be placed on Robert's baggage, Butler replied:

"In substance, yes. I had in mind helping him get the merchandise to the American market. I knew that the British had set up a blockade so that no money could go into France, thus helping the Germans indirectly. I was convinced that there was no harm done in this particular case."

In defense of his attitude in the matter, Butler calls attention to the reign of terror and force in France, which, he said, had no moral basis; that one was constantly asked for help to get people or their possessions to safety; that anything that could be done to help people in trouble was done without hesitation. He stated that for six months prior to his arrival in Lisbon, where he boarded the S/S EXGAMBION, there had been "no communication with the outside," and that he knew nothing about the collaboration of the United States with the British on shipping matters, except the blocked accounts situation to keep funds out of reach of the Germans.

On September 26, 1941, charges were preferred against Butler.

On September 30, 1941, Butler replied without establishing any facts different from those set forth in the foregoing.

Upon consideration of the full record, the Commissioner, on October 2, 1941, recommended that Butler be discharged with prejudice-

"For using his official capacity and credentials in an effort to assist one Henri Robert to evade the requirements of a friendly nation in that while traveling on a special passport he permitted Robert to use baggage labels indicating that Robert's baggage containing perfume essences valued at \$150,000 was his property, which deception was discovered by the British at Bermuda and the perfume essences confiscated, all of which reflected discreditably on him as a customs officer and tended to bring the customs service into disrepute."

Butler's discharge was approved by the Secretary of the Treasury on October 8, 1941, to be effective at the close of business on September 27, 1941, the date on which Butler was suspended from duty and pay.

No discrepancies appear between the statements of Attorney Digges and the facts. The facts in our record are clear that Butler made no movement to disclose to the British the attempted evasion of their regulations until he was sent for by the British customs authorities and questioned.

January 22, 1942.

January 27, 1942

TO MR. JIMMISON
FROM MR. OCKMAN:

In response to your inquiry as to the individuals, if any, in the Customs Service, who told J. Bremer Butler that the Customs had been ready to clear him of the charges which led to his dismissal from the service but that the Secretary had been insistent upon his removal, - I have to report as follows:

So far as I am informed the only persons in the Customs Service who talked with Butler on the subject matter were agents of the Customs Agency Service at New York, principally Supervising Agent Lewis, Agents Collins and Roberts who assisted in the investigation, and London former Treasury Attache Kennedy. Hering called Mr. Lewis this morning on the matter I am attending hereto a statement telephoned by him in regard thereto. Personally, I have never talked with Mr. Butler nor corresponded with him with relation to his dismissal. I did, however, receive a call from an attorney, a Mr. Digges, who informed me that he had interested himself in Mr. Butler's behalf and was endeavoring, according to my recollection, to see if Butler's case could be reopened in an effort to having his record cleared at the Civil Service Commission in order that he would be eligible for employment in some other Federal Agency.

Mr. Digges seemed to be quite familiar with Butler's case and the admissions made by Butler which plainly indicated his guilt of the charges preferred against him. I told Mr. Digges that so far as my own unit was concerned the case was a closed one; that Butler, in doing what he did, had destroyed his usefulness as an officer of the Customs Agency Service, and that if his case were reopened it would have to come from higher authority than I possessed. Mr. Digges did ask me for an honest expression of my opinion as to Butler's personal honesty and I told him that while Mr. Butler's actions had brought my own service into disrepute and had brought embarrassment to both the State Department and the Treasury Department, during my official connection with Butler I had never learned of anything which reflected against his honesty and that I did not think that in endeavoring to assist the Frenchman in getting merchandise through the English blockade he was motivated by personal gain.

I recall that after Mr. Digges left my office I conferred with you and told you exactly what had occurred, and while a little hazy

now, the foregoing covers the conversation between Mr. Digges and myself. The only other thing that I recall is that Mr. Digges stated that inasmuch as the case against Butler originated with the State Department he would see someone over there for the purpose of getting the attitude of the State Department in the matter. At no time in my conversation with Mr. Digges was it ever stated, or even implied, that "Customs was ready to clear Butler of the charges which led to his dismissal from the service but that the Secretary was insistent upon Butler's removal."

Inclosure

3:0

January 22, 1942.

TO: ASSISTANT SECRETARY GASTON
FROM: W. R. JOHNSON.

So far as I can ascertain, no person in the Customs Service has told J. Homer Butler that Customs was ready to clear him of the charges which led to his dismissal but the Secretary was insistent upon his removal.

Anticipating efforts by Butler to obtain reconsideration of his case, I advised my colleagues at the time of the dismissal that I had recommended dismissal with prejudice, that this recommendation had been approved by the Secretary, and that any and all inquirers should be advised that it would probably be useless to appeal the case beyond me because the Secretary usually supported the Commissioner in matters of this kind.

Butler has had no conversation with any customs officer in Washington. His attorney, Mr. Digges, did call upon Deputy Commissioner Gorman and was advised in accordance with my instructions. In response to a direct request from Digges for Gorman's opinion regarding Butler's personal honesty, Mr. Gorman told Digges that "while Mr. Butler's actions had brought my own service into disrepute and had brought embarrassment to both the State Department and the Treasury Department, during my official connection with Butler I had never learned of anything which reflected against his honesty." Gorman

-2-

further told Digges that so far as Gorman's office was concerned the case was closed, that Butler, in doing what he did, had destroyed his usefulness as an officer of the Customs Agency Service, and that if his case were reopened it would have to be by the Commissioner or other higher authority.

Butler contacted Supervising Customs Agent Lewis at New York, stating that he had been advised by counsel to seek to have his case reopened through Lewis. Lewis advised Butler that he could not and would not reopen the case, and that the proper place for such action was in Washington. Lewis did state that the matter was of such importance that it had probably been taken up with the Secretary's office. All conversations between Lewis and Butler were in the presence of Agent Collins, who investigated the case. Collins stated that at no time did Lewis inform Butler that Customs had cleared him.

In my opinion Mr. Butler can be the sole and only source of any statement such as that mentioned in the first paragraph above.

(Signed) W. R. Johnson

LET ME HAVE VERY BRIEF SYNOPSIS THREE STATEMENTS ABOVE REFERRED TO
THAT WERE CA

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MR. J. KENNEDY'S STATEMENT.

I HAVE A DISTINCT RECOLLECTION OF HEARING ON MORE THAN ONE OCCASION
FOR SOME TIME AFTER BUTLER'S DISMISSAL THAT THE CASE HAD COME TO THE
PERSONAL ATTENTION OF THE SECRETARY, AND THAT THE SECRETARY, HIMSELF,
HAD ORDERED BUTLER'S DISMISSAL.

I HAVE NO RECOLLECTION NOW AS TO WHO TOLD ME THESE THINGS AS I
DID NOT ATTACH ANY IMPORTANCE TO THEM.

I KNOW THAT THESE STATEMENTS WERE NOT MADE TO ME BY ANY ONE FROM THE
BUREAU OF CUSTOMS OR BY MR. LEWIS. THEY WERE JUST
THE GOSSIP THAT WOULD NATURALLY FOLLOW ANY UNUSUAL OCCURRENCE IN THE
SERVICE.

MR. COLLINS, STATEMENT

A SHORT TIME AFTER BUTLER'S DISMISSAL, HE CAME TO THIS OFFICE
ON AN OFFICIAL MATTER. DURING OUR CONVERSATION HE STATED THAT HE
OBTAINED COUNSEL AND HAD BEEN ADVISED THAT THE MATTER SHOULD BE
REOPENED THROUGH MR. LEWIS. AT THAT TIME MR. LEWIS WAS OUT OF TOWN
AND WHEN HE RETURNED A FEW MINUTES LATER A FEW DAYS LATER,
HE INFORMED MR. BUTLER IN MY PRESENCE THAT HE COULD NOT AND WOULD NOT
REOPEN THE CASE. THAT THE PROPER PLACE FOR SUCH ACTION BY
MR. BUTLER WAS IN WASHINGTON, AS HE, MR. LEWIS LEFT, THAT THE
MATTER HAD BEEN OF SUFFICIENT IMPORTANCE THAT IT HAD BEEN TAKEN UP
WITH THE SECRETARY'S OFFICE.

THERE WAS MUCH GENERAL CONVERSATION REGARDING MR. BUTLER'S DISMISSAL
BUT I AVOIDED AS MUCH AS POSSIBLE, DUE TO THE FACT THAT I HAD
CONDUCTED THE INVESTIGATION.

REMARKS

ALL THE CONVERSATIONS HAD BY MR. LEWIS WITH MR. BUTLER WERE IN MY
PRESENCE, AND AT NO TIME WAS MR. BUTLER EVER INFORMED THAT THE
BUREAU OF CUSTOMS HAD CLEARED HIM BUT THAT IT WAS UP TO THE SECRETARY.

MR. LEWIS'S STATEMENT.

ALL OF THE CONVERSATION HAD BY ME WITH MR. BUTLER WAS IN
MR. COLLINS'S PRESENCE AND THE STATEMENTS MADE BY MR. COLLINS ARE
TRUE.

LEWIS
END OR CA

MR. CORMAN SPKC I THINK THAT THIS COVERS THE MATTER FOR THE PRESENT
SHOULD WE WANT ANYTHING FURTHER IN THE PREMISES I SHALL CALL UPON U
USE TJC LRS
THANK YOU
END
TJC BEND

C
O
P
YNAVY DEPARTMENT
WashingtonSerial No. 18313
A4-5(2) (411127)

23 January 1942

Sir:

In a letter dated November 27, 1941, the Secretary of the Treasury requested that appropriate instructions be issued to naval aviation activities in order to insure compliance with customs regulations. Enclosure was prepared in response to that letter and it is believed will cover the requirements for customs inspection of naval aviation personnel.

If there is available in your office any compilation of regulations pertaining to naval aircraft it is requested that the Navy Department be furnished a copy so that this information may be disseminated to aviation activities.

Respectfully,

(signed) Frank Knox

The Honorable,
The Secretary of the Treasury.

Encl.

C
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P
YNAVY DEPARTMENT
WASHINGTONOp13C-jc
Serial No. 15413
A4-5(2)(411127)

January 20, 1942

From: The Secretary of the Navy.
To: All Naval Air Stations.
Subject: Customs Examinations at Naval Air Stations.

1. The following standard procedure is hereby prescribed regarding customs examinations of naval aircraft entering the United States:

(a) - Commanding Officers of Naval Air Stations within the continental limits of the United States will make such local arrangements with Treasury Department representatives as will ensure availability of customs inspectors on short notice.

(b) - Baggage and merchandise transported by naval aircraft which have been in foreign ports, or duty free ports under United States jurisdiction, will be inspected and cleared at the first naval air station visited by such aircraft upon reentry to this country.

(c) - Personnel will not be detained for customs examination in cases where such examination would delay military operations.

(signed) Frank Knox

Distribution:

Lists V(d), IX

MENT

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ICATION

DATE January 23, 1942

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Recent Developments in the Government Security Market;
Yields on Representative British Government Securities
Since the Outbreak of War in 1939

SUMMARY

- (1) Short-term Government securities have more than recovered their decline suffered immediately after the attack on Pearl Harbor, while long-term securities have recovered only a small portion of it. Partially tax-exempt securities have been weaker than either taxable or wholly tax-exempt securities.
- (2) Short-term Treasury securities rose in yield much more rapidly from the middle of September to the end of December 1941 than did long-term securities (Chart II). Since then yields on both short- and long-term securities have declined slightly.
- (3) New public bond offerings in the New York market this week have already totalled about \$150 millions, compared to only \$86 millions offered during the previous six weeks.
- (4) Loans of weekly reporting member banks have leveled off recently thereby reversing the long previous upward movement (Chart III). A future decline in loans would be an indication of accumulating idle cash balances of business enterprises. Such idle cash might become of substantial importance in financing the war.
- (5) The British policy of low interest rates for financing the war has been successful as evidenced by declining yields on open market securities and lengthening maturities of successive 2-1/2 percent tap issues (Chart IV).

Secretary Morgenthau - 2

I. United States Government Security Market
Since the Outbreak of War

In the first three trading days following the Japanese attack on Pearl Harbor prices of Government securities declined substantially. During the next three weeks, to the end of December, prices fluctuated irregularly while improving slightly in the short-term market and weakening in the longer maturities. Since the beginning of the year prices of Government securities in all maturity classes have improved.

Price changes of taxable Treasury issues by maturity classes are presented in the following table. It will be noted that the small declines among taxable notes have been more than recovered, but the larger declines among taxable bonds have been regained only in small part.

	Average Price Change		
	Dec. 6 - Dec. 10	Dec. 10 - Jan. 22	Entire Period
(Decimals are thirty-seconds)			
<u>Taxable Treasury Notes</u>			
1 - 3 years	- .07	+ .12	+ .05
3 - 5 years	- .13	+ .20	+ .07
<u>Taxable Treasury Bonds</u>			
5 - 15 years to call	-1.26	+ .13	-1.13
15 years and over to call	-1.14	+ .17	- .29

Partially tax-exempt Treasury issues have been much weaker than taxable or wholly tax-exempt issues. This is probably due to rumors that an increase in the surtax rate will be substituted for a portion of the corporation normal tax rate, thus reducing the tax-exemption value of partially tax-exempt issues. This rumor also has the effect of increasing the scarcity value of wholly tax-exempt Treasury issues. The movements of classes of issues by tax status are shown in the following table:

Secretary Morgenthau - 3

	Average Price Change		
	Dec. 6- Dec. 10	Dec. 10- Jan. 22	Entire Period
	(Decimals are thirty-seconds)		
Taxable Treasury Issues	- .31	+ .17	- .14
Partially Tax-exempt Treasury Issues	-1.04	0	-1.04
Wholly Tax-exempt Treasury Issues	- .09	+ .16	+ .07

Rights to the new issue of 2 percent bonds, due 1949-51, opened on January 12 at a bid price of 100-21/32. Except for a slight drop to 100-17/32 on the first trading day the prices of rights and the new bonds have advanced fairly steadily, closing last night at 101-1/32 bid (Chart I).

II. Recent Movements in Short- and Long-term Interest Rates

Chart II shows the yields of taxable Treasury securities by three maturity classes from the beginning of 1941 to the present on a weekly basis, and from the beginning of December 1941 to last night's close on a daily basis.

The most interesting movements have been those of the long-term rates compared with the 3-5 year note rates. The low yield on the 3-5 year notes was 0.58 percent on September 13. Yields on these notes moved up to a high of 1.04 percent by December 27, a rise of 46 basis points in 3-1/2 months. During the same time long-term yields rose from 2.15 percent to 2.33 percent, a rise of only 18 basis points.

From December 27 to last night's close, both long-term bonds and 3-5 year notes have improved slightly (from the Treasury's standpoint) by declining somewhat in yield.

Secretary Morgenthau - 4

Treasury bill rates show small absolute changes but exhibit wide percent fluctuations. The recent sharp decline in the bill rate is undoubtedly attributable to the special demand of Chicago institutions for a United States Government issue maturing shortly after April, which will serve as a means of avoiding the Illinois personal property tax.

III. New Security Plotations

In the six weeks between December 6, 1941 and January 17, 1942, new public bond offerings in the New York market totalled only \$86 millions. During the current week, however, there have been three substantial offerings -- \$80 millions Alabama Power Company, 30-year bonds, offered to yield 3.41 per cent; \$50 millions City of New York 1-30 year serial bonds, offered to yield 0.60 to 2.65 percent; and \$17 millions New York City Housing Authority 1-30 year serial bonds, offered to yield 0.60 to 2.25 percent. The former two issues have been well received, while the latter is moving slowly.

IV. Weekly Reporting Member Bank Loans as an Indicator of Idle Cash Balances of Business Enterprises

It is currently being urged that funds saved by business enterprises because of deferred maintenance, reduced inventories, inability to reinvest depreciation and depletion reserves, and inability to make plant extensions will provide a major source of funds for financing the war effort. The following quotation from the President's Budget Message illustrates this approach to financing the war.

"Under a full war program . . . most of the increase in expenditures will replace private capital outlays rather than add to them. Allocations and priorities, necessitated by shortages of material, are now in operation; they curtail private outlays for consumers' durable goods, private and public construction, expansion and even replacements in nondefense plant and equipment. These drastic curtailments of nondefense expenditures add, therefore, to the private funds available for noninflationary financing of the Government deficit."

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One of the first uses which might be expected to be made of such idle cash balances of business enterprises would be the liquidation of bank loans. As shown on Chart III no decline in the loans of weekly reporting member banks has yet occurred. The rise in loans has leveled off, however, and there is some likelihood that loans may decline in the future.

V. Yields of British Government Securities

British treasury financial policy has been the governing influence upon the course of high-grade security prices in Great Britain since the beginning of the war. Just prior to the declaration of war the Bank of England raised its rate by 2 percent. The war was thus commenced with a tight money policy. This was soon reversed, however, and an easy money policy has been pursued consistently ever since. In February 1941, an Act of Parliament set 3 percent as the maximum legal rate of interest on new treasury borrowing. Recent medium-term borrowing by means of tap securities of successively longer maturities has been carried on at 2-1/2 percent, and the Chancellor of the Exchequer has stated that the government does not intend to borrow on worse terms as the war proceeds.

As might be expected under the circumstances, yields of British government securities have shown a downward trend since the beginning of the war. This may be seen by reference to Chart IV. The top curve of this Chart shows the yields of 2-1/2 percent Consols since July 1939, and the bottom curve shows the yields of 3 months' treasury bills.

The three other curves on the Chart -- each of which is a straight line -- show the yields available to the purchasers of three types of tap securities.

The highest of these curves, that at 3 percent, represents the 3 percent savings bonds of 1955-65. These have been available on tap at par in unlimited amounts since January 2, 1941.

The second of these curves -- that at 2-1/2 percent -- represents the 2-1/2 percent National War Bonds of which there have been three successive series (1945-47, 1946-48, and 1949-51). These securities have been available on tap at par

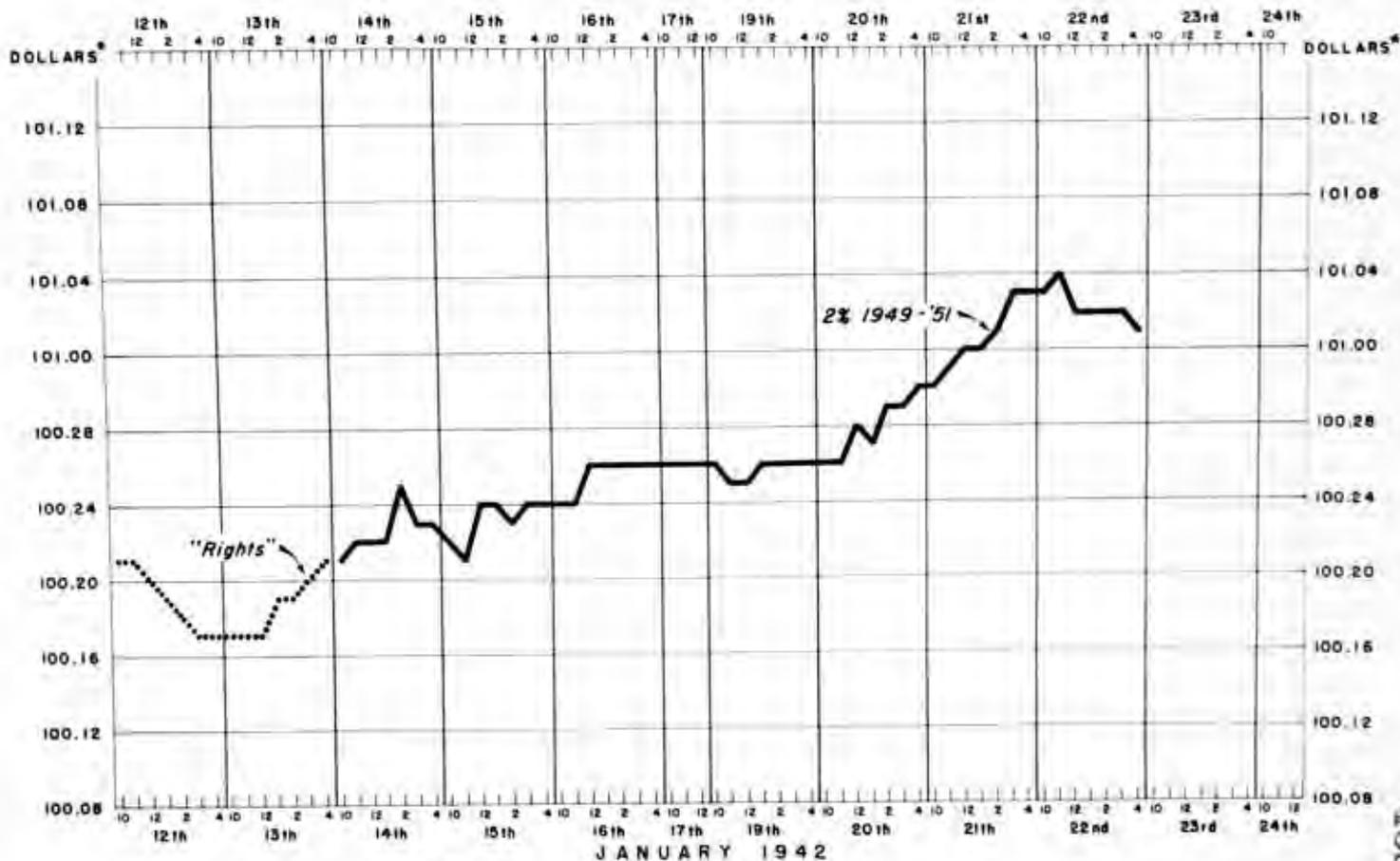
Secretary Morgenthau - 6

in unlimited amounts since June 24, 1940, except for the interval from August 14 to October 9, 1941, during which period the tap was closed.

The remaining straight line, that at 1-1/8 percent, represents treasury deposit receipts, which have been available on tap since July 1940. It should be noted that treasury deposit receipts, unlike the other tap securities, are not available in unlimited amounts but are allotted weekly to the banks.

Attachments.

HOURLY BID PRICES OF NEW ISSUE AND RIGHTS



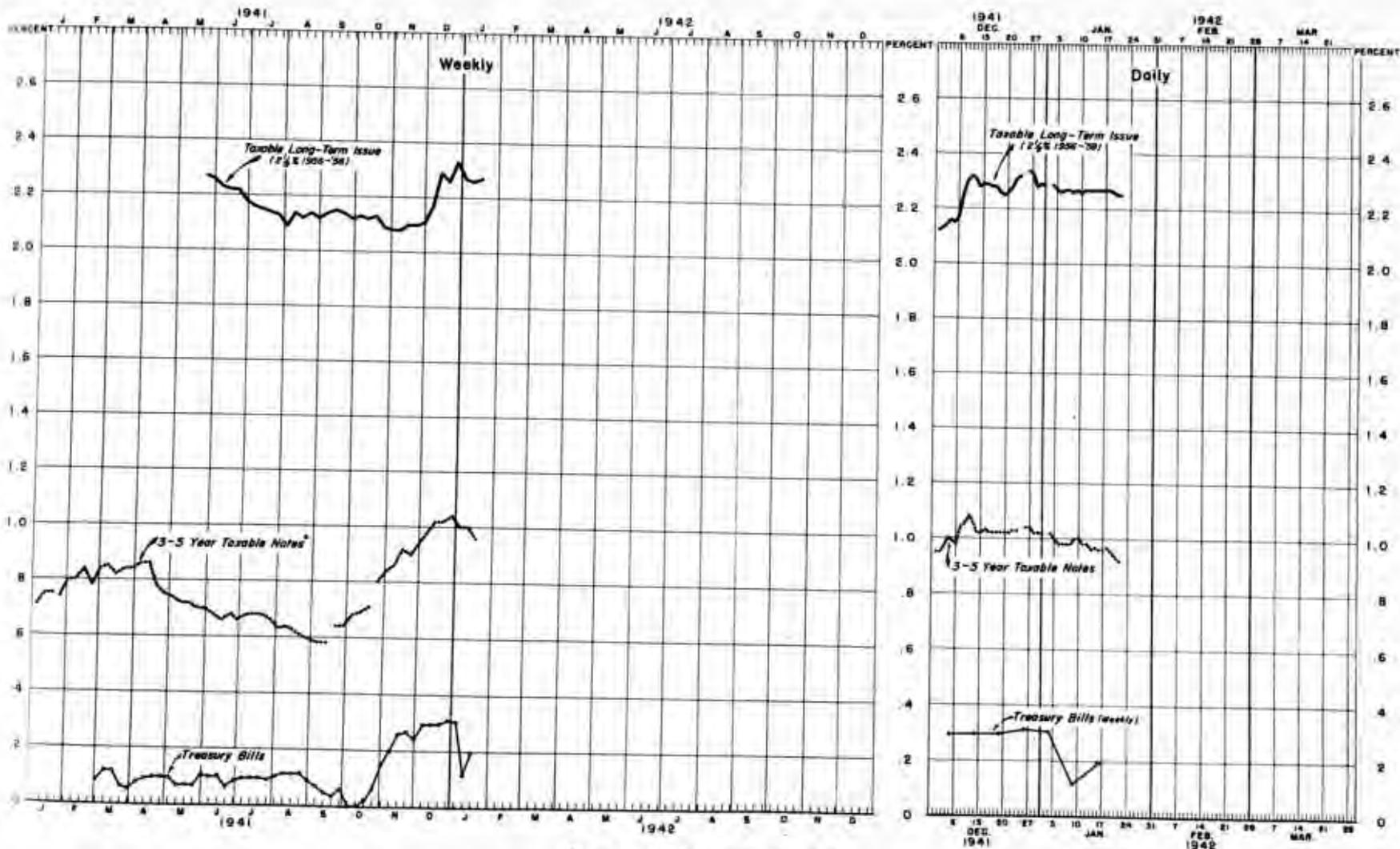
*Decimals are thirty-seconds

Office of the Secretary of the Treasury
Division of Research and Statistics

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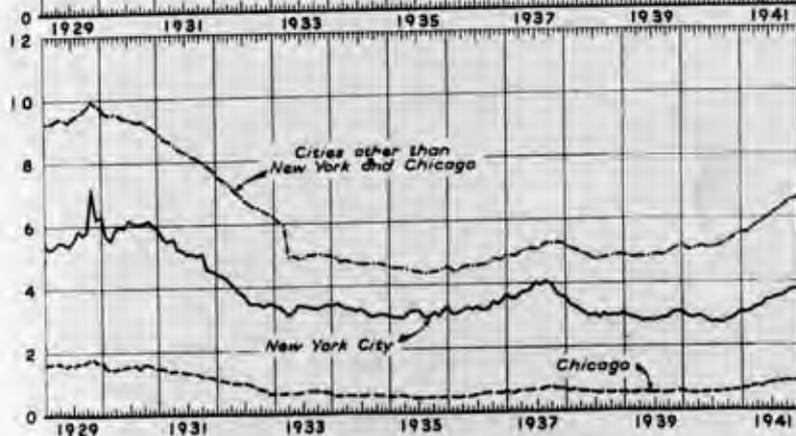
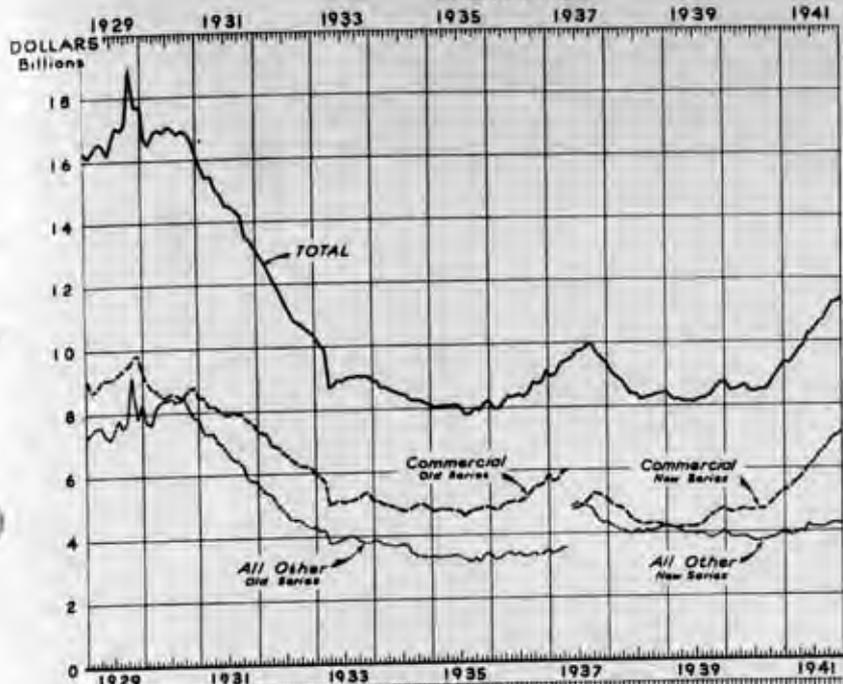
YIELDS OF TAXABLE TREASURY SECURITIES BY MATURITY CLASSES



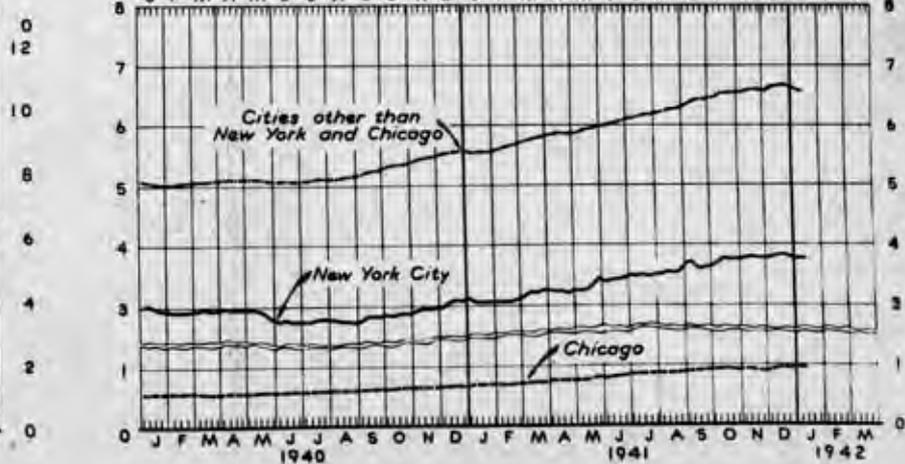
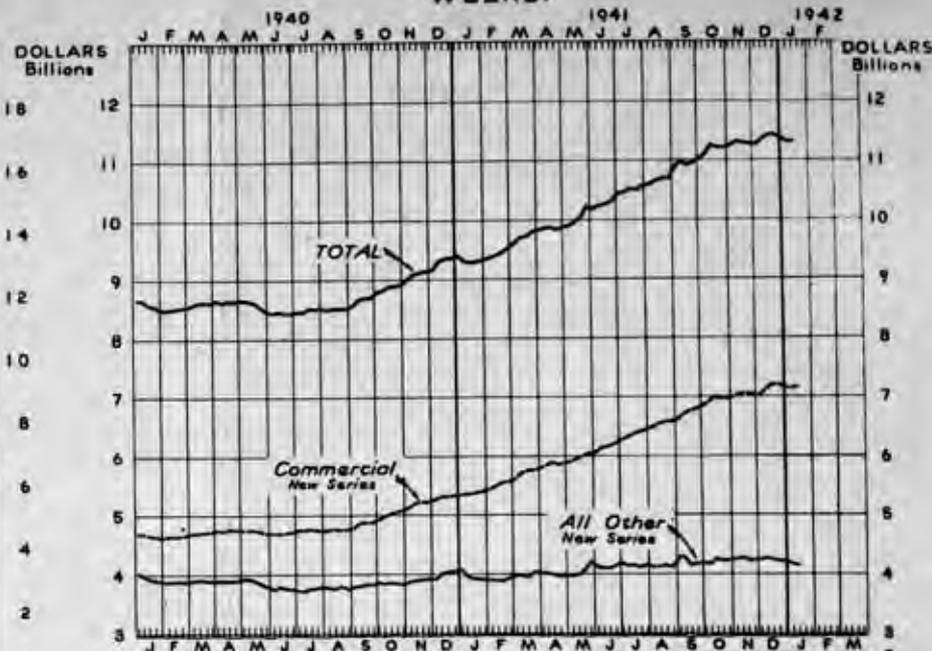
*Break in curve indicates change in composition of average

LOANS - WEEKLY REPORTING MEMBER BANKS

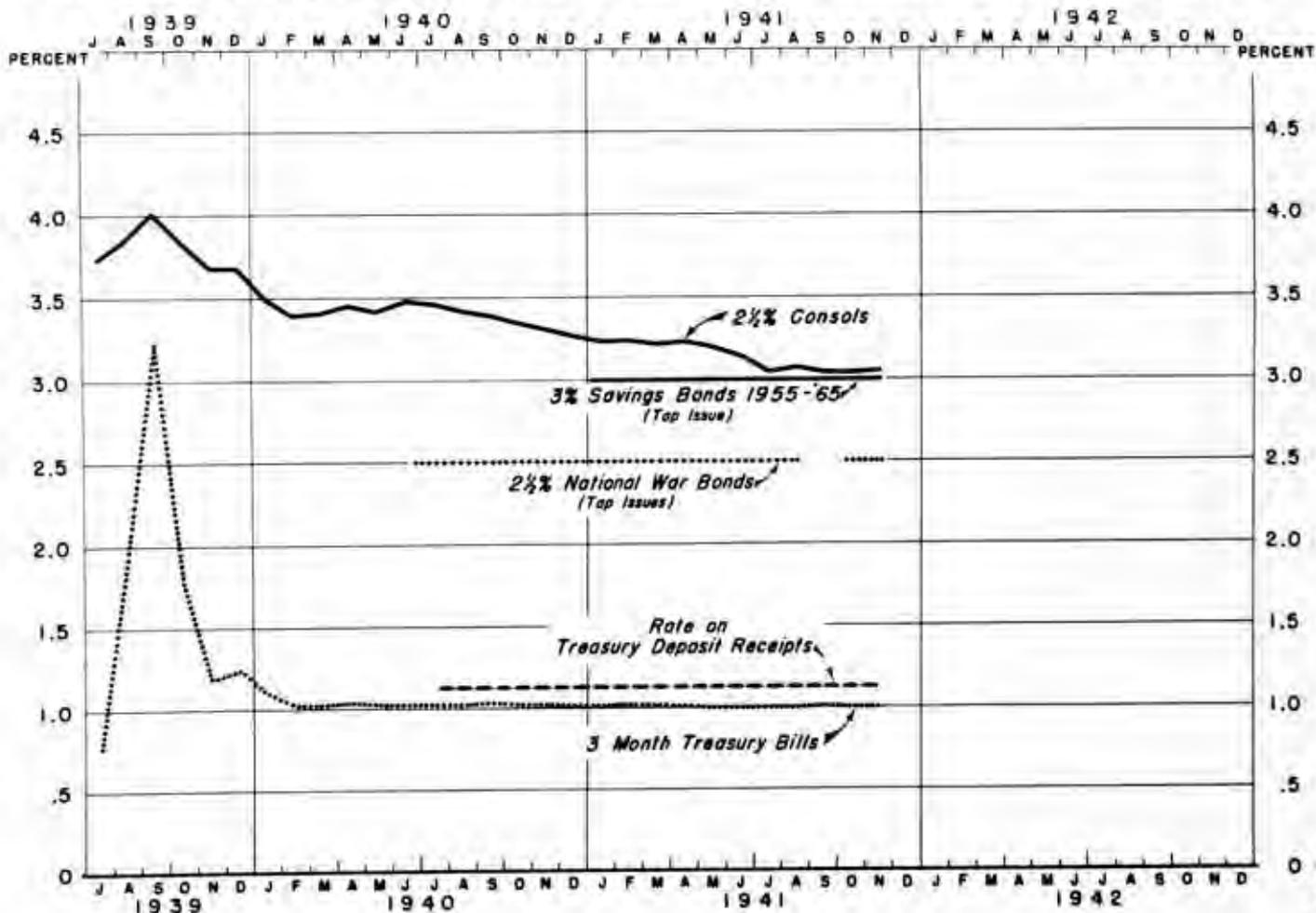
MONTHLY



WEEKLY



YIELDS ON REPRESENTATIVE BRITISH GOVERNMENT SECURITIES



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TREASURY DEPARTMENT
WASHINGTON

January 23, 1942.

MEMORANDUM FOR THE SECRETARY:

This is in accordance with your request.

GRAVES

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE January 22, 1942

TO Mr. Graves
FROM Mr. Callahan

In accordance with the Secretary's request Mr. Danny Kaye has been contacted and has agreed to make a recording. We hope to have this recording made within the next 72 hours, and it will go as soon as possible thereafter to radio stations. He will sing "I Paid My Income Tax Today".

It will take a little time to arrange for Danny Kaye to sing this song in his show but I will give you a definite report on that in a day or so.

Mr. Kaye has expressed the desire to tour New York night clubs after his show closes and sing "I Paid My Income Tax Today" without charge. Arrangements are being made for this at the present time.

Unfilled Orders for Savings Bonds at the
Federal Reserve Banks and the Post Office Department
January 12 to date

(In thousands of pieces)

	: Unfilled : orders at : opening of : business	: New orders : received : today	: Bonds : manufactured : today	Unfilled orders at close of business	Stock of bonds on hand*	: IBM : deliveries : this day
Jan. 12	541	859	595	805	236	625
13	805	423	630	598	236	650
14	598	622	670	550	236	685
15	550	660	750	455	231	1,000
16	455	773	775	426	204	750
17	426	672	800	298	204	1,000
18	298	none-no mail	none-closed	298	204	800
19	298	204	800	202	704	825
20	202	204	800	86	1,184	1,000
21	86	411	800	59	1,546	875
22	59	697	800	86	1,676	1,000

Office of the Secretary of the Treasury,
Division of Research and Statistics.

January 23, 1942

* Bonds in Washington vaults only.

UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During
 First Nineteen Business Days of January 1942 and December and November 1941
 (November 1-25, December 1-22, January 1-22)
 On Basis of Issue Price

(Amounts in thousands of dollars)

Item	Sales			Amount of Increase		Percentage of Increase	
	January 1942	December 1941	November 1941	January over December	December over November	January over December	December over November
Series E - Post Offices	\$117,865	\$ 65,200	\$ 31,885	\$ 52,665	\$ 33,315	80.8%	104.5%
Series E - Banks	<u>349,287</u>	<u>129,756</u>	<u>59,182</u>	<u>219,531</u>	<u>70,574</u>	<u>169.2</u>	<u>119.2</u>
Series E - Total	467,153	194,955	91,066	272,198	103,889	139.6	114.1
Series F - Banks	52,152	18,788	15,237	33,364	3,551	177.6	23.3
Series G - Banks	<u>207,667</u>	<u>100,367</u>	<u>86,395</u>	<u>107,300</u>	<u>13,972</u>	<u>106.9</u>	<u>16.2</u>
Total	<u>\$726,971</u>	<u>\$314,110</u>	<u>\$192,699</u>	<u>\$412,861</u>	<u>\$121,411</u>	<u>131.4%</u>	<u>63.0%</u>

Office of the Secretary of the Treasury, Division of Research and Statistics.

January 23, 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 B	Series F	Series G	Total	Series B	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
12	10,187	37,483	3,830	14,353	55,666	47,670	3,830	14,353	65,853
13	7,902	15,059	2,507	11,944	29,510	22,961	2,507	11,944	37,412
14	4,706	19,939	3,701	14,293	37,933	24,645	3,701	14,293	42,639
15	6,444	16,597	2,243	13,283	32,123	23,041	2,243	13,283	38,567
16	5,721	26,239	4,319	14,078	44,637	31,960	4,319	14,078	50,358
17	4,830	6,933	759	3,008	10,700	11,763	759	3,008	15,530
19	8,835	39,000	3,946	16,599	59,545	47,835	3,946	16,599	68,380
20	5,155	10,549	2,285	10,551	23,385	15,703	2,285	10,551	28,539
21	4,886	19,375	3,538	15,566	38,479	24,261	3,538	15,566	43,365
22	5,161	22,257	3,973	9,850	36,080	27,418	3,973	9,850	41,241
Total	\$117,665	\$349,287	\$ 52,152	\$207,667	\$609,106	\$467,153	\$ 52,152	\$207,667	\$726,971

Office of the Secretary of the Treasury, Division of Research and Statistics.

January 23, 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.

January 23, 1942

At the request of the President, I gave Don Nelson a copy of Swope's memo to me on the number of cars of Lend-Lease goods which are piling up at ports. Nelson was to see if we should slow up our purchases.

January 23, 1942

Secretary Morgenthau

Mr. Swope

For the Procurement Division of the Treasury Department for the Lend-Lease program, steel at all ports amounts to 252,523 tons, and in addition, being loaded at present at all ports are 41,731 tons, making a grand total of 294,254 tons.

UNITED KINGDOM

For the United Kingdom, as of January 20, 1942, there were 6,254 cars of Lend-Lease material within the area of the Port of New York, purchased by the Army, Navy and Procurement Division of the Treasury Department. Of that total 3,445 cars of steel and 755 cars of miscellaneous material, total 4,200 cars, were purchased through the Procurement Division of the Treasury Department.

Steel purchased by the Procurement Division for the Lend-Lease program amounts to 111,866 tons (3,445 cars) and in addition 6,500 tons are being loaded.

RUSSIA

For Russia, as of January 21, 1942, there were 1,790 cars of Lend-Lease material within the area of the Port of Boston. Approximately 450 cars were purchased by the Procurement Division of Treasury.

Steel purchased through the Procurement Division amounts to 16,780 tons on hand, and in addition 6,800 tons are being loaded.

CHINA

For China, as of January 22, 1942, there were 1,586 cars of Lend-Lease material within the area of Norfolk and Newport News. 342 cars of this were purchased through the Procurement Division of the Treasury Department.

Of this there are 18,958 tons of steel on hand, and in addition 4,672 tons are being loaded.



GENERAL COUNSEL
TREASURY DEPARTMENT
WASHINGTON

January 23, 1942

TO: Secretary Morgenthau

FROM: E. H. Foley, Jr.

Treasury representatives, assisted by technical advisers from the Office of Scientific Research and Development, have been making a thorough investigation of Schering Corporation. Prior to 1937 Schering Corporation was a directly owned subsidiary of Schering A.G., one of the largest industrial enterprises in Germany, and is today controlled by the German concern.

Schering Corporation is producing (in most instances is the sole source) pharmaceutical products which are indispensable in the treatment of our soldiers and the general public. The most important of these products is one for the treatment of shock, especially shock resulting from severe burns and wounds. The use of this preparation is reported to have saved the lives of thousands of English soldiers after Dunkirk. The laboratory staff of Schering Corporation is also working on the development of products to increase the endurance of aviators. These products and others under development by the Corporation are in many ways as vital to the defense program as airplanes and tanks.

The German connections of this corporation and the affiliations of certain of its German personnel have made it impossible to use

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fully the facilities of the corporation in the defense program. Dominating patents held by the corporation, so long as they are in the control of personnel of dubious loyalty, may stand in the way of essential developments in the medical field.

Until recently, when the Treasury Department took steps to stop the practice, Schering Corporation and other subsidiaries of Schering A.G. in South America, were used as tools to obtain dollar exchange to facilitate the operations of the Nazi regime. The purported sale of Schering Corporation in 1937 to Swiss fronts for the Nazis was arranged in such a manner as to assure the continuance, until stopped by the Treasury Department, of the flow of dollar exchange to the Nazis. In addition, until stopped by the cooperative action of the Treasury Department and other government agencies, Schering Corporation was engaged in steps to assist in holding the pharmaceutical market in South America for the German economy until the war was over, and in supplying dollar exchange through South America to the Nazis. During this period certain prominent personnel from Schering A.G. of Germany came to the United States to direct the activities of Schering Corporation. That personnel at present dominates the corporation.

In order to protect the source of supply of the vital medical products made by Schering Corporation and to enable the United States Government to utilize this corporation and its expert personnel for the development of preparations vital to our war effort, the Treasury

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Department proposes that the following persons be suspended from further activities in Schering Corporation:

1. Dr. Julius Weltzien - President; salary approximately \$60,000 a year; former president of Schering A.G. of Germany; entered the United States in May 1938.
2. Mr. Martin Bernhardt - Head of legal and comptrolling departments; salary, \$9,400 a year; former Vice-Chairman of Schering A.G. of Germany; entered the United States in March 1938.
3. Mr. Ernst Hammer - Manager of promotion; salary approximately \$22,000 a year; formerly in the South American department of Schering A.G. of Germany; entered the United States in January 1932.
4. Mr. Hans Erdmann - In charge of engineering and maintenance departments; salary, \$10,000 a year; formerly designer of chemical equipment for Schering A.G. of Germany; entered United States in August 1929.
5. Dr. Erich Putter - Director of biological laboratory; salary, \$6,600 a year; formerly director of biological research for Schering A.G. of Germany; entered United States in July 1938.
6. Dr. Gerhard A. Fleischer - Research chemist; salary, \$4,300 a year; worked for Schering A.G. of Germany during vacations and came directly to United States

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through Schering A.G. after graduation in February, 1937.

7. Miss Frida Friderici - Secretary to Dr. Schwenk, Director of Research; born in United States, but educated in Germany where her family is now living; reported to be of pro-Nazi tendencies; has in her custody all confidential scientific matters of the corporation.
8. Miss Henrietta Lange - Secretary to Dr. Weltzien; entered United States in 1923.

If this action meets with your approval we will take the necessary steps to put it into effect.

I. N. H.

Approved:

Secretary of the Treasury

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE JAN 23 1942

TO Secretary Morgenthau
FROM E. H. Foley, Jr.

Sterling Products, Inc., which through its subsidiaries and associated companies is one of the largest manufacturers and distributors of pharmaceutical products in the world, is owned by 33,000 American shareholders and has always been managed by Americans, but since 1920, through contracts and joint ownership of subsidiaries, it has operated in close conjunction with I. G. Farbenindustrie. This arrangement divided the markets of the world between the two organizations and provided for the division of profits on sales in the Latin-American countries under German trademarks. After the outbreak of war in September, 1939, this arrangement continued, enabling the use of advertising funds in the Latin-American countries for German purposes, maintaining the German Commercial Organization in Latin-American countries intact in spite of the war, and providing Germany with foreign exchange. During July and August of 1941, many conferences were held between officers of the Sterling Products, Inc. and its attorneys and the Foreign Funds Control Committee and its representatives. On August 15, 1941, Sterling Products, Inc. made certain representations to the Foreign Funds Control Committee, looking toward termination of its relationships with I. G. Farbenindustrie.

(1) Contractual Relationships. The various contractual relations were terminated by Sterling Products, Inc. immediately after August 15, 1941. Sterling Products, Inc. also entered into a consent decree, terminating these relationships. Considerable progress has been made in terminating joint ownership of subsidiaries. At present, two Latin-American subsidiaries, both of which are inactive, are owned jointly.

(2) Trademarks and Trade Names. Sterling Products, Inc. sold products in the Latin-American countries under German trademarks and trade names until December 31, 1941, in the meantime registering new trademarks and trade names under which sales commenced on January 1, 1942. The German trademarks and trade names were used under licenses. At the close of the year, Sterling Products, Inc. delivered formal renunciations of these licenses to Attorney General Biddle.

(3) Personnel. Sterling Products, Inc. employed in its various subsidiaries many individuals with German backgrounds, a

good many of whom were employed by I. G. Farbenindustrie prior to coming to this country. Among the Americans managing Sterling Products, Inc., several had had intimate business and personal relationships with the managers of I. G. Farbenindustrie for many years. Starting late in August these employees were removed by Sterling Products, Inc. The President of the corporation and the Chairman of the Board of Directors, each of whom received \$125,000 per year, and the president of the principal manufacturing subsidiary, receiving a salary of \$25,000 a year, were removed and replaced by Americans satisfactory to the Government. Since that time 38 individuals have been discharged. All of these individuals had German backgrounds and most of them had been employed in the past by I. G. Farbenindustrie. At the present time, only three individuals remain who have German backgrounds; two of these are German-Jewish refugees, and the third is a former employee of I. G. Farbenindustrie. The company has made arrangements to maintain close watch over the activities of these three individuals. They do not have the freedom of the plant and are limited to the laboratory in which they work.

The program seems to have operated successfully so far. The company has not suffered, but on the contrary it is said to be in better condition than ever. It will, of course, be necessary to continue to observe the activities of the company and its subsidiaries, both in the United States and the Latin-American countries. Arrangements have already been made for continued scrutiny of its operations in the Latin-American countries and it is intended to check the company from time to time in its domestic operations.

9-14-76

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 23, 1942

TO Ferdinand Kuhn, Jr.

FROM Joseph Melia

EDITORIAL COMMENT
ON DOMESTIC ISSUES:
CONFIDENT OF THE FUTURE

If the American press could be accused of walking backward into the future during the depression, the shock of total war and the President's budget message has spurred editorial writers into an about-face. Turned around, they see either defeat on the war front or drastic economic measures on the home front -- and they choose victory.

War Spending and Taxes

Settling down to consider the full significance of the President's budget message, editorial writers as a whole find that compared with a Hitler victory there is no reason to be alarmed over the diversion of half our national income to armaments. The press is fully aware that this is a war of production, and there is an increasing tendency to view "natural" economic laws in a new light.

Editorial writers point out that the United States has the manpower, materials, and factories to make the program envisaged by the President a reality -- that in total war money must be

only a symbol of production, a tool of man rather than his master. Even the ultra-conservative, former isolationist Saturday Evening Post comments:

"Taxes will have to be increased until the beet is white, and borrowing may have to be carried to the point of compulsory lending, as in Great Britain. But when the money that can be raised by these means is not enough -- and it will not be enough -- then it will be necessary for the government to command labor and materials by further means, and the test of further means will not be whether they are sound according to the rules of money, but only whether they are effective."

The prospect of record-breaking increase in the national debt to \$110 billion is viewed relatively calmly by the press. Some newspapers -- including small-town newspapers in the Middle West and New England which traditionally are among the most conservative -- are even explaining to their readers that the Federal debt represents money lent by the people to themselves. These newspapers see no reason to worry about the debt as long as banks are not the chief creditors and inflation is curbed.

The press, however, has not completely lost its fear of the possible consequences of a vast government borrowing program. Editorial writers as a whole are insistent that the cost of the war be met as much as possible by taxation. Even the most optimistic of them argue that inflation must be checked by

(1) stepping up the sale of Defense Bonds so that the government will not have to resort to excessive borrowing from the banks, (2) drastically increasing taxes to pay most of the cost of the war and absorb surplus purchasing power, (3) promptly passing rigid price-control legislation, and (4) eventually invoking a system of widespread rationing.

The attitude of the nation's press toward additional taxes is indicated by the comments of Dorothy Thompson, who recently devoted a column to welcoming this year's new taxpayers into the fold. She advised her readers to accept their tax bill philosophically as insurance against economic want at home and defeat in war abroad. "But," she concluded, "since you are paying for this war, watch how the money is being spent. There is no reason to be submissive and silent about the overlapping agencies.... There is no reason why your tax money should support parasites and plain thieves, who profiteer on this war. Raise Ned about it."

States and Cities

Along with their old cry for reducing Federal non-military expenditures, newspapers throughout the country are calling constantly for a reduction of State and municipal expenditures. Mr. Eccles' admonition against reducing local taxes has been met by almost unanimous condemnation.

On the suggestion to tax future issues of State and municipal securities, preliminary comment indicates that larger newspapers are supporting the proposal, while smaller newspapers are opposed. A Scripps-Howard editorial calls tax-exempt securities "a mockery of the Federal income tax and its principle of ability to pay," while the Washington Post says that "under existing conditions the familiar arguments -- political and economic -- against Federal taxation of municipals have lost their validity." Some newspapers, including the Wall Street Journal, are resigned to the prospect of future issues being taxed, but they bitterly oppose taxing outstanding issues on the grounds that this would be "immoral", "unfair", and "the breaking of faith".

Price Control

Runaway inflation is considered by the press to be the chief danger this country faces in its domestic war program. Editorial comment on the Senate's price bill ranges from disgust to violent anger. The bill was termed "disgraceful" by the New York Herald Tribune, "fraudulent" by the Philadelphia Inquirer, and "sabotage" by the Washington Post. Even the leading newspapers in the South and Middle West farm belt attacked the bill. "Throw the pressure groups out of Washington," the Milwaukee Journal demanded; the Atlanta Constitution saw the

farm bloc's action as "eventual disaster for the farmer", and the Louisville Courier Journal asked: "What kind of people does Mr. Wickard think farmers are?"

A few, for the most part relatively unimportant, farm-belt newspapers support the bill. They maintain that the farm bloc is merely protecting the interests of the small farmer. With equal seriousness, these newspapers also argue that the farm bloc's action is a patriotic effort to insure adequate food production. They contend that industry is being encouraged to produce by high profits, that labor is being helped by the absence of wage control in the bill, and that farmers should be encouraged likewise.

For your information.

January 23, 1942.

To Archibald MacLeish

From Alan Barth

EDITORIAL OPINION
ON THE WAR:
THE INDIVISIBLE WAR

Focus

German submarine activities off America's eastern shore last week prodded editorial imaginations. The press as a whole seemed inclined to view these attacks on our coastal shipping as a helpful reminder that the war against the Axis spans the earth.

The reminder was needed. As American and British reverses in the Far East grew more grave, there was a marked tendency to focus attention on this area as the main theater of the war. Commentators retained an intellectual awareness of the importance of the Atlantic. But their real concern was with the Pacific.

The Chicago Tribune took advantage of the situation to expound its recently developed philosophy of neo-isolationism: "It is a sound principle of war to concentrate on the principal and proximate enemy. For the United States, that enemy is Japan.... If we scatter our strength in a dozen trifling

expeditions all over the world, we may succeed only in giving the Japanese the opportunity to strike us at home.... For the present, at least, our single war aim must be the crushing of the Japanese."

Curiously enough, so liberal an opposite as The Nation found itself in virtual agreement with this point of view: "Secretary Knox's argument that once we have disposed of Hitler we shall have little difficulty with Japan is plausible so far as it goes. But it could also be argued that we should smash Japan first, as the weaker member of the Axis -- after which we would have vastly greater resources to turn against Germany.... We cannot readily send an expeditionary force to Russia, but defeat of Japan would release Russia's huge Far Eastern army for use against Germany."

The Hearst papers, in the peculiar typographical style which they affect, urged an all-out concentration of attention on the Pacific. "The American west coast," said the New York Journal-American, "is the most EXPOSED part of our mainland.... Here, then, is the place for protection to be provided FIRST and to be COMPLETE." And Mr. William Randolph Hearst himself, arguing that the American Navy can now "withdraw its tender care of England's shores," and that "Russia is not only holding but

overcoming the German forces on the European front," demanded the massing of all our strength for "the conservation of the White Man's civilization."

While most newspapers do not go to these extremes, they now show signs of serious alarm over the turn of events in the Orient. They are extremely pessimistic as to the chances of holding Singapore and the Dutch East Indies. Many of them, indeed, have become sharply critical of alleged British unpreparedness in Malaya; and they are fearful that neither the British nor the Dutch are pursuing a "scorched earth" policy with anything like the ruthlessness of the Russians. There is a widespread apprehension that essential bastions in the Far East, such as Singapore, may never be regained if the Japanese once succeed in capturing them.

Despite such anxieties, however, the press, as a whole, heartily approved Secretary Knox's definition of the Far East as a secondary theater of the war. Some commentators expressed uneasiness lest his views dismay our Far Eastern partners. But even these took the attitude expressed by The Spokane Spokesman-Review: "This is probably one of the hard decisions the Government explained would have to be made at this stage of the war, and was made in the conviction that, bitter as it is to accept

reverses in the Pacific now, the important first objective is the defeat of Germany, after which the smashing of Japan will be a much simplified problem."

Not infrequently, the selfsame editorial writers who warn readers against over-optimism find it impossible to resist the luxury of an occasional column gloating over current Nazi difficulties. The continuance of the Russian advance, particularly the recapture of Mozhaisk, has kindled a hope which they cannot wholly set aside. But in their more sober moments they share the indignation of The San Francisco Chronicle: "Talk of a short war! We are not yet in a position to make it a short war, and our allies are at present doing no more than holding their own, not that in all cases.... Any talk that this is going to be a quick war, soon finished, is just so much dope to make us go slack in our effort. Beware of it! It does Hitler's work! He could well afford to pay good money to people who go around spreading this poison."

Production

A powerful spur to domestic confidence has proceeded from the reorganization of the production program. Almost all commentators expressed delight over the nature of the Executive Order

conferring authority upon Donald Nelson. A few, notably Walter Lippmann and Ernest Lindley, were uneasy over the President's appointment of Mr. Knudsen to the Army procurement command; they feared it might entail a fresh division of responsibility.

The delegation of power to Mr. Nelson, since the commentators viewed it as a concession to their demands, blunted the criticism which might have been expected to follow the Truman Committee report.

Editorial ire is now directed mainly at the dollar-a-year men in the Government. There has been a general revulsion of feeling against entrusting responsibility to men who do not choose to relinquish their private business interests.

Domestic optimism has had another stimulus from the prospect of an "accouplement" between the AFL and CIO. Editorial writers have had a good deal of fun satirizing John L. Lewis as a dove of peace; they wholly distrust the motives behind his proposal. But they desire Labor peace intensely enough to be indifferent to the means by which it may be accomplished. When peace is finally achieved, a good many of them hint happily, the Government will be obliged to regulate Labor as a form of monopoly.

Censorship

There has been a wave of tentative editorial enthusiasm for the regulations published recently by the Office of Censorship. With minor exceptions, these were endorsed as constructive and reasonable. But the tentative nature of the endorsement was made manifest in a general insistence that the test of the rules would be in the application; for the moment, there is unanimous agreement with The Portland Oregonian that Byron Price "is neither arbitrary nor emotional." The press, nevertheless, is warily on guard for any infringements on its prerogatives.

MEMORANDUM FOR THE SECRETARY.

January 23, 1942.

Mail Report

Inasmuch as the abstract dated today covers two weeks, rather than one, there are a number of comments which date back to the radio address, and others which allude to such recent events as the Carole Lombard accident.

On the whole, mail during these two weeks has followed the course of that covered by the last abstract. The subjects of bonds, taxation and the emergency in general have been the main ones touched upon in letters addressed to the Secretary. The theme of economy in Government expenditures still runs through the mail which pledges support for the Defense Bond campaign.

Since the press release in regard to confiscation of deposits, we have had no letters alluding to this unfortunate rumor.

There are the usual suggestions for taxation, including many letters urging a national lottery of one sort or another.

Complaints as to nondelivery of Bonds, or failure to secure them on personal application, seem to have fallen off. There are, however, a number of complaints about the dating of Bonds for which application was made well within the date limit in 1941. Those who received them dated in 1942 feel that since the delay was in the Treasury handling of the matter, the buyers should not be penalized. One typical complaint of this sort is abstracted under Bonds Unfavorable.

Ge. Forbush

MEMORANDUM FOR THE SECRETARY.

January 23, 1942.

Mail Report

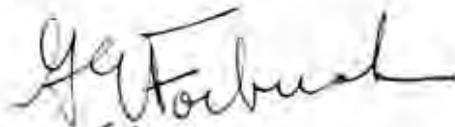
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Comments on THE PRESENT EMERGENCY

Fred Little, Berkley, Mich. If General Motors Company are so patriotic, why are they letting 150 steam hammers laying idle, and 30,000 men laid off when they could use those steam hammers making all kinds of forging for defense work. I am one of the many men laid off, and I know we had dies for those steam hammers. We could be working on defense work instead of walking the streets. Those steam hammers have been down for over two months. * * * I would like to see some Government men go through some of those plants. Then they would know what I am talking about. In the first place, Knudsen is too old for that job. Every day those plants are down means a loss of defense work for the nation. We have got everything to do with. * * * If we only had the right kind of a man leading them in the factories. What we need is less talk and more action. * * Why is General Motors taking contracts from the Government and subletting them out to small jobbing shops and their own factory laying idle?

Frank G. Sohn, Editor & Manager, The Mingo Republican, Williamson, W. Va. In this time of national crisis I have been racking my brain to find some way in which I can give further service to our country's war efforts through my newspaper. * * * In past years this one little newspaper has given away thousands of dollars in prizes and cash awards during these circulation drives. I am going to attempt such a drive, beginning some time this month, with a plan that should turn most of that prize money into fighting equipment for our armed forces. In order to arouse the most possible interest, I am going to set a goal which I hope will capture the public fancy, namely, an airplane, fighter or bomber, depending on what the various types cost. Therefore, I would appreciate it very much if your Department would send me the cost of the various types of fighter planes so that I can choose the one that would be most suitable. * * * Should this circulation drive prove successful, I will be glad to furnish you with complete details so that other similar drives might be spurred on by other newspapers throughout the nation.

M. H. Benedek, President, Automatic Winding Co., Inc., East Newark, N. J. The inspiring message of the President to Congress has prompted us to make a further effort to utilize the facilities of our plant in the War Program. During the past year we have endeavored to discover the Government Agency which could properly utilize our facilities, but without success. Our plant consists of approximately 80,000 square feet, and normally employs 700 people in the manufacture of small electrical and electro-mechanical assemblies. * * * We are equipped to manufacture almost all of the individual parts used in such assemblies, including pressed metal and plastic parts; electrical coils; capacitors; transformers, copper, nickel, cadmium and silver plating; and our machine shop is capable of handling all necessary tooling. Our equipment includes 90 coilwinders; 50 foot pressers; 45 power pressers up to 25 tons; 15 drill pressers; 40 eyeletting and riveting machines; lathes; milling machines; grinders, etc. It seems to us that a factory of this description should have a definite place in the War Program, but apparently we have been unable to make contact with the proper Department to put us to work.

Morris Berlin, President, City Hospitals Local 128, N.Y.C. At a regular meeting Thursday, Jan. 8th, the membership of our Local Union voted unanimously to commend the President for his excellent report to Congress early this week, and to pledge their 100% cooperation and loyalty in defense of our country and the defeat of Hitlerism. Our members agree with the President that the foremost task confronting our nation is to secure as rapid as possible a conversion of industry to the manufacture of war materials. It is our opinion that no individual, and no corporation, should be permitted to stand in the way of such conversion. The heads of the auto industry, the waterfront employers on the West Coast, the aluminum corporation, for example, are still carrying on their normal activities. * * * Hospital workers are among the poorest paid employees in the entire country - thousands earning as little as \$840 and \$900 per annum; yet, we have begun to make real sacrifices, and are prepared to make many more, if necessary, to preserve our democracy.

Charles Hayden Gunter, Smithville, Ark. Some time ago I took the liberty of writing to you pertaining to the banking conditions here, showing that the Citizens Bank, Smithville, Ark.,

does business solely on a 10% basis. To that, the response was that I take the matter up with the State Banking Commission. To do that would serve no purpose, were it done by me. * * * However, in our "Red Cross Defense Drive", the officers of the Citizens Bank declined to contribute. Those associated with the bank in various ways are now covering the country, asking those who usually borrow money for farming how much they will take for the coming year's crop financing, at rates from 8% to 10%. The bank does not handle Defense Stamps or Bonds. It is all done through the Post Office. If a patriotic citizen buys a Bond, and owes the bank, that fact becomes known because of the relationship of the Postmaster, who is a nephew of the Cashier of the bank.

Isadore Bell, Chicago, Ill. I read with interest the discovery by the Treasury Dept. of over \$200,000,000 worth of machinery and vital war materials held by subversive interests. It is my humble opinion that the same condition is existing in the Chemical Industry and I urge you to investigate this at once. It is extremely difficult for the small manufacturer to obtain numerous chemicals at any price and I am under the impression that these same interests are at work in the chemical field.

Anonymous letter - "Descendant of the Fighting Dutch". Just heard the announcement over the air of your proposing to take 50% of the American wage earner's money. Say, what do you think we are anyway? I for one protest with every ounce of reason and sense of justice within me against any such outrageous treatment from you. As I see it, the whole thing is to keep the Aristocrats in England from having their lands taxed, so we, being such suckers and having such politicians as you who are afraid of hurting their feelings by suggesting they pay us their just debts, they figure to go on escaping having to pay taxes on their lands. And to think our supplies and finances are being turned over to Lord Beaverbrook, one of the big ten who was so insulted at the very idea of an American woman being their Queen, that they would disinherit their own King, it makes me so boiling that I could come to Washington myself and give a few of you men softies a good battle.

Letter written by Louis Bettigole, Sarasota, Fla., but signed "Mutt", and encloses a snap-shot of a dog. Enclosed you will please find a check for \$5.02 as my small contribution to Uncle Sam's Conscience Fund. No, I haven't missed up on any back taxes -- my license tag has been paid for every year. The Conscience Fund I mean is the Conscience of every American that won't let him, or me, rest until dictatorship and tyranny are wiped off the face of the earth. * * * I'm just an ordinary dog, I think, but every now and then the folks here slip me a nickel for an ice cream cone. Now, Mr. Secretary, I like ice cream as much as the next fellow, but 5 or 6 a day is just about my limit. When the gentlemen give me more than that, I simply give the excess coins to my master to save up for a rainy day. Well, that rainy day has come. It's America's day of trouble, and it's just my small contribution to put myself on rations - two ice cream cones a day, and all the excess goes to Uncle Sam for the boys here, there and everywhere.

Col. A. Dann, Detroit, Mich. * * * An "all-out" speed up of production under our capitalistic system, where money is one of the prime incentives, can only be accomplished by a reward to employers and employees in dollars and cents. All Government orders for war materials should provide a time limit, with a penalty imposed for each day's delay, and a premium awarded for each day that delivery is made sooner than the delivery date. * * * The reward can be payable in non-interest bearing VICTORY PRODUCTION BONDS, payable at a future date.

George B. Tarr, Cold Springs, Okla. I am a Republican, 83 years young. * * * Uncle Sam has never given me a penny, although the Case Worker here promised me \$3.00 per month, and then cancelled it, because I had a cow and a few hens. I could not get that small amount, though four New Dealers here in town get old-age assistance. If I was a betting man, I would bet dollars against a donut that I have more Defense Stamps than the above four.

H. M. Kharfen, Kafelt Mfg. Co., Kenne, N. H. We are attaching herewith our check covering our employees' one-day pay, and our contribution to be added to the general fund of the Treasury. Sincerely hoping our "bit" will help. (Check for \$462.91 enclosed.)

Miss Emma Lee Teichart, Charleston, S.C., who signs herself, "a sophomore", has an idea for raising money. She thinks that it would be a good idea to have Hitler brought to this country and "taken on a tour - securely chained and guarded. * * * A charge should be made to see him, and even if it were very small, we would be sure of raising lots of money. * * * This would also humiliate Hitler more than anything I could think of".

L. Kirkegaard, Denver, Colorado, sends a copy of a long letter written to his Senator. The letter gives details in connection with bids for incendiary bombs and other war material. O.P.M. regulations put his firm out of the running, and, according to his belief, no small manufacturer will ever have a chance as long as present regulations are in force. He agrees with the President and Mr. Churchill that our outside enemies cannot defeat us, but fears that red tape and incompetence will seriously jeopardize our whole defense effort. In his letter to Mr. Morgenthau, Mr. Kirkegaard says, "The little fellows are asked to buy Bonds, Stamps, etc., but with what will they buy? The little factory owners have been put out of business by being cut off from needed material. The help has been laid off. This class of people amounts to millions in number, and cuts down the buying of Bonds. It is unfair, it is uncalled for, and what a loss to our Nation! This trained help could just as well have been put to work, or rather, transferred from one job to the other, had it not been for the inexcusable red tape and outright nonsense of the O.P.M. Why should a small factory man be asked to finance the Government projects? That is, in fact, your job, Mr. Morgenthau. The little fellow cannot do it, but you can in your position. The sooner you and our Government make up your minds to do this in a business way, the less hardship there will be for the little fellows, the more Bonds they will buy, the more war material they will put out, and the sooner the war will end".

Henry Steffens, Director, Michigan Public Expenditure Survey, Detroit, Mich. Congratulations on the splendid report of the Joint Committee on Nonessential Expenditures! Now that war has burst upon us, America must look more than ever

before to men in high public office for true unselfish leadership - leadership which constantly looks at each problem from the standpoint of what is best for our Country as a whole, and not what is "best for me" at the moment. Your fine report showed that kind of leadership. We know that minority groups were against the report. We know that much influence has been used to try to keep your report from coming out in its present form. We know it took courage and a broad outlook for you to endorse the recommendations contained in the report.

Mrs. Edwin J. Baum, Danville, Va. Inasmuch as Miss Carole Lombard gave her life as a direct result of her participation in the sale of Defense Bonds in Indianapolis, may I suggest that a special day be set aside in the near future, for the sale of Defense Bonds to honor the memory of Carole Lombard. * * *

M. C. Levee, Hollywood, Calif. (Telegram) Carole Lombard, when she met her sudden death, was on her way to Los Angeles to appear in a motion picture for Columbia Pictures, Inc. Joan Crawford, whom I represent, wants to do this picture and contribute her net income of same, which will be \$100,000, or more, to the American Red Cross, as a memorial contributed to Carole Lombard's memory. Would you, under these circumstances, allow Miss Crawford to make the deal with Columbia so that this contribution can be made without it affecting Miss Crawford's other organized charitable contributions? Would like to have the remittance made directly from the studio to the American Red Cross. I understand several other deals have been made along these lines.

Congressman Louis Ludlow. I am sure the entire nation applauded the fine recognition you extended to the late Carole Lombard in your telegrams to Mr. Clark Gable and Mr. Will H. Hays. * * * I am writing to ask if it is not possible to name one issue of the Victory Bond Series, the "Carole Lombard Victory Bond". I believe that such action by our Government would be most appropriate, and that it would be universally approved throughout America.

Anonymous - I think a memorial for Carole Lombard would be an outrage. Why not a memorial for those lonely officers who really had intended giving their lives for their country? It was quite by accident only that Carole Lombard was on that plane. * * * Wonder if you ever thought it worth while to send those bereaved Army families a telegram of sympathy, or the Stewardess' or Pilot's families. * * * Do not spend the Government's money for such foolishness as memorials for civilians like Carole Lombard. For our boys in uniform only must this money be spent. We will have to spend our money for Bonds, not memorials, to win this war.

Lester L. Spiegelman, San Francisco, Calif. Miss Lombard was killed in action just as surely as if she were defending Wake Island. What more fitting tribute than a showing of her pictures throughout the country, with every patron purchasing a Defense Stamp or Bond as he enters the theatre, and further sales at a rally inside, after the completion of the picture.

Max Brody, N.Y.C. Many loyal Americans are giving their money and cherished possessions to the Govt. to aid our war effort. Others are giving their blood, and still others have lain down their lives. Therefore, I deem it a privilege and an honor if you would accept the gift of my convertible phaeton Cadillac. It is a 1941 model and was originally listed at \$7,200. * * * I am an American citizen, and I am well over the draft age.

Hon. Ralph L. Carr, Governor of Colorado. I am submitting herewith a check for \$38.75, raised from the sale of several tons of scrap iron gathered by members of the Japanese-American Citizens League in Costilla County in this State. They wanted to show their patriotism and have offered this tangible evidence of their spirit.

Ethel R. Peyser, N.Y.C. I think it disheartening and collection-thwarting to have permitted C. A. Lindbergh to hold a post in any Department in the Government of our nation. Why should C.A.L. get a post when many patriots cannot get within miles of a job in war work?

Phyllis Haber, Miami Beach, Fla. I know this letter may sound to you like a silly child's, but I am really not. I want to help all I can. I am 13 years old and live in Brooklyn. I am president of 2 clubs there. We tried to be Junior Air Raid Wardens, even tried to lie about our ages, but we were too young. We tried every place we could, but we could not do anything. We gave 2,000 pieces of tinfoil to Britain. We gathered \$2 between us and gave that to the Red Cross. Now we want to do something else. We have decided to start a V. . . - Victory Club, but we do not know how to go about it. That is why I am writing to you. We want you to help us start it. Please do not throw this letter away, saying we are either too young or that we can't do anything. We want to help with all our hearts and souls. I know millions of other people write to you for the same reason, but please, we beg of you, answer this and help us start a Club to defend America.

Harry H. Pond, President, The Plainfield Trust Company, Plainfield, N.J. In the morning papers is an account of Mr. Eccles' speech, suggesting a long term issue - up to fifteen years - for life insurance companies and savings institutions. Such a plan would seem to me to be very unwise, because the purchasing power of the savings banks and the insurance companies creates a back-log for sustaining the Government Bond market. Take that purchasing power away and the balance of the market would be seriously affected and likely to become a very sloppy affair. An orderly market is necessary to preserve the equilibrium of the entire situation - so why disturb it at this critical time?

Irving R. Templeton, Lawyer, Buffalo, N.Y. On behalf of my family, a score of friends and most of my clients -- all of whom are in agreement on the following, I congratulate you for your splendid services to our country during the past year. We congratulate you especially on the fine individual stand taken over the past several years against the waste in the use of our great public fund. We commend you highly on your continued stand the past year, and in particular since war has been declared. * * * We hope that you will vigorously cooperate with Senator Byrd, and that he will with you, to secure at least a two billion dollar reduction in the Federal budget. * * * We also congratulate you on the fine work you did in bringing to the attention of the nation the willful unpreparedness of the U. S. for war.

George A. Kuhn, President, Indianapolis Chamber of Commerce, sends copy of letter he addressed to the President. Indianapolis newspapers carried a story crediting some very amazing statements to Chairman Marriner S. Eccles of the Federal Reserve Board. * * * Mr. Eccles, the report stated, advised cities not to reduce taxes in these times, even though present levies yield more revenue than needed. * * * These statements, if reported correctly, are amazing because they emanate from a high governmental official, and are in direct conflict with warnings issued earlier by such other equally high governmental officials as Secretary of the Treasury, Director of the Budget, and Maury Maverick, representing O.P.M. on State and Local Government Requirements -- all of whom have stated emphatically and publicly that costs of local government must be reduced to conserve financial resources. It is regrettable, we believe, that Mr. Eccles should now inject confusion into public thinking that was beginning to learn that our nation must direct every resource to winning this war - to building more tanks, more planes, more guns, more ships. It is regrettable that Mr. Eccles now would encourage the diversion of our full war efforts from this end - that he would, in effect, under the guise of preventing inflation, encourage waste, unnecessary extravagance and efforts not directly related to the war program of essential civilian needs.

Favorable Comments on THE SPEECH

Lee E. Titus, Los Angeles, Calif. Congratulations! Your Sunday radio address came over clear as a bell, and we heard every word. * * * Am sure that we all are appreciative of your work as Secretary of the Treasury.

Theo. M. Heck, DuBois, Ill. I am writing to ask you for the plan on company and employees Defence Bonds Plan. I heard you talk on the plan Sunday evening on radio. I am manager of Boil Coal Co. Mines and had a talk with all the boy's Saturday night. All agreed to by Bond on check off on pay 10¢ on the dollar. 50 employees, that would be 50 Bonds.

Martin Bydalek, Bradley, Ill. I am a farmer and wish to help thords this drive by which farmers would contribute to the nation's war effort as organised labor is doing in the bombs for Tokyo movement. I propose that each farmer of the nation donate five bushels of soy beans and 10 bushels of corn, which, if carried out over the country, would provide a tremendous store of these grains in the interest of Victory. I figure value of each farmer's contribution would be \$14.

Mrs. George W. Parks, National City, Calif. I listened to your address Sunday afternoon in regard to purchasing Defense Bonds and Stamps. It was a grand speech and I think it touched many hearts and inspired all who heard it to dig deeper into our pocketbooks and buy more Stamps and Bonds.

E. W. Finch, Blackridge, Va. I misspell my words, but I know I have your name spelt right because I got it from a dollar bill in my pocket. I listened to your radio broadcast the other night on the subject of Series E (Baby) Bonds. Then, of course, I wanted to write to somebody so I heartly respond to your invitation and my impulse to do something to bring victory for democracy.

Antonio Panco, Brooklyn, N.Y. I'm a WPA cement finisher and my number is 163169. Since our country went in war, I abandoned all my amusement, just to save a little money every day with the intention to buy Defense Savings Bonds. In fact, on January 8th I bought the first one for \$18.75, and I'll buy another one as soon as I can.

W. D. Handelsman, Seattle, Wash. As an American seaman and a member of the Marin Cooks and Stewards Union of the Pacific Coast, I am obliged to compliment your fine talk you made on the radio in regard to the purchase of U. S. Defense Savings Bonds. * * * I myself have put my entire savings into Bonds. I have purchased a \$1,000 Bond and will continue to buy Bonds in the future with any money that I can spare, for I will never in all my life forget Pearl Harbor or Manila. We must, and will, defeat the Axis and all aggressors.

Mrs. C. B. Kennedy, Kingsville, Texas. Your broadcast Sunday evening was so inspiring that I took notes in order to present the text to my family at dinner. I had wondered how families in the medium and lower income brackets could share, to any great extent, in the defense program. Now so many ideas are crowding into my mind that I feel a hesitancy in taking your valuable time to present them.

Unfavorable Comments on THE SPEECH

W. C. Taylor, Downers Grove, Ill. Am in full agreement with what you say, but am bothered over one question not answered in your address, so I am taking advantage of your expressed wish that we write to you. I am a salaried man, with no reserves financially. If I go out and buy Bonds by deductions from my salary, and then Congress should pass a bill making payroll deductions compulsory (it has been suggested anything from five to fifteen per cent), I would not be able to meet my obligations. This point is also bothering many friends of mine. I am sure that if it were cleared up, Bond sales would certainly increase.

B. J. Darnelle, President, Suburban National Bank, Silver Spring, Md. We are bringing to your attention certain local comments due to a misinterpretation of the spirit of your radio address. * * * Certain people here interpreted your speech as referring to the possibility of confiscation of savings accounts, rather than understanding the true meaning in calling upon the people to buy Defense Savings Bonds to the utmost of their ability to prevent the question of enforced savings. * * * As a result, we have had some call upon us for the withdrawal of savings funds, and in some cases, the people have taken the money out to carry on their person. * * * This question was referred to by certain of our directors in a meeting of our Executive Committee yesterday morning, and it was requested that this letter be sent you. This bank is actively engaged in selling Defense Savings Bonds. We urge the purchase of them by our customers and two of our employees spend fulltime in handling their sale.

S. A. Senion, Chicago, Ill. After listening to your broadcast Sunday evening, I take it for granted you are having considerable difficulty in disposing of Defense Bonds and Stamps. After looking over your posters and literature in the Chicago banks, and elsewhere, I can readily understand how difficult it is for you to successfully conduct this campaign.

C. W. Herbert, Crystal City, Mo. * * * Crystal City Local No. 63 of the Federation of Glass, Ceramic and Silica Sand Workers of America, affiliated with the Congress for Industrial Organizations, has presented the "Payroll Deduction Plan for the Purchase of Defense Bonds" to the management of the Pittsburgh Plate Glass Company, located at Crystal City, Mo., and through their office, to the central offices in the Grant Building in Pittsburgh, Pa. The Pittsburgh Plate Glass Co. rejected the plan, and perhaps your office can influence them to reconsider.

Boyd W. Harwood, Kansas City, Mo. Was much interested in your recent radio talk, urging buying of Defense Bonds, but wonder why not one word was said in reference to safety of principal. In a small Missouri county seat town recently I heard that the president of the local bank had expressed himself as questioning ability of our Government to take care of these obligations. For some of these "small town" listeners, a word about safety should, I would think, increase their interest in Defense Bonds.

Comments on TAXATION

Robert I. Dickey, Urbana, Ill. I believe that millions of taxpayers would be willing to pay their income taxes in one lump sum if they were told that by doing so, they would be aiding their country. This would be one more way in which citizens could show their determination to crush the Axis, but is one which the average citizen is not likely to think of unless it is called to his attention. Although there is not time for a long campaign on this, substantial results probably could be obtained by a direct appeal by yourself or President Roosevelt in the near future. * * * Such an appeal would be a logical supplement to your program of selling Treasury Tax Notes.

Robert I. Catlin, Vice President, The Aetna Casualty and Surety Co., West Hartford, Conn. Having noted that President Roosevelt at his press conference indicated there might be some consideration given to plans whereby persons paying income tax to the Govt. might do so on a monthly rather than a quarterly basis, may I say I feel such a step would be a move in the right direction, and a tremendous help to those whose income tax will be materially increased beginning with March, 1942.

Albert N. Smith, Baltimore, Md. * * * I have closely followed your career as Secretary, and probably read every word you have uttered publicly. As a former bank executive, with years of experience, and also as a student of money and banking, I have been in full agreement with every position you have taken along financial lines. Therefore, being confident of your sincere efforts to raise revenue for the needs of our country, without discrimination, I feel it my responsibility in this situation to present these facts to you. * * * (Urges taxation of "mutual" companies and deposits of Building and Loan Associations.)

C. R. Trobridge, N.Y.C. When considering higher taxation, consideration should be given to the fact that the imposition of higher taxation will seriously impair the ability of men in receipt of fixed incomes to continue their payments for purchase of life insurance and retirement annuities, which in many cases are their only provision for old-age. This impairment can be mitigated by making allowances for such payments along lines similar to those

granted under the British Revenue Act. I therefore suggest that the provision in question be studied with a view to giving effect to similar relief provisions in the new Revenue Act for those who are in receipt of earned income as defined in the present Revenue Act. If a capital levy is being considered, then some exemption should be granted for capital value of insurance and payments for annuities, if the policies were taken out or the annuities purchased prior to the declaration of war by the United States, or some earlier date.

Wm. G. Davison, Lawyer, Ardmore, Okla. * * * There are hundreds and thousands of debtors in the U. S. who owed immense sums of money at the end of the depression in 1936. Many of these men were wholly insolvent but they were honest. They wanted to pay what they owed; they have slaved day and night in an effort to pay. There is nothing fair, equitable or right in a tax law which makes it impossible for these men to pay their just debts, or condemns them to a life of servitude to the Govt. * * * A tax measure can be so drafted that it will not penalize honesty and industry, and I sincerely hope that in making your recommendations to Congress, you will keep these suggestions in mind.

Anonymous - simply signed, "A Widow". I am a widow, 88 years old, and am wondering what one in my position can do or how one can live if the income bracket is lowered to \$500. Most of you do not know what it means to live on such a small sum, and you should be considerate enough to let the other fellow live. Let me suggest that you try living on that sum, with no one to add one cent to your income. You might try being more careful too, with the other person's money. Spend it as if you were spending your own money. And I pray that the Government does not give the Unions equal rights with the management of business. We are already too much under the yoke of the Unions. Our President let John L. Lewis put his foot on his neck - that is enough. God help you in your decisions.

Senator Francis Maloney forwards to the Secretary a copy of a letter received from Reverend Mr. Floyd Fuller of Colchester, Conn. "Notice has come to me recently through the press that a new tax bill is being prepared in the Committee on finance and that one of the provisions is the lowering of the taxable income to \$500 a year, which means, on the weekly basis, that a single person receiving \$9.62 a week will be subject to the income tax. Such a provision is not only ridiculous, it is positively unjust. I am against it, hook, line and sinker. We ought to be ashamed as a nation dedicated to the cause of "justice and liberty for all" to think even of doing such a thing. * * * Of course, the tax must be raised. Instead of getting it out of the impoverished, I am in favor of a capital levy, if necessary, in order to pay the bills. * * *"

H. Marshall, Lawyer, Chicago, Ill. (Copy of letter sent to Hon. Robert L. Doughton) * * * In our town we have one of the few successfully operated municipally owned light and power plants. We keep the level of the rates the same as those privately owned public utilities operating all around us, and pay into the corporate fund each year an earning of about \$100,000. We use this level of rates and the resulting low taxes because if the ordinary citizen is pinched, he can turn off his light and power, but he can't turn off a tax bill. Unless you can introduce what I fear are prohibitive refinements into the Income Tax portion of the Revenue Act, it will be necessary, in my opinion, to go more heavily into such as excise and sales taxes, which the man who is up against it has some chance to turn off if he has to, and thereby equalize his burden with others in a way which no general law can do.

C. T. Wisland, LaCrosse, Wis. You may not be receiving many letters of this kind, but I think you ought to be congratulated on making the Federal Income Tax blanks more simplified. Enough said.

G. John Gregory, Executive Director, Bureau of Vocational Counsel, Boston, Mass. May I compliment and thank you for the income tax return blank, form 1040A, which saves millions of Americans from endless confusion and, in some cases, expense in filing their income returns. * * * It is a real service to the people, and it is so well devised to enable any man or woman to follow accurately the simple instructions given.

Favorable Comments on BONDS

Miss Beulah Metcalfe, Secretary, Greene Motor Company, Harlan, Ky. * * * I have a diamond which weighs 4.10 carats and has a wholesale commercial value of \$1,763.00. If this diamond can be used in any way, to help this country during these trying times, I shall be glad to turn it in for its value in U. S. Government Bonds.

Frank M. Smith, Whittier, Calif. The other day I ate at a restaurant, and left a couple of 10-cent Defense Stamps for the waitress. She smiled and gave me that nod of thankfulness that she would not have done for money, no not for a quarter. A man next to me spoke about the idea, and said he believed he would take up the habit. The only drawback to it is the stamps sticking to one's clothing, or to each other. Hence the little books handy to carry in one's pocket, with a sheet of oil paper on the sticky side of the stamps. You have seen books of stamps we sometimes buy at the Post Office -- well, that is the idea. I have my two sons in the Navy - one is at Pearl Harbor, and the other recently wrote us from Iceland. Now if I have given you a new idea, I'll soon be proud of myself, even if I am just a poor old fellow who is retired on the 65-year old-age limit.

Mrs. Marian E. Collins, Pottstown, Pennsylvania. Your letter of December was greatly appreciated by my husband. This U. S. covers a lot of territory, and your acknowledgment of receipt of his purchases of Bonds is very good common sense. You see it encourages a man to work harder so he can buy more and more. My husband is just a laborer (the backbone of the defense industry), with five small children under the age of twelve, and when extra money comes in, it is a great temptation to buy the things you've been wanting for ever so long. * * * The letter you wrote my husband might have been a form letter, but I felt it was directed and composed just for him - that is why I wanted to answer it.

W. A. McMahon, Reno, Nevada. Just to advise that I am not going to wait for any laws to be passed, requiring employers to hold out 15% of one month's salary to buy Defense Bonds. I am employer and employee in my own office, and starting next payday, Jan. 15th, I start to deduct this 15% and immediately buy a Defense Bond.

Val J. Peter, President, German-American Citizens League of Nebraska, Omaha, Neb. The Federation of German-American Citizens League of Nebraska passed the enclosed resolutions at their last meeting on December 28, 1941, with the directions to the officers of these organizations to bring the matter of the passing of these resolutions to your attention. We urge all to make whatever sacrifices that may be necessary in the spirit of complete willingness and cooperation, that honor and glory may come again to American citizens of German birth and parentage, in this war, like all other wars, in which the United States had a part. * * * Everything is being done, through our organizations and through our official organ, to impress upon our people the necessity to fulfill their every duty to their country through the purchasing of Defense Stamps and Bonds.

Lee H. Demo, Rockwell, Iowa. I am one of the young men of our country approaching the age of seventy. * * * However, I am still self-supporting for which I am very thankful to God. The 8th day of December, 1941, I purchased five \$100 Defense Bonds. * * * If our Government would name them Victory Bonds, it might increase the sales. Why don't you? I'll buy a \$500 Victory Bond (will anyway). My wife, not to be outdone, will do the same.

John Verhetsel, Santa Monica, Calif. I would like to have a Bond made out to Colin Kelly, III, and have his mother's name on the Bond. The Bond to be in the amount of \$18.75. I do not know what her full name is, other than Mrs. Colin Kelly. They told me at the Post Office that I had better write to the Treasury Dept. and find out for sure. You will know how it should be made out, and let me know, and I will send you a Post Office Money Order for the amount by return mail.

H. W. Walker, Asst. Manager, Brooklyn Trust Company, Brooklyn, N.Y. The other day a small, poorly clad, wizened old lady approached the tellers window where we sell Defense Savings Stamps. She reached up a hand that was blue with cold and laid two 25-cent pieces on the window ledge and asked for one stamp and a book. The teller explained that the books were supplied free of charge. With eyes brightening and a happy tone creeping into her voice she asked, "Then I can have two stamps?" The teller pasted the stamps in the book for her, and after she got the book, she proudly looked at it and murmured, "I am helping." While this nation is made of such as she, there can be no defeat.

Eugene Kelly, Munsey Bldg., Washington, D. C. I have been, I suppose, one of your foremost critics, but, I might add, never a critic of you personally. I have been doing some work for the President's Birthday Celebration, and through this endeavor I conceived some ideas which I thought might be applicable to your Defense Bonds and Stamps campaign. Accordingly, I contacted men in charge of the campaign, and I was amazed to discover that not only had my ideas been applied, but they had been improved upon 1,000%. The publicity and the organizational follow-up in the Bonds and Stamps campaign could not, I dare say, be matched by any outside organization. Allow me then, your erstwhile critic, to compliment you and your organization on the bang-up job you are doing.

Unfavorable Comments on Bonds

Florence Dayton Tilford, Monrovia, Calif. We note that a certain percentage of the pay envelope is to be deducted from low income group before people are allowed to spend the money that they have worked hard to earn. * * * The Government should certainly be congratulated on this move, as people with this sort of income are unable to fight back with lobbyists in Washington, or lawyers, as the Douglasses, Fords and DuPonts do when any move is made to reduce their profits and make more war multi-millionaires. The President has reiterated time and again, that if men were drafted, wealth would also be drafted, but up to this time, this has not been done.

J. Richard Livingston, Philadelphia, Pa. * * * The campaign for the sale of Defense Stamps and Bonds is now in full blast. But, do you know how tough it is to purchase a Bond? I recently filled a book of stamps amounting to \$18.75, and tried to turn it in for a \$25 Defense Bond in a large Philadelphia Bank. After three clerks had inspected the book, and then a conference with a Vice President, who made a telephone call to the Federal Reserve, I was told I would have to take the stamps to a Post Office and get cash for them, and then come back to the bank for the Bond. It seems the Federal Reserve will not take Stamps from a bank. I imagine the public is not going to buy many stamps if this is the sort of thing they have to go through each time.

Edwin Janss, Los Angeles, Calif. During a discussion the other night in a group of substantial and influential citizens, all expressed their patriotism and their desire to buy all the Defense Bonds they possibly could. The Majority of the people present who had idle money were holding it in anticipation of future income and inheritance tax purposes. They felt they should be liquid because in the future when they might need the money very badly, the Bonds might be greatly depreciated in value because of increased interest rates the Government might have to pay. * * * It seems to me logical that any U. S. Bonds should be redeemable at par, plus accrued interest, in payment of Federal Inheritance

and Income Taxes, and that this step would release into the Defense Treasury an immense reservoir of funds held back by this same consideration. The U. S. Treasury Tax Savings Notes are excellent, but for Inheritance Tax purposes, would be of no value.

Frank C. Welch, Cedar Rapids, Iowa. First, I want to tell you that this bank has been in the business of selling Defense Bonds since the first day they were authorized for sale. * * * Now, it is our plan to continue our efforts in this regard to the best of our ability, but as President, I would like to tell you briefly the stockholders' side of the story. Ever since Pearl Harbor, 90% of the time of two of our employees, and 60% of the time of one of our officers has been devoted to the sale of Defense Bonds. * * * When I returned to the bank at 5:30 yesterday afternoon, from a meeting of the Selective Service Board, I found one of our girls still busy working on Defense Bond records. Some two weeks ago we had a visit from the Wage Hour Inspector who audited our payroll records and said we owed our employees over \$900 more. This we promptly paid, even though we have an opinion from our counsel to the effect that we are not subject to the Wage Hour Act. Now, of course, all of this adds up to real out-of-pocket expense, and it seems to the writer that some arrangements should be made by the Treasury Department to help not only this bank, but all banks, bridge the gap. I have been told by officers of various Federal Reserve Banks that they have arrangements with your Department whereby they are permitted to bill you once each month for their actual out-of-pocket expense in handling business for the Treasury Department. Does it not seem to you that it would be just as fair and equal for all banks to be allowed to do likewise?

Helen A. Locke, Augusta, Maine. * * * Our company has a "Payroll Allotment for U. S. Savings Bonds", and their goal is 100% enrollment of employees. One of the girls who signed up said that she was not buying all that she could afford because she was afraid that the Government would increase the taxes so that she would not have more than enough to live on. * * * American people spend money freely and probably will continue to do so as long as they can earn it, whether it be for luxuries or Defense Bonds, so why not give us a chance savings bonds rather than feeling tax bonds?

Miss Edith Goldenberg, Brooklyn, N.Y. * * * I went to the De Kalb Avenue Branch of the Dime Savings Bank of Brooklyn, where I have an account, to purchase a Bond for \$18.75. I was told that there were no more Bonds on hand. When I asked to leave an order, the answer was that orders were being accepted for bonds of large denominations only. Since there was almost an hour until closing time, lack of time for taking orders cannot be considered an excuse. Several of my friends with whom I discussed this incident reported similar lack of consideration and cooperation in their banks. * * * Aside from purely monetary considerations, Defense Bonds are valuable in making the small investor feel that he is doing his share in the war. Rebuffs such as the one I have described can have a very harmful effect not only upon the size of our war chest, but also upon the morale of the people.

H. H. Goddard, Tulsa, Okla. * * * As an American citizen and a purchaser of Defense Bonds, having purchased since the all-out effort began, for my wife, her mother and myself some \$43,000 face value of Baby and Defense Bonds, I am addressing this letter to you in protest of such useless spending as is described in the article on the building of the Sand Springs Levee. I had been led to believe that our purchases of Bonds would be used in national defense and would help win the war, but here at practically one stroke of the pen, more than half of my purchases, made at considerable sacrifice, go as a political plum to a minor politician. * * * Besides, what has the War Department got to do with a project like this now? If there is one branch of the Government that should have its hands more than full with really vital things, to the ordinary citizen, it would appear to be this one. * * * I appeal to you, you who have the great responsibility of financing this war; whose eloquent appeal over the radio the other night was a masterful effort, to do everything possible to see that all effort, all expenditure be made only in line with the one object of backing up the fighting men and winning the war.

R. W. Muckley, N.Y.C. In December I received a small bonus and invested the money in \$5,000 worth of Maturity Value, Series E, Defense Bonds. I made my subscription through the Manufacturers Trust Company, 513 Fifth Ave., N.Y.C., and was told by them that the Bonds would be dated in December. These Bonds were not delivered to me until yesterday, and they are dated Jan. 12, 1942. In the meantime, I had signed up for one \$100 Maturity Value Series E Bond each month, in a Salary Savings Plan. The bank tells me there is nothing they can do about having my December purchase dated in December, so I can buy no further Series E Bonds during 1942. I am not so interested in these Bonds as an investment, but as a patriotic duty, would have liked to purchase out of my salary each month, one \$100 Maturity Value Series E Defense Bond. In view of the apparent need of the Government for immediate cash, it seems that the Treasury Dept. shows red tape and inefficiency in this handling of Series E Bond sales.

Benjamin M. Kaufman, Larchmont, N.Y. I am encouraged to address this communication to you, for recently in one of your radio broadcasts you invited citizens to address communications to you with respect to the sales campaign of Defense Bonds. The purpose of my writing this letter is to add to the many complaints that you must have been receiving, as to how much more difficult it is for the average citizen, not benefitted by war industries, to continue to buy Defense Bonds. The reason is the tremendous rise in the cost of living, particularly in the essential necessities.

4-56-A

January 23, 1942

TO: HAROLD N. GRAVES
SUBJECT: PROGRESS REPORT FROM DEFENSE SAVINGS STAFF

SALE OF BONDS

Actual cash receipts from the sale of E, F and G Bonds for the first eighteen business days of January totalled \$685,730,000, an increase of 154.6 per cent over the corresponding number of days for December. Cash receipts from the sale of Bonds for the first eighteen business days of December were \$269,368,000. November sales for the same number of days were \$185,208,000.

SERIES "E" BONDS

Sales of Series E Bonds for the first eighteen business days of January totalled \$439,735,000, an increase of 173.5 per cent over sales for the same number of business days in December. Actual cash receipts from the sale of Series E Bonds for the first eighteen days of December were \$160,770,000, and for the first eighteen days in November were \$87,599,000.

1/23/42
H.N.G.
J.H.

BANKS

The American Bankers' Association has written all banks, urging use of small "Minute Man" emblems on checks, monthly statements, letterheads, envelopes, and other stationery. (Copy of American Bankers' Association letter is attached).

SPECIAL

The Presidents of Western Union and Postal Telegraph Companies informed the Treasury this week that they would place Defense Savings Stamps on sale in all of their outlets. The two companies combined have more than 9,000 offices throughout the country. Western Union has already installed the Pay Roll Savings Plan, and Postal authorities expect to complete similar arrangements shortly.

SPECIAL ADVERTISING

Portfolios prepared by the Defense Savings Staff, laying out several advertising campaigns for use by newspaper advertisers, were mailed this week to 943 newspapers who replied to queries sent out earlier. (Copy of the portfolio is attached).

NEWSPAPER CARRIER PLAN

As of January 20th, 555 Daily Newspapers reported that their carrier boys had sold 52,832,027 Defense Stamps of ten-cent denomination, or the cash value thereof in Bonds or Stamps in larger denominations.

912 Daily Newspapers are now cooperating in the newspaper carrier plan.

A special "Newspaper Press" for Defense Newspapers, published by the Treasury Advisory Committee, was issued this week, and copies sent to all newspapers participating. (Copy attached).

EDUCATION

Pupils of the Howard Dittson Junior High School in Philadelphia have adopted a unique plan to promote interest in the Defense Savings Program. At periodic intervals the school operates as if it were actually the Defense Savings Staff of the Treasury Department, with different pupils serving as Executive Director, Field Director, Information Director, Chief of Press and Radio Sections, et cetera. Other students are given assignments and problems of administration, sales, publicity, promotion, exploitation, et cetera, which are discussed under the supervision of school authorities.

EDUCATION (Continued)

The plan, the idea of a Philadelphia Bulletin newspaper carrier, is being prepared and expanded by the Education Division of the Defense Savings Staff for adaptation by schools generally.

Pay Roll Savings plans for all teachers in Virginia have been endorsed by the State Superintendent of Education, and letters are being sent to Division Superintendents, County Teachers' Associations and all teachers.

SPECIAL GROUPS

The Negro Committee for Mobile County, Alabama, reports it is thoroughly organized to begin canvassing the 30,000 Negroes within its area. The Committee consists of a chairman and thirty members.

FIELD ORGANIZATION

Status of field organization work throughout the country follows:

	<u>States</u>	<u>Changes Since Jan. 15, 1942</u>
Red - State and local committees organized	41	
Blue - State committees organized	8	+ 1
Yellow - Administrators and/or chairmen appointed	3	
White - Not started	0	- 1
	<u>52</u>	(including D.C., Alaska, Hawaii, and two field divisions in California.)

(See map attached)

BUSINESS PUBLICATIONS

Mailing of the second advertisement on Pay Roll Savings to more than 1,000 business publications was made this week. Proof of the new advertisement is attached.

As the result of the first advertisement 2,395 requests were received asking for complete information about the Pay Roll Savings Plan.

HOUSE MAGAZINES

First in a series of News Bulletins to all house publication editors was mailed this week. The bulletin, a copy of which is attached, reports what leaders in this field are doing to stimulate sales of Defense Bonds and Stamps, and includes an article on "Defense Bonds Buy Bombers".

LABOR PRESS ADVERTISING

In response to the first advertisement in the labor press on the Pay Roll Savings Plan, 83 requests have been received from union officials for complete information.

LABOR PRESS

The five chief sources of news for the labor press have promised wholehearted support of the Defense Savings Program. These five agencies are the AFL News Service, the CIO News Service, the Railroad Brotherhood Monthly Service issued by the staff of their weekly publication "Labor", the Federated Press, a labor news service issued daily from New York and Washington, and the International Labor News Service issued weekly from Washington.

Secretary Morgenthau's commendation of the AFL's billion dollar goal was carried by three of these services. (Copies of Federated Press Story and International Labor News Service stories are attached).

Prints of a special Lincoln's Birthday cartoon, drawn by John Baer, artist of the publication, "Labor", were sent to 200 monthly labor journals, and the print is now being prepared in two-column size for weekly labor press. Monthly publications, which already have reported they will use the cartoon, include the official journal of the United Mine Workers, with a half-million circulation.

The CIO News editorial page, which through fifteen union and regional editions has a circulation of more than 300,000, published a cartoon from the Defense Savings Staff. (Copy attached).

RADIO

Pay Roll Defense Savings Plans have been installed in 209 radio stations and 142 of these have 100 per cent membership. (See radio attachment #1).

There are 1,015 radio MINUTE MEN now broadcasting announcements daily in English and eleven foreign languages.

Recordings of transcribed messages by all 96 Senators begins Monday, January 26. These transcriptions will be distributed to radio stations in the Senators' home states.

Fifteen-minute records in Italian, German, Polish, Lithuanian, Yiddish, and Spanish are being prepared for distribution to 186 foreign language stations. (See radio attachment #2.)

Latin-America's weekly program, designed to promote friendly relations between the Americas, contains a message emphasizing the meaning of Defense Savings. (See radio attachment #3.)

A typical example of the cooperation extended to Defense Savings by all 186 foreign language stations is attached. (See radio attachment #4).

RADIO (Continued)

Recent examples of Defense Savings and Pay Roll

Savings radio messages are attached.

- A. Orson Welles-(Radio attachment #5)
- B. Arthur Hale -(Radio attachment #6)
- C. Time to Smile (Eddie Cantor, House Jameson)
(See attachment #7)
- D. Clifton Utley (Skelly Oil Company-newscasters on NBC, Friday, January 23)
- E. Elsa Maxwell -- "Party Line" broadcast, every Friday night, 10:00 PM, NBC, coast-to-coast network.
- F. Raymond Clapper (See attachment #8)
- G. Bayer Company (Second Husband) Helen Menken, star, announces that entire cast has signed up 100 per cent with Pay Roll Defense Savings (Tuesday, January 20 - 7:30 to 8:00 PM, CBS, coast-to-coast network).

Arrangements have been completed for two broadcasts by Secretary Morgenthau.

The first is scheduled for February 3rd from 8:30 to 9:00 PM over the Blue network. During this broadcast Secretary of the Navy Knox will present the Navy's Pay Roll Defense Savings check to Secretary Morgenthau.

The second broadcast by the Secretary and President William Green of the AFL is scheduled for February 22nd over the Blue network from 8:00 to 8:30 PM. The AFL is planning meetings of 805 locals to hear this broadcast.

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RADIO (Continued)

Radio Station Specials

KFOR, Lincoln, Nebraska, has nightly program, 6:20 to 6:30, "Voice of Victory". During this program announcements are made as to number of local firms with 100 per cent Pay Roll Defense Savings Plans, the amount of Bonds bought by various organizations each day.

WJRD, Tuscaloosa, Alabama, during "Buy Defense Bond Week" achieved cooperation of all merchants and business men in area. Plans have been made for radio contest based on Bonds and Stamps and with prizes of stamps.

KMO, Tacoma, Washington - On February 11th will devote a complete broadcast day to the promotion and sale of Bonds and Stamps and will also include MINUTE MAN broadcast.

WFTL, Fort Lauderdale, Florida - Every Saturday from 4:30 to 5:00 PM broadcasts over MBS, coast-to-coast network race results, ends program with two-minute announcement on Bonds and Stamps.

PRESS

An unusual drawing in colors, paying tribute to Miss Lombard's service to the nation as a Defense Bond salesman, appeared on the front page of the Chicago Tribune on Tuesday, January 21. (Copy attached).

The second mailing of comic cartoons (L'il Abner, the Gumps, Snuffy Smith and Smitty) were mailed Thursday, January 22 to all daily newspapers. Two of the cartoons feature Pay Roll Savings.

PRESS (Continued)

Another publicity cartoon was sent to daily newspapers and a mat of heavyweight champion Joe Louis showing Mike Jacobs the Defense Bond he bought at the Army induction center is being mailed to the Negro Press.

A galley proof of "Editorial and News Fillers" is to be mailed this week to all newspapers.

A survey of all weekly newspapers published in Maryland during one week was made by Western Newspaper Union. This survey showed that the 73 papers carried 84 different insertions of the Defense Savings Staff comic cartoons, political cartoons, "War Needs Money" copy, and the MINUTE MAN design.

TELEVISION

The CBS Defense Savings telecast inaugurated on January 10, over Station WCDW, repeated the feature "Buy A Bond" program on January 17.

WNBT, NBC's television station, is also using programs to promote Bond and Stamp sales.

NEW SONGS

Two new Irving Berlin numbers are being sent out to all radio stations for their daily use. These songs are "I Paid My Income Tax Today" and "At The President's Birthday Ball".

NEWS REELS

Schedules of newsreel shots of Carole Lombard at the Indianapolis Bond Rally on the eve of her fatal flight; of Denver Boys Aid Defense by buying stamps, and of "Box Office Plan For Victory" started in Atlanta, Georgia, are attached from Paramount and Fox Movietone News.

MOVIE STARS

The Hollywood screen stars who are coming to Washington for the President's Birthday Ball will stop at Albuquerque, New Mexico; Kansas City, Missouri; Chicago, Illinois; and Indianapolis, Indiana for railroad platform, radio and press interviews in the interest of the Defense Savings Program. On their return to Hollywood they are also making special stops.

Lucy Monroe will begin a 52 week nation-wide tour to promote Defense Bond sales. The entire expenses of her trip are being financed by the RCA Victor Company and she will be billed as "The Minute Man Songstress of Victory". She will visit one city each week, presiding at a song fest. The admission price at each of these gatherings will be one dollar's worth of Defense Savings Stamps.

456 L

MOVIE STARS (Continued)

Sabu, the "Elephant Boy" of the Alexander Korda films, begins his nation-wide tour of Newspaper Carrier Boy Meetings from Washington on Monday, January 26. A copy of his preliminary itinerary is attached.

Movie stars will be featured at a rally to be held in Medina Temple in Chicago on February 12. This is being announced as a Lincoln's Birthday Defense Savings Bond Rally.

Judy Canova, the "Hill Billy" star, is scheduled to make five appearances at Bond rallies in Florida under the direction of the State Administrator's Office.

MAGAZINES

Fred Sammis, editor of "Radio Mirror", and assistant editor of the McFadden Publications Women's Group, has volunteered to serve as Defense Savings Staff consultant on publicity in radio and movie fan magazines. He plans to contact editors next week and to outline a plan for continuing support of the Defense Savings Program.

Liberty Magazine, in the January 24 issue, published an appeal to readers to buy Bonds and Stamps in "The Last Word" column conducted by Editor Fulton Oursler. (Copy attached).

MAGAZINES (Continued)

Time Magazine published a photograph of Carole Lombard with a Defense Savings poster in the background and mentioned her service at the Indianapolis Bond Rally in its account of her death. (Copy attached).

Life Magazine's current issue carries a full page picture of Miss Lombard leading the Indianapolis Rally in song. (Tear sheet attached).

DIRECT MAIL

Defense Bond sales through the medium of Direct Mail totalled \$17,222,346 as of January 22. Sales for the last week were \$776,839.

The last two mailings, a Third Customer Mailing and a Second Prospect Mailing, are just beginning to show results. In four days of pulling these two mailings have produced orders totalling \$140,239.

FIELD REPORT ON PAY ROLL SAVINGS

The Glenn Martin plant in Baltimore, Maryland installed a Pay Roll Savings Plan and expects 100 per cent participation among its 35,000 employees.

FIELD REPORT ON PAY ROLL SAVINGS (Continued)

The Weirton Steel Company, Weirton, West Virginia (10,000 employees), announced its Pay Roll Savings Plan, and in a three-day intensive campaign obtained 7,778 subscriptions for a total of \$1,121,925. They have provided buttons for employees, the first one indicating the fact that the employee has signed a Pay Roll Savings Authorization and is participating. The second button is given to the employee after he becomes a Bond owner. This procedure has been effective in getting participation.

The Celanese Corporation of America, Cumberland, Maryland, with 10,000 employees, has more than 6,000 signed up, with an average allotment of \$1.25 per week. They expect better than 90 per cent participation by the end of January.

Large companies announcing their plan this week include Shell Oil Company and the Allegheny Ludlum Steel Company.

Large concerns with a high per cent of participation are:

Kohler Company, Kohler, Wisconsin - 4,500 employees,
86 per cent

Nunn Busch Shoe Company, Milwaukee, Wisconsin -
1,500 employees, 100 per cent

FIELD REPORT ON PAY ROLL SAVINGS (Continued)

American Woolen Company, Winooski, Vermont -
2,600 employees, 99 per cent

The Post Office in St. Paul, Minnesota -
1,095 employees, 80 per cent

South Dakota, Nevada, Arizona, Maine and New Mexico have Pay Roll Savings in all concerns within the State with over 500 employees. All State reports are not completed for this week.

Kentucky, in ten days, installed 92 additional Pay Roll Savings plans out of 100 concerns contacted. A Pay Roll Savings plan for state employees has been approved by the Governor. A meeting of department heads was held January 20, called by the Governor. The Pay Roll Savings plan has been adopted by the City of Louisville.

Sixteen concerns employing 500 or more have adopted Pay Roll Savings in New Hampshire. Twelve life underwriters are working out of Dover and thirty out of Manchester. A meeting with the Mayor in Manchester was held January 22 to secure installation of Pay Roll Savings for municipal employees.

Committees have been instructed in Pay Roll Savings installation this week in nine counties in Texas.

FIELD REPORT ON PAY ROLL SAVINGS (Continued)

A committee of 256 members is working on Pay Roll Savings in Evansville, Indiana; population, 96,000.

In twelve counties in Iowa, two pre-arranged meetings of industrialists, labor representatives and life underwriters were held each day for one week. Attendance ranged from 65 to 175 at each meeting and 100 per cent acceptance of the Pay Roll Savings plan was the rule. 1,500 labor unionists (packers) attended a Pay Roll Savings meeting in Mason City.

All 1700 employees of the Mills Novelty Company of Chicago, Illinois have signed up for Pay Roll Savings. Barry Wood, in person, addressed the Mills employees over the company's public address system.

WOMEN'S ACTIVITIES

A booth for the dissemination of information and the sale of Defense Savings Stamps has been set up at the Mayflower Hotel in Washington, D. C. for the annual board meeting of the General Federation of Women's Clubs, January 23, 24, 25 and 26. About 1,000 members are attending the sessions.

WOMEN'S ACTIVITIES (Continued)

Among "salesladies" at the booth, will be Mrs. Henry Wallace, who also will be heard during a Columbia Broadcasting System network broadcast "Women In The Lobby".

The pledge campaign of the Defense Savings Program will be explained to delegates by Harold N. Graves, and arrangements have been made by the Federation for member chapters to engage in a "pledge competition contest".

OUTDOOR ADVERTISING ASSOCIATIONS

We have been offered the facilities of the associations for posting 35,000 twenty-four sheet posters to be on association members' boards throughout the country, beginning between March 1 and March 15. The design for this poster was furnished by the association and all arrangements for possible advertising by plant owners will be made by the association. The Treasury Department furnishes only the paper necessary for the posters.

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January 23, 1942

Mr. Liversy

Mr. Dietrich

Will you please send the following cable to the American Delegation, Rio de Janeiro:

"For Mr. White from Secretary Hergenthan.

Reference your No. 40, 4 p.m., January 22. Your visit to Buenos Aires has my approval."

FD:dm:1/23/42

Regraded Unclassified

TELEGRAM SENT

HRL
This telegram must be
paraphrased before being
communicated to anyone
other than a Governmental
Agency. (ER)

January 23, 1942

Noon

ANDELGAT,

RIO DE JANEIRO, (BRAZIL).

64

FOR WHITE FROM SECRETARY MORGENTHAU.

QUOTE. Your 40, January 22, 4 p.m. Your visit to
Buenos Aires has my approval. END QUOTE

HULL
(FL)

FD:FL:EMcB

DEPARTMENT OF STATE

459

THE SECRETARY

January 24, 1942

MEMORANDUM FOR THE SECRETARY OF
THE TREASURY

Answering your note to hand on yesterday relative to the proposed Chinese loan proposition, I herewith enclose, for whatever it may be worth to you and your associates, some memoranda on the subject, prepared by some of my associates here.

CH

DEPARTMENT OF STATE
ASSISTANT SECRETARY

January 23, 1942

MEMORANDUM

Proposed Chinese Loan

Secretary Morgenthau's plan to grant credit to the Chinese by offering to pay the Chinese Army has been declined by the Generalissimo. He has reverted to his "original proposal that the United States grant to China a political loan of \$500,000,000, which would be the only means of preventing impending economic collapse. This loan should be regarded in the light of an advance to an ally fighting against a common enemy, thus requiring no security or other prearranged terms as to its use and as regards means of repayment." (Message from the Generalissimo to Secretary Morgenthau transmitted January 21, 1942).

The Department has already recommended that a "political" loan be made to the Generalissimo in the amount of \$300,000,000.

The objectives of the loan in even amount are:

- (1) To strengthen the morale ~~and will to fight~~ of the Chinese Government, and
- (2) So far as possible, to stave off economic collapse

collapse occasioned by the continued inflation of paper money.

The chief conditions within which these objectives have to be obtained are these:

(a) The Generalissimo is likely to be cut off from foreign imports, other than such arms and munitions as may reach him over the Burma Road and most of which can be taken care of by Lease-Lend operations. Foreign currency, therefore, is of little use to him for the purpose of paying for imports.

(b) The loan must be so handled that it will enable the Generalissimo to pay for goods, services, and military expenses all of which are obtained in China. Necessarily, these payments will have to be made in Chinese currency, namely, yuan.

(c) It follows that the loan of American dollars must be so handled as to give the maximum of political encouragement to the Chinese Government, and also so as to give the Chinese Government a large amount of yuan without further inflating or weakening the value of yuan in China.

(d) The present ^{nominal} exchange value of the yuan is 4 plus cents, but it is probably over valued.

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(e) Any loan of dollars which is given to the Generalissimo has to be converted by him into yuan in some fashion.

Due to the political and military situation, we do not have any strong position to impose onerous conditions on the Chinese Government in respect of this loan. We are advised that to get the maximum political effect there should be the greatest generosity, and the fullest consultation with the Chinese Government. They should not be merely handed a scheme but should rather be consulted as an ally.

From the Department's point of view, it would seem that the first step should be to open consultations at once, presumably with Mr. T. V. Soong, indicating a willingness to make a loan of possible \$500,000,000 dollars. We should ask what the general plans for using this loan are, and the proposed Chinese method of handling it.

It would seem desirable from our point of view that the loan should take the form of a credit of American dollars. This credit might be used in either of two ways:

(1) To guarantee payments of interest and amortization on an internal Chinese loan to be floated in China

by

-4-

by the Generalissimo and sold to the Chinese merchants, banks, money lenders, etc. This loan would be a dollar loan. It might be bought by the Chinese in yuan. This would mop up several billions of paper yuan and put them in the hands of the Generalissimo. He could use them then to pay his current expenses, thereby using existing yuan, instead of printing additional yuan as he does now. The credit would be drawn not at once but gradually, to meet the service charges of the internal loan, and could be drawn from here as such installments fell due.

A second method, if practicable, might be to open the credit and have it available to the Generalissimo, in yuan, in Chungking. This would involve setting up machinery by which American agents would purchase yuan in China for dollars and turn them over to the Generalissimo. This likewise has the effect of mopping up the paper yuan. The purchase would, of course, strengthen the exchange value of the yuan and thus work against the inflation which is at present making trouble.

Both methods would have the benefit of not transferring the entire credit to the Generalissimo at once, but rather of having it available in such quantities as he might need, month by month. Should any disaster occur,

occur, the unexpended balance would then remain in American hands.

The British have expressed a desire to be in on this. They are thinking in low figures -- the maximum we have heard is 80 million dollars which is small in comparison to the Generalissimo's request. This would have to be made available in sterling.

It is suggested that consultations be commenced forthwith on this basis. It would seem unnecessary to draw the British into the picture until the discussions have become more really definitive though we might keep them informed so that they could express an interest if they so desired.

The suggestions made as to possible uses of the loan or credit should not be construed as being inflexible. It is quite probable that a high degree of flexibility in use will be needed. In determining the general program, the recommendations made by Gauss and by Sir Otto Niemeyer ought to be taken into careful consideration. Possibly Mr. T. V. Soong could be brought into agreement with some part of this program.

In particular the possibility of using part of the American advance to increase the supply of goods produced

in

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in China or made available in China to the military forces
merits further consideration.

A.A.B., Jr.

DEPARTMENT OF STATE

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SPECIAL ASSISTANT TO THE SECRETARY

January 24, 1942

8

Dear Mr. Secretary:

I have the following comments on the attached memorandum:

1. I think that it would be highly desirable to begin consultations with the Chinese as to their plans for using and handling a loan, expressing, at the same time, our willingness to extend such a loan in some such amount as \$500,000,000.

2. I think the first of the two methods for using the dollar credit, suggested on pages 3-4 of the memorandum, is preferable to the second and might well be proposed by us in the course of the discussions. I should, however, add to the proposal that the dollar credit would be at the disposal of the Chinese Government either for foreign payments or for use as a service and amortization fund for an internal yuan loan, repayable in American dollars, both as to interest and principal.

Leo Pasvolsky

SA:LP:EM

January 22, 1942

My dear Mr. President:

I am forwarding the inclosed correspondence from Mr. T. V. Soong. Naturally, I am disappointed in the contents.

What do you suggest as our next move?

Sincerely yours,



The President,
The White House.

Copies to: The Secretary of State ✓
The Secretary of War
The Secretary of the Navy

MINISTER FOR FOREIGN AFFAIRS
REPUBLIC OF CHINA

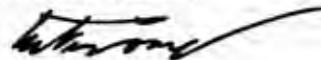
January 21, 1942

My dear Mr. Secretary:

During your absence from Washington I received the enclosed message for you from the Generalissimo.

Since Mr. Fox is due to arrive in Washington shortly, it occurs to me that you may like to have an opportunity of seeing him and hearing from him of the situation in China before you renew discussions with me. However I am at your disposal at any time, should you wish to see me earlier.

Sincerely yours,



T. V. Soong

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

CONFIDENTIAL

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The Generalissimo deeply appreciates Secretary Morgenthau's efforts which have materialized in a proposal that the U. S. Government would undertake to pay for the maintenance of part of the Chinese army in U.S. Dollar notes. After careful consideration, however, he doubts whether this scheme is practicable. Payment of Chinese soldiers in U. S. currency would tend to create a cleavage between the army and the general economic structure in China which may actually hasten the collapse of the Chinese currency. Before Mr. Fox left Chungking the Generalissimo had a long discussion with him in which he pointed out a number of reasons why he considered the scheme difficult of application and which he asked Mr. Fox to convey to Secretary Morgenthau.

The Generalissimo urgently requests that careful consideration be given to his original proposal that the United States grant to China a political loan of 500 million U.S. dollars, which would be the only means to prevent an impending economic collapse. This loan should be regarded in the light of an advance to an ally fighting against a common enemy, thus requiring no security or other pre-arranged terms as to its use and as regards means of repayment.

TREASURY DEPARTMENT

470

INTER OFFICE COMMUNICATION

DATE January 23, 1942

TO Mr. White
FROM Mr. Friedman
Subject: Digest of despatch from Ambassador Gauss dated
December 31, 1941.

1. Ambassador Gauss in despatch dated December 31, 1941 encloses:
 - (a) Memorandum of his conversation on December 20 with the British Ambassador;
 - (b) Memorandum prepared by Sir Otto Niemeyer in regard to economic problems;
 - (c) Memorandum reporting the conversation of Mr. Vincent of the American Embassy on December 18 with Sir Otto Niemeyer.
2. The British Ambassador presented to our Ambassador a copy of a memorandum prepared by Sir Otto Niemeyer and indicated that he wished American support in taking up the subject of the economic-financial situation with the Generalissimo. Ambassador Gauss suggested that Sir Otto should approach the Generalissimo directly. Ambassador Gauss comments that he "cannot understand the apparent disinclination of Niemeyer to approach the Generalissimo."
3. The information regarding economic and financial conditions in China contained in the enclosed memorandum repeats and confirms information received in earlier cables.

C
O
P
Y

DEPARTMENT OF STATE

WASHINGTON

January 20, 1942

In reply refer to
FD 893.51/7389

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of despatch no. 261, from the American Embassy, Chungking, China, dated December 31, 1941, concerning the subject finance, and economic conditions in China.

Enclosure:

From Embassy, Chungking,
no. 261, December 31, 1941.

Copy:ec:1-28-142

(COPY)

472

Chungking, December 31, 1941.

No. 261.

Subject: Finance; Economic Conditions in China.

AIR MAIL.

The Honorable
The Secretary of State,
Washington, D.C.

Sir:

With reference to my telegrams Nos. 515 and 516 of December 21st, reporting conversations with the British Ambassador and Sir Otto Niemeyer, head of the British economic mission to China, in regard to financial and economic conditions and problems in China, I have the honor to enclose

- 1/ (1) memorandum of my conversation on December 20th with the British Ambassador, (2) memorandum prepared by Sir Otto Niemeyer in regard to economic problems, and (3) memorandum reporting Mr. Vincent's conversation on December 18 with Sir Otto Niemeyer.

Respectfully yours,

C. E. Gauss

Enclosures: 1-3, as stated.

Original and one copy by air mail to the Department.
Four copies by pouch to the Department.

851
JGV/cwc

Copy:ec:1-28-42

D
F
Y

Enclosure no. 1 to Despatch no. 256,
dated December 27, 1941, from the
Embassy at Chungking.

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MEMORANDUM OF CONVERSATION

December 29, 1941

Subject: Economic-Financial Measures Urgent in
China with the Outbreak of the war in
the Pacific.

Presents: Sir Archibald Clark-Kerr, British Ambassador
Mr. Gause

Sir Archibald Clark-Kerr called on me this morning
by appointment and handed me the attached copy of a memoran-
dum prepared by Sir Otto Niemeyer (head of the British
Economic Mission to China) outlining economic-financial
measures considered by him as urgent in China with the
outbreak of the war in the Pacific.

Sir Archibald said that Sir Otto Niemeyer had been
unable to arouse the Minister of Finance, Dr. E. H. Kung,
to consideration of the urgent problems resulting from
the outbreak of the war; Dr. Kung is ill, and seems to be
somewhat "groggy" in mind. While the Vice Ministers of
Finance, C. K. Yui and Y. C. Koo, seem to be full cog-
nizant of the necessities of the situation they are unable
to do anything; they do not have the courage to go over Dr.
Kung's head.

Sir Archibald mentioned that Sir Otto Niemeyer had
recently outlined to Mr. Vincent, First Secretary of this
Embassy, the financial-economic situation. I acknowledged
that I had learned from Mr. Vincent of this conversation.

The British Ambassador said he wished to consult with
me as to the steps which should be taken in the present
situation since Dr. Kung apparently is unable or unwilling
to give his mind to it. He felt that while this is a deli-
cate domestic problem in which we should be cautious about
interfering, nevertheless he felt that it should be taken
up, probably with the Generalissimo - and by the use of "we"
indicated his thought that I should join with him in doing
so.

I read the memorandum from Sir Otto Niemeyer and pointed
out to the British Ambassador that, after all, Sir Otto is
an economist and financial expert of high reputation, that
he came to China on his economic mission on an invitation
from the Generalissimo to the British Government, and that
recommendations from a man of Sir Otto's standing should
certainly receive the most attentive consideration by the
Chinese Government. I continued that it seemed to me that
Sir Otto should make the approach to the Generalissimo,
handing him a carefully prepared memorandum, in as simple

language as possible for the Generalissimo has little understanding of finance and economics; that the memorandum should be carefully translated into Chinese; and that Niemeyer might appropriately make it known to the Generalissimo that his findings and recommendations in the present emergency had been made known to the British Government - and I would have no objection to his saying that as we have been much interested in this subject he has also made them known to the American Ambassador for the information of the American Government. I suggested that Sir Otto must feel that there is little value to his remaining here on an economic mission of inquiry if he is not entitled to have free access to the Generalissimo, to present his views and recommendations, and have them at least given consideration.

Sir Archibald commented that my views followed very much along the line of what he had been thinking; he believed that perhaps Niemeyer should prepare a simple but careful memorandum on the subject and then he (Sir Archibald Clark-Kerr) should take it to the Generalissimo. (I cannot understand the apparent disinclination of Niemeyer to approach the Generalissimo.) I took occasion to comment that I thought that if Niemeyer were to see the Generalissimo and submit his recommendations, they must be listened to; whereas, for instance, if I, who do not hold myself out as an economist or financial expert, were to approach the Generalissimo on such a subject, unless under instructions of my Government, he might rightly think that I was interfering in what is a domestic Chinese problem, and even if he did not say that, he would not regard me as an expert to whose advice he should give attention. I thought Niemeyer was in an ideal position to approach the Generalissimo - his standing and reputation; the fact that he is in China in response to the Generalissimo's invitation to the British Government, etc., etc.

Referring to a possible loan to China on which an internal bond issue might be attempted in an effort to slow up currency inflation, Sir Archibald said that he understands that what is intended is that the bonds shall be guaranteed by the British and American Governments, as to principal - interest being an obligation of China. He said that the subject is now before the British Government and is being discussed with the British Treasury which, if it finds the proposals feasible, will undoubtedly contact the American Government. He did not say whether this was a proposal which had been discussed with the Chinese Government; but he did mention that he knows (unofficially) that the Chinese Government was contemplating a request for a half billion dollar American loan, that Owen Lattimore was carrying letters to the President and to Mr. Morgenthau for this purpose, but "Providence intervened" and Lattimore did not get off for the United States and the matter is "now back in the pot".

The conversation turned somewhat and mention was made of Dr. Fox. Sir Archibald regretted that Fox was apparently

not a man of the standing and reputation of Niemeyer and that there was on one of Niemeyer's standing representing the United States on a joint Anglo-American mission. I remarked that Fox is at present absent in Kuning but he should return here in a few days, and I should be glad, if Sir Otto Niemeyer desired, to sound out Fox on his views and see if perhaps his support could be given to the Niemeyer memorandum. I also mentioned Dr. Arthur Young, adviser to the Ministry of Finance. Clark-Kerr said that Young had been most cooperative toward Niemeyer; he is a good man; but apparently the Chinese are not inclined now to pay much attention to Young. Sir Archibald said, however, that it would be helpful if Fox and Young were to support the Niemeyer recommendations. I left the matter at that.

Sir Archibald said that he wished I would give thought to the possible desirability of our joint approach to the Generalissimo some time in the future on the subject of the economic-financial situation. I replied that I should like to inform my Government of the situation and would be guided of course by any instructions I might receive; and I did not believe that I should go to the Generalissimo on financial-economic problems, domestic problems of China, except under instructions; that any representations I might make--any representations either of us could make - would bear little weight unless they were made under instructions of our Governments, whereas Sir Otto Niemeyer is here for the very purpose of examining the financial-economic situation, at the invitation of the Generalissimo to the British Government, and he is in a position to approach the Generalissimo directly, especially in the illness of Dr. Kung.

C. E. G.

CEG/gw

Memorandum prepared by Sir Otto Niemeyer, handed to the
Ambassador December 20 by the British Ambassador.

The outbreak of war in the Pacific will clearly have reactions on the already previously difficult economic situation of China and would seem to call for an immediate reconsideration of pre-existing plans. The salient new feature is the blocking of the external approaches to China and the consequent probability that say for the next six months she can receive little if anything in the form of imports from abroad.

This will have certain effects upon the Budget, some of the sums provided in which need a greater or lesser amount of external supplies for their effective disbursement. Some heads of the Budget may need reconsideration accordingly.

But it will have much wider effects than that on China's general economy.

Should not immediate consideration be given to these consequences and to the best way of meeting them?

For instance:

- (1) Should not an immediate report be made of the available supplies of really essential war materials in China - high octance gasoline, ordinary gasoline, arsenal supplies, essential metals and chemicals, bank notes and paper for bank notes - and arrangements made to ration them (prohibiting if necessary all private use) and to consider practical means (supplies, transport et cetera) of making good deficiencies?
- (2) Should not some one person in direct daily touch with the Central Government and working with Chungking Government Departments be given absolute control over priorities on transport from Burma (e.g. to secure the despatch of oil refining machinery at once from Rangoon)?
- (3) Should not immediate steps be taken to organize and encourage domestic hand work production of articles of daily use - whether through Cooperatives or otherwise?
- (4) Should not steps be taken through the Joint Banking Committee to control the granting of credits by private banks and the rates of interest which such private banks may pay on deposits or receive on advances?

- (5) Should not immediate steps be taken to assure whatever foreign support can be practically used for the issue of an internal loan to be subscribed to by the public in China (and to that extent reduce inflation)?
- (6) Should not immediate steps be taken in view of the satisfactory progress of rice collections to distribute some of this rice in large cities at prices somewhat below the present official prices and to make the fact that this has been done widely known?

It might be that if measures of this kind were to be contemplated it will assist in their immediate adoption and coordination if, say, three Ministers were definitely charged with their supervision and asked to report weekly to the Generalissimo on the progress made under each head.

17th December, 1941.

Enclosure no. 3 to Despatch no. 256,
dated December 27, from the Embassy
at Chungking.

MEMORANDUM FOR THE AMBASSADOR

December 19, 1941

Subject: Finance-Economic Problems

Yesterday I had luncheon with Sir Otto Niemeyer of the British Economic Mission to China. After lunch, Sir Otto said that he wanted to lay before me certain pressing problems in regard to Chinese economics and finance in order that I might in turn bring these problems to the attention of the Ambassador. He had gone over the situation with Sir Archibald Clark-Kerr, the British Ambassador, and said that Sir Archibald planned to see Mr. Gauss within a day or so in regard thereto but that he wanted Mr. Gauss to have an advance explanation through me.

Sir Otto said that, although I was probably aware of much that he would have to say, he would review the situation as he saw it, and to the extent that he was informed, as a background to the proposals he had to make. The following is a summary of his remarks:

Officially, the Chinese Government was reported to have expended approximately six billion dollars last year (1940) and some seven billion this year but that actual expenditures were nearer ten billion. Receipts from revenues of all kinds amounted to about ten percent of expenditures in 1941. The deficit was met almost wholly by issuance of new currency in 1941, the amount roughly being seven billion dollars.

In 1937 national currency in circulation amounted to something in the neighborhood of two and one-half billion dollars. At the end of 1940 it amounted to about seven billion dollars. The rate of increase is obviously alarming. It is very difficult, however, to convince Chinese officials, particularly Dr. H. H. Kung, of this fact and General Chiang does not understand the situation. Dr. Kung does not, or pretends not to, see the connection between the precipitate and ominous rise in prices and the issuance of new currency.

A budget for 1942 has been prepared and submitted to the Executive Yuan (Sir Otto did not say so but I assumed that it had been passed). The budget was prepared in a most unscientific and haphazard fashion, the processes being largely a matter of the Executive Secretary of the Executive Yuan (T. F. Tsiang) receiving unsupported estimates from the various ministries, departments, et cetera, and paring them down by rule of thumb. The original 1942 budget provided for expenditures of thirty billion dollars and optimistically anticipated revenues of five billion. By a process of simply cutting items and eliminating others, the estimate for expenditures was reduced to sixteen and one-half billion of which

one and one-half billion was for provincial as distinguished from national demands. The figure for military expenditures is eight and one-half billion dollars. Taxes are being raised and the collection of land tax in kind and the sale of rice certificates is progressing favorably according to the Chinese. Whether or not five billion dollars in revenue is collected depends largely on the price at which the Government values the rice and other grain collected in lieu of a monetary land tax. Of the 60 million piculs of grain which the Government expected to collect, 30 million has been collected and it is confidently anticipated that the other half will be collected. (These figures are based on Chinese reports in which Sir Otto obviously and rightly did not place much confidence). In point of fact, revenues will probably not reach five billion and expenditures will almost certainly exceed fifteen billion.

Nevertheless, accepting the figures on their face value for the sake of discussion, there will be a minimum deficit of ten billion dollars which, if met entirely through the issuance of new currency, would raise the amount of currency in circulation to approximately twenty-five billion. The serious if not disastrous consequences of such an increase are obvious. The issuance of U. S. dollar and sterling supported bonds has been suggested, these bonds to attract private, as opposed to banking, investors in unoccupied China. Not even an approximate estimate is practicable with regard to the amount of capital there is available for such investment; nor is it possible to give an opinion whether the bonds will attract investors. The Chinese wanted a loan amounting to a half billion U. S. dollars (at the stabilization rate, a half billion U. S. dollars is roughly the equivalent of ten billion Chinese dollars, the amount of the estimated deficit). A loan in that amount will be a mistake because it can not be effectively utilized and would therefore be misleading. A loan which would permit the issuance of two billion Chinese dollars worth of bonds would be reasonable. (Sir Otto mentioned loans of fifty million U. S. dollars and ten million pounds but said that these amounts might be doubled initially or that the amount might be increased if needed. It will be recalled that Dr. Fox mentioned to me some ten days ago that the Chinese wanted a loan of a half billion U. S. dollars but that at first blush two hundred million seemed to be a more reasonable figure).

Irrespective of the amount, something must be done and done quickly in regard to the loan because it will take some time to arrange administrative details and machinery for issuance (Sir Otto thought the matter might even now be under discussion in Washington).

Other problems of a related nature are pressing. The supply of goods which has been reaching unoccupied China from Shanghai and Hong Kong is cut off and there is little early prospect of further goods reaching Burma for transportation to China. This area is faced with

-3-

the prospect of an acute shortage of goods for a period of at least six months. The Government should at once take stock of available essential commodities such as gasoline, materials for arsenals, materials required for the manufacture of basic consumer goods. A system of rationing, even though only partially effective, should be instituted. Measures should be taken immediately to remove the accumulated stocks of goods from Burma under a strictly enforced system of priorities. Financial encouragement should at once be given to the development of domestic industries for the production of textiles and other consumer goods (Rewi Alley told me last week that fifty million Chinese dollars in grants or loans to the C. I. C. would greatly and quickly increase production by the unity of that organization but that he was finding it impossible to obtain even eight million dollars from the banks, even though the loans in that amount had already been administratively approved). Increase in the production of petroleum derivatives in the northwest awaits the arrival of refining machinery now at Rangoon. This machinery should be brought in at once.

Hsu Kan, Minister of Food, claims to have collected thirty million piculs of rice. Steps should be taken to determine what amount of this is needed for the army (Sir Otto estimated fifteen to twenty million piculs) and the remainder should be gradually sold for civilian use at low prices to discourage hoarders and bring down prices - or at least to keep them from going higher.

Speculation is having a very bad effect on the general economic structure. Exorbitant interest rates and general uncertainty are the cause of this. The Government should fix a reasonable maximum rate of interest for private bank deposits and for bank loans and control credits. Admittedly, the machinery for enforcing such a measure is wanting, but even partial enforcement would have some effect.

The foregoing is the substance of Sir Otto's remarks, although we discussed the various problems in greater detail than indicated above. With regard to the question of the bond issue, I asked Sir Otto whether it would not be advisable to establish some kind of Anglo-American supervision over future note issues and also over Government expenditures. He said, yes, that it would be advisable, but that he did not see how it would be feasible in present circumstances to do so; that time did not allow for instituting such supervision and that the Chinese must be relied upon to keep expenditures as low as possible and curtail note issues. In this connection he remarked that the Chinese Government might find itself in the rather curious position of not being able to obtain bank notes from abroad; that this was another problem that Dr. Kung should fact at once.

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Sir Otto said that it appeared useless to bring these matters and problems to the attention of Dr. Kung; that his health and character militated against effective action. He said that the two Vice Ministers of Finance were sincerely concerned over the situation and the future, as were also Chinese banking and business people generally. He said that, although General Chiang did not have an intelligent grasp of the situation he was the only man to be approached in order to get action, if in fact any action could be gotten. He was not optimistic but he said that every effort should be made to get the responsible Chinese to realize the seriousness of the situation and the urgent need of taking action; and that he felt that a forceful approach to General Chiang seemed to him the best, if not the only, way to get something started.

John Carter Vincent

JCV/ga

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Treasury Department
Division of Monetary Research

Date 1/23/42 19

To: Secretary Morgenthau

From: V.F. Coe

Mr. Currie has sent us an account of the flight from Hongkong by the aviation official in charge. He expresses his appreciation for Mr. Fox's cooperation.

MR. WHITE
Branch 2058 - Room 214 $\frac{1}{2}$

COPY

Excerpt from letter of W. L. Bond to H. W. Bixby - Chungking, China, December 17, 1941.

"As everything was then going smoothly, I drove up to the Peninsula Hotel in the most complete blackout you could imagine. It was a very difficult job in itself. The purpose of my trip was to see as many Government officials and important Chinese that I could who might be able to leave quickly. I saw Mr. Loy Chang and Mr. Hsi Teh Mou, of the Central Bank, and told them we would evacuate them and their families that night if they could go. Mr. Loy Chang said he was unable to leave that night and Mr. Mou was uncertain. Mr. Mou took me up to Mr. Fox's room; Mr. Fox is head of the Stabilization Board. I told Mr. Fox that we would be able to take out eight people that night, provided they could be at the airport, bringing 10 kilograms of baggage each. Mr. K. P. Chen was there also with Mr. Fox and I told him we could take him and his wife, included in this eight. Mr. Fox said he would like to send some of this staff, particularly Mr. Prese, whose wife had just had a baby, and Mr. Taylor, also of the Stabilization Board. I told him we would take any eight but they must be prepared; I would notify them later.

.....

"Shortly after Higgs' arrival, Kessler came in from his first trip to Nanyung in the DC-2. He reported that Sweet was having engine trouble and was unable to get off. We dispatched both of these planes loaded with staff, including all of the Clipper crew except Captain Ralph, these planes making another trip to Nanyung. I then phoned Mr. Fox to send his party to the airport as soon as he could. About three quarters of an hour later his party arrived, including himself and two of his staff, Mr. Hewlitt and Mr. Adler. He was unable to get Mr. Prese and Mr. Taylor as they were staying at the Hongkong Hotel and could not get over to Kowloon. He also had Mr. K. P. Chen and wife and Mr. Tsuyi Pei and several other Chinese officials. By this time Colonel Hughes, British Liaison Officer, Mr. Hall Patch, of the British Embassy, Mr. Casselle, of the Hongkong Shanghai Bank, and a very important Chinese General from the Headquarters' Staff were also at the airport. Pilot McDonald came in about this time from Kunming with the DC-5. We loaded all the above-mentioned party on this and enough more to fill the plane. This plane was then dispatched about 2 o'clock for Chungking, with Woodt and McDonald as crew.

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Later the other DC-3 and the DC-2 returned from Namyung and were dispatched to Chungking, loaded mostly with CNAC personnel and supplies.

"I would like to express my real appreciation for Mr. Fox. He organized his party exactly as requested. Also he did not include himself until he had made every effort to get all of his staff out first. But, as stated above, Mr. Frese and Mr. Taylor were unable to get across to Kowloon that night. Also he tried to get Mr. Mou and his wife, Mr. Loy Chang and Mr. Tsuyi Pei to go, all of whom refused except Mr. Pei. He did not include himself until he had failed to get anyone else."

(Information transmitted by Mr. Currie.)

C
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P
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By Safe Hand
W.T. 1020/AA/20/42

BRITISH EMBASSY,
WASHINGTON, D. C.
January 23, 1942.

SECRET

Dear Dietrich,

From time to time we receive data on the amount of dollar notes carried by air from Brazilian consignors to New York, and we are attaching a schedule giving the details of the consignments for the period between July 15th to December 15th 1941. You will see therefrom that Brazilian consignors sent to New York consignees, the latter all being first class New York banks, a total of \$377,981.

In a split-up of the New York banks, we find the following amounts consigned to each:-

<u>Manufacturers Trust Co., N.Y.C.</u>		
From Banco Borges	\$140,000	
" Casa Bancaria Monero	4,260	\$144,260
<u>Trust Co. of North America, N.Y.C.</u>		
From Banco Nacional Ultramarino	73,315	
" Bordallo, Brenha	49,145	122,460
<u>Chase National Bank, N.Y.C.</u>		
From Agencia Financial de Portugal	80,710	
" Magalhães, Franco	9,200	89,910
<u>Irving Trust Co., N.Y.C.</u>		
From Moreira Gomes		12,400
<u>Bank of London & South America,</u>		
<u>N.Y.C.</u>		
From Bank of London & South America		6,011
<u>Guaranty Trust Co., N.Y.C.</u>		
From S.A. Martinelli		2,940
		<u>\$377,981.</u>

You may wish to compare the details herein given with records available to the U.S. Treasury.

Yours sincerely,

(Signed) R. J. Stanford

Mr. Frank Dietrich,
U.S. Treasury Department,
Stabilization Office, Room 279,
Washington, D. C.

Doc 716:1/27/42

<u>Date Despatched</u> -1941-	<u>U.S.\$</u>	<u>Brazilian Consignor</u>	<u>New York Consignee</u>
July 18	4,500	A.F. de P., Rio	C.N.B.
July 25	7,000	Banco Borges, Rio	M.T.C.
August 3	700	S.A. Martinelli, Rio	G.T.C.
August 8	4,000	Bordello Brenha, Rio	T.C. of N.A.
August 8	10,000	Banco Borges, Rio	M.T.C.
August 8	4,000	Bordello Brenha, Rio	T.C. of N.A.
August 8	15,170	B.N.U., Rio	T.C. of N.A.
August 10	4,500	A.F. de P., Rio	C.N.B.
August 14	12,000	Banco Borges, Rio	M.T.C.
August 17	1,000	S.A. Martinelli, Rio	G.T.C.
August 17	3,995	B.L. of S.A., Bahia	B.L. of S.A.
August 19	2,016	B.L. of S.A., Bahia	B.L. of S.A.
September 5	10,000 *	Banco Borges, Rio	M.T.C.
September 5	4,500	A.F. de P., Rio	C.N.B.
September 12	4,650	A.F. de P., Rio	C.N.B.
September 14	4,500	A.F. de P., Rio	C.N.B.
September 19	4,560	A.F. de P., Rio	C.N.B.
September 19	10,000	Banco Borges, Rio	M.T.C.
September 21	4,500	A.F. de P., Rio	C.N.B.
September 26	4,500	A.F. de P., Rio	C.N.B.
September 28	10,155	B.N.U., Recife	T.C. of N.A.
October 3	12,400	Moreira Gomes, Rio	I.T.C.
October 3	4,500	A.F. de P., Rio	C.N.B.
October 3	10,000	Banco Borges, Rio	M.T.C.
October 10	4,000	A.F. de P., Rio	C.N.B.
October 10	10,000	Banco Borges, Rio	M.T.C.
October 10	10,000	B.N.U., Rio	T.C. of N.A.
October 12	4,500	A.F. de P., Rio	C.N.B.
October 20	1,500	Casa Bancaria Monero, Rio	M.T.C.
October 20	4,500	A.F. de P., Rio	C.N.B.
October 21	5,000	Magalhaes Franco, Recife	C.N.B.
October 21	3,558	B.N.U., Recife	T.C. of N.A.
October 24	6,000	Banco Borges, Rio	M.T.C.
October 24	1,888	B.N.U., Manaus	T.C. of N.A.
November 7	4,500	A.F. de P., Rio	C.N.B.
November 7	12,000	B.N.U., Rio	T.C. of N.A.
November 7	18,645	Bordello Brenha, Rio	T.C. of N.A.
November 11	12,000	Banco Borges, Rio	M.T.C.
November 11	4,500	A.F. de P., Rio	C.N.B.
November 17	14,000	Banco Borges, Rio	M.T.C.
November 21	4,500	A.F. de P., Rio	C.N.B.
November 22	5,343	B.N.U., Recife	T.C. of N.A.
November 22	1,240	S.A. Martinelli, Rio	G.T.C.
November 29	4,500	A.F. de P., Rio	C.N.B.
November 30	2,760	Casa Bancaria Monero, Rio	M.T.C.
November 30	4,200	Magalhaes Franco, Recife	C.N.B.
November 30	4,500	A.F. de P., Rio	C.N.B.

<u>Date Despatched</u> -1941-	<u>U.S.\$</u>	<u>Brazilian Consignor</u>	<u>New York Consignee</u>
December 2	10,000	B.N.U., Rio	T.C. of N.A.
December 5	14,000	Banco Borges, Rio	M.T.C.
December 7	10,000	Banco Borges, Rio	M.T.C.
December 9	22,500	Bordello Brenha, Rio	T.C. of N.A.
December 12	15,000	Banco Borges, Rio	M.T.C.
December 12	5,201	B.N.U., Pernambuco	T.C. of N.A.
December 13	4,500	A.F. de P., Rio	C.N.B.
	<u>377,981</u>		

* Possibly \$100,000

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE January 23, 1942

TO Secretary Morgenthau
 FROM Mr. Dietrich

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£36,000
Purchased from commercial concerns	£65,000

Open market sterling remained at 4.03-3/4, and there were no reported transactions.

The Canadian dollar discount narrowed to a final quotation of 11-5/8%, as against 11-7/8% last night. The Post Office, which appeared as a buyer yesterday afternoon, was reported to have been in the market today as well.

In New York, closing quotations for the foreign currencies listed below were as follows:

Argentine peso (free)	.2365
Brazilian milreis (free)	.0516
Colombian peso	.5775
Mexican peso	.2065
Uruguayan peso (free)	.5250
Venezuelan bolivar	.2675
Cuban peso	Par

In order to increase the Stabilization Fund's gold balance, we purchased \$12,000,000 in gold from the General Fund, through the New York Assay Office.

The Federal Reserve Bank of New York reported that the Bank of Mexico shipped \$210,000 in gold from Mexico to the Federal for its account, disposition unknown.

In London, spot and forward silver remained at 23-1/2d and 23-9/16d respectively, equivalent to 42.07¢ and 42.78¢.

The Treasury's purchase price for foreign silver was unchanged at 35¢. Handy and Harman's settlement price for foreign silver was also unchanged at 35-1/8¢.

We made no purchases of silver today.

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BRITISH EMBASSY,
WASHINGTON, D. C.

PERSONAL AND
SECRET

January 23rd, 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. I. Campbell

The Honourable

Henry Morgenthau, Jr.,
United States Treasury,
Washington, D.C.

BRITISH (X)ST SECRET

(U.S. SECRET)

OPTIM No. 26

Information received up to 7 a.m., 22nd January, 1942.

1. NAVAL

Early 21st a corvette and four merchant ships went ashore off East Coast of IRELAND.

17th. A Russian minesweeper was torpedoed and sunk off MURJANSK.

19th. One of H.M. submarines probably sank a 7,000 ton tanker off the East Coast of SICILY, on 20th when approaching MALTA and she was attacked by aircraft and sustained minor damage. It is now known that a small British ship was sunk off the PHILIPPINES on the 24th December and an unknown Norwegian ship was torpedoed off CHRISTMAS ISLAND on the 20th January.

2. MILITARY

LIBYA. 20th. Activity restricted by severe sandstorms.

MALAYA. 20th. The Japanese have occupied BADAU, CENTRE: Our forces have withdrawn South of the SEGADAT River to conform with movements further West. No contact with enemy reported. WEST: Enemy has maintained strong pressure in area between MUAR and YONG PEMI supported by incessant dive-bombing and low altitude attacks. Heavy fighting since 19th near BAKRI but details lacking. Estimated our Field Artillery in one action inflicted 400 casualties at close range. We have launched counter-attacks to join up forces cut off by the enemy's advance.

BURMA. 21st. The Japanese have attacked in the KA'KAREIK Area, where our forces, fighting throughout the day have been resisting strongly. Heavy fighting is in progress. MOULMEIN has been reinforced.

BORNEO. The Japanese have made further progress North-East of SINGAPORE and forces are withdrawing.

NETHERLANDS EAST INDIES. ANSOYIN has been evacuated by F.S.I. Military Air Force personnel.

RUSSIA. Heavy Russian attacks are in progress in the DONETS Sector South-East of KHARKOV.

3. AIR OPERATIONS

WESTERN FRONT. 20th/21st. 23 tons of high explosives were dropped on EMOEN in good visibility and some fires were started.

21st. Spitfires made low flying attacks on minor objectives in Northern France. A Catalina, on anti-submarine patrol crashed in SPAIN.

21st/22nd. 121 aircraft sent out - BRITEN 55, BMDEN 38, leaf-lets (PARIS area) 12. Seven medium bombers are missing. Sixty enemy aircraft were operating most of them sea-mining and against shipping off the East Coast.

LIBYA. 20th. Bad weather restricted operations. Four Blenheims obtained hits on barracks West of BENS (L) and damaged a bomber on ZOUARA aerodrome.

20th/21st. Three Wellingtons bombed TRIPOLI (L).

MALTA. 21st. The Island was attacked by a total of 70 Junkers 88 and Messerschmidts 109. Three Hurricanes on the ground were damaged at HAL FAR aerodrome. Our fighter operations were severely hampered since two aerodromes were under water.

MALAYA. 19th. Three additional Buffaloes reported missing and three enemy aircraft probably destroyed.

20th. Our bombers attacked KUALA LUMPUR aerodrome and fighters intercepted six enemy bombers in the BAKRI area forcing them to jettison their bombs and destroyed one of them. About 100 enemy aircraft attacked SINGAPORE ISLAND causing damage and casualties at two aerodromes, one Hudson was destroyed and two Buffaloes damaged on the ground, slight damage was also caused at the naval base. Our fighters including 14 Hurricanes, intercepted and destroyed three enemy bombers and one fighter and damaged three other aircraft. Three Hurricanes are missing, one pilot safe. Anti-aircraft shot down three enemy aircraft in Central JOHORE.

BURMA. 20th. Six Blenheims, escorted by American fighters, attacked MESCO aerodrome, all bombs fell in the target area starting fires and two enemy aircraft were destroyed. Two Buffaloes were shot down over MOUHEIN.

21st. RAHEM aerodrome, 100 miles east of MOUHEIN was successfully attacked.

4. AIRCRAFT CASUALTIES IN OPERATIONS OVER AND FROM THE BRITISH ISLES

British - 7 bombers and 1 Catalina = 8.

5. It is estimated that aircraft production in Germany the Protectorate and Poland has now risen to about 2,500 per month, including about 1,700 operational types. These include some 570 long range bombers, 190 short-range bombers, 440 single-engined fighters and 215 twin-engined fighters. Although skilled labour is probably a limiting factor a further increase must be reckoned with during 1942.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

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DATE January 23, 1942

TO: Secretary Morgenthau
FROM: Mr. Kamarck
Subject: Summary of Military Reports

Russo-German War

British Intelligence states that vital issues hang on the question of when and where the Germans can stop the Russians. The Germans have to establish a line and stabilize the front, so that they can withdraw some of their tired troops for rest and refitting. Nearly all of the armored divisions, for example, have been constantly in action without a proper rest for six months. The Russians have been keeping such pressure on the Germans that they have been able to withdraw only a very few divisions for rest and refit in Germany. The Reichswehr cannot undertake any major operations elsewhere unless and until they can establish a stabilized line and then take about two months to rest and re-equip their troops.

(U.K. Operations Report, January 20, 1942)

(What is happening in Russia appears to be a conflict between two opposing schools of strategy. The Germans are, of course, adherents of the blitzkrieg or knock-out school. The Russians have the theory of continuous and increasing pressure. As stated in the Red Army paper, Kraznaya Zvezda, "Modern warfare is not like a boxing match in which the better man knocks out his opponent suddenly with one blow. In war an uninterrupted flow of strength and energy is necessary in order to beat the enemy to his knees.")

Heavy snowfalls in South Russia have probably added to the operational difficulties of the German Air Force, which has been unable to exert its maximum effort. It is reported that Russian airplanes are extensively fitted with skis, but there is no evidence to show that German aircraft are so equipped.

(U.K. Operations Report, January 10, 1942)

On the Moscow front, the German air force does not appear to have been able to interfere seriously with the Russian supply system, or to protect effectively its own retreating columns.

(U.K. Operations Report, January 20, 1942)

Pacific War

The Japanese have concentrated striking forces of several battleships, five or six cruisers, five aircraft carriers, and auxiliary craft at Truk in the Caroline Islands (almost midway between the Philippines and Hawaii.) Our army believes that this force is designed to gain bases for action against the sea route north of Australia, or the air reinforcement route farther to the east (Hawaii-Canton Island-Fiji-New Caledonia-Australia.)

The Japanese are believed to have five divisions in the Philippines, five divisions in Indo-China and Burma, and four or five in Malaya. The total would come to 300,000 to 400,000 men.

Reinforcements of field artillery and other equipment are being landed in Luzon. The game appears to be to concentrate sufficiently large forces to crush the American and Filipino forces. Such a victory would be valuable for prestige reasons and would make it possible to use Manila Bay as a base.

(M.I.D. Information, January 22, 1942)

The British believe that the Japanese now have three squadrons of heavy bombers based in the Caroline and Marshall Islands. (The bombers located on these bases give Japan a striking force available against United Nation bases and naval vessels in the areas north and northeast of Australia.)

(U.K. Operations Report, January 19, 1942)

China

In the opinion of the British, the Japanese operation against Changsha was probably intended as a diversion while their attack on Hong Kong proceeded. It succeeded in its object by draining off a considerable number of Chinese troops. Owing to the weakness of the Japanese force employed, the Chinese were able to drive it back.

The Chinese claims of a great victory have not yet been fully substantiated. Press reports are exaggerated.

(U.K. Operations Report, January 20, 1942)

Other European Spheres

The strengthening of the German Air Force in Sicily and South Italy continues. A daily movement of about 1,800 tons of gasoline and Diesel oil from Germany to Italy started on December 12 and was still continuing on January 3.

There are no signs of any military preparations for a German movement into Spain.

There is no evidence of any military threat to Turkey in the near future.

(U.K. Operations Reports, January 14, 20, 1942)

Battle of the Atlantic

The westward movement of U-boats across the Atlantic has continued. There are now concentrations of German submarines south of Newfoundland and off the New England coast. A few are also operating west of the Straits of Gibraltar. There is no indication that any submarines are in the South Atlantic.

Of 32 enemy merchant vessels (17 Italian and 15 German) which tried to run the blockade during 1941, 14 totalling 84,000 tons were intercepted. Of these, 10 were scuttled or sunk and four captured. Out of the four German ships which crossed the Atlantic to Latin America during the year, only one succeeded in returning safely.

(U.K. Operations Report, January 20, 1942)

Of Possible Interest

The Federal Communications Commission, in its monitoring of foreign radio broadcasts, has been picking up an interesting station called "The Voice of the Chief", which claims to be the voice of the German army. There is not enough information, as yet, whether the station is actually broadcasting from Germany or not. The broadcaster attacks the Nazi Party, but speaks favorably of Hitler and the army.

A recent broadcast gave the "inside story" of Field Marshal General von Reichenau's death. According to this, von Reichenau became sick during the course of a long interview with two emissaries from the head of the Gestapo, Himmler. After several hours, the two Gestapo men called in von Reichenau's adjutant, who found his general with the symptoms of a serious apoplectic stroke. Von Reichenau died without regaining consciousness. Requests for an autopsy were refused.

The station went on to say:

"The fact is that Reichenau played a risky game.... we did know all about the various secret meetings which took place between Reichenau and Herr Himmler... prior to the dismissal of Field Marshal General von Brauchitsch. It may be that Reichenau promised Himmler more than he could get the army to do. It may be that the filthy dog, Himmler who already felt like a victor, had made himself at home in the Fuehrer's headquarters and gave the army orders instead of paying attention to his own filthy organization.

"It may be that he made demands on Field Marshal General von Reichenau which were even too crazy for this diplomat. Whatever one may think of the political conduct of Field Marshal General von Reichenau, in him we are losing a first class specialist in modern warfare, a loss which is doubly serious in view of the difficult strategic and tactical tasks which confront our army leadership."

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-2/2657-220: No. 609 U.R.D., J.D. 11:00 A.M., January 23, 1943.

SITUATION REPORT

I. Pacific Theater.

Philippines: Several strong enemy attacks on our Luzon line were repulsed yesterday. The fighting was extremely heavy and continued throughout the day. Air activity was limited. In the vicinity of Davao, on Mindanao, Japanese civilians formerly residing in that area are being organized into a hostile armed force of more than 9,000. Hawaii: No further reports of enemy action. Malaya: Confused fighting continues in the Muar section of western Malaya, with the press reporting that the British are conducting a general withdrawal to shorten lines across the peninsula. Apparently there is no major fighting going on along the east coast. Burma: According to the press, comparatively small British and Japanese forces are engaged in fighting east of Moulmein, near the southern Burma-Thailand border. The same source reports that the British are withdrawing slightly in that area. Australasia: Japanese forces are active in this theater, with the press reporting that enemy troops have made landings in New Guinea and in the Solomon Islands. There is nothing further on the reputed Japanese landing at New Britain. West Coast: No further reports of hostile activity.

II. Eastern Theater.

Both sides report heavy fighting at various points along the front. The Russians continue to advance west of Loshansk. The Germans claim that a counterattack in the central sector inflicted heavy losses on the Russians.

III. Western Theater.

Air: The press states that R.A.F. bombers in force continued heavy attacks last night on the ports of Bremen and Emden, as well as on airdromes in German-occupied Holland and the docks at Boulogne.

IV. Middle Eastern Theater.

Ground: That the British thought to be an Axis reconnaissance in force has apparently turned into a strong Axis counterattack. Press reports state that ~~Aghella~~ is now in the hands of Axis forces. This would indicate a penetration of at least 50 miles.

Air: Axis and British air forces continue bombing and strafing of rear supply areas. Axis air forces continue the bombing of Malta.

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