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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, January 27, 1942.
1/26/42

Press Service
No. 29-97

The Secretary of the Treasury announced last evening that the tenders for \$150,000,000, or thereabouts, of 91-day Treasury bills, to be dated January 28 and to mature April 29, 1942, which were offered on January 23, were opened at the Federal Reserve Banks on January 26.

The details of this issue are as follows:

Total applied for - \$371,501,000
Total accepted - 150,074,000

Range of accepted bids: (Excepting two tenders totaling \$175,000)

High	- 99.975	Equivalent rate approximately	0.099	percent
Low	- 99.934	" " " "	0.261	"
Average Price	- 99.942	" " " "	0.231	"

(15 percent of the amount bid for at the low price was accepted)

January 27, 1942
9:23 a.m.

HMJr: I'm all right. Herbert.....

Governor
Lehman: Yes.

HMJr: I'm calling you up in the capacity of a friend
and not an official.

L: Yes.

HMJr: And I wanted to talk to you about this really
very nasty telegram that Henry Epstein sent
me publicly.

L: Uh huh.

HMJr: I don't know whether you've seen it or not.

L: No, I have not, Henry.

HMJr: Well, it starts off, "On behalf of the State,
and acting to the conference on State defense.....

L: Uh huh.

HMJr: And then he goes on to say that he condemns my
proposal as a "flagrant breach of confidence
and good faith".

L: Uh huh.

HMJr: And a lot of other stuff.

L: Uh huh.

HMJr: Now, the point that I'm raising is - he says
he's doing it on behalf of the State and through
the conference on State defense, and he is an
official appointed by you.....

L: No, he's not.

HMJr: No.

L: No, no.

HMJr: (Laughs) All right.

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L: He certainly is not.

HMJr: (Laughs) All right.

L: Not at all.

HMJr: Well, anyway, he's up there as part of your administration; and what I'm asking you - purely between the two of us - I wondered, does he speak for you?

L: He certainly does not, Henry.

HMJr: And - well, if he doesn't, after you've seen the telegram - which is about as filthy a one as I've ever gotten - would you care to consider saying that he does not speak for you. Now, whatever you decide, it will be okay, Herbert.

L: He does not speak for me; and, Henry, I have not taken any position on this matter. I don't want to give him a perfect repudiation, but I certainly will send for him, because he has no right to speak for the State. He is, as a matter of fact, not my appointee - he's the appointee of the Attorney General - who is an independently elected officer, you know.

HMJr: Yes.

L: So I have no control over him, except what moral control I may have.

HMJr: Yeah.

L: But he has been doing that on a number of occasions; he's gone off half-cocked, speaking authoritatively without authority.

HMJr: Yeah.

L: I don't - the point is this, Henry, I - when - I think it was Gaston or somebody came up to see me.....

HMJr: Yes.

L:on this thing a long time ago. I said I

would not take any position in opposition to you.

HMJr: Sullivan.

L: Sullivan.

HMJr: Yes.

L: But that I did want to take a position in support of you, because I thought it was a very close question.

HMJr: Well.....

L: The thing is going to be very harmful to the municipalities.

HMJr: I understand.

L: But I don't want to be put on the spot on the thing.

HMJr: Well, that's - I said I'm calling you up as a friend and not as an official.

L: Yes.

HMJr: And whatever you decide will be all right with me, do you understand?

L: Yes.

HMJr: And so.....

L: I want to tell you he has not - he does not talk for the State, and at some point I probably will say so.

HMJr: Well, I just - this is pretty dirty stuff - Jack Bennett might be willing to say something.

L: Well, I don't know - I'll talk to Jack Bennett and I'll talk to Epstein about it.

HMJr: And, as I say, all I was suggesting was that if you thought well of it after thinking it

over, was to say that this man was not talking for you as Governor.

L: Yes. Well, if I get an opportunity, I may do that, Henry. Now, you see here on this thing, there's been two - he's not the only one. Tremaine, who's dead now, of course, also took a very definite position in opposition to your plan.

HMJr: Well, I'm not worried about Tremaine now.
(Laughs)

L: (Laughs) No, you don't need to worry about him. But I mean, that.....

HMJr: What is the.....

L: It's not only - well, it's not only Epstein. And, of course, every municipality in the State is going to oppose it.

HMJr: Well, not all of them, Herbert.

L: They're not?

HMJr: No.

L: The municipalities?

HMJr: No, they're not all going to do it. No, now that we're at war, they're not going to do it.

L: I see.

HMJr: No, they're not.

L: Uh huh.

HMJr: And - but anyway, if you would do that. And would you mind - after you've talked to him - to call me back?

L: I will. Now, I want to say this to you. The chances are I will not be able to control him on this thing, because he's gone pretty far out on a limb.

HMJr: I see.

L: And he considers himself an entirely independent officer. Not that I think he'll want to do anything that's going to offend me, but I mean, he does feel that he is quite within his rights; and I believe this is the result of a meeting of officials in other states, isn't it?

HMJr: Well, he signs himself "Chairman of Conference on State Defense".

L: Uh huh. Well, that's an inter-state, not - he has nothing at all to do with our State Defense Council.

HMJr: Oh. Well, Jack Bennett might be willing to say something.

L: All right, Henry; I certainly will be as helpful as I can.

HMJr: And whatever happens, Herbert, it's between the two of us on a friendship basis; and I'm not calling you officially.

L: All right. I understand that.

HMJr: And give my love to Edith.

L: How are you?

HMJr: I'm fair. It's a.....

L: Tired?

HMJr: Well, sort of chronic.

L: Yes, I'm sure of that.

HMJr: I'm sure you are, too. It's.....

L: A little bit.

HMJr: I read your message with great interest this morning, and I thought it was a splendid message and I congratulate you.

L: Thank you very much, Henry. I hope you'll feel all right.

HMJr: Oh, I'm all right. In fact, I'm better today than I was two years ago; but it's.....

L: You looked tired when I saw you at the concert about a month ago.

HMJr: There's nothing the matter. It's just that.....

L: Overwork.

HMJr:a victory would cure.

L: Yes. How do things look?

HMJr: I think they look pretty good. I mean that I don't have any information but what's in the papers, but we're just getting away to a slow start. It's a long relay race and we got a bad start.

L: Yeah. I thought Churchill's speech this morning was pretty discouraging.

HMJr: Well, you've got more than I have. I didn't know he spoke.

L: Yeah. He spoke from the House of Commons.

HMJr: Well, I didn't know that.

L: I thought it was a pretty - the least encouraging speech I've heard him make for a long time.

HMJr: Well.....

L: Of course, he may have had a purpose for that.

HMJr: Well, he may have had a reason.

L: Yes.

HMJr: But our stuff is beginning to get over there, and they are having as an effect what you see in the papers.

L: Uh huh.
HMJr: All right, Herbert.
L: All right, Henry.
HMJr: Thank you.
L: Good-bye.

January 27, 1942
9:30 a.m.

GROUP MEETING

Present: Mr. Morris
Mr. Foley
Mr. Viner
Mr. Buffington
Mr. Southard
Mr. Blough
Mr. Graves
Mr. Gaston
Mr. Thompson
Mr. Sullivan
Mr. Swope
Mr. Paul
Mr. Kuhn
Mr. Schwarz
Mr. Klotz
Mr. Haas

H.M.JR: Norman, I am trying to get hold of McReynolds, but they tell me he doesn't come to work until ten o'clock. That is the life.

Listen, you two guys (Graves and Kuhn), come up forward. Are you sitting on one chair or something.
(Laughter)

And you (Thompson) might be working. I am going to try to get a meeting Wednesday or Thursday to prepare our case, you see, on the question of deferments.

MR. THOMPSON: I have discussed it with Mr. McReynolds. He said that at a Cabinet meeting when you were in Florida, the President appointed the Secretaries

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of War and Navy and Mr. McNutt to set up a manpower allocation board.

H.M.JR: That has got nothing to do with it.

MR. THOMPSON: He thought maybe it had. But at any rate, he is studying the thing.

H.M.JR: Anything else?

MR. THOMPSON: The Postmaster General has asked for somebody to come down to a meeting as soon as possible on reducing the volume of mail.

H.M.JR: He took that up at Cabinet.

MR. THOMPSON: I am sending Charlie Schoeneman and a representative from Harold Graves' staff.

H.M.JR: Well, the main thing is Harold Graves' mail.

MR. THOMPSON: Yes, that is what I thought.

H.M.JR: He said Agriculture said they were going to send out three hundred million pieces and we were sending out twenty million pieces. It seems that the normal mail has gone up twenty or thirty percent, and the Government mail eighty-seven percent or something like that. It is too high.

What else?

MR. THOMPSON: That is all.

H.M.JR: Ferdie, this Epstein cable, I don't think it is worthy of an answer unless it be a dirty one.

MR. KUHN: I think it is something for the tax boys.

H.M.JR: Well, certainly I am not going to get into a debate with him.

MR. KUHN: Epstein wants the Secretary to debate with him on the radio. He invites him to debate with him.

MR. FOLEY: I have done it and Kades has done it. We have all debated with him.

H.M.JR: Where is Sullivan.

MR. SULLIVAN: Right here, sir.

H.M.JR: John, supposing you try your hand at writing a dirty telegram. I know it is difficult for you to do, but see what you can do, will you? A fighting one, an Irish one, with a little New Hampshire touch. Now, I don't know whether I will send it. The kind that you put in the drawer and look it over. (Laughter) I spoke to Governor Lehman this morning on the - just on personal basis, but he is sending for Bennett this morning, and he says if he gets the occasion he thinks he will say that Epstein does not talk for the State of New York. He wouldn't make any promises. But he thought it would be better, because he has no control of Epstein. He would try to get Bennett to say something. I said that was all I wanted, just to have one of them say up there that Epstein is not talking for the State of New York. He said that Governor Lehman had not taken any position, and he didn't know that he would take any position either way. He said, he said that to you.

MR. SULLIVAN: That is correct.

MR. FOLEY: It seems perfectly legitimate to me, Mr. Secretary, for some of the state officers, if they want to do it, to voice some apprehension about what would happen to future borrowings if they were subject to taxation, but why they are concerned about taxing outstanding issues is more than I can see, because that has nothing to do with credit.

H.M.JR: Well, you are just a young fellow, and you may never have heard of the word "politics."

MR. FOLEY: He is the mouthpiece for the Port of New York Authority crowd, Cullen.

H.M.JR: Herbert Lehman said, "You know, Tremaine took the same position," and I said, "Yes, Herbert, and Morris isn't going to hurt me any more."

We have located Mr. White last night.

MR. SOUTHARD: He is in this country now, is he?

H.M.JR: Yes, through Mrs. White.

Do you want to take this? (Letter from Welles to Hull dated January 26.) And show it to Harry and tell Harry that when he comes back we want him to explain the mystery.

How pressing is that Chinese matter?

MR. SOUTHARD: I have a memorandum here for you, the result of our discussions with the State Department yesterday. I think it can certainly wait until tomorrow.

H.M.JR: Harry gets in tonight?

MR. SOUTHARD: Yes.

We were going to prepare this memorandum in a meeting tomorrow.

H.M.JR: Well, I wish you would consult with Dr. Viner. I want his advice on it. Can it wait until tomorrow, and will you consult with Dr. Viner?

MR. SOUTHARD: Yes, sir.

H.M.JR: Is there anything else pressing, Southard?

MR. SOUTHARD: There is a need, I think, of stalling off Representative Somers who wants to investigate the Chinese Stabilization loan.

H.M.JR: Do what?

MR. SOUTHARD: Who wants to have a committee set up by a resolution of the House to investigate aid to China.

H.M.JR: What shall we do with that?

MR. SOUTHARD: Undersecretary Bell proposes that you might call him personally and ask him not to push the resolution just now.

H.M.JR: Well, let somebody out of Foley's shop call on Somers, will you? Turn it over to Foley.

MR. FOLEY: And you prefer that he not do anything about it?

H.M.JR: Yes.

And, Southard, come here please. This letter (from T. V. Soong, dated January 21) must be acknowledged today and write it very carefully. Simply say, "I am glad to follow your suggestion and wait until the return of Mr. Fox," you see. That carries out what the President - see?

MR. SOUTHARD: All right, sir. For your signature?

H.M.JR: Yes, today.

What else?

Now, where is the silver legislation?

MR. FOLEY: I have it, Mr. Secretary, and I will bring it in this morning.

H.M.JR: Has Viner seen it?

MR. FOLEY: No.

H.M.JR: Well, has White's shop seen it?

MR. SOUTHARD: Yes.

MR. FOLEY: Yes, they worked with us on it.

H.M.JR: Did they clear it?

MR. FOLEY: Yes. The question is whether or not you just wanted to wipe out power in the Silver Purchase Act or whether--

H.M.JR: Well, let Viner see it, and then when White comes back, we will hit it.

MR. FOLEY: You just want to get the power to sell it?

H.M.JR: I don't know what I want.

MR. FOLEY: Well, we can get the power to sell it easily. If we try to wipe it out under the Silver Purchase Act, I think we will have a real fight.

H.M.JR: Well, I would like Viner to have a shot at it just to keep him from getting rusty.

MR. PAUL: I will promise to keep him from getting rusty.

H.M.JR: Every time I say something, Paul says to me, "Don't give Viner anything more."

MR. VINER: Don't let him fool you.

H.M.JR: I am not.

MR. VINER: He is not pressing me.

H.M.JR: All right. But it will be both this Chinese thing - it is very difficult. That Chinese thing is very difficult.

Anything else?

MR. SOUTHARD: Nothing else.

H.M.JR: Chick?

MR. SCHWARZ: I just had a call from the Reuters bureau here. They say they had a cable from London this morning telling them to watch for an important international financial statement.

H.M.JR: From whom?

MR. SCHWARZ: From the United States Government.

MR. VINER: That was probably from the Canadian Government.

H.M.JR: I didn't hear it, but when I talked to Governor Lehman he said that Churchill had made a speech this morning on the air, and it was very discouraging.

MR. KUHN: Not so bad as all that.

H.M.JR: No?

MR. KUHN: No.

MR. SCHWARZ: The Lieutenant Governor of the Dutch Indies made a talk yesterday before the Overseas Writers Club, and it was very pessimistic.

H.M.JR: Well, you never know whether they really mean it or whether they are doing it for political reasons or strategy.

Anything else?

MR. SCHWARZ: That is all.

H.M.JR: George, I was particularly interested in your weekly statement which I did read showing that business loans are falling off. Now, how near are you--

MR. HAAS: They are just slightly off.

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H.M.JR: How near are you ready as to sources of funds that I can tap? Where is this?

MR. HAAS: I think we are - we are working with nine different Government agencies. The staffs are all working on it. I think we will be through the end of this week.

H.M.JR: Is SEC in on that?

MR. HAAS: Yes, sir.

H.M.JR: Is that all that is interested?

MR. HAAS: Just nine. (Laughter)

H.M.JR: Are you getting somewhere on it?

MR. HAAS: Yes, sir.

H.M.JR: Are you bringing any people in from private sources?

MR. HAAS: We haven't yet.

H.M.JR: You might think about it.

MR. HAAS: There are some, I think, that it would be well worth while bringing in.

H.M.JR: I wish you would give me a list of some. I am sure that there are some. You take a lot of these big investment trusts who have these big staffs. They must have some very good people.

MR. HAAS: I will give you some suggestions.

H.M.JR: There must be some very good people there. Some of the banks have some very good people. The National City Bank letter is a very good economic letter. They got out a very good letter.

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MR. HAAS: They have that man Roberts in charge of that.

H.M.JR: They got out a very good letter.

MR. HAAS: I thought it might be well if we get the Government groups together like we do on the Revenue estimates, and then bring in the outside people.

H.M.JR: But there are some people - how good is that man at the First National Bank in Chicago?

MR. HAAS: Lichtenstein?

H.M.JR: Yes.

MR. HAAS: He is all right.

MR. VINER: Not on this.

MR. HAAS: He is not the type for this thing.

H.M.JR: How about Haig of Columbia, Jake?

MR. VINER: Not on this.

H.M.JR: Are there any other university people?

MR. HAAS: Do you know Rowe at OPM?

H.M.JR: Yes.

MR. VINER: He is a bright lad, isn't he?

MR. HAAS: Yes, he is.

H.M.JR: But I said university people.

MR. VINER: No, they wouldn't know about - on that stage, I don't think they would know the market well enough to know the--

H.M.JR: Well, some of the people in private business would.

MR. VINER: Yes.

H.M.JR: Wouldn't they?

MR. VINER: This Rowe is that type.

MR. HAAS: Yes, he worked on that kind of thing.

H.M.JR: With OPM?

MR. VINER: He is a Chicago investment counselor, but I know he has got some connection with OPM.

H.M.JR: What is he doing over there?

MR. VINER: I suppose adviser. He is a youngster.

H.M.JR: That is all right. Aren't we all?

MR. VINER: Yes, all except - well, one or two.

H.M.JR: When Nelson was over here, George, he said, "Stacy May is going to be my George Haas." I thought you would like to know that. But keep pushing, George.

MR. HAAS: Yes, I hope the end of this week to have it.

H.M.JR: And incidentally, I am patting myself on the back about getting out a bond instead of a note - the short term money --

MR. HAAS: It is beautiful. It set in and all the apprehensions didn't work out at all.

H.M.JR: The whole Federal Reserve system was against me.

MR. HAAS: All the other outstanding ones lined up beautifully.

H.M.JR: All the bond houses were against me. It worked out nicely. For once I was.... Am I overstating it, Dave?

MR. MORRIS: No, it is a very fair statement except the "for once."

H.M.JR: Jake?

MR. VINER: Nothing.

H.M.JR: Roy? Dave? I got your letter yesterday. I congratulate you.

MR. MORRIS: There is a report on --

H.M.JR: You know what I am talking about?

MR. MORRIS: Yes.

H.M.JR: I mean, it is pleasing for me that you got it without bringing me in it. I am glad that you were able

to do it with no bad feelings.

MR. MORRIS: Very smooth. There isn't very much there, but you, I think, have been very interested in those replies. A couple of them I am following up on.

H.M.JR: I will look at it. How about the New York Stock Exchange investment bankers?

MR. MORRIS: Well, they are going along, and they are beginning to qualify. The Stock Clearing Corporation has qualified and I think by the end of this week there will be quite a few houses. I don't think there will be as many as last Saturday, but this coming Saturday they will begin to show up.

H.M.JR: I have got a suggestion which is practical. I think it would be smart for you and Harold Graves if you would - what do you call it, authorize them?

MR. MORRIS: Authorized issuing agents.

H.M.JR: How about authorizing some of the labor unions that have been so good to us?

MR. MORRIS: I have about fifteen categories that have asked to be authorized, that I hope to study over this week, and get straightened out by the end of the week.

H.M.JR: Then bring them to Papa?

MR. MORRIS: Yes.

I have got a great big group that I will try to digest and work out this week.

H.M.JR: Anything else?

MR. MORRIS: No.

MR. FOLEY: Bill Campbell is sitting here in the District Court this week, and would like to come in and pay his respects.

H.M.JR: I would like to see him.

MR. FOLEY: Shall I tell Fitz?

H.M.JR: Yes, I would like to see him. How does he sit here?

MR. FOLEY: They brought him down on some of these alien cases. He has got a good record. He has been sitting on a lot of those cases out in Chicago, and the Justice asked the Supreme Court to assign him here. The Moderator of the Court --

H.M.JR: He is a nice man. I would like to see him. What else? Tell Steve that you are the first appointment after Stettinius leaves.

MR. FOLEY: All right.

H.M.JR: Mr. Paul will be the second one.

MR. PAUL: One of the things that I had in mind is covered. I can leave it until tomorrow.

H.M.JR: Wonderful. I like your Spanish blood.

MRS. KLOTZ: Manana.

H.M.JR: Yes, suits me. We will see. Ed has got some stuff. And Ed, when you bring in that stuff we are going to move in on, I would like Mr. Swope to be in on it, and you might explain it to him the way you did to me this morning.

MR. FOLEY: All right.

H.M.JR: Because we are going to need some suggestions on management for Aniline and Dye. What is the name of the man - he is the head of this big rayon concern down in Tennessee. It is German concern and he is a friend of the President's. He sent him up to Matanuska when that thing failed. Do you remember?

MR. SWOPE: Mr. Foley knows that I spoke to Mr. Carpenter, president of the Dupont Company, and they stand ready to help us, and also Mr. Lovejoy, who is chairman of the Eastman Kodak.

H.M.JR: Yes.

MR. SWOPE: But I haven't heard anything further on it.

H.M.JR: Well, we are thinking of going in and putting the present management out and voting the stock. Here is something more on Epstein. You (Sullivan) are handling this for me, aren't you?

MR. SULLIVAN: Yes, sir.

H.M.JR: Ferguson, Port Authority. Secretary of the --

MR. SULLIVAN: I think I had better get on the phone and have some of these governors wire in support of your proposal.

H.M.JR: This has gone to every Senator. Isn't that nice? Yes, I think you had better get busy. And if they are going to wire, they had better wire their Senators and Congressmen, rather than me.

MR. SULLIVAN: You mean, "and you".

H.M.JR: Yes. And I think that we might find out - I think this Mayor Lausche of Cleveland, I think he might be willing to form a group within the mayors who will support me. Mayor Lausche of Cleveland. He is a Democrat. He ran on the Reform ticket. He was a police court judge, and cleaned up the gambling in Cleveland, and ran on that basis, and was just elected. Police court judge. L-o-e --

MR. KUHN: L-a-u-s-c-h-e. Frank J. Lausche.

H.M.JR: Well, he is a Czech.

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MR. FOLEY: Sounds bad (laughter). You would get a bad connotation.

H.M.JR: The man who got him to run was Adamic, the man who wrote "Two Way Passage." It was he who got him to run for mayor on the Reform ticket. He is quite a fellow, John, this Lausche. He is definitely the best type of American with foreign-born parents. How far did I get? He might very well take the leadership on this thing.

MR. FOLEY: Well, LaGuardia might have changed now, because of the war.

MR. SULLIVAN: No, he made a speech down here and he hasn't changed.

MR. FOLEY: Since the war?

MR. SULLIVAN: Within the week.

H.M.JR: Anything else?

MR. FOLEY: No.

H.M.JR: I am calling up your friend Disney, George, to tell him I saw the picture for the second time and liked it even better than the first time, which I did. We saw it last night.

MR. BUFFINGTON: I think he would like very much to know that.

H.M.JR: I am going to call him up.

MR. BUFFINGTON: The Stock Exchange and the Investment Bankers' Association and National Association of Security Dealers are starting today to sell tax savings notes.

H.M.JR: Wonderful. How did you make out on the battle of billboards?

MR. BUFFINGTON: We have decided to do it, and we are just now deciding on the final wording for the poster.

H.M.JR: In other words, you won?

MR. BUFFINGTON: No, I don't think so. We are going to put them up (laughter).

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

MR. BUFFINGTON: No, sir.

MR. PAUL: Nothing.

H.M.JR: Harold?

MR. GRAV'S: Nothing.

H.M.JR: John?

MR. SULLIVAN: Mr. Vinson, Congressman Vinson, called again yesterday about that - our helping them prepare that bill, and I told him it would take at least a week for us to analyze that report. We didn't want to be rushed and he said he would rather we would have time to do it right.

H.M.JR: Anything else?

MR. SULLIVAN: Yes. The British have been in and they want us to renew efforts to have that treaty, and it is pretty aggravating.

H.M.JR: No. Now, I had another call yesterday from Halifax and Phillips.

MR. SULLIVAN: They wanted me to check and see if the attitude of the committee had changed, and I checked and reported to them that it had changed, it had grown worse (laughter).

H.M.JR: Well, I am not - I am for helping the British to the last, but also there is a limit.

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MR. SULLIVAN: Well, this is beyond it now.

H.M.JR: The last thing they dumped in my lap yesterday is plenty. It is plenty.

MR. SULLIVAN: That is all I have.

MR. SWOPE: I have a note from Mr. Hall, this morning, Mr. Secretary, and he says, "I am pleased to report that this bureau is now organized and equipped to sustain a delivery schedule of one million Defense Bonds a day. Deliveries under this schedule could be made effective five days after the order is received."

H.M.JR: That is fine.

MR. SWOPE: And within four to six weeks they could get up to one million three hundred thousand Bonds a day.

H.M.JR: Wonderful.

MR. SWOPE: And we now have a stock altogether of ten million five hundred twenty-five thousand bonds.

H.M.JR: In the field?

MR. SWOPE: Two million here and eight million in the field.

H.M.JR: Well, that is grand. Will you tell Hall I am very much pleased? But he has got the equipment to do a million a day?

MR. SWOPE: Got the equipment. All we need would be, as I told you last week, additional personnel.

H.M.JR: That is swell. What else?

MR. SWOPE: That is all I have this morning.

H.M.JR: Oh, I know, for the tax people, when I saw Mr. Keller of Chrysler, he said, "There is one of three things I want to ask you. We are going to great expense

to store our machinery which makes automobiles," and I forget, I think it takes two and a half million square feet. I may be wrong, but whatever it is. He said, "Now, is there something that you are doing that when this is over, which will assist us to put this machinery back in its proper place so that we can go to work on a peace-time basis?" So I said, Yes, we were working on it, and I said that we were very much -- had it very much in mind, and he said - I think the man's name is Hutchinson.

MR. SWOPE: Yes, he is vice-president.

H.M.JR: In charge of finance. And I told him if he came down to call on you tax gentlemen and on Mr. Swope. The idea, you know --

MR. PAUL: I know what you mean.

MR. SWOPE: Those assembly lines.

H.M.JR: Well, here he is going to store the machinery. Now, how is he going to get the machinery back into place, and if something - we were talking about over the seventy-five per cent or something. Mr. Swope doesn't think that is high enough. He thinks they can go - how high did you think they could go?

MR. SWOPE: How high, Mr. Paul? Wasn't it eighty-five? You mean on the excess profits?

H.M.JR: Yes.

MR. SWOPE: Eighty-five. We talked about it last week.

H.M.JR: I think something along those lines would be reassuring, and I think they are entitled to it.

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

H.M.JR: Herbert?

MR. GASTON: We got a very satisfactory letter from the Navy on that subject of examining passengers that come in on Navy planes, and I understand the Army is going to fall in line all right. I called Patterson personally, and he took an interest in the thing. I notice where - Harold Graves may have noticed the same thing. There was a little propaganda both in the radio field and the newspaper field for paid advertising on the Government work. I noticed in a broadcasting magazine. They are starting a little campaign on the subject.

MR. KUHN: They are getting up quite a case, and Lowell Mellett wants the Government to work on getting up a case showing the Government's side of the thing. That is, the papers are getting probably more in sponsored advertising than they would get if the sponsored advertising dried up.

MR. GASTON: I had two personal inquiries. One was from Time, Mary Johnson, and the other was from Look, and those papers.

H.M.JR: Well, the Editor and Publisher is the only trade journal in the United States who refused to run a free page for us on the payroll deduction plan. It was the only paper in the whole country.

MR. SCHWARZ: They have been reactionary right through.

H.M.JR: Yes, they have.

MR. GASTON: Their interest is an advertising interest. All the way through they are champions of advertising.

MR. KUHN: But the newspapers get more out of the Government now, than they would get.

H.M.JR: Pages and pages.

MR. KUHN: Sponsored stuff.

MR. GASTON: What I mean is, Editor and Publisher is

a good deal more an advertising paper than it is an editor's paper.

H.M.JR: Anything else, Herbert?

MR. GASTON: That is all.

H.M.JR: Harold, one thing, just as a matter of interest, as a cross-check, get a list of the plants that the Navy awarded the "E" flag to, and how many that they have awarded the "E" flag to have got ninety per cent payroll allotment, just as a matter of curiosity.

Thank you all.

January 27, 1942
9:58 a.m.

HMJr: Hello.

William H.
McReynolds: Good morning, sir.

HMJr: Mac, can't I get a job over there in the
White house? So I could come to work at
ten also?

Mc: (Laughs) It might be arranged, Mr. Secretary.

HMJr: What?

Mc: It might be arranged, sir.

HMJr: Gee, I'd love to go to work. Norman said
he'll inch me out, but I'd like to get over
there first.

Mc: (Laughs)

HMJr: Mac, on this thing, the committee that the
President appointed - this has nothing to do
with manpower - was Stimson, Knox, and me.

Mc: Yeah.

HMJr: Hello.

Mc: Yes.

HMJr: Now, I'd like to get together with those
gentlemen and with you and also with the
head of the draft board, what's his name?

Mc: Ah.....

HMJr: Hershey.

Mc: Hershey.

HMJr: Now, have you talked with Stimson or Knox?

Mc: I have not talked to them, no. I wanted to
talk to you first.

HMJr: Well, would you do this for me? I'm available either at nine o'clock Thursday morning or eleven o'clock Thursday morning. Hello.

Mc: Yes, sir.

HMJr: And I wondered if you couldn't call up those people and have them meet me here, you see?

Mc: At your office, at either nine or eleven. Whichever I can get them, I'll let you know.

HMJr: And that's Stimson, and Knox, and Hershey, and you.

Mc: Yes.

HMJr: To talk about the question of who gets deferment and who doesn't.

Mc: Yeah. They'll be over there. I'll get in touch with them just as quick as I can this morning, and I'll let your office know which it will be - nine or eleven.

HMJr: Yeah, that ought to give them.....

Mc: On Thursday.

HMJr: And I'll give them-so that they can have it, I'll give them nine, eleven, or three.

Mc: Nine, eleven, or three.

HMJr: Yes.

Mc: On Thursday of this week.

HMJr: And you let me know.

Mc: Yes, sir.

HMJr: And you want to see me before?

Mc: Yeah, I'd like to.

HMJr: Well, give me a ring when you're ready.

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Mc: Okay.

HMJr: Thanks.

January 27, 1942
11:05 a.m.

LEND-LEASE BUDGET - *Cash Contracts*

Present: Mr. Swope
Mr. Young
Mr. Cox
Mr. Stettinius
Mr. McCabe
Mr. Stoddard
Mr. Kades
Mr. Heffelfinger
Mr. Bell

MR. STETTINIUS: We want to briefly discuss, Mr. Secretary, the forthcoming Lend-Lease budget and its effect upon the Treasury Procurement. Now, we might briefly say this --

H.M.JR: Do you mind if I let Mr. Swope sit in with us?

MR. STETTINIUS: Sure.

H.M.JR: Do you mind waiting one minute? While you are waiting, would this be the proper time or not to tell you of the visit from Lord Halifax and Sir Frederick Phillips, who want us to buy for cash everything going back prior to the fifteenth of March?

MR. COX: The eleventh of March, isn't it?

MR. STETTINIUS: We know something about that.

H.M.JR: This was just given to me yesterday.

MR. YOUNG: Isn't that the seven hundred million figure?

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H.M.JR: Yes. Would that come under --

MR. STETTINIUS: Yes, it would either come under us or the War Department if the appropriation should be asked.

H.M.JR: This was only given to me yesterday. Supposing I have it photostated, and I will give a copy of it to you?

MR. STETTINIUS: All right, fine.

MR. YOUNG: The War Department, I gather, is quite willing to go ahead and do it.

H.M.JR: McCloy has said that before.

(Mr. Swope entered the conference).

MR. STETTINIUS: Well, as an introduction, of course you are all familiar with the first seven billion and the second six billion being appropriated to Lend-Lease for all items Lend-Leased, and then determining what agency of the five procurement agencies would purchase. The policy has been determined now in view of the fact that it is a common pool that becomes necessary for us and our allies, of the total output of the industrial machine of America and England. The output to be - the allocation of those materials to be determined by a top allocation board, with which I am sure you are familiar, that there is no sense in appropriating funds to the Lend-Lease for military and Naval items. Now, that is debatable, as to whether or not from the standpoint of international relationships, and the State Department agreements and other things, whether or not that is the way to do it.

However, the decision has been reached and that is the way that the budgets are now being prepared, that the military and - strictly military and Naval items be appropriated to the Navy and War Departments, with all other items being appropriated to Lend-Lease in the new budget. That would mean all industrial commodities,

- 2a -

all food items, commercial items of various characters, and you might say generally as an over-all, everything that isn't a strictly military or Naval specification comes to us in the new appropriation.

Now, we have had, Mr. Secretary, many meetings with the War Department. Philip has been over a list against their list. We have matched budgets, so to speak. We have this morning for the first time come about down to our breakdown, which I think we can come before you and say doesn't duplicate what either Army or Navy are putting in for.

Now, that will involve certain considerations on your part as to your willingness to procure for Lend-Lease certain of these items. Now, we have prepared on a page and a quarter nine short items, and if you would like to glance at those, I think that raises the various points that we would like to consider with you and Mr. Swope for a moment.

H.M.JR: You mean this is the thing which you would like Treasury Procurement to buy for you?

MR. YOUNG: Items on which questions have been raised in the past. You take commercial trucks, which is a perfectly good example. Treasury has bought a few commercial type trucks and a few passenger cars and station wagons, and the War Department has also bought a very large number of commercial type trucks, and the proposal is now that Treasury pick up all the commercial type vehicles, rather than the Army.

MR. SWOPE: These matters have been under consideration by Mr. Mack, and as far as he is concerned, he is prepared to do it, Mr. Secretary.

H.M.JR: Is he?

MR. SWOPE: Yes.

H.M.JR: On all of these items?

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MR. SWOPE: Yes.

MR. McCABE: The machine tools, the War Department are purchasing those now.

H.M.JR: But this would be new to us?

MR. McCABE: No, we are just raising the point here.

MR. COX: That hasn't been resolved yet.

H.M.JR: Well, let me make it clear. I don't want to get into any fight between you and the War Department.

MR. STETTINIUS: We have no fight with the War Department on this at all.

H.M.JR: Would you (Swope) be prepared to say that if once it is decided what they want to buy, we will go ahead and do it for them?

MR. SWOPE: Yes, sir.

MR. BELL: We have bought some of them.

MR. SWOPE: Yes, sir.

MR. STETTINIUS: That is exactly what we want.

H.M.JR: As long as we don't have to fight about it.

MR. COX: That is right.

MR. STETTINIUS: You won't be drawn into any controversy. We just want your agreement that if we ask you to buy commercial trucks or machine tools or chemicals or metals or railroad equipment, whatever it is, that we want to be assured of your willingness to procure against any requisition that we might wish to send over in the future, even though it is an expansion of the past.

H.M.JR: Well --

MR. SWOPE: We are willing. "Barkis is willin'."

MR. STETTINIUS: That does it, doesn't it, Philip?

MR. YOUNG: Yes. My feeling was, we just didn't want to go ahead and build up this budget --

MR. STETTINIUS: And let you hear about it afterward.

H.M.JR: I appreciate it, and if Mr. Swope says we are willing, I say O.K.

MR. STETTINIUS: Right.

H.M.JR: Is that all?

MR. STETTINIUS: That is all.

MR. COX: There is one other question on your financing.

MR. STETTINIUS: Yes, we want - go ahead.

H.M.JR: Go ahead.

MR. COX: There are two questions. On that Halifax note, the War Department is willing to take out with cash pre-existing British contracts made before March 11. That is, supply contracts. They have not included any money to take over plant and facilities. There is no logical consistency in what they are doing. Actually it would be easier to take out plants than it would supply contracts, because the plants remain in this country.

H.M.JR: But on this thing which evidently you people know about, is there anybody who could say, "Well, we will take this up with the War Department and between them we will take this on in consideration with the budget, as part of the budget," what the English want?

MR. STETTINIUS: Sure.

MR. COX: Well, except you are in this. You have got two major questions. One is the latest statement of what the British dollar position is, because you are

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going to get into great political controversy if you start paying them dollars for planes which they ordered and which we take over and then turn back to them.

Now, you will still get basically back to the question of what their dollar position is.

H.M.JR: Well, roughly, they give us a figure - I mean, I am going from memory now - somewhere between three and four hundred million dollars worse off, due to their losing the dollars from the Malay Peninsula.

MR. STETTINIUS: That is right, rubber and tin.

H.M.JR: And they can substantiate that.

MR. BELL: Over what period, Mr. Secretary?

H.M.JR: This year.

MR. BELL: This year?

H.M.JR: This year.

MR. BELL: I should think that we would make that up and maybe more, too, by putting dollars into the hands of the British banks. Through our military operations we gave them fifteen million dollars last week, didn't we, about that?

It is getting heavier and heavier all the time.

MR. COX: You can't just look at the Malayan thing and get the answer, because there have been a great many things bought under Lend-Lease that were previously contemplated for purchase with their own dollars.

There have been other take-outs in terms of both plants and --

H.M.JR: I think you (Bell) should take a look at it first.

MR. BELL: I do too.

H.M.JR: Well, supposing before we ask any help, we take a look at it ourselves.

MR. STETTINIUS: All right. Mr. Secretary, it would be tremendously helpful to us if we could have Danny give us periodically the over-all view of the British dollar position, because we are constantly faced with that question in our negotiations with them on tires for India or jeeps that were manufactured in Canada, that they are wishing to improve their dollar position as a result of the Lend-Lease transaction.

H.M.JR: Well, would it be all right monthly?

MR. STETTINIUS: I should think monthly would be very satisfactory.

H.M.JR: The over-all.

MR. STETTINIUS: The over-all Empire position.

H.M.JR: Without the breakdown. I mean, just the over-all.

MR. McCABE: I think we ought to have it for the dominions too.

MR. COX: Well, all the dominions are included.

MR. STETTINIUS: We get the Canadian figures direct.

MR. COX: We get them through the Treasury.

H.M.JR: What?

MR. COX: We get the Canadian figures separately through you.

H.M.JR: Well, you are entitled to them. We will give you a set of figures for the month of December if we have them.

MR. STETTINIUS: All right, fine.

H.M.JR: And if they are not what you want, let us know, but we don't - we have guarded those things fairly closely.

MR. STETTINIUS: Now one other item on the matter of their dollar position --

H.M.JR: But you should have that.

MR. STETTINIUS: They have talked to us a great deal about mining machinery for African gold.

H.M.JR: We have turned them down. We, the Treasury, have, twice.

MR. STETTINIUS: On giving them the priority for the machinery?

H.M.JR: The Minister of South Africa, we have turned

him down. If you want that correspondence, I will make it available.

MR. STETTINIUS: We don't want it. We just want to know--

H.M.JR: I have turned them down.

MR. BELL: Is that on an expansion, Mr. Secretary, or just replacement?

H.M.JR: Expansion, wasn't it?

MR. BELL: I think that is right.

MR. STETTINIUS: How about the repair parts for their existing equipment?

H.M.JR: I think they ought to have those.

MR. STETTINIUS: They are dependent on five hundred million dollars is it, Danny, from South African gold?

MR. BELL: Two hundred ninety-five or three hundred million, I think.

H.M.JR: Dan, send over the correspondence with the South African Minister.

MR. STETTINIUS: They would like some of these repair parts, some of the new equipment, in order to increase the output of gold to improve their dollar position.

H.M.JR: On a monetary position--

MR. STETTINIUS: You have to guide us on that.

H.M.JR: On a monetary basis, I hate to trust my memory, we turned down Canada and South Africa.

MR. STETTINIUS: On the matter of--

H.M.JR: Expansion of gold mining.

MR. STETTINIUS: I think that is right.

H.M.JR: On a monetary basis, but I will send you over the correspondence.

MR. BELL: Want Canada too, Mr. Secretary?

H.M.JR: Yes.

MR. STETTINIUS: Now, Henry, on the matter of repair parts--

H.M.JR: I think they ought to have them.

MR. STETTINIUS: Shouldn't we become their protagonists with priorities in order to get them the machinery?

H.M.JR: Yes. In the case of South Africa, they are good for three or four hundred million dollars cash, Dan.

MR. BELL: Yes. As I recall it, there is two hundred ninety-four million, but it is my memory again.

H.M.JR: I would say three or four hundred. They produce that, Dan, and hold back on us. They retain it, you see. But we will send you the correspondence.

What is this?

MR. BELL: That is the December 31 cash position.

H.M.JR: We believe in service. Here is their cash position.

MR. COX: What was the figure, Dan?

MR. BELL: Three hundred sixty million dollars in gold and eighty-eight million--

MR. STETTINIUS: Three hundred sixty-three official dollars, a total of four hundred fifty-one. Mr. Secretary, would you be willing to hand us back that twenty-seven million dollars we handed you about three weeks ago--

H.M.JR: Yes. Do you want it in a letter?

MR. COX: No.

H.M.JR: Want me to write a letter?

MR. STETTINIUS: Just ten words that your note to me is hereby--

MR. BELL: What is that?

H.M.JR: He wrote me a letter saying that twenty-seven million dollars was available to me for commercial trucks and not to bother you - you take that, Mr. Swope.

MR. BELL: Procurement matter?

H.M.JR: Procurement matter. There was a letter from Mr. Stettinius to me giving me the use of twenty-seven million dollars, and I should write him back a very warm letter thanking him and saying that it was very useful.

MR. STETTINIUS: Magnificent cooperation.

H.M.JR: I said so before mentioning your name. Did you see my speech? I mentioned you by name before the CIO Automobile Workers Sunday.

MR. STETTINIUS: Boy, oh boy!

H.M.JR: But that it was unnecessary, see, that the War Department found the money to buy the trucks.

MR. BELL: On that--

MR. YOUNG: May we keep this statement, Danny?

MR. BELL: Yes, you can have that.

H.M.JR: Mark across it in pencil, "confidential."

MR. BELL: Mr. Secretary, while we are on these dollar balances, I have been carrying on some correspondence with Sir Frederick Phillips regarding the next hearing. He wants to eliminate any statistics regarding their dollar position in the next hearings. He thinks it is getting to the point where it is embarrassing to tell their financial position. Of course, I think what he is really afraid of is that his dollar position is getting so much better that Congress is going to say, "Why don't they pay for some of this material?"

MR. STETTINIUS: Danny, there are two things going to come up on our next hearings, sure as the sun rises. How do we stand on our over-all master agreement with the British Empire, how they have agreed to deal with this post war adjustment. And number 2, what is their post war position. You are going to have Wigglesworth and Taber and Scrugham in the House, and you are going to get Nye and Brooks on the Senate side who sit at that table, and they are sure to ask those two questions.

H.M.JR: You will be prepared to answer them?

MR. STETTINIUS: I will refer to Mr. Danny Bell and Mr. Dean Acheson.

H.M.JR: No, no, Harold Smith, and get that right, too. (Laughter)

MR. BELL: But I think that some place along the line when we get this British liability - contract liability in this country down to a minimum, that we ought to begin to think about getting some sterling from the other side on the same basis as they get the dollars.

MR. COX: I think you are absolutely right.

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H.M.JR: You will be prepared to answer them?

MR. STETTINIUS: I will refer to Mr. Danny Bell and Mr. Dean Acheson.

H.M.JR: No, no, Harold Smith, and get that right, too. (Laughter)

MR. BELL: But I think that some place along the line when we get this British liability - contract liability in this country down to a minimum, that we ought to begin to think about getting some sterling from the other side on the same basis as they get the dollars.

MR. COX: I think you are absolutely right.

MR. BELL: We are going to be buying a lot of sterling before this year is over, I am sure.

MR. STETTINIUS. Are you working pretty closely with Dean Acheson on the agreement?

MR. BELL: I haven't heard of the agreement since last June. We haven't heard a thing.

MR. COX: We mentioned that idea to Dean, and he wasn't--

H.M.JR: Nobody tells us anything.

MR. COX: He wasn't very keen about it.

MR. BELL: Wasn't he?

MR. COX: But in terms of troops and other operations--

H.M.JR: All we get is, they call us up at nine o'clock in the morning from Rio and say, "By ten o'clock give us an answer on world currency," one hour. Isn't that right, Dan? They gave us one hour.

MR. COX: You probably had a half hour to spare on that one.

H.M.JR: Well, lucky I wasn't on the ocean somewhere. (Secretary gave Mr. Stettinius a copy of his CIO speech made in Detroit.)

MR. STETTINIUS: Very nice.

H.M.JR: Isn't that worth twenty-seven million dollars?

MR. STETTINIUS: It certainly is.

MR. BELL: When are you expecting the next bill? Soon? I see you had a billion dollars - less than a

billion dollars last I saw. You are getting close, aren't you?

MR. STETTINIUS: We expect to go - I would think that we will give Harold Smith our final figures tonight or tomorrow, and I had hoped that the bill would be introduced not later than next Tuesday, and that the hearings would be held, and they would get the thing out ten days thereafter. How does that check out, Oscar?

MR. COX: Pretty good, yes, sir.

H.M.JR: Phil?

MR. YOUNG: Yes.

H.M.JR: You know, you took my chairman from greater New York, and you are sending him to England, Lewis Douglas.

MR. COX: He may be able to sell some bonds over there for you.

MR. STETTINIUS: Was he your bond salesman for greater New York?

H.M.JR: Yes. I knew for a month they were thinking about him.

MR. YOUNG: Why didn't you tell me you were going to have an elephant over here yesterday? I would have been over.

H.M.JR: I will tell you, the elephants and all the pretty actresses, when these girls come down, Dan receives them all. What was her name, the girl? Dorothy Lamour?

MR. BELL: Yes.

MR. STETTINIUS: Has she been around?

H.M.JR: Yes, and the elephant. Dan kissed them both.

MR. BELL: My God! I don't remember the elephant.

MR. STETTINIUS: All right, sir.

H.M.JR: O.K. Always glad to see you.

AGENDA FOR MEETING ON BUDGET1. Machine Tools

The major part of Lend-Lease machine tools have, in the past, been procured by the War Department. Some have been bought by the Treasury. The question is presented as to whether or not Lend-Lease or the War Department should ask for the appropriation. If Lend-Lease asks for and obtains the appropriation, the procurement can be handled by any agency which Mr. Nelson suggests.

2. Trucks

Trucks built solely for military uses have been purchased by the War Department. They propose to request funds for this purpose. All commercial-type trucks, whether used for commercial or military purposes, are proposed to be handled by Lend-Lease, through Treasury Procurement.

3. Tires and Tubes

Tires and tubes are bought as such and not as a complement to a vehicle. They are to be handled by Lend-Lease, through Treasury Procurement.

4. Chemicals, Explosives, Etc.

It is intended that Lend-Lease, through Treasury, will handle industrial chemicals and chemicals purchased for industrial process, and that the War Department will buy all chemicals used as explosive components, or as a part of chemical warfare supplies.

5. Metals

Lend-Lease will request the funds to buy, through Treasury Procurement, all metals, including semi-fabricated metals, not purchased specifically as part of the equipment normally purchased by the War Department.

6. Railway Equipment

Lend-Lease will request funds for the purchase, through Treasury Procurement, of all railway equipment, supplies, or rolling stock, except railway equipment specially designed for military purposes.

7. Electrical and Communications Equipment

Lend-Lease will ask for funds for the purchase, through the Treasury Department, of all generating, transmission and other similar equipment, not specifically designed for military purposes.

8. Road-Building and Engineers' Equipment

Lend-Lease will request the funds to buy all commercial road-building and engineers' equipment.

9. Drugs

The War Department wishes to request the funds for the purchase of insulin serums and other drugs. We feel that these funds should go to Lend-Lease, and that Mr. Nelson should decide which agency or agencies should handle the procurement.

FOLLOWING FOR THE SECRETARY OF THE TREASURY FROM
THE CHANCELLOR OF THE EXCHEQUER

25th January, 1942.

"It seems to me likely that suggestions may presently be made that attention should be given to the question whether the partnership into which our two countries have entered calls for some comprehensive financial arrangement between the United States and the United Kingdom, parallel to the agreements on munitions, shipping and raw materials. It could well be argued that such an arrangement, if it could be devised, would form a natural sequel to these agreements and would mark a further important step in the process of putting our joint resources to their best possible use for the prosecution of the war. This is a matter which of course raises wide and difficult issues, on which we have not yet formed any final views.

In the meantime I would ask you to consider and, if you see fit, to submit to the President the following proposal which I put forward because I am anxious - as I feel sure you are - that nothing should prevent us both from concentrating our whole energies upon the immediate active prosecution of the war.

You already lend-lease to us munitions (as well as fuel and such else) contracted for since the Lend-Lease Act came into operation. We would ask you also to extend your financial responsibility as regards munitions to those delivered to us now and onward under contracts which we placed before the coming into force of the Lend-Lease Act, and thus relieve us to the extent of the full cost of these munitions as they are delivered. This would give us invaluable help and enable us to face our several difficulties arising from the prolonged strain on our resources, and accentuated as they now are by the large reduction in our prospective receipts from tin and rubber.

We on our side would ask for no payment for any munitions produced in the British Empire (excluding Canada) whether they are eventually employed by ourselves, United States, India, or China."

January 27, 1942
11:55 a.m.

HMJr: Hello.

Mr. Marvin
McIntyre: Hello. Henry.

HMJr: Yes.

Mc: There was a little chap in here this morning
named Gryzmish - G-r-y-z-m-i-s-h - from
Boston, and he's in charge of your defense
drive up in Boston.

HMJr: Yes.

Mc: He's a friend of Jimmie Roosevelt's is the
only reason I'm bothering you and bothering
myself about him. He's very anxious to meet
you, and I told him he ought to just call
your secretary and ask for an appointment.

HMJr: Why sure, that's easy enough.

Mc: All right.

HMJr: Sure.

Mc: And Jimmie tried once before when you were
out of town.

HMJr: Oh.

Mc: I think the little fellow is a pretty good
sort.

HMJr: Well, tell him to drop around about a quarter
of three. I'll be glad to see him.

Mc: Thank you, Henry. All he wants is a glad
hand.

HMJr: Well, that's cheap.

Mc: And he's a real driver, I think, in that
sort of work.

HMJr: Tell him a quarter of three.

Mc: Yes, sir.
HMJr: Thank you.
Mc: Thank you, Henry.

January 27, 1942
12:16 p.m.

HMJr: Hello.

Operator: Mr. McReynolds.

HMJr: Hello, Mac.

William H.
McReynolds: Three o'clock seems to be the date on Thursday.

HMJr: When?

Mc: Three.

HMJr: Three?

Mc: Yeah. Everybody's committed. Knox won't be back until Thursday morning.....

HMJr: Yeah.

Mc:so they said they were afraid they couldn't get him around before three. But I made a definite date for three.

HMJr: And.....

Mc: Patterson's coming for Stimson.

HMJr: Who?

Mc: Patterson.

HMJr: That's all right. Now, do you want to come over a little bit before?

Mc: I'll come over any time you have time to talk.

HMJr: Well, why not - is fifteen minutes before enough?

Mc: I should think so, maybe.

HMJr: Well, I could listen; I got nothing to say.

Mc: Well, I'll have some other stuff that I'd like to talk to you about that affects this; and - if I can get in there at a quarter of three.

HMJr: You can get in there as the clock strikes
a quarter of three.

Mc: I'll be there.

HMJr: What?

Mc: I'll be there.

HMJr: And the others will be here.

Mc: They'll be here at three.

HMJr: Thank you.

Mc: They've promised - all of them.

HMJr: Thank you.

Mc: Righto.

January 27, 1942
12:27 p.m.

Gerard
Swope:

Yes.

HMJr:

This is Morgenthau.

S:

Yes.

HMJr:

I think, just to lean over backwards, if you wouldn't mind calling up Donald Nelson and telling him of this new request we've had from purchasing, and we want to be sure it's all right with him.

S:

Certainly, I'll be glad to do it.

HMJr:

I think it's just an extra precaution. He may not know anything more about it than I did when I got up this morning.

S:

True. Well, it's been under discussion, Mr. Secretary; but I'll be glad to talk to him.

HMJr:

Well, I just think it's an extra precaution.

S:

Very good, I'll do it.

HMJr:

Thank you.

January 27, 1942
2:18 p.m.

HMJr: Hello.

John J.
McCloy: Mr. Secretary.

HMJr: In person.

Mc: How are you?

HMJr: Alive - just barely.

Mc: You couldn't see me if I came over there for a minute, could you?

HMJr: Always. When.

Mc: I'll - well, I'll come right over.

HMJr: Well.....

Mc: Or any time you say.

HMJr: Give me - what would you be doing at quarter of three?

Mc: Well, I can be in your office at quarter of three.

HMJr: I'll be there with roses.

Mc: All right. Thank you very much.

HMJr: Quarter of three.

Mc: Quarter of three in your office.

HMJr: Yes.

Mc: Much obliged.

January 27, 1942
2:33 p.m.

Mr. Walt
Disney: Hello, Mr. Morgenthau.

HMJr: Is this Walt Disney?

D: Yes.

HMJr: Fine. Well, all I can say is, I've seen in
the last twenty-four hours your Donald Duck
picture three times.....

D: Uh huh.

HMJr:and each time I like it better.

D: Is that so?

HMJr: I'm crazy about it.

D: Well, that makes us very happy.

HMJr: I'm crazy about it. And everybody that's seen
it thinks it's magnificent.

D: Well, gee, that's swell.

HMJr: It's even better than I could have hoped for.

D: Well, gee, we're glad to hear that.

HMJr: I haven't got anything - no criticism - and only
praise.

D: Well, thanks.

HMJr: And I think it's going to do us a lot of good.

D: Well, say, we're working on those ideas with
Wally Deuel.

HMJr: Are you?

D: And I'm coming back there - I'll get in Washington
the third.....

HMJr: Yes.

D:and I'm bringing Grant with me, and I thought if we could have another one of those moccasin sessions with you.....

HMJr: Right.

D:that - so that we could.....

HMJr: Oh, I'm looking forward to it, and I have all the time that you have.

D: Well, we'll be there the third and any time after that that you could get the time.

HMJr: How many days will you be here?

D: Well, I'll be there until Thursday night. Then I have to go to New York.

HMJr: Well, now just a minute. Just a minute, we'll fix it right now. The third, that's Tuesday, isn't it?

D: No, I'll get in on Monday.

HMJr: On Monday.

D: Monday, the second, then.

HMJr: Monday, the second. Let me just think a minute. Monday, the second. Well, do you mean you want to bring in the story thing, the way you did before?

D: Well, I haven't it that far. We just have - it's been such a big idea that we've been searching to get various slants on it.

HMJr: Yes.

D: And this Wally Deuel has really fit into that swell. He knows his Germany.

HMJr: He does.

D: And we've got several ways to present it, and it's just sketches and things like that. We more or less have to just - sort of a jam session is what

D:and I'm bringing Grant with me, and I thought if we could have another one of those moccasin sessions with you.....

HMJr: Right.

D:that - so that we could.....

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HMJr: On Monday.

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D: Well, I haven't it that far. We just have - it's been such a big idea that we've been searching to get various slants on it.

HMJr: Yes.

D: And this Wally Deuel has really fit into that swell. He knows his Germany.

HMJr: He does.

D: And we've got several ways to present it, and it's just sketches and things like that. We more or less have to just - sort of a jam session is what

we'd have to hold.

HMJr: Well, let's say ten o'clock on Tuesday, February 3.

D: Ten o'clock.

HMJr: Yes.

D: Uh huh. In your office.

HMJr: Yeah. Is that all right?

D: That's fine, uh huh. And it will be Mr. Grant and myself.

HMJr: Just Mr. Grant and yourself.

D: Uh huh.

HMJr: What are you doing with Wally Deuel?

D: Well, he was going to stay here and carry on with some other thoughts.

HMJr: Good. Well, we'll keep it down then to that, and I'll see more of you while you're here; but we'll have that session in the morning.

D: Well, that will be ten o'clock Tuesday.

HMJr: Right.

D: All right.

HMJr: And you think you're going to have something?

D: Well, yes, there's plenty of ideas to discuss.

HMJr: Good.

D: And from that, I mean, you might find the angle you'd want to take.

HMJr: Now, one thing while I've got you. Have my people talked to you about selecting out of the Donald Duck picture any posters for ourselves?

D: I think a poster has been made.....

HMJr: was it?

D:to run in the theatres.

HMJr: I see, but - well, I haven't seen it.

D: I tell you, time entered into this thing and dropped a lot of things that might have come out of it.

HMJr: I see.

D: The news breaks and things are about all we can get.

HMJr: I see.

D: Magazine breaks were hard to get, because so much time is necessary.

HMJr: Are you satisfied with the method of distribution?

D: From what I understand they're going to get very good distribution.

HMJr: Good.

D: I tell you, it was a wise idea having Buffington come out here.

HMJr: Was he helpful?

D: Oh, yes. He speeded it up there. I mean, it was just the prestige of the Treasury which helped to speed that up.

HMJr: Oh, good.

D: And I think he got it out about a week earlier.

HMJr: Oh, really?

D: And he really worked.

HMJr: So he told me.

D: Well, he stays on things.

HMJr: Yes, he does.

D: Uh huh.

HMJr: All right. Well, I'll look forward to seeing you then on the third.

D: On Tuesday, at ten o'clock.

HMJr: That's right.

D: All right. Thank you for calling.

HMJr: Thank you.

January 27, 1942
3:17 p.m.

HMJr: Hello.

Operator: Averell Harriman.

HMJr: Hello.

Averell
Harriman: Hello. Henry.

HMJr: How are you?

H: I'm fine. I'm off tomorrow morning.

HMJr: Oh, really?

H: I was laid up a little bit and so I didn't get down.

HMJr: Oh, well, I'm disappointed. Where are you? In New York now?

H: No, no, I'm here. I'm here in Washington. I'm just trying to close things up.

HMJr: I see.

H: If I may have a minute on the phone.....

HMJr: You can have as many minutes as you want.

H: All right. The subject of Lend-Lease in reverse has just come to a head.

HMJr: Yeah. McCloy just left this office on that.

H: Oh, you have. Good. Well, I talked to Jack this morning about it.....

HMJr: Yes.

H:and he said he'd take it up with you. I don't know how your mind functions on it, or whether there's anything you want me to do on it in London. There's some of the physical end I'll be involved in.

- 2 -

HMJr: Well, the point is this. It's really in an awful mess.

H: Yes.

HMJr: And what I've told him is is to write me a formal memorandum.

H: Yeah.

HMJr: Because the English Treasury just filed a memorandum with me last night about wanting to have us buy up the stuff - the orders they placed here prior to March 11. I think you ought to have that. I think you ought to have a copy of that.

H: Yeah, I'd like very much to have it.

HMJr: Where could I send it to?

H: I'm in Room 1260 in the Federal Reserve.

HMJr: Room 1260 at the Federal Reserve.

H: Yes.

HMJr: How long will you be there?

H: Oh, I'll be here for - I'm not leaving until about six.

HMJr: I'll get it over to you. I really think you ought to have that.

H: Yeah.

HMJr: And then I told McCloy to let me know what they want, and then, you see, we arrange for the money for the Army in all of these outposts.....

H: Yeah.

HMJr:and I told them that I'd be very glad to try to tie it up at this end; so if you get anything when you get over there.....

H: Well, there's the physical question of - there'll be an awful lot of stuff.

HMJr: Well, now.....

H: Somewhat between the services and there'll be somewhat between the Ministry of Supplies, so the physical end I'm probably going to get into.

HMJr: Well, I.....

H: How it's to be accounted for and who is to eventually pay the bill - I want to stay out of that, because I haven't been in on that, unless there's something you want me to do about it, but.....

HMJr: Well, there may be, because another thing that I only learned from Ed Stettinius this morning is that Dean Acheson is drawing up something with the English now. I never heard about it and McCloy never heard about it.

H: No. And then I understand the War Department really have made no physical arrangements yet in connection with some of these dominions and those colonies and so forth where there may be.....

HMJr: Well, I tell you what I.....

H:troops. I am interested very much in seeing that shipping is saved by our acquiring as much locally as possible, and those arrangements haven't been made yet at all.

HMJr: Well.....

H: I guess Jack told you, didn't he?

HMJr: Yeah.

H: What?

HMJr: Yeah. He told me the whole thing. I tell you what we'll do. I'll keep you posted as we go along.

H: Will you? Now Lew is going to work with me, you know.

HMJr: So I saw.

H: And Lew's going to stay here for about three weeks and then come on over.

HMJr: Yeah.

H: So would it be okay for me to get Lew to contact you?

HMJr: Yes.

H: And you can educate him and then he can - and in the meantime, if you would let me know.

HMJr: Yes. And I'll send you this over, which is the last word we've had from the British Treasury; but it's an awful mess.

H: Yeah. The important thing from my angle is to get the machinery going so that we can acquire locally stuff which we have made no provision for at all.

HMJr: Well, supposing we leave it - Lew's here. As long as he's here, I'll keep him posted.

H: Fine.

HMJr: Either Bell or I will.

H: Yeah.

HMJr: And then it's up to him to get it to you. How's that?

H: Yeah. Okay.

HMJr: How's that?

H: That's fine. And if there's anything you want me to do, you can have him send me a cable on it.

HMJr: Right.

H: The shipping is going to be so tight that anything we can stop from being moved is going to be a great contribution.

HMJr: Stopped from being moved?

H: Well, I mean anything that we can conserve in the way of shipping space.

HMJr: Well, now.....

H: By using on the ground something that is already there or closer by.

HMJr: Well, there's another thing which I brought up in Cabinet. I think it's terrible to put the pressure on the buying agencies, like the Treasury Procurement, and then to have this stuff pile up on the cars in Boston and New York.

H: Yeah.

HMJr: Now, it's not doing anybody any good, and they're reaching the peak in New York Harbor of what they can handle. As a railroad man, you know what I'm talking about. And I raised the question, why place the orders and put the stuff on the cars unless we know that we're going to be able to move it within a reasonable time.

H: Of course, I think we'll have to place the orders; and then when the bottleneck comes, cure it, but.....

HMJr: Well, the bottleneck is right on us now.

H: Yeah.

HMJr: I mean, you ask your railroad friends how many cars there are in New York.....

H: Well, what you're saying is the visible proof to you that shipping is the overall bottleneck, and therefore it's got to be conserved.....

HMJr: Oh, I'm - if you can buy anything in Australia, it's all to the good.

H: Well, no arrangements - as I guess Lew - as Jack

told you, no arrangements have been made to any great degree yet.

HMJr: No.

H: And I'm not at all sure that it oughtn't to go very far in all kinds of ways.

HMJr: I told him he'd have my sympathetic help.

H: Yeah. That's fine, Henry. I wanted to mention it to you and get your interest in it and get your drive back of it, because no one - this has been everybody's business, you know, this stuff we've been shipping, and nobody has really.....

HMJr: Well, now don't expect too much, because all that the War Department are asking me is how to handle the dollar end.

H: That's right.

HMJr: I mean.....

H: But you can make it easy for them and then.....

HMJr: Oh, yes.

H:that won't be held up as a reason for not doing it.

HMJr: Yes.

H: Well, then, Henry, I'll be back shortly and let me know if there's anything I can do.

HMJr: Thank you so much.

H: Fine. Thank you.

HMJr: Bon voyage.

H: Good-bye.

1/27/42

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Mr. Morgenthau today instructed Miss Chauncey to send copies of this correspondence to Mr. Averill Harriman.

Mr. Morgenthau also let Mr. McCloy read this correspondence today.

C O P Y

January 27, 1942

My dear Mr. President:

I received the enclosed memorandum from the British Ambassador. You will note that he asked me to submit it to you.

I would appreciate your advising me as to how you would like me to proceed.

Yours sincerely,

(SGD) A. MORGENTHAU, JR.

The President,
The White House.

Copies to: Secretary of State
Secretary of War
Secretary of the Navy
Hon. Harry Hopkins
Mr. E. R. Stettinius, Jr.

BRITISH EMBASSY,
WASHINGTON, D.C.

26th January, 1942.

Dear Mr. Secretary,

I send you herewith a message I have just received by telegram from the Chancellor of the Exchequer for yourself.

I think the message is self-explanatory, and I am sure I need not emphasise the importance that His Majesty's Government attaches to the matter.

Believe me,

Yours very sincerely,

Halifax.

The Hon. Henry Morgenthau,
Secretary to the Treasury.

C O P Y

FOLLOWING FOR THE SECRETARY OF THE TREASURY FROM
THE CHANCELLOR OF THE EXCHEQUER

25th January, 1942.

"It seems to me likely that suggestions may presently be made that attention should be given to the question whether the partnership into which our two countries have entered calls for some comprehensive financial arrangement between the United States and the United Kingdom, parallel to the agreements on munitions, shipping and raw materials. It could well be argued that such an arrangement, if it could be devised, would form a natural sequel to these agreements and would mark a further important step in the process of putting our joint resources to their best possible use for the prosecution of the war. This is a matter which of course raises wide and difficult issues, on which we have not yet formed any final views.

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4. We on our side would ask for no payment for any munitions produced in the British Empire (excluding Canada) whether they are eventually employed by ourselves, United States, Russia, or China."

January 27, 1942
3:25 p.m.

HMJr: Hello.

Wayne
Coy: Hello, Mr. Secretary.

HMJr: Talking.

C: How are you?

HMJr: Oh, alive and kicking as usual.

C: You had a nice vacation, I hope.

HMJr: Where?

C: (Laughs) Weren't you away for a couple of weeks.

HMJr: Oh, yeah. For a couple of years.

C: (Laughs) I was talking with Jack McCloy and Bob Patterson yesterday, and Jack called me and told me he'd talked with you about the space thing.

HMJr: Yeah.

C: I think Jack was a little confused about it - what the situation really is. Bert Reynolds was going to move his Public Buildings out of the Procurement building into this temporary building on Constitution Avenue in order to give you space over there for Procurement.

HMJr: Yeah, that's right.

C: Now, the situation is that the Army is in desperate straits. I can't over-exaggerate it. They've got an Air Corps situation where they can't even handle their communications properly.

HMJr: Yeah.

C: And with the situation we're in, it just can't be tolerated.

HMJr: Yeah.

C: They need some space immediately, and I told the War Department last night that the only way they could get it immediately was that there was a temporary building, which, if we could delay Bert Reynolds' move for about thirty days, we might be able to work it out. It's entirely in your hands.

HMJr: Well, now, look. I am not en courant on this thing, see? Norman Thompson is.

C: Yeah.

HMJr: And he's handling it for me.

C: Yeah.

HMJr: Now, would you mind if I switched you over onto him?

C: Not a bit. Not a bit. Jack thought you were very sympathetic with them about it, and it needs to be worked out.....

HMJr: I smiled on him, but I didn't promise him anything.

C: (Laughs) He didn't say you did.

HMJr: I didn't know anything.

C: Yeah, he didn't say you promised him a thing.

HMJr: No, he talked about T and U and I called Norman on it and he didn't know a thing about it.

C: Well, when Jack talked with me I thought he had misled you about T and U. Those were not to go to the Treasury.

HMJr: Well, if you don't mind, old man, let me switch you over to Norman Thompson, if you'll stay on, and you can tell him the story and I'll talk to him later, how's that?

C: That's fine. I think it has to be settled

pretty much today, because Public Buildings is scheduled to start moving tomorrow.

HMJr: Of course, the only thing is, you see, this thing that we're moving is to give us space to buy for Lend-Lease.

C: Yeah.

HMJr: And we made this big fight and we're on top of each other, and we need the room to do the Lend-Lease buying. That's what we need it for. Now, it's just which comes first, the chicken or the egg.

C: Yeah. Well, I feel that in this situation that we have to recognize the combat arm if it's at all possible.

HMJr: Yeah.

C: Because I've gone through that Air Corps situation, and it is God-awful. It's no wonder Roberts has to write the kind of a report he does, because those fellows can't do business.

HMJr: Yeah. Well, as I say, that's what we've been wanting it for; but let me switch you to Norman and I'll tell you - you stay on - and I'll tell Norman I'll talk to him later.

C: All right.

HMJr: Do you know him?

C: Yeah.

HMJr: Just a moment.

C: All right.

HMJr: Just a minute.

Operator: Operator.

HMJr: Would you put Norman Thompson on this wire? I just want to say something to him. And keep Mr. Wayne Coy on.

Operator: Yes. Just a moment.

HMJr: Are you still on?

C: Yeah.

HMJr: All right.

C: Yeah, I'm waiting. What do you think of Nelson's appointment?

HMJr: Good. Good.

Operator: Go ahead.

Norman
Thompson: Hello.

HMJr: Norman.

T: Yes, sir.

HMJr: Mr. Wayne Coy is on this wire. He's calling me up on the move on the temporary building, and I asked him to talk to you because you've got the details and I haven't.

T: Yes.

HMJr: And a little later on, after you have it, I'll see you.

T: Yes.

HMJr: Now, he's on the wire now.

T: Yes, sir.

HMJr: Please.

C: Hello, Mr. Thompson.

T: Hello, Mr. Coy.

January 27, 1942
3:35 p.m.

HMJr: What's this they're trying to pull on us?

Norman
Thompson: Here's the story. I've finally gotten the whole thing. You know, we've been trying to get Reynolds out of the Procurement Division building.....

HMJr: Yeah.

T:and he was all prepared to start moving tomorrow or the next day into Building T, a temporary building.

HMJr: Yeah.

T: Now the proposal is instead of moving Reynolds, that he stay where he is in the Procurement building for another thirty days.

HMJr: Yeah.

T: And in the meantime, the War Department would use Building T and then they would move out to the Longfellow Building up on Connecticut Avenue when the Rural Electrification move out of Washington.

HMJr: When the what?

T: When they move out of Washington, within the next thirty days.

HMJr: Yeah.

T: Now, the only question for us to decide is whether we can wait another thirty days for Reynolds to move out of Procurement. I tried to get Mack to see how serious it would be with him, and he's before the Appropriations Committee. I think he'll be back in another half hour.

HMJr: Well, I think we'd better wait until we talk to Mack about it.

T: I think so, but I think perhaps the Army need is

such that we probably should go along with them.

HMJr: Yeah. Well, you talk with Mack and I'll talk to you before I go home.

T: All right, sir.

HMJr: Will you please?

T: Yes. All right.

HMJr: Thank you.

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January 27, 1942
4:20 p.m.

John J.
McCloy: Oh, this "Black Hole of Calcutta" business,
you mean?

HMJr: Yeah. Where are all these fellows?

Mc: In the Munitions Building.

HMJr: Where is that?

Mc: The building that I'm in.

HMJr: Well, supposing I came over and you showed it
to me?

Mc: Sure, I'll be very glad to.

HMJr: What door do I go to?

Mc: Why you come to the front door.

HMJr: I'll be there in five minutes.

Mc: All right. Okay.

HMJr: And you show it to me.

Mc: I'll show you just what we've got.

HMJr: But don't rush a lot of men in there.

Mc: (Laughs) No, I won't.

HMJr: That's been done, too, you know.

Mc: Yes, I know. I promise. I promise.

HMJr: All right.

Mc: Thank you.

January 27, 1942
5:21 p.m.

HMJr: Hello.

Wayne
Coy: Hello.

HMJr: Hello, Wayne Coy.

C: Yes, Mr. Secretary.

HMJr: Henry Morgenthau.

C: You're a great fellow.

HMJr: Have you already heard?

C: Yes, I just talked to McGloy.

HMJr: (Laughs)

C: I told him that there was only one guy like you in town.

HMJr: I see. Well, I want a little promise now from you.

C: All right.

HMJr: And when the next move comes, don't flash the Navy on me now.

C: No, I tell you what we're doing for the Navy.

HMJr: Yeah.

C: We're building a temporary building in the Ellipse.

HMJr: Yes. Well, just let us come next.

C: Yeah. Well, you are very definitely. As a matter of fact you get space in the Procurement building; and when the Immigration and Naturalization Service moves complete sometime in the next couple of weeks, you get a lot more space

- 2 -

in the U Street area where you now are with some of your divisions.

HMJr: I see.

C: Well, I thought I'd go over. We are at war and I recognize it, and I wanted to see it with my own eyes; and I was shocked to see the Generals and the Colonels under the conditions which they work.

C: Isn't that a terrible thing?

HMJr: It's shocking.

C: It is. It's just God-awful.

HMJr: I know, and.....

C: People can't imagine it.

HMJr: Well, I wanted to see it and I have, and there's only one answer. But see that we get the next, will you?

C: I will, sure.

HMJr: Thank you.

C: Thank you a lot.

HMJr: Good-bye.

January 27, 1942
5:40 p.m.

HMJr: Hello.

Operator: Mr. Mack.

HMJr: Hello. Clif?

Clifton Mack: Yes, sir.

HMJr: Clif, have you heard about what I've done on Procurement? The building?

M: On the space?

HMJr: Yes.

M: Yes, I have.

HMJr: Well, I went over to the Army - War Department - myself, and the situation of the General Staff over there is something unbelievable.

M: Yes, indeed.

HMJr: And I figure, we are at war, and they should come first.

M: Absolutely.

HMJr: And Reynolds has promised me faithfully to take care of us on the fifth of March.

M: Yes.

HMJr: And the War Department has promised not to ask for anything more.

M: Very good. And I just now talked to Reynolds and I told him how critical our situation is, and he's going to shift around his people and make some room for new people we've got coming in.

HMJr: I see.

M: And we're going to try to hold our shipments and

- 2 -

one thing and another and warehouse to take care of them.

HMJr: I see. Well, I tell you. I went over there; and when the General Staff of the Army is - two Generals in a little cubbyhole and they're supposed to be fighting a war, that's pretty tough.

M: Well, that's true. That's true, and we'll do everything to cooperate on it, because I know it's very important.

HMJr: And Stimson's given me his word he'll not ask again.

M: Well, very good.

HMJr: Will you be able to manage?

M: Yes, we will. We're taking on some people, but we'll work it out all right.

HMJr: Thank you.

M: Fine. And thank you.

HMJr: All right.

M: Yes, sir.

January 27, 1942
5:55 p.m.

HMJr: Hello.

Operator: Mr. Coy.

HMJr: Hello.

Wayne Coy: Hello.

HMJr: Wayne Coy.

C: Yes, Mr. Secretary.

HMJr: I'd like to ask you a question.....

C: Surely.

HMJr:and I'd like an answer straight from the shoulder; or, if you can't answer it, forget it, see?

C: All right.

HMJr: Leo Crowley was over here today, and he told me that the President had it in mind to take Alien Property - rather Freezing Control - the whole thing - out of the Treasury and put it in OEM, and I wondered if you'd heard anything about it.

C: It has not been discussed with me.

HMJr: I see.

C: The last I heard Mr. Crowley was working on the thing, and I had been hearing of this problem of Freezing Control being involved in it, but neither Crowley nor the President talked with me about it.

HMJr: And as far as you're concerned - I mean, you're not working on it.

C: Not at all. The President was asked at his press conference about it today, and he said that it

- 2 -

would probably be a week or two weeks, maybe three weeks, before anything was going to be done.

HMJr: Yeah. Well.....

C: That was the first I'd heard him mention the thing.

HMJr: Yeah.

C: The only way I knew that Leo was doing anything was that he called me one day and wanted to hire a fellow that's working for me to help him on some accounting work he had to do.

HMJr: Yeah.

C: I'd hired Eric Kohler of the TVA to handle tax amortization.

HMJr: Yeah.

C: And that was my only information about the Alien Property Custodian's job.

HMJr: Well, would you do me this courtesy; if there is a movement on foot to have it go that way, we'd like to have our day in court.

C: Yeah. Have you talked to Harold Smith about it?

HMJr: No.

C: If there's being an order drafted, it would be in there.

HMJr: I see.

C: And if they were working on it, however, I'm sure they would have asked me about it.

HMJr: Well, I - no, I haven't talked to Harold Smith about it for about three weeks.

C: Yeah. I'll inquire. I'm going into the Budget right now, and I'll inquire about it and call

- 3 -

you in the morning.

HMJr: Would you do that?

C: Yes.

HMJr: Thank you so much.

C: All right.

January 27, 1942

Memorandum

To: Secretary Morgenthau
From: Colonel Smith
(Via Mrs. McHugh)

AA

You have been interested in the results of American planes as opposed to German or Japanese. The following have been selected from reports received today:

1. Air action over Rangoon January 23rd - 13 Japanese fighters and 4 bombers were destroyed. Allied loss - 1 pilot killed; 3 planes destroyed.
2. Action January 24th - 6 Japanese fighters out of 55 and 7 bombers out of 7 destroyed, without loss to the Allies.
3. Action over Luzon yesterday - General MacArthur comments, "In a fight between three hostile dive bombers and two of our P-40s, two of the Japanese planes were destroyed and the other disabled. A minor but significant action."

January 27, 1942.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

Eyron Price called me this morning in response to my telephone call of yesterday.

He said: "We were guilty" and admitted that the New York censor stopped transmission of press dispatches dealing with your press conference remarks of last Thursday on the subject of stabilization of currencies of the American Republics and the possible use of a trade dollar. He said the New York censor did this without consulting anyone higher in authority. His ground for this action was that the State Department was "very nervous" about anything that might disturb the proceedings at Rio and had asked the censor not to permit the transmission of speculative stories likely to cause difficulties at the conference.

I explained to Price that you had been in close touch with Sumner Welles at Rio and as the member of the Cabinet directly concerned with monetary policy you might be expected to know what you were talking about. I added that we were amazed that the censor should undertake to suppress your statements without consultation with us.

Price said he realized that it was a great blunder and that it could only be explained as one of those things likely to happen while they were in the process of organization. He said: "I wish you would apologize to the Secretary for me and tell him that I will try and do my best to prevent any such incident occurring again."

W.S.

THE WHITE HOUSE
WASHINGTON

January 27, 1942

My dear Mr. Secretary:

I have directed the Director of Censorship, pursuant to letter of January 17, 1942, a copy of which is enclosed, in addition to performing the duties described in the Executive Order of December 19, 1941, establishing the Office of Censorship, to coordinate the efforts of the domestic press and radio in voluntarily withholding from publication military and other information which should not be released in the interest of the effective prosecution of the war.

The funds allocated to the Director of Censorship by my letter to you of December 19, 1941, (Allocation No. 42-43) shall also be available for all necessary expenses of the Director of Censorship in carrying out the above-described activities.

Sincerely yours,



The Honorable

The Secretary of the Treasury

Inclosure

THE WHITE HOUSE
WASHINGTON

January 27, 1942

My dear Mr. Price:

As President of the United States and Commander in Chief of the Army and Navy, I hereby authorize and direct you in your capacity as Director of Censorship to coordinate the efforts of the domestic press and radio in voluntarily withholding from publication military and other information which should not be released in the interest of the effective prosecution of the war.

Sincerely yours,

(Signed) FRANKLIN D. ROOSEVELT

Honorable Byron Price, Director
Office of Censorship
Washington, D. C.



**THE COMMITTEE FOR THE CELEBRATION
OF THE PRESIDENT'S BIRTHDAY**

FOR

The National Foundation for Infantile Paralysis, Inc.

50 EAST 42nd STREET • NEW YORK CITY • MURRAY HILL 2-9020

January 27, 1942

Dear Henry:

Your help and cooperation in connection with the radio division of the Committee for the Celebration of the President's Diamond Jubilee Birthday is very deeply appreciated.

We are mighty grateful to you for taking the time from your busy day to assist us. It means a great deal to us and to the Fight Against Infantile Paralysis throughout our nation.

I have just completed a very hurried trip across the country in the interests of the campaign and was most impressed with the enthusiasm shown for our campaign. The entire country wants to take the occasion of our great President's sixtieth birthday to show him how solidly they are behind him in the fight to Victory, not only against our enemies abroad, but also against epidemic disease on the home front.

Assuring you again of our appreciation for your participation in the Fight Against Infantile Paralysis, and with all good wishes, I am

Very sincerely yours,

Keith Morgan
Keith Morgan
National Chairman

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

OFFICE
SECRETARY OF TREASURY
1942 JAN 28 AM 8 49
9:30
TREASURY DEPARTMENT

*Celebrate
Our President's
Diamond Jubilee
Birthday*

TREASURY DEPARTMENT
Washington

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JAN 27 1942 , 1942

ORDER

The Director of Procurement is hereby authorized to issue blanket tax exemption certificates covering all purchases made by the Department under General Schedule of Supplies contracts, in accordance with Procurement Division Circular Letter No. 544 of January 16, 1942.

In carrying out this authority the Director of Procurement will promptly notify all certifying and disbursing officers of the Department of all blanket tax exemption certificates issued by him under General Schedule of Supplies contracts, and certifying and disbursing officers upon receipt of such notice shall see to it that payments to the contractors concerned are made at tax-exclusive prices for articles to which such exemption certificates apply.

The heads of Bureaus, Offices, and Divisions of the Department, and Chiefs of Divisions, Secretary's Office, shall promptly advise the Director of Procurement of the names and addresses of all certifying and disbursing officers who are to be notified of such exemption certificates in accordance with the foregoing.

It shall be the responsibility of the heads of Bureaus, Offices, and Divisions of the Department and Chiefs of Divisions, Secretary's Office, to see to it that purchases made by them or their subordinates under General Schedule of Supplies contracts are confined to articles for the exclusive use of the United States, in order that improper claims of exemption from tax may not result from the issuance of exemption certificates under this order.

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

W:muf

Pls. file in M.C.
JAN 27 1942

TREASURY DEPARTMENT
Washington

1317

JAN 27 1942 , 1942

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(Signed) E. Mergenthaler, Jr.

Secretary of the Treasury.

W. G. M.

Pls. File in C
JAN 27 1942



TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

January 21, 1942

MEMORANDUM FOR THE SECRETARY:

- On ~~January 16~~, 1942, with the concurrence of the Bureau of Internal Revenue, I issued Procurement Division Circular Letter No. 544, authorizing the issuance of blanket tax exemption certificates under General Schedule of Supplies contracts, in order to alleviate the difficulties incident to the issuance of a multitude of individual tax exemption certificates covering single purchases under such contracts of articles subject to new excise taxes under the Revenue Act of 1941.

That circular letter, copy of which is attached, provided for the issuance of such certificates "by the head of each department or establishment, or a person designated by him to issue the same, covering all purchases made by such department or establishment under each such contract during the entire contract term." Because of the broad scope of the certificates it was believed essential to provide for such centralized issuance in order that appropriate administrative safeguards might be employed in the several departments and establishments to prevent improper issuance and use of the certificates.

If this procedure is to be put into effect as regards Treasury Department purchases - and I recommend that such be done - I assume that you will wish to designate some official of the Department to issue the certificates on your behalf. Although the selection of such an official rests with you, it has further seemed to me that I may most conveniently issue the certificates since the contracts are made here, and I am willing to assume that responsibility if you see fit to make such a designation.

There is accordingly attached a proposed order for your signature, designating the Director of Procurement as the official who is to issue the certificates for all purchases by the Department under General Schedule of Supplies contracts. The proposed order also provides essential safeguards to prevent improper payments and improper claims of exemption from tax.

Chas. M. ...
Director of Procurement.

Attachments

Procurement Division

Washington

CIRCULAR LETTER NO. 544

January 16, 1942

TO: Heads of all Departments and Establishments

SUBJECT: Excise Taxes - Procedure concerning taxes imposed by the Revenue Act of 1941 on articles not previously subject to tax - General Schedule of Supplies contracts for which bids were opened prior to October 1, 1941 - Blanket exemption certificates.

Part V of the Revenue Act of 1941 (Public Law No. 250, 77th Congress, approved September 20, 1941) became effective on October 1, 1941, and imposed new excise taxes (which term, as used herein, does not refer to increases under that Act in the rates of taxes theretofore in effect) on the sale of numerous articles corresponding with articles contracted for under the General Schedule of Supplies. Such new taxes are, however, subject to the same provisions as regards exemption of sales to the Government as were the manufacturers' excise taxes theretofore in effect.

Contract Provisions

Unless otherwise specified in particular contracts and shown in issues of the Schedule pertaining thereto, all contracts under the General Schedule of Supplies contain the following paragraph in the General Conditions:

"19. PRICES INCLUSIVE OF TAX. Prices bid herein include any Federal tax heretofore imposed by the Congress which is applicable to the material on this bid. If any sales tax, processing tax, adjustment charge, or other taxes or charges are imposed or changed by the Congress after the date set for the opening of this bid, and made applicable directly upon the production, manufacture, or sale of the supplies covered by this bid, and are paid by the contractor on the articles or supplies herein contracted for, then the prices named in this bid will be increased or decreased accordingly, and any amount due the contractor as a result of such change will be charged to the Government and entered on vouchers (or invoices) as separate items."

(The same provision is contained in paragraph 6 of the conditions on the reverse of U. S. Standard Form No. 33, Revised January 17, 1939.)

Appended hereto is a list of those schedules under the current General Schedule of Supplies, and supplements thereto, with respect to which the bids were opened prior to October 1, 1941. All prices quoted in such schedules and supplements are considered to be exclusive of the new taxes imposed by the Revenue Act of 1941.

It is the opinion of this Division that the contract provision above quoted does not require the Government to pay under the contracts referred to in the appendix any amounts in addition to the prices quoted therein, on account of the new taxes, in cases where exemption certificates covering Federal taxes are issued to the contractors, the new taxes not having been "imposed" on sales to the Government to the extent that the exempt character of such sales is established in accordance with the regulations of the Bureau of Internal Revenue.

Blanket Tax Exemption Certificates

The Bureau of Internal Revenue has agreed that, in addition to the method provided for in existing regulations, and except as hereinafter stated, it will accept as evidence of the exempt character of sales to agencies of the Federal Government under the contracts referred to in the appendix, blanket exemption certificates issued by the head of each department or establishment, or a person designated by him to issue the same, covering all purchases made by such department or establishment under each such contract during the entire contract term.

The following restrictions are applicable to the issuance of such blanket exemption certificates:

1. They must be issued on Form 1094, Revised, approved by the Comptroller General of the United States, modified for this purpose in accordance with the attached sample copy.

2. They must not be issued with respect to contracts which do not cover any items subject to any Federal excise tax.

3. With respect to contracts covering any item or items subject to excise taxes in effect prior to the Revenue Act of 1941, whether or not such contracts also cover items subject to new excise taxes, blanket exemption certificates must not be issued unless the applicable portion of the

General Schedule shows the prices stated on items subject to taxes in effect prior to the Revenue Act of 1941 to be exclusive of such prior taxes, or unless such certificates are expressly limited to such contract items as are subject only to the new excise taxes.

Suggested Contractors' Certificates

In order to prevent the issuance of blanket tax-exemption certificates, without proper qualification, in cases where the contract involved covers items on which the prices are inclusive of taxes in effect prior to the Revenue Act of 1941, it is recommended that such blanket exemption certificates be issued only upon receipt from the contractor concerned of a certificate to the effect that the contract contains no items subject to any Federal excise tax in effect prior to the Revenue Act of 1941, except such items as are expressly enumerated in the certificate as items on which the prices quoted in the contract are either (a) inclusive, or (b) exclusive, of such taxes. With such contractors' certificates it will be possible to issue blanket exemption certificates in such form as to be expressly inapplicable to any contract items enumerated in the contractors' certificates and not verified as items on which the prices quoted are exclusive of all Federal excise taxes.

To facilitate the obtaining of contractors' certificates in accordance with the preceding paragraph, and also the identification of contracts with respect to which blanket exemption certificates may advantageously be issued, the Procurement Division is likewise sending a circular to all contractors whose contracts are listed in the appendix, enclosing a copy of this circular letter, suggesting that such contractors request blanket exemption certificates where proper, and suggesting a form of contractor's certificate to be used, reading as follows:

CONTRACTOR'S CERTIFICATE SUPPORTING REQUEST FOR BLANKET TAX-EXEMPTION CERTIFICATE

Contract No. _____

Date of Contract _____

To: _____
(Ordering department or agency)

I (we) hereby certify that the above contract contains no item or items subject to any Federal excise tax in effect prior to the Revenue Act of 1941, except as follows:

(a) Items with respect to which contract prices are inclusive of a Federal excise tax in effect prior to the Revenue Act of 1941:

<u>Item No.</u>	<u>Article</u>	<u>Price</u>
-----------------	----------------	--------------

(b) Items with respect to which contract prices are stipulated in the contract to be exclusive of Federal excise taxes in effect prior to the Revenue Act of 1941:

<u>Item No.</u>	<u>Article</u>	<u>Price</u>
-----------------	----------------	--------------

This certificate is made in order to induce the ordering department or agency named above to issue a blanket tax-exemption certificate covering items that would otherwise be subject to Federal excise tax, and is made with full knowledge that, under section 35 of the Criminal Code, as amended (U.S.C. title 18, sec. 80), the making or using or causing to be made or used any false certificate, knowing the same to contain any fraudulent or fictitious statement or entry, in any matter within the jurisdiction of any department or agency of the United States or of any corporation in which the United States of America is a stockholder, is punishable by fine of not more than \$10,000 or by imprisonment for not more than ten years, or both.

(Name of contractor)

By _____
(Capacity of person signing)

Date: _____

Invoices

The circular to contractors under the General Schedule of Supplies is also bringing to their attention a requirement of the Bureau of Internal Revenue that, in order to establish their right to exception from tax with respect to any particular purchase, such contractors must state on the invoice or invoices relating thereto the serial number of the blanket certificate involved. The presence or absence of such statements will not affect the payability of invoices. Instances of improper statement of blanket exemption certificate numbers on invoices should, however, be brought to the attention of the Bureau of Internal Revenue.

Circular Inapplicable to Increases
in Former Tax Rates

This circular is intended to cover the treatment of new taxes imposed by the Revenue Act of 1941, as distinguished from taxes in effect prior to such Act and increased thereby as to rates of tax. The matter of increases in the rates of earlier taxes is also receiving consideration and may form the subject of a separate circular modifying or amplifying the procedure outlined in Circular Letter No. 450 of January 9, 1941.

(signed) CLIFTON E. MACK

Director of Procurement

TAX EXEMPTION CERTIFICATE (FORM 1094 -
 REVISED), SHOWING SUGGESTED MODIFICATION
 TO ADAPT FORM FOR BLANKET EXEMPTION
 CERTIFICATE PURPOSES.

X-000,000

Standard Form No. 1094- Revised
 Form approved by
 Comptroller General U. S., June 11, 1937
 (Rev. Reg. No. 46 Revised)

U. S. Government Tax Exemption Certificate
(Use Extension for multiple items)

U. S. Treasury Department, Procurement Division

I certify that ~~there have been or will be~~ ^{there have been or will be} purchased for the exclusive use of the United States Government

KIND	INDICATE AMOUNT OF TAX	
	INCLUDED	EXCLUDED
Federal	X X X	\$ Blanket
State	\$ X X X	\$ X X X
Local	\$ X X X	\$ X X X

all articles (except that this certificate is

applicable to contract items Nos.)**

which have been delivered, or which will be delivered and invoiced pursuant to purchase orders issued under contract
 dated _____ and for which a tax exemption certificate has not heretofore been issued.

**** - SAMPLE COPY - ****

Identification Card No. _____

Vehicle License No. _____

To be filled in ONLY when a State or local tax is included in the purchase price.

SPONSOR
 Name _____
 Address _____
 City _____
 State _____
 Title _____

For ADMINISTRATIVE OFFICE
 D. O. _____ Symbol _____
 Bu. Vol. No. _____ Period _____

*State and local taxes to be paid only when absolutely necessary to obtain commodity required.

** Parenthetical matter here to be omitted where certificate is to be applicable to all contract items.

APPENDIX

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Schedules and Schedule Supplements under the Current
General Schedule of Supplies with respect to which
bids were opened by the Procurement Division prior
to October 1, 1941.

I. All schedules and schedule supplements covering contract terms beginning on or before October 1, 1941.

II. The following schedules and schedule supplements covering contract terms beginning after October 1, 1941:

<u>Class</u>	<u>Title and Contract Terms</u>	<u>Opening Date</u>
	Special Furnishings, Executive Type (December 1, 1941, to November 30, 1942)	September 12, 1941
13	Boiler Feed-Water Compound (December 1, 1941, to November 30, 1942)	September 25, 1941
17 - Sup. No. 8	Motion-pictures Projectors (December 1, 1941, to November 30, 1942)	September 18, 1941
18	Instruments of Precision and Accessories and Parts (January 1 to December 31, 1942)	September 15, 1941
18 - Sup. No. 1	Photographic Equipment and Supplies (January 1 to December 31, 1942)	August 18, 1941
23 & 37 - Sup. No. 1	Life Preservers, Special Wearing Apparel, and Safety Equipment (November 1, 1941, to April 30, 1942)	August 12, 1941
32	Fire-surfacing and Heat-insulating Material (November 1, 1941, to October 31, 1942)	August 25, 1941
34	Belting, Leather Goods, and Cushions (November 1, 1941, to October 31, 1942)	August 29, 1941
34 - Sup. No. 1	Belting (November 1, 1941, to October 31, 1942)	August 29, 1941
37	Athletic Equipment (November 1, 1941, to April 30, 1942)	September 5, 1941

<u>Class</u>	<u>Title and Contract Terms</u>	<u>Opening Date</u>
39	Lumber, Timber, and Wooden and Pulp-board Boxes including Manufactured Lumber (November 1, 1941, to April 30, 1942)	September 10, 1941
45	Pipe Fittings (December 1, 1941, to November 30, 1942)	August 22, 1941
52	Cement, Paints, and Paints Ingredients (November 1, 1941, to April 30, 1942)	September 3, 1941
53	Drafting-room and Office Supplies (December 1, 1941, to November 30, 1942)	July 18, 1941
55	Clothings (November 1, 1941, to April 30, 1942)	July 10, 1941
56	Meats, Groceries, and Other Provisions (November 1, 1941, to February 28, 1942)	September 11, 1941
57 - Sup. No. 1	Short-wave Diathermy Apparatus (November 1, 1941, to September 30, 1942)	August 27, 1941
59	Building Materials (November 1, 1941, to April 30, 1942)	August 29, 1941
70	Agricultural Implements and Materials (November 1, 1941, to October 31, 1942)	September 2, 1941
70 - Sup. No. 1	Peat and Scythes (November 1, 1941, to October 31, 1942)	September 2, 1941

Classification of the number of agents qualified to issue
Series E Savings Bonds, on January 24, 1942

	Banks	Building and loan associations	Credit unions	Other corporations ^{1/}	Investment industry	All others ^{2/}	Total
Corporations and Associations:							
Federal Reserve District of:							
Boston	831	214	180	2	-	12	1,239
New York	1,171	246	350	21	1	-	1,789
Philadelphia	831	101	80	83	-	-	1,095
Cleveland	1,164	349	268	22	-	1	1,804
Richmond	1,019	175	110	15	2	1	1,322
Atlanta	992	139	146	15	-	-	1,292
Chicago	2,306	439	157	61	5	14	2,982
St. Louis	1,325	139	45	3	-	1	1,513
Minneapolis	1,281	55	48	1	-	2	1,387
Kansas City	1,736	174	130	-	2	20	2,062
Dallas	833	110	178	13	-	-	1,134
San Francisco	<u>548</u>	<u>224</u>	<u>219</u>	<u>4</u>	<u>-</u>	<u>3</u>	<u>998</u>
Sub-total	14,037	2,365	1,911	240	10	54	18,617
Post offices	-	-	-	-	-	-	<u>17,140</u>
Grand total	<u>14,037</u>	<u>2,365</u>	<u>1,911</u>	<u>240</u>	<u>10</u>	<u>54</u>	<u>35,757</u>

66

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

January 27, 1942

^{1/} In accordance with telegram of December 27, 1941.
^{2/} Except post offices.

Number of agents qualified to issue Series E
Savings Bonds, May 7, 1941
to date

Type of agent	1941		1942			
	May	Sept.	Jan.	Jan.	Jan.	Jan.
	7	30	3	10	17	24
Commercial and savings banks.....	7,676	11,571	13,688	13,832	13,966	14,037
Building and loan associations.....	739	1,481	2,064	2,144	2,268	2,365
Credit unions.....	8	389	1,368	1,529	1,736	1,911
Other corporations ^{1/}	-	-	-	12	118	240
Investment industry.....	-	-	-	-	-	10
All others.....	<u>7</u>	<u>27</u>	<u>28</u>	<u>59</u>	<u>30</u>	<u>54</u>
Total other than post offices.....	8,430	13,468	17,148	17,576	18,118	18,617
Post offices.....	<u>15,812</u>	<u>16,429</u>	<u>16,883</u>	<u>16,883</u>	<u>17,140</u>	<u>17,140</u>
Grand total.....	<u>24,242</u>	<u>29,897</u>	<u>34,031</u>	<u>34,459</u>	<u>35,258</u>	<u>35,757</u>

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

January 27, 1942

^{1/} In accordance with telegram of December 27, 1941.

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
23	86	569	800	50	1,871	1,000
24	50	727	800	28	1,922	1,000
25	28	none-no mail	none-closed	28	1,922	-
26	28	490	1,000 <u>1/</u>	7	2,011	2,000

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

January 27, 1942

* Bonds in Washington vaults only.

1/Includes 400 thousand pieces manufactured for inventory in the field.

10/2

Stock of Series E Savings Bonds on Hand 1/
January 15, 1942 to date

(In thousands of pieces)

	: Stock on hand : : beginning : : of day :	: Sales : : this day :	: Bonds : : manufactured : : this day :	Stock on hand close of day	IBM deliveries this day
Jan.					
15	6,569	320	750	6,999	1,000
16	6,999	445	775	7,329	750
17	7,329	163	800	7,966	1,000
18	7,966	none-closed	none-closed	7,966	800
19	7,966	665	800	8,101	825
20	8,101	218	800	8,683	1,000
21	8,683	337	800	9,146	875
22	9,146	381	800	9,565	1,000
23	9,565	377	800	9,988	1,000
24	9,988	263	800	10,525	1,000
25	10,525	none-closed	none-closed	10,525	-
26	10,525	487	1,000	11,038	2,000

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

January 27, 1942

1/ Includes stock in hands of (1) Federal Reserve Banks and branches, (2) Post offices, (3) Federal Reserve Bank issuing agents, and (4) Treasury vaults in Washington.

UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During
 First Twenty-two Business Days of January 1942 and December and November 1941
 (November 1-28, December 1-26, January 1-26)
 On Basis of Issue Price

(Amounts in thousands of dollars)

Item	Sales			Amount of Increase		Percentage of Increase	
	January	December	November	January	December	January	December
	1942	1941	1941	over December	over November	over December	over November
Series E - Post Offices	\$135,523	\$ 82,799	\$ 36,563	\$ 52,724	\$ 46,236	63.7%	126.5%
Series E - Banks	<u>428,497</u>	<u>183,417</u>	<u>69,176</u>	<u>245,080</u>	<u>114,241</u>	<u>133.6</u>	<u>165.1</u>
Series E - Total	564,021	266,215	105,740	297,806	160,475	111.9	151.8
Series F - Banks	62,065	25,925	18,051	36,140	7,874	139.4	43.6
Series G - Banks	<u>238,530</u>	<u>126,174</u>	<u>100,260</u>	<u>112,356</u>	<u>25,914</u>	<u>89.0</u>	<u>25.8</u>
Total	<u>\$864,616</u>	<u>\$418,314</u>	<u>\$224,050</u>	<u>\$446,302</u>	<u>\$194,264</u>	<u>106.7%</u>	<u>86.7%</u>

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

January 27, 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

CONFIDENTIAL

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	12,399	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
23	5,908	23,392	2,652	8,004	34,048	29,300	2,652	8,004	39,956
24	4,655	15,820	2,239	5,344	23,403	20,476	2,239	5,344	28,058
26	7,095	39,997	5,022	17,516	62,535	47,093	5,022	17,516	69,630
Total	\$135,523	\$428,497	\$ 62,065	\$238,530	\$729,093	\$564,021	\$ 62,065	\$238,530	\$864,616

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

January 27, 1942.

Source: All figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States savings bonds.

Figures have been rounded to nearest thousand and will not necessarily add to totals.

Regraded Unclassified

January 27, 1942

Dear Archie:

Thank you very much for sending me a copy of your "Report to the Nation". I look forward with great interest to reading it.

Sincerely,

Hon. Archibald MacLeish,
Director, Office of Facts
and Figures,
Washington, D. C.

FK/hkb

1/27/42

*File - N.M.C.
cc - Thompson*

OFFICE OF FACTS AND FIGURES

106

WASHINGTON

January 23, 1942

My dear Mr. Secretary:

I am pleased to send you the "Report to the Nation" just issued by the Office of Facts and Figures.

Very truly yours,



Archibald MacLeish
Director, Office of Facts and Figures

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

REPORT to the NATION



***The American
Preparation for War***

OFFICE OF FACTS AND FIGURES

Washington, D. C.

REQUEST FOR REPORT

THE WHITE HOUSE
Washington, December 2, 1941

MY DEAR MR. MACLEISH: As you know, I am most anxious that the general public be fully informed concerning the scope and progress of the defense program.

To this end, I should like the Office of Facts and Figures to prepare a report on the progress of the defense effort of the Federal Government, as of December 31, 1941. The report should be prepared on the basis of factual information furnished by the various departments and agencies primarily responsible for the program. I have directed the Director of the Budget to obtain this information for the use of the Office of Facts and Figures.

It is extremely important that the country should be aware of the progress of the defense effort insofar as information can be published without giving aid and comfort to those who are not our friends. The people of a democracy are entitled to the essential facts and the government of a democracy must continuously have, in critical times as well as in peaceful times, the benefit of enlightened public criticism and enlightened public understanding.

Very sincerely yours,



HON. ARCHIBALD MACLEISH:
Director, Office of Facts and Figures.

LETTER OF TRANSMITTAL

JANUARY 14, 1942

MY DEAR MR. PRESIDENT: I have the honor to submit herewith the report on the progress of the defense effort you have asked the Office of Facts and Figures to prepare. Factual information has been furnished, as you directed, through the Bureau of the Budget by the various departments and agencies primarily concerned and these departments and agencies have been most cooperative in reviewing the report to check statements of fact. Information provided by the report is not, of course, as detailed as it could have been before the war but it provides, I think, a basis for an understanding of the defense effort down to the end of the year 1941. Certainly the American people will understand both the present necessity for restriction upon the publication of statistics and the over-all significance of the figures of which publication is still possible.

Broadly speaking, the report presents the story of the effort of the American people to arm themselves and to supply their friends in the 18 months between the fall of France and the Axis attack upon the United States. It constitutes, in other words, an accounting of the Arsenal of Democracy from the time, in the summer of 1940, when the American people put their labor and their resources at the disposal of the forces opposed to Axis aggression, to the time, in the winter of 1941, when Axis aggression struck at the American people themselves and changed the Arsenal of Democracy to an Army of Democracy.

The intention of the report is to present the record of this period in over-all factual terms. The report, in other words, is in no sense an "investigation" of the defense effort nor is it an attempt to interpret or to evaluate the defense effort. There were, of course, delays and omissions and mistakes in the realization of the program as in the realization of all human efforts of comparable magnitude. These mistakes and omissions have had and will continue to have critical attention in appropriate quarters. The report here presented limits itself to the record of what was actually done and to the question of present ability to move forward.

The question the American people now wish answered is not the question of American production of war materials, of American consumption of consumer goods, over the 18 months from the fall of France to the declaration of war by Japan. The American people realize that their consumption of consumer goods was higher during this period, and their production of war materials lower, than they might well have been. What the country wishes to know now is where it stands in relation to the work it has to do—what its present production capacity of materials of war is—what it is ready to accomplish. For in modern warfare it is not stocks in reserve but production capacity in prospect which makes a nation powerful. Considered in this aspect, the country can take much satisfaction in the facts here recorded.

At the beginning of the period under review, American industry was peace-time industry devoting a minute fraction of its productive capacity to the manufacture of weapons of war. At the close of this period—at the beginning of the new period of all-out national effort inaugurated by the Message on the state of the Union of January 6, 1942—American industry was war-time industry, in a position to devote to the gigantic task before it all its resources of labor and courage and will. New skills had been acquired, new techniques had been developed, new lessons had been learned. Some of the types of weapons already produced were the finest in the world.

American industry, in other words, had passed through the period of transition, the time of trial and error, and stood ready to undertake the enormous task of armament of ourselves and those associated with us which the Message on the state of the Union projected. In a sense the real work is only now beginning. Much remains to be done to adapt the American industrial establishment to the labor before us. In another sense, however, a tremendous work has already been accomplished: the country has been brought to the point at which it can now begin to produce the necessary materials of war with assurance that the job can and will be done.

Very respectfully yours,

Archibald MacLese

ARCHIBALD MACLESE

Director, Office of Facts and Figures.

To:

THE PRESIDENT,

The White House.

REPORT TO THE NATION

Introduction to Total War

We have been at war for more than a month. American soldiers and marines have fought at Wake Island, Guam, Midway, and the Philippines. The Navy has gone into action in the Atlantic and over the broad stretches of the Pacific. There have been defeats. But this much our small forces on our island outposts have demonstrated: We have an Army and a Navy that can fight.

It is only the beginning. In his address to Congress on the State of the Union, the President said that American sea, air, and land forces will take stations in the British Isles. They will be protecting the Western Hemisphere. They will be operating throughout the Far East, and on all of the seven oceans.

Total victory is our objective. Speaking for all of us, the President has expressed our common determination not to stop short of the destruction of Hitler and the certainty, so far as we can establish that certainty, that the world will never again suffer the disaster of nazi-ism. To win such a war and to win such a peace, it will not suffice merely to attain a slight superiority in armaments over the Axis aggressors. We must attain an overwhelming superiority. We must take the offensive on a front that extends around the world. We must liberate Guam, Wake, and Manila. We must carry the war to the enemy's home ground and hit him again and again wherever we can reach him.

Our goals have been set:

This year 60,000 planes.

Next year 125,000 planes.

This year 45,000 tanks.

Next year 75,000 tanks.

This year 20,000 antiaircraft guns.

Next year 35,000 antiaircraft guns.

This year 8,000,000 tons of merchant shipping.

Next year 10,000,000 tons of merchant shipping.

No other nation in the world has ever undertaken or could ever undertake such a program. In 1942 alone we will produce nearly three times as many weapons and supplies of war as in all the eighteen months since the fall of France. In 1942 alone we will produce as many tanks and planes as Hitler did in all the years before 1939 when he was preparing for world conquest.

We Decide to Do the Job

The immensity of the production that we have set ourselves reflects the transformation that has been effected in the country. From a people reluctant to go about a business we hate—the business of war—we have been changed to a people determined to get the job over with as quickly as possible.

Napoleon said that war was Prussia's chief business. War is Hitler's only business. The business of the United States, from the days of the Revolution, has been the business of peace, the welfare of its people. We were reluctant to exchange our business for Hitler's.

Hoping to remain at peace, we gave up many traditional rights. We passed a neutrality law in August 1935. But when Hitler invaded Poland in September 1939, it became evident that the neutrality law favored the Nazis, who had accumulated vast stores of arms, while penalizing the democracies who had not. We repealed those features of the law. It was our first learning of the lesson that merely wanting peace does not mean that a nation can stay at peace.

But we did more than repeal laws. We began, gradually, to take action for our own defense. In September 1939, the President appointed a War Resources Board to survey the Nation's resources. The Board's recommendations were useful in planning an increased armament effort. It was disbanded when its work was finished. Then the invasion of the lowlands and the fall of France

in the spring of 1940 revealed the full power of the Nazi war machine and our peril. On May 28, 1940, the President created the National Defense Advisory Commission, partly composed of leading industrialists. It was an "advisory" commission and our aim was "defense."

But the lines of offense pushed closer. By December 1940, London had become our first line of security. We could not let Britain fall for want of food or guns, tanks or planes. The President announced our determination to serve as the arsenal of democracy. On January 10, 1941, the lend-lease bill was introduced into Congress. To gear our production to the urgent needs of the free nations, the Office of Production Management was set up, superseding the National Defense Advisory Commission. O. P. M. pooled the practical experience of industry and labor in one organization responsible for assisting the Army and Navy. Still hopeful for peace, we were resolved to give every aid to the democracies "short of war."

The End of "Business as Usual"

As the lend-lease billions began to be spent, the size of the job we had undertaken became apparent to all. It was a job too big to be reconciled with "business as usual." In August 1941, the Supply Priorities and Allocations Board was created to direct the harsh task of curtailing the less essential civilian industries so that our available raw materials would go for the production of first things—munitions—first.

Then Hitler showed his hand and it held a sword made in Japan.

To speed the mobilization of the Nation for total war, on January 13, the President announced the creation of a new War Production Board, with full and final authority over all American production given to one man, the chairman.

How badly or how well have we, in the 18 months just past, prepared for the total war now forced upon us?

The dollar, translated into the tools of war, is one yardstick by which we can measure what we have done.

On July 1, 1940, with the tragedy of Dunkirk fresh before our eyes, we were spending for defense at an annual rate of 2 billion dollars. On January 1, 1941, on the eve of the lend-lease legislation, our defense spending had risen to the rate of 6.2 billions a year. By the following July 1, as the Nazis were invading Russia, we were spending at the annual rate of 10.6 billions. On December 1, 1941, spending had reached an annual rate of almost 20 billions.

True, this was an accomplishment.

But it is only a fraction of what we must do to survive as a free nation. The President has told us that we must step up our spending on total war to more than 4 billions a month this year, to more than 5 billions a month in 1943. The record sum of 1.8 billions spent on war in the month of December 1941 represented little more than one-fifth of our national income. We must now divert more than one-half of our national income to the prosecution of the war.

That means the mobilization of every available man, woman, dollar, and thing—every plant, tool, machine, and bit of material to contribute to our total war effort. Literally, our military strength will depend upon what we, the people, can do without.

The report which follows is the story of the foundations we have laid for such a total effort. They are good strong foundations. But they are foundations only. The President has told us that we "must face the fact of a hard war, a long war, a bloody war, a costly war." How hard a war, how long, how bloody, at how great a cost, depends on how quickly we can erect the necessary structure upon these vast foundations.

The answer will be given by 133,000,000 Americans who, never having failed in any crisis, now face the gravest crisis in their history.

THE NAVY

Full Speed Ahead

In 1922 the American Navy, honoring the promises made at the Washington Arms Conference, began to scrap and strip and sink more than a million tons of its own fighting ships.

In 1932 the American Navy, becalmed against its will, found itself approaching a level below Britain, below Japan, below even France and Italy in the number of its effective fighting ships.

At the beginning of 1942 the American Navy had completed a full year of full speed ahead on its two-ocean program and had become within the space of a few months the strongest single sea-borne fighting force on this planet.

The "two-ocean navy"—most crucial of all our necessities—is under way.

When France fell we began to wonder what would have happened to us if Britain had not survived Dunkirk. On June 14, 1940, an 11 percent expansion of our naval forces was authorized by Congress. Five days later, the 11 percent was raised to 70 percent. By the end of 1940 the Navy was growing at the rate of \$179,000,000 a month. The cost of 1941 was over \$3,000,000,000.

When Japan struck we had 17 battleships, and 15 more being built. We had 7 aircraft carriers, and 11 more being built. We had 37 cruisers, and 54 more being built. We had 171 destroyers, with 193 more being built. We had 113 submarines, and 73 more being built.

That is by no means the whole story of the Navy's progress in 1941. By November 1941 the Navy had com-

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missioned 25 new combatant ships. It had added 2,000 planes to its hangars and its aircraft carriers. Its new chain of overseas bases extended far into both oceans, and it had enrolled some 5,000 new officers and more than 12 times as many men.

In those 10 months 345 new combatant ships of many kinds were under construction, as well as 96 auxiliary vessels, 243 mine craft, 225 patrol boats, and other floating equipment generally overlooked in accounts of battles at sea, but essential if the men-of-war are to go into action.

Where were they being built? At shipyards up and down both coasts and as far inland as the Great Lakes, where even submarines are born. At the beginning of the year 72 private yards were building ships for the Navy. By November there were 133 yards—not including the Navy's own 86 yards.

The air is as important to the Navy as the sea. The Navy's plane complement of 15,000 has been increased. Before the war entered the shooting stage the Navy—and the Marine Corps—had more than 5,000 pilots. Thousands more were in training. It is interesting to note here that last July the rate of enlistment for naval aviation training was 8 times the rate in May 1940. A greater rush was to come.

The Navy alone has 34 air stations. In Jacksonville and at Pensacola the Navy has in operation 2 of its greatest new training stations. A third is in Corpus Christi, Tex. The Corpus Christi Station shows what Americans can do when they decide to put their backs into an effort. In just 10 months a flat, desert area of sand and scrub was turned into a modern city, a city with miles of streets and runways, a city of permanent buildings with leagues of water mains and power lines, a city with one purpose—to help build an air fleet for our Navy.

Our Far-Flung Line

All this expansion of air and sea forces has led to a vast increase in naval shore establishments.

American sailors and marines are now serving in Newfoundland; they are serving at Bermuda; they are serving at Great Exuma Island in the Bahamas; they are serving at Antigua, Jamaica, St. Lucia, and Trinidad in the Caribbean, and in British Guiana in South America. In the Pacific our sailors and marines hold a far-flung bastion of bases protecting us from would-be invaders from Asia.

A great deal of work has gone into the development of those overseas bases. As Secretary Knox pointed out, what we gained in the destroyer trade with Britain was not bases but the right to build bases. Defenses against attack from the air and attack by sea had to be installed. Dockyards, coast artillery, barracks, lines of supply for guns, food and coal, workmen to do the building were needed. Nearly half a billion dollars was spent in developing our bases last year.

For some time American ports have been shared by nations resisting Axis aggression. Ever since the lend-lease program got under way the men-of-war of Great Britain have been coming into American yards to repair the ravages of battles on distant seas. Merchant ships flying the flags of Britain and of Russia, of Holland, Norway, Greece, and other countries have also put into our harbors. They have been outfitted with degaussing cables against magnetic mines, repaired, overhauled, and fitted with guns. Liners have been turned into transports to carry troops to outposts and to bring British flying cadets to our training fields.

Meantime, impressive numbers of our own ships were also being overhauled and converted for more effective wartime use. They were strengthened in protective devices and provided with increased fire power. Mine protection equipment and sky lookout stations were installed. To give an example from a single class: Twenty-three old destroyers were modernized and recommissioned. Forty-one others were converted for important uses. Private

Stocks of Army clothing and personal equipment now on hand are sufficient to maintain the current Army and to permit orderly replacement. Additional supplies are accumulating to care for new increases in Army strength.

The two most important weapons in this war are the plane and the tank. In these weapons we are already on our way to outbuilding the world. We already are producing light and medium tanks in quantities and the first heavy tank was delivered to the Army the day we declared war on Japan.

One Great Advantage

A great part of the billions allotted to the Army since the fall of France has gone into building new tank arsenals, ammunition factories, smokeless powder and aircraft plants to make these weapons and the shells and bombs they will carry. More plants will be built as needed to meet the President's goal for 1942 and 1943.

Modern war calls for tanks with heavy fire power; anti-tank guns for our new tank-destroyer outfits; improved antiaircraft batteries, searchlight and aircraft detectors; vast quantities of machine guns of heavier calibers. It also calls for such weapons as the Garand rifle, which has three times the rate of fire of the Springfield, and the new 155-millimeter gun which, mounted on a 35-mile-an-hour carrier, can place a 95-pound shell on a machine-gun nest 10 miles away. It calls for tens of thousands of fighter and bomber planes—well armored, carrying ever greater fire power, ever heavier bomb loads.

We begin our offensive against the Axis with one great advantage. The Army has benefited by the reports of hundreds of Army observers on the fields of battle throughout the world. Actual battle tests have been given our new equipment by the fighting men of friendly nations.

Despite all handicaps, production of tanks and combat vehicles is more than three times that of a year ago, giving the Army the mobility needed for offensive action.

The rate of tank production has been pyramiding and, at present, far exceeds estimates of a year ago. The 1942 goal of 45,000 tanks is great enough to equip and maintain with replacements more than 60 armored divisions—in action.

Production of guns of all types has increased nearly five times, while production of ammunition is nine times that of a year ago. There are ample supplies of rifles, with Garands coming off the production line at better than a thousand a day; both light and heavy guns now have reached volume production.

Army warplane production has been stepped up to the point where, with Great Britain, we soon will exceed the plane output of the Axis countries. More important, we will have the plant capacity to increase our production to the point where we can seize control of the air in all areas of the world struggle.

The Superiority of Our Planes

In performance, our Army Air Corps can be credited with spectacular progress. We now have four types of combat planes *better* than anything yet produced abroad, so far as is known. Details on air speeds cannot be given because, with the declaration of war, these became military secrets. Our new achievements in performance were accomplished not with specially built power units but with engines in regular production. This is particularly significant because of the promise of improvement through the development of more horsepower in still larger types.

American aircraft for some time have been flying in the altitude range necessary to modern bombing tactics—that is, 30,000 to 40,000 feet. Credit for this goes to a supercharger developed by American industry. American bomber types now in mass production are superior to those built anywhere else in the world. Still better models are on the way.

The manning of these warplanes has required an immense training program for pilots, bombardiers, navigators, gunners, observers, and mechanics. In 1940, flying officers were being trained at the rate of 7,000 a year. For 1941, this was raised to 12,000 a year—and this rate was passed in November with the graduation of 1,200 aviation cadets.

At present, the Air Forces form the second largest branch of the Army. Current plans for 1942 call for the addition of 20,000 aviation cadets per month. By mid-year, Air Force strength will have passed the 750,000 mark, and will be expanding rapidly.

Through wide revisions in the requirements, approximately 2,000,000 more men are expected to become eligible for the Air Forces.

At the beginning of the war in September 1939 we did not possess a munitions industry of any great significance. We had to build one. Nearly a billion dollars' worth of new munitions plants are now in full operation. Several billions' worth of additional munitions plants are on their way to completion. Among the 23 new munitions plants already in operation are some of the largest of their kind in the world.

The billions already spent in building tank arsenals and powder plants, small cities of cantonments, hospitals, and storage depots will be matched by more billions as our Army grows.

The Goal: 7,000,000 Soldiers

In the maneuvers of 1941 and in the battles in the Far East the officers and men of the United States Army have measured up to our traditions of soldiering.

Into the immense frame of our new Army fit the thousands upon thousands of American soldiers who were civilians a short time ago—the Wyoming cowpuncher who is now a pilot in the Air Corps and the Hartford insurance salesman who is now a buck private in the Infantry;

the brakeman on the Northern Pacific who used to work out of St. Paul; the student; the school teacher; the clerk; the man who ran a newspaper stand in New Orleans; young men from Maine and California and the Mississippi Valley. Yesterday comparatively few American families were represented in the Army. Tomorrow there will be comparatively few that are not.

More than half the present Army is made up of men chosen through the Selective Service System. Up to December 7, 1941, the Selective Service System had registered 17,672,000 men between the inclusive ages of 21 and 35, and around 925,000 had been inducted into the Army.

A wave of voluntary enlistments was one answer to the wave of Japanese planes over Pearl Harbor. To insure the fullest possible supply without taking essential men from the assembly lines and the forges, from the shipyards and the munitions plants, the Selective Service Act was amended. The amendment expands the age brackets for military service to include 20-year-olds through 44-year-olds. All men from 18 to 64, inclusive, are required to register for all kinds of war work. With the new law, the United States will be able to recruit an Army estimated at 7,000,000 men.

The Army has come an astoundingly long way since 18 months ago. Then, as General Marshall said, "Each division constituted a force which, when concentrated 3 or 4 months later, would permit one regiment to train—if all the other troops of the division stayed in camp and loaned their transportation to that one regiment."

The Future Is the Present

Today, the Army is encamped all along our seaboard, far inland, at our overseas bases, and in the Canal Zone. Our Air Force can strike from the mainland and from our overseas bases against invaders of our country or South America. Teams of air and mechanized forces have shown in maneuvers that they can work together effectively.

Yet, as Secretary Stimson said just before the Axis struck: "In the light of present world conditions the Army which we are now training is far from large. Our total military forces amount only to a slightly larger number of soldiers than were contained in the armies of Belgium and Holland at the time when they were overthrown in a few days by the might of Germany. We are trying to arm them with weapons of a better quality than those in the hands of any other soldiers in the world, and we are trying to fit them to be not only the equal of any such soldiers but to serve as the leaders and teachers of the large forces which the future may show it is necessary for us to raise."

That future has now become the immediate present.

THE JOINT EFFORT

Our Unique War Weapon

The sun never sets on the men and materials of the Lend-Lease Act, passed by Congress a scant 10 months ago. It is a unique war weapon. The men who fight or labor under the banners of lend-lease range from young British pilots, trained in the United States, to steamshovel men at work on bases in the cold and fog of Northern Ireland. The materials vary from vitamins for the babies of besieged England to bombers and tanks.

The theater of lend-lease is the world itself. Thirty-three governments, in addition to the British Empire, are eligible for benefits. The United States, with roughly 7 percent of the world's area and population, has pledged itself to become the arsenal of democracy for 72 percent of the world's area and for 64 percent of its peoples. To this end almost \$13,000,000,000 has been appropriated.

Does the Axis plan a push eastward? We are preparing for such a thrust. Out of lend-lease funds, British bases are being built at Rangoon in Burma, at Karachi on the Arabian Sea, and other vital outposts on the Persian Gulf and in Eritrea. With \$50,000,000 from lend-lease, the Army Air Corps Ferrying Command has delivered more than one thousand planes, in the main bought with British funds. Pan American Airways has received a subsidy for a new route across the South Atlantic. Another lend-lease air line reaches to Iceland. Trucks supplied with lend-lease fuel and oil careen over the crazy twists of the Burma Road, China's main life line. The United States Public Health Service is battling malaria among the 250,000 Chinese laborers who are building a railroad, paralleling the Burma Road.

The "relatively small trickle" of assistance—so it was described last September—can hardly be called a river even now. But it is a stream and it is growing fast. Last March only \$18,000,000 in lend-lease aid were given. By November 1941 this swelled to \$283,000,000 a month. A grand total of 1.2 billion dollars has been spent, which is some 10 percent of all we have spent for defense and war since the Lend-Lease Act was passed.

The stream must become a river, a torrent, and then a flood. Training British pilots, guarding the health of those who labor on the Burma Road, repairing war and merchant vessels—all must continue and be augmented. Planes, tanks, guns, ammunition, and food must flow in even greater quantities to Russia, the Dutch East Indies, Australia, Burma, China, Africa, the Middle East, the British Isles, and South America.

The story of lend-lease goes back to the collapse of Europe. France had been buying here. Great Britain, to a much greater extent, had been exchanging her credits in this country for munitions and other supplies. The spring of 1940 brought disaster. An invasion of England seemed certain. We did not wait upon technicalities. The British received all the guns, munitions, and other supplies which we could spare. The guns were of World War vintage and their value had been written down from 300 million to 43 million dollars. Yet they might well have saved the British Isles had England been invaded.

That summer the American people awoke to their own danger and the first of the defense billions was provided. Our policy was defined by the President—defense of the Western Hemisphere; continued and increasing aid to Great Britain; the freedom of the seas; denial of appeasement to Hitler.

H. R. 1776

By now it was a joint effort. The winter and early spring of 1940-41 made it apparent that the joint effort would fail unless the hands of Britain were upheld. The

British, who had continued to buy their necessities of war, were running out of dollars. Ships were being sunk in the Atlantic at the rate of 5,000,000 tons a year. On January 10, 1941, a bill with the historic number, 1776, was introduced in the House of Representatives. This was the Lend-Lease Act. It was followed by an appropriation of \$7,000,000,000. Seven months later a second appropriation of nearly \$6,000,000,000 was approved.

It was relatively easy to appropriate the billions; it was infinitely more difficult to transform the dollars into weapons or services or food—and, finally, to get them on ships en route to their destinations of desperate need. No Government agency existed to do the work. Our industrial productive system was already jammed. The shortage of ships grew hourly more grave as the sinkings continued.

The first organization created by Executive order was the Division of Defense Aid Reports. Subsequently, the Division's name was changed to the Office of Lend-Lease Administration. A clearing house for requests for aid from the nations which are fighting the fight of the democracies, the Lend-Lease Administration buys nothing, produces nothing, delivers nothing. The purchasing, producing, and delivering are done by the War and Navy Departments, the Department of Agriculture, the Treasury Department, and the Maritime Commission. The State Department makes the agreements whereby nations receiving assistance clearly understand their rights and obligations. The Board of Economic Warfare is consulted, as is the Office of Production Management. Final determination of the countries to be assisted rests with the President.

Actual exports sent abroad thus far hardly exceed \$600,000,000. The balance of the 1.2 billion dollars already spent went for services rendered, for air and other training programs in the United States, for the repair of ships, the construction of munitions plants. Future exports will be gigantic when we achieve all-out war production.

Lend-Lease in the Air

Of the total of 2.8 billion dollars appropriated for aviation, 2.7 billions already have been earmarked, and contracts up to 1.8 billions have been let. Few of these airplanes have been shipped abroad as yet, but they are beginning to come off the assembly lines.

Other aerial warfare activities financed by Lend-Lease include the Army Air Corps Ferrying Command, new air lines across the South Atlantic and from West Africa to Egypt, new airports, the training of thousands of British pilots.

For lend-lease ships and shipping, nearly \$2,000,000,000 has been authorized. On our East and West coasts, on the Gulf of Mexico, and on the Great Lakes 26 shipyards are turning out lend-lease ships. Existing yards are being enlarged and new ones built.

Sailors of British war vessels and merchant ships have been fed and housed here while their ships were being repaired.

Lend-lease appropriations for war on the land total almost \$5,000,000,000. This will go for ordnance, for tanks, for miscellaneous military supplies, and for expanding production facilities in the United States. All this is aside from supplying food.

To Great Britain have gone guns, tanks, medical supplies, raw materials, and machine tools. These necessities are to go also to Australia, New Zealand, India, and South Africa. Several hundred American tanks have already been in combat in the North African campaign.

Aid to China is far from adequate. But heavy machinery of various kinds has been sent. Materials for the new railroad along the Burma Road have been supplied; also arms and ammunition.

Russia is promised \$1,000,000,000 in lend-lease assistance by June. American material has been going to Russia since July, paid for by Russia and not under lend-lease. Lend-lease shipments, still far from large enough,

are expected to be stepped up rapidly. This will include large quantities of oil and gasoline.

Lend-Lease Food

The millionth ton of American food has safely arrived in England. This has defeated Hitler in his attempt, through submarines and aircraft, to starve England into submission. For a time this was a real threat. As long as present shipments are maintained, Hitler will never starve England. More than that, with fuller rations, British workers will be able to increase their production of munitions.

Food for England was a primary objective of the Lend-Lease Act and is one of the most successful parts of the entire program. Over half a billion pounds of meat and fish products had been provided by the end of November 1941, in addition to hundreds of millions of pounds of sugar, eggs, milk, fruits, vegetables, cereals, and grains. We have undertaken to do much more. By the middle of 1942 we will have supplied these totals: dairy products equivalent to 5.6 billion pounds of milk; meat and lard from 9,000,000 hogs; eggs from 40,000,000 hens; 45,000,000 pounds of chicken—among other items. As a whole, food shipments will represent 6 or 7 percent of our total farm production. Weather permitting, production of those foods most needed for human health will be greater than ever in our history.

No touch of altruism lies in the lend-lease program. We have been sending supplies to the nations which have fought a delaying action while we were getting prepared. In exchange for lend-lease aid, American airfields have been permitted in British territory in Africa; from all over the world we are getting vital supplies of essential war materials—chromite, asbestos, platinum, tung oil, tin, tungsten.

The purpose of the Lend-Lease Act is military. It is a war weapon. Methods of repayment have been left

until after the war. The law says, "the benefit to the United States may be payment or repayment in kind or in property, or any other direct or indirect benefit which the President deems satisfactory."

The first benefit is to be the defeat of the Axis.

THE BATTLE OF ECONOMIES

The Silent War

While our sea, land, and air fighters are meeting the Axis throughout the world, action has been joined on still another front. This silent and stubborn battle may well be the most decisive of all. It is the battle of economies. It is a war of commerce and shipping, of barter and buying, of loans and agreements, of blacklist and blockade. It is starvation for our enemies and food for our friends.

The term "economic warfare," with all its exciting, if vague, connotations, has become familiar to the average citizen in recent months. Just what does it mean? It means fighting the Messerschmitt before it is a Messerschmitt, fighting the tank before it is a tank, smashing the submarine before it can go to sea. It means preventing the manufacture of Axis weapons of war by preventing the Axis from getting raw materials. It means getting raw materials for our own production.

In the days of the Napoleonic wars, indeed of our own Civil War, the technical equipment of armies was relatively modest, and a belligerent nation could furnish its own metal and supply. To prosecute war successfully today—to build planes, ships, armaments—raw materials must be brought from every corner of the earth.

The production of the tools of war is an endless adventure into chemistry and metallurgy. Armor plate for battleships and tanks requires not only steel but manganese, nickel, chromite, tungsten, and vanadium—coming from Latin America, Canada, Turkey, Africa, and China. Armor-piercing bullets and high-speed tools depend upon

tungsten that comes from China, Bolivia, and the Argentine. Platinum is needed in the manufacture of smokeless powder. Platinum comes from Colombia, Canada, South Africa, and the Soviet Union. South America's bauxite becomes aluminum for airplanes.

For more than 18 months a host of Government agencies, each working in its own specialized field, has been laying the battle lines to see that we get these necessities, and that the Axis doesn't.

The Pre-War Enemy Attack

One of our most important moves in this battle of economies has been to counter the enemy's attacks upon us. He has worked for many years to weaken our military potential. Through patent controls and cartel agreements he succeeded in limiting American production and export of many vital materials. He kept the prices of these materials up and the output down. He was waging war, and he did his work well, decoying important American companies into agreements, the purpose of which they did not sense. Our businessmen were peaceful traders. The enemy's businessmen were and are, all over the world, agents of aggression.

The list of materials affected is long—beryllium, optical instruments, magnesium, tungsten carbide, pharmaceuticals, hormones, dyes, and many more. When you match each product with its military use, the significance of the attack becomes clear. Beryllium is a vital element for alloys that make shell springs; magnesium makes airplanes and incendiary bombs; tungsten carbide is essential for precision machine tools.

Concealed behind dummy corporations, the enemy went unchecked for years, using our own legal machinery to hamstring us. In the summer of 1938 our Government began to fight back. Investigation, exposure, antitrust indictments, and decrees have broken up many of the agreements that bound us. Every product listed above is now free from restrictions.

Our Government also has worked to break cartel arrangements under which certain of our products were shut off from South America and other markets of the world.

Foreign Funds Control

Not all our action on the economic front has been defensive. Since April of 1940 we also have carried the economic battle to the enemy.

More than \$7,000,000,000 of assets of 33 foreign countries have been frozen in the United States. Such action automatically severs normal economic relations between the United States and these countries.

Foreign funds control helps our friends and harms our enemies. When Germany invaded Denmark and Norway, the President, by Executive order, froze Danish and Norwegian assets in this country. Thus, the assets of these countries are prevented from falling into Axis hands. As other nations were invaded or dominated, the control was extended successively to the Netherlands, Belgium, France, and the Balkan States.

In June 1941 the assets of Germany, Italy, and their satellites were frozen and, shortly afterward, the assets of Japan. The control now embraces all of continental Europe except Turkey. After the fall of Manila the assets of the Philippines were frozen to thwart the Japanese. Blocked assets include bank deposits, earmarked gold, securities, merchandise, patents, business enterprises, and other forms of property.

These things, in themselves, are the tools of economic warfare. The freezing of assets paralyzed German and Italian efforts to acquire vital and strategic materials in the Western Hemisphere. The Axis was using American dollars and American banking facilities to underwrite sabotage, spying, and a propaganda campaign in both North and South America. The blocking of Axis assets abruptly choked this poisonous stream.

Against Japan, the blow was even more telling. Japan's economy is heavily dependent on imports. So is her war

machine. Japan's purchases of mercury—vital in certain explosives—increased 240 times in 1940 over the amounts acquired in 1938. Her purchases of zinc increased 60 times. In a 2½-year period she bought 4,350,000 tons of scrap iron and steel here. This accumulation of stocks for the war that is now a reality ended on July 26 when the United States, Great Britain, and the Dutch simultaneously applied freezing control.

Approximately 2,500 business enterprises with varying degrees of foreign domination now are operating under licenses granted by the Foreign Funds Control. Each firm is required to file an affidavit giving the organization of the corporation, officers and directors, nature of operations, and its principal customers. Periodic reports must also be filed. As a result of this, plus the first comprehensive census ever made of foreign-held property in the United States, the Treasury Department now has in its files strategic information on the structure, activities, and background of Axis-owned and Axis-dominated concerns.

All security accounts of foreigners have been frozen. The unlicensed importation of securities from any foreign country has been prohibited. This struck against the Axis, which has attempted to dump into the American market a wealth of securities looted from fallen countries.

The Blacklist

Another powerful weapon in fighting Axis influence has been the Blacklist or, to give it its legal name, the Proclaimed List of Certain Blocked Nationals. First used against Axis agents in this hemisphere, the Blacklist has now been extended to cover the neutral nations of Europe.

The Blacklist is in effect a roll call of individuals and firms with which Americans must not trade. There are now approximately 5,600 names on the list. They represent billions in Axis investment. In one small Central American country alone German firms did an annual business of between \$75,000,000 and \$100,000,000.

The names on the Blacklist—a Who's Who of Axis undercover agents and their dummies—represent months of investigation and intelligence work by the Office of the Coordinator of Inter-American Affairs, the Department of Justice, Treasury, the Department of Commerce, and the State Department's diplomatic missions in the various countries.

Particular effort has been made to prevent dislocation of the economy of the democracies of the Americas, as a result of the eradication of Axis influences. Guatemala is an example. Germans there owned 50 percent of the coffee industry. To have barred this German-grown coffee from the United States would have created a desperate financial crisis in Guatemala. Treasury and State Department representatives arranged for the Guatemalan Government to take over the coffee crop and clear it to this country through a central bank in Guatemala City.

The Blacklist has effectively ended, except for small quantity smuggling, all direct trade with Axis firms. The problem now is to deal with firms serving as cloaks for enemy trading. The profits from dealing in contraband are enormous. Some companies have been offered as much as 75 percent of the value of an export cargo merely for the use of their names as the shippers.

It is now accurate to say that Hitler and his partners will find no further economic aid or comfort in the republics of the Americas.

Other Weapons

Directing our campaign in this battle of trade, the Board of Economic Warfare aids the military in the establishment of blockades. It also is empowered to control exports under a licensing system and to requisition and seize commodities whose export is forbidden under emergency laws.

Recently 590,000 pounds of tin plate were seized in a New York warehouse. Purchased a year ago and kept

in storage, the tin plate was consigned to an industrial concern in a nation now dominated by the Axis. Thousands of tons of aluminum and iron and steel products originally billed for similar destinations have been found in warehouses and in railroad yards. The Government is taking over and using these goods.

Control of exports and the Blacklist are inseparable. The shipment of many nonvital commodities to South America and the British Empire is freely permitted under so-called general licenses, but such licenses are not granted until the Blacklist has been consulted. Issuing of licenses has been greatly speeded so that legitimate industry does not suffer. Some 3,000 applications are being handled a day. In most instances a decision is made within 2 days.

The elimination of Axis-controlled air lines in South America is another excellent example of successful economic warfare. The shipment of high-octane gasoline to suspect companies was cut off. Most of the Republics wanted to buy out foreign owners but lacked the means. An 8-million-dollar lending fund was set up to facilitate these purchases. In September of 1939 there were 4,109 miles of Axis-dominated lines in Bolivia; now there are none. There were 5,494 miles in Colombia, 594 miles in Ecuador, 1,210 miles in Peru. Now there are none. The job is virtually complete in other countries.

Not content to block the export of products from the United States to the Axis, we have worked to prevent the Axis from getting strategic materials from any country. We have contracted for the purchase of materials which might otherwise be sold to enemy agents.

Before the end of 1940 agreements had been signed which assured us substantially the entire copper production of Chile, Mexico, and Peru. In November 1940, we agreed to buy almost all Bolivian tin not earmarked for Great Britain. A few months later, in the face of higher Japanese bids, an agreement was made to purchase Bolivia's entire tungsten output. Under the 1941 agreements with Brazil, Mexico, and Peru, we are taking the

entire exportable surplus of almost all their strategic materials. We have made similar arrangements for the control of Colombian platinum and Cuban sugar.

Supplying a Hemisphere

Choking off the enemy's sources of materials fitted naturally into our broader efforts to obtain our own stocks. The Government's stock-piling program—to build up reserves of imported war materials which might be cut off in time of war—began in the summer of 1939, but feebly. It was stepped up after the fall of France. These reserves will continue to be bolstered, but their exact size will be kept secret. As users of tires and golf balls are now aware, supplies of some materials are not sufficient to meet both our fighting needs and our civilian desires.

Special studies have uncovered processes for treating low-grade domestic ores, providing new sources of strategic metals. Agriculture research men are working to develop substitutes for materials which we have imported from the Far East. New uses have been found for some of our own most common products.

In the case of rubber, we are supplementing our stock pile by building synthetic rubber plants, by increasing the reclaiming of rubber, by stimulating rubber production in South America, and by preparing the way for increased production of guayule rubber, which comes from a shrub we can grow in our own Southwest.

Our dependence on the democracies of the Americas for strategic materials carries with it an obligation to send in return the manufactured goods they can get nowhere else. It is a part of our economic policy to continue sufficient exports to our neighbors to satisfy their minimum essential requirements, treating their civilian needs as we would our own. Special consideration has been given to supply them with machinery needed for their part in the productive effort. We have granted export licenses for tin plate to maintain the canning

industry of South America. We have given high priority ratings for railroad equipment to Brazil.

The allocation of supplies is worked out, so far as possible, in cooperation with the other American Governments.

To aid in the financing of these purchases and to develop new, untouched resources the Export-Import Bank has granted loans and credits to eighteen American republics. For example, credit was extended to Brazil for the erection of a steel plant. Costa Rica, Ecuador, Nicaragua, El Salvador, and Panama have received loans for highway improvements; Haiti for rubber production. Outstanding loans and undisbursed commitments now total approximately \$290,000,000.

Beyond today's objective, to defeat the Axis in the war, lies the peace of tomorrow. The economic highways we have pioneered in war will still be there. If we have pioneered well, the blows struck in economic warfare will be blows struck for our future freedom and prosperity, and the freedom and prosperity of all friendly nations, large and small, everywhere.

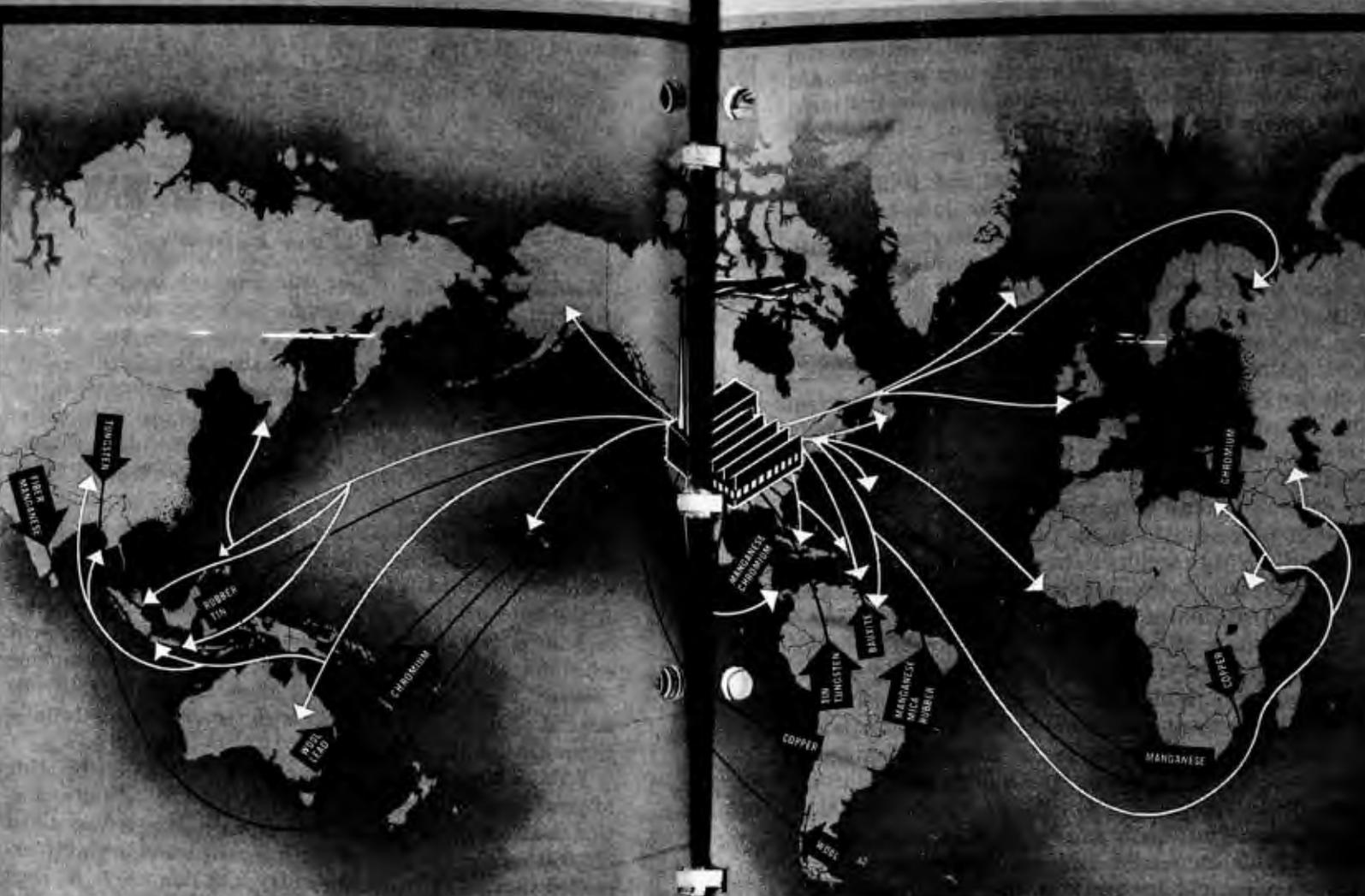
SHIPS FOR THE WORK OF WAR

The Globe is Our Battlefield

A major objective of our war program is the building of a merchant shipping fleet on an unprecedented scale. The war has spread over all the continents and all the oceans. The whole planet has become a battlefield. Tremendous quantities of supplies must be sent across uncounted leagues of water. Our ships must take them across the Atlantic to Britain, across the Pacific to Russia, India, and Burma, north to the Arctic ports, and south into the Tropics.

Our supply lines must reach from our own industrial arsenals over the seas to fighting fronts of the whole world. The Maritime Commission is now launching ships at the rate of 1 every 24 hours. In the next 6 months, or before, it expects to be launching 2 a day. Present schedules call for the building of about 2,000 oceangoing vessels. Eighteen hundred of these are to be ready by the end of 1943, in accordance with the expanded schedules announced by the President.

Today's program dwarfs our First World War building of the bridge of wooden ships. At the time of the armistice peak employment in American shipyards was about 350,000 men. We had at least equaled and possibly exceeded that total before our entry into this war. At least 750,000 men will be at work building ships in America for ourselves and other nations fighting the Axis when the present program is in full operation. New methods of prefabrication and welding have drastically cut the time it takes to build ships.



THE ARSENAL OF DEMOCRACY

 Incoming—Strategic Raw Materials
 Outgoing—Planes, Tanks, Guns, and Supplies

Up to the beginning of December 1941 contracts had been signed for 999 ships; keels for 272 had been laid; 154 had been launched—and 123 of these had been delivered and sent into active service.

According to the schedule set before President Roosevelt ordered further increases in 1942 and 1943 production, 79 new merchant ships were to be launched in the first quarter of this year, 131 in the second quarter, 167 in the third, and 140 in the fourth. For the first quarter of 1943 these plans called for 154 vessels, 166 in the second quarter, 158 in the third, and 173 in the fourth. Those figures are now being revised upward to meet the goals set by the President.

With the Navy also carrying out the greatest program for building fighting ships in our history, the capacity of our existing yards was long ago exceeded. To meet the demand, the Maritime Commission has ordered 131 new shipways. More than 95 percent of them are already in use and the rest are to be in production in the next 2 months. Shipyard facilities have increased since the Commission began its program in 1937 from 10 yards with 46 shipways capable of turning out vessels 400 feet or more in length, to 40 yards with 275 ways, capable of this work. Twenty-nine of these yards—with 202 ways—are devoted to building oceangoing merchantmen. The 40 yards are strategically located along our Atlantic, Gulf, and Pacific coasts to take the fullest advantage of existing facilities, labor supply, and industrial production. Other yards and plants, many of them on the Great Lakes, are launching a great many smaller craft of importance to war work, such as coastal tankers, coastal cargo boats, barges, seagoing and harbor tugs, and the long carriers that carry ore down the Great Lakes.

The Shipway Assembly Line

Speeding up of the present huge construction program depends primarily on labor, materials, and equipment.

The principal shortage of equipment is in propulsion machinery—engines to make the boats go.

A wide distribution of work among available manufacturing concerns, large and small, was devised when the construction program first got under way. The Commission reports that the shipbuilders of America have applied their ingenuity to the development of new techniques to the end that a shipway shall become, as nearly as possible, an assembly line.

After the Nazis got control of Europe's continental coast from Norway to Spain, a shortage of ships to meet our commercial needs and our promised aid to Britain soon developed. As the fighting areas spread over the earth, the shortage was aggravated. Since the beginning of the war, the Commission has permitted the transfer of 227 ships—vessels of 1,000 gross tons and over—to foreign flags. These ships total approximately 1,100,000 gross tons. They consisted of vessels considered obsolete from an economic standpoint. Many had not been in use for several years.

Another 200 vessels, totaling about 1,500,000 gross tons, have been transferred to Army and Navy use since the fall of 1939.

Moreover, the President directed the Commission in April 1941 to assemble a pool of 2,000,000 tons of shipping to be allotted to the nations resisting aggression.

All these transfers and allocations account for more than 4,000,000 gross tons of shipping, 50 percent of the 8,000,000 tons of oceangoing merchant shipping available to this country when we went to war.

Meantime, while the ships were being transferred or allocated, the volume of goods to be transported grew. In 1938, our sea-borne foreign trade called for the transportation of 75,000,000 cargo tons. American ships moved about 26 percent of this trade. Now, preliminary estimates indicate that the total movement of our exports and imports for 1941 exceeded 80,000,000 cargo tons—and that

American ships accounted for 33 percent of this movement.

Under the Ship Warrants Act, approved last July, the Commission is authorized to prescribe conditions as to ship operations and, in that way, to enforce priorities in all merchant shipping entering American ports. Britain has a similar system—so that our two nations, between them, can exercise control over the operations of virtually all the world's merchant shipping not under the fist of the Axis.

To date, the Commission and our armed forces have acquired the services of 100 foreign vessels, aggregating more than 550,000 gross tons, which had been immobilized in American ports. Other American republics have similarly taken over 72 ships amounting to more than 360,000 gross tons. These actions have helped alleviate the shortage of ships.

The Search for Seamen

The problem of getting officers and crews for all these ships is considerable. About 40,000 seamen of all ratings and 10,000 officers now are serving on 1,200 boats engaged in deep-sea trade. With a program calling for more than double this number of ships by the end of next year, at least another 40,000 seamen and 10,000 officers will be needed. Some of the new ships will carry Army and Navy personnel. Some may sail under friendly foreign flags with foreign crews.

The Commission is assuming that crews will have to be found for at least 800 ships. On the average, a merchant vessel requires 35 seamen and 8 officers. Eight hundred new ships would call for 28,000 seamen and 6,400 officers. Some can be recruited from among seamen who have retired or who have found better paying jobs ashore. The Commission is now planning to train at least 25,000 new seamen and 6,300 officers in the next 2 years.

The training-ship fleet has been increased from 10 to 18 vessels. Unlicensed personnel, including apprentice sea-

men, are being trained at shore stations; licensed officers at stations aboard merchant ships, and at four State marine academies.

At two stations training in gunnery is being given to new seamen and officers. This will be extended to other stations and training ships as soon as ordnance now on order is received from the Navy. The men in our new merchant fleet are going to be armed and trained to protect the cargoes they deliver.

A. F. of L. met with representatives of industry to draft voluntarily a formula to insure industrial peace and prevent interruptions in production. This conference reached a unanimous agreement on a three-point formula which was immediately adopted by the President:

1. There shall be no strikes or lock-outs.
2. All disputes shall be settled by peaceful means.
3. The President shall set up a proper War Labor Board to handle these disputes.

On January 12, the President created the War Labor Board, superseding the National Defense Mediation Board. The new Board consists of 12 members, with representatives for the public, for labor, and for management. In the maritime field, labor and management representatives agreed unanimously on the creation of a similar Maritime Labor Board to settle all disputes. The United States Maritime Commission said this agreement assures uninterrupted shipping service for the length of the war.

Ten Million Workers Need Appli

War industries are expected to need another 10,000,000 workers before the end of 1942. Shortages of some skills cannot be avoided. However, great as are our labor needs, they can be filled from the vast reservoir of manpower that lies in our population of 133,000,000. Where in 1918 only 286 men and 266 women in every thousand were of normal working age, today in every thousand we have 296 men and 293 women of working age.

We are prepared to tap this vast reservoir of manpower. When industry began tooling up for defense the W. P. A. estimated the number of unemployed at 9,000,000. About 5,200,000 now have been absorbed. It is expected that one-half of those still unemployed will be at work before next December.

Since the early summer of 1940 the greatest worker training program we have ever known has been under way. Nearly 2,500,000 workers have received training in

1,200 vocational schools, 155 colleges and universities, and in 10,000 public school shops. More than 600 schools are operating on a 24-hour basis. In addition, several hundred thousand youths have been given work experience and defense training under N. Y. A. and C. O. C. Workers in 1,800 plants have been reached by training within industry itself.

To offset the serious shortage of "lead men," particular emphasis has been laid on the training of foremen and supervisors. Since August about 12,000 supervisors have been trained in 700 plants. The goal is to turn out 350,000 such supervisors, 200,000 of them in the next 6 months.

For some skills, 3 to 4 years are required to train workers. The emergency demands short-cuts. They have been found in such devices as "up-grading," by which workers are moved up through the higher skills within a plant and new workers are hired to fill their places. One aircraft factory was able to expand its labor force from 1,200 to 7,500 in a few months. Employees who had done nothing more complicated than handle a wheelbarrow were "upgraded" to semitechnical operations on the assembly line.

Labor unions in the skilled and semiskilled trades have been searching out former members from the stores and filling stations to which they went during the depression. A more intensified recruiting of such workers will be launched immediately after the new draft registration.

The 1,500 State employment offices scattered throughout the country are being centralized under the United States Employment Service. The Employment Service will operate on the basis of regional labor markets and clear requests without regard to State boundaries.

Help Wanted on the Farm

The Employment Service, too, is trying to place every available farm worker. With record crops in prospect,

an acute shortage of agricultural labor threatens. Farmers on family-sized farms have been unable to pay wages high enough to compete with industry. Hundreds of thousands of young farmers are going into the armed forces. To fight this shortage, farm families, women and children as well as men, will have to work longer and harder. City youths probably will be organized to go out to the farms for seasonal jobs. A woman's "land army" may be recruited.

Determined to end raiding, O. P. M.'s Labor Division has been arranging industry-wide agreements between workers and employers, stabilizing rates of pay in plants doing similar work. Agreements already have been worked out in the shipbuilding, aviation, and construction industries. Without such agreements, shipyards, aircraft plants, and construction projects would compete in paying higher wages, the Government would have to pay more for munitions, and production schedules would be disrupted by needless migrations of workers.

A Committee on Fair Employment Practice in O. P. M. has been working to eliminate color, creed, and nationality prejudices in the hiring of workers. Efforts are being made to level the barriers against older workers. In the railroad industry the age limit for hiring skilled labor has been raised from 45 to 51; for unskilled workers, from 45 to 60.

Women at the Benches

Beginnings, too, have been made in the recruiting of women for war work. During the last war, nearly one-fourth of all the employees in aircraft plants were women. Before this war ends, one-third of our aircraft workers may be women. In some plants women already are doing light sheet-metal work, riveting, welding, spray painting, pasting, and gluing. Women have been found particularly adaptable to small-arms ammunition work, and in the Frankford Arsenal in Philadelphia nearly 40 percent

of the employees are women. Other women are making gas masks and working as bench hands, solderers, and inspectors in arms and munitions factories. It is estimated more than 500,000 women now are employed in war work. But today only 4 women in every 1,000 are working in war industries, while in 1918 there were 21 such workers in every 1,000.

In shipyards, hours of work have been lengthened to 48 a week, while in some of the critical war industries, such as machine tools, overtime has extended the working day to 9 and 10 hours. The various labor agencies of the Government are keeping tabs to see that this lengthening of hours is not pushed to the point where the efficiency or morale of labor suffers, or where health and safety standards built up during the years are broken down.

As a further source of labor, several million workers are expected to be freed for war jobs as less essential industries are curtailed. Workers will turn from making automobiles to making tanks, from compacts to ammunition, from sewing machines to rifle parts, from fountain pens to fuses, from rat traps to camp cots, from pipe fittings to hand grenades, from lawn mowers to shrapnel, from women's lingerie to mosquito nets.

The same process, however, will produce some temporary unemployment. To minimize hardships, labor defense committees have been established in all industries likely to be affected. Labor and management have come to agreement on certain basic principles in handling problems arising out of curtailments. In the rubber industry, for example, the program calls for protection of seniority rights, transfer of employees from non-war to war jobs within plants, preferential hiring of displaced workers, recall of workers for war tasks, and retention of seniority rights by workers in training for new war jobs.

Surveys have been made of more than 100 communities where serious curtailment of civilian industries seemed

likely and 15 cities, particularly hard hit by unemployment, have been certified for special consideration in the awarding of war contracts. About \$20,000,000 worth of contracts have already been placed in these cities.

Statisticians estimate that our ultimate war effort may require 50,000,000 man-years of work.

THE HOME FRONT

First Things First

Our plush days are over. We are no longer the care-free land of plenty, every counter heaped with chromium-coated gadgets, every store bursting with limitless supplies of shoes and sealing wax. Total war requires so many materials that there is just not enough to go around. The production of ammunition requires copper that formerly went into ash trays, weatherstripped windows, or toy trains. We need the ammunition. We can do without the toy trains.

To see that first things come first is a major task of the new War Production Board which supersedes the Supply, Priorities and Allocation Board, or S. P. A. B. The new Board includes representatives of the agencies formerly represented on S. P. A. B.: the Army and Navy, the Board of Economic Warfare, the Office of Production Management, the Office of Price Administration, the Federal Loan Agency, and the Lend-Lease Administration.

Immediately after its creation S. P. A. B. called for detailed estimates of all requirements of materials, labor, and equipment for the succeeding 18 months. The situation on strategic materials and tools—including commodities imported from the Far East, such as rubber, tin, antimony, bristles, chrome, mica, and burlap—had been carefully studied before the United States entered the war.

Expansion of production was a general policy of S. P. A. B., and the Office of Production Management was charged with its realization. Since few factories were adjusted to war production at the beginning of the effort,

the job has been tremendous and the perplexities unending. Existing plants have been expanded and new ones built. To this end, the Government and private industry had by December 1, 1941, committed themselves to spend 5.1 billion dollars and 1.2 billions, respectively.

In September S. P. A. B. approved a program of expanding steel ingot capacity by 10,000,000 tons. Before Pearl Harbor, projects for about two-thirds of this program had been approved. Since then additional projects have been rushed through, virtually filling out the 10,000,000 tons. Before Pearl Harbor, too, expansion programs had been drawn up and, in the main, gotten underway to expand our aluminum capacity by 700,000,000 pounds and magnesium by 350,000,000 pounds a year by 1943. With a goal of 125,000 airplanes for 1943, both these programs will have to be stepped up.

High priority ratings have been granted to increase substantially the production of high-octane (aviation) gasoline.

Production schedules of all munitions and tools have been accelerated. Before June 1940 the normal annual output of machine tools—without which no airplanes or complicated guns, tanks, or combat cars can be built—was \$150,000,000. This was expanded to \$800,000,000 in 1941, and should reach 1.2 billion volume in 1942.

The Contract Distribution Division of O. P. M. is acquainting the small manufacturer with the part he will play in the war. The conversion of plants and the drawing of small factories and shops into the war program is one of our most difficult problems in switching from a peacetime to a wartime economy. It has not yet been solved.

Protecting What We Have

To insure adequate supplies of scarce materials for war purposes, less essential uses of these materials have been curtailed. Steel plates and welding pipe for the construction of petroleum pipe line, for example, were refused.

Construction projects not vital to the war effort have been limited.

However, ample provision has been made for spare parts and replacements so that the life of durable machinery now in the hands of consumers can be extended. With farm equipment, S. P. A. B. reduced the materials available for making new equipment by 17 percent, but raised the quotas of materials for replacement parts by 50 percent.

S. P. A. B. urged conservation of scarce materials and the use of substitutes. Wood, glass, porcelain, and enamelware are replacing aluminum in the kitchen. Cotton and synthetics are taking the place of silk for stockings and of jute for burlap. The possibilities of saving the copper and nickel in our coins are being explored.

The priorities system is our device for carrying out "first things first." To accomplish the major task—getting guns, tanks, and planes to the armed forces—materials of all kinds have been earmarked for war.

For some time past all of the Nation's supply of such metals as aluminum, magnesium, copper, nickel, pig iron, and steel have been wholly distributed under the control of the O. P. M. Many other materials are controlled largely by specific orders. The operations of priorities have touched directly or indirectly virtually every business enterprise and governmental body in the country.

A system of direct allocations to manufacturers now permits a tight control over all our available materials. Under the new system, manufacturers will be allotted fixed quantities of scarce materials in proportion to their production for war and for essential civilian uses.

To aid our allies fighting the Axis, S. P. A. B. authorized shipments of wide steel plates to Canada for use in constructing cargo ships. A special United States mission to Russia brought back a list of Russian requirements. S. P. A. B. ordered allocation of the necessary materials and immediate shipment.

During 1941 the United States produced more articles for civilian consumption than ever before in its history. To strip off some of this "fat", production cuts have been ordered for everyday goods like automobiles, radios, ice boxes, irons, washing machines, lawn mowers, garden rakes, paper containers, fancy galoshes, and juke boxes. It has been estimated that \$20,000,000,000 of productive capacity, based on 1941 operations can be diverted from civilian to military life. We face immediate and sweeping curtailment of the less essential civilian products.

Price Control

Our eagerness for news from the battle fronts of the world must not blind us to the silent, bloodless battle at home: the battle of inflation. Inflation ravages a population as effectively as bombing from the air. More than 45 percent of the total cost to the United States of World War I resulted from inflation. Should prices continue their present upward swing, they will add to the war program more than the total cost of the first World War. Defense expenditures from July 1940 to December 1941 including sums appropriated by Congress, loans by R. F. C. corporations, and foreign orders totaled 18.4 billion dollars. Of this, 2.4 billion or 13 percent, represented excess cost due to inflation.

Inflationary signs are everywhere apparent. Since the outbreak of war, in September 1939, wholesale prices have risen 24 percent. Almost two-thirds of this increase has taken place within the past 9 months. The cost of living, meaning the prices paid by the housewife for food, clothing, and shelter, has increased 11 percent. Four-fifths of this increase has taken place within the past 9 months. The cost of living is surging upwards at the rate of 11½ percent a month and, should it continue unabated, will have risen 15 percent by March 1942. An increase of 15 percent in living costs means that the great mass of

people will forfeit, to inflation, 1 day's wage out of every 7.

Inflationary pressures are inevitable during wartime. The billions spent on war boom the purchasing power of civilians. But the supply of goods that civilians can buy fails to keep pace. More money bidding for less goods means higher prices all along the line. These price advances in no way increase the available supply. They merely determine who gets the scarce goods. Without price controls, the goods go to those with the fattest purses. People whose incomes are fixed or low suffer harsh reductions in living standards.

Not only must inflation be prevented so that profiteering is prevented and the burdens of war are distributed equitably; it must be prevented also to avoid social and economic prostration after the war. The higher prices are allowed to rise now, the farther they must fall after the war.

The Wage Ceilings Work

In the absence of specific price-control legislation, the Office of Price Administration has relied on informal, persuasive means of control, supported by the emergency powers of the President. These controls have taken the form of suggestions and warnings, letters freezing prices, lists of fair prices, voluntary agreements with individual producers, and more formal price ceilings. Ceilings do not "fix" or "freeze" prices. Only an upper limit is set, below which prices can fluctuate freely. As of December 20, 1941, 57 ceilings had been invoked. In all, 35 percent of the total value of wholesale goods was under control.

The effectiveness of these ceilings has been proved. Since the beginning of the war in September 1939 uncontrolled prices have risen one-third more than controlled prices, although the commodities selected for control have been in greatest demand. Almost half the field of metals and metal products is covered by price ceilings. These

prices have advanced only 10 percent since the beginning of the war. Steel prices, controlled, have remained virtually unchanged since September 1939. In the same number of months of World War I, the price of steel plates, uncontrolled, rose 210 percent. Pig-iron prices, controlled, have risen 15 percent, compared with 53 percent during the first war. Between July 1914 and October 1916 copper prices rose 113 percent. Today, controlled, they have risen 16 percent. During the last war chemical prices more than doubled. Now they have risen one-fifth.

Inflation is being fought along a broad front. Regulations governing installment buying have been tightened to require larger down payments and to shorten the periods in which to pay. The possible inflationary effects of competitive Government buying have been minimized through centralized purchasing. Wherever possible, the supply of materials and goods has been expanded.

In some instances, as in copper, lead, wool, and hides, this has meant increasing imports. To bring in the production of low-cost copper mines, the purchase of this copper at a subsidy price above the ceiling was arranged. Speculators, who in the past contributed to inflation by running wild on the commodity markets, were kept in hand by the Commodity Exchange Administration of the Department of Agriculture. With the cooperation of the exchanges, safeguards such as increased margins on speculative trading and reducing price fluctuation limits have been put into force.

The Anti-Trust Division of the Department of Justice has broken up conspiracies to raise prices. Many high food prices, for example, are purely the result of conspiracies. Indictments have been obtained against cold-storage speculators, cheese distributors, bread companies, grocers, meat packers, and others charged with raising the price of their products by illegal means. Three days after the Department of Justice obtained an indictment against a tungsten carbide monopoly, the price of tungsten carbide fell from \$200 a pound to \$48 a pound.

We Face Increased Control

The attack on Pearl Harbor brought us abruptly to total war, including prices.

Because the United States imports all but 3 percent of its crude rubber from the embattled Far East, a tire rationing program went into effect January 5; more than 85 percent of the Nation's motor vehicle users will be unable to buy new tires. In the past, 70 to 80 percent of our crude rubber went into new tires. Only about a year's normal supply of rubber was on hand October 31.

War naturally means a tightening of the consumer's belt. The Director of Consumer Services of the O. P. A. is charged with seeing that the standard of living is maintained on the highest possible level consistent with military requirements. The Consumer Service has taken steps to create an aware buying public, by means of a field staff that aids consumers in understanding the effect of the war program on their daily lives, and by providing accurate information on good buys in food and clothing throughout the country. There is food enough to go around, but a people at war must eat the right food in the proper proportions.

While prices have been held down successfully in a large sector of the economy, the general price level has continued to advance. The Office of Price Administration warns that we face a disastrous inflationary spiral unless effective price-control legislation becomes the law of the land.

Food for War

Total war will require us to do without many things—but not food. Crop and livestock production for 1941 was the greatest in the history of the country. It was the second consecutive record year. Unless we experience droughts of unparalleled severity, or divert quantities of some specific product, such as sugar, into war uses, we are not likely to have to carry ration cards during this

war. In this, we will be unique among all the warring nations of the world.

The abundance of 1941 was planned. In December 1940 the Secretary of Agriculture appealed to farmers to increase the 1941 spring pig crop. In response, one-seventh again as many pigs were farrowed. In April 1941 with Britain requiring vast quantities of animal protein foods and vitamin-rich and mineral-rich vegetables and fruits, the Secretary again appealed to the farmers. This time he asked for more milk, eggs, meats, tomatoes, and dry beans. Six million pounds more milk were produced, 276,000 more dozens of eggs, and 75,000,000 more pounds of meat.

Even greater production goals have been set for 1942. Last fall a program was drawn up for an over-all increase in agricultural production of 15 percent, sufficient to leave us with a surplus for reserves against the future.

For such commodities as wheat and cotton, of which we have huge stocks, no increase was asked. Instead, farmers were urged to produce more milk, eggs, meats, vegetables. During October and November 125,000 farmer committeemen visited their neighbors in every county, reaching nine of every ten farmers to invite them to sign up for increased production.

Our entry into the war compelled farmers and government to revise these 1942 production goals—upward. Especially now do we need more fats and oils, which means more soybeans and peanuts and flaxseed. The 1942 farm goals now call for production 17 percent above 1940.

Fighting Air Raids

To defeat the enemy's air raids by keeping him from achieving his major objectives—panic, unchecked fires, and the loss of production—is a task for private citizens as well as for the Army and Navy. The Office of Civilian

Defense was established last May to mobilize the necessary forces from the civilian population.

The O. C. D. has provided an organizational framework for volunteer efforts, with regional units under national supervision to assist State and local defense councils. It has assembled a staff of experts on air-raid protection. It has sent two missions to England to study and report on the English experience. It has drawn up plans for handling such emergencies as gas attacks and evacuations. It has published 58 pamphlets and handbooks on civilian protection, and of these it has distributed more than 5,000,000 copies. Thousands of instructors, who were trained before Pearl Harbor, now are holding classes daily for volunteer policemen, firemen, and air-raid wardens.

A civil air patrol has been established, in which it is planned to enroll 90,000 certified pilots, besides other thousands in the ground personnel. By performing many nonmilitary functions now assigned to the armed forces, these civilian volunteers will release Army and Navy flyers for combat duty.

The Emergency Medical Service of O. C. D. is carrying out a detailed plan for the emergency expansion of medical facilities. The American Red Cross has made all its services and equipment available. Cooperation between the Red Cross and O. C. D. will include programs for the collection of blood plasma, the enrollment of medical technologists and nurses, and the training of first-aid workers and volunteer nurses' aides.

The work of organizing local defense councils has gone ahead, beginning with the more critical areas near the two coasts and extending inland. Last May there were only 1,500 councils and many were inactive. By November 1 there were 5,549 councils with 753,000 persons enrolled. Late in December there were more than 6,000 councils, and more than 3,500,000 volunteers had offered their services.

Aliens and Antisabotage

On the first day of the last war when our alien population was twice as large as it is now, only 63 alien enemies were taken into custody. More than 1,000 were apprehended by midnight on December 8, 1941.

This time we were well prepared for dealing with the alien enemy problem. Registration of more than 5,000,000 aliens had been largely completed 1 year ago. To prevent the entry of undesirables or the departure of aliens without proper documents, our borders were practically closed. The size of the border patrol had been doubled.

The Voorhis Act of 1940 had made it possible for our Justice Department to survey and disclose the intent, good or evil, of certain organizations under foreign control and other groups, including exiles from conquered countries and their sympathizers, who advocate the overthrow of governments. These precautions made unnecessary such a general round-up as took place in Great Britain in 1940 when some 80,000 aliens were picked up.

We know already how many aliens there are among us, who they are, where they are, and what they are doing. We realize that 95 percent of them are law-abiding and democracy-loving sojourners.

Since the fall of 1939, the Federal Bureau of Investigation has served as a single coordinating agency for the investigation of matters bearing upon our internal security. It directs the hourly vigilance of its own 2,800 agents, especially trained in modern techniques of counter-espionage.

Sabotage is most effectively met by preventive methods. More than 2 years ago a system of surveying and instituting protective facilities for defense industries and public utilities was set up. Detailed instructions for detecting possible sabotage at vulnerable spots have been distributed widely. There have been explosions and fires in plants making war materials. There will be others. Most of these mishaps are the result of industrial acci-

dents. Compared to a similar period in the first world war, thus far, there has been only a negligible amount of sabotage.

Communications

A 24-hour safeguard of our home front is the policing of the domestic ether to run down suspicious communications. Ninety-one Government monitoring stations, strategically placed throughout the United States and our possessions, patrol the entire radio spectrum. Since July 1940 more than 2,000 cases of illegal or subversive use of radio have been investigated and 23 operators have been convicted. Also detected have been 75 radio circuits operating between Germany and its agents abroad, a German-Japanese radio circuit, and an active radio transmitter in the German Embassy in Washington.

Four particular listening posts intercept foreign broadcasts, note their contents and teletype summaries post-haste to interested government agencies. No station is too weak to be caught by these foreign monitoring stations, and much information is gathered this way which is unavailable elsewhere.

Many months ago the Defense Communications Board, in collaboration with the communications industry and the Federal Communications Commission, began adjusting our peacetime communication system to the defense emergency. As a result, commercial services are being subjected to few restrictions. Radio stations must go off the air if staying on will make them beacons to guide enemy planes. Fifty-five thousand amateurs were ordered off the air on December 8, and some of the wave lengths reserved for their use were diverted to military purposes. Commercial radio stations have granted military and defense agencies needed time on the air. Alternate facilities for all services have been arranged in case normal facilities break down or are destroyed.

The most effective control of information that might help the enemy is control at the source. Citizens must

learn not to pass along facts or gossip which might eventually reach Berlin or Tokyo.

Transportation

It is not enough to produce the materials of war. They must be moved, and moved swiftly, by rail, by truck, by boat to their destination. A successful transportation system depends chiefly on three factors: first, fixed plant equipment, which means motor roads, railroad tracks, navigable waterways, and such things as terminals, docks, and repair shops; second, carrier equipment in the form of freight cars, trucks, buses, barges, pipe lines; third, the use to which these facilities are put.

With 246,000 miles of track—30 percent of the world's railroad mileage—1,300,000 miles of surfaced roads, 28,000 miles of navigable inland waterways, and 310,000 miles of pipe line, the United States has enough fixed plant to meet the severest tests.

We are now not only adding to equipment, but we are making better use of the facilities we have. Railroads, which carry 61 percent of our total freight load, last year handled 33,000,000,000 ton-miles more than in the peak year of 1929. To do this, the loading, unloading, and terminal handling of freight cars had to be speeded up; roundabout routings had to be curtailed. The average load carried by a freight car was raised nine-tenths of a ton—a saving in space equal to 26,000 freight cars. Ice-breaking machines opened the Great Lakes shipping season earlier than usual in 1941. This made possible an all-time record movement of iron ore by Lake boats.

Since September 1939 the railroads have added 150,000 new freight cars and 75,000 more are on order. They have 1,000 new locomotives and another 600 are on order. Trucks have increased from 4,600,000 to 5,000,000 in the past year; 4,500 miles of new pipe line have been added.

Freight traffic, however, has increased to the point where it is now in close balance with the carrier capacity

of the country. To care for the added freight that war will bring—an increase estimated at more than 10 percent in 1942—new equipment will be needed and more ingenuity exercised in using the equipment we have. The rationing of rubber tires will have repercussions all through the transportation system, and may necessitate far-reaching reorganization and coordination of all forms of transportation. This will be done by the newly created office of Director of Transportation.

Housing For War Workers

To more than 300 communities in the country, war work has brought a serious housing problem. For 15 months 10 Government agencies, working under the Office of the Coordinator of Defense Housing, have been pushing a \$792,000,000 program of public housing construction to provide these workers with shelter at reasonable rents.

As of late December, 129,154 housing units had been planned, of which 63,684 were completed. More than 43,000 homes are now under construction, with another 20,000 waiting on the appropriation of additional funds by Congress. In the temporary shelter field, 8,745 trailers and portable homes and 11,051 dormitory units have been provided.

Besides these Government-financed homes, it is estimated another 400,000 privately financed houses have been erected in these same defense areas.

Lacking formal rent-control powers, which are part of the price control bill pending in Congress, the Office of Price Administration's efforts to prevent rent profiteering have been restricted largely to the formation of so-called "fair rent" committees in some 150 defense areas. The usual practice is for the committee to select a date and publish a statement saying that as of that date rents were fair. Complaints by tenants are investigated. If landlords refuse to lower their rents, public pressure is exerted. In the District of Columbia where the vast expan-

PAYING FOR THE WAR

The Rate of Spending

Seventeen months of rearming and 1 month of fighting the war have cost the American people some 15.6 billion dollars, in appropriations and R. F. C. loans. This we have actually spent for making weapons and for training manpower.

Two years ago such a prospect of spending for arms would have taken our breath away. After a month of war this huge sum does not begin to approach the cost of ultimate victory.

We were relatively slow in getting started, reluctant to stop producing the goods of peace and to start producing the instruments of war. Yet the past 12 months have seen the highest Government expenditure in our history. In the calendar year 1941 we spent close to 19 billion dollars—as much as we spent in the previous record fiscal year of 1919. Defense and war accounted for 12.5 billions. Of this 1.8 billions were spent in the last month of the year alone.

This record sum of 1.8 billion dollars, spent in the month of December 1941, while it exactly equals our defense expenditure for the last six months of 1940, represents only about 22 percent of the rate of national income for that month. For the fiscal year 1943 the President has submitted a budget calling for 56 billion dollars in war expenditures, or more than one-half of our national income. Britain's war effort already is consuming about 50 percent of her income, while Germany has diverted an estimated 60 percent to war. The high German figure, however, is made possible by the systematic

looting of materials and goods from the conquered countries.

Those responsible for financial policy have endeavored to work out a sound program of taxation and borrowing, which would not only produce the needed funds, but would also translate into action these fundamental principles; to pay as you go, so far as possible, to spread the burden as fairly as possible, and to avoid the dangers of inflation. Each of these principles called for the imposition of higher taxes.

Year by year the tax structure has been broadened to reach millions of Americans who never before had been called upon to pay direct taxes. The Revenue Act of June 1940 took a step in this direction by increasing the rates or widening the base of almost every existing tax. October 1940 saw the passage of a Second Revenue Act raising corporate income tax rates and introducing a new excess-profits tax. Another, though not an immediate source of revenue, was provided by the Public Debt Act of February 1941, which made the income from all future Government bond issues subject to Federal income taxes.

The stepped-up defense requirements that came with the months that followed were reflected in the Revenue Act of September 1941. This act was intended to raise 3.5 billion dollars additional revenue. A broader income-tax base and increased rates were expected to draw 1.1 billion dollars more from individuals and 1.4 billions more from corporations. Capital stock, estate, and gift taxes were to yield \$180,000,000 more, and excise and miscellaneous taxes to yield \$850,000,000 more.

Spreading the Burden

The trend of personal income taxes over the past two years has been toward spreading the cost of arming among more and more Americans. Under the 1939 Revenue Act 4,000,000 people had to pay income tax. Under the 1940 act 7,520,000 paid taxes. This March, it is estimated, 13,200,000 will pay income taxes. This is not quite a

third of our nonagriculturally employed civilian workers in November 1941.

The 1940 act lowered the exemption of a single person from \$1,000 to \$800 and of a married person from \$2,500 to \$2,000, while the 1941 act again lowered the exemptions to \$750 and \$1,500, respectively. At the same time, national income was rising steadily, swelling tax returns. On July 1, 1940, the national income payments were at the rate of 74.7 billion dollars a year; on January 1, 1941, the rate was 81 billions; on July 1, 1941, the rate was 89 billions; and in October 1941 the rate was 95 billions a year.

Revenue from individual income taxes rose from \$891,000,000 in the fiscal year 1940 to 1.3 billions in 1941, a 47 percent increase. Corporation income taxes reached 1.6 billion dollars or 72 percent more than the preceding year. A steadily rising yield from corporations in 1942 is suggested by recent Federal Reserve figures which show that 416 corporations earned about 38 percent more in the first 9 months of 1941 than in the corresponding months of 1940.

Total net receipts for the year ending last July were 7.6 billion dollars, an increase of nearly 41 percent over the preceding year.

So sudden and so vast an increase presented the Treasury with a number of new problems. To acquaint new taxpayers with their obligations and to insure prompt collection, two new aids for the taxpayer were devised. The first was a simplified tax form for those with incomes under \$3,000, a form so clear that only six simple steps are needed to complete it.

The second was the tax anticipation note, introduced last August. These notes can be purchased at any time and be used in paying future taxes. In effect, those who invest in these notes are paying their taxes in advance and they receive interest for so doing. More than 2.5 billion dollars' worth had been sold by the end of 1941.

Government Borrowing

In spite of growing tax receipts, the Government must look to borrowing for an ever-increasing proportion of the cost of war. Our net deficit, which rose from 3.6 billion dollars in the fiscal year of 1940 to 5.1 billions in 1941, is expected to exceed 12.6 billions by next July 1.

To meet these deficiencies the Treasury goes to the banks and to the people. In the year ending July 1, 1941, the Treasury sold for cash just over 3 billion dollars worth of bonds and notes, and refunded for a similar amount three series of Treasury notes maturing during the year. Since last July there have been four major offerings to the value of 3.7 billions.

Each of these issues was heavily oversubscribed. The latest and largest issues, for 1½ billion dollars of new cash, were oversubscribed seven times on the very eve of our entry into the war. The average interest rate on the Government's outstanding debt is now the lowest in our history, having fallen from 2.566 percent in December 1940, to 2.409 percent in December 1941. Thus, while the national debt has reached the record level of more than \$57,000,000,000 and while the Government's borrowing is greater than ever, it can obtain new money more cheaply than ever before.

Large-scale borrowing from banks involves serious decisions of policy, since these operations, by creating new deposits, may result in credit inflation. In line with a consistent anti-inflationary policy, the Treasury embarked last May upon a new program of borrowing directly from the people. Defense savings bonds, of which by January 1, 1942, about 2.5 billion dollars' worth had been purchased, were designed to reduce the volume of purchasing power by enlisting the current savings of millions of wage earners. High-pressure methods of selling were avoided. Stress was laid rather on the importance of systematic saving as a curb to price inflation.

January 27, 1942

Dear Ed:

Thank you for your memorandum of January 21st sending me a copy of your latest chart showing progress in obligating and allocating Lend-Lease funds. As usual, I am glad to have this information.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Mr. E. D. Stettinius, Jr.,
Administrator,
Lend-Lease Administration,
515 22nd Street, N.W.,
Washington, D. C.

File NMC

OFFICE OF LEND-LEASE ADMINISTRATION
FIVE-FIFTEEN 22d STREET NW.
WASHINGTON, D. C.

109

E. R. Stettinius, Jr.
Administrator

CONFIDENTIAL

January 21, 1942

MEMORANDUM

To: Secretary Morgenthau
From: E. R. Stettinius, Jr.
Subject: Progress in obligating and allocating
Lend-Lease funds

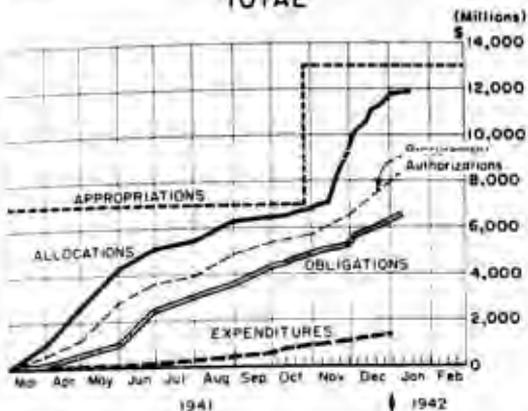
The attached chart on the above subject
is sent you for your confidential information.

Attachment

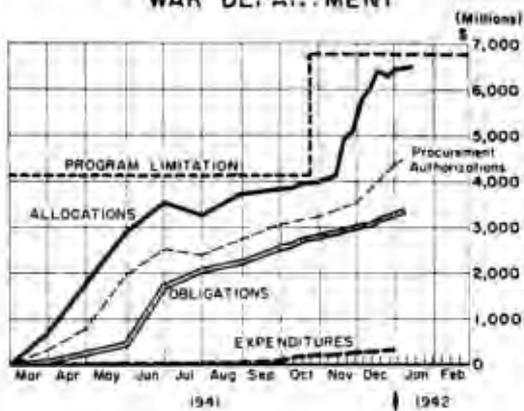


ALLOCATIONS AND OBLIGATIONS LEND-LEASE FUNDS

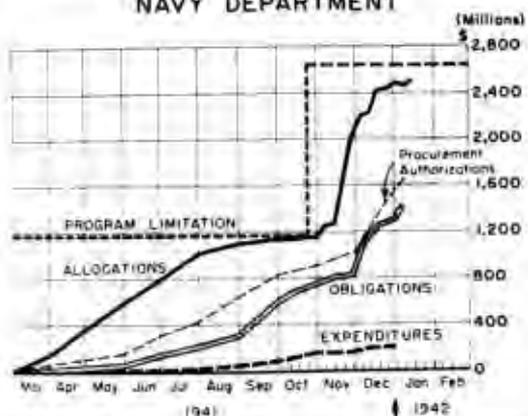
TOTAL



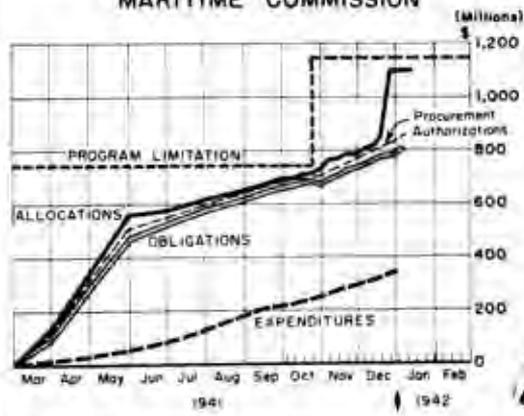
WAR DEPARTMENT



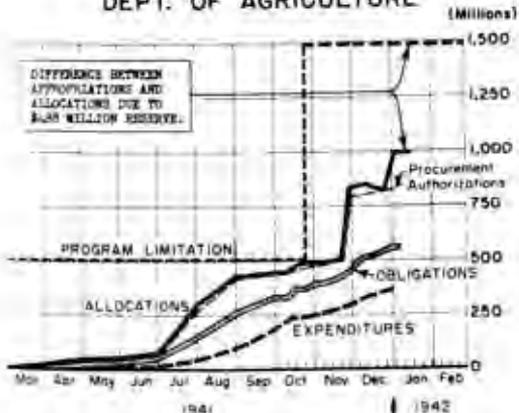
NAVY DEPARTMENT



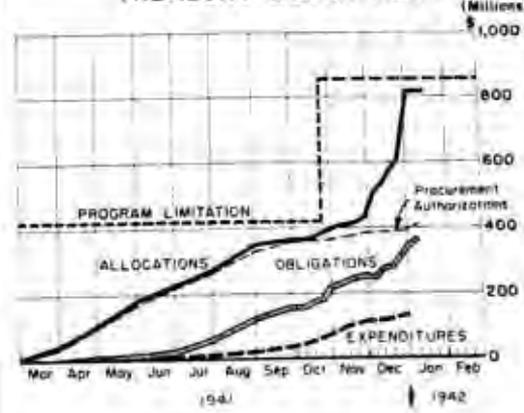
MARITIME COMMISSION



DEPT. OF AGRICULTURE



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ROBERT A. TAFT, OHIO

United States Senate

COMMITTEE ON FINANCE

Handled by phone
Conversation 11:25 am
1/28/42
111

Washington, D. C.
January 27, 1942

My dear Mr. Secretary:

I called you on the phone today in an effort to acquaint you with certain facts concerning the Schering Chemical Corporation of Bloomfield, New Jersey.

This firm was controlled by a group of people who were under the domination of Nazi Germany. Of course when the order went out freezing alien property, the Government was charged with the supervision of this plant. At that time, certain residents of my State of New Jersey in company with a Mr. George Ballowher made an offer to purchase this plant through the Swiss Bank of New York.

This offer cannot be accepted without the approval of your Treasury Department. On Friday, January 30th, this offer of purchase will expire. I am led to believe that the offer made by the New Jersey residents is acceptable in every way. However, the Treasury Department has been considering the matter for close to three months without arriving to a decision. In the interim, other parties have become interested in this proposition, and it is to be assumed that when the offer in question expires, that they will then come in with a new offer probably larger than the one proposed by the New Jersey residents.

Inasmuch as this is a New Jersey plant, employing approximately five hundred New Jersey people, I am vitally concerned in the matter.

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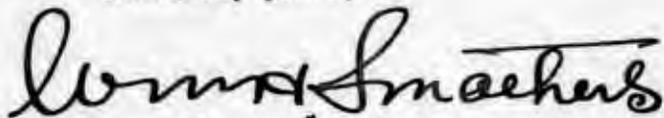
I realize of course that matters of this nature require considerable thought and study. However, I can see no point in allowing the matter to be held up until the day before the purchase offer expires and then in the event an unfavorable decision is made, the persons in question will suffer a great loss.

These interested parties from my State of New Jersey advise me that they have gone to considerable expense and put in a large amount of effort in this proposition. I think the matter is important enough to warrant your very serious consideration.

Incidentally, Mr. Foley, your General Counsel, advised me over the telephone just a few minutes ago that a decision would be made on this proposition one way or another within twenty-four hours.

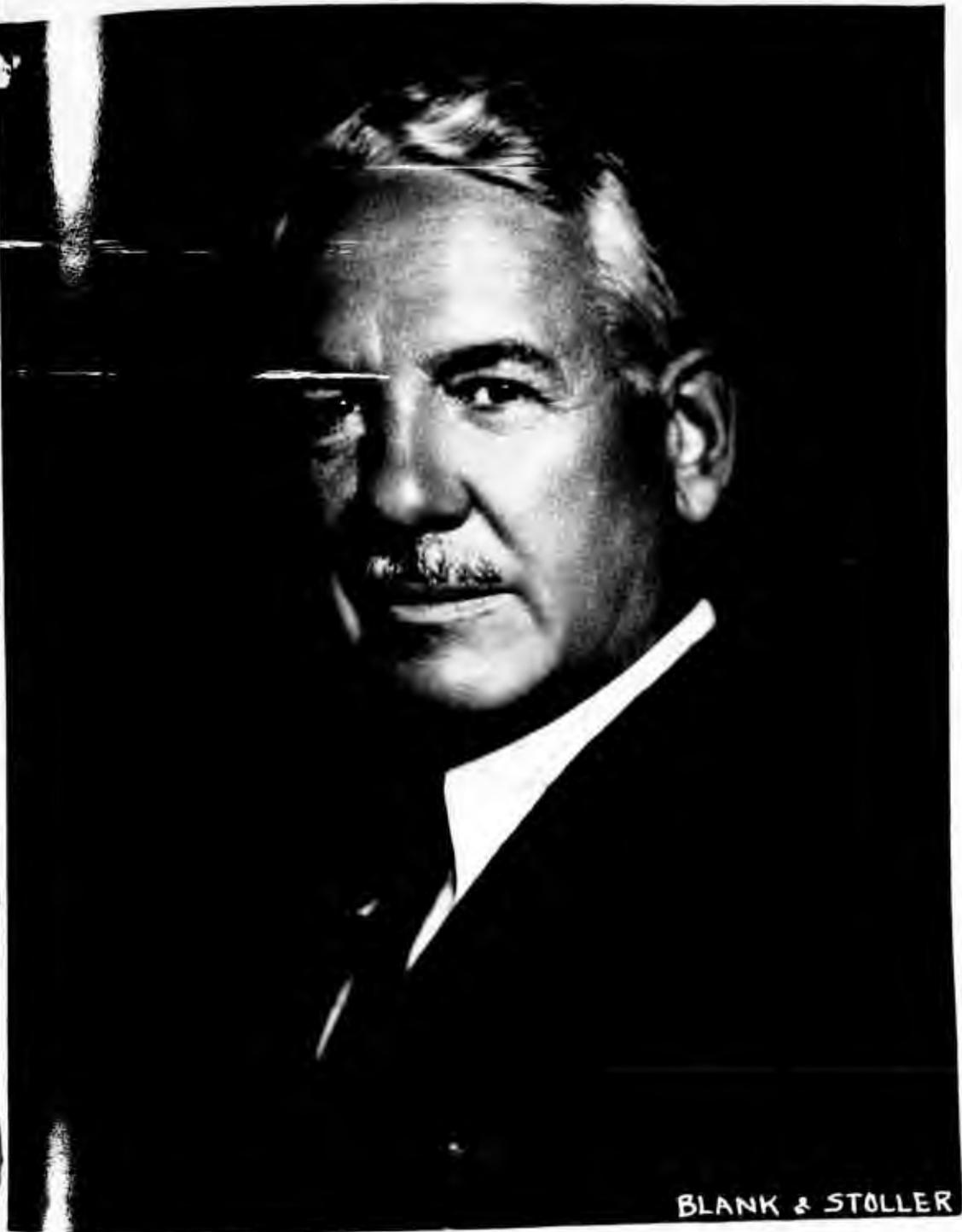
Please be good enough to look into this matter and advise me at the earliest possible moment.

Sincerely yours,



William H. Smathers,
U. S. S.

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



A. W. Robertson, Chairman of the Board, Westinghouse
Electric and Manufacturing Company.

Westinghouse Electric & Manufacturing Company
150 Broadway
New York, New York

This Biographical Sketch is
complete up to September 1, 1940

Biographical Sketch of A. W. ROBERTSON,
Chairman of the Board, Westinghouse Electric & Manufacturing Co.

A. W. (Andrew Wells) Robertson, Chairman of the Board of the Westinghouse Electric & Manufacturing Company, is a firm believer in the fact that "every business is the product of the human beings who compose it, and it cannot be greater than they." Well acquainted with the common man's point of view, he has himself been a snow-shoveler, door-to-door salesman, teacher and lawyer as well as an industrialist.

He became Chairman of the Westinghouse Company in 1929, at a time when the electric firm founded by George Westinghouse had been without a chairman for nearly two years, and a leader was earnestly needed to guide the organization safely through the coming economic storm.

He took office in January. Nine months later the depression, which was to test the leadership of every industrial institution in the country, struck the electrical goods market. The net income of the Westinghouse Company dropped from \$27,062,611 in 1929 - its best year up to that time - to \$11,881,705 in 1930, and from that point fell away into disheartening losses of \$3,655,659 in 1931, \$8,903,540 in 1932 and \$8,636,841 in 1933.

In the midst of the storm, Mr. Robertson reorganized his company, changing it from a strongly centralized, unwieldy, slow-moving organization into a confederation of divisions, bound together at the top with a strong,

well-knit management.

The divisional arrangement produced decentralization of authority, making possible quicker decisions and faster action. It helped break the downward spiral in which the company found itself. Westinghouse men began to discover markets again for electrical goods. In 1934 the company earned a small net profit of \$189,562. The next year the net was \$11,989,380. In 1936 reached \$15,099,291. In 1937, despite enormously increased taxes, labor costs, material costs and increased competition for markets, the company earned a net profit of \$20,126,408, and in addition paid its employes total wages of \$102,957,277.

In 1939, the Company earned \$13,854,365, paid \$80,916,341 in wages and \$3,183,130 in taxes.

From Deckhand to Lawyer

What Mr. Robertson knows about people, success, and the way things can be accomplished in this world, he learned the hard way.

He was born in the little town of Panama, N. Y. in 1880; he was the ninth in a family of ten children. His parents were of Scottish stock. His father died when young Andrew was three. He went to the public school. At eleven he began to earn money at odd jobs for the family income, according to American tradition. His first job was shoveling snow. He worked after school and during vacations. He was deckhand on a lake steamboat. He sold aluminum pots and pans from door to door. He worked in a sawmill. He kept books. He ran a bathhouse. He wrote for a local newspaper.

When he finished school he taught for two years in the school-house where he had studied. Determined upon a career at law, he finally entered Allegheny College at Meadville, Pa., when he was twenty-two years old. His total capital was \$65, saved from his teacher's salary. He paid his way at

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Allegheny by running the commissary at a fraternity house, winning scholastic and essay prizes (the biggest one was \$50; he won a number of \$10 ones) writing, and doing a variety of other jobs. Upon graduation he served as principal of the high school at Charleroi, Pa. for a year; then went to Pittsburgh to enter law school. There he operated a private school for boys, which he taught in the mornings. Afternoons and evenings he studied law.

He was admitted to the bar in 1910, and immediately joined a small, struggling Pittsburgh law firm. Clients were few, and he "temporarily" accepted a position as title officer and later as Trust Officer of the Pittsburgh Guarantee Title and Trust Company. His intention was to return to the practice of the law as soon as possible, for he distrusted his chance of success in a salaried position. But in 1913 came an opportunity to take part in the legal work of the Pittsburgh Railways Company, which he accepted. It was the beginning of his industrial and business career.

The Pittsburgh Railways Company was associated, through the Philadelphia Company of Pittsburgh, with all the utilities companies of Pittsburgh, including the Duquesne Light Company and the Equitable Gas Company. By 1918 Mr. Robertson had made such progress that he became general attorney of the Philadelphia Company, charged with the legal work of all the Pittsburgh utilities. In 1923, at the age of forty-three, he became vice-president. Seven years later, president.

Becomes Westinghouse Chairman

He had been president of the Philadelphia Company a little more than two years when the Board of Directors of the Westinghouse Electric & Manufacturing Company, seeking throughout the country for a man of sufficient

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stature and leadership to manage one of the largest manufacturing companies in the world, chose him for the position.

Westinghouse Electric was a \$200,000,000 corporation, employing some 50,000 workers, with twenty-six plants in twenty different cities, making some 10,000 different kinds of quality products for the production, distribution and utilization of electric power.

It was his task to manage this huge electric empire in such a way as to make a fair return for its stockholders, supply its customers with goods worthy of the Westinghouse name, afford employment for its thousands of workers, and maintain and increase the prestige of the Westinghouse Company as a leader in scientific research and engineering development.

One of his first steps was to reorganize the company on the divisional basis. This accomplished, he gave his attention to various plans which would knit together the Westinghouse "family"; removing the dividing line between the "company" and the "employees". No such barrier exists in the Westinghouse Company today. Virtually all of the present officers and most of the major executives have come up through the ranks. For example, the president, Mr. George H. Bucher, began as a coil winder in the East Pittsburgh Works; Mr. Roscoe Seybold, comptroller and vice president, began service with the company in the shops.

The policy of employe participation in the company's prosperity or adversity, as the case may be, resulted in 1936 in the inauguration of the famous Westinghouse Wage and Salary Adjustment Plan, which provides for the monthly adjustment of wages and salaries in accordance with the earnings of the company. The plan has now been adopted, with suitable modification, by

several other industrial companies.

Industrial Relations

George Westinghouse years ago pioneered the custom of giving Saturday half-holidays and paid vacations to salaried employees. Under the Robertson management the Westinghouse Company has extended the paid yearly vacation to all employees, adopted the five day week and, until Federal Social Security legislation caused its temporary abandonment, established a pension and annuity system for employees which provided adequate retirement income for all workers.

Under his management the company's position as a leader in electrical research and development has been maintained and enhanced. Engineering and scientific research have thrived. Important new products developed by Westinghouse in the last few years include the Precipitron, an electrical air cleaner that removes dust from the air; high-pressure steam turbines, hydrogen-cooled generators, completely self-protecting transformers that defy lightning and other forces that cause interruption of electrical service, and the Sterilamp, the first practical ultraviolet germ-killer.

Research and Education

Westinghouse was the first industrial company to take up the fundamental but highly speculative type of research known as "atom-smashing". At the Westinghouse Research Laboratories at East Pittsburgh, Pa., scores of other research problems are also under investigation, ranging from investigations of matter with the mass spectrograph to practical research in the improvement of electrical products.

Under Mr. Robertson's guidance the Westinghouse Company has sought to put into practice the philosophy that industrial corporations are more

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than institutions for the manufacture and sale of goods; they are social forces as well, with obligations to the community and its welfare commensurate with their business influence and financial power.

Westinghouse has repeatedly aided educational ventures, through the establishment of scholarships, fellowships and professorships. In addition, each year it selects five graduate students in science as Westinghouse Fellows, to receive practical salaried training for two years in the Westinghouse Research Laboratories. Annually it recruits to its ranks a hundred or more of the brightest members of the country's engineering school graduates, and gives them a two-year post-graduate training course on salary while they explore the company's activities to find a field for their future work. Educational opportunities are provided for all Westinghouse employees, through extension courses, lecture courses and seminars.

Robertsonisms

Some quotable Robertson statements:

"Every business as an economic structure must be successful before all else; but every business is the product of the human beings who compose it, and it cannot be greater than they. Few business institutions succeed in making full use of the brains that lie latent within the organization, and it seems to me that this is the text of executive leadership. For, after all, the sole use of management is to so organize the business as to create a spirit within the personnel that will make readily available its full resources of knowledge, ability and judgment. Then there will be a happy balance of the system, order, invention, initiative and progress that is so essential to modern industry."

The basic principle of his organizational method:

"My philosophy is that in an organization every executive must be

-6-

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The basic principle of his organizational method:

"My philosophy is that in an organization every executive must be

-7-

granted authority commensurate with his responsibilities. If you hold a man responsible for results, he must have reasonable freedom to exercise his own brains to achieve the results expected."

Qualities for achievement:

"On my desk every Monday morning is the motto, 'Nothing can be accomplished without enthusiasm'. I established this practice so that I would be reminded each week that enthusiasm has a driving power which, in truth, moves mountains and accomplishes miracles. Nothing is accomplished without enthusiasm. Enthusiasm looks forward; presses onward; carries through; holds on and persists until the goal is reached. Enthusiasm has a smiling countenance. It reflects optimism. It makes friends and overwhelms enemies. Enthusiasm is an absolutely necessary ingredient to every successful undertaking."

And to Westinghouse executives:

"Good management is not necessarily good golf. In the past it has been confused with cocktails and steam yachts."

On the conduct of their departments he advises executives:

"Never allow a good and necessary thing to be neglected because of some vague notion of a rule against it. Rather, check the rule and usually you will find that the good and necessary thing can be done."

"Do not use your budget to interfere with a long range view as to what is for the ultimate good of your Division and for the company as a whole."

"Keep before yourself and your associates the idea that Westinghouse is a competitive business and has to work for all it gets."

It is his rule that a company must deal squarely with its employees, its stockholders, its customers and the general public; that honest intentions

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and good will are the basis of all successful transactions; that a company, like an individual, must keep its promises and make no commitments it does not expect to fulfill.

Other Interests

Physically Mr. Robertson is a tall man (six-feet two), robust and vital. At Allegheny he was proud of the "A" he won on the Varsity football team. He is fond of outdoor work and outdoor sports. Three times married, he has three grown children and two infant grandsons. The eldest child, the former Elizabeth Montgomery Robertson, is now Mrs. George Parkman of Pittsburgh. The other children are David S. and William Ganson Robertson, also of Pittsburgh. The grandson is Robertson Parkman, son of Mr. and Mrs. George Parkman.

Mr. Robertson is fond of music, and is a director of the Pittsburgh Symphony Orchestra Association. His interest in civic, educational and social welfare movements has brought him many responsibilities in these fields. He is Chairman of the Board of Trustees of Allegheny College, a trustee of the University of Pittsburgh, and a member of the Board of Directors of the Buhl Foundation of Pittsburgh.

His business responsibilities are broad, and suggest the quality of his leadership in many fields. In addition to his position as Chairman of the Westinghouse Electric & Manufacturing Company and its subsidiary companies, he is a Director of the Westinghouse Air Brake Company, the Union Switch and Signal Company, the Canadian Westinghouse Company, Ltd., the Chase National Bank of New York, the Farmers Deposit National Bank and the Reliance Life Insurance Company.

This is an excerpt from an address delivered before the Cincinnati Chamber of Commerce on March 3, 1939, and now emphatically repeated.

I would like to see all of us now rededicate ourselves to our country's cause and say, with Adams, Franklin, Jefferson, and the others who founded it: "We mutually pledge to each other our Lives, our Fortunes, and our sacred Honor" — and from this time henceforth we are not business men, consumers, capitalists, or employees, but Citizens.

A. W. ROBERTSON • *Chairman of the Board, Westinghouse Electric & Manufacturing Company*

Westinghouse

Regraded Unclassified

He is a leader in the National Association of Manufacturers and in 1939 headed its Committee on National Defense and Industrial Mobilization, which launched a nationwide survey of industrial resources of the country in case of war.

His home is in Pittsburgh.

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Westinghouse Electric & Manufacturing Company

WAGE AND SALARY PAYMENT PLAN



THE Wage and Salary plan applying to hourly paid and salary employees of Westinghouse Electric & Manufacturing Company is as follows:

THE basis of the plan is that the Company's net income for any consecutive three months determines the pay that each employe receives for the next succeeding month. The wages and salaries thus determined are regularly included in the cost of operation.

WHEN the average of the monthly net income of the Company (net income is shown on Line 27 of the monthly Consolidated Earning Statement No. 2-A) for a three months' period is \$600,000, the employes receive, for the next succeeding month, their base rate of pay.

WHEN this three months' average net income of the Company is greater than \$600,000, then each \$60,000 of the increase (above \$600,000) results in one percent increase on the base wage or salary of each employe for the next succeeding month—so long as the average base payroll of the Company for the same three months is not over \$5,000,000.

WHEN the average base payroll of the Company for the said three months is greater than \$5,000,000, then the amount of the average net income (above \$600,000) which will result in a one percent increase of base wage or salary for the next succeeding month is the figure which bears the same relation to \$60,000 which the average base payroll of the Company for the preceding three months bears to \$5,000,000.

WHEN the three months' average net income is less than \$600,000, that portion of each salaried employe's base rate salary over \$112.75 per month is subjected to a one percent reduction for each unit of \$60,000 that the net income is below the \$600,000 average.

THE plan will not automatically vary the rate of pay for hourly rated employes when the three months' average net income of the Company falls below \$600,000 per month—nor will it automatically vary the rate of pay for salary rated employes when said net income of the Company falls below zero.

WITH all wages and salaries depending upon the net income of the Company and varying each month in relation thereto, an incentive is provided for harmonious, efficient and profitable operation beneficial to all interests concerned in the welfare of the Company.

PLEASE Friday, March 24, 1939

THE RULE OF MINORITIES

An Address by
Mr. A.W. Robertson, Chairman of the Board
Westinghouse Electric and Manufacturing Company
at 100th Anniversary of
Cincinnati Chamber of Commerce
Thursday, March 23, 1939

This is the One Hundredth Anniversary of the Chamber of Commerce of Cincinnati. The occasion naturally gives opportunity for a survey of our times in the light of history. One hundred years ago the curtain was rising on an American Empire destined to surpass anything the world had previously known. History tells us of the glories of Greece and the grandeur of the Roman Empire at its height, and we are told that the sun never sets on the British Empire, and the Soviet Republic numbers, within its borders, more millions than any other nation, but none of these, whether modern or ancient, can compare with what has developed in the United States in the past one hundred years.

If we could go back a hundred years we would find the stage upon which the drama of civilization was to be played strangely bare. None of our basic modern conveniences were available or even in existence. There was, of course, no electric current for light or power purposes, no gas for heat or lighting, no kerosene oil or gasoline; the candle or the torch were about the only means of illumination.

(more)

As a result, people either went to bed with the birds or held hands in the dark. There were no refrigerators, no enclosed stoves, cooking being done at fireplaces. Clothes were fabricated at home as were boots and shoes. There were no means of travel except over bad roads on foot or horseback or on rafts. There was no means of communication except by mail delivered on horseback. But slow and strange as this life of our Forefathers was a hundred years ago, it was ripe for the developments which have taken place.

The architects of empires laid their foundations in America upon individual freedom and initiative, subject only to reasonable restraint. It is on this foundation that our civilization rests. It proved an amazingly stimulating atmosphere for the development and furtherance of material progress. The sum total of our material gain may be expressed in the simple statement that here a man receives more for his labor to satisfy his needs, whatever they may be, than anyone has received elsewhere at any time, past or present.

This is a true statement of the present state of affairs. But something strangely evil has crept into our lives which has poisoned our minds and dissipated the pleasure which we might otherwise enjoy in this world which we have built for ourselves. We are not happy with what we have made. In fact it is quite obvious that we are suffering from mental and spiritual indigestion. As a people we seem to be afflicted with much the same emotional breakdown that seems to come to pampered members of the idle rich. Life has lost its savor and we do not know where to turn.

(more)

The situation is such as to give all thoughtful men cause for worry. We have built great cities with towering skyscrapers and beautiful monuments and fine boulevards and parks, but the majority of the people who live in these cities are dissatisfied, fearful and ripe for change. Generally speaking, these noble cities of ours do not house happy human beings.

We are surrounded, whether in the city or in the country, by comforts and conveniences which surpass anything a Queen could have commanded in other days. But there are millions of our people who are fearful of the future and have scant opportunity to enjoy these modern luxuries. And other millions feel that they are not getting their fair share of life's rewards which they see available, but out of their reach.

The extent of the dissatisfaction with our times surpasses anything known to history. The very foundations upon which our civilization rests are under attack. We hear doubts openly expressed as to the advantages of individual initiative although one would think that the proof of the advantages was all about us; and everything from the foundation to the roof of our present civilization is under attack. Nothing is sacred. Our whole culture and civilization is trembling under the assault.

Everywhere we see the phenomenon of free Americans, heretofore lords of creation, engaged in trading their individual independence for what they fancy is collective security.

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Let us briefly review the situation as we see it. Old customs are being abandoned for untried new ones. Age is not respected. The inexperience of youth is exalted. We point with pride to the fact that our new college presidents are usually under thirty years of age. We point with scorn to the nine old men on the Supreme Court of the United States. Experience is everywhere belittled. These are samples of today's unrest and dissatisfaction with life. We cannot exaggerate their seriousness.

We find a profound change in the point of view of the individual. He no longer accepts responsibility for his own future. The Townsend Old Age plan and the Huey Long Share-the-Wealth plan are two of many illustrations of the tendency to substitute wishful mass protection for individual responsibility. Citizens are now ill fed, ill clothed and ill housed, due to no fault of theirs. This is directly contradictory to the old fashioned notion that a shiftless person was responsible for his shiftlessness. Incidental changes have accompanied these major changes. People no longer buy homes, they buy automobiles. Children are no longer desired and the birth rate is falling alarmingly. Our amusements are provided by professionals on the radio or in the movies. The old time chivalry of men toward women is dead or dying.

Children are undisciplined. Hardships are no longer recognized as a challenge and builder of character. Religion has fallen largely into the background with little or no belief in a future

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life of rewards or punishments. There is a marked tendency to accept the doctrine of today-we-live, tomorrow-we-die; so-eat, drink-and-be-merry.

In this atmosphere, which presupposes that the purpose of life is the attainment of ease and security by any available means, it is natural that we turn to the State as a panacea. We hope it will give us the security we long for without effort on our part. Individual initiative is no longer valued, so we are ready to surrender it also to the State. And since the Federal Government is bigger and stronger than the State Government, we are quite willing to surrender our rights and the rights of the States to the national government for almost anything that will pass as security, even though it is a promissory note in character and of very doubtful worth.

Life at the best is hard. The old rules required constant daily effort and the rewards were meager and uncertain. Man is neither steel nor marble and can endure only so much before he breaks.

This new attitude of life is clearly an attitude of defeat and may be explained, in fact can be explained, in only one way; namely, that life has become too hard for us. There are more losers than winners. The rules of the game are too severe. We have quit trying. No jumper attempts the bar clearly above his reach; no one races when he cannot possibly win. I learned what to expect when I sent my boys to schools where the rules were very severe. You know the kind of school where smoking is not permitted, where everyone is put on his honor as to whether he will buy an ice cream soda at the

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corner drugstore, or use a "pony" in Latin. I found that the more severe the rules the more certain it was that the students quickly gave up trying to live up to them, and if the rules were hard enough I would be certain to find a devastating cheating and weakness in the student body. I think the same thing applies to grown-ups. We pass a law prohibiting the use of liquor and we all quickly develop a sufficient sense of dishonor to violate it even though we pride ourselves on being law-abiding citizens. Or take the simple case of too severe traffic regulations such as a twenty mile speed limit in a small town. We quickly decide that the law is too severe and proceed to violate it, if we can with impunity.

Now, what are the conditions of our modern life that are so severe as to cause us to surrender our individual independence and innate love of conflict, with its reward of victory if we fight a good fight? For more than a generation we have been moving from the country into the cities. In the country we lived more or less independent lives, having at least free air and sunshine which developed red corpuscles and an independent spirit. Our troubles were the troubles of nature which we are born to endure if we couldn't cure. Our lives in the cities are vastly different. Our troubles seem to be man-made or at least we are told they are. We do not suffer very much from storms or drought but too often we can't find work and then man, in the form of the landlord, ousts us if we don't pay rent; or the grocer won't sell us things to eat unless we have money. And finally, all these enemies, in the form of men, sap our courage and we give up the

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struggle and begin to look for the easy life and security. Even if we have work it is work that more or less destroys our individuality. It makes us feel as one of a nameless mob that go in and out of the factory door without much knowledge of what makes the wheels go around. And again comes a sense of futility and defeat. Sometimes we have work and sometimes we haven't, the whole thing being a matter beyond our control. None of us could stand up against these conditions and preserve a fighting spirit.

The millions of our people who are out of work and other millions who naturally feel that they may soon be walking the streets, have been fed all sorts of false doctrines which they have been willing to act upon; doctrines that promised more than their present existence provided.

The state of gloom and uncertainty which permeates too large a majority of our citizens is well illustrated by the story of the suicide-to-be who was stopped from jumping over the railing of the bridge by a passerby who said: "Neighbor, why do you desire to take your own life when life is so good?" The would-be suicide looked at him with a question in his eye and his rescuer said as he held onto his leg, "Come down off the railing and let us talk things over." The rescuer started to explain how good life was and the men chatted for an hour. And then they were both seen to climb the railing and jump off the bridge.

In this state of general upheaval and dissatisfaction one is hard put to keep a level head. Things are not what they seem. Our

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national wealth and prosperity have very clearly not brought us the happiness, peace and tranquillity for which we long. Change is suggested everywhere. As citizens of a Republic, which is now generally thought of as a Democracy, we are forced to have opinions on all new notions and a long list of cure-alls. And we do have opinions on them. The newspapers and radio commentators keep us right up to the minute on every subject. However, the truth is, no one of us is wise enough to have an intelligent opinion on so many new things; NRA, AAA, RFC, CCC, TNEC, new commissions daily, new taxes hourly. The opinions we do have are based on our own limited point of view and our point of view is necessarily restricted largely to our own experience. If we were whales and someone asked us of what the world was made we would probably say "water", or if we were camels and were asked the same question we would probably say "sand". The fact that we are forced to judge everything from our own limited experience crowds us into most amazing contradictory positions. As a consumer we believe strongly in low prices, but as a laborer we believe even more strongly in higher wages, which of course means higher prices. Our position as consumer is in direct conflict with our position as a worker. As a producer of one type of goods we have one point of view and as a consumer of other goods, a different point of view. The same inconsistency will be found in the points of view of a railroader, an apple grower, a cotton grower, a Californian, a New Englander, a college professor or anyone you care to mention.

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There are some inconsistencies that we share alike. We all believe in reducing taxes and at the same time demand things and services from Government which must increase taxes. We are all in accord in demanding freedom for ourselves and at the same time asking restrictions on others which, of course, inevitably lead to restrictions on us. These inconsistencies arise out of the fact that we have to take positions in this world of change and confusion which are beyond our understanding and comprehension and grow out of our special and immediate interests.

An analysis of most of our proposed changes will disclose that they spring from minority pressure groups who desire some advantage for themselves, which advantage must be paid for by the rest of the world. The worker who demands higher wages does not stop to think that as a consumer he must himself pay part of the high wages and that, theoretically, if all wages were raised the price of all products would be raised. This minority point of view results in endless demands on government for special privileges which raise governmental expenses on all hands but which the particular minority thinks the majority will necessarily pay for. The result of these conflicting demands from pressure groups is a confusion and conflict in our laws matched only by the confusion and conflict in our own individual positions. We find the government restricting agricultural products and at the same time spending large sums of money to bring more land under cultivation. It appoints commissions and directs its attention

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toward giving employment to the older workers and discovers the most severe restrictions in its own employment bureaus. It is so bound to its own contradictions that it never even stops to explain them. We are told one minute there will be no increase in taxes, and the next minute they are increased, or that the budget is about to be balanced and the next minute it is thrown further out of balance. It is obvious to the most casual student that we must end government by minorities or our confusion of thinking and acting will grow steadily worse.

To heap confusion on confusion, the tendency is not only to be governed by minorities, but to blame minorities for all our troubles. Practically every group of citizens has been blamed for our discontent and unhappy lot, the bankers, the lawyers, public utilities, manufacturers as well as mysterious groups known as Wall Street, Economic Royalists, etc. There has been enough hate poured out in the argument to color the Atlantic Ocean purple. For instance, we in Industry are blamed for unemployment and are urged to increase both employment and wages even though we are now spending, as the report of the United States Department of Commerce discloses, \$.84 for wages out of every dollar applicable to wages, taxes, interest and dividends. Just how industry could hire many more people or increase wages very much out of the \$.16 left to pay taxes, dividends and interest is, of course, not disclosed. And this \$.16 is supposed to represent the swollen profits that Industry is alleged to receive. This only illustrates how little we know about the problems we are asked to solve.

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Our present civilization consists not only of individuals but also of organizations, most of which are business corporations which were foreign to the experience of our forefathers and about which we know all too little.

The sheer size of some of our business organizations produces a sense of fear in the minds of men. Our huge business organizations do need to be considered as introducing a new element in our civilization. This point of view is shared by liberals and conservatives alike. The great difference between the two, however, is that the liberal is dominated by the desire to burn down the house in order to kill the rats, whereas the conservative is anxious to kill the rats without burning the house.

So it is with the regulation of business. Every sensible man realizes that some regulation is necessary. The great point of departure is to determine what and how much regulation best serves the situation.

The intense application necessary to operate a competitive business in this world naturally tends to develop in all business men in charge of such activities a singleness of devotion to their interests which often leads to results which are against the public welfare even though the intention of the business man may be ever so good. This same intense application, which business demands, leads critics to accuse it of being selfish and unmindful of the common good. The problem business men have is to develop a certain amount of mental ambidextrousness which will enable them to direct the necessary energy to their private pursuits and at the same time leave them free to exercise their abilities in the common good.

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Any minority is apt to demand things which are almost wholly wrong from the point of view of the majority but it is not correct to assume that a minority group, no matter how important it may be, is responsible for present unsatisfactory conditions. Every activity and every business and every service in our modern world exists only as a small part of the whole and is in no sense solely responsible for the situation in which it finds itself. What I have in mind may be well illustrated by considering an automobile and the hard roads it uses. The automobile, as we know it today, could not exist without the hard roads and the hard roads would not be here without the automobile. Neither one could exist or be in existence without the other. And neither would be available without gasoline and each one of the three is responsible in a measure for the other two. The analogy might be carried on to the fourth, fifth, ninth or twentieth dimension until we find that everything is conditioned by every other thing and our world, to be set in order, must be considered as a whole and not in its fragments.

The Bible tells us that God labored for six days to create the world, and "on the sixth day He made man. And gave him dominion over the sea, and over the fowls of the air and over every living thing which is upon the face of the earth. And on the seventh day He rested" and did no work. We have to assume He knew at that time that He made an animal in man so restless, as well as so energetic and unpredictable, that He didn't need to do anything but watch his antics for the rest of eternity. Perhaps He also realized there was

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no further need for work as He created so restless a being that all the possible work on this planet would be attended to. The Lord gave us plenty of energy but not too much understanding. As a result we rush hither and thither without always knowing what we are rushing for.

In a world as complicated as ours, it is natural that misinformation is more common than correct information. When one stops to think that the truth must be told in a simple straightforward fashion, whereas a lie may be repeated in a thousand different ways, it is not to be wondered at that misinformation is more common than the truth.

The time has come when we must face our problems as citizens of our whole country and not as a member of a minority group. If possible we must get a true picture of the full scope of life. As citizens of our country we shall not be guilty of pulling strings and log rolling which result in a literally endless amount of legislation and schemes in favor of small minorities but to the disadvantage of the country as a whole. The tremendous increase in taxes in recent years has been due almost entirely to meet demands of minorities. The foolish schemes which we have tried or listened to are all brain children of minorities.

The Brookings Institute, in a recent release, stresses the need of developing "a consistent social and economic plan". It suggests that this program can be arrived at by the re-examination of broad policies that are now in conflict, which I interpret to be the same as the minority schemes and plans to which we have referred. We need to bring order out of the confusion in which we live.

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Unless we do develop the disinterested point of view of citizens of the whole country, our future would seem to be anything but bright. Certainly conflicting claims of minorities will never solve our troubles.

As citizens of our country, and not members of minorities, we will see certain things clearly. The first and most important will be a clear picture of the basic reason for our present unrest and dissatisfaction. As we have said, it lies in the fact that life has become too hard for most of us, particularly in the cities. We have lost our courage and do not know where to turn except to government. We are content to be supported by our government as long as it is able to do so. We can not expect to change human nature and make it stronger than it is except by the slow process of improving the human animal which some day, as citizens of our country, we will undertake. And the quicker the better. But more immediate relief is needed. Life must be made more bearable for our citizens. We must study and devise ways and means in which the old fashioned confidence is restored to the human heart, whether one resides in the city, works in a factory or is a tenant farmer. No man can be a good citizen who sits down at his table with fear through the day and sleeps with it at his side at night. The problem is a difficult one but its solution lies in a study of our life as a whole and not in isolated fragments.

One of the first things citizens of the country should concern themselves with is the question of whether or not an individual who receives special benefits from the government should have

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a voice in the control of the government. In other words, should people on relief have the right to vote? If they lost this right when they went on relief it would be a tremendous incentive to get off relief in order to regain the right of citizenship. At present, a person on relief has little incentive to get off. He is both judge and advocate. As a citizen he decides the case in his own favor. Such a dual capacity is basically inconsistent and harmful to the country as a whole.

The theory that those who are dependent upon government should not have the right of franchise was recognized by the framers of our Constitution when they provided that citizens of the District of Columbia should have no right to vote. The modern practice of borrowing money to live on is a cowardly way of pushing our burdens onto the shoulders of our children. As individuals we would not be guilty of so low a trick but we are doing it as a nation. It started as an emergency measure but it is fast becoming a custom that will be difficult to stop short of bankruptcy. We need to realize its awful consequences and do courageously now whatever is necessary to cure it. As sensible men we will know that we have a long campaign before us which must be won and not a battle to be decided in a day. Forty billion dollars of national debt plus the state and municipal debts is an appalling burden, and it never stops growing. It is larger this minute than when this memorandum was written last week.

The difficulty in acquiring the point of view of the citizens of the whole nation arises from the fact that we are all players in the game of life and there are no umpires or referees.

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What the world needs desperately is a council of coaches to revise the rules of the game, or a research laboratory in which we may submit the social problems which so sorely beset us and find out which ones are wise and which are foolish. This would help to clear our vision.

The long range view of a good citizen is often in conflict with his individual interests, or his official interests, if he happens to be interested in business as most of us are. Every geographical unit has a separate interest in conflict with all other places. Also groups of individuals spring into being for the sole purpose of pressing their special claims. Good citizens will subordinate all these interests to the common good, where we are wise enough to know what is the common good.

As someone has said, our difficulties are innumerable and our problems unsolvable. This is not an unusual condition as every age has been, and probably will be, in the same predicament. The human race thrives on trouble. The difficulties of today will act as a challenge to our young men. We are beginning to understand the cause of our troubles and out of this understanding will come the solution. We are beginning to realize that our civilization is like a watch--- full of springs, wheels and balances which work together for a common end. All of our activities are important. Not one wheel may be removed or one balance disturbed without disturbing the whole mechanism. With our better understanding of the intricate relationships of our lives will come a higher appreciation of any worth while work we may be doing. Changes will be undertaken in the light of the whole picture.

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Equality of opportunity inevitably leads to inequality of results. Because peoples' efforts are different, their results must necessarily be different. We will recognize this law not as an evil thing but as something inevitable and for our good. We will again recognize the fact that no exercise of your arm will make my arm strong. The only rewards one has a right to expect are the rewards he earns for himself.

Someone has said that the decrees of totalitarian states are one by one putting out the lights of individual initiative. It is our high privilege to preserve the light of freedom bequeathed to us by our forefathers and, if necessary, here in America relight the beacons of freedom.

This oak of sturdy individualism which has flourished in America for a century and a half may need pruning but we should remember that it grew slowly, little ring upon little ring. If an earthquake or hurricane destroys it, it will be generations before man sees its like again. It should be preserved at all cost.

I would like to see our young men, yes all of us, get a copy of the Declaration of Independence which our ancestors published at the inception of this country, and re-dedicate ourselves to our country's cause with the Adamses, Carrolls and Franklins and say with them, "In the interest of serving the country, we mutually pledge to each other our Lives, our Fortunes, and our Sacred Honor;" and from this time henceforth we are not business men, consumers, capitalists, or employees, but Citizens.

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|||||

JAN 27 1942

Dear Mr. Perkins:

Reference is made to your letter of January 14, 1942, requesting five copies of our weekly reports covering United States exports to certain countries.

I am glad to comply with your request. However, we would like to point out at this time that these figures are merely tentative reports of exports, and are not to be considered as official statistics. As you no doubt realize, the only official export statistics are those prepared by the Bureau of Foreign and Domestic Commerce. Inasmuch as our information is derived from sources which are chiefly used for purposes of speed, an occasional error may be reflected in our export information. Therefore, it is requested that our statistics be used only within your agency, and that they be interpreted as more of an indication of exports than as an accurate or official tabulation.

There are enclosed five copies of the latest report for the week ending January 10. In order that your records may be complete, I am also enclosing copies of reports covering the four-week period between December 7, 1941 and January 3, 1942.

Sincerely yours,

(Signed) E. Morgenthau, Jr.

Secretary of the Treasury

Mr. Milo Perkins,
Executive Director,
Board of Economic Warfare,
Washington, D. C.

Enclosures

WLM vtc
17/21/42

FILE COPY

Board of Economic Warfare
~~ECONOMIC DEFENSE BOARD~~
WASHINGTON, D. C.

143

In reply refer to: OPR-CHES

JAN 14 1942

The Honorable
The Secretary of the Treasury

Dear Mr. Secretary:

Each week you have been sending statistics covering our exports to certain selected destinations, Russia, China, Burma, and other blocked countries, as compiled by the Treasury Department, in cooperation with the Department of Commerce. Such timely information as is contained in these weekly reports is of considerable value to the various divisions of the Board of Economic Warfare.

I would appreciate it very much if you could arrange to send five copies of these reports directly to me in the future.

Sincerely yours,

Milo Perkins
Executive Director

JAN 27 1942

My dear Mr. Secretary:

I am enclosing copy of report on our exports to some selected countries during the week ending January 10, 1942.

Sincerely yours,

(Signed) W. A. Ruggles, Jr.

Secretary of the Treasury

The Honorable,

The Secretary of State,

Washington, D. C.

Enclosure

HLW:mel
1/12/42

By Messenger *Stanger 5:30*
N.M.C.
Copy to J. White

JAN 27 1942

My dear Colonel Donovan:

I am enclosing copy of report on our experts to some selected countries during the week ending January 10, 1942.

Sincerely yours,

(Signed) H. W. H. H. H. H. H.
Secretary of the Treasury

Colonel William J. Donovan,
Coordinator,
Office of Coordinator of Information,
Old National Institute of Health Building,
25th and E Streets, N. W.,
Washington, D. C.

Enclosure

HDW:meh
1/12/42

A.M.C.
By Messenger Sturgis 5:30
Copies to White

JAN 27 1942

My dear Mr. President:

I am enclosing report on our exports
to some selected countries during the week
ending January 10, 1942.

Faithfully,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

The President,
The White House.

Enclosure

By Secret Service 5:35

H.M.C.
1/28/42

*H.M.C.
Copies to White*

Ret. to Secy's Office

January 22, 1942

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 \$5,000,000, 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.	876,555	8 3,993	8 8,267	888,795
Free China	28,334	35	91	28,460
Burma 2/	7,002	4/	1,073	8,073
France 3/	6	-	-	6
Occupied France	2	-	-	2
Unoccupied France	.4	-	-	.4
Spain	2,329	-	-	2,329
Switzerland	5,060	1	11	5,072
Sweden	11,514	1	1	11,516
Portugal	4,672	16	155	4,843

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.

JWH:mf 1/13/42

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/

	Total	Exports to China		Exports to Burma 3/	Exports to Hong Kong	Exports to Japan	Exports to U.S.S.R.
		To Japanese controlled ports	To Chinese controlled ports				
July 28 - Aug. 2	937	542	395		654	1,657	4,523
Aug. 4 - Aug. 9	2,784	2,784	-		983	159	2,521
Aug. 11 - Aug. 16	1,278	969	309		235	42	486
Aug. 18 - Aug. 23	1,352	1,350	2		234	6	2,775
Aug. 25 - Aug. 30	736	735	1		742	-	1,063
Sept. 2 - Sept. 6	897	693	204		634	-	4,280
Sept. 8 - Sept. 13	3,038	757	2,281		456	-	5,217
Sept. 15 - Sept. 20	3,978	196	3,822		389	-	758
Sept. 22 - Sept. 27	462	352	110	449	810	-	2,333
Sept. 29 - Oct. 4	1,305	80	1,225	684	291	-	6,253
Oct. 6 - Oct. 11	5,864	582	5,312	1,197	1,231	-	6,254
Oct. 13 - Oct. 18	272	267	5	35	584	-	1,284
Oct. 20 - Oct. 25	668	399	269	403	1,247	-	5,873
Oct. 27 - Nov. 1	5,210	438	4,772	58	624	-	4,484
Nov. 3 - Nov. 8	1,876	164	1,672	342	281	5	4,928
Nov. 10 - Nov. 15	3,009	158	2,851	88	303	-	2,677
Nov. 17 - Nov. 22	1,701	473	1,228	1,021	800	-	3,521
Nov. 24 - Nov. 29	3,359	120	3,239	1,364	1,325	-	2,516
Dec. 1 - Dec. 6	892	61	791	64	-	-	3,609
Dec. 8 - Dec. 13	3,025	684	2,337	18	-	-	12,040
Dec. 15 - Dec. 20	123	12	111	8	-	-	4,288
Dec. 22 - Dec. 27	37	36	1	196	-	-	1,829
Dec. 29 - Jan. 3	35	-	35	2	-	-	3,223
Jan. 5 - Jan. 10	91	-	91	1,073	-	-	4,287
	42,859	11,796	31,063	6,962	11,629	1,869	69,143

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 Hongkong 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 G

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 B

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

8 92

Principal Items:

Lubricating oils
Copper wire (insulated)
Alternating current generators
Relief supplies - hospital
Copper wire
Metallic containers
Relief supplies - biologics
Tires and tubes

24
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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

JAN 27 1942

My dear Mr. Berle:

Thank you very much for the copies of the two studies on the political and economic problems of Central and Southeastern Europe, prepared by Mr. Rayall Tyler, which you sent me on January 7, 1942. I was very much interested in having studies on these important questions by a person with so much experience of Eastern European affairs as Mr. Tyler.

Sincerely yours,

(Signed) H. Morgenthau, Sr.

Secretary of the Treasury

The Honorable

Adolf A. Berle, Jr.

Assistant Secretary of State

*File N.M.C.
cc - Mr. White's office*

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OG:my
1/20/42
FILE COPY

TREASURY DEPARTMENT

154

INTER OFFICE COMMUNICATION

DATE January 22, 1942

TO Secretary Morgenthau
FROM W. Frank Coe ^{1/c}

You said you wanted me to speak to you about Mr. Tyler.

Mr. Tyler has been sending you some interesting material. However, his plan for the Danube does not seem to us to solve the nationalities problem there. It is difficult to see how any national plan for the Danube can be satisfactory if the plan divides the Danube Basin into several "nations" on geographical lines.

For Frank Cole: 155

Please read and speak to me

Wm. J.

DEPARTMENT OF STATE
WASHINGTON

Letter should be ans.

Wm. J.

January 7, 1942



In reply refer to
Eu

My dear Mr. Secretary:

The Department has received from the American
Consul at Geneva the texts of two studies on the
political and economic problems of Central and South-
eastern Europe, prepared by Mr. Royall Tyler. Mr.
Tyler requested that copies of them be transmitted to
you. I am glad to enclose them herewith.

Sincerely yours,

For the Secretary of State:

Enclosures:
Texts of two
studies.

Adolf A. Berle, Jr.
Adolf A. Berle, Jr.
Assistant Secretary

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

Personal: I don't think much of
the plan - especially the
German solution
AEB

FOR DEFENSE



BUY
UNITED
STATES
SAVINGS
BONDS
AND STAMPS

Geneva, Switzerland

October 27, 1941

Notes on Political and Economic Frontiers
for the
Danubian and Balkan States

by Royall Tyler

I. Need for Regroupment

1. Taking it for granted that Hitler is going to be beaten, the frontiers to the East and South-East of Germany will have to be reconsidered. As drawn in 1919-1920, they were among the major causes of the present war, giving a discontented Germany a choice of opportunities for undermining the Treaties, starting at the points about which the Western Powers cared least. If the next Settlement is to endure longer, a better set-up has got to be devised. A case was presented in some notes on Self-Determination, dated 4 October 1941, for laying down the actual areas of the future states, on grounds of general expediency, before their inhabitants decide what form of government they desire. This means that the U.S.A. ought to be ready with a general plan for Central and South-East Europe before the war comes to an end.

2. Assuming agreement that the 1919-1920 frontiers are not going to be perpetuated, what ought to be provided in their stead? We want to allow as much as possible for bonds of language, religion, race and tradition, while devising units that are sufficiently large and well balanced economically, permitting their peoples to earn a good living, and that are strong enough to pursue an independent policy, and to resist exploitation by powerful and possibly lawless neighbors.

3. It would be a waste of time to go into the reasons why the defunct Dual Monarchy cannot be resuscitated. But it would be well to recognize why the Dual Monarchy, with all its defects, worked better than the 1919-1920 Settlement ever did: it embodied a principle, that of Duality, which may give the answer to some problems that have to be faced now. In the 1919-1920 Settlement, countries were

formed

Regraded Unclassified

formed in each of which one single nationality was predominant, the others having to content themselves with a minority status carrying rights which in practice were more often ignored than honored. The failure of the 1919-1920 Settlement is largely imputable to this defect. We ought to learn something from a painful experience. The best line of attack would be to form stronger units than those that broke down from 1938 on. The countries under review should be grouped in three relatively large states, each founded on a dual basis: (1) Poland-Czechoslovakia, (2) Hungary-Roumania, (3) Yugoslavia-Bulgaria. (See attached sketch-map.) The red dotted line, of course, gives only a rough indication of what the frontiers should be. In some cases, as for instance the Sudeten region, Silesia, the Banat and the Bácska, a thorough study would have to be undertaken on the spot before drawing the actual frontier.

4. Before going into details about these three proposed units, some remarks must be made about the eastern border to be given to Germany. It will be noticed on the attached sketch-map that it is proposed to leave Austria proper, with Vienna, inside the Reich, as well as part at least of the German fringe, known as Sudetenland, of Bohemia.

5. It hurts cruelly to be forced to the conclusion that the cause of future peace will best be served by retifying the Anschluss. But we had better think twice, and then twice, before embarking on any other course. An independent Austria would have joined the Reich in 1919, and, under the pretext of a customs-union, in 1931, if the Powers had not forbidden it. And it will be remembered that the Hague Court, in 1931, only turned down the customs-union by a majority of one. Much of the Austrian resistance to Germany after Hitler had taken power arose from hatred of Nazidom. We hope that the future Germany will not be Nazi. But the strongest argument against attempting to detach Austria from Germany is that if an independent Austria, under oath not to join the Reich, were part of the new Settlement, Germany would have ready to her hand an ideal issue for stirring up trouble. No chain is stronger than its weakest link. If the chain of states to the east of Germany from the Baltic to the Black Sea and the Adriatic is to have a chance of holding, it must not depend on as fragile a link as would be represented by an Austria severed from Germany by the will of the Powers who have just won a world war.

6. The argument for departing from the historical frontiers of Bohemia so as to leave most of the German fringe in the Reich is based on similar considerations. It is important, taking a long view, to reduce to a strict minimum the plausible grounds of complaint that may be involved in the future both by Germany and by German minorities in other states. Enough of these grievances will remain to cause embarrassment, anyway. And from the

moral point of view it would strengthen our case if our new Settlement took over some rearrangements, amply justified on objective scrutiny, obtained by Germany before the war started in 1939 at the expense of the 1919-1920 Treaties, even if they were won by the detestable methods of Nazi gangsterism

7. It is also proposed to leave in Hungary parts of Slovakia which are mainly inhabited by Magyars, whose inclusion in Czechoslovakia was obtained on the strength of arguments that fall to the ground when a union between Czechoslovakia and Poland is contemplated. Further, Ruthenia may as well be given to Hungary. It is impossible to be sure, today, where the eastern frontier of Poland is going to run, and this question of the Sub-Carpathian province takes on a different light according to whether its northern neighbor is to be Poland or Russia. But in any case Ruthenia's chief claim to the world's interest is that it contains the head waters of the Tisza, or Theiss, which it is important on utility grounds to attribute to the State through which that river runs on its course to join the Danube. There never was any valid reason, of race, speech, tradition, or economics, for tacking Ruthenia onto Slovakia.

8. Criticism may be aimed at the general set-up here suggested, because all three of the proposed dual states are to combine peoples who have, in the past, been enemies. Well, why not take the bull by the horns, and put these old adversaries in a position in which they have equal rights and a strong inducement to get on together? The English and Scots had fought one another for many centuries when chance brought them together under James I, and yet the combination has worked. Cannot we do as well by design as was done in that instance by a fluke? All the six nations concerned have had bitter experience of trying to get along by themselves. There have been plenty of signs since this war started that Poles and Czechoslovaks now realize where their common interest lies. For a long time past, some of the best heads in Hungary and Roumania have been convinced that these two countries will never be secure until they join forces. The same may be said of Yugoslavia and Bulgaria. Opinion is ripe for action. But unless the U.S.A. takes the action, it is much to be feared that it will get into the hands of representatives of the 1919-1920 Successor States, who would make a mess of it by which Germany alone would profit in the long run. This is an affair for grown-ups.

II. Three new Dual States, and old Albania.

9. Poland and Czechoslovakia, in association, might have an area and population roughly comparable to those of France. The State thus formed would have an outlet on the Baltic at Gdynia and a free port at Danzig, and a port on the Danube at Bratislava (Pragueburg). Its railways would get, besides internal traffic, everything

passing between Germany and Russia. It would have immense natural resources: coal, forests and water-power in the mountains of Slovakia, some valuable out-of-the-way minerals, the wheat lands of Moravia and Poland, the varied industries and banking and insurance businesses of Bohemia, such part of Silesia as might be adjudged to the new State and the industrial region of Western Poland. Its iron would have to come from Lorraine and/or Sweden. It would have reserves of labor able to man an expanding industry, and, in the greater part of its territory, a standard of living so low as to leave a broad margin for reasonable improvement. Poles, Czechs and Slovaks, though distinct nationalities, are nearer to one another than they are to any of the remaining Slav peoples. There would be a relatively large but scattered German minority. A high percentage of the population would be Roman Catholics, with several million Jews, chiefly in Poland. The form of government and the constitutional relations between Poles, Czechs and Slovaks ought to be determined by the inhabitants themselves. Both countries are republics already.

10. Hungary and Roumania, by agreeing to federate, might put an end to a long period of sterile strife, give lasting tranquillity to torn Transylvania, and form a unit possessing great economic assets. This State would have the Danube water-way and ports on the Black Sea. It would be desirable that it should retain the free port at Fiume in Italy, which Hungary has enjoyed for years past, and also that it should be given a free port at Susak, across the river from Fiume, in Yugoslav territory, so as to diminish the danger of traffic to either port being impeded by excessive freight charges. The partnership would find in the newly opened up oil fields of Hungary compensation for the progressive exhaustion of the Roumanian wells. Hungary has deposits of bauxite that have hardly been scratched, and lignite. Roumania has natural gas, gold, some manganese, and salt. There would be abundance of wood and of water power. Almost everything, except rubber, can be grown somewhere in the territory contemplated. Hungary possesses superb grazing lands. Hungarian industry, developed rapidly during the decade before the present war, showed itself capable of winning distant markets, and association with Roumania would give it a home market capable of enormous expansion, consumption starting from a very low level. This should prove a strong inducement to Hungary, which country left to itself could hardly escape becoming an economic dependency of Germany, with the result that it would be forced to sacrifice its industry and to devote itself to growing whatever Germany might want it to grow. Hungary-Roumania would contain a picturesque variety of languages, religions and races, with its Roumanians, Magyars, Swabians, Saxons, Ruthenians, Jews, Tartars and Armenians, to say nothing of islets of Serbs, Croats and other odds and ends. There would be an area of some 340 thousand square kilometers and a total population of about 27 millions, the

largest elements being the Roumanian and the Magyar in roughly equal populations, then various kinds of Germans, then Jews. Roman Catholics (including Uniate) plus the various Protestant denominations would more or less balance the Greek Orthodox in numbers and outbalance them in wealth and instruction. There would be strong Protestant elements, Calvinist and Lutheran, and less numerous Unitarians. There would even be some Moslems. The Protestants of all denominations would only amount to some 12% of the total population of the new State, as against roughly one-third in present Hungary, but their wealth, ability and intelligence would give them power out of proportion to their numbers.

Both Hungary and Roumania are monarchies already. A personal union, on the lines of that which formerly bound Austria and Hungary, might be appropriate, allowing the constitution of each of the two countries to subsist. But, once more, this should be a question for the Roumanians and Hungarians.

As for getting along together, no one who knows both peoples can doubt that they have as good a chance as any hopeful pair of fiancés. Their political relations were poisoned for long generations, both before 1919-1920 and afterwards, by the Transylvanian problem. Man to man, they understand each other much more readily than either party, burning with indignation about Transylvania as each is, can bring itself to admit. There is no incompatibility of character between them, as there is between Magyar and Czech. In the interwar period, when a Hungarian delegation went to Prague to negotiate a commercial agreement, its members used to yawn away their evenings in their hotel or go to a movie. When they went to Bucharest, they spent their nights seeing the town with their Roumanian colleagues, thick as thieves.

Transylvania is a difficult problem. The Székely (Szeckler) element is mostly settled in the extreme East of Transylvania, in the elbow of the Carpathians, and between it and Hungary proper there are regions inhabited mainly by Roumanians. This is the chief of a series of thorny questions. The Roumanian case for denying that the Székely is a Hungarian will not hold water. The Székely is as close to the Magyar as a Yorkshireman is to an East-Anglian; at any rate no one can contend that the Székely has anything in common with Vlachs or Moldavians. Some of the Hungarian claims about Transylvania are equally unreasonable. The chances are a good thousand to one against any line drawn through Transylvania, or any settlement allotting the whole country to either Roumania or Hungary, giving general satisfaction. The only hope is to allow that ancient and historically very remarkable principality, the cradle of religious toleration in Christendom, autonomy status in such a union as that proposed above. The end of the present war should prove a God-given opportunity for reaching a wise settlement of all the Hungaro-Roumanian problems, because, both countries

being at present on the wrong side, from our point of view, and as we trust the losing side, there should be none of that temptation to reward an ally and punish an enemy which was too much for us all last time.

11. Yugoslavia and Bulgaria are inhabited mainly by Slav-speaking peoples. The idea of uniting them is not a new one. Wise heads with intimate knowledge of both countries think it would work. Montenegro should be included. Difficulties will be met with, greater difficulties than in the case of Roumania and Hungary, because while Yugoslavia resisted aggression and the Serbs and Croats are doing wonders to keep a large occupying force busy even now, Bulgaria has been a docile instrument in Hitler's hands and has, somewhat shamefacedly it is true, profited by German victories to annex relatively big slices of Serbia and of Greek Thrace, as well as the southern part of the Dobroudja, which the last Treaties gave to Roumania. The Serbs will want their revenge, if our side comes out on top. If there were to be a completely independent Bulgaria, the chances of that country getting treatment, at the next Peace parley, making for reconciliation would be poor. The best bet would be to combine Yugoslavia and Bulgaria in a personal union under the present king of Yugoslavia, loading all the sins of Bulgaria onto King Boris, a monarch of remarkable qualities but who is, or we hope will be, out of luck for having backed Hitler. The young king of Yugoslavia might do worse than to marry King Boris's daughter. She at least may be held innocent of connivance with the Axis, given her tender age.

The Macedonian question stands between Bulgaria and Serbia, just as Transylvania keeps Hungary and Roumania at loggerheads. Exactly how it should be handled, the present writer would not presume to say. Unlike Transylvania, Macedonia has not been independent since Alexander's empire broke up. But chances of appeasement depend on a satisfactory settlement between Serbs and Bulgars, and that can only be achieved by founding a community of interests in which the two peoples would be partners. The Croatian-Serbian tangle would still remain to be straightened out. The Moslems of Bosnia and Herzegovina, and of North-East and South-West Bulgaria, have always been good citizens of their states and would fit well into the union here advocated. Such a country would have dazzling economic opportunities. It would have a long stretch of coast, with splendid ports, on the Adriatic, ports on the Black Sea and on the Danube. It ought to be given a free port at Saloniki, on the Aegean. It would be rich in forests and in water power, less so in oil (as far as we know now), and still less in coal, though there are fairly large quantities of lignite. It would have the big copper and bauxite deposits of Serbia. The mineral resources of the region have not as yet been adequately prospected,

though

though they are known to include some magnesite, chrome, antimony and gold. A great diversity of soil and climate favors every kind of agrarian production and cattle raising, from the Alpine valleys of Slovenia to the tobacco fields of the Struma valley. Industry has made a start in Slovenia and Croatia, and finds a lot of the raw material required in the country itself. The populations, both Yugoslav and Bulgarian, are laborious and need nothing but tranquillity to go ahead and vastly to improve their standard of living, which is still extremely low outside of Slovenia and parts of Croatia. The difference of race between Serb and Bulgar need cause no trouble, any more than the fact that Croats and Slovenes are Catholic while most Serbs and Bulgarians are Greek Orthodox. Yugoslavia-Bulgaria would have an area of about 350 thousand square kilometers, and a population of some 22 million.

12. The general arrangement here outlined for the countries between Germany and Russia and for the Balkans would group together, in well-balanced customs-units, (a) practically all the non-Russian North-Slavs, (b) the Magyars and Roumanians, and (c) the South-Slavs and Bulgars. This would give a structure at once simpler and stronger than anything the distressful regions concerned have ever known yet. It is worth while to look back for a moment and to compare the kaleidoscopic combinations of states, or rather customs units, that they have presented in the course of the last thirty years. Leaving aside Russia and Germany, and also Greece and Turkey, as fixtures, we have had:

(a) Before the 1919-1920 Treaties: the Dual Monarchy of Austria-Hungary, Serbia, Roumania, Bulgaria, Albania and Montenegro, i.e. 6 customs-units.

(b) Between the 1919-1920 Treaties and the Anschluss of March 1938: Austria, Hungary, Czechoslovakia, Poland, Roumania, Yugoslavia, Bulgaria and Albania, i.e. 8 customs units.

(c) At the time of writing, October 1941: Hungary, Roumania, Slovakia, Serbia, Bulgaria, Croatia, Albania and Montenegro, i.e. 8 customs units.

What is now proposed would make 4 customs units, counting Albania as one, as compared with 6 before the 1919-1920 treaties and 8 for both of the combinations that have been tried since.

It may be explained in passing why it seems preferable that Albania should be independent, rather than associated either with Greece or with Yugoslavia-Bulgaria. The straits of Otranto are narrow, and Italy may as legitimately object to seeing one of the bigger Balkan powers in possession of their eastern shore as Great Britain objects to seeing Germany installed in France, Belgium and Holland. And Yugoslavia naturally fears being bottled up in the Adriatic by an Italy in control of both sides of these

narrow seas. It is clearly a case for an independent Albania, and the case is confirmed by the peculiar individuality of that country. King Zog and Queen Geraldine had better be called back. Of course, it is hoped that a strong international agency will be able to ensure that there is no tampering with Albania's independence either by Italy or by any of her neighbors by land.

13. The settlement to come would not deserve the name if it failed to make Bulgaria disgorge Greek Thrace. Greece ought also to have released to her by Italy the southern Sporades, the group of islands of which Rhodes is the largest. For the matter of that, she ought also, on grounds of race, religion and speech, to have Cyprus. But there we run into Great Britain's system of defenses for the Suez Canal. The least said about that the better, perhaps, for the moment at any rate.

14. No question arises in connection with the land frontier between Greece and Turkey as it existed up to April of this year.

III. Prospects for Welfare and for Peace.

15. This great Central and South-East European area of over a million square kilometers, with its population of close on 100 millions, would clearly have a far better chance of prospering when shared between three large customs units (four counting Albania) than it had under either the St. Germain-Trianon-Neuilly or the Hitlerian dispensation, with their 8 customs units each, determined by every sort of consideration except that of the welfare of the great mass of the peoples inhabiting it. One might fill volumes if one tried adequately to describe the mischief wrought by St. Germain-Trianon-Neuilly. Hitler's New Order, under which the area, reduced by about a third by the disappearance of Poland, Austria and most of Czechoslovakia, is still split up into 8 customs-units, might produce greater evils yet, were it to last. But there is one point about St. Germain-Trianon that is seldom if ever realized: the creation of all these feeble customs-units, each of them pursuing economic self-sufficiency, was one of the chief causes of the over-borrowing indulged in from about 1925 until the crisis that started in 1929. The new countries that had formerly bought the manufactured articles they needed mostly from the industrial regions of the old Dual Monarchy, i.e. Austria, Bohemia, and to a lesser extent Hungary, wanted to start industries of their own, instead of importing what their neighbors could produce cheaper. And they were able to show, thanks to high tariff barriers, that such new industries were well worth financing, whether or not there was raw material and skilled labor for them within the country concerned. Large amounts were raised on long term on the American, British, and other western markets for industrialisation,

and

and in addition the greater part of the short-term debts contracted abroad by banks in these countries served the same purpose. And there was also foreign borrowing to promote agriculture in mainly industrial regions: also behind the shelter of customs walls.

16. The lenders have in many cases had to take heavy losses. But let us not over-stress the hardships they have suffered. Someone has said that the history of finance is the history of repudiation. Certain it is that if debts were not frittered away by depreciation, the forced acceptance of part-repayment in complete satisfaction and other wrong proceedings, their burden would become so crushing sometime in the course of the business cycle that repudiation would be the only way out. Lenders in the 1925-1929 boom years were apt to lose a good deal of their money, and it is doubtful whether, up to the outbreak of the present war, they lost a much higher proportion of it, on the whole, in Central and South-East Europe than they did at home, the U.S.A., Great Britain and France not excepted.

17. Far graver, from the point of view of the general interest, was the waste caused by duplication: each little country putting up plant when in most branches there already existed, close at hand, plant and to spare to supply the requirements of the area. Each little country insisting on having its flour-mills, its sugar-mills, its paper-mills, its oil-refineries, its heavy industry, its cotton-mills and all the rest. Besides, regions which lived chiefly on industry began protecting their agriculture, instead of buying from the neighboring agrarian regions which formerly fed them. The result was that not only were manufactured articles far dearer than they needed to be, but so was food, while close at hand mills were idle and food was going begging, so that schemes of relief for the producer had to be financed out of public funds. To take a typical example of this wicked waste, the price of sugar in Hungary was so high (the highest in Europe, after the U.S.S.R. and Italy) that Hungarian sugar, which had been sold with the help of a bounty to Austria and there retailed at the more moderate Austrian price, used to be smuggled back into Hungary and sold on the black market cheaper than the official price, while Hungary's sugar consumption was one of the lowest known.

18. The effects of such a system on the standard of living in the whole area, the ruin inflicted on old-established industries that had been built up on sane business lines in the former Dual Monarchy, the absurdity of subsidizing Tyrolian mountaineers to grow wheat where nature never meant it to grow, the depression visited on the great agrarian regions, may too easily be imagined for it to be necessary to insist.

19. The

19. The point is that big, strong units such as those advocated above would powerfully assist a return to economic sanity throughout the whole area, the rationalization both of industry and of agriculture and promote far greater welfare than the unhappy and distracted countries concerned were ever able to achieve, even in the boom years when everything looked lovely, but the foundations were such that a crash had to ensue. Having an improved chance of prospering, these units would be more likely to trade with each other, to the advantage of all concerned. There is no reason why the area, once it is organized on sensible lines, should not be as good a field for foreign capital as any other. The foreign investor did not fare conspicuously worse there than elsewhere, even with the Alice-in-Wonderland economic set-up perpetrated at St. Germain-Trianon. He would stand to fare much better under a less wasteful system, provided, of course, that the countries to which he belongs are willing to accept debt service in the form of goods or services.

20. More important still, the body politic might be rid of several dangerous centres of inflammation that have been weakening it for decades. Of these, the worst are the problems of Transylvania, Macedonia, and the neuralgic knot where the 1919 Treaties made Germany, Poland and Czechoslovakia meet. There are others only a little less dangerous, where the swelling might be reduced on homeopathic lines, treating the Polish-Czech ailment by associating the two peoples, and the Hungaro-Roumanian fever by injecting each patient with some of the other's virus. The Serbs, even, might be induced to call it a day when they had got their 1940 frontiers back and had become the senior partner in the new firm, King Boris having been sent into a comfortable wilderness.

21. Unfortunately, the greater part of the area of which we have been disposing on paper is at present either annexed to Germany (Bohemia-Moravia, part of Poland, and northern Slovenia) or to Italy (southern Slovenia and parts of Dalmatia), or is occupied by the Axis. Hungary, Roumania, Bulgaria, Slovakia, Croatia and Montenegro, nominally independent allies of the Axis, have little or no freedom of choice, though so far Bulgaria has not sent troops to join what Hitler calls "Europe's crusade against Bolshevism". In the hour of defeat there will be grave danger of chaos breaking loose all over the Danube Valley and the Balkans, as it did in parts of the same territories at the end of 1918. It would be well, in order to limit the risk, for the winning Powers to support, or at least to refrain from weakening during the critical period, any local governments that may succeed in riding out the storm, however we may disapprove of their present behavior, and whatever ideas we may have as to their future organization.

Enclosure:
Sketch Map

RT/dh



Frontiers at 1 March 1938

Frontiers at 15 June 1941

Proposed sixth-month frontiers Oct. 1943

167
Department of State

BUREAU
DIVISION

Eu

ENCLOSURE

TO

1-5-42

Letter drafted

ADDRESSED TO

Henry Morgenthau, Jr.

U.S. GOVERNMENT PRINTING OFFICE

Copy for the Honorable Henry Morgenthau

ECONOMIC ORGANISATION OF CENTRAL EUROPE, with particular reference to
EMBRACING THE DANUBE VALLEY.

I. International Trade in the inter-war period.

a) Analysis of returns.

1. Down to the end of the 1914-1918 war, the greater part of the area under review was included in the Dual Monarchy and formed a single customs unit.

The 1919-1920 Treaties distributed the territories formerly belonging to the Dual Monarchy among seven independent customs units: Austria, Hungary, Czechoslovakia, Yugoslavia, Roumania, Poland and Italy.

2. During the period between the 1914-1918 war and 1928, when the St. Germain and Trianon Settlement started breaking up, a radical change took place in the direction of trade in Central and S-E Europe: the seven successor States traded less and less with one another.

3. In the first post-war years, old business connections and reasons of convenience kept goods moving in the former channels, and the success of the Austrian and then of the Hungarian reconstruction schemes for a time contributed to strengthen these currents, so that from 1922, the first post-war year for which complete data are available for all the countries concerned, to 1924, it seemed that things were tending towards a resumption of the pre-war exchanges, and it might be hoped that the fragments of the old Dual Monarchy, which constituted an admirably well-balanced economic unit, would gradually be led by their well-considered interest to find their way back to full collaboration in this field. It was not to be. The following table shows subsequent developments:

4. Merchandise trade with one another of Austria, Czechoslovakia, Hungary, Italy, Poland, Roumania and Yugoslavia, in % of the total foreign merchandise trade of each:

	<u>Imports</u>					<u>Exports</u>				
	<u>1922</u>	<u>1924</u>	<u>1929</u>	<u>1934</u>	<u>1937</u>	<u>1922</u>	<u>1924</u>	<u>1929</u>	<u>1934</u>	<u>1937</u>
Austria	50	54	39	49	41	58	56	47	34	43
Czecho-Slovakia	23	31	25	21	17	45	45	39	24	25
Hungary	69	70	57	56	47	80	80	55	45.8	38.9
Italy (1920)	4.7	7	6.9	6.9	14	13.9	9	7.8	10	9
Poland	19.2	24.9	17.9	14.5	12.3	30.3	26.5	25	16.5	9.5
Roumania	50	51	43	34	34	43	47	38	28	27
Yugoslavia	71	66	53	44	34	64.3	71	66	52	34.7
Average % for the seven States	41.4	43.2	34.5	32.2	28.4	47.8	48	41.7	30	26.7

5. It will be observed that with the single exception of imports to Italy, the percentage of foreign trade which each of the seven countries concerned transacted with the other six sank from 1924 to 1937. The percentage of decline was heaviest in the cases of Yugoslavia, Hungary and Poland (Hungarian and Polish exports, particularly), but was striking enough in those of Czecho-Slovakia and Roumania. Even Austria, although her business relations with the regions formerly included in the Dual Monarchy suffered less than those of her neighbours, lost ground on their markets ^{during} the period under review.

6. While this process was taking place, the percentage of Germany's foreign trade transacted with the seven successor States varied as follows:

<u>Imports</u>			<u>Exports</u>		
<u>1924</u>	<u>1934</u>	<u>1937</u>	<u>1924</u>	<u>1934</u>	<u>1937</u>
14.5	12.8	17	17	10.8	12

7. Over the thirteen years from 1924 to 1937, the share of Germany's imports represented by the successor States thus increased while that of her exports declined. As the successor States' currencies went soft, Germany tended to buy more from them, and to sell more to hard-currency countries.

7. In order to form a picture of what happened to each of the successor States' foreign trade in the inter-war period, it is necessary to go into some detail. The following tables show, in percentages of total values, the foreign trade of each one of them, and of Germany, with the others and with several

countries of importance to them, as well as total import and export values.

8. Austria's Foreign Trade (Merchandise)
in % of total values.

From or to	Imports					Exports				
	1922	1924	1929	1934	1937	1922	1924	1929	1934	1937
Germany	22	15	21	17	16	15	13	16	16	15
Italy	5	7	4	4	5	10	10	9	10	14
Hungary	11	12	10	11	9	13	9	7	11	9
Czecho-Slovakia	24	22	18	14	11	10	11	13	7	7
Yugoslavia	4	4	4	8	8	12	10	8	8	5
Poland	5	7	9	6	2	9	10	5	4	2
Roumania	1	2	4	6	6	4	7	5	5	6
Switzerland	5	6	4	4	3	5	7	6	7	5
United Kingdom	2	3	3	4	4	3	4	4	5	5
U.S.A.	8	5	6	5	6	1	2	3	1	2
France	1	2	3	3	3	1	2	3	3	4
Others	12	15	14	18	27	17	15	21	24	26
Trade in values (billion Sch.)	3	3	3	1	1	2	2	2	0.9	1

9. Czecho-Slovakia's Foreign Trade (Merchandise)
in % of total values.

From or to	Imports					Exports				
	1922	1924	1929	1934	1937	1922	1924	1929	1934	1937
Germany	28	35	25	19	15	19	19	19	21	14
Austria	8	8	8	5	4	22	21	15	10	7
Poland	3	5	6	4	2	3	3	4	2	3
Hungary	5	6	5	2	1	9	7	6	2	2
Roumania	3	3	2	3	5	3	5	4	4	5
Switzerland	1	2	2	3	3	2	3	3	4	4
Italy	2	6	2	4	2	4	5	3	3	3
Yugoslavia	2	3	2	3	4	4	5	6	3	5
United Kingdom	5	3	4	5	6	7	9	7	6	9
U.S.A.	18	6	5	6	9	5	4	7	7	9
France	3	3	4	6	5	5	2	2	4	4
Others	22	20	35	41	44	17	17	24	34	35
Values (billion kr.)	13	16	20	16	11	18	17	20	7	12

10. Hungary's Foreign Trade (Merchandise) in % of total values.

From or to	Imports					Exports				
	1922	1924	1929	1934	1937	1922	1924	1929	1934	1937
Germany	17	13	20	18	26	9	8	12	22	24
Austria	29	23	13	23	18	38	36	30	24	17
Czecho-Slovakia	24	25	21	7	6	15	24	16	5	3
Yugoslavia	2	4	5	4	5	10	6	6	3	2
Italy	3	4	4	12	7	4	6	7	8	12
Poland	4	6	5	1	1	2	3	2	0.8	0.5
Roumania	7	8	9	19	10	11	5	4	5	4
Switzerland	1	4	3	2	2	3	6	4	5	4
United Kingdom	3	2	3	5	5	2	2	4	8	7
U.S.A.	2	3	5	6	5	0.2	0.5	1	1	3
France	3	2	2	3	0.9	1	0.4	1	3	2
Others	5	6	10	10	14.1	4.8	3.1	13	15.2	21
Values in million pengö	674	878	1,063	345	483	402	718	1,038	404	588

11. Italy's Foreign Trade (Merchandise) in % of total values.

From or to	Imports					Exports				
	1920	1924	1929	1934	1937	1920	1924	1929	1934	1937
Germany	4	8	12	15	19	5	11	12	12	14
Austria	2	2	2	2	4	5	5	3	2	3
Hungary	7	8	10	5	3	14	13	9	8	4
Czecho-Slovakia	0.2	3	3	3	2	2	3	2	3	2
Roumania	0.8	*	0.9	1	3	2	*	0.8	2	2
Yugoslavia	0.8	*	1	2	3	4	*	1	1	1
Switzerland	2	2	3	4	3	13	11	7	8	5
United Kingdom	0.9	2	1	1	2	0.9	1	1	2	1
U.S.A.	17	11	10	9	4	12	10	10	10	6
Others	32	35	17	12	11	8	32	11	7	7
Values in milliard lire	33.3	29	40.1	46	46	34.1	14	43.2	45	55
Values in milliard lire	27	19	22	8	14	12	14	15	5	10

* Included in "Others".

12. Poland's Foreign Trade (Merchandise) in % of total values.

From or to	Imports				Exports					
	1922	1924	1929	1934	1937	1922	1924	1929	1934	1937
Germany	37	34	27	13	14	49	43	31	17	14
Austria	10	12	6	5	5	11	10	10	6	5
Hungary	0.8	0.9	1	0.5	0.6	3	2	2	0.5	0.4
Czecho-Slovakia	6	6	7	4	3	5	8	10	5	4
Roumania	0.4	1	0.9	1	0.7	11	6	2	1	0.4
Switzerland	1	2	2	3	1	0.4	0.4	4	1	2
Italy	2	5	3	4	3	0.3	0.5	1	4	4
United Kingdom	7	7	8	11	12	4	10	10	20	18
U.S.A.	16	12	12	15	12	0.8	0.6	1	2	8
U.S.S.R.	0.3	0.3	1	2	3	3	0.9	3	3	4
France	4	5	7	6	3	2	4	2	4	4
Others	15.5	14.8	35.1	35.5	42.7	10.5	14.6	24	36.5	35
Values in milliard zloty	0.8	1.5	3.1	0.8	1.2	0.7	1.3	2.8	0.9	1

13. Roumania's Foreign Trade (Merchandise) in % of total values.

From or to	Imports				Exports					
	1922	1924	1930	1934	1937	1922	1924	1930	1934	1937
Germany	20	19	25	15	29	6	6	19	17	19
Austria	16	17	12	10	8	7	14	9	9	7
Hungary	7	4	4	4	4	17	15	7	5	4
Czecho-Slovakia	9	11	15	10	16	8	9	7	5	8
Italy	5	10	8	7	3	8	5	13	8	7
Switzerland	0.8	1	3	3	2	0.3	0.1	0.2	1	3
Poland	12	9	4	3	2	3	4	2	1	1
United Kingdom	9	10	8	16	9	2	6	11	10	9
U.S.A.	3	0.9	5	4	4	0.2	-	0.3	0.1	2
France	5	8	7	11	6	10	5	7	10	6
Others	11.2	10.1	9	17	16	38.5	35	24.5	34	34
Values in milliard lei	12	25	23	13	20	14	28	28	14	31

YUGOSLAVIA'S FOREIGN TRADE (Merchandise)

in % of total values

From or to	Imports					Exports				
	1922	1924	1929	1934	1937	1922	1924	1929	1934	1937
Germany	7	8	16	14	32	8	4	9	15	22
Czechoslovakia	29	20	17	12	10	23	24	16	16	13
France	3	3	6	3	3	5	5	7	9	4
Poland	20	20	17	12	11	8	10	5	11	8
Roumania	4	2	2	2	2	0.3	3	13	-	0.7
Italy	15	20	11	15	8	28	29	25	21	9
Switzerland	0.4	0.8	1	3	2	8	4	2	3	2
United Kingdom	7	11	6	9	8	2	1	1	5	7
U.S.A.	3	4	5	6	6	0.5	0.4	2	4	5
Others	3	3	4	5	2	6	4	4	1	5
Total	8.6	8.2	15	19	16	11.2	15.6	16	20	24.3
Value in billion dinars	6	8	8	3	5	4	9	8	4	6

GERMANY'S FOREIGN TRADE (Merchandise)

in % of total value

From or to	Imports			Exports		
	1924	1934	1937	1924	1934	1937
Austria	1	1	2	5	3	2
Poland	4	1	1	5	1	1
Czechoslovakia	5	4	3	6	4	3
Switzerland	3	3	2	6	7	4
France	2	4	3	2	7	5
Hungary	0.5	1	2	1	1	2
Yugoslavia	*	0.8	2	*	0.8	2
Roumania	*	1	3	*	1	2
Italy	4	4	4	4	6	5
U.S.S.R.	1	5	1	1	1	2
U.K.	9	5	6	9	9	7
U.S.A.	19	8	5	7	4	3
Others	51.5	62.2	66	54	55.2	62
Value in billion RM	9	4	5	7	4	6

* included in "Others"

from neighboring markets
except Germany's. '174

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16. The most striking point brought out by these tables is the dispersion of trade. In every case, except exports from Roumania, there was, between 1922 and 1937, a huge increase in the percentage transacted with far distant countries, whose shares singly amounted to very little, but which in the aggregate came to absorb and to contribute more and more of the successor states' exports and imports.

17. Another remarkable aspect is that the percentage of trade done with Germany shows a big decrease, from 1922 to 1937, in the cases of Austria, Czechoslovakia and Poland, and a relatively still bigger increase in those of Hungary, Italy, Roumania and Yougoslavia.

18. Switzerland's share in these countries was on the whole steadily maintained, with a slowly expanding tendency.

19. In trade with Great Britain and the U.S.A., there was an expanding tendency, relatively, in Austria, Czechoslovakia (exports), Hungary, Poland (exports), Roumania (exports) and Yougoslavia. There was a decline in imports to Czechoslovakia, Italy (very steep for imports from both Great Britain and U.S.A., slight for exports) and imports to Poland and Roumania.

20. Over the period we are studying, France increased both sides of her trade with Austria, and Czecho-Slovakia her imports from France, but there was a slight falling off of Czecho-Slovakia's exports to France, and a relatively large decline in Hungary's exports to France. Poland imported less from France but increased exports to France. Both Roumania's and Yougoslavia's trade with France tended to fall off, relatively to total trade, and with Italy there was a very heavy decrease. By 1937, none of the countries concerned transacted more than 5% or at the most 6% of either their exports or imports with France, who thus came to matter less to the successor states, commercially, than either Great Britain or the U.S.A.

b) Commercial agreements and negotiations.

21. The Western Powers were not unaware, when the Treaties of St. Germain and Trianon were being drafted, of the dangers that might result from the cutting up into seven of what had been a single customs unit. The Treaty of Trianon provided for suspension of the Most Favoured Nation Clause for five years from the coming into force of the Treaty to permit preferential tariff arrangements to be concluded between Austria, Czecho-Slovakia and Hungary (Art. 222) and between Poland, Austria and Czecho-Slovakia (Art. 224). The five years elapsed without advantage being taken of this opportunity. Indeed, the whole twenty years' interval between the two wars passed without anything being done on a considerable scale to check the progressive disruption of the business links that had formerly connected the various parts of the Danubian and Balkan regions. Certain attempts in this direction may be recalled.

22. On October 15, 1922, a meeting took place at Porto Rose in Istria, where for the first time representatives of the 7 successor states discussed their economic problems. Several resolutions were voted. None of them ever went into effect.

23. Shortly after Porto Rose, the League Scheme for the reconstruction of Austria got under way. Encouraged by its promising beginnings, Hungary approached the League, and by the summer of 1924 prospects for both these States appeared so good that it was generally assumed that the other successor States would only have to follow suit. The Economic Conference of 1927 did not produce any tangible results where this region was concerned.

24. Declining wheat prices, from 1929 on, caused alarm in the European exporting countries. In July, 1930, representatives of Hungary, Roumania and Yugoslavia met and passed resolutions calling on European importing countries to come to their assistance by:

- a) conceding preferential tariffs,
- b) desisting from agrarian protection at home,
- c) granting long-term credits.

No practical measures were taken in response to this appeal.

25. A year later, in August 1931, delegates from 8 agrarian States (Bulgaria, Czecho-Slovakia, Estonia, Hungary, Latvia, Poland, Roumania and Yugoslavia) met at Warsaw. Resolutions were voted, again without practical results.

26. The agrarian States' plans for obtaining assistance from industrial States involved departure from the most-favoured-nation clause, and were therefore subjected to rigorous scrutiny by maritime and overseas countries such as the United Kingdom, Belgium, Holland and the U.S.A. They were advocated by France, who got the Committee for European Union (Geneva, 15-21 July 1931 etc.) to agree, with reserves, to the principle of agrarian preference for Europe. France then granted preferential tariffs for Hungarian, Roumanian and Yugoslav wheat. Similar arrangements were incorporated in German-Roumanian and German-Hungarian commercial agreements. The trade returns reproduced above show that the results, ^{though} ~~where~~ France's imports from the successor States ~~were increased, were insignificant~~ ^{showed a large relative increase, were not sufficient to offer a solution of the problem.}

27. At the London Economic Conference in London in the summer of 1933, the 8 agrarian States that had conferred at Warsaw two years before formed a bloc, which failed to achieve anything, largely because of the most-favoured-nation clause issue.

28. The 1933 London conference was the last occasion on which collective action by the agrarian States of Europe was attempted. From 1934 until 1937, agrarian prices improved, and the problem lost its acuity, though only to resume it again from the middle of 1937 on.

29. In the meantime, Chancellor Schöner^b of Austria and the German Minister Dr. Curtius signed (14 March, 1931) an agreement providing for a customs-union between their two countries. It will be remembered that this plan was dropped when the Hague Court ruled that it was contrary to the undertakings subscribed to by Germany and Austria in the Peace Treaties.

30. Convinced that something ought to be undertaken to halt dangerous tendencies in the Danubian region, displayed by the Curtius-Schöner^b plan and other initiatives, M. Tardieu, at that time Premier of France, ^{was,} approached the Powers in March 1932 with a set of suggestions known as the Tardieu Plan, to the effect that Austria, Czechoslovakia, Hungary, Roumania and Yugoslavia should discuss their problems in all their bearings, ^{not excepting} including the most-favoured-nation clause difficulty, and, when they had reached agreement, should make concrete proposals which should be submitted to the League. France, the United Kingdom and Italy were then to enter the discussions. German and Italian opposition to this plan at once began hardening. Great Britain then proposed a Four-Power Conference with France, Germany and Italy, which met in London in April 1932 and achieved nothing.

It may here be noted that by this time the tendencies leading to Ottawa (20 August 1932)

were gathering momentum. Great Britain's interest in the Danubian region flagged.

31. After a conference held in July 1930 at Strbské Pleso and the conclusion of an Economic Pact in February 1933, the Little Entente Economic Council held its first meeting at Prague in January 1934, the objections of Czecho-Slovak agrarians having been overcome. A set of resolutions was adopted and subsequently put into effect which halted the decline of trade between the three countries concerned and even resulted in some increase from 1934 to 1937, these exchanges remaining on a very modest scale, however.

Czecho-Slovakia's Trade with Roumania and Yugoslavia in % of total values.

	<u>Imports</u>				<u>Exports</u>			
	<u>1922</u>	<u>1929</u>	<u>1934</u>	<u>1937</u>	<u>1922</u>	<u>1929</u>	<u>1934</u>	<u>1937</u>
Roumania	3	2	3	5	3	4	4	5
Yugoslavia	2	2	3	4	4	5	3	5

Roumania's Trade with Czecho-Slovakia and Yugoslavia.

Czecho-Slovakia	9	15	10	16	8	7	5	8
Yugoslavia			(detailed returns not available)					

Yugoslavia's Trade with Czecho-Slovakia and Roumania.

Czecho-Slovakia	20	17	12	11	8	5	11	8
Roumania	4	2	2	2	0.3	1.3	1	0.7

32. Parallel with the Little Entente's attempts at promoting its members' trade with each other, and no doubt in order to prevent Hungary, particularly, and Austria from being drawn into the Little Entente orbit, negotiations took place which resulted in the conclusion (17th March 1934) of the agreements known as the Rome Protocols, by which each of the three countries concerned granted preferential treatment to their other two partners. The results on Hungary's exports to Italy were appreciable.

Italy's Trade with Austria and Hungary in %
of total values.

	<u>Imports</u>				<u>Exports</u>			
	<u>1920</u>	<u>1929</u>	<u>1934</u>	<u>1937</u>	<u>1920</u>	<u>1929</u>	<u>1934</u>	<u>1937</u>
Austria	2	2	2	4	5	3	2	3
Hungary	0.8	0.9	1	3	2	0.8	2	2

Austria's Trade with Hungary and Italy in
% of total values

	(1922)				(1922)			
	Hungary	11	10	11	9	13	7	11
Italy	5	4	4	5	10	9	10	14

Hungary's Trade with Austria and Italy in %
of total values

Austria	29	13	23	18	38	30	24	17
Italy	3	4	12	7	4	7	8	12

33. The Laval-Mussolini agreements of January 1935, aiming at reconciling and co-ordinating Little Entente and Rome Protocol policies, led to a resolution adopted at Stresa for the summoning of a conference, in May 1935, of the Danubian States, France, Great Britain and Italy. This conference never met, having been postponed first until June 1935 and then sine die. By then, the Ethiopian crisis was open.

From this time on, there was a brisk increase in Hungary's, Yugoslavia's and Roumania's trade with Germany.

34. A last attempt to put new life into exchanges between the successor States was undertaken by M. Hodza, Foreign Minister of Czecho-Slovakia, from 1936 on. As a first step, a treaty between Czecho-Slovakia and Austria (2nd April, 1936) provided preferential rates for a number of articles. Subsequently, M. Hodza succeeded in negotiating commercial treaties with Hungary and Bulgaria, no objection being raised by Roumania and Yugoslavia. M. Hodza's line of attack was a good one, in itself, and if it had been attempted by Czecho-Slovakia fifteen years earlier, it might have made history. By 1936, it was too late. The results, even on the Czechoslovak-Austrian relations, were not such as to prevent the percentage of their

trade which each of the parties did with the other from declining down to the total year 1938.

e) Other factors.

35. Scrutiny of the returns summarised in paragraph 4 above will suggest that other factors than commercial agreements must have mainly determined the direction of the successor States' trade in the inter-war period. In fact, no sooner had currencies been stabilised, towards 1925, and recourse could be had to the Western money-markets, than these States started financing expansion, industrial in some cases and agrarian in others, but always aimed at autarky. Their efforts were so far successful that the average percentage of imports which each of the seven successor States took from the other six declined from 43% in 1924 to 26% in 1937, while on the export side the ^{de.} increase over the same period was from 48% to 26%.

36. Later, ^F from 1931 on, another factor came to exert a powerful influence. As one after another of the Danubian States adopted exchange control, each one was impelled to seek hard-currency markets, however far away, for its exports, and in the attempt was obliged to import more from those same markets. It will be seen from the detailed returns summarised in paragraphs 8 to 15 that the percentage of trade done by each of the countries under review with distant markets, which individually played so small a part that it is not specified in the tables in the official publications showing the distribution of trade, increased heavily over the period ^{with the exception of Rumania's exports.} under review. ^{like the North} This increase is large in the cases of ^{Hyderabad,} Czechoslovakia and ^{Benares,} where the percentage on both sides of the return doubles from 1922 to 1937, and with greater

still in that of Hungary, where it rises (imports) from 5% in 1922 to 14% in 1937, and in exports over the same years from 5% to 21%. In the case of Poland the increase is of much the same order of magnitude. Austria's imports from "Others" rose from 12% to 27%, her exports to "Others" from 17% to 26%. In the case of Italy, there was a much ~~more gradual~~ slower increase.

37. During the same years, from 1931 on, the Danubian and Balkan countries negotiated clearing and payment agreements with the countries where they did most of their business, in order to overcome some of the obstacles caused by exchange control. These clearing agreements came in the aggregate to cover the bulk of the foreign trade of the countries concerned. Some of them provided for an available exchange balance, known in the jargon of those days as a Spitzenbetrag, but this balance was more often than not ear-marked for some purpose or other. In rare cases, where there was a major political inducement, as in Italy's concessions to Hungary and Austria in the 1934 Rome Protocols, the Spitzenbetrag ~~was~~ was of relatively considerable size and freely available.

38. Broadly speaking, however, the clearing system tended to reduce the Danubian and Balkan countries' trade to a bilateral barter of goods. In order to obtain free exchange, the countries concerned were driven to seek markets so far afield that to sell on them involved an accounting loss, carriage included, as in the celebrated instance of ~~Bulgaria's rail exports to British India, and Hungary's~~ ^{exports} of Diesel-engine locomotive-cars to Latin America. Such was the position when the present war started.

39. All attempts, by means of quotas and quantitative restrictions, were unavailing to secure a balance in clearing accounts, even before the present war started. One partner's currency was always stronger than the other's. This resulted in exports from the weaker country being in effect paid for outside the clearing, at a free (black-market) rate of exchange, thereby starving the weaker country's clearing account in the stronger country and throwing the two accounts out of balance.

40. AN even graver aspect of the system was and is that it permitted Germany to attract, on credit, ever greater quantities of those exports which she desired. The prices offered by Germany, in Reichsmarks, for say Hungarian wheat or pigs (or Roumanian oil), when converted into pengö at the rate imposed in the payment agreement (which rate is at present ^{about double as} ~~several times more~~ favourable to the RM than the relation between the two currencies on the free market for notes in Switzerland) are so attractive to the producer that they drain goods to Germany to the point of upsetting internal Hungarian prices and reducing home consumption. Hungary's "favourable" balance goes on increasing, as Germany cannot or will not sell to Hungary goods which Hungary wants to buy in amounts corresponding to what Germany takes from Hungary. Hungary's efforts to check the process by holding out for something approaching a real exchange-rate, or by imposing export restrictions, or by discouraging Hungarian producers from selling to Germany by making them wait for payment, were remarkably successful as long as Hungary was able to gain access to other markets. The way out was badly obstructed when Italy entered the war, and all but completely blocked when the Balkan campaign started in April 1941. Since then, to all intents and purposes, Hungary can only export to Germany, or across Germany in such quantities as Germany sees fit to allow, and Hungary is obliged

to take advances to her own exporters while the "favourable" period continues to roll up. To a greater or less extent, this is what is happening to all European countries so placed that they cannot open free markets.

II. Changes in Production in the Interwar period.

43. The allocation of what had formerly been trade-channels in the area covered by the Austro-Hungarian Monarchy and above all paragraphs, was accompanied by far-reaching changes in production. Each new customs-unit strove to make itself independent of the others. Instead of buying manufactured articles in the regions, mostly included since 1919 in Czecho-Slovakia and Austria, which formerly turned them out for the whole Austro-Hungarian Monarchy, the other successor states, as soon as they were able to borrow the money which to set up plant, started manufacturing for themselves, at whatever cost, with the result that Czecho-Slovakia and Austria lost their nearest markets, and the consumer in the newly inaugurated countries had to pay for the duplicating plant. In agriculture, a corresponding course was followed. The following general indices of industrial production are eloquent:

	1929	1933	1937	1939
Austria	100	66	(36) 86	-
Czecho-Slovakia	100	60	80 (1938)	96
Hungary	100	88	129	151
Roumania	100	101	137	135

Czecho-Slovakia and Austria saw production drop, as measured by this index, from 100 in 1929 to 60-odd at the depth of the crisis, 1933, and were unable subsequently to recover to the 1929 level. Meanwhile, the index had gone up by the year 1937 to 129 in Hungary and to 137 in Roumania, and by 1939 to 151 and 135 in the two countries,

respectively.

41. Throughout this period, heavy industry flourished in all the successor states, including Czecho-Slovakia, as the following figures show:

Production of pig-iron and ferro-alloys
(thousands of metric tons)

	1924	1929	1937
Austria	266	459	388
Czecho-Slovakia	938	1645	1675
Hungary (pig-iron only)	116	368	358
Roumania	46	72	127
Yugoslavia	15	31	41

Steel

Austria	377	632	657
Czecho-Slovakia	1350	2193	2315
Hungary	239	514	665
Roumania	87	161	239
Yugoslavia	42	98	169

Czecho-Slovakia remained much the biggest producer in 1937. It had nearly doubled its production since 1924. Austria, which in 1924 was the largest producer after Czecho-Slovakia, had been outstripped in 1937 by Hungary, in which country, as in Roumania and Yugoslavia (where the industry was only starting in 1924) production increased three to fivefold during the period under review. As Czecho-Slovakia's heavy industry did not decline from 1929 to 1937, but even went on increasing, while Austria's only decreased very slightly, and as the general index of industrial production declined by 20% from 1929 to 1937 (Czecho-Slovakia) and 14% (to 1936 in Austria), it follows that the rest of Czecho-Slovak and Austrian industry was on the whole losing ground, while that of Hungary.

(with the exception of industries based on farming) and Roumania was going ahead at a smart rate.

42. Of the mainly agrarian countries of the old Dual Monarchy, Hungary was the one that had made the best start in industry, Budapest having, before the 1914/18 war, the biggest flour-mills in Europe and the biggest in the world after Minneapolis, and an exporting sugar industry, ^{which still exported in the earlier post-war years.} It will be noticed that both of these worked up raw materials grown in the country itself. Hungary also had a machine-industry, which manufactured and repaired locomotives for the Balkans. After Hungary became an independent customs unit, and able to borrow abroad to pay for the plant, it launched out into one new industrial branch after another. Most of them had a set-back in the post-1931 depression, but they all forged ahead afterwards. The Hungarian Institute of Economic Research's indices show the following development:

	Heavy industry	Chemicals	Paper	Textiles
1925	76.6	68.8	33.1	66.2
1929	100	100	100	100
1933	51.4	89.2	147.5	94.0
1939 (3rd quarter)	152.7	196.3	348.3	222.7

If the heavy industry did not do as well, relatively, as the newer branches, that was because the Balkan States had started railway shops of their own, whilst the new industries produced mainly for the home market. Hungary, which had been a big importer, relatively, of textiles, paper, chemicals and most kinds of finished goods, went over to importing raw cotton, wood-pulp, machines, metals and other raw materials, reducing its imports of manufactures to the goods of which it was forced to take quotas in the bilateral barter agreements which, in the latter years of the interwar period, came to cover some 70 to 80%

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of the country's foreign trade. At the same time, as has been shown above, Hungary was driven to seek distant markets for its exports. As its former trade-partners of the old Dual Monarchy would no longer take its flour and sugar, it had to sell, e.g. Diesel locomotives to Argentina, wheat in Switzerland, chilled poultry in England and clover-seed in the U.S.A.

43. Turning to agriculture, the high wheat prices that ruled the world over in the post-war years induced all the countries which we are studying to force production, the former importers as well as the former exporters. The slump in world cereal prices that started in 1929 did not cause a decrease in the area under wheat, or in production. In the importing countries, prices continued to be tempting, thanks to huge duties. In the exporting countries, the wheat-farmer had become so powerful politically that he succeeded in making the government pay him a subsidy, in one form or another, that spared him the trouble and risk of going over to other crops. With maize there was also a considerable increase in area and production.

Area and Production:

Wheat

	Area thousand hectares		Production million quintals	
	1921-1925 average	1938/39	1921-1925 average	1936-1939 average
Austria (1923-25)	192	250	2	4
Hungary	1,354	1,619	16	23
Roumania	2,860	3,818	24	40
Czecho-Slovakia .	616	897	10	16
Yugoslavia	1,600	2,130	16	28

	Area thousand hectares		Production million quintals	
	1921-1925 average	1928/39	1921-1925	1936-1939
	Maize			
Austria (1922-25)	60	73	1	2
Hungary (1923-25)	1,017	1,185	18	27
Roumania	3,761	4,997	36	52
Czecho-Slovakia.	158	180	3	3
Yugoslavia . .	1,926	2,753	28	51

44. Wheat trade:

	Imports			Exports		
	thousand quintals					
	1921/23 average	1929/33 average	1938	1921/23 average	1929/33 average	1938
Austria	1,886	2,713	2,084	2	21 (1937)	5
Czecho-Slovakia .	379	2,965	1,184	3	12	2,202
Hungary	31	0	0	103	3,577	4,361
Roumania	0	81	0	438	2,882	8,822
Yugoslavia	0	0	0	432	2,523	1,104

Flour trade

Austria	1,591	986	153	15	9 (1937)	17
Czecho-Slovakia .	1,859	864	2	176	5 (1937)	345
Hungary	170	0	0	1,224	1,512	343
Roumania	0	0	0	181	151	1
Yugoslavia	0	0	0	238	55	98

Austria and Czechoslovakia, in the earlier post-war years for which figures are available, continued to import flour, largely from Hungary. But as soon as they were able to acquire the milling-plant, their imports of flour began to fall, and towards the end of the period we are investigating it had dropped to an insignificant amount in Austria and to as good as nothing in

Czecho-Slovakia, Hungary's flour exports falling heavily the while, to the ruin of its fine old milling industry. In the meantime, Czechoslovakia's wheat-imports nearly trebled. Roumania's and Yougoslavia's flour exports ^{de} increased, but they had never been important. Their exports of wheat, on the other hand, increased, the rise in Roumania's case being spectacular.

45. In this rapid review of key industries based on agriculture we now come to sugar.

Sugar Trade

	Imports				Exports			
	1923/25 average	1929/33 average	1937	1939	thousand quintals			
					1923/25 average	1929/33 average	1937	1939
Austria	97.5	506	6	('38)3	1,734	4	0	0
Czecho-Slovakia	0	7	0	-	7,115	4,219	2,594	-
Hungary	6	3	0	0	753	640	244	2
Roumania	169	3	0	27	0	44	0	0
Yougoslavia . .	128	13	1	48	35	43	0	0

The fate that befell Hungary's flour-milling industry, partly through Czecho-Slovakia's insistence on milling her flour though she did not grow the wheat, overtook Czechoslovakia's sugar-distilleries, although not to the same extent, as Czecho-Slovakia remained a relatively large sugar-exporter to the end. Austria, which in the early post-war years both imported and exported, as befitted a country of Austria's shape, long and narrow, later practically ceased to import and altogether to export. Hungary's exports were cut to one-third. Roumania and Yougoslavia's imports heavily decreased, while their exports, never important, stopped altogether. Production had to adapt itself accordingly:

Production of beet-sugar
million quintals

	1924/27 average	(1936-38)	1936/39 average
Austria	0.8		1.4
Czecho-Slovakia .	13		6
Hungary	2		1
Roumania	1		0.9
Yugo-Slavia . . .	0.9		0.7

As an illustration of the economic insanity that prevailed, the relation between the Austrian and Hungarian retail sugar-price was such that it was profitable to smuggle back into Hungary and sell on the black market, for less than the official price, Hungarian sugar which had been sold to Austria thanks to a bounty, there to be retailed at a much lower price than that ruling in Hungary, where the price was the highest in Europe after the U.S.S.R. and Italy, and sugar consumption was correspondingly low.

III. Conclusions.

46. The observer who takes the pains to find his way through the labyrinth of economic happenings in the Danubian-Balken area between the two wars may be struck by a number of points of more than local interest.

47. In the first place, the 1919-1920 Treaties, having consecrated the disruption of the old Dual Monarchy customs-unit, did nothing to ensure healthy economic relations between the seven sovereign states which shared up the former Austria-Hungary. During the peace negotiations, criticism of this or that feature of the clauses as they were drafted was frequently answered by the ^{statement} that it would be the League of Nations' business to correct any defects which practice might reveal in

the Treaties. As it turned out, the League Secretariat took seriously this duty of ^{confining to the countries affected by} ~~terminating the economic working of~~ the Treaties of St. Germain, Trianon and Neuilly. The Austrian and Hungarian reconstruction schemes and the Bulgarian and Greek resettlement programs were carried out with complete success, as far as the various schemes went.

48. It may be asked why, when these schemes worked with an almost unerring precision, will within the time estimated as required to complete them, economic conditions in the ^{or} successful States, not excepting those which benefited by the reconstruction activities of the League, not only continued to be unsatisfactory, but presented ever graver problems, impending on political issues, as the years went on? The answer must be that the scope of the reconstruction schemes was limited to financial rehabilitation. Experience showed that budgets in the reconstructed countries could be balanced, currencies stabilized, exchanges set free, without a return of the economic health which it had been hoped would attend the achievement of these objectives.

49. The reason for this restricting the schemes to financial problems no doubt was that these could be tackled without reopening the graver political questions which, it was feared, would prevent action on an international scale in favour of the countries which most needed help in the early post-war years. The political difficulties involved in working out the reconstruction schemes as devised, though real, were not insuperable. But, by the latter part of 1924, when it had become apparent that the Hungarian plan was going to work as smoothly as the Austrian one had, the successor States that considered themselves former allies of the victorious Great Powers began to feel that the lot of vanquished Austria and Hungary, from the financial point of view,

had become more enviable than their own. Their misgivings on this score did not hinder the completion of the schemes. They may have increased a tendency, already strong in the new or newly enlarged successor States, so to shape their economic course as to have as little as possible to do with the two States which they regarded as the political and moral heirs of the former Dual Monarchy.

50. The ~~very~~ ^{standards} ~~standards~~ in the world of finance, which the success of the plans conferred on Austria and Hungary, so worked out in practice as to speed up the trend towards self-sufficiency. Even before the two plans were pronounced by the League to have succeeded, the increasing likelihood that they would succeed, together with the interest-rates to be obtained in Austria, and still more in Hungary, on hard-currency loans, at a time when money was getting cheap on the Western markets, attracted attention abroad, and by 1926 foreign borrowing had got well under way. There was nothing in the central bank statutes, which formed an important part of the League's reconstruction plans, enabling those central banks or any other Government agency to control foreign borrowing. As these countries' internal debt had been wiped out by inflation, and none seriously thought of forcing the successor States, of which Austria and Hungary were only two out of seven, to service their pre-war foreign debts on a gold basis, the margin of safety might be considered a wide one. Foreign borrowing proceeded, for a great variety of purposes, at a lively rate until 1929 or 1930, by which time it had reached a point where Hungary had the heaviest foreign debt burden in Europe, ^{relatively} owing abroad upwards of 100 dollars per capita of population.

51. Austria's borrowing was on a less extravagant scale, but enough to create a serious problem, and no sooner had the Western bankers found their way down the Danube and to the Balkans than they began to discover interesting fields for investment in Yugoslavia, Roumania and even Bulgaria.

52. The capital-hungry countries, first Governments and official bodies and later private interests, borrowed on long-term where they could. But soon the banks began borrowing on short-term. And as these banks almost all owned industries and had limitless plans for further expansion behind the shelter of high and ever-increasing tariffs, a large part of the banking loans, ~~when they were~~ not employed in local usury, pure and simple, went into new plant, where, though it remained in theory callable at short notice, a great deal of it turned out to be frozen when the crisis that started over the Austrian Credit Anstalt in May 1931 resulted, in one after another of the countries concerned, in measures of transfer suspension, more or less complete. And it must not be overlooked that some of the loans served to promote agriculture in regions which had formerly been industrial.

53. An exaggerated case has been put up claiming that hardship was suffered by foreign lenders in Danubia and the Balkans. Down to the beginning of the present war, which of course greatly worsened their position, it is not certain that the foreign holders of ^{Austrian, Czechoslovak, Hungarian or even Roumanian} these securities fared appreciably worse than they would have fared had they invested their savings in average securities at home. But there is no doubt that a great deal of the money was spent in defeating the very purposes which it had been hoped to promote when the Austrian and Hungarian plans were devised: a return to economic sanity, and the

encouragement of trade between the various parts of a region which were once complementary and might have remained so under a different dispensation.

54. In justice, it should not be overlooked that the countries we are considering were not prompted to seek self-sufficiency only out of the desire not to depend on each other. They had serious problems to face, for they were all over-populated, from an economic point of view, and after the war the outlets for the surplus that had existed without restriction in America, and to a not negligible extent in European countries, was all but completely closed. For over-populated agrarian countries, no longer able to export their surplus labour, industrialisation might well seem to be the only course. But when all due allowance has been made for this factor, it remains true that the pursuit of autarky on which all these States embarked resulted in waste and duplication, high retail prices and a depressed standard of living.

55. The conclusion to be drawn from this experiment appears to be that reconstruction schemes laid on financial lines alone cannot in their nature succeed in conjuring the dangers that arise when a natural economic area like the Danube basin is split up into half a dozen customs-units, each of them armed with complete sovereign rights in tariff matters.

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MAY 15 1945
Division of Monetary Research

JAN 27 1942

My dear Mr. Secretary:

I want to thank you for sending me your report on Germany's ability to produce and maintain supplies of vital minerals, transmitted with your letter of January 21.

I agree with you that this matter is of the utmost importance, and I am interested in the conclusions of the report. I have been of the opinion that there appears at times a dangerous tendency toward complacency on this matter -- a feeling that the Axis powers are weak in materials, that the Allies are economically powerful, and that therefore all we have to do is wait for a while and win the war on the mere weight of our economic potential, whether the potential is realized or not. I welcome any factual reports that will dispel such a dangerous attitude.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

The Honorable,

The Secretary of Interior,

Washington, D. C.

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Treasury Department
Division of Monetary Research

195

Date January 23, 1942 19

To: Secretary Morgenthau

From: V. F. Coe yfc

Subject: Ickes' Report on German Minerals
Situation

1. The report concludes that Germany is "surprisingly well supplied" with vital war minerals.

She produces more bauxite, aluminum, and magnesium than is produced in the Anglo-U.S. combination.

She has increased her stocks and supplies of other minerals largely by prompt exploitation of captured areas.

2. The report points out that a real effort will be required for the Allies to surpass German production -- that it is more than merely a matter of time until our resources are used to their full effectiveness.

It notes that a large part of our mineral output still goes into non-defense purposes.



THE SECRETARY OF THE INTERIOR
WASHINGTON

JAN 21 1942

Dear Mr. Morgenthau:

The facts regarding Germany's ability to produce and maintain supplies of mineral raw materials vital to its war purposes, is a matter of the utmost importance to our war position. There has been considerable speculation on this matter in public circulation, some of it of a misleading and wishful character.

This Department, several months ago, deemed it advisable to undertake to ascertain the truth of the situation. We assigned a specialist of the Bureau of Mines to investigate the facts with respect to this important phase of the war problem. His report contains information of a striking character that is decidedly at variance with some of our comfortable assumptions. I am sure that you will be interested in this report and in its conclusions. Therefore, I am sending you a copy.

Sincerely yours,

Harold I. Parker

Secretary of the Interior.

Enclosure 2294850

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

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GERMANY'S NEW MINERAL POSITION

BY

Charles Will Wright,
Foreign Minerals Specialist,
Bureau of Mines.

General Statement

When one sums up the annual output of minerals, metals, and fuels since 1932 in Germany, and adds to these figures the output of the areas acquired by Germany during the last two years, the results indicate that Germany today is surprisingly well supplied with minerals for essential military needs. In some instances such as bauxite, aluminum, and magnesium, recent production has been greater than the combined output of the United States, Great Britain, and Canada but Germany lacks certain essential minerals such as tungsten, tin, copper, molybdenum, asbestos, and particularly petroleum. However, as Germany has been preparing for the present war since 1933, large quantities of these latter minerals were bought and stock-piled. (See Table 1.) She realized from the start that to be powerful, a nation must secure the required minerals and metals either by increase in production from domestic sources, by purchase, or aggression. Germany has utilized all three of these methods to a marked degree.

From 1935 to 1939 the writer made a general survey in each of the European countries and reports on their mineral resources and output were issued by the Bureau of Mines. It is to bring these data up to date and to give a general picture of the mineral situation within the New Germany that the present summary has been prepared.

Handicapped by a deficiency of raw minerals that could be profitably mined, Germany first proceeded to develop low-grade deposits of iron and copper, and built up her mineral production regardless of cost. Examples of this are the pig iron production at the Herman Goering works near Salzgitter, and the increased production of copper at the Hansfeld mines at a cost estimated to be over double the world price. Since 1933 Germany has bartered with the Balkan States for most of their mineral output and built up large stocks by imports from the Western Hemisphere. The large increases in mineral imports since 1933 demonstrate that Germany began preparations for the present war some 8 years ago. Germany's greatest increase in mineral supply, however, has been through the occupation first of Poland, then Norway, then France, the Balkans, and later of the Ukraine and Donetz Basin. Reports indicate that no time is being lost by the Germans in these occupied countries in organizing mineral production in order to get the utmost benefit out of these new sources of supply.

There is a general belief in the United States that with our great mineral resources and plant capacities, it is only a matter of time when we, together with Great Britain, will have control of the air and sea. While this is true, it should be remembered that the New Germany already is a powerful adversary working at maximum capacity in the output of airplanes, submarines, tanks, and munitions. Just when the United States and Great Britain will be in position to exceed the German production of these war machines depends largely on their ability to increase and maintain mineral production and the extent to which civilian consumption is curtailed to permit more rapid advances in the manufacture of required war materials. Substantial progress along this line has been made since December 7 but a large part of our mineral production is still consumed for non-defense purposes.

Another factor assisting Germany's war effort is the regimentation of labor and industry. As early as 1936 all labor unions had been placed under Government control and labor was working 60 hours a week. Those who obstructed the Reich's labor program were sent to concentration camps. In 1939 when the writer last visited Germany, food rations for the workman and his family were a controlling factor against any agitation or inefficiency of output. During the last decade Germany has built up efficient management in all branches of her industries with full control over supplies and labor. Research laboratories are turning out improved weapons and their technicians and engineers are making the most of the mineral resources in the occupied areas. Besides the temporary advantage of regimented industry oriented solely to war objectives, Germany has another great advantage over her adversaries in her ability to deliver tanks, ammunition, and airplanes to the actual fighting lines in greater quantity by reason of direct and comprehensive transport facilities and at much less risk.

Table 1 - German Imports of Certain Strategic Minerals
1932 to 1939,⁽¹⁾ in Metric Tons

	<u>1932</u>	<u>1933</u>	<u>1934</u>	<u>1935</u>	<u>1936</u>	<u>1937</u>	<u>1938</u>	<u>1939</u> (6 Mos.)
Tungsten ore	1,615	3,614	4,385	7,681	8,726	11,372	14,200	5,731
Tungsten metal and scrap (incl. chromium and cadmium)	630	1,317	2,877	1,611	4,114	6,605	7,590	4,930
Nickel ore	17,694	34,513	37,609	29,013	17,651	19,990	34,215	15,800
Nickel metal	565	1,968	4,060	5,929	3,392	3,365	3,984	2,164
Chromium ore	42,128	47,370	76,983	95,440	123,375	132,162	176,406	110,131
Copper ore	237,878	240,902	324,921	400,538	482,471	555,577	653,931	336,523
Copper metal	138,100	154,600	182,200	153,365	127,549	169,920	272,400	89,355
Copper scrap	17,527	17,911	14,039	19,891	24,372	32,703	27,308	12,107
Manganese ore	107,000	132,000	223,000	394,256	229,634	554,170	425,785	153,757
Molybdenum) Uranium) Titanium) Vanadium ores)	2,848	8,945	20,595	27,359	34,512	41,861	64,179	21,365
Tin Ore	1,858	431	602	1,232	1,563	6,623	6,142	2,634
Tin & Tin Alloys	9,038	11,281	13,470	11,824	9,176	10,320	12,090	4,768

(1) Statistics from "Monatliche Nachweise über den auswärtigen Handel Deutschlands", Berlin.

Summary of Germany's Mineral Supply Situation

Fuels

Coal.- Coal output in German-controlled areas is about one-half of the world's production or more than sufficient for all purposes, particularly in the manufacture of coke for use in blast furnaces. Because of the proximity of the major coal fields to the iron-ore deposits and the well developed transportation facilities available, Germany is in an excellent position to make good use of her large coal supply. Control of the Donetz coal fields in Russia, together with the iron mines and steel plants of the Ukraine, if held, would place her in a still stronger position. Coal and lignite are also used extensively in Germany in the manufacture of synthetic petroleum products.

Petroleum^{1/}- The area now controlled or dominated by Germany consumed approximately 221 million barrels of petroleum products in 1938, and produced about 78 million barrels (chiefly in Rumania) or 35 percent of its requirements in that year. Germany has adopted extreme measures to meet the shortage resulting from the British blockade. As early as 1938 she was producing 14,000,000 barrels of synthetic petroleum products from coal, of which Germany has very large reserves. Her collapse due to failure of oil supplies thus cannot be forecast with assurance at this time.

Western and central Europe has always been primarily a coal-burning area; fuel oil has been consumed chiefly by the merchant marine, the national navies, and the petroleum industry. The British blockade has virtually swept the merchant marine of continental Europe from the high seas. Naval requirements under present conditions are relatively small. Likewise consumption of fuel oil in the oil fields and in the refineries has always been relatively low. Civilian consumption of gasoline has been cut to the bone. However, the most serious industrial problem probably is the supply of lubricating oils. But Germany has pioneered in reclaiming and re-using lubricating oils, and to some extent animal and vegetable oils have been used to replace mineral lubricants.

In addition Germany probably build up substantial stocks prior to the outbreak of war. The 221 million barrels of indicated petroleum consumption in the European and Mediterranean area now controlled by Germany undoubtedly included considerable accumulation of stocks, particularly in Germany where the indicated German demand for mineral oils rose rapidly from 24 million barrels in 1933 to 53 million barrels in 1938. In the recent pre-war years nearly every European country was requiring the importing and refining companies to maintain from three to six months' supply of mineral oils on hand at all times. The rapid conquest of France, Belgium, the Netherlands, and Scandinavia placed in German hands an unknown but considerable amount of refined oils which had been accumulated under the self-sufficiency programs of these countries.

^{1/} Notes on Petroleum prepared by A.M. Redfield, Economic Analyst, Bureau of Mines.

Taking everything into consideration the German petroleum problem appears to be largely one of rationing and administration. With 78 million barrels or more of petroleum and petroleum substitutes at its disposal, and military needs and essential industrial needs given preference, Germany appears to be in no immediate danger of the failure of her military machine for lack of gasoline and lubricants.

The occupation of the Near Eastern oil fields by Germany, which is still a possibility, would add to her current supply a potential production of 192 million barrels annually, or more than sufficient for all civilian and military needs. But the lack of facilities to transport this oil overland to Germany might deprive her of any real advantage of such occupation for some years. Any destruction wrought by the retiring troops, if they were forced to retreat, would be a further handicap to Germany in the exploitation of these oil fields even though permanent destruction of this oil supply cannot be accomplished.

Iron and Steel Materials

Iron ore.-In 1940, 46 percent of the world's iron ore output was produced in the countries now controlled by Germany. Germany has occupied the iron mines of Krivoi Rog in the Ukraine, said to contain a billion tons of high grade ore and to have an annual production of about 18 million metric tons. This new source of supply, if held, together with the high grade ores from Sweden and the enormous deposits of Lorraine, in France, provide Germany ample raw materials to supply the requirements of her steel plants.

Pig iron.-German-controlled areas accounted for 44 percent of the world's output of pig iron in 1940. It is probable that the blast furnaces in the Ukraine have been destroyed by the retreating Russians, and it may take a year to rebuild them. Nevertheless, Germany is well supplied with all of her essential pig iron requirements from the blast furnaces within her borders and the adjoining areas in France and Belgium.

Manganese ore.-Germany's shortage of manganese ore was becoming serious but by the occupation of the Nikopol Manganese Mines in the Ukraine, Germany has acquired an adequate source of supply, with an annual output of 1,200,000 metric tons, or nearly double that of the Western Hemisphere. The areas now tributary to Germany produced 27.5 percent of the world's manganese ore output in 1940.

Chromite.-Within the German occupied countries the production of chromite in 1940 was 10 percent of the world's output. Presumably this production is inadequate to meet German needs. Recent agreements with Turkey included provisions for increasing chromite shipments to Germany. This together with stocks on hand will probably meet all necessary requirements during the next few years. Both Great Britain and the United States depend largely on overseas imports from Africa, India, Turkey, and New Caledonia, for their requirements.

Light Weight Metals

Aluminum.-- In 1933 the United States output of aluminum was more than double that of Germany, but in 1940 it is estimated that Germany produced 240,000 metric tons against 127,000 tons in the United States. Aluminum production in German-controlled countries, France, Italy, and Norway, and also in Switzerland, in 1940 was 15 percent greater than the combined output of the United States, Canada, and Great Britain, and amounted to 47 percent of the world total. A recent survey shows that the aluminum plants in German-controlled Europe will have a total capacity of 560,000 tons by the end of 1941, compared with approximately 580,000 tons in the United States, Canada, and Great Britain. By the end of 1942 or early in 1943 the production capacity of the latter countries should exceed 900,000 tons. No data are available on Germany's expansion program.

Bauxite.-- Germany is amply supplied with this raw material essential to aluminum manufacture. The extensive bauxite deposits in France, Italy, Yugoslavia, and Hungary are situated in a much more favorable position for transport to the aluminum reduction plants than those from which the aluminum plants in the United States and Canada get their supply (principally Surinam and British Guiana). Present output in Europe is 50 percent of the world's production, whereas the Western Hemisphere contributes only 38 percent. Both regions have large reserves from which additional production can be obtained although the Western Hemisphere is at a disadvantage because of the transportation problem.

Magnesium.-- No official production figures are published in Germany on magnesium output and estimates vary from 18,000 to 60,000 metric tons per annum, the most recent being 40,000 tons for the German dominated areas. In 1940 the combined British-American output was only 12,000 tons. Large plants are under construction in the United States and by the end of 1941 production of this light metal in the United States and Great Britain will be at the annual rate of about 40,000 tons. By the end of 1942, or early 1943, the United States alone is expected to have a production capacity of 180,000 tons. Data are not available on Germany's plans for expanding the production of magnesium.

Other Non-Ferrous Metals

Antimony.-- In Europe, antimony is produced chiefly in Yugoslavia which accounts for 10 percent of the world's output. This new source of supply, together with another 10 percent from the rest of Europe, will probably give Germany a sufficient tonnage of antimony to meet her most essential needs.

Copper.-- Germany's annual copper consumption reached 300,000 metric tons in recent years judging from imports and production. Germany and Austria produce probably less than 40,000 tons so that a large deficit

exists. With control of the Bor Mines in Yugoslavia, and the exports available from Spain, Norway, and Sweden, Germany's position has been improved. In 1940 German-controlled countries (not including Spain) accounted for approximately 150,000 tons or about 7 percent of the world's output of copper. Large stocks of copper are said to have been acquired in France, Belgium, and Holland, and estimates indicate that Germany will have a sufficient supply for essential military needs for the immediate future. Every effort has been made in Germany to replace copper with plastics, aluminum, and other metals.

Lead and zinc.- The occupation of the lead-zinc districts of Upper Silesia, Poland, and Trepca, Yugoslavia, has greatly increased Germany's supplies of these metals. Italy is also a large contributor, and Tunisia and Algeria likewise produce substantial quantities. Thus both in lead and zinc, Germany controls sufficient production to meet her requirements. In 1940 the German dominated countries produced 33 percent of the world's zinc output and 25 percent of the lead output.

Mercury.- As Italy is the largest producer of mercury, followed by Spain, the two countries controlling 75 percent of the world's output, ample supplies are available to meet Germany's requirements. On the other hand even at present high prices, production in the Western Hemisphere and elsewhere outside of Europe is barely enough to meet demands, and there is some uncertainty as to how long present rates of production can be maintained.

Molybdenum.- Germany's lack of tungsten is being compensated in part by molybdenum of which there were large imports for stock-piling in recent years. The increased use of molybdenum in steel alloys, in wires for electric furnace windings, and to replace platinum points in electric contact devices and spark plug points, makes it an essential metal in the manufacture of war machines. Germany now controls about 7 percent of the world's output which, together with stock-piled supplies, should meet all vital military needs for some time.

Nickel.- Nickel is another metal produced only in small quantities in the German-controlled countries, Norway and Greece being the principal producers. Although a heavy importer in past years, her present supply is small. However, if Germany can exploit the recently developed nickel deposits at Petsamo in Finland, an important source of supply will be available. In 1940 only 2.5 percent of the world's nickel output was produced in German dominated countries.

Tin.- There are no important tin mines in Europe, and Germany formerly depended entirely on imports from the Far East and Bolivia for her requirements. Germany is believed to have had large stocks in 1938 and to have acquired additional stocks in Holland. Germany has developed substitutes for many uses, such as in the food packing industries, and all available tin is reserved for highly essential applications. Germany has been outstanding in the reclamation of scrap tin and other metals for many years. Cadmium, a substitute in some uses of tin, is produced in substantial amounts in Germany and Poland.

Tungsten.- This is one of the few essential mineral products not produced in sufficient quantity within the new German-controlled area. Germany's nearest source of supply is in northern Portugal which district shipped only half of its output to Germany in 1940. Germany's requirements are over twice the amount now obtainable but because imports were exceptionally large during the years preceding the war, amounting to over half of the world's production in 1938, reserve stocks probably are available. Moreover, Germany apparently stock-piled large tonnages of molybdenum, a substitute for tungsten, in the pre-war years.

Minor metals.- Among the minor alloy metals essential to German industries are beryllium, titanium, and tantalum, for which Europe has been dependent upon imports for her requirements, and vanadium in which Germany is said to be self-sufficient. Germany's source of radium from Austria is about exhausted. The lack of some of these minor metals will be a serious though not a decisive handicap to Germany if the war continues for some years.

Non-Metallics

In German-controlled Europe there is no production of industrial diamonds, quartz crystals, and the strategic grades of mica and asbestos. These deficiencies are being met for the time being from stockpiles and by substitution. Except for phosphates, the shortage of which may become serious in a prolonged war, Germany is fairly well supplied with fertilizer and chemical raw materials.

ESTIMATED 1940 PRODUCTION OF GERMAN CONTROLLED OR SUPPLYING COUNTRIES
(In Metric Tons)

Country	Coal 1000 T.	Iron Ore 1000 T.	Pig Iron 1000 T.	Mangan- ese Ore 1000 T.	Chromite	Fluorite 50% WO ₃	Bical	Copper	Zinc	Lead	Anti- mony	Mercuric 1000 T.	Alumi- num	Magnes- ium	Mercury Tons	Poly- mer Tons	Petroleum and Substitutes in 1000 bbls.
Germany-Austria	450,000	15,000	22,000				600	16,000	220,000	120,000	180	20	240,000	25,000	65		26,263
Poland	40,000	900	1,000						150,000	22,000							3,891
Belgium-Lux.	30,000	5,000	5,000						20,000	30,000							
France	51,000	35,000	8,000						10,000	42,000		700	50,000	2,000			496
Netherlands	13,000		300					1,000									
Norway	-	1,500	175			20	1,250	20,000	5,000	320			15,000			600	
Sweden	450	14,000	780	6		200		10,000	32,000				1,400				
Finland & Est.	-		30					12,000	1,000								1,000
Czechoslovakia	11,000	2,000	1,200					3,000	4,500	900		1			100		119
Hungary	11,000	400	500	24				400	1,000	200		700	2,800				1,755
Rumania	2,600	130	180	40				600	5,200	5,200		40				160	43,231
Bulgaria	3,000	20		1	4,500			400									
Yugoslavia	6,000	600	60	6	60,000			65,000	10,000	10,000	3,350	150	2,800			50	9
Greece	170	300		11	57,000		1,300	3,000	5,000	10	50				320		
Italy	3,000	1,000	1,000	60			200	1,000	100,000	40,000	800	530	40,000	500	2,320	40	1,716
Switzerland	3	180											28,000	700			
Tunisia	-	800						6,000	24,000						10		
Algeria	13	2,800						15,000			800				6		2
Morocco	100	1,600				16		1,000			200					280	25
Ukraine (1)		16,000	9,000	1,200													
Portugal (1)						2,500		3,000			130						
German Controlled Countries - Total	641,286	100,230	49,105	1,438	121,500	2,736	3,350	149,800	597,000	433,220	6,370	2,191	380,000	28,200	2,507	1,440	76,501
World's Output	1,360,000 ⁽³⁾	216,675	113,000	5,250	1,210,000	25,520	130,000	2,250,000	1,800,000	1,750,000	34,000	4,400	800,000	42,500	6,000	21,280	2,259,374
Percent controlled by Germany	47.	46.	44.	27.5	10.	11.	2.5	7.	33.	25.	19.	50.	47.5	66.	49.	7.	3.4

(1) The portion of production that probably went to Germany.

(2) To these estimates should be added part of the mineral production of Spain including iron ore, copper, lead, zinc and mercury and of Turkey, including chromite, copper, zinc and antimony.

(3) 1939 production estimate. Only slight change expected in total 1940 coal output.

111111

January 27, 1942

My dear Mr. Wrong:

Thank you for your letter of January 26th with which you transmitted the extract from the speech of the Prime Minister of Canada in the House of Commons, January 26th.

I appreciate your kindness in sending me this material so promptly.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Hume Wrong,
Minister Counselor,
Canadian Legation,
3624 Prospect Avenue,
Washington, D. C.

File M.M.C.
By Messenger *Stacy 5.30*



CANADIAN LEGATION
WASHINGTON

January 26th, 1942.

My dear Mr. Secretary:

I believe that Dr. W. C. Clark has written to you about the announcement which is being made this evening in the Canadian House of Commons concerning the new financial arrangements between Canada and the United Kingdom. I have been asked to see that the full text of this announcement (which is being made as part of the Prime Minister's speech at the opening of the new session of Parliament) is placed in your hands at the earliest opportunity. I am therefore enclosing the text as transmitted to the Legation from Ottawa this evening.

Believe me, my dear Mr. Secretary,

Yours very sincerely,

Minister Counsellor

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

EXTRACT FROM SPEECH DELIVERED
BY THE PRIME MINISTER OF CANADA IN THE
CANADIAN HOUSE OF COMMONS ON JANUARY 26TH, 1942

In his speech at the Mansion House during my visit to Britain, and again in this Chamber on December 31st, the Prime Minister of Great Britain made particular reference to the financial assistance which Canada had extended to Britain in the present war.

The extent to which Canada has been furnishing supplies to Britain is, I am sure, not fully realized by our own people. Canada has supplied weapons and munitions to Britain for the use of Britain's armed forces, and for other Allied forces for which Britain has undertaken to provide equipment. Canada has also supplied to Britain raw materials required in British war production, and foodstuffs required to feed the armed forces and the people of Britain. In other words, Canada is, at one and the same time, a full partner in the war in her own right, and one of the principal arsenals, granaries and shipyards for Britain, other parts of the Commonwealth and other of the Allied nations. The total volume of Canadian shipments to Britain since the commencement of the war compares favourably with the volume which, thus far, has moved from the United States.

Canadian financial assistance to Britain has been necessary in connection with the provision of these vast quantities of war supplies. The financial assistance which Canada has extended to Britain is, of course, not what is ordinarily understood by the use of that term. Canada does not ship money across the Atlantic; the money itself never, in fact leaves Canada. Canadian financial assistance has been extended to Britain in the following manner. The British Government/

Government has purchased war supplies from Canadian producers. Britain, however, has not had enough Canadian dollars with which to make payment for the greater part of these supplies. Payment has accordingly been made in pounds sterling. This English money has remained on deposit in London, because it cannot, of course, be used in Canada. Most of the Canadian money required to pay the producers of guns and copper and bacon and other commodities has been supplied by the Canadian Government. This Canadian money has had to be raised from the Canadian people in taxes, war savings or war loans.

Canada's financial aid to Britain has, in other words, amounted to this: the Minister of Finance has raised money in taxes and loans from the Canadian people to pay Canadian producers for ships and tanks and guns and planes and other munitions shipped overseas for the British Army, Navy and Air Force also, to pay Canadian producers for aluminum, copper, steel, timber and other raw materials needed for British war industry; and, as well, to pay Canadian farmers and fishermen for the food Canada has sent overseas to feed the British people.

The British Government has been able to acquire some Canadian money as a result of ordinary business transactions, such as the sale of British exports to Canada, and receipts from interest and dividends on Canadian securities. This money has been used to pay for a part of the British purchases, but British exports to Canada are necessarily on a diminishing scale.

In the early months of the war, the British Government had a considerable accumulation of gold and was able to use some gold to pay for war supplies received from Canada.

The/

The British Government acquired some additional Canadian money by an arrangement to have Canada buy back from Britain certain Canadian Government and Government-guaranteed securities held in Britain. For the most part, however, payment for Canadian supplies has, of necessity, been made in pounds sterling.

For the past year, Britain has urgently required from Canada vast quantities of munitions and supplies. These Canada has created the capacity to produce. The Canadian producers have been paid in Canadian money by the Canadian Government. Canada, in turn, has been credited on the books of Britain with English money, which, however, cannot be spent in Canada. In this way, Canada's surplus store of English money has been assuming larger and larger proportions. What, in effect, all this really means, is that Britain has a steadily growing war debt to Canada.

We all remember the international problems and difficulties caused, after the last war, by the existence of huge war debts owed by one government to another. We recall how reluctant nations were to accept payments from other nations in the only way in which a huge external debt can really be settled, that is by removing tariffs and accepting payment in goods. We know that huge external debts created suspicion and bitterness between nations. The Government is anxious to avoid the creation of similar difficulties in the post-war relations between Britain and Canada. We believe that difficulties would be avoided and, at the same time, the real extent of Canada's war-time contribution would be more fully comprehended, if Canada's financial arrangements with the United Kingdom, both for the past and the reasonably

foreseeable/

foreseeable future, were duly clarified. We believe that the time has come for this clarification.

The Government, accordingly, is proposing to the British Government that the financial arrangements between Canada and Britain should be placed on a new footing. The offer which is being made is one which we have reason to believe will be warmly welcomed by the British Government.

Insofar as past transactions are concerned, the proposal is to convert the major portion of the pounds sterling which have accumulated to Canada's credit in London into a loan to the United Kingdom of Seven Hundred Million Dollars, in Canadian money. It is proposed that, during the war, the loan will be reduced by the proceeds of any sales made to persons outside the United Kingdom of Canadian dollar securities now held by residents of the United Kingdom, and also by the proceeds of the redemption or repayment of any Canadian securities held in the United Kingdom. The new loan would not bear interest during the war. As soon as practicable after the war, it is proposed, however, that the governments of the two countries should arrange an appropriate rate of interest to apply from that time forward, and make appropriate provisions for retiring the loan.

Since the beginning of the war, approximately \$400,000,000 in Canadian money has been made available to Britain through the purchase by our Government of Canadian Government securities held in Britain. In other words, our Government, during the war, has been paying off a part of the Dominion's external debt. Under the arrangement now proposed, the Canadian Government will purchase outright the remaining Dominion Government and Canadian National

Railway/

Railway securities owned by residents of Britain, estimated in amount at some \$295,000,000. This means that the Canadian Government will, before it becomes due, pay off its own remaining debt in Britain. The British Government will pay the present owners of these securities in pounds sterling. The Canadian Government, in turn, will pay the British Government for the securities in Canadian dollars.

For the future, in addition to the financial provision for raising and maintaining Canada's own armed forces, the Government will, as a part of Canada's direct contribution to the defeat of the Axis, ask Parliament to make provision for meeting Britain's shortage of Canadian dollars by supplying, free of charge and without obligation, to Britain, munitions of war, raw materials, and foodstuffs up to an amount of one billion dollars. Such provision would mean that thereafter Canada's direct war effort would include in addition to her armed forces, an outright contribution of war supplies on a vast scale.

The proposals I have outlined will, it is anticipated, suffice to meet the requirements of the United Kingdom for Canadian war supplies until early in 1943.

In announcing this offer, I wish to draw particular attention to the fact that the financial burden of war now being borne by the Canadian people will not be increased by the proposed financial arrangements with the United Kingdom. Canada has already undertaken to supply the Canadian money required by Britain to pay for Canadian war supplies. Whether this money is provided in the form of a loan to Britain, or of a direct contribution to the defeat of Hitler, will not change the number of dollars which the Canadian people are already committed to raise for the prosecution of the war.

The advantages of the proposed financial plan are that it will avoid the growth to huge and unmanageable proportions of a war debt which might breed serious misunderstandings and bitterness in the future; that it will definitely relieve Britain of any financial anxiety which might arise in connection with its Canadian sources of supply; and, finally, that it will bring our working arrangements into accord with the realities of the war situation.

The adoption of the new plan will mean that Canada at this time of intensified crisis, is giving unmistakable evidence of the determination of our people to put forth their utmost effort in the preservation of our own liberties and in the common cause of freedom.

EXTRACT FROM SPEECH DELIVERED
BY THE PRIME MINISTER OF CANADA IN THE
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215

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Railway/

Regraded Unclassified

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The adoption of the new plan will mean that Canada at this time of intensified crisis, is giving unmistakable evidence of the determination of our people to put forth their utmost effort in the preservation of our own liberties and in the common cause of freedom.

SAFE HAND

BRITISH EMBASSY,
WASHINGTON, D.C.

W.T. 1065/10/42

27th January, 1942

With the Compliments of

Mr. W. Ritchie

1. Notice, dated 5th January, 1942 received from Trading with the Enemy Branch with regard to Hong Kong.
2. Notice, dated 9th January, 1942 received from Trading with the Enemy Branch with regard to Japan.

Mr. Frank Dietrich,
U.S. Treasury Department,
Stabilization Office, Room 273,
Washington, D.C.
WR:OSB

cc: Mr. J. W. Pehle
Dr. F. Livesey

Copy:vw:1-29-42

TRADING WITH THE ENEMY ACT OF 1939HONG KONG

The Trading with the Enemy Branch draw the attention of banks and bankers to the fact that Hong Kong is enemy territory within the meaning of and for the purposes of the Trading with the Enemy Act, 1939.

Authority is hereby given on behalf of the Treasury to banks and bankers for the carrying out of the following transactions, so far as the provisions of the Trading with the Enemy Act may be involved, viz:

- (1) to honour their obligations under confirmed credits opened prior to the 24th December, 1941 on account of any individual or body corporate resident or carrying on business in Hong Kong.
- (2) to accept and to pay sterling cheques, bills or drafts drawn by or for any individual or body corporate resident or carrying on business in Hong Kong where that cheque, bill or draft is presented by or on behalf of any person resident in the sterling area who became a holder for value thereof before the 24th December, 1941 and is in possession of it; and
- (3) to carry out orders for payment given by any individual or body corporate resident or carrying on business in Hong Kong where those orders were given before the 24th December, 1941 and require a sterling payment in the United Kingdom.

Returns to the Custodian of Enemy Property in respect of money payable to or for the benefit of individuals resident in or bodies carrying on business in Hong Kong, or bodies controlled from Hong Kong, or in respect of property held or managed on their behalf are not at present required. Further instructions will be issued.

All enquiries should be addressed to the Trading with the Enemy Branch (Treasury and Board of Trade), 24 Kingway, London, W.C. 2.

5th January, 1942

(Signed) F. M. McCombe
TRADING WITH THE ENEMY BRANCH
(Treasury and Board of Trade)

100477:1-29-42

TRADING WITH THE ENEMY BRANCH
(Treasury and Board of Trade)
24 Kingsway, W.C. 2.

JAPAN

The attention of banks and bankers is drawn to the fact that under the Trading with the Enemy (Custodian) Order, 1939, returns to the Custodian of Enemy Property are required to be rendered in respect of the assets of persons and concerns in Japan proper, Korea, Formosa, Karafuto, Swantung Leased Territory and the Islands in the Pacific under Japanese Mandate.

Before directions can be given to the Custodian by this Branch to pay out of such assets any money which it may be proper to release for the purpose, a return must have been made.

9th January, 1942

TRADING WITH THE ENEMY BRANCH
(Signed) S. H. Wallis

Treasury Department
Division of Monetary Research

224

Date January 27, 1942 18

To: Miss Chauncey
From: Mr. Southard

(Cable from Fox - Incoming 17)

The Secretary sent this to me with instructions that I should get in touch with Currie -- which I did -- and am returning this for the Secretary's files.

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

Karachi

Dated January 27, 1942

Rec'd 6:20 A.M.

Secretary of State,
 Washington.

TRIPLE PRIORITY.

17, January 27, noon.

Charge Treasury Department.

STRICTLY CONFIDENTIAL TO SECRETARY OF THE
 TREASURY FROM FOX.

I have now been stranded in India eleven days.
~~Before~~ departing Chungking, I was led to believe
 that bomber or clipper would be available for the
 trip. There is no sign of any bomber and as for a
 clipper one has already been held up here four days
 because of trafficity. Ferry crews are also delayed.
 The situation critical. Cannot something be done
 from Washington to expedite matters?

KLP

M.C.F.

Treasury Department
Division of Monetary Research

Date January 27, 1942 ~~13~~

To: Secretary Morgenthau
From: Mr. Southard

Mr. Currie has cleared the question of getting Mr. Fox out of India with Pan-American and with the War Department here in Washington and has cabled Mr. Fox, giving him specific instructions as to how to proceed. Nonetheless, traveling day and night, the earliest Mr. Fox could get here is about February 4.

Mr. Currie therefore feels that we must go ahead on the China loan, as far as possible, without waiting for Mr. Fox's arrival.

I will bring this to Mr. White's attention in the morning.

JAN 27 1942

Dear Dr. Soong:

I have received your letter of January 21, 1942, sending to me a message from the Generalissimo.

I am glad to follow your suggestion that I wait until Mr. Fox arrives in Washington before renewing discussions with you. I want to assure you, in the meantime, that the Generalissimo's request is very much in my mind.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Dr. T. V. Soong,
Minister of Foreign Affairs,
Republic of China,
Chinese Embassy,
Washington, D. C.

Silen MC

By Messenger *Jan 27 5:30*

Copies to White

FAS:esh
1/27/42

FILE COPY

222

MINISTER FOR FOREIGN AFFAIRS
REPUBLIC OF CHINA

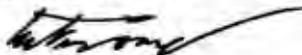
January 21, 1942

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.

By Messenger

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.

Copies to

Beel	}	1/28	230
White			
Pres	}	1/29.	
Hill			
Stinson			
Knoff			

909 Willard Hotel,
Washington, D.C.,
January 27, 1942.

Dear Mr. Secretary,

CHINA

Mr. Eden has now telegraphed that he and the Chancellor of the Exchequer have considered with every sympathy General Chiang Kai-shek's recent request for financial assistance. They propose to inform him that His Majesty's Government have decided to make available to China under a lend-lease arrangement all munitions and military equipment that it is possible for them to supply. In particular this proposal would apply to stores which are being supplied to Chinese forces now operating in Burma.

Before communicating this proposal to General Chiang Kai-shek His Majesty's Government wish to make sure that it will fit in with any proposal which the United States Government have in mind.

As regards a further financial loan, His Majesty's Government are ready to go forward with the scheme for a loan of £10 millions and \$50 millions worked out by Sir Otto Niemeyer and Mr. Arthur Young if the United States Government are ready to take parallel action. But they do not feel able to offer a very large "psychological" sterling loan. Such a sterling loan would not be of actual help in present circumstances. After the war it would represent money available to China for the purchase either of goods or of gold and dollars and we should be deliberately adding to future difficulties in securing the equilibrium of our post-war balance of payments. The United States Government is in a position to take an independent decision, should they wish not only to take part in the Niemeyer-Young scheme, but also to offer further dollar loans. His Majesty's Government are merely stating their own position.

Yours sincerely,

F Phillips

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

TREASURY DEPARTMENT

212

INTER OFFICE COMMUNICATION

DATE January 27, 1942

TO Secretary Morgenthau

FROM Mr. Southard

Subject: China Loan

1. At a meeting yesterday, arranged pursuant to your instructions and attended by Bernard Bernstein, Friedman and me, State Department officials (Messrs. Hornbeck, Fels and Berle) stated the official position of the State Department and their own unofficial personal views on the China loan proposal as follows:

(a) It was stated that the official position of the State Department is given in Secretary Hull's letter to you (January 10, 1942) which recommends financial assistance with "the greatest possible expedition" in amounts up to \$300 million. It is also recommended that the British Government be kept currently informed to give it the opportunity to take simultaneous and comparable action.

(b) Mr. Hornbeck took the lead in presenting the State Department's unofficial position:

(1) The President and the Secretary of the Treasury should decide what amount between \$300 million and \$500 million should be loaned to China, and where the funds would come from and whether or not legislation is needed or whether Congress should be consulted.

(2) The Chinese should then be informed that we were prepared to extend aid up to \$300 million and that Dr. Soong should begin negotiations with members of the Treasury and State Departments regarding a workable "plan" which would include such matters as the uses of the loan, conditions, methods of converting dollars into yuan, etc. Moreover, it would be hinted to the Chinese that if they could suggest a "good" plan, the total amount might be raised. This would throw the burden on the Chinese for suggesting proper uses of the loan and so on.

Division of Monetary
Research

- 2 -

- (3) The desire of the Chinese Government to make additional requests in the future would act as a check on any unwise expenditure of the present grant.
- (4) In making the loan, we should treat the Chinese as an equal sovereign and honorable nation.
- (5) The British should be kept informed so that they could come along if they so desired but action should not be delayed in order to get parallel action.

2. It is suggested that the following procedure will meet the needs of the immediate situation, including the expectations of the State Department:

- (a) Call a meeting Wednesday (Mr. White will be back by then) to consider a general proposal to be offered the Chinese. Presentation of this broad proposal to the Chinese might be delayed a few days until Mr. Fox is available.
- (b) Meantime the technical details can be worked out in the Treasury of some feasible scheme to make yuan available to the Chinese by means of a dollar credit, and to provide such safeguards as you have indicated may be desirable.

Treasury Department
Division of Monetary Research

234

Date January 27, 1942 ~~xx~~

To: Secretary Morgenthau
From: Mr. Southard

Attached is a translation of an editorial in the La Prensa (January 22) on the Stabilization Fund resolution introduced at Rio. La Prensa is the leading Argentine newspaper and is one of the greatest newspapers in the world.

The editorial reprints practically the entire text of our resolution; points out that a serious obstacle to its realization lies in the fact that some nations (including Argentina) have used exchange control as a source of revenue; concludes that "the idea launched at Rio de Janeiro is, nevertheless, too splendid for the American Republics not to seek to smooth the paths to its realization".

C
O
P
Y

235

DEPARTMENT OF STATE

Washington

In reply refer to
FD 710. Consultation (3)/445

January 24, 1942

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of telegram No. 140, dated January 22, 1942, from the American Embassy, Buenos Aires, Argentina, concerning an editorial in La Prensa with reference to the proposed creation of an exchange stabilization fund.

Enclosure:

From Embassy, Buenos Aires,
No. 140, January 22, 1942.

copy:1-24-42

Buenos Aires

Rec'd January 22, 1942

6:15 p.m.

The Honorable,

Cordell Hull,

Secretary of State,

Washington, D. C.

140, twenty-second.

For Coordintam, from Granger.

Wednesday afternoon no editorials. LA PRENSA, Thursday, commentary: The United States, with very solid arguments, has proposed the creation of an exchange stabilization funds in America. The consideration of such an interesting initiative would be entrusted to a special conference of ministers of finance or of their representatives, which would have to consider a plan of organization and determine the attributes and resources for setting up the fund and the conditions and requirements to be fulfilled by the possible beneficiaries. The bad results arising from monetary instability are obvious in the world's economy and make themselves felt intensely in America as well. Commerce does not know what to expect in the matter of prices because of the
fluctuations

fluctuations in exchange - at times very sharp - and therefore a large number of transactions become impossible, difficult and even ruinous. On that account, the United States Delegation at the meeting at Rio de Janeiro, where serious economic problems are being discussed on a par with political problems, considers that a more effective mobilization and utilization of the available exchange on other countries would be a help in the struggle against aggression and would contribute to the accomplishment of the economic objectives enunciated in the first and second consultative meetings of the ministers of foreign affairs of the American republics held at Panama and Habana respectively. For the same reasons, it thinks that all the countries of this hemisphere, united in a common effort to maintain their political and economic independence, will be able to cooperate in the creation of an organization which will promote stability in the rates of exchange, stimulate the international movement of productive capital, facilitate the reduction of artificial and discriminatory barriers opposed to interchanges, aid in correcting the poor distribution of gold, strengthen monetary

systems and prevent depression and inflation. It is unquestionable that if so serious a cause of disturbance to trade as exchange instability is eliminated by means of an agreement on the creation of an international fund in America, its economy would benefit. The whole of what the United States' initiative proposes among, briefly, to granting means for trade to rely on having known money for payment and not to be exposed to fluctuations which convert every currency into something subject, if not to chance, at least to uncertainty. To guarantee prices through knowledge at the time of making transactions is to give the latter a stimulus which they have not had for a long time and we believe that if the proposed stabilization should be achieved, interchange (of goods) would increase considerably as soon as there were normal means of transportation. A very serious obstacle is raised against the proposal, however, represented by the fact that some nations, among them Argentina, have converted exchange control - that is, the official administration of foreign exchange - into a source of revenue. Those countries would find it hard to agree to give up those revenues which, in our case, are large and are used to meet many fiscal needs. Furthermore, it would be of little use to stabilize rates of currencies if the interchange (of goods) should continue to be obliged to pay the heavy tribute of such governmental intervention in

-4-

purchases and sales thereof. The idea launched at Rio de Janeiro is, nevertheless, too splendid for the American republics not to seek to smooth the path to its realization in an immediate future. Efforts should, then, be made to stabilize rates of exchange and eliminate the disguised burden on the official purchase and sale of international bills of exchange because the fluctuations and levies conspire against the economy of a continent which today finds itself obliged to trade almost exclusively within its own limits.

ARMOUR

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DEPARTMENT OF STATE
WASHINGTON

In reply refer to
FF 840.51 Frozen Credits/5130

January 27, 1942.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits a copy of an air mail despatch no. 3880 dated January 15, from the American Embassy, Buenos Aires, enclosing a copy of Decree No. 110,791 and the translation thereof, providing for the enforcement of Decree No. 110, 790 of January 8, relative to the control of the transfer of funds abroad.

Enclosure:

1. Despatch no. 3880
dated January 8,
with enclosures.

No. 3880

Buenos Aires, January 15, 1942

Subject: ARGENTINE DECREE PROVIDING FOR ENFORCEMENT OF DECREE NO. 110,790 of JANUARY 8, 1942, RELATING TO THE CONTROL OF THE TRANSFER OF FUNDS ABROAD

The Honorable

The Secretary of State,
Washington.

Sir:

- 1/ With reference to the Embassy's despatch no. 3865 of January 13, 1942, regarding Executive Decree No. 110,790 dated January 8, 1942, which gives the Central Bank a greater control over the transfer of funds abroad, and referring also to the Embassy's telegram no. 82 of January 13, 7 p.m., I have the honor to enclose four mimeographed copies of another decree, No. 110,791, of the same date (made public on January 13) providing for the enforcement of the decree aforementioned. These copies were furnished by the Ministry of the Interior. A translation of Decree No. 110,791 is also enclosed.
- 2/

It will be noted that the decree provides that any person found obstructing the exercise of the foreign-funds control by the Central Bank shall be removed to a designated point within the country, unless he should choose to leave the country, and that it gives the Ministry of the Interior broad powers for enforcing the measure.

Respectfully yours,

Norman Armour

Enclosures:

1. Four mimeographed copies of Decree No. 110,791
2. Translation.

Copy to the United States Delegation
at Rio de Janeiro.

Qn.
851.
JWG:dmb

A true copy of
the signed original.

Buenos Aires, January 8, 1942

In view of the decree issued in accordance with a general ministerial resolution, No. 110,790, dated January 8, 1942, by which there is established a control over the transfers of funds abroad and internal movements of funds which may have a direct or indirect relation to such transfers by firms or enterprises managed or controlled by persons who have the nationality of a country at war, or are domiciled in it, there being excepted from that provision the American Republics;

It being necessary to assure the strict fulfillment of those provisions;

By use of the constitutional powers belonging to him and in accordance with the provisions of decree No. 108,908, dated December 16, 1941, -

THE VICE PRESIDENT OF THE ARGENTINE NATION IN EXERCISE OF THE
EXECUTIVE POWER, IN ACCORDANCE WITH A GENERAL MINISTERIAL
RESOLUTION
DECREES:

ARTICLE 1 - Any person who in the judgment of the Executive Power displays activities that might obstruct in direct or indirect form the operation of the measures of control established in decree No. 110,790 dated January 8, 1942, shall be removed to the parts of the national territory which may be deemed most appropriate for assuring the complete cessation of the said activities, unless he chooses to leave the country.

ARTICLE 2 - All necessary measures shall be taken by the Ministry of the Interior for the fulfillment of the provisions of the present decree.

ARTICLE 3 - Let this be communicated, published, entered in the National Registry and filed.

(Signed:) G A S T I L L O
Miguel J. Culaciati
Carlos A. Acevedo
M. Fineati
Enrique Ruiz Guinazu
Salvador Oria
Juan N. Tonazzi
Guillermo Rothe
D. Amadeo y Videla

DECREE NO. 110,791

(COPY)

Tr:JWG:dnb

Copy:bj:l-29-42

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DEPARTMENT OF STATE
WASHINGTON

243

In reply refer to
FD

January 27, 1942

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses copies of telegram no. 149, dated January 24, 1942, from the American Embassy, Santiago, Chile, concerning remittances to France. Telegram no. 27 from the Department was transmitted to Treasury under date of January 9, 1942.

Enclosure:

From Embassy, Santiago,
no. 149, January 24, 1942.

eh:copy
1-27-42

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PH

Santiago

Dated January 24, 1942

Rec'd 2:23 p.m.

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

Secretary of State,

Washington.

149, January 24, 10 a.m.

Your telegram No. 27, January 8, 11 p.m.

Careful investigation shows it is highly improbable that Naltagua has made any remittances to France since June 1940.

Despatch follows.

BOWERS

BB

eh:copy
1-27-42

January 27, 1942

MEMORANDUM FOR THE FILES

I called Senator Vandenberg on the telephone this morning and told him that I had been advised by Larry Duggan of the State Department that he, Senator Vandenberg, would like to have some information about the silver agreement with Mexico.

Senator Vandenberg said yes, he would like to see a copy of the agreement made with Mexico for the purchase of silver, and also the agreement made covering the stabilization of the currency.

I explained to him that the silver agreement was in the form of a letter which the Federal Reserve Bank of New York, as our fiscal agent, had sent late in November to the Banco de Mexico, under which it agreed to purchase for account of the Treasury up to six million ounces of silver from Mexico during the month of December, at a price to be determined each day which would be wired to the Banco de Mexico by the Federal Reserve Bank of New York. I read to Senator Vandenberg the paragraph on page three of the letter regarding the renewal of the arrangement on a month-to-month basis. I told him that the arrangement had been renewed for the month of January and that the price which we had stipulated each day had been thirty-five cents an ounce but that the market price was slightly above our fixed price and Mexico had therefore sold its silver in the market rather than to us. So far we have not purchased one ounce of silver under this arrangement.

He then asked me about the Stabilization arrangement. I told him that that was an arrangement whereby we would purchase up to \$40,000,000 in Mexican pesos. He asked me what the terms were and whether or not it was subject to cancellation. I told him that we received 1-1/2% interest per annum on the daily balances of pesos kept in our account and that the Secretary's obligation to purchase pesos under this agreement would terminate on June 30, 1943, subject to earlier termination at any time thirty days after receipt by the Banco de Mexico of a written communication or telegram from the Secretary of the Treasury or the Federal Reserve Bank of New York to that effect.

- 2 -

At first he said he would like to see copies of these documents. I asked him if he wanted to make them public and he said he did not know and asked if they had been made public. I said no, they had not been made public in the United States or in Mexico and that we would prefer that they not be made public at this time, particularly the Stabilization Agreement, as it contained provisions different from those in the agreements with Argentina and China and for that reason we would prefer to consider them confidential for the moment. He said he thought I had given him enough information about them to satisfy his questions. I told him that if he wanted anything else on it I should be glad to come up and discuss both the silver agreement and the Stabilization Agreement with him. He thanked me and said he would call me if he wanted any additional information.

(Initialed) D. W. B.

DWB:NLE

Treasury Department **247**
Division of Monetary Research

Date February 6 1942

To: Miss Chauncey

From: Mr. Southard

This can go to the Secretary's files inasmuch as he has seen it and we have acted on his instructions.

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DEPARTMENT OF STATE

WASHINGTON

January 27, 1942

In reply refer to
FD 855.51/839

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses copies of the paraphrase of telegram No. 47, dated January 20, 1942, from the American Consulate General, Algiers, Algeria, transmitting a message from Mr. Murphy.

Enclosure:

From Consulate General, Algiers,
No. 47, January 20, 1942.

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate General, Algiers, Algeria.

DATE: January 20, 1942, 4 p.m.

NO. : 47.

The following is from Murphy.

From a reliable official source I have learned that for each departure during an indefinite period the French authorities have reserved accommodations for 600 kilos weight for special confidential shipments on the Algiers-Marseille Air France plane. Each day at 8:15 a.m., except on Wednesdays, the Algiers Air France plane leaves Algiers for Marseille. The official source in question says that this arrangement is made for the shipment of gold to Europe. It would permit shipment of gold to Europe. It would permit shipment of approximately six tons of gold every ten days.

This story was confirmed to me by a recent passenger on the Air France Line to Marseille who saw one consignment of gold loaded on the plane in which he was traveling. The gold in question is believed to be Polish and Belgian gold which was heretofore stored in French West Africa, now destined for Germany and Belgium under the Wiesbaden agreement. (See my strictly confidential despatch of September 11, 1941.)

This contraband traffic, it was suggested to me, might be stopped if one of these planes were intercepted and forced to return to Algiers.

The foregoing telegram was repeated to Tangier and Vichy.

SOLE

Copy:bj:1-27-42

Treasury Department
Division of Monetary Research 350

Date Feb. 20 19 42

To: Miss Chauncey

For the Secretary's files.

Not necessary to bring to his
attention.

H.D.W.

MR. WHITE
Branch 2058 - Room 214½

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WASHINGTON

January 27, 1942

In reply refer to
FF 840.51 Frozen Credits/5137

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith copies of a paraphrase of telegram no. 223, dated January 22, from the American Legation at Bern, quoting an abstract from a portion of a strictly confidential report dated January 19, 1942, by the Legation entitled "financial and economic developments," treating particularly with Swiss-American financial relations in view of the present status of the negotiations for the representation of American interests.

Enclosure:

Paraphrase of telegram
no. 223, January 22,
1942, from Bern.

Copy:bj:l-29-42

PARAPHRASE OF TELEGRAM RECEIVED

TO : Secretary of State, Washington
FROM: AMERICAN LEGATION, Bern,
DATE: January 22, 1942, 1 p.m.
NUMBER: 223

Reference is made to Legation's 210, January 21 and previous.

An abstract from part of a strictly confidential report dated January 19, 1942 by the Legation entitled "financial and economic developments" being despatched by air mail from Lisbon January 30 is quoted as follows:

During the annual meeting of the National Bank at which the chief subject of deliberation was Swiss-American financial relations a cantonal treasury representative raised the question as to whether blocked income from Swiss Capital in the United States could be taxed by cantons. Such a tax is highly objected to by the Swiss. The previous annual transfers of income from Swiss investments in the United States are estimated to be approximately 130 million francs and serious difficulties would be created for various cantonal treasuries if these taxes were renounced. The pressure on the National Bank to

quit the agreement for pegging of the dollar would be increased if such blocked income were taxed, and thus enable the banks to make purchases on the free market of blocked dollars. The need for their blocked income by people to withstand the increase cost of living is increasing this pressure.

The maintenance of a pegged rate is favored by the National Bank because at present it is not in a position to avoid a post-war dollar franc rate adjustment which will be necessary if the franc is now allowed to appreciate. However, the abandonment of that rate could be brought about by pressure and it would be possible to have a franc exchange rate per dollar of 3.5 or lower. The possibility of whether United States would wish to permit Germany to broadcast propaganda to the effect that "dollar loses confidence of the Swiss, et cetera" was questioned by the Bank. The revalorization of the Swiss franc is being sought by the Duttweiler political group with a view to increasing the purchasing power by which to obtain foreign food and raw materials, thereby reducing Switzerland living costs. Persons who are refused the use of their blocked income might join the Duttweiler group thereby causing the removal of the dollar rate pegging through irresistible pressure.

The National Bank in discussing its position in refusing the acceptance of dollars for expenditures in the representations of our interests by the Swiss Government attributed such stand as partially due to the psychology of the Swiss -- they would never be able to understand how the National Bank in maintaining welfare of Americans throughout the world could do so by accepting dollars for francs when the National Bank was not in a position to accept them and furnish to destitute Swiss in Switzerland a rate per dollar of 4.30 francs.

The Legation has been warned by the National Bank that an ill-feeling against the United States could occur because of an apparently unsympathetic and misunderstood administration of the questions the transfer to Portuguese stocks of blocked Swiss gold and particularly to the Spanish blocked dollar account of blocked dollars.

The sanction of the gold transfer has been refused by the Treasury according to a report from New York (omission) Gautier which has been received by the National Bank, and it is said that credits were granted to Germany by Switzerland which enables the former to get escudos with which to make essential purchases in Portugal. It is denied categorically by the National Bank through Bern that any escudos have ever been sold to any German bank on credit or otherwise; also, it is denied that other Swiss banks

likewise

likewise had provided to German firms facilities of credit for the same purpose. Other banks, it was admitted, has purchased German gold as against escudos obtained against delivery from banks private gold stocks. In this way, 1941 purchases of escudos by Germany possible might have reached the equivalent of 50,000,000 francs. According to the National Bank, allegations maintained by the Treasury Department, contrary to denials by Gautier and Minister Bruggman, have resulted in personal reflections which tend to compromise their position and thereby make an appeal to the Treasury decision embarrassing.

Information has been received from Gautier by the National Bank that the request for a \$3,000,000 transfer to the blocked Spanish account will probably be refused by the Treasury. If this amount is not made at once available in New York, it is stated that denouncement of the agreement is threatened by the Spanish along with the withdrawal of sea tonnage and certain other facilities. Such Spanish action is of vital interest to Swiss authorities because the Swiss food and raw material supply would thereby be hindered seriously.

Absolutely no publicity has yet been given to the denial by the Treasury of a transfer to the blocked Portuguese account of 10,000 kilograms of gold nor to the extent to which the Genoa-Lisbon supply lane is menaced.

It

It is not believed that the Swiss are using or would attempt to use these incidents with which to undermine here the great good will of the United States. Rather, since various provisioning schemes of the government have often been attacked by the Dittweiler group, serious interruption of the provisioning route would probably have to be publicly explained by the Swiss officials.

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DEPARTMENT OF STATE
WASHINGTON

In reply refer to
FF 121,866A/212

January 27, 1942

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith copies of telegram no. 232, January 23, 1942, and copies of a paraphrase of telegram no. 233, January 23, 1942, from Bern, concerning a proposal for the acquisition of funds by the State Department representative at the Vatican City.

Enclosures:

1. Copies of telegram no. 232, January 23, 1942, from Bern.
2. Copies of paraphrase of telegram no. 233, January 23, 1942, from Bern.

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

Bern

Dated January 23, 1942

Rec'd 12:43 p.m.

Secretary of State,
Washington.

232, January 23, 10 a.m.

FOLLOWING FROM TITTMANN,

6, January 20.

I am unable to negotiate drafts here on Secretary of State for funds to pay salary and allowances myself and clerical staff and for office operating expenses. I understand, furthermore, that in all likelihood difficulties would be encountered in making payments through Switzerland countries. I have therefore approached the Holy See on the matter and have been assured that it will be possible for the Holy See to furnish me with the equivalent in lire of up to \$1500 per month maximum for the above mentioned purposes. The necessary dollars could be deposited by the Department with J. P. Morgan and Co. for the credit of the Amministrazioni Speciale Della Santa Sede which upon receipt of confirmation of this deposit would pay me the equivalent in lire at present rate of exchange 19 lire for one dollar. Receipt of these funds would be taken up in the regular accounts which

- 2 -

which I would transmit at the end of the month in accordance with provisions of Chapter Five Foreign Service Regulations.

The foregoing is submitted as perhaps the simplest method of supplying me with funds under present conditions and if the Department approves I shall so inform the Holy See and furnish Department with estimate of my monthly requirements.

HUDDLE

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PARAPHRASE OF TELEGRAM RECEIVED

TO: Secretary of State, Washington, D.C.
FROM: American Legation, Bern (From - Tittmann)
DATE: January 23, 1942, 11 a.m.
NUMBER: 233

Every disposition to be helpful has been shown by the authorities of the Holy See on my unofficial approach to them on handling the requirements of my expenses here through the use of Vatican banking facilities. I trust, in light of this attitude of cooperation, that the Treasury will give special attention to certain financial questions which the Washington Apostolic Delegation is now discussing. It is requested that you bring the foregoing to the attention of the Treasury Department.

HUDDLE

Copy: ec: 1-28-42

TREASURY DEPARTMENT

261

INTER-OFFICE COMMUNICATION

DATE January 27, 1942

TO Secretary Morgenthau

FROM Mr. Dietrich

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£57,000
Purchased from commercial concerns	£ 3,000

Open market sterling remained at 4.03-3/4, and there were no reported transactions.

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

Canadian dollar	11-7/8% discount
Argentine peso (free)	.2360
Brazilian milreis (free)	.0516
Colombian peso	.5775
Mexican peso	.2065
Uruguayan peso (free)	.5250
Venezuelan bolivar	.2700
Cuban peso	Par

We purchased \$1,125,000 in gold from the earmarked account of the Bank of Mexico.

The Federal Reserve Bank of New York reported that the Bank of Canada shipped \$3,116,000 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¢. Handy and Harman's settlement price for foreign silver was also unchanged at 35-1/8¢.

We made no purchases of silver today.

BRITISH EMBASSY
WASHINGTON, D.C.

27th January, 1948.

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,

Halifax

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Copy No. 13

BRITISH MOST SECRET

(U.S. SECRET)

Report No. 31

Information received up to 7 a.m., 26th January, 1942.

1. NAVAL

Reconnaissance BREST on 25th showed both SCHARNHORST and GNEISENAU out of dock and alongside torpedo boat station.

Evening 25th. One of our aircraft sighted five enemy torpedo-boats 30 miles South-West of BREST steering North-North-West and attacked with depth charges result unknown.

25th. A small Greek merchant vessel in outward convoy was torpedoed off NEWFOUNDLAND, and a small British ship in coastal convoy was sunk by mine off BARGICH. Another troop convoy arrived safely in SINGAPORE between 23rd and 25th.

2. MILITARY

LIBYA. On the evening of the 24th, enemy mechanical transport was reported to be withdrawing from SAUNNU in a South-Westerly direction with our armoured car patrols in contact, while another large enemy body, about 20 miles South of SAUNNU, was sending patrols North-Eastwards up the TRIGH EL ABD. At 9.30 a.m. on 25th a battle was developing 18 miles South-West of MSUE between our armoured forces and two enemy columns of 35 tanks with some mechanical transport. Another column of about 200 mechanical transport was reported to be advancing from JEDABIA to ANTELAT.

MALAYA. P.M. 24th. East: The enemy had apparently not yet crossed the MERING River. Our field artillery was successfully engaging enemy movements.

Centre: Our night withdrawal South of YONG PEIK was successfully carried out on 23/24th though with some loss. Enemy followed up our right flank rapidly and fighting is taking place near KLUANG aerodrome. In a successful counter-attack by an Indian Battalion late in the day, the Japanese are estimated to have lost 125 killed and 3-400 wounded. Our casualties were 25.

West: Enemy pressure and infiltrations have increased, and the situation remains confused. 200 more of Kee force which was cut off have come in. All reports indicate extremely bitter fighting in this area.

BRITAIN. 24th. Our withdrawal in the MOULMEIN area continues. Troops are tired and somewhat scattered, and much equipment and transport has been lost.

25th. Our new positions were taken up on the MOULVIE front without interference. In the initial stages of the enemy attack, in which it is estimated that 5-10,000 Japanese took part, enemy casualties are known to have been very heavy, they advanced by sheer weight of numbers regardless of losses but received such punishment that our night withdrawal was unopposed. Chinese reinforcements have been and still are arriving in BURMA in large numbers.

RUSSIA. A strong Russian attack in the DOBERTS Sector is making progress.

3. AIR OPERATIONS

WESTERN FRONT. 25th. Four uneventful sweeps were made over the Channel, one R.N.Z.A.F. Spitfire is missing.

25/26th. 71 bombers were sent to BRUSSELS. All returned safely. Eight R.O.A.F. aircraft took part, one crashed shortly after taking off crew killed.

LIBYA. 23rd. Our fighters machine gunned and damaged tanks and mechanical transport on the MEHABA-AINTELAF Track.

24th. In the AFRIFALD-SALUNU-LESTIS Area, our fighters destroyed four enemy aircraft, probably destroyed another and damaged three more. They also attacked about 300 mechanical transport and 20 tanks South-East of SALUNU on the TRIDH EL ABD.

24/25th. Wellingtons attacked the harbour and mechanical transport concentrations at TRIPOLI (L) and started a fire in a large mechanical transport park. During all these operations, we lost one aircraft.

ITALY. 24/25th. During air raids, five of our fighters were shot down but four pilots are safe. Two enemy aircraft were damaged.

SICILY. 24/25th. Five Hurricanes destroyed one enemy aircraft and damaged another while patrolling over aerodromes.

MALAYA. On 23rd/24th and 24th/25th, our bombers attacked troops and mechanical transport concentrations near LABIS, where heavy damage was caused. The YONG PING - LABIS Road Bridge is believed to have been demolished.

24th. During heavy dive-bombing attacks on our troops in the forward area, Siamse aircraft were identified for the first time. An enemy bomber was destroyed by anti-aircraft near KENSTON.

SUMATRA. 24/25th. Nine Burma Blenheim attacked BAWANGKE Docks. All bombs burst in the target area, starting fires. It is believed that the power station was hit. One Blenheim is missing.

- 3 -

NETHERLANDS EAST INDIES. Three air attacks were made on a large enemy convoy reported in the South West CELEBES SEA, during two of them, one transport was sunk and one set on fire and five enemy fighters were shot down. A subsequent attack was made by night by UNITED STATES destroyers. Observed results - one large ship blown up, one sunk and one severely damaged. The enemy convoy is now reported in TARAKAN.

22nd. Air attacks were made on GORONTALO (CELEBES), SABANG (NORTH SUMATRA) and MEDAN where damage was caused to the docks. On the 23rd, 27 Japanese bombers slightly damaged the aerodrome at PALEMBANG (SUMATRA).

4. AIRCRAFT CASUALTIES IN OPERATIONS OVER AND FROM THE BRITISH ISLES

British - One fighter.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

278

DATE JANUARY 27, 1942

TO: Secretary Morgenthau
FROM: Mr. Kamarck
Subject: Summary of Military Reports

Battle of the Atlantic

On January 23, aerial reconnaissance discovered the German battleship Tirpitz, sister ship of the Bismarck, at Trondheim, Norway. (The Germans would scarcely expose this ship to the hazards of the voyage around the coast of Norway to Trondheim without some good reason.)

(U.K. Operations Report, January 24, 1942)

On January 12, an Axis ship arrived at Ferrol (north-west Spain) with a valuable cargo from Japan. This probably represents a first attempt to bring urgently needed raw materials from the Far East to Germany. (We were informed earlier that the Germans had a number of ships in the Far East which could reach Europe without refueling en route.)

(U.K. Operations Report, January 24, 1942)

Use of American Planes

In Libya on January 22, Kittyhawks attacked 30 dive bombers escorted by fighters. The Kittyhawks destroyed three Axis planes and damaged seven. Two Kittyhawks are missing.

(U.K. Operations Report, January 24, 1942)

Libya

The British state that the German columns attacking in Cyrenaica number 8,000 men and 90 tanks, (i.e. about half of a normal-sized division.) (The Axis has brought forward all of its reserves in Libya. The one Italian division, formerly in reserve at Tripoli, has moved up to the main lines. The total number of Axis divisions

in Libya now totals about five.)

(U.K. Operations Report, January 24, 1942)

German Plane Production

The British estimate that aircraft production in Germany, Czechoslovakia and Poland has now risen to about 2,500 a month. Of these, about 1,700 are operational types. The main types produced are as follows:

Long-range bombers	570
Short-range bombers	190
Single-engine fighters	440
Twin-engine fighters	<u>215</u>
Total of above	1,415

Although skilled labor is believed to be a limiting factor, a further increase in production must be reckoned with during 1942.

(We were informed earlier that the French had planned to be producing 300 planes a month for Germany by this August. Their present production should be at least 150 a month. The Italians are probably producing 400 to 500 a month. There is no estimate of the Belgian, Dutch, Danish, and Norwegian production, but at a minimum the plane factories of these countries should turn out a total of 150 airplanes per month. This gives an estimate for total Axis production of about 3,200 a month.)

In my opinion, this estimate is too low. So far as I can judge, British production is around 1,800 a month. Germany has a population twice as large, German industry is generally more efficient than the British, the Germans started large-scale airplane production years before the British, and German industry has suffered less from bombing. In view of these facts, it would seem that German production of planes should be somewhere near twice as great as that of the British.)

(U.K. Operations Report, January 22, 1942)

RESTRICTED

G-2/2557-220: No. 613 M.I.D., W.D. 11:00 A.M., January 27, 1942.

SITUATION REPORTI. Pacific Theater.

Philippines: Fighting died down in Batan yesterday. Two of our P-40's attacked three enemy dive bombers, shot down two of the latter and disabled the third. In the Visayans, the situation is unchanged, as it is in Mindanao. Hawaii: No further reports of hostile activity. Malaya: The Japanese have occupied Batu Pahat on the west coast and are landing troops north of Mersing in the east. Heavy air action is reported throughout southern Malaya and Singapore. Burma: The Japanese have advanced after heavy fighting east of Moulmein. Both sides continue intense air activity. Australasia: Clashes between Australian ground forces and Japanese are reported in New Guinea, New Ireland, and the Solomon Islands. Australia is preparing total mobilization of manpower for defense. West Coast: No further reports of enemy activity have been received.

II. Eastern Theater.

Both sides report continued hard fighting with no changes in the general situation indicated. (No situation map will be issued this date.)

III. Western Theater.

Last night British bombers made a heavy attack on ports and other objectives in northwestern Germany, and also on Brest. The Air Ministry stated that Hanover and Emden were among the cities bombed.

IV. Middle Eastern Theater.

Ground: Axis forces have deepened their penetration into Cyrenaica. Combats between British and Axis Forces have been reported in the vicinity of Zuetina, Antelat, and Msus. The press reports the destruction and capture of considerable quantities of British materiel.

Air: Bad weather conditions have restricted air activity in North Africa. Axis Air Forces continue the neutralization of Malta, and the Italian communique this morning claims Italian torpedo planes sank one British cruiser and damaged another in the Mediterranean.

RESTRICTED

January 28, 1942
9:35 a.m.

Operator: Mr. Graves.

HMJr: Hello. Harold.

Harold
Graves: Yes, sir.

HMJr: I wish you'd have sent over to your office - you told me that you're having five million posters printed.....

G: Yes.

HMJr: I don't know what they are.

G: Yes.

HMJr: I'd like to see them.

G: Yes.

HMJr: I'd also like to see anything which is in the works.

G: Yes.

HMJr: Will you have them sent over to your office?

G: Yes, sir, I will. Right away.

HMJr: Would you have - whoever your artists are - study the second half of the Disney Donald Duck picture.....

G: Yes.

HMJr:and there are some wonderful pictures there which they could take to make posters of, like the whirlpool of the swastika, you know, going down.

G: Yes.

HMJr: Like "Buy a defense bond and sink the axis".

G: Yes.

HMJr: Like using the tax as a defense bond.

G: Yes, sir.

HMJr: They could pick out a group there. I'd like them to do it very promptly, and then give me suggestions as to which ones they want to use.

G: All right, sir. I'd be glad to.

HMJr: I'd like to have it done, though, promptly.

G: Would you like to look at these posters that you asked for me to send for sometime today?

HMJr: I'm going to - yes.

G: Yes.

HMJr: Well, I'll - I'm going to do it this morning.

G: Yes. Well, I'll get them as quickly as I can.

HMJr: But have someone study that picture, because there are a lot of scenes there that - oh, there are a dozen different pictures there that could be used for a swell poster.

G: Yes. By the way, I am going to New York this afternoon to visit our office up there. You knew that Lew Douglas had taken something else.

HMJr: Yes.

G: And the question - one of the things that they put up to me is a replacement for him.

HMJr: Yeah. Well, I'd like to be consulted on that.

G: I thought you would.

They have suggested Lew Pearson.

HMJr: Never heard of him.

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G: Well, he is - was for many years Chairman of the Board of Irving Trust Company, and is even now.....

HMJr: Oh, he's from Kentucky and he's a strong anti-Roosevelt man. My God, they always put those fellows up there. I know all about him.

G: Is he from Kentucky?

HMJr: If that's the man I mean. He's originally from Kentucky.

G: Well, this man has been in New York for.....

HMJr: Twenty years.

G:ever since the turn of the century, I think.

HMJr: That's right.

G: I think it's been longer than that. He's been up there since early nineteen hundred. He's an old man, about seventy-one years old.

HMJr: Well, he's not the type.

G: The fellow that I rather wanted would be Burgess. What would you think of him?

HMJr: He'd be all right.

G: He'd be all right.

HMJr: Yes. He'd be acceptable to me.

G: Yes. Very good. I'll get these posters.

HMJr: Thank you.

G: You're welcome.

HMJr: Good-bye.

January 28, 1942
9:35 a.m.

TAXATION OF STATE AND MUNICIPAL SECURITIES

Present: Mr. Kuhn
Mr. Sullivan
Mr. Foley
Mr. Paul
Mrs. Klotz

H.M.JR: I am going to give you all the time you want and I won't make another appointment until you fellows are out, so there is no pressure.

MR. PAUL: Maybe we can dispose of you very quickly.

H.M.JR: Dispose of me?

MR. PAUL: Yes. I said that purposely.

H.M.JR: Well, in the first place, I think we ought to thank this fellow that sent this thing.

MR. SULLIVAN: Yes, sir.

H.M.JR: Do you mind writing a letter to him?

MR. SULLIVAN: I will phone him.

H.M.JR: Is this where we start?

MR. SULLIVAN: Here is Epstein's telegram.

H.M.JR: I read it. "I wish to acknowledge your telegram of January 26th. I am aware that your

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objective has always been to prevent Federal taxation of future issues of state and municipal securities, and I note that in this telegram you seek further to protect this, your real interest, by condemning the proposal to tax outstanding issues of state and municipal securities."

What do you mean, "your real interest"?

MR. SULLIVAN: He is condemning. He doesn't care what happens to these outstanding issues. It is the future issues that he is trying to protect.

H.M.JR: You are wrong, and I will tell you why.

MR. FOLEY: Well, John - as a future, he says he should be thinking only about future offerings, because there the tax might have some effect on the interest rate, but as a public officer, why should he care that he received from his father-in-law's estate certain tax-exempt securities?

H.M.JR: How did you know that?

MR. FOLEY: Oh, I get around (laughter).

H.M.JR: When did you learn that?

MR. FOLEY: I have known that a long time.

MR. PAUL: That is pretty much around town.

H.M.JR: Oh well, I only learned it yesterday.

MR. FOLEY: I have known it a long time. We have been debating this fellow for a year or more.

H.M.JR: You don't know what I know, that he no longer has them.

MR. FOLEY: No, I didn't know that.

H.M.JR: He gave them to his wife.

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MR. FOLEY: It is the same thing.

H.M.JR: No. There is something funny and there is something wrong, we think, in his tax.

MR. FOLEY: Oh, really?

MR. SULLIVAN: Goody, goody.

H.M.JR: We think there is something wrong.

MR. PAUL: That is swell.

H.M.JR: Aren't you fellows suspicious? Now, I take everything for granted and never look into anything. Aren't you a suspicious lot of fellows?

MRS. KLOTZ: You have got them well trained.

H.M.JR: I think there is something wrong.

MR. SULLIVAN: Why do we think? Why don't we find out?

H.M.JR: Well, we are. I only got at it yesterday.

MR. KLOTZ: It takes one more day.

H.M.JR: Anyway, these tax-exempts have disappeared on his return and they have appeared on his wife's, and we are looking for the gift tax, which we haven't found yet.

MR. PAUL: It might be he will contend he never had them.

H.M.JR: "I am familiar with the position you have so long maintained despite the fact that every Republican and Democratic administration for the past twenty years has sought to end reciprocal exemptions and despite the farther fact" --

It should be "further".

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MR. SULLIVAN: It is a misspelling.

H.M.JR: I can't spell, but I can always see when somebody else misspells.

MR. SULLIVAN: I am the same way.

H.M.JR: ".... that within the past year both houses of Congress by overwhelming majority voted to prohibit exemption of future issues of Federal securities. I believe" --

This is a clean telegram.

MR. SULLIVAN: This is just the dignified disdainful reprimand of a daddy who catches his boy doing something naughty.

H.M.JR: "I believe that now when Democracy itself is being challenged, it is unthinkable that some members of our democratic society through investment in state and municipal securities should be allowed to escape their share of the national burden and transfer it to their less fortunate fellows. Such an undemocratic privilege was never contemplated by the founders of America, and the continuance of this especially privileged class at this time is unspeakable. State and municipal officers, as the most intimate leaders of the people, are in a position to make a fine contribution to national morale and national unity by supporting this proposal. Many of them are doing so. I appreciate that it requires courage to reverse one's position. I am disappointed that you lack that courage."

MR. PAUL: That is good.

H.M.JR: Well, it is a question.

MR. SULLIVAN: Well, the most important question isn't answered, and that is whether or not you accept this challenge to a debate.

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H.M.JR: Oh, I am not going to do that. After seeing - may I have this thing? He sent this thing to every member of Congress.

MR. PAUL: That has been going out for a couple of years. That is just part of almost mimeographed publications they have been getting out for a couple of years.

H.M.JR: What I want to know is, who pays for this?

MR. PAUL: The Port of New York Authority, I am pretty sure.

H.M.JR: Well, the reason I want to bring up - to a conference on state defense.

MR. PAUL: It may be that they have contributions to that separate organization, the Council of State Defense. I wouldn't be sure about that.

H.M.JR: But now, for instance, have we here any machinery to find out what is the Conference on State Defense? It might be a pro-Nazi organization.

MR. PAUL: Oh, no.

H.M.JR: No, I said to grossly - but how would one find out? That leads me up to the thing that I had -

MR. PAUL: I happen to have been working for the New York Port Authority at the time that was organized and they got a bunch of attorney-generals together and then they - Tobin began circularizing the whole United States, and they have built it up from that time, but I doubt if it is anything more than an informal organization.

MR. FOLEY: I think that is right. Financed almost entirely by the Port Authority.

H.M.JR: What I would like to do, if it is the Port

Authority, uncloak them and say, "Why not let's get down that this is the Port Authority?" We have got a suit in the courts, and so forth and so on.

MR. SULLIVAN: No.

MR. PAUL: I don't think you can say that because they have got a lot of people in with them. At one meeting they had here in Washington they had seventeen state attorney generals here.

H.M.JR: Well, can't we find out?

MR. PAUL: That was the time Magill was here.

H.M.JR: Can't we find out who pays for this and who it is who is fighting us?

MR. SULLIVAN: I think we are getting off the issue when we go into that.

H.M.JR: Oh, no. Why are you fellows so interested in Epstein's tax returns?

MR. PAUL: Well, that is a different matter.

MR. SULLIVAN: Your interests are my interests.

H.M.JR: Yes, I know.

MR. PAUL: But that is a little different, whether he is vulnerable personally, from the question of this organization.

H.M.JR: The question is, once we find he is vulnerable, what will we do with him?

MR. PAUL: I am a little doubtful about this one point. To accuse him of being only interested in future issues, he may reply, "Well, we are always interested," very virtuously, "We are always interested in past issues that we have sold, and we want to protect

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our purchasers because if we don't, we won't get any future purchasers."

H.M.JR: My reaction, if you fellows don't overrule me, is not to acknowledge the telegram at all.

MR. SULLIVAN: I am afraid if you don't acknowledge it, he might capitalize on that.

MR. PAUL: I agree with that.

H.M.JR: Why should I answer it?

MR. PAUL: Well, he has asked you to debate with him. He will go all around saying that he sent you a telegram --

H.M.JR: All right. Roosevelt had the same thing with Willkie. He never answered. Willkie challenged him three times, and he got good notices. Again and again he challenged him. Listen, I campaigned with Roosevelt, and Roosevelt's policy is never answer your opponent and never name him. Never name him and never answer him. He has been pretty successful at it. When he campaigned the state for governor, he never would mention the man's name who was running against him, with the result that you can't remember who ran against him the first and second times. Let's let the thing cook and see what happens.

MR. SULLIVAN: Sure.

H.M.JR: And see in the meantime whether we can get something on him, just out of curiosity. Let's see if - now, on the other hand --

MR. PAUL: If you are going into that, why don't you look into Julius Henry Cohen too?

MR. FOLEY: He hasn't got anything.

H.M.JR: We did.

MR. FOLEY: We looked into that at the time we were looking for a holder, you see, to sue when we wanted to bring the test case on the Port Authority.

H.M.JR: Howard Cullman had plenty.

MR. FOLEY: Mrs. Cohen had something, but not Julius.

H.M.JR: There was some other person who had plenty.

MR. FOLEY: Howard Cullman had some, and I have forgotten now who the other person was.

H.M.JR: You know who Henry Epstein's father-in-law was, don't you?

MRS. KLOTZ: Yes.

H.M.JR: Well, the only other thing, and then I want to get on to this other business, is this, what are we doing, John, to start a campaign to back up the leadership which I have taken?

MR. SULLIVAN: Yesterday morning I talked with Governor McGrath of Rhode Island, who said he would get out a wire to you and to the Senators and to the Congressmen. I then talked with Governor Hurley of Connecticut. I asked him if he had seen your Cleveland speech, and he said, "I have and I am in entire accord with it," and I said, "Well, we would like very much to have some governors express their approval of that policy. Would you be willing to do so?" He said, "I certainly will. What do you want me to do?" I said, "If you will wire both the Senators and all of your Congressmen, and also Secretary Morgenthau, we would appreciate it very much," and he said, "I will do it right away."

Now, I haven't seen any of these wires. They were all to be addressed to you. I talked - before that I talked with Mayor Lausche in Cleveland.

H.M.JR: Just a minute on Lausche. Henry has been working over the weekend with a newspaper man to get

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Lausche to come out. He was going to talk with Kuhn, so you had better let Kuhn know what you have done.

MR. SULLIVAN: All right, sir. I made a mistake on him, I think.

H.M.JR: Why?

MR. SULLIVAN: Well, I talked with him and I told him that we would like very much to have a statement from him, and we would like to have him organize some other mayors to support this policy, and he said, "Well, I will call you back in a few moments." Then I called Morris 'obin in Boston and I told him what the new policy was, very distinctly. He said, "Well, I don't know." He said, "We - the conference voted unanimously against this," and I said, "Well, that was against future issues and this is against both," and he said "Well" - I said, "Now, there are some other people sending in wires," and he said, "Name one." I said, "Cleveland, for instance," and then I said, "Now, you had better send us a wire, Morris, and get on the band wagon."

H.M.JR: Oh, you said Cleveland was?

MR. SULLIVAN: Yes, and I said, "This is future and outstanding," and then for the first time, apparently, he got - or at least indicated that for the first time he got the idea it was outstanding. He said, "Oh, my God, how can you justify this?" Well, I said, "How can you justify the continuance of a sanctuary for refugee capital at a time when you are taking kids out of their homes and away from their families and sending them away to take their chances of dying for twenty-one dollars a month?" I said, "How do you justify the fact that the twenty-five largest insurance companies in the country don't pay any Federal income tax at all?" Well, he says, "Insurance companies aren't going to be solvent after this thing is over."

(Mr. Kuhn entered the conference).

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H.M.JR: Start over again. Henry is going to call you.

MR. KUHN: He did call me.

H.M.JR: You had better get what John Sullivan did on Lausche before you cross wires.

MR. KUHN: I called John and he was already in here.

H.M.JR: Tell it again, John.

MR. SULLIVAN: I called Lausche and told him we would like very much to have him send a wire to us and to his Senators and Congressmen, endorsing the policy embodied in the Secretary's speech in Cleveland, and also to see if he could organize a group of mayors out in that part of the country that would likewise support the policy, and he said, "Well, I will call you right back." Then later I talked with Tobin, and he more or less let me on --

H.M.JR: Boston.

MR. SULLIVAN: I told him I had other fellows, governors and mayors, sending in, and he says, "Yes you have, name one." And I said, "Cleveland," and I think that he must have called Lausche right away, because I haven't heard from him. So that was a mistake. But I thought Morris was all right.

H.M.JR: Don't you think you had better call up Lausche yourself and explain it?

MR. SULLIVAN: I am going to call him this morning, yes.

H.M.JR: I think you had better.

MR. SULLIVAN: But I wanted a check on whether you had heard from these fellows.

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H.M.JR: We have no telegrams from anybody.

MR. SULLIVAN: Swell. Saltonstall I got no where with. He was going to talk with Henry Long, who was one of this group here.

H.M.JR: I think you had better square yourself with Lausche and tell him just what you did.

MR. SULLIVAN: Oh, sure. Then I talked with Governor Blood in New Hampshire, and he is to call me this forenoon. I tried to get Charlie Edison and I couldn't reach him. Then I was going to ask you yesterday afternoon if I saw you whether I should go on and try Ed Kelly and keep plugging away.

H.M.JR: Well, my own feeling is this, and I want Kuhn and everybody to think about this. I evidently won't get anywhere that way. The thing is, we have got to take my speech and we have got to arrange for ways to continue to sell that idea.

MR. PAUL: I wonder how the labor people will come out? They will be for it. I have already talked to two of them, and John has talked to the C.I.O. I am sure they will come out.

H.M.JR: Well, who wants to say, "I will take the responsibility in consultation with other people in the Treasury to see that this thing is" --

MR. SULLIVAN: I will do it.

H.M.JR: Will you?

MR. SULLIVAN: Yes.

H.M.JR: But I mean, to keep - because after all, we are going up on the Hill, and the idea is to get backing when we go up on the Hill.

MR. SULLIVAN: My very frank opinion, Mr. Secretary,

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is that we have got to win this fight with the people before we go up on the Hill.

H.M.JR: That is why I made the speech, John.

MR. PAUL: I think we can get a lot of supporters in Wall Street.

H.M.JR: Well, wherever it is, will you take it, John?

MR. SULLIVAN: Yes, sir.

H.M.JR: The whole purpose was, wasn't it, to do it before we go on the Hill?

MR. SULLIVAN: That is right. You are not going to win the fight up there.

H.M.JR: Now, it is just like anything else we do. We have got at least a month before we will get up there, because if they say three weeks - well, anyway, we have got several weeks. Now, there ought to be a concentration of publicity and speeches and every Collector of Internal Revenue should be notified and try to make a speech on this in his district over his local radio station. There should be a regular campaign, you see. We have got enough publicity minded people in the Treasury that I think that when you go out of here I would get a group together and work up a little agenda and then come in and show it to me.

MR. SULLIVAN: Right. There won't be --

H.M.JR: I am --

MR. SULLIVAN: Walsh has just summoned me to appear at the Naval Affairs Committee hearing this morning.

H.M.JR: What time?

MR. SULLIVAN: Ten thirty. As soon as I get back from that, I will be on it.

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H.W.JR: I am out on the end of a limb and I want my own people to back me up and they have, as I say - every mechanism that we have for publicity go to work on it.

MR. PAUL: That is the way those fellows have done it. I have seen Tobin from the beginning do it.

H.W.JR: They are organized and we are not. We have got to get organized.

MR. SULLIVAN: And will you leave word with Miss Chauncey to let me know if she gets anything?

H.W.JR: Yes, Mrs. Klotz will. That is all I have, Ferdie.

(Mr. Kuhn left the conference).

H.W.JR: What are you going to do when you go up to this committee?

MR. SULLIVAN: Apparently the informer in the Falk case is testifying this morning.

H.W.JR: Infomer?

MR. SULLIVAN: Person who gave the information that resulted in our getting the Falk Corporation. Have you got my memorandum on that, Ed?

MR. FOLEY: Yes.

MR. SULLIVAN: I doubt if we can testify before this committee on either the civil or criminal liability.

MR. FOLEY: Not as a matter of law. The fellows checked it last night. It is just a question of policy as to whether or not you want to testify.

H.W.JR: On what?

MR. FOLEY: On the case that is under consideration and investigation in the Treasury.

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MR. SULLIVAN: It is this public hearing.

H.M.JR: Oh, isn't that the man that was for the State of Wisconsin under the War Department?

MR. SULLIVAN: OPM or the War Department.

H.M.JR: And it has gotten now on the Hill?

MR. SULLIVAN: No, they are taking it up in the Naval Affairs Committee. They are having some sort of hearings and investigations and fishing expeditions.

H.M.JR: I see.

MR. SULLIVAN: But I don't see how we can talk about that at a public hearing, Ed, before it has been adjudicated, do you?

MR. FOLEY: Well, I can very well see why you want to say that we have this matter under consideration and we are not at liberty to talk about it, but I don't see that we can say that as a matter of law we are not permitted to talk about it.

MR. SULLIVAN: Well, we are permitted, and we are protected when we give that information before the Joint Committee or Ways and Means and Senate Finance Committee, but I didn't know we were protected when we gave that to any other committee.

H.M.JR: Well, let me just interrupt this argument between lawyers for a minute. Why do you want to protect this fellow?

MR. SULLIVAN: We don't want to protect him. We are trying to protect ourselves.

H.M.JR: Well, would you like to tell the Committee?

MR. SULLIVAN: Well, I mean if the thing had been adjudicated, I certainly would, but --

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H.M.JR: Is it in the courts?

MR. SULLIVAN: No.

MR. FOLEY: It is before us, Mr. Secretary, and we probably won't go after him criminally.

H.M.JR: But the point I am getting. I am sitting on this committee. The Treasury doesn't come. Well, there must be something to hide. Why is this a secret? I mean, I am giving you my reaction. Why does the Treasury want to protect this fellow?

MR. SULLIVAN: I didn't understand we had any right under the law to give tax information to anybody except the two tax committees.

MR. FOLEY: That is not so.

H.M.JR: That is not so?

MR. FOLEY: Not on this matter. On this matter if John wants to give the information, he can give it.

H.M.JR: You can?

MR. FOLEY: He can, sure.

H.M.JR: Well, why not do it?

MR. SULLIVAN: That is why I sent the memo to you, for your opinion.

MR. FOLEY: Well, the boys came in about a quarter after seven last night and they said they weren't going to write a formal opinion, but they were going to tell you this morning that it could be done if that was all right with me, and I said "Sure."

H.M.JR: Which side are you on, Randolph? I don't know whether it is a good or bad case. The Treasury is asked to explain it.

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MR. PAUL: I am like John. I didn't know this was the law, but if that is the law, then I think we ought to tell them.

MR. SULLIVAN: That is all right with me.

H.M.JR: I will tell you, in these times I just don't - I don't know whether it is a good or bad case or anything, but I just don't want to be hauled up before a committee of Congress. I would go through the motions of asking them to have an executive session. Then if there are any leaks it is on them, John.

MR. PAUL: I think that is a good idea.

MR. SULLIVAN: Yes.

H.M.JR: I would ask that you would only testify in executive session and you don't want any stenographic report. You don't want any stenographer or anybody present. You won't testify. Then you testify in executive session. If there is a leak on it, it is not on you. You have given them the information they want. Then John Sullivan tells them what they want. That is what I would do. Hop to it. We will just have to postpone this thing, and when you get back --

MR. SULLIVAN: Oh, I don't think you do have to. I think that both Randolph and Ed are fully cognizant of my views and all the information is right here. Those are the ones that are in, Randolph, and these are the ones that are out, and here you are.

H.M.JR: I would like to settle it.

MR. SULLIVAN: We have been over this together enough, don't you think so, Ed?

MR. FOLEY: Yes.

H.M.JR: You are perfectly happy about doing it this way in executive session?

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MR. SULLIVAN: Yes, I am, sir.

H.M.JR: I would do it.

MR. SULLIVAN: Right.

PROPOSED TAX TO HENRI BOJAZIAN

I wish to acknowledge your telegram of January 26th. I am aware that your objective has always been to prevent Federal taxation of future issues of state and municipal securities, and I note that in this telegram you seek further to protect this, your real interest, by condemning the proposal to tax outstanding issues of state and municipal securities. I am familiar with the position you have so long maintained despite the fact that every Republican and Democratic administration for the past twenty years has sought to end reciprocal exemptions and despite the further fact that within the past year both houses of Congress by overwhelming majority voted to prohibit exemption of future issues of Federal securities. I believe that now when Democracy itself is being challenged, it is unthinkable that some members of our democratic society through investment in state and municipal securities should be allowed to escape their share of the national burden and transfer it to their less fortunate fellows. Such an undemocratic privilege was never contemplated by the founders of America, and the continuance of this especially privileged class at this time is unspeakable. State and municipal officers, as the most intimate leaders of the people, are in a position to make a fine contribution to national morale and national unity by supporting this proposal. Many of them are doing so. I appreciate that it requires courage to reverse one's position. I am disappointed that you lack that courage.

MEMORANDUM

January 28, 1942.

TO: Secretary Morgenthau

FROM: Mr. Sullivan

TWS

After leaving your office this morning I went to the Senate Naval Affairs Committee Room and talked with Senator Walsh. He said he had asked to have me come up to testify as to the Treasury's position on the reinstatement of some of the profit limiting principles, such as were embodied in the Vinson-Trammell Act. I told him we were now studying the report of the Vinson Investigating Committee, and that I did not know what the Treasury's position would be. He asked me whether I preferred not to testify on this subject at the present time and I told him I felt this was such an important matter that it would be unwise for the Treasury to comment on the proposal until it had made a thorough study of the Report. He agreed that this was the wiser course to follow.

I then told him that Commander Saunders had mentioned the Falk case. Senator Walsh replied: "We can't take that up this morning because that would have to be done in Executive Session". I then told him I would be ready whenever he wished to hear from us on this matter, but that I would appreciate being given some notice of the date of the hearing. This he agreed to do.

January 28, 1942
10:00 a.m.

TAX EXEMPT ORGANIZATIONS

Present: Mr. Paul
Mr. Foley
Mr. Kades
Mr. Graves

H.M.JR: Now, let's get this thing settled if we can for once. Who is going to state the case?

MR. FOLEY: Randolph.

MR. PAUL: Now, we have divided these - there are quite a number of different types of exemptions granted in this section 106, various types of companies. They are divisible into two classes. One is the type represented by labor, agriculture, horticulture, mutual savings, and fraternal beneficiary societies and that type where it doesn't make a bit of difference what they do with their money.

H.M.JR: What is the type again?

MR. PAUL: Labor, mutual savings banks, farmers cooperative, crop finance. There is a long list of them. By the very nature of their organizations, they are exempt. It doesn't make a bit of difference what they do with their money, so that if we ask them for a financial report, we are asking them for something that is utterly immaterial to their tax.

H.M.JR: Let me see the list that you say is immaterial.

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MR. PAUL: That is it.

H.M.JR: Well, of course, where I am going to differ with you is this. What was the organization that they used as a cloak in Indiana to collect that money, the two percent?

MR. FOLEY: Two Percent Club.

H.M.JR: What was that?

MR. FOLEY: I think that is what they called it.

H.M.JR: But what is it, what kind of corporate thing?

MR. FOLEY: It is a membership corporation under the laws of Indiana.

MR. PAUL: There are a lot of membership and non-profit organizations that are not in any of these specific categories.

H.M.JR: But wouldn't they be protected by a thing like this? Wouldn't they come under that category?

MR. PAUL: Not unless they were one of those.

H.M.JR: But wouldn't they be? Why couldn't I organize under 16 as a voluntary employees beneficiary organization and have the Treasury make a - every Treasury employee make a two percent contribution for the Democratic Party under 16? Voluntary employees beneficiary organizations. I will organize an organization like this, and I will say--

MR. PAUL: Well, that would be a diversion of funds of the company, wouldn't it, if you were making contributions to the Democratic Party?

MR. FOLEY: No - Oh, yes, you mean the use of funds?

MR. PAUL: Yes.

MR. FOLEY: Well, the Secretary's point is, how are we ever going to find out whether they are misusing their funds?

H.M.JR: I will get in a fellow that can help me. Graves went all through this.

MR. PAUL: There is another type I would like you to understand, Mr. Secretary.

H.M.JR: I just want him on this thing because I just don't think you have had the kind of thing in mind that I have, and I don't see why these fellows couldn't immediately organize as a fraternal beneficiary society.

MR. PAUL: Take that one. I want you to understand the contrast we have in mind. Take the statute that says with respect to labor, labor, agricultural, or horticultural organizations. Now, that is the only ones it exempts. Nothing about what they do with their money.

Now take cemeteries. That is the other class.

H.M.JR: Now, excuse me, are these regulations ones that we draw?

MR. PAUL: No, this is a statute.

MR. FOLEY: What you would have to do is change the law, Mr. Secretary.

MR. PAUL: That is a different matter. We can change the law.

H.M.JR: Well, I have gone through this thing as a law enforcement officer and that is what I am thinking about, and Harold went through it for me, you see.

MR. PAUL: But the other type I want you to understand is the type where the statute itself puts a condition

in, that is, for instance, on cemetery companies, which is in the other class. It says--

(Mr. Graves entered the conference.)

H.M.JR: Harold, we need a law enforcement officer here. These fellows are a bunch of innocents. Sit down a minute. You went through this thing with me. The thing that we have been fussing about here for a long time - I mean, these fellows just never heard of any rackets like you and I. They wanted just offhand to say, "We mustn't examine the returns of organizations - " there are sixteen organizations here that they give. "We will just say they are tax exempt." Now, for instance, amongst these are a fraternal beneficiary society or a voluntary employees beneficiary organization. I said on either one of those could be organized a two percent club. You and I could organize one, and we will say, "Now, boys, we are a fraternal beneficiary society. You boys have got to chip in two percent of your Treasury salary," and then we can give it to the Democratic Party, or we can give it to the - could make any use we wanted of it, and the Federal Government would never know, and they are just chucking these out.

MR. GRAVES: The returns would be filed, but not examined, is that it?

H.M.JR: No, I don't even know--

MR. GRAVES: Or they would be exempted from filing returns?

MR. PAUL: The statute lists a bunch of different types of organizations, and it exempts them. Some of them it exempts--

MR. GRAVES: From filing return or from the tax?

MR. PAUL: From the tax. The practice has been of making those companies or organizations prove their right to the exemption from the statute, and then they don't have to file those returns.

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Now, take labor. Our position is, labor - the statute just says a labor organization. If it is a labor organization, we have to exempt. The statute doesn't state any conditions. But, on the other hand, cemetery companies, the statute says - gives conditions as to what it does with its funds is material on the exemption. It may be that the statute isn't perfectly drawn, but I don't think we ought to try to go beyond it without amending it.

MR. GRAVES: There is a difference between exempting a corporation from tax and exempting it from filing a return. I think your point is that many of these companies might well be required to file a return to permit tracing of funds--

MR. FOLEY: Well, what we were doing here in this category, Harold, we were breaking down the groups and the ones that have an absolute exemption in the statute irrespective of how they spend their funds, we weren't including in this T.D. We were including in the T.D. the organizations that have exemption by virtue of the manner in which they spend their money.

MR. PAUL: That is they must not spend it for their stockholders or get in private business.

MR. FOLEY: As to those, we ask for an information return to see whether or not they are entitled to a continuation of the exemption.

H.M.JR: Let me do this thing in my own backward manner. We will start backward. Let me just stick to this a minute. Let me do it in a backward - I mean, I will most likely do the back first. This group here, what does this group have to do, if anything, in the way of filing a return?

MR. PAUL: It has to at the time it is organized submit to the Department a copy of its charter or organization papers and minutes and it is the practice also for them to submit what money is put in at the

time of its organization and the first year's income and expenses.

H.M.JR: And then from then on--

MR. FOLEY: And it asks for an exemption and, if it gets a ruling from the Bureau that it complies under one of those provisions, then it never has to do anything again, and as to those we say that we should have a T.D. which requires them to file an information return which will set forth where the money comes from and how--

MR. GRAVES: What is the--

MR. PAUL: Not as to those?

MR. FOLEY: Yes.

MR. GRAVES: Once or annually?

H.M.JR: As to those?

MR. FOLEY: Well, maybe we are not talking about the same category.

MR. PAUL: You are talking about the other class.

MR. FOLEY: Yes.

H.M.JR: No, I want to stick to this. What about this?

MR. PAUL: They don't have to file anything more.

H.M.JR: Well, that is wrong. Now, what will we have to do--

MR. PAUL: All right, we can make them, as often as we please, file - continue to prove that they are within the statutory classification, but what they do with their money is utterly immaterial.

MR. GRAVES: Well, is that so? What they do with their money is utterly immaterial, I doubt whether that is so. I would say that so long as their money is received and expended in accordance with the terms of their charter and so on, it is all right, but suppose you get into this two percent club thing again.

H.M.JR: Let's just stick to that which you and I went through together.

MR. GRAVES: And we had that, you remember, Ed, where there was a question of funds being brought into the so-called two percent club and expended clear outside the scope of the charter of that organization, and the only way you could find out about it was to have a return.

MR. PAUL: Those people are violating their charter.

MR. GRAVES: That is right, they did.

H.M.JR: But there wasn't anything we could do about it.

MR. GRAVES: Nothing we could do about it.

MR. PAUL: Is that any business of ours if they are a labor organization?

H.M.JR: Now, wait a minute. This didn't happen to be a labor organization. This was a political organization.

MR. FOLEY: It was political--

MR. GRAVES: It would come under category 16, here.

H.M.JR: Now, wait a minute, Randolph. Let's stick to this please. Why shouldn't these people here - let's forget what the statute is for the minute, you see, and then you can tell me what would have to be done to make them do this. Why shouldn't this group be made to file

an income tax return once a year and say what they do with the money, for this reason, that the return would be examined and the disposition of funds and, based on that, we would decide once a year whether they were tax exempt?

MR. PAUL: Well, I don't see how you can determine that they were not tax exempt if they are a labor or some other kind of organization that is protected by statute. You might prove that they were illegally diverting their funds--

H.M.JR: Wait a minute. I am going on the assumption - the fact that the statute doesn't provide it, then maybe we have to do something, but what I am saying is this: If the law - I am going to keep at it until I - if the law is such, as I understand it, that the teachers' retirement fund or voluntary employees can - must file certain papers, and they are granted tax exemption forever, and the Federal Government has no right to go and question what they do with the money, whether it goes to the officers - it might be organized by a dozen fellows just as a holding--

MR. PAUL: They might be giving too big salaries to the officers.

H.M.JR: Then I say there is something the matter with the law, and I want the law changed.

MR. PAUL: Well, I think we can change the law, and we can provide that all of these organizations--

H.M.JR: I am bucking this crowd. I can't get anywhere with them.

MR. PAUL: The exemption should be judged not only by the charter but by what--

H.M.JR: They are corporation lawyers.

MR. GRAVES: It would seem to me that it is entirely

practical - that is, the number of concerns, relatively speaking, would not be large enough to give us too much of an administrative job in any connection.

MR. PAUL: It does, apparently.

H.M.JR: Let me give you an example. There is a very mysterious organization which has started up in Minnesota and they have got people all over.

MR. GRAVES: The Mantle Club, I think they call it.

H.M.JR: Now, I say the Mantle Club should be made to file a return. What are they doing? Now, let me - you don't mind if I am a little long winded, because I would like to - I want you to know how I - now, you tell me - I am telling you my symptoms. I am telling you what I want for the first time, and you fellows tell me how I can get it, you see. The fact that - this isn't an entirely good case - the fact that J. Edgar Hoover told Justice Roberts that somebody gave him an order not to tap the telephone wires of two hundred Japanese Consuls on the Hawaiian Islands is no excuse because I would have gone to the President of the United States and said, "Mr. President, I have got to have this," and the President would have given it to me, and, incidentally, I understood that he had that authority here in Washington, because I got it for him from the President. He came to me and I got it for him, that he could go into all of these places. But that is neither here nor there.

But the point that I am getting at is, here is J. Edgar Hoover with the FBI with all of these agents and because somebody tells him he can't do it, these people lose their lives. Now, what I am saying is, in a much lesser degree, there may be one hundred organizations under a cloak of one of these things, and we in the Treasury Department can't go in and examine them. Senator Wheeler may have a new organization which he has organized and the chances are nine out of ten that he has, and we can't find out what he is doing.

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Now, some - and when it is found out that we granted him this exemption five years ago and when - I am not satisfied to sit at this desk and have people like that, you see.

MR. PAUL: Well, then I think we ought to amend the statute in this way, that the--

H.M.JR: I am not going to sit here, because I don't know what this Mantle Club is doing. What was that bad organization in Cleveland, the Black something which was so vicious? The Black Legion. They were the most vicious organization. But I am not willing just because the statute doesn't permit me - I want it, gentlemen, so that I can go in and look at those organizations with a can-opener to protect the United States against subversive activities under the cloak of one of these things.

Now, subversive activities isn't mine, but at least by sitting here and not doing anything, I make it possible for these fellows to organize under one of those sixteen categories. Now, does that make it plain?

MR. FOLEY: Yes, that makes it plain, Mr. Secretary, and you are putting it in the right way. You can say, "That is what I want. Now, how can I go get it?"

H.M.JR: Now, Ed, I have nothing in mind, nothing up my sleeve. I am being serious. I will call a spade a spade. I am not after any churches.

MR. FOLEY: Well, Mr. Secretary, you don't have to say that to me.

H.M.JR: Well, I do want to say it.

MR. FOLEY: Because you asked me to do something, and when you say, "How can I do it?" I will tell you how you can do it without trying to hold back, because it is something I think you ought not to do.

H.M.JR: But I mean, I want you to - I have got

no ulterior thing other than to protect the well-being of my America.

MR. FOLEY: Sure. Well, I don't think in this group you have to worry about anybody not being completely frank in telling you how you can do this thing. The only thing that motivates me and the only reason I go along with this breakdown here that these fellows have suggested, and I haven't worked on this with them - Kades has worked on it with them for me - is because--

H.M.JR: Why not have Kades in?

MR. FOLEY: Yes. Is because, Mr. Secretary, there is something we can do about some of them if they are spending their money wrong, and we can suspend or revoke entirely the exemption we have given them, and there isn't anything we can do about the other fellows--

MR. PAUL: Oh, that is--

MR. FOLEY: If he has got to file a return, he says, "I am a labor organization," or, "I am a church. I don't have to file a return." And if he won't file a return, either an information return or a complete return, there is nothing we can do about it, and I don't think we ought to put ourselves in that position.

H.M.JR: But how about if the law is changed?

MR. FOLEY: Then, of course, you can do something about it.

MR. GRAVES: You require them all to file returns, but nobody can say anything.

MR. PAUL: I think we can put in the law that the condition of their exemption is not only that they are a church, but that they spend their money for those purposes and their exemption shall be judged, not by their charter, but by what they do with their money.

H.M.JR: Now you have got it.

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MR. FOLEY: That will be a change in the law.

H.M.JR: Then let's quit shadow boxing. I have been trying to get this out of me - I mean, it is my fault that I haven't sat down and made myself plain, but now that I have made myself plain, Ed, do you see what I mean? I mean, it is like the wartime--

MR. FOLEY: I not only see what you mean, Mr. Secretary, in addition to changing the law, I think you ought to put out this T.D. on the ones that you can do something about.

H.M.JR: Well, now, just one minute. If we put out this T.D., isn't Congress apt to say, "Then you don't need the law"?

MR. PAUL: No, we can easily explain to Congress that this T.D. is as far as we can go.

MR. FOLY: As far as we can go under the law. If these fellows don't give us an information return, we say, "Ipso facto, they are not spending their money in the way they have to spend it in order to continue to get this exemption, and we will withdraw the exemption." That we can do. But where Congress gives them an exemption, there is nothing we can do about it.

H.M.JR: Well, somebody inform Graves and me, without reading the whole thing, just interpolate it. What does that T.D. say?

MR. PAUL: Well, it makes them file a return each year giving all their expenses, but it does not require them to give the detail of income or expenditures under four thousand dollars - items smaller than four thousand dollars.

H.M.JR: Why?

MR. PAUL: That is only a practical administrative matter.

H.M.JR: What do you think of that?

MR. GRAVES: I wouldn't think that would be right, because in our experience, of course, in these cases such as the one I think you have in your mind where it would be easy to prevent them from evading by breaking it down--

MR. PAUL: No doubt some of them will do that, but then we have got to face the fact that we will have more detailed returns, and we will have to largely increase the personnel. The Bureau kicks like a steer because it can't do the auditing work.

H.M.JR: What do you think, Harold?

MR. GRAVES: Well, I am thinking of this in terms of having something available to you in the event you run into a case such as we have run into where you know that there is something wrong.

MR. FOLEY: Then you can always make an investigation, Harold.

MR. GRAVES: Yes, but we tried before that, and you remember what happened before.

MR. FOLEY: Well, there you were dealing with a political club.

(Mr. Kades entered the conference.)

MR. GRAVES: We have the same thing with labor union. You have your hod carriers union in Chicago, for example, which was a notorious fraud. That gets into your Skidmore case in Chicago.

H.M.JR: Yes. How would you write it?

MR. GRAVES: Well, I am--

H.M.JR: I mean, you would go right down to the last--

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MR. GRAVES: I wouldn't have that four thousand dollar limitation.

MR. FOLEY: Chuck, why is the four thousand dollar limitation in here, in this T.D.?

MR. KADES: Because it didn't seem to us important to have the smaller contributions inserted. I mean, it is everybody who donates to the community who would have to have his contribution checked and books kept, and every fifty cents would have - and five dollar bills donated to--

MR. PAUL: It is from the administrative standpoint, isn't it?

MR. KADES: I mean from the standpoint of the taxpayer, it would be a tremendous burden.

MR. GRAVES: You mean you would have to check them, or you would be authorized to check them?

MR. KADES: We are authorized to check them now, but this requires the taxpayer to keep books on every little donation.

MR. FOLEY: Where does the four thousand dollars come from? Who suggested it?

MR. KADES: Four thousand dollars was picked because that is the amount of the gift tax exemption.

MR. PAUL: It is then a matter of administrative difficulty.

MR. KADES: Not administrative difficulty for us so much as administrative difficulty for the taxpayers submitting returns.

MR. GRAVES: You might want--

MR. FOLEY: Didn't somebody suggest a thousand dollars?

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MR. KADES: John wanted a thousand dollars and originally it came over five thousand dollars. John wanted it a thousand dollars, and we made it four thousand dollars because that had a relationship with the gift tax.

MR. GRAVES: Could I have a glance at that T.D? I have been talking about something I don't know anything about.

H.M.JR: Take your time, because I have been after this since last July, and I am going to sit here until it is settled. I mean, that is what I am going to do. I am going to settle one thing at a time, one way or the other.

Can you (Graves) read if I talk? What I want - come around here Chuck, and I won't have to talk so loud.

What I want, Chuck, is this. There is a mysterious club in Minneapolis that we don't know about. I want to be able to go into any corporation, any of these groups, fraternal or beneficiary, teachers' retirement, voluntary, and see whether they are being run under their charter and what do they do with their money, because it might be a subversive organization or an America First Committee or a political club like the Two Percent Club. The way it is now they say they can't do it. So I want the law changed so I can. I want to know - it might be a group of twelve people organized in order to - instead of a holding. Some smart fellow that used to be in the business Randolph Paul was in might say, "Hell, we will organize a volunteer employees' beneficiary organization. We will pay our money into that. It is tax exempt. Then we pay ourselves a salary from that, and it is wholly tax exempt."

Now, if the law isn't so we could do it, I want the law changed.

MR. KADES: I see.

H.M.JR: Just because he can't - now, I am going to get onto something which I have never gotten on before. I would like you to listen to this, Paul. We have been attacked, and I think correctly so - this doesn't come under this thing, but it is along that line.

(Discussion off the record.)

H.M.JR: Now, I have got Harold Graves in as my temporarily shelved law enforcement officer.

MR. GRAVES: Flatfoot.

H.M.JR: Go ahead, Harold.

MR. GRAVES: I am assuming this, Ed, that this could be required.

MR. FOLEY: Without changing the law.

MR. GRAVES: This is submitted once. The exempt status is established but it could be required again.

MR. FOLEY: Every year.

MR. GRAVES: Every year.

MR. PAUL: Well, that does apply for every year.

MR. GRAVES: Yes.

MR. PAUL: April 1.

MR. GRAVES: Yes. Well, I think it is about as far as you can go except that that four thousand dollar limit would, I think, permit escape by any fraudulent outfit that wanted to take advantage of it. It could conceal the true character of its organization.

MR. KADES: Well, Mr. Secretary, the sole purpose

of the four thousand dollar limitation was to diminish the amount of trouble that the taxpayer had to go to. Now, if we want to reduce that--

H.M.JR: Let me put it this way. Supposing we had the four thousand, and we have the XYZ Club, and we want to go into it. Now, is it so written that if we go in and say - give them the four thousand, does that prevent us from going in and saying, "You have got to account for every cent," and they come back and say, "Well, we have got a four thousand exemption, so we don't have to explain anything under that."

MR. FOLEY: You are suspicious after you look at the return, and you say, "We want more information." You send your men in.

MR. KADES: Under the return, the corporation or the association reports all its disbursements and all its receipts. Then it itemizes those under four thousand. Now we can say, "We want a further itemization."

MR. FOLEY: You mean those over four thousand?

MR. KADES: I mean all over four thousand.

H.M.JR: You know what I would make it? I would make it a hundred dollars. Anybody that gives over a hundred dollars can afford to make a record.

MR. PAUL: We are thinking of the record made by the organization.

MR. KADES: Red Cross, for example.

MR. FOLEY: Community Chests.

H.M.JR: Why can't they keep a record of a hundred dollars and over?

MR. GRAVES: They keep the record undoubtedly, but it is a question of what they put on the information return.

MR. FOLEY: They will show how much they received and how much they disbursed on the totals, and then they will give you an itemization for everything over four thousand dollars.

H.M.JR: You say the donee and now the recipient. Who are you worrying about?

MR. KADES: The Red Cross.

H.M.JR: Well, why the hell shouldn't the Red Cross keep a record of everybody who gives over a hundred dollars?

MR. PAUL: I assume they do keep a record, but the question is whether they should file highly voluminous details and so on.

MR. FOLEY: It would fill up our files with a lot of needless information.

H.M.JR: No, it is not because the fellow who claims a fifteen percent exemption under this gift - there is a cross check if you have got everything over a hundred dollars.

MR. GRAVES: There is a provision here which probably covers this point, although I am not too sure. It says, "that in addition to the information filed herein, the Treasury may require any additional information." I assume that covers the point we are talking about.

MR. PAUL: We have that anyway.

MR. GRAVES: With respect to any organization, if we are not satisfied with the information given on the return because it is in these large amounts, as I understand this, the Commissioner in any case could go to that concern and ask for a complete breakdown in all detail. Is that right, Ed?

MR. FOLEY: That is absolutely right, and we wouldn't have to have it in there either, Harold. If

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you didn't even have it in there, we have got power in the statute to send people in and audit the return.

H.M.JR: Are you satisfied?

MR. GRAVES: Yes.

MR. PAUL: Now, assuming that we still have the problem of this other type, and I should say that we ought to - if I want to accomplish your purpose right down the line, all out, then we ought to amend the statute and provide, and Mr. Kades can check me, that exemptions of these various types shall not be determined merely by their certificate and by-laws but also by the character of their activities, not only by what they may do, but by what they do do.

MR. KADES: As far as the labor organization is concerned, it is very much the same as requiring the registration of the labor unions as the Vinson bill proposes to do now. There is a separate bill in Congress to require trade associations of employers to register and provide all this financial information. That is the only objection I see to that type of information. It plays right into the hands of those who are trying to find out what the war chests are of the various labor unions.

MR. PAUL: But this is confidential information.

MR. KADES: Any Government Department can get it, though.

H.M.JR: But look, Chuck, there has been enough crooked labor organizations who have done great harm to the good ones. Now, the honest ones have got nothing to worry about, and the crooked ones have, and I think to sit here and say that any organization that is tax free - now, we are going all-out to collect outstanding income on outstanding things, that everybody should make a contribution. If, on the other hand, they are a non-profit organization, then they are entitled to exemption,

but you provide these other crooks with a cloak. What is this hod carriers thing in Chicago?

MR. GRAVES: It was very bad. I forget the details of it.

H.M.JR: All you have got to do is to read Pegler's column, and I am personally willing to face the CIO and the AF of L and the Railroad Brotherhoods. They have got nothing to worry about.

MR. FOLEY: What Chuck means is you will draw their fire too, because they will protect the other fellows. Isn't that right?

MR. KADES: Yes, sir, and, Mr. Secretary, in addition, I realize I am out of line on this with what the majority opinion is, but the crookedness in the labor organizations is with the labor leaders, and we can get at the labor leaders without requiring a report on the union funds by looking into the labor leaders' accounts.

H.M.JR: Well, I go back to my example that you had here of Hawaii. Mr. J. Edgar Hoover gives as his excuse there were two hundred Japanese Vice-Consuls on the island, because he said he couldn't tap their wires. He didn't know what was going on. But they could tap our wires. Now, I sit here and if I don't make a strenuous effort to find out what any organization and every organization is doing from a financial income tax return standpoint, I don't think I am living up to my job, and I can't help it if any honest organization - they have got nothing to fear. The crooked ones do. Now, I don't think it is American to permit a labor organization to function without making any return. If they are honest they have got nothing to worry about.

MR. PAUL: Of course it is true a labor organization may be indulging in all sorts of business activity for which perhaps they don't pay tax.

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H.M.JR: Now, if we are going out for an all-out tax program, let's go out for an all-out tax program. I don't see why we should be afraid of any group as long as we are fair.

MR. PAUL: How about - you take the religious ones also? Every one of them?

H.M.JR: I think they all should. At least we start with all of them. Then if the people want to make exemptions, then they make exemptions.

MR. FOLEY: You are on the right track, Mr. Secretary. If you throw this open to Congress and let them take another look at the thing--

H.M.JR: Let them--

MR. FOLEY: ... and tell them this is what we have done in so far as these organizations are concerned where we are responsible for the exemptions, and we are asking them to file information returns to see that they are expending their funds in the manner they assured us they would expend their funds in which we gave them the exemption.

Now, we can't do anything about the fellows that you have exempted and we recommend, now that we have to look in every nook and cranny for additional income for the Government to finance the war, that the whole matter be recanvassed and that you eliminate all of the exemptions.

H.M.JR: That is right.

MR. FOLEY: And throw it open to Congress.

H.M.JR: That is right and let Congress decide.

MR. FOLEY: And let Congress decide.

H.M.JR: Then at least we have made an honest effort, and if Congress wants to exempt this group or that group, O.K., but at least we state the thing, and

otherwise they can perfectly well say, "Now, look, if you had come to us and said there are two hundred Japanese agents in Hawaii, Mr. Hoover, that you think are doing subversive activities and you wanted the authority, we would have given it to you."

Now, maybe they wouldn't, but at least Hoover or whoever his chief was would be at least in the clear that he had gone to the Committee.

Now, I pride myself, I like to be a little bit ahead of of the game. I am confident that there are organizations in this country which are taking the place of America First which are hidden under one of these things. Now, I don't want to come and - they could say, "Well, Mr. Morgenthau, why didn't you come? We would have given it to you." Maybe they will and maybe they won't. You don't know. The way the fellows felt on the seventh of November was quite different from the seventh of December, but they forget that. Now they are out today to get somebody else besides these generals and admirals, but at least I want to go - not because I am afraid of my job, but because I am afraid of these organizations, and what they will do to the country, and I am afraid of the Mantle Club until I know, and I am afraid of these hundred different organizations which are hiding under this thing. Now, we go before Congress and say, "Now, gentlemen - " and make an honest fight, and they say, "Well, now, wait a minute. This group out and this group out." Well then, that is their business.

MR. FOLEY: That is right, and your record is all right.

H.M.JR: Yes. Do you agree, Harold?

MR. GRAVES: A hundred percent.

H.M.JR: Well, I think we have made a little progress today. Well, let's let the T.D. go.

MR. FOLEY: What amount, Mr. Secretary? A thousand

or four thousand?

MR. GRAVES: Four thousand is all right, I think, with that addition.

H.M.JR: Let's let the damn thing go. And then immediately draft the legislation on the other thing.

MR. FOLEY: Yes.

MR. PAUL: Would you draft the legislation, Kades? You have been working on it.

H.M.JR: Well, now, that is sufficient unto the day for this?

MR. PAUL: Yes.

H.M.JR: O.K. That is a good morning's work.

January 28, 1942
10:23 a.m.

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

Operator: Miss Tully, Mr. Morgenthau.

HMJr: Yes.

Grace
Tully: Good morning, Mr. Secretary. How are you?

HMJr: I'm fine today.

T: That's good, sir. We saw the picture last night. It was very good. The President enjoyed it a lot.

HMJr: Did he laugh?

T: Yeah, and it's well done, too. Besides the laughs, it's awfully cleverly done.

HMJr: What's that?

T: It's very cleverly done, besides being good for a laugh.

HMJr: Don't you think it's good?

T: Very good. Now, is that film his, Mr. Secretary, or am I returning that to you?

HMJr: Would he like it?

T: They sent it over to me, but I didn't know whether you meant him to have it or whether you wanted to have it back again.

HMJr: Well - I mean, does he want it for anything?

T: Well, you know - no, not for any special reason, except we have a film library and when people give him films, we put it in his film library.

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HMJr: Well, I don't understand. I mean, it's - you mean he keeps a library of films?

T: Well, we keep them in the Archives, because, of course, they have to have a certain temperature so they don't crack and all that kind of business. When people give him newsreels of himself and things like that, we have what we call our film library, and we just put them in it.

HMJr: Well, if you'd like to have it, of course, the answer is yes.

T: But I mean, I'm not asking for it. I just wanted to know what you wanted, whether I was to return it or not.

HMJr: Well, what we would do normally with it - I mean, we've had these - we have a thousand copies which are going all over the country.

T: Well, I think it's very useful to use it now, certainly.

HMJr: Yes.

T: Uh huh.

HMJr: To be shown.

T: Yes. All right, fine. I'll send it back to you. It's over here. They sent it over to me this morning.

And then he did hear your speech, and liked it very much.

HMJr: He did?

T: Yes, sir.

HMJr: I went over it word for word with Mrs. Roosevelt before I gave it.

T: Uh huh.

HMJr: And I also talked to Admiral McIntyre about it.

T: Uh huh.

HMJr: And he said it was all right.

T: Yeah.

HMJr: He didn't read the speech, but I gave him the idea.

T: Yes.

HMJr: But the President - he didn't - it didn't - there's nothing about it that.....

T: Oh, no, no. He liked it. He said it was very good.

HMJr: He did?

T: Uh huh.

HMJr: Well, that's very sweet of you.

T: Right, sir.

HMJr: I have nothing.

T: All right, sir.

HMJr: Believe it or not.

T: When you have, call me. (Laughs)

HMJr: Thank you.

T: Good-bye.

January 28, 1942
10:45 a.m.

FOREIGN FUNDS

Present: Mr. Foley

MR. FOLEY: This is a small airplane company up in New Jersey (see attachment 1).

H.M.JR: Supposing I read this.

MR. FOLEY: Yes.

H.M.JR: Well, this is all right.

MR. FOLEY: A hundred planes smuggled into Mexico and disappeared.

H.M.JR: Well now, so we get this straight for my records, we will have a photostat of this with my signature and send it to Mr. Foley (speaking to reporter). Just the last page. Is that right, Ed?

MR. FOLEY: Yes, that is fine.

H.M.JR: Now, do you bother to tell Crowley about this (see attachment 2)?

Mr. Foley: Yes, I have cleared all these things I am bringing up here.

That will serve a useful purpose, and we will have one less to worry about.

This is on Schering (see attachment 3). I gave you a memorandum on that.

H.M.JR: Let me read it. Since I stirred you boys up, you have gone to town, haven't you?

MR. FOLEY: Sure. Now, there is an outfit --

H.M.JR: Just a second. You know, I want to - don't you think --

MR. FOLEY: Those are the case records on each one of these individuals.

H.M.JR: Don't you think we should in some way let State, War, and Navy know, the departments affected in each case, that we are doing this.

MR. FOLEY: Well, I have talked --

H.M.JR: I mean a letter to the head.

MR. FOLEY: Telling them what we did.

H.M.JR: Yes.

MR. FOLEY: O.K.

H.M.JR: I think a letter should go - I wouldn't bother - now here I wouldn't bother the President, you see, but I would send it to the State, War, and Navy.

MR. FOLEY: All right, telling them what we have done.

H.M.JR: Yes, a letter from me.

MR. FOLEY: We had help from Dr. Conant's outfit on this, and Vannévar Bush gave us a couple of his scientists, and they went up there.

H.M.JR: But as I say, I would write to State, War, and Navy. Why not send it to the President and simply

- * -

let him know? If he doesn't want to read it, he doesn't have to. I would. I would write a letter to the President and send copies to State --

MR. FOLEY: Send a copy of that?

H.M.JR: That is too long, isn't it?

MR. FOLEY: I can send a copy of the press release. I have got a press release that summarizes that and gives the information as to what we have done.

H.M.JR: Are you going to have a press release on each of these?

MR. FOLEY: I think we should, yes.

H.M.JR: Then why not send the press releases to the President, State, War, and Navy, and anybody else over my signature?

MR. FOLEY: All right. A fellow by the name of George Gallowhur, who is president of Gallowhur and Company, has been negotiating to buy a share in this outfit and he makes some kind of a suntan lotion called Skol, S-k-o-l. He is a promoter, Mr. Secretary, and he has been dealing solely with the Swiss Bank in New York for the purchase of this company, and we want to deny that application today for a license, and announce the removal of these officers, because he intends to keep these people in if he buys the company, and we have read the files of the company and we have got a letter over his signature to Dr. Weltzien, the president of the company, in which he says, "I have told you that we have very large sums of money available through our associates, and are adequately financed to purchase a controlling interest in Schering. I have also told you that we have connections which I believe are second to none in the present Administration in Washington, as well as throughout industry in this country. Furthermore, I have assured you that we want the existing management in Schering to remain."

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H.M.JR: Who is he writing this to?

MR. FOLEY: To the president of the company.

H.M.JR: O.K.

MR. FOLEY: He doesn't know we got this. We got this reading their files. "Should we purchase control of the corporation, we would be glad to assist you and Dr. Stragnell to purchase shares in the company." We feel that the company shouldn't be sold to anybody like that. We should first remove the German personnel and then perhaps vest the stock and sell the stock --

H.M.JR: That is enough.

MR. FOLEY: I have got two more things. The State Department wants to repeal a section of the Neutrality Act, and that is the provision which prevents, say, the City of Montreal from selling bonds in the United States, because Canada is a belligerent of the war (see attachment 4).

H.M.JR: They want to permit it?

MR. FOLEY: Yes. We think that our co-belligerents ought to be able to take advantage of our markets, and to the extent they can do that, we will have to put up less for them.

And one last thing. Pehle wants an O.K. from you on turning over to the Bureau information that we have on our T.F.R. three hundreds that might be of assistance to the Bureau of Internal Revenue in connection with collecting taxes (see attachment 5).

H.M.JR: Wonderful.

MR. FOLEY: The British didn't turn any of their stuff over to Internal Revenue, and he thought because of that, I ought to put it up to you.

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H.M.JR: All right.

MR. FOLEY: I think we ought not to be squeamish about it at all. If we have got information in one part of the Treasury, we ought to make it available to the rest of the Treasury.

H.M.JR: Sure.

MR. FOLEY: That clears me up.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Jan. 28, 1942.

Secretary Morgenthau

Wiley

Re: Luscombe Airplane Corporation.

Officials of the Navy Department, the War Department, and the Civil Aeronautics Administration have indicated informally that it would be very helpful to them if the Treasury Department would place representatives in the Luscombe Airplane Corporation, Trenton, New Jersey, to make an investigation of records and personnel.

The Luscombe Airplane Corporation is a small concern making a light, all metal airplane, and operates a training school for airplane mechanics. A substantial part of the stock of the Corporation is owned or controlled by one Leopold Hugo Paul Klotz.

Klotz was born in Berlin, claims to be a citizen of Liechtenstein, and has been denied both British and Canadian citizenship. He entered the United States in December 1939. There is some evidence to indicate that he and his wife, who was born in Sofia, Bulgaria, may have been engaged in selling German-owned securities in the United States

and in transferring the proceeds to Nazi authorities in Mexico. It is also rumored that 100 Luscombe airplanes were smuggled into Mexico, and that Klotz's wife maintained a flying school for Nazi youths at her home at Acapulco, Mexico.

The Civil Aeronautics Administration cannot approve planes for flight unless they are produced by a corporation, at least 75% of whose stock is owned by American citizens. They do not want to stop production, but, in view of Klotz's ownership and control of stock, they hesitate to continue approving the planes.

The Navy Department and the War Department desire to make use of the skilled personnel at the Luscombe plant for the production of military planes and parts, but cannot so long as Klotz and his associates control the corporation and there is no assurance that the personnel are trustworthy.

If you approve, a small Treasury staff will make a thorough investigation of records and personnel, which may result in recommendations to you for the removal of certain

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individuals and steps to divest Klotz and his associates
of stock ownership or control.

S.H.F.L.

I approve: JAN 28 1942

J. M. G. [Signature]

1425

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE JAN 26 1942

Secretary Morgenthau

Mr. Foley

The Pilot Reinsurance Company, of New York City, was organized in 1925, with capital provided by two German reinsurance companies and one Italian insurance company. The president and the vice president of the new company were recently naturalized citizens of German origins. The president, Mr. Carl Schreiner, was also a director of Munich Reinsurance Company, which furnished over one-half of the capital for the new corporation, and ever since its organization the Pilot Reinsurance Company, under the domination of Mr. Schreiner, has been operated primarily in the German interest. The directors of the Munich Reinsurance Company were active in the Nazi movement from its inception. They helped finance the party, and the chairman of the board, who is also a director of Pilot Reinsurance Company, took a leave of absence from his post to act as Hitler's Secretary of Commerce from 1933 until 1938. In 1939 and 1940 the shares of Pilot Reinsurance Company owned by the two German companies were transferred to various Dutch, Swiss and Swedish holding companies. Mr. Schreiner, a complete Nazi sympathizer and ardent supporter of Hitler, has been in Europe since April 1940. During his absence the company has been operated by the vice president, Mr. A. F. Sadler, as to whose loyalty there is very serious question. Apart from the officers, there are only five employees, all of whom have German backgrounds.

Pilot Reinsurance Company has assets of about \$3,500,000 and at present has only five reinsurance treaties outstanding. Since June 14, 1941, it has been operating under 15 and 30 day licenses. The board of directors requested a long term license and submitted a plan for "Americanization" of the corporation, which in effect would have enabled some of the directors to organize a new company

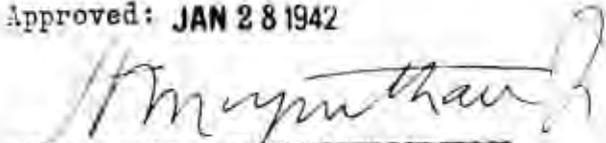
- 2 -

using German capital. With its antecedents and personnel it seemed desirable to compel Pilot Reinsurance Company to liquidate.

Mr. Louis Pink, Superintendent of Insurance for the State of New York, was called upon for an opinion on the importance of the company to the market. Mr. Pink informed us that, although there is a general shortage in reinsurance facilities and this company is a "good little company" which could be Americanized by putting one of his men in charge, he felt that whether the company "lives or dies will not have any substantial effect upon the conditions". After clearing the matter with Dean Acheson, Assistant Secretary of State, and Mr. Leo T. Crowley, the decision was reached to grant the Pilot Reinsurance Company only a liquidating license at the expiration of its current 15-day license. This is perfectly consistent with our treatment of the one large Italian insurance company and the two Italian banks. This liquidation will take place under the supervision of the New York Superintendent.

8.11.76

Approved: JAN 28 1942


Secretary of the Treasury.



GENERAL COUNSEL
TREASURY DEPARTMENT
WASHINGTON

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January 26, 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 which is a \$3,000,000 concern with 400 employees. Prior to 1937 Schering Corporation was a directly owned subsidiary of Schering A.G., one of the largest industrial enterprises in Germany, having approximately 30,000 employees. The American company is today controlled by the German concern through nominal Swiss ownership.

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 by Schering Corporation to have saved the lives of thousands of English soldiers after Dunkirk.

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The research work of Schering Corporation is conducted under the direction of Dr. Schwenk, who is a chemist of outstanding ability. Research is now under way which gives promise of resulting in discoveries of even greater importance to our war program and to our national health than the products at present being manufactured. The United States Government has a large group of scientists conducting research along certain lines parallel to those being conducted by Dr. Schwenk and his staff. The successful conclusion of this work will be of the greatest importance to our air forces as it relates to preparations which increase the endurance of aviators. The technical advisers made available by the Office of Scientific Research and Development state that the experience and ability of Dr. Schwenk and the use of the laboratories of Schering Corporation are vitally needed in this work.

At the present time the experience of Dr. Schwenk and of his staff and the facilities of Schering

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Corporation are to a marked degree lost to the Government and to the Nation. The technical advisers state that the Government does not dare use Dr. Schwenk or the laboratories of the Corporation because of the German connections of the Corporation and the affiliations of certain of its German personnel. In addition, dominating patents held by the corporation, so long as they are in control of personnel of dubious loyalty, may stand in the way of essential developments in the medical field.

In fact, the technical advisers even fear for the actual production of the products now being manufactured by Schering. It is considered imperative by them that questionable personnel be removed and a trusted scientist assigned to work closely with Dr. Schwenk in order to obtain the value of his essential knowledge needed in the production of items now produced by Schering.

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 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.

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5. Dr. Erich Putter - Director of biological laboratory; salary, \$6,600 a year; formerly director of bacteriological 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 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.

Approved:
JAN 28 1942

H. M. Witham Jr. 9.11.72
Secretary of the Treasury

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PERSONNEL TO BE SUSPENDED FROM
SCHERING CORPORATION

Dr. Julius Weltzien.

Dr. Weltzien was born in Germany in 1889. He states that his mother is Jewish. He was graduated with the degree of Doctor of Laws from the University of Freiberg in 1912.

He began to work with Schering A.G. of Germany prior to the last war. During the last war he was a second lieutenant in the German Army. At the conclusion of the war he returned to Schering A.G. and became Vice-President of that concern in 1921. In 1932 he became President. About 1937 Schering A.G. and its parent company, which was engaged in mining and other enterprises, were merged and Dr. Weltzien became President of the combined concern. He is reported to have directed the establishment of agencies of Schering A.G. in practically every country in the world and is said to be an outstanding authority on foreign trade.

Dr. Weltzien was a close friend of Strausser who, prior to 1933, was second in command of the Nazi Party. In 1933 Strausser broke with Hitler as a result of Strausser's attempt to form a government in corroboration with the trade unions. Dr. Weltzien then gave him a job with Schering A.G. In 1934 Strausser was arrested, either in the offices of Schering A.G. or on his way home, and was shot in the streets of Berlin. Dr. Weltzien was also arrested, but was soon released. He is probably one of the very few associates of Strausser who is alive today.

Dr. Weltzien states that for several years Schering A.G. had to supply a set quota of foreign exchange to the German Government. By 1937 the resources of its subsidiaries to supply the required amount of foreign exchange were exhausted. Schering

A.G. was then directed by Goering's organization to sell the American subsidiary, but to arrange the terms of the sale so that approximately the same amount of foreign exchange would be transferred from the American company to Germany each year. Dr. Weltzien states that he discussed this with a friend who is an official of Ciba, Basle (pharmaceutical manufacturers), and the negotiations were then undertaken with the Swiss Bank and with Ciba. During the course of the negotiations, the suggested terms were submitted from time to time to Goering's department and were changed to meet that department's approval.

Dr. Weltzien reports that he was asked by the Swiss Bank to take over the presidency of the American firm as they wanted someone they knew to be in charge. He states that he had been considering leaving Germany for some time because of conditions there, and therefore he readily accepted the position. Although it is possible that Dr. Weltzien may not be a Nazi, he obviously believes sincerely in the supremacy of the German economy, and his loyalty and ties are basically with Germany.

It is also inconceivable, in light of Dr. Weltzien's background, that he could have left Germany with the ease that he did without having first come to some understanding with the German Government. Undoubtedly his departure was consented to with the understanding that he would ensure that foreign exchange would continue to be transmitted to Germany and that his skill and experience would be utilized in maintaining German markets in case of war. It is to be noted in this connection that his mother and a brother and sister are still in Germany.

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Martin Bernhardt.

Bernhardt was born in Germany in 1886, and is at least part Jewish. He studied law at the University of Breslau, Germany. After he was discharged from the army in 1917, he went to work for the parent company of Schering A.G. of Germany and continued to work for that company for twenty years. He became Vice-Chairman of the company and was in charge of personnel.

He arrived in the United States in 1938 at approximately the same time as Dr. Weltzien. It is reported by employees of the Schering Corporation that on his arrival he immediately assumed a dominating role in Schering operations and became Dr. Weltzien's most trusted associate. It is reported that this led to conflict with Dr. Stragnell, who complained of Bernhardt's activities. Evidently, since that time Bernhardt has operated in a much quieter manner. Bernhardt is ostensibly in charge of the legal department, but it is doubtful that his services are of much value due to his lack of knowledge of law as practiced in the United States. It is felt that he came to the United States with the understanding that he would be one of the forces to continue the policies of Schering A.G. of Germany in the American concern and that essentially he is a watch-dog for the German company.

Ernst Hammer.

Hammer was born in Alsace Lorraine in 1903. He began to work for Schering A.G. in the Latin American department in 1925, and took an active part in the establishment of the South American

agencies of Schering A.G. In 1929 he was sent to Chile and in 1930 was transferred to Schering Corporation in the United States. He spent two years in the United States studying promotional work. His salary during this period was paid by Schering A.G. of Germany. In 1932 he re-entered the United States on an immigrant's visa and received his final papers in 1937.

It is apparent that Mr. Hammer was sent here by the German company to ensure the continuance of its policies, and it is believed that his ties and loyalties are to Schering A.G. of Germany. He has a brother, two aunts, and an uncle still in Germany. It is curious that Schering A.G. should send a man from Germany to conduct its promotional work, as a man to conduct such activities could easily have been obtained in the United States. Hammer attempts to explain this by stating that he underwent a course of training in the scientific aspect of Schering's products before going to Chile. This assertion has little or no value, as the products now being manufactured and marketed by Schering A.G. of Germany had not been developed at that time. In fact, at the time that he came to the United States, Schering Corporation of the United States was handling only minor pharmaceutical products of a standard variety.

Hans Erdmann.

Erdmann was born in Germany in 1898. He worked for Schering A.G. of Germany from 1922 until 1929, designing chemical equipment. He came to this country in 1929, but did not join the Schering Corporation until 1934. He received his final citizenship papers in 1936. He is now in charge of the engineering and

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maintenance departments of Schering Corporation. At the present time, Erdmann has a mother and sister in Germany. He is a close associate of the Weltzien-Bernhardt clique.

Dr. Erich Putter.

Dr. Putter was born in Germany in 1892 and was graduated with the degree of M.D. in 1916. During the last war he was a lieutenant in the medical corps of the German Army.

He was employed by Schering A.G. of Germany in 1924 as under-director in the bacteriological field, and was later made director. He states that fearing trouble because his ancestry is not entirely "Aryan", he asked Dr. Stragnell and Dr. Weltzien for a job with Schering Corporation of the United States. He and his family came to this country in April 1938. His mother and a sister are still living in Germany.

He is at the present time director of the biological laboratory of Schering Corporation, and is conducting research work in the bacteriological field. Dr. Putter is in a position to ascertain the nature of all developments in the Schering laboratories. It is felt that because of his long association with Schering A.G. of Germany and because of his German background, it would be exceedingly inadvisable to allow him to remain with the Schering Corporation if it is to engage in work of a secret and confidential nature.

Dr. Gerhard A. Fleischer.

Dr. Fleischer was born in Germany in 1911 and received his Ph.D. from a university in Danzig in 1936.

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During his summer vacations he worked for Schering A.G. of Germany doing research work. He met Dr. Stragnell in 1936 and accepted a position with Schering Corporation in the United States, entering this country in February 1937. He has a sister in Berlin and a sister in the Dutch East Indies. His mother is deceased and he does not know where his father is. He is at the present time in charge of research work on protein hormones.

The technical advisors made available by the Office of Scientific Research and Development feel that due to Dr. Fleischer's German background and former connection with Schering A.G., work of a confidential nature could not be turned over to the laboratories of Schering Corporation until he is removed.

Miss Frida Friderici.

Miss Friderici was born in 1908 in New York City. She returned to Germany in 1913 and re-entered the United States in 1930 on a United States passport. Her mother, two sisters, and numerous other relatives are now living in Germany. Her husband, Arthur Ziehm, was born in Germany, but is now a citizen of the United States. He was formerly a motion picture distributor of domestic and foreign films. He distributed German films, but Miss Friderici states he discontinued this distribution either in 1936 or 1937. He served in the United States Army during the last war.

Miss Friderici was employed by the Schering Corporation in May 1938 as secretary to Dr. Schwenk. In this capacity, she has custody of practically all

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confidential scientific matters of the corporation. Miss Friderici's background is essentially German and she is reported by other employees to be strongly pro-Nazi in sympathies.

Miss Henrietta Lange.

Miss Lange was born in Germany in 1912. She came to the United States in 1922. In 1930 she returned to Germany for a visit and in 1933 she went to Germany for the purpose of relearning the German language. She applied for her first papers in April 1940. She has an uncle and aunt, and their children, still living in Germany.

Miss Lange is a close associate of one Mahr, who is a skiing instructor. Mahr is of German birth, but has been a citizen of the United States for nine years. Several anonymous letters have been received accusing Miss Lange of Nazi activities. She states that those letters were probably written by a former suitor of hers who became extremely jealous when she shifted her affections to Mahr.

Little reliance is placed on the statements in the anonymous letters, but it is believed that because of her German background, her connection with the German skiing group, and her position as secretary to Dr. Weltzien, it is essential that her relations with the corporation be severed.

TREASURY DEPARTMENT
INTER-OFFICE COMMUNICATION

DATE JAN 28 1942

TO Secretary Morgenthau
FROM Mr. Foley

The State Department is contemplating suggesting that the President advise Congress to amend Section 7 of the Neutrality Act of 1939 as follows:

"(e) This section shall not be operative when the United States is at war."

Section 7 provides in part that it shall be unlawful for any person in the United States to purchase, sell or exchange obligations of the governments of foreign belligerent states or of subdivisions thereof, or to make any loan or extend any credit to any such government or political subdivision.

If you approve the amendment, will you please so indicate in the space provided below.

APPROVED: JAN 28 1942

S.M. Morganthau
Secretary of the Treasury

S.M.F.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE
JAN 24 1942

TO Mr. Foley
FROM Mr. Pehle

The question has been raised by Internal Revenue as to whether the information contained in TFR-300 Reports can be made available to it for the enforcement of tax claims.

It is my understanding that it is not the practice of the British Government to use censorship material for non-war purposes such as tax collecting. However, in the letter signed by Mr. Gaston on January 19, 1942, to the Director of Censorship, one of the classes of censorship information in which the Treasury indicated its interest was as follows:

"Internal Taxation - Any information which would indicate schemes or efforts to avoid or escape income, profits or other internal taxes of the United States, including taxes on alcoholic liquors."

If American censorship material is to be used for tax collecting purposes, it would be logical to assume that the material from the TFR-300 Reports should also be available for such purposes.

I suggest you raise the matter at a 9:30 meeting and obtain the Secretary's decision in order that the Foreign Funds Control may be guided accordingly in its relations with the Bureau of Internal Revenue.

JAN 28 1942

[Handwritten initials]

[Handwritten signature]

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Jan. 28, 1942.

Secretary Morgenthau

cc: Mr. Foley

Re: Luscombe Airplane Corporation.

Officials of the Navy Department, the War Department, and the Civil Aeronautics Administration have indicated informally that it would be very helpful to them if the Treasury Department would place representatives in the Luscombe Airplane Corporation, Trenton, New Jersey, to make an investigation of records and personnel.

The Luscombe Airplane Corporation is a small concern making a light, all metal airplane, and operates a training school for airplane mechanics. A substantial part of the stock of the Corporation is owned or controlled by one Leopold Hugo Paul Klotz.

Klotz was born in Berlin, claims to be a citizen of Liechtenstein, and has been denied both British and Canadian citizenship. He entered the United States in December 1939. There is some evidence to indicate that he and his wife, who was born in Sofia, Bulgaria, may have been engaged in selling German-owned securities in the United States.

and in transferring the proceeds to Nazi authorities in Mexico. It is also rumored that 100 Luscombe airplanes were smuggled into Mexico, and that Klotz's wife maintained a flying school for Nazi youths at her home at Acapulco, Mexico.

The Civil Aeronautics Administration cannot approve planes for flight unless they are produced by a corporation, at least 75% of whose stock is owned by American citizens. They do not want to stop production, but, in view of Klotz's ownership and control of stock, they hesitate to continue approving the planes.

The Navy Department and the War Department desire to make use of the skilled personnel at the Luscombe plant for the production of military planes and parts, but cannot so long as Klotz and his associates control the corporation and there is no assurance that the personnel are trustworthy.

If you approve, a small Treasury staff will make a thorough investigation of records and personnel, which may result in recommendations to you for the removal of certain

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individuals and steps to divest Klotz and his associates
of stock ownership or control.

S. H. F. L.

I approve: JAN 28 1942

J. M. G. M. K. A. J.

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE

January 28, 1942.

TO Secretary Morgenthau

FROM E. H. Roley, Jr.

I thought you would be interested in the attached breakdown of the legal expenses of General Aniline and Film for the years 1939, 1940 and 1941.

The amount has increased from \$146,000 in 1939 to \$435,000 in 1941.

S. H. F. L.

Attachment.

January 27, 1942

C
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P
YLEGAL EXPENSES OF GENERAL ANILINE & FILM CORPORATION

	<u>1939</u>	<u>1940</u>	<u>1941</u>
Breed, Abbott and Morgan	114,905.51*	97,703.07	223,415.44
Cummings and Stanley	--	--	100,547.48
Hutz and Joslin	9,383.34**	65,000.00	65,550.00
Saxe, Cole and Anderson	22,155.86	14,126.02	28,261.54
E.R. Pickerell		15,000.00	15,089.00
Richards, Layton & Finger (Wilmington)			2,500.00
	<u>146,444.71</u>	<u>191,829.09</u>	<u>435,363.46</u>

* Breed, Abbott and Morgan also received \$3,348.26 from General Aniline Works, Inc. and \$25,889.92 from the Agfa-Ansco Corp. in 1939. The former was merged into General Aniline and Film on October 31, 1939 and the latter was merged into G.A. & F. on December 31, 1939.

** Hutz and Joslin received a total of \$65,000 in 1939, of which \$9,383.34 was paid by G.A.&F. and the balance from General Aniline Works, Inc. and Agfa-Ansco Corp.

TREASURY DEPARTMENT
INTER-OFFICE COMMUNICATION

DATE JAN 28 1942

TO Secretary Morgenthau
FROM Mr. Foley

The State Department is contemplating suggesting that the President advise Congress to amend Section 7 of the Neutrality Act of 1939 as follows:

"(e) This section shall not be operative when the United States is at war."

Section 7 provides in part that it shall be unlawful for any person in the United States to purchase, sell or exchange obligations of the governments of foreign belligerent states or of subdivisions thereof, or to make any loan or extend any credit to any such government or political subdivision.

If you approve the amendment, will you please so indicate in the space provided below.

APPROVED: JAN 28 1942

S. M. Morgan
Secretary of the Treasury

TO:

Files

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1/28'42

Mr. Leo T. Crowley saw Secretary yesterday morning and then came in to see Mr. Foley and discussed the possibility of sending a joint (HMJr. and himself) memo to the President on the handling of alien property within the Treasury until such time as the President made up his mind on the permanent arrangement.

The attached memoranda were sent to Leo Crowley about 5:20 on 1/27'42. He returned the original at 9:45 a.m. 1/28'42 and the original is still with Mr. Foley.

fm

MR. FOLEY

Memorandum to the Secretary of the Treasury:

All power and authority conferred upon me by Sections 3(a) and 3(b) of the Trading with the Enemy Act, as amended, are hereby delegated to the Secretary of the Treasury.

January 28, 1942
11:12 a.m.

HMJr: I just got a letter this minute from Smathers.
Hello.

Edward
Foley: Yeah.

HMJr: In which he criticizes us for being so slow
in not selling this corporation to these people.

F: Yeah.

HMJr: He said he spoke to you.

F: He called you yesterday, and FitzGerald turned
him over to me.

HMJr: That's right.

F: And I told him that we were about to decide the
matter, and we would have a decision in a day
or two.

HMJr: Well, now, he writes in here, "Please be good
enough to look into this matter and advise me
at the earliest possible moment." Now, do you
think we ought to tell him that we have this
letter, or do you think that I should call him
and say that we'll be glad to explain the thing
if he'll drop down here, or what? You see?

F: Yeah.

HMJr: This is the first time we've ever had a matter
like this.

F: Yeah. Well.....

HMJr: I think he'd feel happier about it if he knew
about it before the thing was settled.

F: Yes, I think probably that's true.

HMJr: Is he a Democrat or a Republican?

F: Yeah, he's a Democrat from New Jersey, and this

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outfit is in Bloomfield, New Jersey, you see, so they've gone to him about it, obviously.

HMJr: You mean the one that wants to buy it?

F: Gallowher, Inc., that wants to buy Schering, has gone to him, you see.

HMJr: Yes. He says here, "At that time, certain residents of my State, in company with Mr. Gallowher." Well, now, we've got to explain to him why.

F: Yeah.

HMJr: ".....made an offer to purchase this plant through the Swiss Bank of New York." Well, I think.....

F: Well, maybe the best thing to do, Mr. Secretary, is for you to call him and say that you've decided the matter and we are going to - we're turning down the application for a license, and if he would like to know the facts before it's released so that he can tell Gallowher.....

HMJr: No, that isn't the way to do. I think I'll tell him I am deciding it, but if he wants to drop down or else have you come up to see him, either way.

F: All right.

HMJr: ~~and~~ that I have very good reasons for turning ~~the~~ man down.

F: Right.

HMJr: I'll call him myself.

F: All right.

And I have from Leo Crowley that memorandum that we sent over to him last night signed, on the informal way of doing it, not on the formal way.

HMJr: Yeah. Well, in view of what the President said,

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I don't want to do it that way.

F: All right.

HMJr: Don't you think so?

F: Yeah, I think we're right.

HMJr: Well, I mean - the President comes out yesterday at four o'clock, and said that within a couple of weeks I'm going to set up an independent agency. Then I send it over, if I remember correctly, asking him to give us that authority under the law. Isn't that what I do?

F: Well, this memorandum would simply say, "Pending a final determination on the part of the President of what he wants to do about the matter," you ask him to sign the attached memorandum which gives all of the authority under the section to you so that we won't have to be bothering him about these questions as they come up from time to time.

HMJr: Well, that wouldn't be - I'd be willing to do that provided he approves this one particular move. Hello.

F: Yeah. The one - you mean in regard to General Aniline - about vesting the stock.

HMJr: Yeah.

F: All right.

HMJr: Could you do both?

F: Yeah. We could do both. We could send over a memorandum on General Aniline and this memorandum and say that in the future if he doesn't want us to bother him on specific cases, he could sign this informal memorandum, and then there wouldn't be any public announcement but we'd have the authority and we could go ahead without bothering him, until he decided how he wanted the whole thing handled.

HMJr: Well, fix it up on the General Aniline the way I suggested, that he has to approve it in whole.

F: Right.

HMJr: Then if I wanted to send over the one that Leo Crowley has done, I could do it also.

F: That's right.

HMJr: Because I will not move in on General Aniline.

F: I agree.

HMJr: Unless the President initials it.

F: I agree.

HMJr: Now, if I give him the Crowley one, that might give him an out, and he'd sign that and not sign the other.

F: Yeah.

HMJr: And - hello.

F: Yeah.

HMJr: Well, he'd say, "I'll sign that and not the other."

F: Yeah.

HMJr: I think, Ed, and - I would send over first the one on General Aniline.

F: Yeah.

HMJr: Then wait a day. After we got that signed, then send over the Crowley one.

F: Good. Good.

HMJr: Because I don't want to move in - you see, if he has these two pieces of paper - one in

which he gives me temporary authority to handle Aniline and Dye.....

F: Yeah.

HMJr:and the other piece of paper where he has to approve in writing the Aniline, he won't approve the Aniline.

F: Yeah. Yeah, I see.

HMJr: See what I mean?

F: Sure. I think that's right. So put that one up to him - the one for the control of Aniline - first, and then - a couple of days later - send the other one over, and say, "This is just so we won't have to bother you on every one of these matters."

HMJr: Yes. That is the way to do it; and after sleeping on it, I wouldn't move on General Aniline and move out John Mack and Ambassador Bullitt.....

F: I think you're absolutely right.

HMJr:unless Franklin Roosevelt puts on F.D.R.

F: I think you're absolutely right.

HMJr: And if he has an alternative, he'll take the one where he doesn't have to sign it.

F: (Laughs)

HMJr: Now that's strictly between us.

F: Well, you know your man.

HMJr: I know my man.

F: Okay.

HMJr: Okay.

F: Thanks.