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January 29, 1942

PRESENT: Mr. White
Mrs. Klotz

H.M.JR.: At nine o'clock this morning I called on the Secretary of War and General Marshall. I asked General Marshall how he felt about the military situation in China.

He went over the situation, going back to the mistake the English made in Rangoon and so forth and so on. What I didn't know, it seems that they are sending out a General Stillwell to be Chief of Staff under General Chiang Kai-shek. These negotiations have been conducted here between the War Department and T. V. Soong and they are very much pleased to think that Chiang Kai-shek is willing to have an entire American staff to run his army.

Marshall says that the matter out there is critical because, 1, the Japanese have been very active in India and, 2, they have been very active in China. If either Rangoon or Singapore falls it will just add that much more fuel to the fire and help the Japanese in their propaganda to work with the Chinese that the yellow races should stick together and that the white races are being defeated. Marshall regarded the situation seriously.

Then Stimson talked and he said that he thought the situation was serious and that at any price we should keep them going.

Stimson evidently hasn't read or couldn't find the letter which I sent him, a copy of the letter I sent the President, but he has been inquiring about the matter and he very frankly said that he thought that I had made a great mistake when I offered to pay for the Chinese troops. He had been misinformed. He thought we were going to pay the troops directly instead of giving the money to Chiang Kai-shek. So I said I had only done this after carefully clearing it with the President and with Churchill and also with T. V. Soong.

He said, "Well, you can't trust T. V. Soong," and he said, "Anyway, in my experience with Orientals, if you say something to them as a proposal they will always say yes and never tell you no, but they will get word to you in some roundabout way which often makes you think that they have double-crossed you, but they just can't say no to you."

I asked him whether he thought I should let the State Department handle this thing because my heart wasn't in it and because this was a straight political matter, and he said yes. But on second thought, I am not going to give it up so easily, especially because the President has asked me to do it and I would have to go and tell the President I didn't think that I could do it, something which I have never done before.

Certainly from Marshall's standpoint, General Marshall and Stimson, they think that the matter is important. The last thing that Stimson said to me was, "Now, don't let the thing fall down on account of any difference between you and the State Department," and I said, "Well, quite the contrary, I can sit by and do nothing because I have a letter from the President telling me to wait until Mr. Fox returns and I have a letter from T. V. Soong, telling me to wait," but I said, "I am pushing the matter." He said, "Please do, and whatever the cost is, I would do it."

Now, Harry, at 11:15 I am going to sit down with you on this Chinese thing, so from now until then please devote your thinking entirely to this, you see, and the thing which isn't clear in my mind is what Ambassador Gauss has said as to the Chinese situation, because I haven't had time to read those things.

MR. WHITE: I have a little something to add, if you want it.

H.M.JR.: Go ahead.

MR. WHITE: Last evening Hornbeck telephoned to say that Mr. Hull thought it was very important that some

general announcement be given of a loan arrangement, although the details need not be specified. They can be made public later.

I told Mr. Hornbeck that it was my understanding, and I thought it was your understanding, that the matter was to await Mr. Fox's return. Mr. Hornbeck said that probably was true until Mr. Hull learned that Mr. Fox was going to be so delayed as to postpone the matter too far and that it was his understanding definitely that Mr. Hull does not want to await Mr. Fox's return, so I had a note to you about it and saying that I was going to have a meeting this morning at 10:00 o'clock of the Treasury staff, unless you had a contrary opinion, because I would like to submit to you whatever your own staff makes as a recommendation.

H.M.JR.: That is all right. 11:15.

January 29, 1942

HM Jr called Secretary Hull today and the following is HM Jr's end of the conversation:

"I am sorry that you are not well.

"Hornbeck called up Harry White last night, and your people seem to want something on this Chinese loan. I really did not want to do anything about it until I had a chance to talk to you. You remember I spoke to you about it on Monday and said at that time that after the boys got together I wanted to see you.

"Would tomorrow morning be time enough? What time do you think you could see me at your office? I will come to your office then at 10:30.

"This is a political matter and not a financial one, and that is why I do not want to move on it without conferring with you. I would like to do in this matter what you think should be done."

(Secretary Hull said he did not know the technical details but he would be glad to see me at 10:30 tomorrow morning.)

January 29, 1942

PRESENT: Mr. White
Mrs. Klotz

H.M.JR.: Ambassador Litvinoff called at my request and I said that we had been approached by the Chinese for a loan and I felt that what the Chinese did in the future was as much of interest to them as it was to us. He said it is of more interest to them than it is to us.

I told him that they had asked for a billion dollar loan, half from the English and half from us, and the English said they would go up to fifty million dollars but couldn't go any further. I told him what I had offered to do about the soldiers and he said, "Have they a million troops under arms?" I said, "Well, I believe so."

He said he didn't know anything himself but he would get off a wire right away. He said, "I question whether the Japanese would make any peace with the Chinese now because they are drunk with victory," and he said, "If Singapore falls we are firmly convinced --" He said, "We believe that the Japanese will synchronize with the Germans and will attack us in about two months' time. That is what we expect." He said, "Once we begin to fight the Japanese, that ought to greatly encourage the Chinese."

He gave me the distinct feeling that he questioned that the Chinese would stop fighting at this time. I said that I personally wasn't so worried because after all, the Chinese had gone through this for four years and now that they saw that we were in this thing I just didn't see how they could quit at this time.

He kept repeating over and over again, "Well, this is nothing but blackmail," and I said, "Yes, and at a time when we have our back to the wall in the Pacific, and I don't like it." That is that. But it is interesting, what?

MR. WHITE: He agreed with the opposition.

H.M.JR.: Yes, but it is interesting that he is convinced that they will be attacked in two months and are ready for it.

Oh yes, he said, "Can't you drag these negotiations out as long as possible?" I said, "Well, that is what we are trying to do by making the payments on a monthly basis." He said, "Yes, that is the way to do it."

He said, "Well, what can they use it for? What can they use it for? They can't get any more material up the Burma Road." I said, "I have been all over that with T. V. Soong and I pointed out to them several weeks ago that we had committed five hundred sixty million in Lend-Lease, which is more than we are committed to you. They have got fifty million dollars of Stabilization credit that they haven't used a dollar of," and I said, "T. V. Soong explains it that the Generalissimo wants a billion dollars in reserve to use when he sees fit." He said, "They can't use it. How can they get it in there?" I said, "I agree, and that is what is bothering me."

Then I said, "How are things going with you up on the White Sea?" He said Archangel is open, but he said, "We are not getting any material," and he said, "We have had three ships this month, plus nine carried over from last month," and he said, "When I go to the Maritime Commission they say, 'We will let you have the ships, but you have no tanks and planes to put on the ships.' And I go to the Army and they say, 'What is the use of giving you any tanks or planes, because you have no ships?'" He said, "The net result is, we get no ships." I said, "Well, we have got a lot of stuff in storage for you, waiting." He said, "I know, but we can't get the tanks and the planes and I am just shoved from one department to another." He said, "I am seeing Stettinius about it this afternoon."

He then asked me whether I wouldn't come and have lunch with him sometime and I said well, very frankly I didn't like to go out to lunch but if he would ask me

for a family supper some evening I would be glad to do that.

At least I am getting a little information.

MR. WHITE: Yes, but I think you have no choice. I think you have to separate --

H.M.JR.: I have, Harry, but I mean I am doing my own thinking on the thing.

MR. WHITE: I think as a Cabinet member you can object. As Secretary of the Treasury, you have to go right along a hundred percent.

H.M.JR.: It is just the other way around. As a Cabinet member I have got to go along. As Secretary of the Treasury, I can protest. But don't let's quibble.

January 29, 1942
11:25 a.m.

AID TO CHINA

Present: Mr. White
Mr. Southard
Mr. Viner
Mr. Bernstein
Mr. E. M. Bernstein
Mr. Friedman
Mr. Coe

H.M.JR: My God, are these fellows all experts?

MR. WHITE: Yes, sir, very good ones, too. Best there are.

H.M.JR: Best available?

MR. WHITE: I think I was right the first time.

H.M.JR: On this cable from Gauss of the seventeenth which was forwarded to me on the twenty-first, is there anything in from Gauss since then.

MR. WHITE: That is the last one I have had reference to. Has there been anything since then?

MR. FRIEDMAN: No.

H.M.JR: There is nothing since then?

MR. WHITE: Nothing since.

H.M.JR: Then the whole business is based on that?

MR. WHITE: Oh, no, sir, there are prior cables--

H.M.JR: But this is the most recent?

MR. WHITE: The next previous important one, the only one of previous importance from Gauss, is on December 31. *pub 1/30*

H.M.JR: What?

MR. WHITE: December 31. I have a copy here, but I haven't a full copy. There have been numerous other means of communication which are not represented by cables from Gauss to us that I imagine the State Department has received.

H.M.JR: Here I pick up a draft of a statement by the President on the loan to China. Who did that?

MR. WHITE: It was prepared here during my absence, several drafts. One was a release of the statement in the event that one was to have been made at that time.

MR. COE: That is right. That is when you (Secretary) were seeing the President.

MR. WHITE: Yes. I don't know who worked on it.

MR. SOUTHARD: Coe and Friedman.

MR. WHITE: Coe and Friedman.

H.M.JR: Where is the Gauss cable?

MR. WHITE: It is dated December 31, 1941. I have a copy here, but it is a poor one.

H.M.JR: I can't read those copies. Here, I have got it. December 21.

MR. WHITE: Thirty-first.

H.M.JR: Twenty-first, I have got it. Number five fifteen?

MR. WHITE: Number five forty-nine.

H.M.JR: Supposing I read this one?

MR. WHITE: Well, that goes back still further. Here is a little better copy.

MR. FRIEDMAN: That is a complete file up to the last date of all cables.

H.M.JR: Let me see your file. Have you got a cable there?

I will tell you what I would like one of your boys to do, Harry, just as fast as possible. I would like a little time-table prepared for my book, you see, such-and-such a day, Ambassador Gauss sent cable urging this or Sir Otto Niemeyer did this, and then - I mean, just a little time-table that I could refer to, you see.

MR. WHITE: I know just what you want. When Secretary Hull - the State Department made inquiry and so forth.

H.M.JR: But very much digested. This thing here, everything that I have got is in here, and I wonder if this last thing is in here from - yes.

MR. WHITE: Phillips? That is there.

H.M.JR: That is in there, too. But they are waiting for an answer from me?

MR. WHITE: They are.

H.M.JR: I have got an appointment with Mr. Hull at ten-thirty tomorrow morning. His people said at first he couldn't see me and all of that. He is sick and can't see anybody.

MR. WHITE: Does he know the subject?

H.M.JR: Oh, yes. Then he said the matter is a political one and he doesn't know the details, and I said, "That is why I want to see you, because it is a political one and not a banking proposition. I would like to do whatever you want." I mean, it is political. It is nothing that - nothing financial. The President's letter isn't here.

MR. WHITE: Which?

H.M.JR: The President's letter.

MR. SOUTHARD: The last note to you?

H.M.JR: Yes. Yes, this is January 26. You see, he comes back again to the payment of the troops, the President.

Now, Mr. Hull has never seen that thing from the President, and I think that I ought to send it over to his house today and simply say: "My dear Cordell, the President returned to me the correspondence between T. V. Soong and myself of January 21 and attached thereto a memorandum, a photostat of which you will find enclosed herewith.

"On receipt of this memorandum of the twenty-sixth from the President, I sent the following letter to Dr. Soong, copy of which I enclose herewith."

So that makes my record straight, you see.

MR. WHITE: And Soong's answer. I think there is a letter from Soong, isn't there?

H.M.JR: No. He has had that. I sent Hull a copy of Soong's letter, you see. I think that is complete. You can go over it, but the point that I make, Hull doesn't know that I have had an answer from the President. He doesn't know what is in it. Too, he doesn't know that I subsequently wrote Soong. Now,

that could be written, checking it with my stuff here, and then it could go up to his apartment this afternoon.

MR. WHITE: Do you want his record to be complete?

H.M.JR: What?

MR. WHITE: Do you want Hull's record to be complete?

H.M.JR: Yes.

MR. WHITE: We will add some sentence to that effect, that we think this completes his record.

H.M.JR: Of my--

MR. WHITE: Yes, because Mr. Hornbeck told me that Mr. Hull did not know about the proposal of the payment of currency. They heard it, I think, from Hornbeck.

H.M.JR: From Hornbeck?

MR. WHITE: That is what Hornbeck told me.

H.M.JR: Well, that is what Hornbeck was here for.

MR. COE: You instructed him to pass it on.

MR. WHITE: That was not the impression I got on the phone. You were listening, Southard.

MR. SOUTHARD: Hornbeck said that Mr. Hull's only knowledge of it was through him, Hornbeck.

H.M.JR: Well, there was no other way he could get it. Hornbeck was here, and I called up Mr. Hull as I remember it, somebody check my memory, and said, "Who do you want over here," and he sent Hornbeck over here.

MR. WHITE: That is right. I remember that.

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H.M.JR: And then I particularly told Hornbeck to tell Mr. Hull. I don't know what you are going to do with these old men. I go over to see Mr. Stimson this morning. I sent him a copy of my correspondence with the President, and he said, "I never saw it." I said, "How do I get something to you so that you will read it?" I sent him a copy of my letter to the President, and he said, "Well, I have no memory of it. Maybe I read it, but I can't remember it."

MR. WHITE: All right.

H.M.JR: That is why I want my - you see, I wrote the President on receipt of the letter from Chiang Kai-shek. I sent a copy to State, War, and Navy. Now the President comes back to me and says - writes to me, and then I write to Soong. So I think this time when you send this thing, I want Mr. - say to Mr. Hull, "I want your record complete," and I can put on Hull's letter outside, copy to the Secretary of War and Navy, and then that makes their record complete, too.

Mr. Stimson is very much interested, and he was very helpful this morning. But that ought to go out right after lunch.

MR. WHITE: All right.

H.M.JR: Jake, what do you think I ought to do?

MR. VINER: Well, I think we discussed it this morning, and Harry - we all agree absolutely, so I think Harry ought to tell you.

H.M.JR: All right.

MR. WHITE: Well, it can be stated very briefly.

H.M.JR: Talk louder, Harry.

MR. WHITE: It can be stated very briefly.

H.M.JR: I mean, I am not used to this Southern

Portuguese accent.

MR. WHITE: All right, I will bellow. (Laughter)

H.M.JR: I mean, you are back in Washington, you know, where we fight. In Washington.

MR. WHITE: Right. The only difference is, you mean you fight in the open here. We are in agreement with you, I think, completely, that the question of whether financial assistance shall be given, how much shall be given, and the timing, is one in which the Treasury is in no position to determine in view of the fact that the financial assistance has been requested both by the President and by the State Department as wholly a political matter, and therefore the decision on the question of assistance is one that lies outside the purview of the Treasury. That if financial assistance is to be given, there are three methods by which it may be given. One, through Lend-Lease, which would require some Congressional action in the alteration of the Lend-Lease Bill as at present contemplated; two, through an out-right Congressional special act; three, through the Stabilization Fund. We think that all three methods ought to be explained to the President, Secretary Hull, and the Congressional leaders, and the selection of the methods should be left to them, after having made it perfectly clear that if it is to be done through the Stabilization Fund that it is a character quite different than previous stabilization funds inasmuch as the risk of return is so great as to make it virtually in the nature of a gift. The advantage of giving it through the Stabilization Fund, as it appears to us, are several. One, it could be done with the least legislative difficulty. After the conference, the Committee approval which you may seek, et cetera, is given; two, it would avoid the question of discussion as to interest rate and repayment, et cetera, because the arrangement could be made in - different from prior arrangements. No rate would be selected, either as to purchase or repurchase, nor time, so that there would be no--

MR. VINER: No interest rate.

MR. WHITE: ... no interest rate and no rate of repurchase. Thirdly, financially and from the point of view of the Treasury, you probably would have a greater chance of getting something back in the future if you had yuan. They will be probably worth something; and, fourthly, it does mean that during the post war reconstruction period and subsequent to that, you may be able to do more with China and through China by having those yuan which you own than might be the case if it were an outright grant or loan. The disadvantage of course is that it is of a character quite other than you have hitherto contemplated, but the President may not wish the matter to be explored in the open as it would have to be if it were a Congressional act or a Lend-Lease act. He may feel that this is a very desirable way out for him, but we all agree and feel sure that you would feel so too, that you would undertake it only if the record is definitely clear that the arrangement is undertaken for political purposes.

H.M.JR: Were you through?

MR. WHITE: The third, as to what conditions and what other methods shall be employed in the actual use of the fund is something that can be determined only after a decision is made as to which one of those three methods is to be used.

H.M.JR: Well, now, let me see if I can state the way I feel. I have had quite a lot of time to think about this thing. From the attitude of the President, Mr. Hull, and Mr. Stimson, who all think - and General Marshall - that it is necessary, I am naturally willing to be guided by their opinion as to the military necessity. It isn't political, it is military. Or political, or both. It is both military and political. They think so. I don't feel it is as urgent as they do, but that is neither here nor there. Therefore, I think if you gentlemen could, so that I could have it by four o'clock, prepare a memorandum that I could present to Mr. Hull on the following lines, simply say: "My dear Mr. Hull,

I would like to give you a memorandum which -"if there is anything - he has written me so many - I think he wrote me a definite letter where he asked for--

MR. WHITE: Definite letter.

H.M.JR: I think we ought to answer that letter tomorrow, you see. Monday didn't he say he wanted three hundred million dollars?

MR. WHITE: It was before Monday.

H.M.JR: It only arrived here Monday. That was the thing that descended on me Monday. It was that letter.

MR. WHITE: That letter was in response to a meeting which we had had and which they had asked for this loan, and I said that before we bring it to the Secretary's attention for decision that he would want a letter from Secretary Hull stating it.

H.M.JR: No, this is a second letter. This is a letter - this is a second letter. I have had two letters.

MR. BERNSTEIN: The second one you are referring to, Mr. Secretary, was a short letter from Mr. Hull enclosing a memorandum that Mr. Berle and Mr. Feis wrote, but that simply sent the Berle memorandum to you.

MR. WHITE: He said for your information.

MR. BERNSTEIN: It was the first letter that Mr. Hull wrote in which he mentioned the recommendation.

MR. WHITE: I have it here. It is answering your note to hand of yesterday relative to the proposed Chinese loan proposition, "I herewith enclose for whatever it may be worth to you and your associates some memoranda on the subject prepared by some of my associates here. C. H."

And the memorandum is one apparently prepared by

Berle. It has Berle's initials, but presumably from the State Department, in which they recommend a loan of five hundred million dollars and in which they hope that there shall be no special conditions and indicate the purposes - the general objectives of the loan.

H.M.JR: Five hundred million?

MR. WHITE: They recommend five hundred million. The Secretary of State had said three hundred million. They feel, according to Hornbeck, they are not in agreement with the Secretary on that matter. They feel it should be five hundred, but they feel that we ought to give what they have asked for.

H.M.JR: Who thinks that?

MR. WHITE: According to Hornbeck, everybody but Secretary Hull. They said Secretary Hull just picked the figure three hundred from the air on the usual basis that if they asked for five they will take three.

MR. SOUTHARD: They say that Mr. Hull's official position still is as in the letter of January 10.

MR. WHITE: Which asks for three.

MR. SOUTHARD: Three hundred million.

MR. WHITE: I have that here.

H.M.JR: I can't find this thing here. Incidentally, have I sent this Eden memorandum around?

MR. WHITE: No, you have not.

H.M.JR: Well, that ought to be sent to Hull.

MR. WHITE: That is right.

H.M.JR: I think I sent it to the President.

We will see when Chauncey gets in here. I think I did.

MR. WHITE: Well, that should go to everyone to whom the previous letter went.

(Miss Chauncey entered the conference.)

H.M.JR: Come on, Miss Chauncey. I am waiting here. Sit down. Miss Chauncey, did I send the President a memorandum from Mr. Eden?

MISS CHAUNCEY: No, sir. That came in yesterday.

H.M.JR: I have not?

MISS CHAUNCEY: You sent photostats to Dr. White and Mr. Bell.

H.M.JR: Well, then let's send a copy to the President and a copy - a letter to the President and on the outside of the President's letter say copy to State, War, and Navy, see.

Now, where is the letter that came in Monday from Mr. Hull? I mean, I can't find it. The dates don't seem to be consecutive at all. The one from Mr. Hull to me. (Filed January 24, 1942.)

MR. WHITE: It is on the twenty-fourth.

H.M.JR: I can't find it.

MISS CHAUNCEY: It isn't a letter. It is this little memo of transmittal with Mr. Hull's initials.

H.M.JR: Sit down, Miss Chauncey.

Let's put it this way. I think we have had all of these papers, and they are quite obviously over there at the State Department trying to build up a written record, and when I go back over there tomorrow, I want a written record, and I want to be able to say to Mr. Hull, "In answer to your letter of the - " the first one, in which he asked for three hundred, in answer to the second memorandum which I got - let's say it is on the twenty-fourth.

MR. SOUTHARD: Twenty-sixth.

H.M.JR: "We in the Treasury and also in view of the written request from the President and also I have consulted with Mr. Stimson and General Marshall, we are prepared to go forward with these financial arrangements."

MR. WHITE: Do you want to mention that you--

H.M.JR: Wait a minute.

MR. WHITE: ... talked with Stimson?

H.M.JR: Wait a minute. "However, inasmuch as this is largely a political and military matter, I would like you to advise me - " no, it isn't necessary. He has told me.

MR. WHITE: He has told you very clearly.

H.M.JR: Then my answer is, "I am ready to proceed," you see.

MR. BERNSTEIN: Harry, did you mention to the Secretary Berle's call yesterday?

- 13 -

H.M.JR: Wait a minute. Then the answer would be, "I am ready to proceed." Now, would you say in that thing how?

MR. WHITE: I would say, "There is appended a memorandum which indicates the three possible methods of procedure that might--"

H.M.JR: That is right. "Pending here is three possible ways," and I would say further, "Lend-Lease, direct appropriation from Congress, or the Stabilization Fund." Then I would like to say, "In the use of the Stabilization fund, I would like to point out that we can not use it without getting Congressional action on account of--"

MR. VINER: Leaders.

MR. WHITE: Committee.

H.M.JR: ... support similar to the one where you assisted me. You remember you assisted me. Similar to the one where you assisted me. "I also would like to point out that this is not the purpose for which the Stabilization Fund was created, and I hope that you will consider it last," see. I want to put that in. This will be the last one.

MR. VINER: I would say, "Can be brought only with difficulty within the compass of the proposal." You mustn't say in the record that it is not the purpose.

H.M.JR: I accept that advice and suggestion, but I would like to get over so that we think this is the last.

Now, my purpose in calling on you today is to ask

- 14 -

you to advise me how you would like me to proceed from this point.

In other words, throwing it back into his lap. "I am back here, I have got these letters, I have consulted with you and the President and so forth and so on--"

MR. VINER: And say you will move at once on receipt of their advice.

H.M.JR: "We are ready to proceed at once. We are ready to move - proceed upon receipt of your advice."

Would you put in that we have also consulted with Stimson and Marshall?

MR. WHITE: I don't think so, Mr. Secretary, I don't quite see that that would--

MR. VINER: That would mean that you had checked up on the State Department.

H.M.JR: All right. But what I am trying to get, I have never had them build up such a written record on me. Now, I think we ought to - and they are very obviously - they are Pearl Harbor conscious.

MR. WHITE: We will do the same.

H.M.JR: So we will do the same, and we will come

back and I am there saying I am ready to go ahead just as soon as you tell me, and so forth and so on, but it certainly should be done; certainly one, two three, four, five, six, seven people ought to be able to get me a memorandum.

Now, Bernie, what is burning you up?

MR. BERNSTEIN: Nothing is burning me up, I just wanted as part of the record, they always have an oral record.

Aside from the meeting we had at State the other day, Berle called yesterday morning.

H.M.JR: Well, can I have that at four o'clock, gentlemen?

MR. WHITE: Yes, you may.

H.M.JR: Do you need this book to work from?

MR. WHITE: No, I think we have everything there. If necessary, we will get it.

H.M.JR: Good.

MR. WHITE: There is one point. As I read Secretary Hull's letter, it appears to me that he very definitely asks in amounts up to three hundred million, and therefore we shouldn't mention any amount, because we certainly oughtn't to go higher than anything he recommends, despite the comments of the State Department, so that let them state both the amount, timing, and so forth.

H.M.JR: That is right, but we are ready to go ahead. Throwing it back in his lap. I am here, the purpose of my call is that there are three ways to do this thing, pointing out that we would like to do the Stabilization Fund route the least - at least, I would, but I am here to proceed at once. What?

MR. WHITE: Would you want to set forth the pros and cons of each method or leave that out?

H.M.JR: Oh, I would leave it out. It will save you people - you all think the Stabilization Fund is the easiest way, and I don't want to do it that way. Don't forget there is another way which you should mention. The President said he is willing to finance it out of his own war chest.

MR. VINER: Yes, but he didn't have in mind five hundred million.

MR. WHITE: Well, we don't know the amount.

H.M.JR: But that is another way. The President said, "I am willing, as Commander-in-Chief, to finance it out of the war chest.

MR. WHITE: Well, I think that should be mentioned, and let him turn it down.

H.M.JR: Out of his war chest. I think it is two hundred million dollars.

MR. VINER: That would be --

H.M.JR: But Jake, on the basis of twenty-five dollars - twenty-five million dollars a month, that would go quite a long ways.

MR. VINER: You can't tie the State Department's hands on a monthly basis.

H.M.JR: You certainly can't overlook the fact that the President did say he was willing to do it out of his own funds.

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MR. WHITE: That is a decision they can make, Jack, that it doesn't suit their purpose, but as far as the Secretary is concerned, he outlines these possibilities.

MR. VINER: But you don't want to indicate that we are pulling them down to these lower dimensions.

H.M.JR: But how do you know the President can't get more funds?

MR. VINER: But the State Department hasn't put their views before the President. The State Department has protested that it has been handled that way.

H.M.JR: Which way?

MR. VINER: That the State Department did not get the chance to present their views.

H.M.JR: Well, whose fault was that? Whose fault was it? Mr. Hull is vocal. He can still walk. He can go across the street just the way I can.

MR. VINER: Well, you moved fast.

H.M.JR: Well, I thought they said I didn't move fast enough.

MR. VINER: You moved fast on seeing the President, and Hornbeck protested.

MR. WHITE: Well, I think that is true. None the less, it is also true that since you are taking this position in the letter that you are doing this as a political measure. You are listing all the reasons and you are merely asking which way is more suitable to them.

H.M.JR: Jake, you could take some out of the President's fund, and some out of the Stabilization, and some out of some other.

MR. VINER: You could say in part, because I don't want the record to show that you were pulling back or holding back.

H.M.JR: We will say in part from the President's funds.

MR. VINER: You want to make it all cooperative, and not with your acting as a brake in any way.

H.M.JR: What does he answer me on the 24th?

MR. WHITE: The note in which I think you sent him a - you informed him of the answer you got from Chiang Kai-shek.

H.M.JR: I see. Now, somebody is going to write that letter. There are two letters that have to be written. You are writing one, Miss Chauncey.

MISS CHAUNCEY: To the President.

H.M.JR: Copy to State, War, and Navy, and the one to go up to Mr. Hull's house, and your (White's) people are to write another one just to State on the stuff that I got from the President, and also the stuff that I got - my answer to T.V. Soong.

MR. WHITE: That is right.

H.M.JR: And that is to go - a copy of that is to go War and Navy.

MR. WHITE: Then there is a third letter which you were to send today with reference to your meeting tomorrow morning accompanying the memorandum and a --

MR. VINER: A chronological outline of the record.

H.M.JR: If I could have that all at four o'clock. We will do it all then. There is no use doing it more than once. And if anybody has any bright ideas,

independently, bring them in. Are you satisfied, gentlemen, to follow it this way?

MR. WHITE: I think that is right.

MR. SOUTHARD: That leaves the timing up to the Secretary of State.

H.M.JR: Which it should be.

MR. SOUTHARD: Yes.

MR. WHITE: The timing and the amount should be left with State. There is one thing that occurs to me. You are leaving the President out of this completely, which in view of the President's instructions to you, may or may not be all right. I am not quite certain.

H.M.JR: How do you mean?

MR. WHITE: Well, the President asked you to do something.

H.M.JR: Well, I am --

MR. WHITE: You are just turning this right back on the State Department.

H.M.JR: No, I am going to the State Department to see Mr. Hull to work it out with him. The President doesn't know about all this written record between us.

MR. SOUTHARD: The President's memorandum said when Fox arrived you could proceed on this. Would it be possible for you to hand a four line note back to the President saying that due to the delay of Fox, you were getting together with the Secretary of State immediately on this?

H.M.JR: Take this to the President when I send him this thing. Say, "My dear Mr. President: I am sending

you enclosed herewith a copy of a memorandum left to me" - "given to me by" - well, "from the British Treasury." Paragraph.

"I tried to see Cordell Hull today. Unfortunately he is home sick. In regard to the Chinese question" - "Chinese matter" - "and I have had a number of" - what did I say?

MISS CHAUNCEY: "I tried to see Cordell Hull today in regard to the Chinese matter, but unfortunately he is home sick."

H.M.JR: What did I say? Excuse me, again.

MISS CHAUNCEY: "I tried to see Cordell Hull today in regard to the Chinese matter, but unfortunately he is home sick."

H.M.JR: Yes. "Members of the State Department staff have been pressing members of my staff that we should not wait until the return of Mr. Fox, who has been delayed in transit."

MR. VINER: "Has been seriously delayed."

H.M.JR: "Seriously delayed. In view of this, I have arranged to see Cordell Hull tomorrow at his office" - "arranged to see Cordell Hull tomorrow, and hope to work out with his assistance a plan for China."

MR. WHITE: I don't quite like saying that they are pressing us and therefore you are responding. Could we say, which is true --

H.M.JR: Well, write the letter out and let these fellows fix it up, and they can bring that in. How is that? But that makes it clear, why I am going over there. Why not simply leave that out and simply say, "in view of the delay of Fox" --

MR. VINER: We are moving ahead. You are moving ahead with Hull.

January 29, 1942
4:15 p.m.

AID TO CHINA

Present: Mr. White
Mr. Bernstein
Mr. Viner
Mr. Coe
Mr. Friedman
Mr. Southard

H.M.JR: I am sorry, gentlemen, but Mr. Roosevelt called and I had to take care of him.

MR. VINER: It was a godsend for us.

H.M.JR: Good. Fifty-five percent of the firms employing five hundred or more people now have payroll deduction plans and from a hundred to five hundred, twenty-two percent. Not bad.

MR. WHITE: Does that mean everybody in the country, or just that the companies make it available?

H.M.JR: No, that is the number of employees that are on the Social Security list. I mean, that is the way we count them. I mean, if we say a company has nine hundred employees, that means nine hundred are under Social Security.

MR. WHITE: And that they are subscribing to--

MR. VINER: No, no, it is voluntary.

MR. WHITE: Then there is no indication from that how many of the employees are taking advantage of the proposal?

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MR. VINER: He has other data, I think, on that.

MR. WHITE: Oh!

H.M.JR: But I meant of the employees - he has the whole breakdown. We won't bother with it now.

MR. WHITE: We will first do the letter that you wished to send to the President.

H.M.JR: We got less? We had seven people this morning. Did a couple of them get sick?

MR. WHITE: Just one - I had other things that had to be done.

H.M.JR: You had other work to do?

MR. WHITE: I didn't know you would miss him.
(Laughter) He is a very good man, but--

H.M.JR: He almost said, "Other work which is more important," and then he caught himself.

MR. WHITE: Well, I think it is more important for him.

H.M.JR: You see he goes down to Rio with Sumner Welles and what it does for him.

MR. VINER: He is not really telling you the truth.

MR. WHITE: Am I not?

MR. VINER: No.

MR. WHITE: I don't know who you meant.

MR. SOUTHARD: E. M. Bernstein.

MR. VINER: Oh, I see.

MR. WHITE: You notice I didn't deny that I wasn't

telling the truth because it does happen.

H.M.JR: Is there anything else to the President?

MR. WHITE: Not to the President. The next is the letter to Cordell Hull with the enclosures.

H.M.JR: Now, you are not sending anything to State, War, and Navy on this?

MR. WHITE: Yes, these photostats.

H.M.JR: Oh, but not my letter - I see.

MR. WHITE: No, those are just form letters.

H.M.JR: That is all right.

MR. WHITE: And the next is the letter to Hull which I gather that you want to take with you.

H.M.JR: And isn't there one to Stimson here?

MR. SOUTHARD: You signed only one, Mr. Secretary. There are two there together.

H.M.JR: Now, does that complete that?

MR. WHITE: That completes that. The only question in our minds was whether you necessarily wanted to tell either Stimson or Knox or Hull or Welles who were getting copies.

H.M.JR: No.

MR. WHITE: It is not on there.

H.M.JR: Did he say that?

MR. WHITE: By indirection and through somebody.

H.M.JR: He didn't say that.

MR. WHITE: Yes, that is - Hornbeck reported to us when he thought we ought to go forward with it now, and I answered by saying that it was my understanding that he was to wait until Mr. Fox had returned.

H.M.JR: Well, do you mind? Have you got a pencil there? Because I would like to put it this way. "I am in complete accord with what - with what Mr. Hornbeck reports to me as the view of your Department." Now, that gives him a chance to say, "That isn't my view."

MR. WHITE: That is better.

H.M.JR: Because this isn't accurate. "I am in complete accord with what Mr. Hornbeck reports to my Department." They didn't talk to me, "As being the view of the State Department," you see.

MR. WHITE: That would be strictly accurate.

H.M.JR: I want it strictly accurate, because the reason I say that is when they brought up the stuff - well, just take this thing of Mr. Hull saying he didn't know when we told Hornbeck to let him know. What?

MR. WHITE: He only knew through Hornbeck.

H.M.JR: Well, take the other example, that when they tried to clear this thing with Hull about this resolution and Hull says, "Well, no one has ever told me about this before." Well, let's keep it - I don't have to give you - I can give you a thousand examples. Let's keep it strictly accurate. It is Hornbeck--

MR. WHITE: I think it sounds a little pedantic because, after all, I suppose Hornbeck has the right to speak for the Secretary, but in this occasion it may be all right.

H.M.JR: We are trying to make a record. Hull has never said this.

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MR. WHITE: All right.

H.M.JR: Do you mind?

MR. WHITE: Not at all.

H.M.JR: Thank you. I want to be pedantic. "My only scale of preference"?

MR. WHITE: "My own preference," I think is better. We can word that differently. "My own feeling is," or "my own belief," or "my opinion," or "I should prefer, of the alternatives." I should least prefer of the alternatives.

H.M.JR: Well, Something. I don't like this "my own scale." My own preference would be to rank the Stabilization Fund last, because of the special character of the proposed financial aid. I will lay it out, and you fellows can just change it a little bit, something like that. I think that last paragraph is a little gratuitous.

MR. SOUTHARD: It suggests a mode of --

H.M.JR: I think it is a little gratuitous.

MR. WHITE: It has the value, although as you read it over I don't quite like the way it is stated, but it does have the value of indicating for the record again that you feel that the selection as among those choices should be made in collaboration with or by Congressional leaders and the President. The earlier part of the letter almost seems to suggest that you are going to take his advice as to the procedures, and I don't really think that that is what you are going to do, because you certainly - if he says the Stabilization Fund you will certainly raise it with the President and with the Congressional leaders, so that I think something is necessary, though as you read it I don't think it is quite the way it should be there.

MR. VINER: I think if you send it tomorrow before

- 6 -

you go, that paragraph is all right. He has got something to think over, that is all.

MR. BERNSTEIN: I think it also has the merit - he may feel that if you suggest only those things which require Congressional legislation, that there will be such a long delay as to defeat the whole purpose, and you come along with the suggestion that legislation or Congressional approval will not necessarily involve delay.

MR. VINER: I think that last paragraph should go in, and therefore I think you should send the letter to him today.

H.M.JR: I will send it tonight to his house.

MR. VINER: And let him have a chance to know what you are going to tell him tomorrow, to think it over.

H.M.JR: I think if it went up to his house tonight it would be all right.

MR. WHITE: I think it is better than coming in with a letter, myself.

H.M.JR: I think so. That would be dated today. That gives --

MR. SOUTHARD: We could rewrite that one sentence and mention the meeting for tomorrow.

MR. WHITE: It can easily be adapted and it is a little bit unusual, isn't it, Mr. Secretary, for you to come with a letter for him to read?

H.M.JR: Yes, but you don't say anything about - "I am looking forward to seeing you tomorrow."

MR. VINER: You could say, "I arranged for a conference."

MR. SOUTHARD: On the first page.

MR. VINER: Have you got a copy of it there?

H.M.JR: "Have requested a conference with you tomorrow." If I am gone, Harry, let one of your boys bring it up for signature and wait.

MR. WHITE: We will take care of it.

H.M.JR: And wait and then they can take it right on over to Mr. Hull. It would have to be at the house before seven.

MR. WHITE: We can do this inside of fifteen minutes.

H.M.JR: Sez you. Well, if you can, I may still be here.

MR. WHITE: Well, if you are here you will sign it, and if you are not, it will be sent to your house and the man will wait and after your signature, bring it to Secretary Hull's house.

H.M.JR: That is right.

MR. WHITE: There is one other item. Oh yes, at what point do you want to inform the British in these discussions? I think you said, and Hull requested in his letter, that they keep currently informed.

H.M.JR: Well, I certainly wouldn't - there is this letter that has gone to the President and this letter that has gone to Hull. I think sometime after the meeting tomorrow.

MR. WHITE: After the meeting tomorrow you will let them know what you have decided to let them know?

H.M.JR: Yes, but when I go into that meeting tomorrow I want my time-table.

MR. WHITE: We have a preliminary draft here.

H.M.JR: Fix it up and give it to me tomorrow morning when I come down.

MR. WHITE: That is all.

Here is a cable that was just handed to me that bears on this subject. I think you might want to read it.

H.M.JR: Please.

MR. WHITE: I have only a carbon.

H.M.JR: Read it out loud, then.

MR. WHITE: Some of it bears and some doesn't. This is dated the 25th from Chungking from Gauss.

H.M.JR: When is it dated?

MR. WHITE: The 25th of January.

H.M.JR: That is wonderful, and we get it today, the 29th.

MR. WHITE: "The formation of a committee in Chungking to coordinate allied approach to financial and economic problems in China, particularly with respect to the utility of any foreign credits that may be granted to China, has been suggested by the British Embassy. The British Embassy suggests that the Allied Economic Council, the committee" --

I never heard that name, so that must be a new phrase.

"... comprise two Chinese, two British, two Americans, and possibly one Dutch, one Australian member. One of the British and one of the Americans to be from the Embassy staffs. The Chairman and the Secretary to be Chinese. The Embassy says that Mr. A.A. Kung, Minister

of Finance, knows of the suggestion and has indicated he approves it. Also that the Minister of Finance desires that the Council should be established without reference to proposed credits, that is, that the Council be charged with making economic studies and recommendations."

H.M.JR: Who suggested it?

MR. WHITE: This is apparently -- it is the British Embassy, but this is what Niemeyer has been suggesting for four months. That is what he went over for.

".... the Council be charged with making economic studies and recommendations, but that when the credits are granted, the Council also interest itself in problems connected with their effective utilization. The British Ambassador is prepared to approve the scheme. Provided such a body is given scope and authority ready to accomplish something, I can see its utility, however, as a result of seeing at first hand how inclined the Chinese authorities are toward side-tracking foreign economic advisors and disregarding their advice, I am sceptical of the practical benefit to be derived from organizing an Economic Council which may find itself either in the position of being politely ignored or simply rubber stamping what the Chinese want done. I could approve the establishment of a Council of capable men who are competent to study and make decisions on the serious economic problems in China, and to supervise the discussion of remedial measures, provided it were given definite authority under a loan or credit agreement, but I do not think that the Chinese would be prepared to agree to the handling of Chinese internal problems by such foreign participation."

H.M.JR: That can wait until Fox can get back.

MR. WHITE: Yes. They would like to have it tied to this arrangement. Dr. Fox will be in Washington in a few days and it might be advantageous to discuss the matter with him.

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MR. VINER: Did you tell him about the cable to Fox?

MR. WHITE: It is Jack's idea we send a cable to Fox asking us to give us --

MR. VINER: Asking him.

MR. WHITE: Asking him to give us a resume of what the Generalissimo told him, which need not hinder things.

MR. VINER: It may give us an inside dope.

909 Willard Hotel,
Washington, D.C.,
January 27, 1942.

Dear Mr. Secretary,

C H I N A

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,

J Phillips

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

100 101 1942

My dear Cordell:

The President returned to me the letter which I received from T. V. Soong, dated January 21, 1942, and attached thereto a memorandum, a photostat of which you will find enclosed herewith. Upon receipt of this memorandum from the President, I wrote a letter to Dr. Soong, a copy of which I am also enclosing.

There is also enclosed a photostat of a letter which I received January 27, 1942, from Sir Frederick Phillips stating the British position on the Chinese request.

I believe that with these enclosures you now have a complete file of my correspondence on the China loan proposal.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

The Honorable
The Secretary of State

*(By hand - Delivered to his home by
Secret Service 7:35)
M.M.C.
Copies to Dr. V. W. White's office*

Enclosures

1/29/42.

Ret to Secy's Office

C O P Y
THE WHITE HOUSE
WASHINGTON

January 26, 1942

MEMORANDUM FOR H. M. JR.

I still think that this can be worked out as soon as Fox gets here. If they don't want dollar notes, why don't we buy Chinese yuans and use them for paying for the equipment of Chinese troops in China itself. I would be wholly willing to go up to twenty or twenty-five million dollars a month on some such basis.

F. D. R.

C O P Y

42

January 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.

909 Willard Hotel,
Washington, D.C.,
January 27, 1942.

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Yours sincerely,

F Phillips

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

1/31/42

44



Secretary Morgenthau handed Secretary Jones a copy of this letter at their conference this morning.

Treasury Department
Division of Monetary Research

1-29

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Date.....1/30/42.....19

To: Miss Chauncey

Mr. E. M. Bernstein took the original of this letter to the Secy's home last evening (about 6:15 p.m.). Secretary Morgenthau signed it and Mr. Bernstein delivered it to Secy. Hull at the Wardman Park Hotel.

L. Shanahan

MR. WHITE
Branch 2058 - Room 214½

Letter

76

JAN 25 1942

My dear Cordell:

I am in complete accord with the view of the State Department as reported to my Department by Mr. Hornbeck that we should go forward with consideration of the Chinese loan without waiting for Mr. Fox to arrive here with the Generalissimo's message.

Your letter of January 10, 1942, and the State Department memorandum of January 23, 1942, as well as the discussions which have been held between the officials of the two departments, inform me that the decisive considerations in the granting of financial assistance to China at this time are political and military. On this basis, I am prepared to go ahead at once, and at the conference which I have arranged with you for tomorrow, we can discuss the next steps to be taken.

I am submitting for your consideration, the following procedures for raising the funds to meet the Generalissimo's request:

- a. Congressional authorization to make a loan;
- b. An appropriation of funds under Lend-Lease.
I believe this would require legislation;
- c. The Stabilization Fund;
- d. The President's War Chest (Perhaps available for part of the necessary funds.)

Each of these sources has, of course, advantages and disadvantages which you may want to consider at our meeting.

1/29/42 (6:15 p.m.) Mr. E. M. Bernstein took original of this letter to the Secretary's home for signature. It was signed and Mr. Bernstein delivered it to Secretary Hull at Wardman Park Hotel.

- 2 -

As among these possible sources of funds the Stabilization Fund in this instance seems to me to be the least desirable, because of the special character of the proposed financial aid. Should it be decided to use the Stabilization Fund for this purpose, it will be necessary to obtain the approval of the Congressional Committee in the same manner as you and I obtained it in December, 1940, in connection with the \$50 million Chinese Stabilization arrangement.

You may wish to consider the desirability of the President and ourselves meeting promptly with the Congressional leaders to advise them of the problem and to discuss the alternative methods of financial assistance. With their clearance, it would be possible for the President to make an immediate announcement that he and the Congressional leaders are prepared, subject to the necessary Congressional action, to grant China the financial assistance requested by Chiang-Kai-Shek. The details could be worked out later.

Sincerely,

H. H. Henry

Secretary of the Treasury.

The Honorable,

The Secretary of State.

~~Enclosure~~
HDW:EB:JV:dmh
1-29-42.

January 29, 1942

My dear Frank:

I am sending you, enclosed herewith,
a copy of a memorandum from the British *1/27/42 -*
Treasury in regard to assistance to China.

Yours sincerely,

(Signed) Henry

Hon. Frank Knox,
Secretary of the Navy.

By Messenger *Veatch 5:00*
File N.M.C.

January 29, 1942
12:18 p.m.

Edward
Foley:

Smathers came in this morning, and I had a little talk with him and I showed him the letter and the evidence, and he said he didn't see how we could sell the company to Gallowher under those circumstances.

HMJr: Good.

F: Then he shook hands, and he went out; so if it's agreeable with you, I'll put out the release and.....

HMJr: Go ahead.

F:and send out the telegrams.

HMJr: Go ahead.

F: Okay.

HMJr: Thank you.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Thursday, January 29, 1942.

Press Service
No. 30-3

The Treasury Department today suspended Dr. Julius Weltzien, \$60,000-a-year president of Schering Corporation, Bloomfield, N. J., manufacturers of anti-shock vaccines, hormones, sulfa compounds and other pharmaceutical products essential to the war effort.

Seven others were also suspended from further activity as members of Schering's staff. Three of the seven were:

Eynat Hammer, promotion manager, salary \$22,000, formerly in the South American department of Schering A. G., Berlin, and at one time its representative in South America.

Hans Erdmann, director of engineering and maintenance departments, salary \$10,000, formerly a designer of chemical equipment for Schering A. G., Berlin.

Martin Bernhardt, head of the Schering legal department and comptroller of the corporation, salary \$9,400, a former vice-chairman of Schering A. G., Berlin.

The suspension bars the eight individuals from the Schering premises, blocks their personal accounts, and all employees are forbidden to communicate with them without Treasury consent.

The Treasury Department believes that today's action smashes completely a long-range German scheme to control an important segment of the pharmaceutical market in the western hemisphere, and enables the United States to take full advantage of the vital research now under way in the Schering laboratories at Bloomfield.

Dr. Weltzien as late as 1938 held one of the most important positions in German industry as president of Schering A. G., Berlin, the second largest pharmaceutical corporation in Germany and the control board of Schering's subsidiaries concentrated in South America and other parts of the world.

As early as 1933, Schering A. G., Berlin, undertook a long-range scheme to maintain its world-wide economic position. The Treasury charged that, as a part of this scheme, Hermann Goering in 1937 ordered the sale of Schering's subsidiaries in the western hemisphere to Swiss interests.

Dr. Weltzien, who personally directed the expansion of the German Schering interests in South America and other parts of the world, transferred his offices from Berlin to this country in 1938 when he assumed the presidency of the Bloomfield plant.

-2-

Prior to Dr. Weltzien's entry into the United States, other key personnel from the Schering staff in Berlin had been sent into this country and assigned to important tasks in the Bloomfield Schering Corporation. Hammer, Bernhardt and Erdmann were brought here as a part of this plan, Treasury officials said.

At the outbreak of the European war the network of western hemisphere Schering corporations, then headed by the Schering Corporation at Bloomfield, drew closer together in the effort to hold markets for Schering A. G., of Berlin, until the end of the war. In addition the entire network was used as a tool to raise foreign exchange for the Nazi regime.

The Nazi scheme showed promise of succeeding until the Treasury Department blocked all German nationals under the President's freezing order in June of 1941.

The Treasury blocked Schering funds on June 14, 1941, and installed supervisory representatives in the plant shortly after the attack on Pearl Harbor. Production of Schering's vital pharmaceutical products has continued since June under Treasury control.

Heretofore the United States government has been unwilling to exchange pharmaceutical secrets with Schering Corporation in order to further development of vital drugs because it felt that important scientific discoveries might be made known to German agents and benefit the Axis. With the German elements removed, cooperative experiments will be made possible and the full benefit of Schering's important pharmaceutical research will be made available to the United Nations.

-oOo-

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

52

M

DATE January 23, 1942

TO Secretary Morgenthau
FROM E. H. Foley, Jr.

Attached is a memorandum from John Pehle giving information in regard to Charles Belknap and Samuel Richard Fuller, Jr., the individuals mentioned by you the other morning when we were discussing personnel for General Aniline and Film.

S. H. H.

Attachment

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

143

DATE

January 28, 1942.

TO Mr. Foley

FROM Mr. Peble

Mr. Charles Belknap, about whom you inquired, was born in Oakland, Maryland, on September 6, 1880. He attended St. Paul's Preparatory School, Concord, New Hampshire, from 1897 to 1899, and later the United States Naval Academy, from which he was graduated in 1903, commissioned as an ensign. On October 5, 1918 he married Miss Helen M. Rockwood of Indianapolis, Indiana, and the following year resigned from the Navy with the rank of commander.

Mr. Belknap was president of the General Steamship Company, San Francisco, from 1919 to 1921, then vice-president and later president of the Merrimack Chemical Company, Boston, Massachusetts, with which he was associated from 1921 to 1935. The Merrimack Chemical Company was absorbed by the Monsanto Chemical Company in 1930 and Mr. Belknap made Executive Vice-President of the latter, which position he still occupies. Mr. Belknap is a member of the Executive Committee of Monsanto Chemical Company and one of its directors. In addition he is Director of the Boatmen's National Bank, St. Louis; Chairman of the Board of the St. Louis Chamber of Commerce; Vice-President of the Manufacturing Chemists' Association, and Vice-President and Director of Chemists' Alliance. He is an expert chemist. His income is in excess of \$30,000 a year, and he maintains two bank accounts in St. Louis - one with the Boatmen's National Bank and the other with the First National Bank, where his balance is reported to be substantial. He is a Republican and an Episcopalian. According to Mr. Clark, of the St. Louis Federal Reserve Bank, who furnished this information, he is regarded in that city as thoroughly reliable and dependable in every way. Mr. Clark said "Mr. Belknap is the highest type of citizen". He is a member of a number of exclusive St. Louis, New York, and Boston clubs.

There is nothing in our files on Mr. Belknap other than his connection with Monsanto Chemical as Executive Vice-President. Monsanto Chemical Company was organized at St. Louis, Missouri, in 1901. In 1916 the Company expanded substantially in the coal tar derivatives field by purchasing the Chemical Acid Company. Two years later Monsanto Chemical Company acquired a substantial interest in an English aniline dye company, and in 1929 moved into the field of plastics. There are no indications of any enemy control in the Company, nor is it blocked. It enjoys a very high financial standing.

Mr. Samuel Richard Fuller, Jr., was born in Corning, New York, February 19, 1879. He attended DeVaux School, Niagara Falls, from 1893 to 1896, and Trinity College from 1896 to 1898. On November 1, 1905 he married Miss Lillian Alice Russell. They have four children.

Mr. Fuller was president of the Stafford Company, Readville, Massachusetts, from 1919 to 1921, then chairman of the board and treasurer of the Canadian Commercial Cotton Mills, Ltd., Sherbrook, Canada, from 1921 to 1929. "Who's Who" lists Mr. Fuller from 1929 as president of the American Glansstoff Corporation (now the North American Rayon Corporation) and American Bamberg Corporation, both of New York City. He served as a commander in the United States Naval Reserve Force during the first world war and in June 1935 was appointed Special Administrative Assistant to the Alaska Rural Rehabilitation Corporation, Matanuska, Alaska. According to Mr. Shaeffer of the Press Relations Bureau, Mr. Fuller was a labor relations adviser to the O.P.M. and a member of the Plant Site Board, but he has no connection with the Government now.

Mr. Fuller was interviewed on September 3, 1941, in connection with a May investigation of Jacques Hoffman, nephew of A. Hoffman, head of the Zurich firm of A. Hoffman and Cie. According to the report, Jacques Hoffman arrived in New York in April 1941 with instructions from his uncle's firm in Zurich to confer with officials of the American Bamberg Corporation and the North American Rayon Corporation, to learn as much as possible concerning their organization, production, market outlook, transfer of dividends, capital transactions, etc. The report states that Fuller "declared his organizations had absolutely refused to enter into any discussion of the subjects raised. Fuller stated that he had figuratively thrown Hoffman out of his offices as he strongly suspected the latter to be a German agent or spy."



January 29, 1942

My dear Mr. Warren:

Thank you for your letter of January 28 and the contract information in regard to General Aniline and Film Corporation.

Your cooperation is much appreciated.

Sincerely yours,

(Signed) S. Morgenthau, Jr.
Secretary of the Treasury

Hon. Lindsay C. Warren
Comptroller General of the
United States
Washington, D. C.

File N.M.C.

EHF:s 1-28-42



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON

56

January 28, 1942.

B-23059

The Honorable

The Secretary of the Treasury.

My dear Mr. Morgenthau:

There has been received letter of the Acting Secretary of the Treasury, dated January 10, 1942, as follows:

"Secretary Morgenthau sent the attached memorandum in regard to General Aniline and Film Corporation to the President last evening.

"This morning he directed me to send a copy to you and the other interested departments and agencies of the Government having contracts or dealings with this company, with the suggestion that steps be taken to eliminate situations of the character described in the memorandum."

There is attached hereto a list of contracts of various governmental agencies with the General Aniline and Film Corporation and its subsidiaries which are on file in this office. Copies of the list of contracts have been furnished to the Secret Service Division of the Treasury Department, Federal Bureau of Investigation, Army Intelligence, and Navy Intelligence.

This office will cooperate with the interested agencies in connection with the matter.

Sincerely yours,


Comptroller General
of the United States

enclosure

Record of contracts on file with General Accounting Office.

Von Meister, F. W. -- Berlin, Germany.

Contract Period

Nod-725 10-11-35 to 6 mos. Use of airship terminal facilities.
(Deutsche Zeppelin Reidererei G.m.b.H. Luftschiffbau Zeppelin G.m.b.H.)

Von Meister, F. W.

New York, N. Y.

AOs-35829 4-20-34 to 6-1-34 Parts for Maybach engine.

Von Meister, F. W. (General Agent)

New York, N. Y.

AOs-51570 5-10-34 to 6 wks. Filters, Pistons.
Maybach Motor Co.

Ozalid Corporation - New York - New York City

Als-20662- 1-15-40 to 6-30-40 Ammonia Machine service USDA-7161.
(Company owned by General Aniline & Film Corp.)

Ozalid Corp.

SE-246 6-27-40 to 3-1-41 Film, dark brown, 120 rolls.

Ozalid Corp.

SE-254 6-26-40 to Indef. Purchase of 35 mm. photographic film
printer & developer.

Ozalid Corp.

Tps-32802 12-12-39 to 12-31-40 Photographic supplies & equipment.

Ozalid Corp.

Tps-37055 1-1-41 to 12-31-41 Photographic equipment and supplies.

Ozalid Corp.

BR-wpa-02 12-20-35 to Immed. Positive photo print paper.

General Aniline & Film Corporation

AD(1)-395 4-9-40 to 30 days Film renewed
for one year.

General Aniline & Film Corp.

Als-25525 10-17-40 to Indef. servicing Ammonia Developing Machine
USDA #501-41

General Aniline & Film Corp. - (Ozalid Prod. Div.)

Als-25775-- 9-19-41 to 6-30-42 Servicing Ammonia Machine
USDA #409-42

General Aniline & Film Corp. - Agfa Ansco Div. - Binghamton, N. Y.
Jc-3205 8-8-41 to 8-30-42 Air film in rolls.

General Aniline & Film Corp. - Agfa Ansco Div. - Wash. D. C.
Im-801 9-20-40 to 8-30-41 Marking lamp. double perforated negative.

General Aniline & Film Corp. - Agfa Ansco Div. - Binghamton, N. Y.
J-17370 4-5-41 to indef. - micro film
J-17414 4-30-41 to indef. - micro film
J-16417 9-30-41 to 45 days - Pur. Micro film
Jlc-8926 1-25-40 to 10 days - Photo supplies
J-17400 5-12-41 to indef. - Micro film

General Aniline & Film Corp. - Wash. D. C.
Naw-874 8-8-40 to 8-30-41 servicing and materials for processing and
tinting motion picture films, optical printing.

RAW-1159 7-19-41 to 8-30-42 duplicating film, making prints, etc.

KCs-69630 11-13-39 to 90 days. Film.

General Aniline & Film Corp.
NCS-77692 10-12-40 to 120 days films
NCS-86691 6-30-41 to 45 days - purchase of film.

General Aniline & Film Corp. - Agfa Ansco Div.
N140s-79026 8-15-39 to 15 days motion picture film.

N140s-79029 8-15-39 to 15 days Electrocardiograph paper.

N140s-79393 7-20-39 to indef. Film, photographic

N140s-83059 6-29-40 to 8-30-41 Pur. of paper.

General Aniline & Film Corp. - Washington, D. C.
N140s-83223 7-1-40 to 8-30-41 cut film.

N140s-83268 7-1-40 to 8-30-41 motion picture negative.

N156s-15139 8-15-39 to 8-30-40 Photo material

N-156-s-17047 1-14-40 to 5-13-41 purchase film.

N-156s-19751 5-21-41 to 8-30-42 pur. photographic materials.

N-156s-21113 8-21-41 to 12-11-41 Photographic chemicals.

N-156s-21510 9-19-40 to 11-18-41 Pur. photographic equipment.

N-156s-21670 9-29 to 10-20-41 photo material
N204s-19670 10-9-40 to 30 days pur. photo equipment.
N204s-20637 8-4-41 to 21 days photo paper.
SAph-5627 4-11-40 to 6-30-41 pur. bromide paper.
SAph-9776 4-1-41 to 6-30-41 for processing 35mm film.
SAph-10161 3-25-41 to 6-30-42 bromide paper.
SE-247 6-27-40 to 6-30-41 roll film.
SE-315 9-10-41 to 6-30-42 film-photograph
DA-Tps-411 7-11-41 to 30 days Purchase film
DA-TPS-1706 10-9-41 to 60 days Aerial film
Tps-21275 1-3-38 to 12-31-38 films, etc.
Tps-21287 1-29-38 to 12-31-38 Photo equip.
Tps-21497 2-1-38 to indef. Chemicals.
Tps-23431 5-20-38 to 12-31-38 films.
Tps-27430 1-17-39 to 1-31-40 sch. of supplies
Tps-32865 12-12-38 to 12-31-40 photo supplies
Tps-33464 1-24-40 to 1-31-41 Acids, chemicals, drugs, etc.
Tps-34431 4-22-40 to 1-31-41 Acids, etc.
Tps-37048 1-1-41 to 12-31-41 photographic equipment and supplies
Tps-38685 2-1-41 to 1-31-42 pur. acids, chemicals.
Tps-39664 4-2-41 to 12-31-41 pur. films
Tps-42703 10-14-41 to indef. Pur. Whiteprinting machine.
Tps-43510 12-15-41 to 12-31-42 photographic equip. & Supplies.
ER-T21ps-91372 4-5-40 to 12-31-40 films.
TRR-2108 11-26-41 to 15 days acetic acid.
VAp-13633 2-24-39 to 3-31-40 Electrocardograph accessories.
VAp-16967 3-18-41 to 3-31-41 paper, bromide

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W-292 4-23-41 to indef. Pur. Dry developing machine
 W535ac-19103 7-14-41 to 12-31-41 pur. papers, cloth and film.
 W535ac-19855 7-17-41 to 12-31-41 pur. photographic film.
 W535ac22931 11-24-41 to 6-6 weeks pur. holder out, film.
 W-101 ord 821 4-10-41 to 9-30-41 paper.
 W-101 ord-913 6-24-41 to 12-31-41 pur. paper.
 W-450-ac-94 8-15-40 to indef. Pur. of hypo rice crystals etc.
 W-535-ac-13416 10-5-39 to 30 days Camera
 W-535-ac-13788 11-30-39 to indef. Camera
 W-535-ac-14442 4-8-40 to indef. merger
 contract filed in special file as paper #1136.
 W-535-ac-15584 8-20-40 to 45 days pur. of motion picture developer.
 W-535-ac-15858 9-10-40 to indef. pur. of holder.
 W-535-ac-17027 10-14-40 to indef. pur. of acid hardening solution powder.
 W-535-ac-17405 12-18-40 to indef. pur. of cloth.
 W-535-ac-17738 1-18-41 to 3 days. pur. film and paper.
 W-535-ac-17765 2-11-41 to indef. pur. photographic film and paper.
 W-535-ac-18750 4-4-41 to 5-5-41 pur. printing machine.
 W-535-ac-19054 4-29-41 to indef. pur. film chemicals.
 W-535-ac-22041 10-9-41 to 12-31-41 developer, powders.
 W-535-ac-22469 10-30-41 to 30 days. pur. film.
 W-436-eng-7176 6-20-40 acetic acid, boric acid, etc.
 W-436-eng-7576 7- 8-41 to 15 days acetic acid, borax, etc.
 W-978-eng-2429 5-29-41 to 30 days pur. developer, Paralith
 W-101 ord-980 7-7-41 to 12-31-41 pur. paper.

W-226-ord-80 4-30-40 to indef. pur. of film.

W-952-ord-2871 11-8-39 to 10 days X-Ray film.

W-953-ord-1890 5-13-41 to 8-13-41 dry developing machine.

WSN-305 5-15-41 to indef. machine printing.

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THE WHITE HOUSE
WASHINGTON

January 29, 1942.

MEMORANDUM FOR THE
SECRETARY OF THE TREASURY

Some time when you are talking
to the President, will you bring up the
question of Alien Property Custodian?

Grace Tully
Grace Tully

January 29, 1942
4 p.m.

RE WILLIAM BATT

Present: Mr. Foley
Mrs. Klotz

H.M.JR: Sit down, Ed. The President of the United States - take it easy. This is O.K. (laughter). This is all right. The President of the United States just called me up and wanted to talk to me when I was alone and said that John McCormack had been in to see him and said that there was a reporter from either the Boston Globe - who said that they had the story that William Batt was - not only a director of the American Bosch, but was a trustee for the stock for the Swedish company which controlled American Bosch, and that this Swedish company in turn was controlled by German interests, and that furthermore, Batt was receiving his salary from the Swedish company. I said it was my impression that this was not correct, and that Mr. Batt was all right, in the clear.

The President said, "Well, get me up a memorandum on this thing and have it in a form that I can show it to John McCormack, and that he in turn, if he wants to, can show it to this newspaper man. Now, what are the facts?"

MR. FOLEY: Well, Murnane is the trustee of the stock. Batt is a director of American Bosch. I don't think he has very much stock in American Bosch. I will have

- 2 -

to check that. He is the President of S.K.F.

H.M.JR: But as to his salary.

MR. FOLEY: I think his salary is paid by S.K.F. and not by anybody else. I think we will have to get the return to be able to tell that.

H.M.JR: You don't want to ask Batt point-blank?

MR. FOLEY: Sure, I will be glad to. I don't know how far you want to go. I will go and see Batt, if you want me to, and tell him the facts.

H.M.JR: No. What I would do is this. Tell him that the question has been raised. Do what you can on his returns, you see.

MR. FOLEY: Let's find out what we can first.

H.M.JR: Because I promised this to the President tomorrow.

MR. FOLEY: Sure.

H.M.JR: So you had better get hold of Irey and wherever the returns are. His company is in Pennsylvania.

MR. FOLEY: Yes, it is in Pennsylvania.

H.M.JR: I promised this to the President by tomorrow.

MR. FOLEY: All right.

H.M.JR: I would like to have it so I can give it to him at Cabinet.

MR. FOLEY: Yes.

H.M.JR: I would like to see it before.

MR. FOLEY: All right.

- 3 -

H.M.JR: If they could get the returns down. Didn't you tell me that Batt came over to see you?

MR. FOLEY: Yes, but not about Bosch, about his own company, S.K.F.

H.M.JR: Well, I think what I would do is this. I would draw up two memoranda, one, Batt's connection with American Bosch, and two, Batt's connection with S.K.F. and who owns each, you see.

MR. FOLEY: Yes.

H.M.JR: So that the President knows, you see.

MR. FOLEY: Well, why don't we prepare an over-all memorandum for the President and attach a memorandum that he can give to McCormack on the American Bosch angle of it, in so far as it relates to Bill Batt?

H.M.JR: All right. But I mean over-all on Batt.

MR. FOLEY: Over-all on Batt for the President's information, and one that he can give to McCormack that only deals with that and American Bosch.

H.M.JR: That is right, but I want that by noon tomorrow.

MR. FOLEY: All right.

H.M.JR: And our friend Leo Crowley, is the President interested? Was it worth-while ~~my~~ talking to the President about American Bosch before I went in to him? And am I going to talk to him about the other thing? When are you going to be ready?

MR. FOLEY: Well, we are not ready yet.

H.M.JR: Did you find anything good in that book?

MR. FOLEY: We have read five books, Mr. Secretary. I sent you another note on that, and there is nothing that we can use.

January 29, 1942
4:33 p.m.

HMJr: Hello.

Herbert
Gaston: Hello.

HMJr: Herbert.

G: Yes.

HMJr: I've read that thing about Butler.

G: Yes.

HMJr: I don't see anything in there to make me change
my mind.

G: Well, I don't think - I don't see how that verdict
can be changed. That is, we do not want that man
in the service. Now, the only thing that possibly
could be considered would be reinstating him and
then letting him resign; but I don't see that gets
him anywhere or gets us anywhere. That's the
difficulty. I don't see it.

HMJr: What?

G: I don't see - even if we were to consider reinstating
him and then letting him resign, I don't think that
would help his record or our record.

HMJr: Well, no one has mentioned the fact that we still
have that question about his Chinese servant, you
know.

G: No.

HMJr: Who he said he would dismiss and didn't, Herbert.

G: What? No that question hasn't been raised.

HMJr: Well, but you and - what?

G: That hasn't been raised at all.

HMJr: That's still on his record, isn't it?

- 2 -

G: Yes, that's still on his record.

HMJr: Now, the other thing is, in reading Gorman's testimony, I think he went unnecessarily far in what he told Butler. I mean, I don't see why - is it Gorman or O'Gorman?

G: Gorman.

HMJr: What?

G: Gorman.

HMJr: I mean, why he thinks that Butler is such a wonderful fellow.

G: Well, I think all he told Butler is that he had nothing against his honesty.

HMJr: Well, he said that he brought him back. Then officially, "I've never learned of anything which reflected upon his honesty." Well, that may be true, but how about his morals?

G: Yeah.

HMJr: What?

G: Yeah.

HMJr: What?

G: Well.....

HMJr: Well, anyway I don't - knowing the man's record and everything, unless you say to me that you feel strongly about it.

G: Well, I do not feel strongly about it. My original notion, as you know, was the same as Johnson's, to let the man resign. But there is a legal obstacle to that, as was pointed out to me later.

HMJr: What is that?

G: Well, I understand the Civil Service Commission objects strongly to permitting a man to resign

when you have cause for his dismissal. They demand that it be on the records.

HMJr: I didn't know that.

G: Yeah, so Thompson tells me. But in the result of his separation from the service, I heartily concur we cannot have that man back in the service.

HMJr: But if you'd have known about the Civil Service thing, would you have signed the thing in the first place? The first recommendation, by letting him resign?

G: No, I wouldn't; but if there was an ironclad law on that that you're not allowed to do it, I would have been disposed to do the - oh, be ultra-lenient if there was an opportunity, but.....

HMJr: Of course, where the man's testimony doesn't ring true - let's say he didn't know about the Bermuda embargo, see?

G: Yes.

HMJr: Well, then, why did he put his name on the baggage? For what reason did he put it on there?

G: Well.....

HMJr: What? He lent his name.

G: Yeah.

HMJr: And the prestige of his position.....

G: Yeah.

HMJr:to hide something.

G: Yes.

HMJr: What?

G: Yes. The man is a fool.

HMJr: What's that?

G: I say the man is a fool.

HMJr: Well, I don't know - I know he's a fool, but whether he's a knave, is something else.

G: Yeah.

HMJr: But I mean, this thing - well, I just didn't know.

G: Yeah.

HMJr: Well, he knew enough to lend his name and his diplomatic passport to cover up something.

G: Yes.

HMJr: What?

G: Yes. Oh, yes.

HMJr: And my position is - leaving everything else out - here's a Customs Agent, who lent his name and his position and his diplomatic passport to protect a man who wanted to smuggle something in.

G: Yes.

HMJr: What?

G: Well, it wasn't smuggling into the United States. He lent his name for him to evade - for the acknowledged purpose of evading British examination at Bermuda. He knew that.

HMJr: Well, now wait a minute. Let's say that. But what we don't know, Herbert, is that supposing he hadn't been caught in Bermuda, would his name still have stayed on the baggage when he entered the port of New York. Now that we don't know.

G: That we do not know. We have only to take his word for it.

HMJr: That's all.

G: That's right.

HMJr: But I mean, let's say that he had passed Bermuda successfully, would his name still have been on or not, and that's a matter of surmise.

G: Yes.

HMJr: But I think as a matter of discipline and a matter of example towards all these other people - now particularly that you tell me this latter thing about his Civil Service position.....

G: Well, Thompson told me that. I suppose the thing is still being done of letting them resign under a cloud, but.....

HMJr: Well, I think we've done too much of that, personally.

G: Yeah.

HMJr: But I'm going to send it back to you.

G: All right.

HMJr: And I'm satisfied to let it stand. I think it.....

G: I don't know any alternative to doing that.

HMJr: All right, Herbert.

G: Right.

HMJr: Thank you.

House
71

January 29, 1942.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

The luncheon given by Ed Flynn today was attended by officers of the National Committee and about a dozen invited guests from the Departments, including Jerry Land, Larry Fly, Madam Perkins and Paul McNutt.

The purpose was to announce George Washington (not Jackson) dinners on the evening of Monday, February 23, when the President is to give a fireside chat. The President will not address the Washington dinner but will be heard by radio. The price here at the Mayflower and the Willard will be \$100 per plate, that is to say those who contribute \$100 to the Committee funds for this year's campaign will get invitations. They hope to have 2,600 diners at \$100 each at the two hotels. A \$50 dinner will be held in New York and dinners at varying prices throughout the country. The purpose obviously of inviting departmental representatives in to today's luncheon was to offer them the privilege of helping to sell tickets. The importance of continuing Democratic control of the House was stressed and also the importance of electing this fall Senators who may be expected to support the President's policy in a peace settlement. The Committee owes between \$600,000 and \$700,000 and is hard put to get funds for current operations. Charlie Michelson's staff is reduced to him alone.

There was little discussion other than by representatives of the Committee, but Reynolds, the Treasurer, and Madam Perkins both raised the question whether it wouldn't be possible to have lower priced tickets in Washington or to permit tickets to be bought by groups on a lottery basis.

I walked back with Larry Fly, who is genuinely disturbed about the difficulty of asking for contributions on

a \$100 basis this year.

Charlie Michelson called me up this afternoon to ask if we would not like to put on a Defense Savings display for the New York dinner, which will be at the Commodore. I told him I thought we would and would let him know.

WJ

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

78

DATE January 29, 1942.

TO Secretary Morgenthau
FROM George Buffington

I have talked with John Sullivan and the Commissioner's office about having Internal Revenue field men approach moving picture theatre people about the Disney film. I will give you our joint views at your convenience.

I have been in almost daily touch with the Commissioner's office about the things we are doing to get people to pay their income taxes. The Commissioner has been ill for the last two weeks but we have kept Mr. Cann informed on all subjects during this interval. I am sure Commissioner Helvering and his staff are fully aware of everything we have done to date or contemplate doing in the future.

G.B.

74
January 29, 1942.

MEMORANDUM

TO: SECRETARY MORGENTHAU
FROM: Mr. Schwarz

The Treasury correspondents have been digging through their file of press conference transcripts looking for comment on tax-exempts and have come upon this reference on January 2, 1941, in reply to Nick Gregory's statement that he had been in New York on vacation and some people there were apprehensive about outstanding issues:

"I made that clear. I think I made it clear a number of times, that all of my recommendations were for future, that I was opposed to making it retroactive. I have said it before and I say it now."

"I have shown them that there is no previous reference in the conference to State and local issues, although LaGuardia's attitude is mentioned. Most of the boys are satisfied but Art Hermann of INS may mention it.

Dick Rendell of the Chicago Times plans to attend the conference on orders from his editor to ask about a statement in the Chicago Herald-American, a Hearst paper, quoting you as saying that every dollar paid in for Defense Stamps in Chicago and its suburbs until February 21 would be earmarked for the special bomber fund which the Herald-American was sponsoring. The Defense Savings Staff found that the paper in one edition had enthusiastically stretched your message to Mr. Hearst telling him you were glad his papers were urging their readers to help buy bombers through purchase of Defense Stamps. The incorrect statement was killed after the first edition Saturday night, when our Chicago committee called attention to it. The Times is participating actively in the carrier boy program and apparently felt slighted, although the Defense Savings people say that all the Chicago papers were invited to use the bomber theme in pushing the sale of Stamps there.

(2)

1/29/42

75

Copies sent to Sullivan, Paul and Kuhn
today.

JAN 29 1942

WZ95 75

CONCORD NHAMP JAN 29 1942 146P

HENRY MORGENTHAU JR

SECY TREASURY

I AM OPPOSED TO THE PROPOSAL TO TAX BONDS OF STATES AND THEIR MUNICIPALITIES, BELIEVING THAT IT WOULD WORK TO THEIR DETRIMENT IN NECESSARY PUBLIC FINANCING. IT DOES NOT SEEM TO ME THAT THE AMOUNT OF MONEY INVOLVED JUSTIFIES THE DAMAGE WHICH MAY BE DONE OUR STATES AND MUNICIPALITIES; WHICH OF COURSE ARE THE BACKBONE OF THE UNITED STATES. ANYTHING WHICH TENDS TO DAMAGE THEM WILL EVENTUALLY WORK A HARDSHIP TO THE NATION AS A WHOLE

ROBERT O BLOOD GOVERNOR OF NEWHAMPSHIRE.

226P.

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72
January 26, 1942

My dear Senator:

I have your letter of January 26, 1942, enclosing a letter which you received from a friend of yours in Naples, Maine, directing attention to a rumor that the increment on defense bonds issued at discount will be subject to such high rates of tax that investors will be left with no more than their original investment.

If I were answering this inquiry, I would state very emphatically that the rumor is completely without foundation. The only condition under which investors could be left with no more than their original investment would be the imposition of a flat 100 percent tax on income from investments, without reference to the size of total income and to family and other obligations. No such proposal has ever come to my attention and, needless to say, has never entered our minds. Apparently we have not succeeded in conveying to all of the public the fact that the Public Debt Act of 1941, which removed all privileges of tax exemption from future issues of Federal obligations, did not segregate this particular category of income for additional taxation; that it involves only taxing income from Government bonds in the same manner as income obtained from other sources.

Moreover, as you are aware, the tax treatment of non-interest bearing bonds issued on a discount basis has been liberalized very recently. Prior to the Revenue Act of 1941, taxpayers reporting on a cash basis were required to include the entire increment in their gross income upon redemption of the bonds. Under the Revenue Act of 1941, taxpayers were extended the privilege of electing to report income from such securities as it accrues so that the rates of income tax on the annual increments are the same as those generally applied to other sources of income.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Honorable Arthur W. Vandenberg,
United States Senate,
Washington, D. C.

File Thompson
cc - Morgenthau - Bureau 7/20
5/2/42
cc - TMC

82

United States Senate

COMMITTEE ON FOREIGN RELATIONS

January 26, 1942.

re

EDWARD J. TROWITH, CLERK
JAMES A. WHITE, ASST. CLERK

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

My dear Mr. Secretary:

I enclose herewith a self-explanatory letter from a friend of mine in Naples, Maine. This would indicate to me that the agitation for taxing U. S. Government bonds may interfere with the sale of defense bonds and defense stamps.

Of course under no circumstances would any tax program go to the magnitude of wiping out the entire increment as suggested by the enclosed question. But if you had to answer the enclosed question, what would you say?

With warm personal regards and best wishes,

Cordially and faithfully,



Enc.
1



THE MANOR

79

AND
LAKE SHORE BUNGALOWS
NAPLES, MAINE

On Roosevelt Highway - Route 308
Phone 6-10-3

January
23rd
1 9 4 2

Hon. Arthur H. Vandenberg
Washington D.C.

Honorable Arthur;

Pardon my asking you for a very few moments of your very valuable time - but there is a matter about which I would appreciate an expression from you.

In this locality there is a falling off in the sale of Defense Bonds and Stamps due to the fact that there is a persistent rumor in effect that the Bonds will be taxed to such an extent that the \$18., invested will not bring the \$25., as advertised - but will return the \$19., only. If you can in any way furnish me with an opinion or data or something to offer - I believe I can combat the present movement of non-buying.

Some have told me that they have heard the mentioned rumor over the radio but I personally have not heard it - and I cannot find out over which station or stations this information has been spread. --
Can you help me in any way??

Kindest good wishes - and know that I am
as always your admirer and staunch friend.

INTERNATIONAL BUSINESS MACHINES CORPORATION
500 MADISON AVENUE
NEW YORK

OFFICE OF
THE PRESIDENT

January 29, 1942

H

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

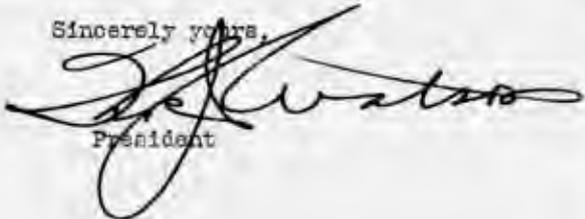
Dear Mr. Secretary:

It was very gratifying to receive your letter expressing your satisfaction and appreciation of what our organization has been able to accomplish on deliveries of card assemblies.

I want to assure you that any pressure that comes from you or any members of your department will always be welcome, because our desire always is to give you as nearly 100% perfect service as is humanly possible.

We all appreciate your personal interest in this matter, and in return everyone in our organization is taking a personal interest not only in this particular problem, but in all of the tasks which you are handling in behalf of our country, which mean so much to all of us.

Sincerely yours,



President

TJW:wds

TREASURY DEPARTMENT

81

INTER OFFICE COMMUNICATION

DATE January 29, 1942

TO Secretary Morgenthau
FROM Dave H. Morris, Jr.
Subject: Armour & Company Telegram

The following telegram, (dated January 29th),
from Armour & Company may be of interest to you:

"THANK YOU FOR YOUR WIRE. WE ARE FINDING THAT AS AN ISSU-
ING AGENT IT IS MUCH MORE CONVENIENT TO HANDLE THE DELIVERY
OF BONDS TO EMPLOYEES. THE PLAN IS WORKING WELL AND YOU
WILL FIND OUR ORDERS WILL BE INCREASING FROM WEEK TO WEEK.
ARMOUR DEFENSE BOND CAMPAIGN WILL START IN A VIGOROUS WAY
ABOUT FEBRUARY NINTH AND WE EXPECT THAT PRACTICALLY EVERY
ARMOUR EMPLOYEE, SOMETHING OVER SIXTY THOUSAND, WILL BE
ENROLLED."

ARMOUR AND COMPANY, HARVEY G. ELLERD, VICE PRESIDENT



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

~~11~~
82

DATE January 29, 1942.

TO Secretary Morgenthau
FROM Gene Sloan

Frank Isbey has an appointment with Richard H. Grant of General Motors, who is in Detroit to-day. Grant will be here in Washington to-morrow, Friday, January 30, at his office in the Hill Building, 839 17th Street. I have just talked with Mr. Graves, who will be here and see Grant himself at that time.

Isbey will also see to-day, Joe Fields, Vice President, and Harry Moock, one of the head salesmen of Chrysler. Also, he has an appointment at Ford, to go into exactly how they zone the country, etc. He promises a report to us on Saturday, which will doubtless cover the ground.

Firms Employing 100 to 499 Persons Participating
in Payroll Savings Plans, January 24, 1942

March ✓

(As reported by the Defense Savings Staff's
State Administrators)

State	: Number of firms :		Total : number : of firms	: Percent of total : having payroll : savings plans	
	Jan. 10	with payroll savings plans		Jan. 10	
Alabama.....	17	57	235	16	20
Arizona.....	15	20	58	10	34
Arkansas.....	22	29	142	20	20
California.....	856	910	1,660	55	55
Colorado.....	74	83	198	16	42
Connecticut.....	100	188	622	16	30
Delaware.....	0	0	84	-	-
District of Columbia..	14	14	152	9	9
Florida.....	4	68	139	49	49
Georgia.....	1	68	589	12	12
Idaho.....	1	22	50	44	44
Illinois.....	162	162	2,252	7	7
Indiana.....	76	76	582	13	13
Iowa.....	9	9	271	3	3
Kansas.....	214	254	258	100	100
Kentucky.....	75	75	312	74	24
Louisiana.....	0	0	384	-	-
Maine.....	24	24	198	12	12
Maryland.....	50	50	405	12	12
Massachusetts.....	333	333	1,523	22	22
Michigan.....	137	179	1,022	18	18
Minnesota.....	181	265	399	45	66
Mississippi.....	35	35	143	24	24
Missouri.....	210	210	664	32	32
Montana.....	25	25	39	64	64
Nebraska.....	27	27	123	22	22
Nevada.....	14	14	24	58	58
New Hampshire.....	24	24	145	17	17
New Jersey.....	223	223	869	26	26
New Mexico.....	19	19	35	54	54
New York.....	508	922	4,239	12	22
North Carolina.....	80	80	496	16	16
North Dakota.....	5	5	29	17	17
Ohio.....	203	203	1,739	12	12
Oklahoma.....	63	63	345	18	18
Oregon.....	21	21	317	7	7
Pennsylvania.....	713	713	2,032	35	35
Rhode Island.....	63	63	224	28	28
South Carolina.....	24	24	174	14	14
South Dakota.....	7	7	19	37	37
Tennessee.....	2	2	448	*	*
Texas.....	89	89	1,375	7	7
Utah.....	18	18	111	16	16
Vermont.....	38	38	63	60	60
Virginia.....	70	70	338	21	21
Washington.....	76	76	406	17	19
West Virginia.....	13	13	272	5	5
Wisconsin.....	35	35	680	8	8
Wyoming.....	4	4	12	33	33
Railroads.....	0	0	-	-	-
Total.....	3,468	5,933	26,953	17	22

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

January 29, 1942

* Less than 1 percent.

Firms Employing 500 Persons or More Participating
in Payroll Savings Plans, January 24, 1942

House

(As reported by the Defense Savings Staff's
State Administrators)

State	: Number of firms :		Total : number : of firms	: Percent of total : having payroll : savings plans	
	with payroll	with savings plans		Jan. 10	Jan. 10
Alabama.....	9	23	76	12	30
Arizona.....	15	17	17	88	100
Arkansas.....	6	15	18	33	83
California.....	237	275	361	66	76
Colorado.....	22	22	32	69	69
Connecticut.....	97	125	185	52	68
Delaware.....	2	2	28	7	7
District of Columbia..	12	21	52	23	40
Florida.....	18	22	66	27	33
Georgia.....	35	39	143	24	27
Iaho.....	8	8	10	80	80
Illinois.....	277	319	634	44	50
Indiana.....	41	41	180	23	23
Iowa.....	9	10	53	17	19
Kansas.....	16	30	30	53	100
Kentucky.....	19	27	70	27	39
Louisiana.....	0	0	85	-	-
Maine.....	42	45	45	93	100
Maryland.....	40	77	154	26	50
Massachusetts.....	41	199	370	11	54
Michigan.....	305	305	333	92	92
Minnesota.....	87	96	105	83	91
Mississippi.....	12	12	28	43	43
Missouri.....	-	122	122	-	100
Montana.....	4	4	5	80	80
Nebraska.....	28	28	41	68	68
Nevada.....	3	3	3	100	100
New Hampshire.....	17	26	27	65	96
New Jersey.....	185	197	238	78	83
New Mexico.....	5	5	5	100	100
New York.....	435	607	1,350	32	45
North Carolina.....	49	71	168	29	42
North Dakota.....	-	1	1	-	100
Ohio.....	285	322	557	51	58
Oklahoma.....	22	31	62	35	50
Oregon.....	51	51	51	100	100
Pennsylvania.....	336	348	625	54	56
Rhode Island.....	58	61	90	64	68
South Carolina.....	27	32	96	28	33
South Dakota.....	3	3	3	100	100
Tennessee.....	4	4	106	4	4
Texas.....	36	43	187	19	23
Utah.....	8	9	14	57	64
Vermont.....	10	12	13	77	92
Virginia.....	41	65	95	43	68
Washington.....	44	47	86	51	55
West Virginia.....	2	21	67	3	31
Wisconsin.....	84	94	137	61	69
Wyoming.....	-	1	1	-	100
Railroads.....	105	105	105	100	100
Total.....	3,192	4,043	7,330	44	55

Analysis of Participation in Payroll Savings Plans
January 24, 1942

	Number participating in payroll savings plans	Total number in the country	Percent of total partici- pating
Part A - Summary by Number of Organizations Participating			
Business organizations			
(1) Railroads.....	105	105	100
(2) Other firms with 500 employees or more.....	3,938	7,217	55
(3) Firms with 100 to 499 employees..	<u>5,933</u>	<u>26,902</u>	<u>22</u>
(4) Subtotal -- large firms.....	9,976	34,224	29
(5) Firms with less than 100 employees.....	<u>6,434</u>	*	*
(6) Total business organizations.....	16,410	*	*
Governmental organizations.....	*	*	*
Grand total.....	<u>16,410</u>	<u>*</u>	<u>*</u>

Part B - Summary by Number of Employees Covered

Business organizations			
(1) Railroads.....	1,433,046	*	*
(2) Other firms with 500 employees or more.....	11,347,140	*	*
(3) Firms with 100 to 499 employees..	<u>1,393,277</u>	*	*
(4) Subtotal -- large firms.....	14,173,463	*	*
(5) Firms with less than 100 employees.....	<u>216,083</u>	*	*
(6) Total business organizations.....	<u>14,389,546</u>	<u>30,200,000</u> 1/	<u>48</u>
Governmental organizations			
(1) Federal Government.....	*	1,600,000 1/	*
(2) State and local governments.....	569,866	2,700,000	21
(3) Total governmental organizations..	<u>569,866</u>	<u>4,300,000</u>	<u>*</u>
I. Grand total.....	<u>14,959,412</u>	<u>34,500,000</u> 1/	<u>43</u>

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

January 30, 1942

Excludes agricultural employees, military personnel, employees on WPA or
NYA or CCC projects, proprietors, firm members, self-employed, casual
workers and persons in domestic service.

Data not available.

Unfilled Orders for Savings Bonds at the
Federal Reserve Banks and the Post Office Department
January 15 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.						
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	800
20	202	204	800	86	1,184	1,000
21	86	411	800	59	1,546	275
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	7,000
27	7	434	1,000 <u>1/</u>	7	2,177	-
28	7	474	1,000 <u>2/</u>	6	2,102	7,000

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

January 29, 1942

* Bonds in Washington vaults only.

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

2/ Includes 600 thousand pieces manufactured for inventory in the field.

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

(In thousands of pieces)

	: Stock on hand :	: Sales :	: Bonds :	Stock on hand	IBM
	: beginning :	: this day :	: manufactured :	close of	deliveries
	: of day :	: this day :	: this day :	day	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
27	11,038	186	1,000	11,852	-
28	11,852	251	1,000	12,601	2,000

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

January 29, 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
 Last Twenty-three Business Days of January 1942 and December and November 1941
 (November 1-29, December 2-29, January 2-28)
 On Basis of Issue Price

(Amounts in thousands of dollars)

Item	Sales			Amount of Increase		Percentage of Increase	
	January 1942	December 1941	November 1941	January over December	December over November	January over December	December over November
Series E - Post Offices	\$141,826	\$ 92,178	\$ 37,997	\$ 49,648	\$ 54,181	53.9%	142.6%
Series E - Banks	<u>448,167</u>	<u>210,172</u>	<u>71,478</u>	<u>237,995</u>	<u>138,694</u>	<u>113.2</u>	<u>194.0</u>
Series E - Total	589,993	302,350	109,475	287,643	192,875	95.1	176.2
Series F - Banks	66,326	28,182	18,978	38,144	9,204	135.3	48.5
Series G - Banks	<u>272,687</u>	<u>132,562</u>	<u>105,035</u>	<u>140,125</u>	<u>27,527</u>	<u>105.7</u>	<u>26.2</u>
Total	<u>\$729,006</u>	<u>\$463,093</u>	<u>\$233,487</u>	<u>\$465,913</u>	<u>\$229,606</u>	<u>100.6%</u>	<u>98.3%</u>

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

January 29, 1942.

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

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

UNITED STATES SAVINGS BONDS
Daily Sales - January, 1942
On Basis of Issue Price
(In thousands of dollars)

Date	Post Office Bond Sales Series E	Bank Bond Sales				All Bond Sales			
		Series E	Series F	Series G	Total	Series E	Series F	Series G	Total
January 1942									
1	\$ 3,982	\$ 10,229	\$ 1,964	\$ 7,605	\$ 19,798	\$ 14,211	\$ 1,964	\$ 7,605	\$ 23,780
2	4,802	10,736	2,056	7,779	20,571	15,538	2,056	7,779	25,373
3	4,457	9,557	1,278	5,453	16,289	14,015	1,278	5,453	20,747
5	9,684	26,724	3,240	13,704	43,668	36,408	3,240	13,704	53,352
6	6,711	7,659	1,341	6,778	15,778	14,369	1,341	6,778	22,489
7	6,748	21,267	3,692	18,832	43,790	28,015	3,692	18,832	50,539
8	7,509	21,297	3,821	12,871	37,989	28,806	3,821	12,871	45,498
9	5,746	12,359	1,798	4,765	18,923	18,105	1,798	4,765	24,669
10	4,398	16,031	1,858	6,355	24,244	20,429	1,858	6,355	28,641
12	10,187	37,483	3,830	14,353	55,666	47,670	3,830	14,353	65,853
13	7,902	15,059	2,507	11,944	29,510	22,961	2,507	11,944	37,412
14	4,706	19,939	3,701	14,293	37,933	24,645	3,701	14,293	42,639
15	6,444	16,597	2,243	13,283	32,123	23,041	2,243	13,283	38,567
16	5,721	26,239	4,319	14,078	44,637	31,960	4,319	14,078	50,358
17	4,830	6,933	759	3,008	10,700	11,763	759	3,008	15,530
19	8,835	39,000	3,946	16,599	59,545	47,835	3,946	16,599	68,380
20	5,155	10,549	2,285	10,551	23,385	15,703	2,285	10,551	28,539
21	4,886	19,375	3,538	15,566	38,479	24,261	3,538	15,566	43,365
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
27	4,967	11,504	3,569	23,125	38,199	16,471	3,569	23,125	43,165
28	5,318	18,394	2,656	18,636	39,686	23,712	2,656	18,636	45,004
Total	\$145,808	\$458,396	\$ 68,290	\$280,292	\$806,977	\$604,204	\$ 68,290	\$280,292	\$952,786

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

January 29, 1942.

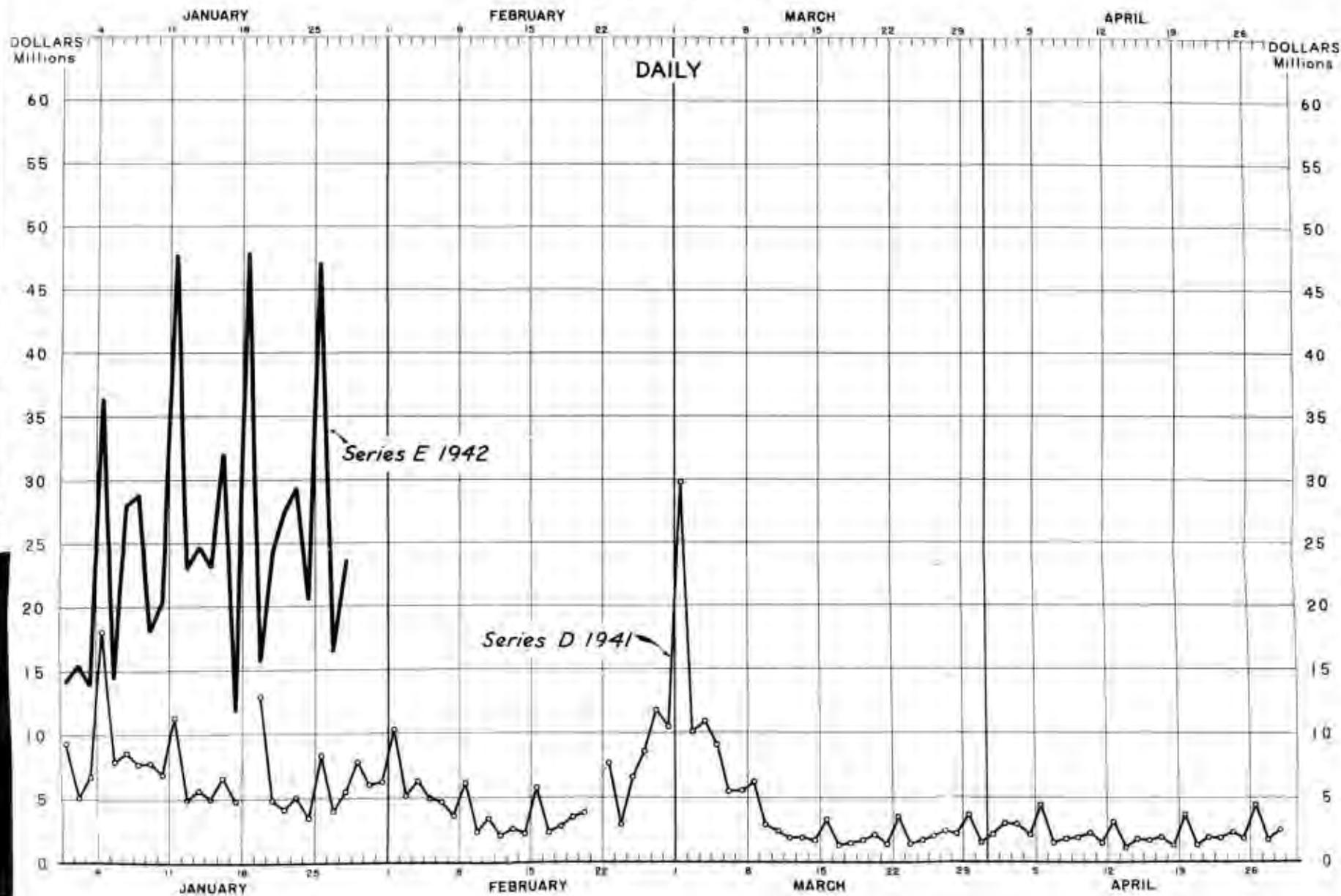
Sources: All figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States savings bonds.

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

Regraded Unclassified

UNITED STATES SAVINGS BOND SALES

Series E 1942 and Series D 1941



91

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 $\frac{1}{2}$	7	2,011	2,000
27	7	434	1,000 $\frac{1}{2}$	7	2,177	-

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

January 28, 1942

* Bonds in Washington vaults only.

$\frac{1}{2}$ Includes 400 thousand pieces manufactured for inventory in the field.

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

(In thousands of pieces)

	: Stock on hand :	Sales :	Bonds :	Stock on hand :	IBM
	: beginning :	: this day :	: manufactured :	: close of :	: deliveries
	: of day :	: this day :	: this day :	: day :	: 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
27	11,038	186	1,000	11,852	-

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

January 28, 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-three Business Days of January 1942 and December and November 1941
 (November 1-29, December 1-27, January 1-27)
 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	\$140,490	\$ 86,301	\$ 37,997	\$ 54,189	\$ 48,304	62.8%	127.1%
Series E - Banks	<u>440,001</u>	<u>189,829</u>	<u>71,478</u>	<u>250,172</u>	<u>118,351</u>	<u>131.8</u>	<u>165.6</u>
Series E - Total	580,492	276,130	109,475	304,362	166,655	110.2	152.2
Series F - Banks	65,634	26,455	18,978	39,179	7,477	148.1	39.4
Series G - Banks	<u>261,655</u>	<u>129,429</u>	<u>105,035</u>	<u>132,226</u>	<u>24,394</u>	<u>102.2</u>	<u>23.2</u>
Total	<u>\$907,781</u>	<u>\$432,014</u>	<u>\$233,487</u>	<u>\$475,767</u>	<u>\$198,527</u>	<u>110.1%</u>	<u>85.0%</u>

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

January 28, 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.

Daily Sales - January, 1942
On Basis of Issue Price
(In thousands of dollars)

Date	Post Office Bond Sales Series B	Bank Bond Sales				All Bond Sales			
		Series B	Series F	Series G	Total	Series B	Series F	Series G	Total
January 1942									
1	\$ 3,982	\$ 10,229	\$ 1,964	\$ 7,605	\$ 19,798	\$ 14,211	\$ 1,964	\$ 7,605	\$ 23,780
2	4,802	10,736	2,056	7,779	20,571	15,538	2,056	7,779	25,373
3	4,457	9,557	1,278	5,453	16,289	14,015	1,278	5,453	20,747
5	9,684	26,724	3,240	13,704	43,668	36,408	3,240	13,704	53,352
6	6,711	7,699	1,341	6,778	15,778	14,369	1,341	6,778	22,489
7	6,748	21,267	3,692	18,832	43,790	28,015	3,692	18,832	50,539
8	7,509	21,297	3,821	12,871	37,989	28,806	3,821	12,871	45,498
9	5,746	12,359	1,798	4,765	18,923	18,105	1,798	4,765	24,669
10	4,398	16,031	1,858	6,355	24,244	20,429	1,858	6,355	28,641
12	10,187	37,483	3,830	14,353	55,666	47,670	3,830	14,353	65,853
13	7,902	15,059	2,507	11,944	29,510	22,961	2,507	11,944	37,412
14	4,706	19,939	3,701	14,293	37,933	24,645	3,701	14,293	42,639
15	6,444	16,597	2,243	13,283	32,123	23,041	2,243	13,283	38,567
16	5,721	26,239	4,319	14,078	44,637	31,960	4,319	14,078	50,358
17	4,830	6,933	759	3,008	10,700	11,763	759	3,008	15,530
19	8,835	39,000	3,946	16,599	59,545	47,835	3,946	16,599	68,380
20	5,155	10,549	2,285	10,551	23,385	15,703	2,285	10,551	28,539
21	4,886	19,375	3,538	15,566	38,479	24,261	3,538	15,566	43,365
22	5,161	22,257	3,973	9,850	36,080	27,418	3,973	9,850	41,241
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
27	4,967	11,504	3,569	23,125	38,199	16,471	3,569	23,125	43,165
Total	\$140,490	\$440,001	\$ 65,634	\$261,655	\$767,291	\$580,492	\$ 65,634	\$261,655	\$907,781

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

January 28, 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.

2
103
D. W. Bell
Harry White

January 29, 1942

Secretary Morgenthau

In this problem of what they call "Lend Lease in Reverse", there are two things which come to my mind that I would like the two of you to think about and talk to me about:

1. How are we handling the sterling situation in the various sterling areas? I know about the dollars that we are supplying the American troops with but I don't know anything about the question of supplying them with sterling.

2. When Mr. McCloy, Assistant Secretary of War, asked me to think about how we should buy and pay for the things they were buying in Australia, I wonder through whom they are going to buy them, and I wonder if we shouldn't have the same provision as we apparently are going to have for the purchases under Lend-Lease; namely, that the Army and Navy buy the military purchases and the Treasury buy the non-military purchases.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

96

DATE

JAN 29 1942

TO Secretary Morgenthau
FROM Messrs. Foley and Pehle

This is a report on the cable you have received from the refugee organizations in Shanghai, a copy of which is attached.

Mr. Bell called Norman Davis of the Red Cross who said that when war broke out with Japan the Red Cross had approximately 1,000 tons of wheat at Shanghai which it was distributing to 3500 Americans and 20,000 refugees. Another ship was on the water when the war began but has not been heard from since. The Red Cross suggested that possibly the JDC might remit through the State Department.

Pehle discussed this matter with M. A. Leavitt of the JDC, which before the outbreak of war remitted approximately \$30,000 a month to Shanghai for the support of 20,000 refugees. The JDC has heard that there is a possibility that it can obtain local currency in Shanghai against the payment of \$90,000 to an as yet unnamed American in this country. The JDC secured the permission of Navy Censorship to cable Shanghai via South America to ascertain the name and address of this American. Mr. Leavitt has indicated that when they receive a reply from Shanghai he will communicate with us further.

It is our recommendation that no reply be made at this time to the cable from Shanghai.

J. Pehle
1-14-42

Treasury Department

TELEGRAPH OFFICE

Copy to Mr. C. C. ...
97 1/22/42 -

JAN JV 67

SHANGHAI 242PM JAN 22 1942

DLF MORGENTHAU

1012 1 - M 8 3

TREASURY DEPT WASHINGTON

TWENTY THOUSAND JEWISH REFUGEES FROM CENTRAL EASTERN EUROPE FACING
HUNGER DEATH ALREADY NO FUNDS FOR BREAD LOCAL JEWISH COMMUNITIES NOW
PENNYLESS IMPLORE GRANT JOINT RELIEF ASSOCIATION PERMISSION REMIT
FUNDS VIA SWITZERLAND OTHER NEUTRAL COUNTRIES PROHIBITION REMITTANCES
WILL BE INHUMAN SIMILAR SENTENCING DEATH CHILDREN WOMEN ESCAPED FROM
EUROPE.

TOPAS CHAIRMAN SHANGHAI JEWISH ASKENAZI COMMUNI ASSN COMMUNAL
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98

FEDERAL RESERVE BANK
OF NEW YORK

January 29, 1942

CONFIDENTIAL

Dear Mr. Secretary: Attention Mr. H. D. White

I am enclosing our compilation for the week ended January 21, 1942, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,

(s) L.W. Knoke

L.W. Knoke
Vice President

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

Enclosure

Cory:bj:l-31-42

DEBIT OF CANADA (FRANCE ACCOUNT)

PERIOD	DEBITS			CREDITS			Net Inv. (+) or Debr. (-) in Balance	DEBITS			CREDITS			Net Inv. (+) or Debr. (-) in Balance	
	Total Debits	Gov't Expenditures (a)	Other Debits	Total Credits	Proceeds of Sales of Gold	Securities (Official) (b)		Other Credits (c)	Total Debits	Gov't Expenditures (d)	Other Debits	Total Credits	Proceeds of Gold Sales		Other Credits
1 year of war (1914-1918) (AO)	1,799.2	605.6	1,187.6	1,828.2	1,336.1	52.0	420.1	+ 35.0	866.3(a)	416.6(e)	449.7	1,095.3(e)	900.2	195.1(e)	+229.0
1 year of war (1919-1920)	2,799.1	1,424.8	1,356.7	2,793.1	2,109.5	108.0	575.6	+ 10.8	878.3	421.4	456.9	1,098.4	900.2	198.2	+220.1
1 year of war (1921-1922)	2,203.0	1,798.2	410.8	2,189.8	1,193.7	274.0	722.1	- 13.2	38.9	4.8	34.1	8.8	-	8.8	- 30.1
1923	140.9	305.9	35.0	176.2	20.1	2.0	154.1	+ 35.3	0.3	-	0.3	0.5	-	0.5	+ 0.2
1924	109.0	77.3	31.7	150.9	0.8	-	150.1	+ 41.9	0.3	-	0.3	0.3	-	0.3	-
1925	146.1	111.6	44.5	134.6	-	1.0	133.6	- 21.5	16.1	-	16.1	0.4	-	0.4	- 15.7
1926	88.4	69.6	18.8	51.5	-	-	51.5	- 36.9	0.8	-	0.8	9.4	-	0.4	- 0.4
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Transfers from British Purchasing Commission to Bank of Canada for French Account
 1940 (March) 29.6 million
 1941 (March) 11.1 million
 1942 (March) 11.1 million
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- (a) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply, Fishery Control, and Ministry of Shipping.
- (b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of our securities through December, 1940 amounted to \$334 million.
- (c) Includes about \$85 million received during October, 1939 from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts since October, 1939 apparently represent the acquisition of proceeds of exports from the sterling area and other currently accruing dollar receipts.
- (d) Includes payments for account of French Air Commission and French Purchasing Commission.
- (e) Adjusted to eliminate the effect of \$20 million paid out on June 26, 1940 and returned the following day.

COPY

102

TELEGRAM SENT

REV

PLAIN

January 29, 1942

AMERICAN LEGATION,

BERN, (SWITZERLAND).

258, twenty-ninth.

AMERICAN INTERESTS - FAR EAST.

Department's 185, twenty-second.

Please delete name James J. Saxon.

HULL
(FvdA)

SD:WY:MMH

Copy:ec:2-2-42

C
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P
Y

103

DEPARTMENT OF STATE
WASHINGTON

January 29, 1942

In reply refer to
FD 881.51/89

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of strictly confidential despatch No. 556, dated January 14, 1942, from the American Legation, Tangier, Morocco, concerning the exchange situation in the Tangier Zone.

Enclosure:

From Legation, Tangier,
Despatch No. 556, dated
January 14, 1942.

LEGATION OF THE
UNITED STATES OF AMERICA
Tangier, January 14, 1942

104

No. 556

STRICTLY CONFIDENTIAL

Subject: Exchange Situation in the Tangier Zone.

The Honorable

The Secretary of State,
Washington, D.C.

Sir:

I have the honor to refer to the exchange and monetary situation in the Tangier Zone with particular reference to the fall in the exchange value of the franc in Tangier and to the efforts of the Spanish authorities to promote the circulation of the peseta and to give an account of a conversation which I had today with Monsieur de LARGENTAYE, Inspector of Finance and Financial Attache to the French Embassy in Spain, who is on a visit to Morocco making a study of the exchange situation.

M. de Largentaye stated that the French Government in Vichy and even more so the French Protectorate authorities in Rabat were very much concerned regarding the situation of the franc in Tangier. He stated serious consideration was being given to the withdrawal of the Moroccan franc by the French Protectorate authorities from Tangier where, as the Department is aware, it has a free circulation along with the peseta. He stated that he had come to Morocco to study the situation and to make recommendations and that he expected to see the Spanish authorities in Tetuan and also those in Madrid before proceeding to

Vichy where the question would be decided. He stated that unless some accord could be reached with the Spanish for revalorizing and stabilizing the franc (he mentioned in this connection a rate of 250 francs to 100 pesetas as a rate which in his opinion was a normal one as compared with the present rate of 405 francs to 100 pesetas), he thought the French Government would probably take the decision of withdrawing the French Moroccan franc from circulation in Tangier.

He expressed the view that the fall of the franc in September and October in Tangier had been due to a flight of capital from French Morocco following the introduction of anti-Jewish legislation. He added that this was not a situation which the French authorities were in a position at the present time to correct and accordingly he had come to study what practical measures might be available. He said that of course many persons in Tangier had attributed the fall to the action of the Spanish authorities in endeavoring to compel payment of customs duties in pesetas and in endeavoring to insist upon payment of fiscal charges and of many commercial transactions in pesetas but he thought this had been an effect of the fall in the franc rather than the cause of it. I observed that this was also our opinion and mentioned that I and the Consulate General in Casablanca had so reported to the Department.

M. de Largentaye asked me what our attitude and that of the British had been and whether the British had considered the action of the Spanish authorities in violation of the Anglo-Spanish agreement of February 26, 1941, concerning Tangier. I stated that in view of the small number of American merchants in Tangier the question of payment of

customs duties in pesetas had not been of particular importance to us and that I had viewed the problem as one which the Spanish authorities had been forced to make out of practical necessity following the fall of the franc. I cited to M. De Largentaye the fact that the International Administration in 1937 had suspended the provision of Article 27 of the Tangier Statute making the peseta legal tender following the decline in the exchange value of the peseta at the time of the Spanish Civil War. I stated that I had advised the Department against making any representations against the Spanish action in compelling payment of customs duties in pesetas owing to the belief that the measure had been adopted by the Spanish as a temporary expedient out of practical necessity and I mention that the subsequent evidence had borne me out. I mentioned that the British had brought suit in the Mixed Court and had obtained a decision of that tribunal according to which the action of the customs was found illegal and there had thereafter been a relaxation of the rule. I added that so far as I knew the British authorities had made no formal representations in view of the fact that they believed as we did that the situation would be cleared up without such necessity.

M. de Largentaye asked me if I knew what the British attitude was with regard to the Tangier Zone and what our own view was, as he stated that he thought the French Government would naturally be influenced by any decisions that might have been taken or which were likely to be taken with regard to the status of Tangier. I replied that I did not know of any decision which the British had taken with respect to the definitive status of Tangier but that so far as I knew they continued to be interested in the maintenance of the status quo here at the present time. I added

that so far as the Department was concerned I knew that we also were very much interested in the maintenance of the special character of Tangier although of course this was a very small problem at the present time in the light of the general world situation. I added that I could of course make no statement as to what might happen in the future with reference to Tangier.

I stated that personally I thought it would be a mistake for the French to withdraw the French franc from Tangier as it would inevitably carry with it certain political implications. It was true, I stated, that as M. de Largentaye had stated the status of the franc in Tangier was a matter of embarrassment to the French Protectorate so long as it fluctuated violently and fell to a point where it had unfortunate repercussions on the economy of the French Protectorate as well as French prestige but I thought that he should take into account the consideration that the withdrawal of the franc from circulation by the French might be interpreted as an act of the part of France of disinteresting itself in Tangier. He observed that that was true but he thought that economic motives might outweigh all other considerations.

M. de Largentaye informed me that in June, 1941, the French had concluded with the Spanish Government a financial agreement whereby the French agreed to make available to the Spanish in Tangier for payments the sum of 2,500,000 francs monthly but for some reason the Spanish had only availed themselves of one such monthly transfer and that in September, 1941. The agreement had expired at the end of 1941.

My visitor asked me if in my opinion shipments from the United States to Tangier were likely to decrease in the future. He observed in that connection that according to information he had been able to obtain

from local financial sources about \$25,000.00 was offered monthly on the Tangier market against which local merchants had had to fine some \$100,000. to \$125,000. monthly for the purchase of goods from the United States. He thought that it might make some difference if it were to be expected that our supplies to Tangier were likely to diminish. He said he realized of course that withdrawal of the French franc from Tangier would constitute a very severe hardship to the American and British colonies as the consequence would be that the Spanish would probably incorporate Tangier financially into the Spanish Zone with the result that the peseta would no longer be available at the free exchange rate of 23.50 but rather at the official rate of 12.50.

I stated that I thought that the war and its difficulties would undoubtedly result in a considerable diminution in the export of goods from the United States to Tangier and Spanish Morocco.

M. de Largentaye stated that so far as he could observe there was rather looser control by the British over the destination of goods coming into Tangier and the Spanish Zone than there was for example in Spain or Portugal. He concluded that the British were inclined to close their eyes to the export of goods from Tangier to the Spanish Zone and to the French Protectorate. I stated that there was certainly no disposition on the part of the British or Americans to disregard the export from Tangier of goods from the United States or Great Britain to destinations other than Morocco. M. de Largentaye stated that there was a further consideration in the matter of monetary control in Tangier which was disturbing to the French Protectorate. This was a matter which he could not speak of officially but which he had no objection to mentioning personally and that was the possible misuse of the Tangier free exchange market for francs by the

Germans. In this connection he pointed out that there was nothing to prevent the Germans from transferring large quantities of francs from the hundreds of millions available to them in France to the French Protectorate by the opening up of a credit in the name of the German Armistice Commission with the State Bank of Morocco. Such Moroccan francs may be withdrawn by the Germans and brought up by diplomatic bag by the German Armistice Commission to Tangier and here converted into such foreign currency as might be available locally. I asked him if he had any specific information which might lead him to believe the Germans had engaged in such transactions and he said that there was reason to believe that there had been some transfer to Switzerland which might well have been for German account.

M. de Largentaye stated that he was seeing the Spanish authorities in the next day or two and was quite anxious to know what the attitude of the British might be with regard to Tangier. I informed him that Mr. Yenkin, British Minister Counsellor, whom he knows personally, was arriving in Tangier on January 16 and that if he desired I would raise the question with my British colleague as to whether Mr. Yenkin might be disposed to receive M. de Largentaye before the latter's departure on January 17. M. de Largentaye stated that he was very desirous of seeing Mr. Yenkin. He added that he had instructions that he might meet with British diplomatic officers to discuss "service questions". He continued by saying that he would be very glad to meet with the British Consul General in Tangier also if the British Consul General cared to see him and I stated that I would endeavor to ascertain and so inform him.

M. de Largentaye stated that it was very important for him to come to a conclusion very shortly on the subject of his discussion with me as

as he was proceeding to Madrid on January 17 and would go from thence to Vichy where he thought an early decision would be taken by the French Government.

He expected to have conversations in the next day or two with Spanish officials in Tetuan whom he expected to find much more receptive in their attitude and more "liberal" than the exchange authorities in Madrid.

Respectfully yours,

J. Rives Childs
Charge d'Affaires ad interim

In quintuplicate to the Department
Copy to American Embassy, MADRID
VICHY

851.5

JRC/tsh

Copy:bj:l-30-42

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE January 29, 1941

TO Secretary Morgenthau
FROM Mr. Dietrich

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	\$31,000
Purchased from commercial concerns	\$15,000

Open market sterling was quoted at 4.03-3/4, with 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	.2710
Cuban peso	1/16% premium

We purchased \$1,125,000 in gold from the earmarked account of the Bank of Mexico.

The Banco do Brasil, as fiscal agent of the Brazilian Government, today repurchased 100,000,000 milreis (valued at \$5,000,000) of the 160,000,000 milreis (value, \$8,000,000) which the Stabilization Fund had bought from Brazil last November 5 under the July 1937 Stabilization Agreement with that country. Accompanying the payment of \$5,000,000 to the Fund out of Brazil's dollar account at the New York Federal Reserve Bank, about \$5,016,600 worth of the gold held as collateral by the Federal was returned to Brazil's earmarked account. The Stabilization Fund still holds 60,000,000 milreis, valued at \$3,000,000 and collateralized by \$3,072,500 in gold.

No new gold engagements were reported.

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

The Treasury's purchase price for foreign silver was unchanged at 35¢. Gandy and Harman's settlement price for foreign silver was also unchanged at 35-1/8¢.

We made no purchases of silver today.

-2-

The report of January 21, received from the Federal Reserve Bank of New York, giving foreign exchange positions of banks and bankers in its district, revealed that the total position of all countries was short the equivalent of \$3,436,000, a decrease of \$809,000 in the short position since January 14. Net changes were as follows:

<u>Country</u>	<u>Short Position</u> <u>January 14</u>	<u>Short Position</u> <u>January 21</u>	<u>Change in</u> <u>Short Position*</u>
England**	\$ 24,000 (Long)	\$ 788,000 (Long)	- \$764,000
Europe	2,473,000	2,452,000	- 21,000
Canada	661,000 (Long)	685,000 (Long)	- 24,000
Latin America	14,000	24,000	+ 10,000
Japan	161,000	160,000	- 1,000
Other Asia	2,305,000	2,289,000	- 16,000
All Others	<u>23,000 (Long)</u>	<u>16,000 (Long)</u>	<u>+ 7,000</u>
Total	\$4,245,000	\$3,436,000	- \$809,000

* Plus sign (+) indicates increase in short position, or decrease in long position.
Minus sign (-) indicates decrease in short position, or increase in long position.

**Combined position in registered and open market sterling.

CONFIDENTIAL



BRITISH EMBASSY
WASHINGTON, D.C.

PERSONAL AND
SECRET

January 29th, 1942

Dear Mr. Secretary,

I enclose herein for your
personal and secret information a copy
of the latest report received from
London on the military situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Halifax

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D.C.

BRITISH (CS) SECRET

(U.S. SECRET)

OPTEL No. 34

Information received up to 7 a.m., 28th January, 1942.

1. NAVAL

Night 22nd/23rd. In the MACASSAR STRAITS the U.S. S/M STURGEON obtained one hit on a Cruiser or Aircraft Carrier and the Dutch S/M K.18 sank a Destroyer and hit a Cruiser. During 24th and 25th Dutch aircraft hit three Cruisers, a Destroyer and four Transports, two of which sank. Night 26th/27th. H.M. Destroyers engaged an enemy Cruiser and three Destroyers off ENDAU. One enemy Destroyer was sunk and one damaged, one British Destroyer sank. U.S. and Australian A/S units have sunk one large and probably one small U-boat off DARWIN. On 17th a medium sized Norwegian tanker outward bound in convoy was torpedoed and sunk off CAPE RACE. On 22nd a small Creek Steamer was torpedoed 260 miles from CAPE RACE. On 24th a medium sized British Tanker was torpedoed off CAPE HATTERAS, the after part being sunk.

2. MILITARY

LIBYA. The latest reports received only cover the period up to the afternoon of the 26th when our troops were disposed to cover BENGHAZI and to block the enemy's further advance north and northeast of MSUS. Mobile column and patrols are carrying out offensive operations against the enemy's lines of communication.

MALAYA. East: Our forces are in contact with the enemy north of JEMALUANG. Centre: Our forces have made a slight withdrawal and heavy fighting continues. West: Heavy fighting on the coast road south of BATU PAHAT continues but the position is confused. Some parties of 15th Indian Infantry Brigade reached vicinity of BEBUT but it is reported that 2,000 were on beach four miles south east of SINGARANG.

3. AIR OPERATIONS

WESTERN FRONT. 26th/27th. MANNOVER - 38 tons; IDEN - 43 tons; BREST - 39 tons. During these operations five C.C.A.F. and eight R.A.A.F. aircraft took part without casualties. 27th/28th. SI aircraft send out, BREST - 35; BOUYLOGNE - 10; shipping off GRAVELINES - 6. No casualties.

LIBYA. Throughout 26th our fighters attacked M.T. and tanks moving between ANTELAT, SAUNNU and MSUS. Heavy damage was inflicted estimated at a minimum of 120 vehicles destroyed or damaged and 200 troops killed and

wounded. Traffic on ANTELAT-MSUS Track, heavy in the morning had practically ceased in the afternoon and many vehicles had been abandoned. Only two enemy aircraft, one of which was destroyed, were seen. We had no casualties.

SICILY. Night 26th/27th. Wellington bombers dropped seven tons of bombs on CATANIA and four tons on COMISO. Hangars and runways straddled at both aerodromes.

MALTA. 26th/27th. Enemy aircraft approached the island on several occasions but few aircraft crossed the coast. 27th. Twenty aircraft dropped bombs damaging buildings and dockyard machinery in the grand harbour. There were no casualties.

MALAYA. 25th/26th. 19 bombers with 23 fighters as escort attacked an enemy naval force north east of ENDAU. Hits are reported on a Cruiser and two Merchant Vessels of 8,000 and 9,000 tons respectively. Two further forces of bombers and fighters were despatched to continue the attack but no details have yet been received. Enemy troops on ENDAU-MERSING road were bombed and a large stores dump was hit. Fierce opposition was encountered from a large number of enemy fighters, thirteen of our aircraft are missing and two more crashed. Enemy casualties were eleven destroyed, two probably destroyed and three damaged by our aircraft, also another destroyed by A.A. fire. 26th. 27 enemy aircraft bombed TENGAH aerodrome rendering it unserviceable and continually attacked our forward troops and communications. 27th. 65 enemy aircraft attacked KALLANG and SELETAR, seven of our aircraft were destroyed on the ground and thirteen damaged. Hangars and other buildings were hit.

NETHERLANDS EAST INDIES. Many enemy attacks on shipping off west coast of SUMATRA and raids in varying force at scattered points in the Eastern Archipelago are reported.

4. There is further corroboration of the recent reports that throughout the last fortnight of December forty trains of 35 oil tank cars each, passed daily through BASLE from GERMANY to ITALY, this representing the movement of no less than 300,000 tons of oil from GERMANY to ITALY in two weeks.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE January 29, 1942

TO Secretary Morgenthau
FROM Mr. Kemarck
Subject: Summary of Military Reports

Far East

Another British convoy of troops arrived at Singapore on January 24. (This makes the third in the last month). Our army believes that the British and Japanese forces are approaching equality in strength.

The Japanese still have air superiority in Malaya. The British have landed plane reinforcements, however, and have at least one squadron of Hurricanes now in action. In the air battles, the British have inflicted somewhat more loss than they have suffered. The number of airfields available to the British is limited and this has enabled the Japanese to cause considerable damage to British planes on the ground.

As yet, no large American forces have reached the Far East. A few dribbles of airplanes have been thrown into the action, however.

The fortunes of the war are still on the side of the Japanese. They still have ample forces and the shipping and freedom of the seas, necessary to transport these forces to the various fronts. While the Japanese planes have proved to be quite good, it is in the air that the turn in the war will come first. The small air strength of the Japanese is a weakness which is already beginning to manifest itself.

(U.K. Operations Reports, January 15-22, 27;
K.I.D. Information, January 29, 1942)

Russo-German Front

The Russian pressure all along the Russo-German front is making it increasingly difficult for the Germans to regain the initiative on land. The Germans still are not

able to withdraw and refit enough divisions for fresh operations, to enable them to exercise the strategical initiative once again.

The Russians are maintaining their superiority in the air. The size of the handicap which the weather is to the Germans may be inferred from the fact that the British state that German air activity is mainly on the southern front, from Kharkov to the Crimea. Whenever weather permits the German air force to operate, the Russians interrupt it by frequent attacks on the air-dromes used by their fighters and dive bombers.

The British estimate that the Germans are now using 1,500 planes on the Russian front, compared with over 2,500 during the first weeks of their Russian campaign.

(U.K. Operations Report, January 15-22, 1942)

Battle of the Atlantic

On January 25, aerial reconnaissance showed both German battle cruisers at Brest out of the dry-dock. (These two 26,000 ton ships may be ready for sea duty again. The 35,000 battleship, Tirpitz, is at Trondheim, Norway. All three major units of the German navy are thus at ports on the open Atlantic.)

(U.K. Operations Report, January 26, 1942)

The main concentration of German submarines is on the North American coast, from Newfoundland to Virginia. Smaller groups are working in northwest approaches to England, near the Azores, and off the northern coast of Russia, off Murmansk.

(U.K. Operations Report, January 15-22, 1942)

German Army

The British estimate that the Germans have 23 divisions in France and 11 or 12 in the Balkans. (A year ago, the Germans had at least 50 divisions in France.)

(U.K. Operations Report, January 15-22, 1942)

Shipment of Oil to Italy

The movements of oil from Germany to Italy via the St. Gotthard in Switzerland, which started on December 12, were still continuing on January 18. Three or four trains of tank cars, representing about 1,800 tons of oil, were going through daily. Some of the tank wagons contained gasoline.

(At this rate, Italy would be receiving 84,000 tons of oil per month from Germany. The British, some time ago, estimated that the Italians need, as a minimum, 100,000 tons a month. The significant factor in these shipments is that the oil is coming from Germany, whereas it would seem that Romania would be the logical source. This might indicate serious transport troubles in Hungary and Yugoslavia.)

(U.K. Operations Report, January 27, 1942)

January 29, 1942

Dear Bill:

Thank you for your letter of January 27th, transmitting reports received from your London office.

I was very much interested in reading them.

Yours sincerely,

(Signed) Henry

Col. William J. Donovan,
Coordinator of Information,
Washington, D. C.

File M.M.C.

COORDINATOR OF INFORMATION
WASHINGTON, D. C.

January 27, 1942

Dear Henry:

The attached reports have just come to me from our London office.

I thought you might be interested in seeing these.

Sincerely,

Bill
William J. Donovan

Honorable Henry Morgenthau

The Secretary of the Treasury
Washington, D. C.

Summary of Home Public Opinion
British Secret Ministry of Information

There has been a slight decrease in public confidence, and satisfaction over Russian progress is overshadowed by anxiety over the Far East. There is some disappointment over the stalemate in Libya and increased extended anxiety in Far East. Pessimism over Singapore continues and is intensified. There is criticism of lack of foresight.

There is enthusiasm over Russian successes, but some sections of the middle classes are uneasy over the possible extension of Russian post-war influence detailed for internal changes.

Some fear Rommel out-maneuvered the allies in Libya, and are concerned lest the battle be prolonged indefinitely.

The question "Where is the U. S. Fleet?" is widespread. Some revival of "All talk and no do" criticism. Admiration of MacArthur's stand demonstrating American ability and willingness to fight. General feeling that "when America really gets going she will pull the chestnuts out of the fire." Very little interest in Pan American Conference. There is some hope that the Americans may undertake in Fire what the British are reluctant to carry out.

There are hopes and expectations of the replacement of incompetents instead of mere reshuffling in the Cabinet. The public is sympathetic with Australian demands for an Empire Cabinet. General feeling is that radical changes in the conduct

of the war are necessary to achieve victory.

There is criticism of the apparent failure of the non-stop bombing offensive against Germany.

There is continued criticism of radio and press, with a tendency to minimize Far East defeats.

The following are excerpts from The Ministry of Economic Warfare's Weekly propaganda digest, which have just come to us from the London Office.

Reports show that typhus is reaching epidemic proportions in the east. All ordinary travelling between Germany and occupied states has been suspended. Officials and soldiers who must travel must undergo a period of quarantine. Schools closed in the Ukraine. Disease has already penetrated into Germany as far as Frankfurt-on-Main but there is no sign yet of the epidemic in the German army because of careful precautions. The Roumanians are suffering seriously. Special steps have been taken in Lithuania.

Reichsarbeitsblatt puts the figures of foreign workers in Germany at the end of September at 2,139,000 including 472,000 women. A special effort is now under way to recruit foreign women workers, especially Polish, Flemish, Bulgarian and French.

Italy and France signed an agreement late in December whereby the French will open a credit account in favor of Italy while Italy renounces claims on infantry and artillery weapons, motor vehicles and other supplies of French troops who fought Italians.

The Swedish press reports a complete prohibition of alcoholic beverages in Germany effective from January 1st. Production in 1942 is restrictable to industrial alcohol. These steps are explicable because of the lack of potatoes, the increased need of alcohol for making Buna, and the stringency of the oil situation causing a need for substitute fuels.

Supplies of barley and malt to German brewers have been cut further. Expected rationing or reduction of the alcoholic content of beer is necessary. In Munich, cafes are to limit quantities sold to one large glass per person, remain open only two hours daily.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE 2/2/42

TO Secretary Morgenthau
FROM Vincent F. Callahan

The Donald Duck motion picture about income taxes started in big Broadway theatres Wednesday and Thursday of last week. Paul Munroe yesterday (Sunday) contacted managers of Radio Music Hall, Roxy, Capitol, Paramount, Loew's State, Palace, Criterion, Broadway, and Strand, all of which theatres are running the picture.

Here are various quotations from these managers:

"Patrons comment all very favorable.
Excellent reel.
People like very much.
Gets good laughs.
Terrific reel.
Gives people brand new slant.
Generous applause.
Couldn't imagine how it could have been done any better.
Liked very much."

There were no unfavorable comments.

Mr. Munroe personally saw the picture and was very enthusiastic about it. He said that everyone around him in the theatre seemed to enjoy the picture and there was a general spirit of laughter throughout the showing of the film.

Vincent F. Callahan

Number 16

COORDINATOR OF INFORMATION

THE WAR THIS WEEK

January 22-29, 1942



Printed for the Board of Analysts

Copy No. 3

Secretary of the Treasury

Coordinator of Information**THE WAR THIS WEEK**

January 22-29, 1942

Despite the declining momentum of the drive on Singapore and the savage counterthrust of the Dutch and American forces in the Battle of Macassar Strait, the wide-ranging Japanese offensive continues to press relentlessly outward toward its objectives. Burma and Singapore stand in grave danger, and observers refuse to predict where the enemy can be stopped in the Netherlands Indies. Simultaneously General Rommel has delivered a counterstroke in Cyrenaica and may soon force British withdrawal from Benghazi. On the eastern front, it is true, the Germans have fallen back rapidly in the region of the Valdai Hills, but even here Russian successes to date must be interpreted as infiltration in an area lightly held. A decisive action, if there is to be one, still lies in the future.

Economic Significance of the Widening Japanese Offensive

In the Far East Japan is advancing along a great arc from Moulmein in Burma, through Jahore, Southern Borneo and the Celebes, to the island of New Britain, east of New Guinea. Within this arc lie the rice, rubber, tin, iron, oil, and chrome of French Indo-China, Thailand, the Philippines, and much of Malaya.

By completing the conquest of the Netherlands Indies and Malaya and by taking Burma—that is, by extending her

lines to the next great arc—Japan would satisfy her needs for petroleum, bauxite, lead, and tungsten. She would receive also important quantities of nickel, antimony, phosphates, zinc, and cotton. If New Caledonia, which lies within the greater arc, were taken, Japanese deficiencies in nickel, phosphates, and cobalt would be eliminated, and these supplies would at the same time be denied to the United Nations.

The Threat to Burma

From a strategic point of view, the immediate Japanese objective is to seize successively the bases from which the Allies can prosecute the war and to use these bases to extend their own area of control. At the same time the Japanese aim to isolate their pristine enemy, the Chinese, by seizing Burma and closing China's primary supply route.

In pursuance of this latter object, they are driving, with Thai aid, on Moulmein, whence the railroad leads to Rangoon. The British ground forces are light, but have been resisting stubbornly at Kawareik, east of Moulmein, where the Japs have debouched from the mountainous jungle, admirably suited for infiltration, into the open paddy lands. Previously the Japanese had taken Tavoy, which occupies a strategic position to the south, and facilitates attacks on shipping proceeding into the Gulf of Martaban, at the head of which lies Rangoon.

Quite contrary to press reports that Chinese troops have been streaming into Burma to defend the country against the Japanese and Thai invaders, confidential advices up to January 25 indicate that only two divisions had been given permission by the British to enter Burma, and that of this force only one regiment had thus far arrived. This regiment had entered the Shan States overland by a difficult and circuitous route and taken up a position north of Thailand.

There it is in a position to defend the northern route from Thailand into Burma. British approval for the movement of Chinese troops into Burma over the direct and practicable route offered by the Burma Road was finally given, it is indicated, only on January 25.

The fall of Rangoon and the closing of the Burma route would not necessarily bring Chinese resistance to an end. In her struggle with Japan, China has depended primarily on her own resources. The volume of military supplies reaching the Chinese by the Burma route has been too small to be of major military importance. Total traffic over the road has only recently attained a figure of 17,500 tons a month.

On the other hand, the possible psychological repercussions in China, if Japan takes Burma, should not be minimized. Chinese resistance may be more significantly affected in the near future by political, rather than by purely military factors. Chinese morale and the continuation of the Chinese war effort will take on added importance if Japan gets into the Indian Ocean and the Bay of Bengal, for in that case China may again become the only effective base of resistance to Japan.

The Threat to India

The Japanese push in Burma projects a threat in still another direction. Air raids on Calcutta and possibly Madras early in February or even sooner are expected by the commanding general in Calcutta and by leading industrialists there, according to a report from a completely trustworthy source in New Delhi. Most of the economic activity of eastern India would probably be paralyzed at once, the latter continues, by the flight of railway, port and industrial workers at the time of the first raid—a situation

which has already been produced in Rangoon. Such a movement would suspend the availability to forces overseas, both to the east and the west, of strategic cargoes and munitions from this area.

This vulnerable east coast of India includes the most highly industrialized section of the country. In Calcutta are situated most of the cotton mills of Bengal, and that same province is the center of the Indian paper industry. Here, and in the adjoining province of Bihar, ninety-four per cent of India's pig iron production and ninety-eight per cent of its steel output are found. The Tata steel plant, largest in the British Empire, is in Bihar within 150 miles of Calcutta. Likewise concentrated in the provinces of Bengal and Bihar is eighty-four per cent of the coal production of India. And to the south, Madras is second only to Bombay in textiles. In fact it may be said that Bombay, on the west coast, is the only highly industrialized area not immediately vulnerable to Japanese pressure.

The Factor of Indian Morale

The same source also raises the all-important nationalist issue in India and declares that a Japanese occupation of Rangoon and the fall or isolation of Singapore would greatly accelerate the tension and anti-British feeling in Madras and Bengal, which are expected to increase rapidly in any event. It has been pointed out once again by a close observer of the Indian scene that the morale of the country will be jeopardized by unsatisfied nationalist ambitions unless the nationalists can be persuaded that their own ambitions will be advanced by the success of the Allied cause. As to whether British promises will be realized in concrete form in the post-war world, there is considerable skepticism.

Threat to Madagascar?

The close interrelation of the European and Asiatic theaters of war and the danger that they will eventually converge were given fresh emphasis by a recent and confidential statement of General Smuts, South African premier, who expressed the fear that the Axis might seize bases in the French Island of Madagascar, from which the Indian Ocean routes could be attacked. If Singapore should be neutralized, the General continued, the Capetown route to the Far East would become of vital importance for areas previously supplied from west coast ports in the United States. It should also be noted that Madagascar is a significant source of graphite and mica for the United States.

Retirement on Singapore

On the Malayan front the British Imperial forces have lost Batu Pahat, Kluang, and Mersing, the three principal points on the defense line described in last week's analysis, and in the west they have been driven to a point within forty miles of Singapore. There appears to be only one further defense line short of the Strait of Johore—a rugged range of hills north of the Strait, on the left flank, and smaller isolated hills to the east, supported by a lateral highway. Early British retirement to this line is probably to be anticipated. The proximity of Sumatra to the Malay Peninsula and the current heavy air attacks on the island suggest the possibility of landing operations there, which might mean the virtual isolation of Singapore.

The Drive on the Netherlands Indies

In the Netherlands Indies the Japanese have already penetrated the first line of Dutch air defenses, extending from Sambas in northwest Borneo to Hollandia on the northern

shore of New Guinea. With the string of bases now occupied in Borneo and the Celebes, the Japanese flank three passages leading through the second line of Dutch air defenses to Java—the South China Sea, the Strait of Macassar and the Sea of Molucca. During recent Japanese operations in the Strait of Macassar a devastating attack was made by American and Dutch forces with resulting heavy Japanese losses, particularly of transports. This engagement continues.

Despite these reverses, however, the Japanese succeeded in occupying the important oil center of Balikpapan on the east coast of Borneo. They have also had the key Dutch fortress on Ambon Island under frequent and heavy aerial bombardment. From Macassar in the Celebes and from bases in southeast Borneo, which are now under fire, the last line of Dutch air and naval defenses through Batavia and Surabaya could be brought under air attack, and the conquest of strategic Java undertaken.

Threat to Australia

For the first time in their history, the Australians are fighting an alien invader. At Rabaul, the Japanese have landed with ten thousand troops, according to the Australian Government, and the Japs have claimed a successful landing at Kavieng, New Ireland. Several points in northeast New Guinea also are reported to be under attack. Tokyo radio has indicated that its all-out offensive will embrace not only the East Indies but Australia and India as well, and high Australian officials have made repeated appeals for aid.

The present objective of the Japanese, however is believed by leading military observers to be somewhat less than the conquest of Australia itself. The attack on Rabaul and New Guinea was planned primarily in order to cut the important Allied supply route through the Torres Strait, they point

out. Fighter-escorted bombers based at these points in sufficient numbers could drive shipping out of the Strait and force our Pacific traffic to the Far East to take the long way around southern Australia, adding some eight to ten days to the journey. The loss of the Torres Strait route would be a bitter blow. Our aid to China would suffer; our chances for ready reinforcement of the Allied command based in Java would be impeded; and the opportunities for supplying Russia via the Pacific would be still further narrowed.

The Strength of Japanese Forces

In general it may be said that the Japanese forces in southeast Asia have not been notably large and that they have been thinly spread. The Japanese successes reflect the fact that the forces of their enemies have been even more thinly spread. Of the seventy-two seasoned divisions in the Japanese army (18,000 men each), it is believed that only eighteen (plus some special units) are now operating in southeastern Asia. Seven are in Thailand (plus one and a half tank regiments), five in Malaya (plus one tank regiment), one in Sarawak and Borneo, and one in the Davao area. Finally, in the Philippines, General MacArthur, in a stand which the President has called "magnificent," is holding no fewer than five divisions, an independent brigade, and half a tank regiment. The importance of this feat for the hard-pressed forces of the Allies elsewhere in Malaysia needs no comment.

Counter-Thrust in Cyrenaica

With the ironic regularity of the pendulum, the war in Libya now seems once more ready to swing into the east. Just as the British line of communication was reaching its maximum extension, the demands of the Far Eastern conflict made a diversion of effort to that area inevitable. Simul-

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taneously, General Rommel was being notably reinforced in men and matériel. At least one large convoy and several smaller ones reached Tripoli. Earlier claims placed the destruction of Axis convoys in the Mediterranean as high as two-thirds of all tonnage. The British now admit that 75 per cent of Axis shipments are reaching their destination.

Rommel's counter thrust from El-Agheila succeeded first in taking Agedabia, and a second stroke had placed Axis forces on Wednesday sixteen miles southeast of Benghazi, which is in obvious danger of early capture. If Axis forces take it, they will repossess a valuable air base for the protection of convoys from Italy.

Rommel's intentions cannot now be accurately forecast. But the reported character of the German preparations in southern Italy and Sicily and the apparent extent of the reinforcement of Rommel to date strongly suggest a major and continuing effort to dislodge the British in western Cyrenaica and drive them back on Egypt. The Axis position in the Mediterranean may have been further strengthened by recent British naval losses which now include the battleship *Barham*, whose sinking on November 25 has just been admitted by the British Admiralty.

Détente in the West?

Nazi successes in Libya should logically render the Germans less interested in the occupation of French and Spanish North Africa, at the same time that Nazi reverses in Russia should stiffen French resistance. The meagre evidence available supports this general postulate. From Tunis it is reported that officials are beginning to oppose the shipment of supplies in French bottoms to Tripolitania by way of Tunisia. Orgaz and other highly placed Spanish functionaries are reported to have said that the Spanish are determined to remain

8

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neutral and to maintain the status quo in the western Mediterranean. Orgaz and his entourage are said to be increasingly friendly to both British and Americans.

In spite of this apparent détente in Nazi relations with France and Spain, there continue to be indications from various sources that disquieting developments have been in the making for some time. Specific point is given to this general evidence by a report from a high source that a meeting of Hitler and Pétain is forecast for the end of this month and that the results of secret negotiations between France and Germany will then be announced. Under these new arrangements the Nazis would restrict the occupation of French territory to strategic points and release a further batch of German prisoners. In return, France would permit the use of its African colonies for Axis military operations.

The Russian Infiltration in the Valdai Hills.

The eastern front has again this week witnessed one of those spectacular thrusts which delight the speculative news analyst. Superficially the Soviets appear to have driven a significant salient through the Valdai Hills and to have placed the German left flank in a position of dramatic danger. These gains are, however, more apparent than real.

The explanation of this sudden advance in the Valdai area lies in the nature of the operations there. Here solid lines never existed, and the two armies moved in small detachments and patrols, confining themselves to air reconnaissance over large areas. The Germans appear simply to have stopped here while waiting for Leningrad and Moscow to fall. When winter came, they grouped their troops in islands of resistance for winter shelter. Last week the Russians penetrated the gaps left open, while the Germans executed a careful withdrawal. The small number of casualties reported indicates that the latter offered little resistance.

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The accompanying map, moreover, shows that the Valdai Hills had earlier proved no serious obstacle to the Germans. After the capture of Smolensk, the Nazis were held up for most of September and early October by operations connected with the reduction of Bryansk, Vyazma, and Orel—operations that occasionally necessitated an actual withdrawal from previously held positions. The Valdai region, however, succumbed easily, as did most of the open area between Vyazma and the Moscow defensive zone. North and west of Kalinin there was little change after the middle of November, when the Germans were concentrating on their final attempt to capture Moscow.

The Future of the Russian Offensive

From their newly created salient in the Valdai Hills, the Russians have two alternatives. They may either strike north to relieve Leningrad, or south toward Smolensk, or in both directions at once, provided always that they have adequate transport and man power. Against either of these attacks the Germans could probably send mobile reserve units.

The Russian claim that they have cut the Leningrad-Vitebsk railroad is premature. The Germans still have lateral rail communication in the rear of their fighting forces. Nor is there any indication that the Germans have revealed their inexperience on the defensive, as one military authority has suggested. The withdrawal here, as opposed to that of the British in Malaya, has not been executed in close contact with the enemy, and even the Russians have not claimed that German losses in men and matériel have been very heavy. The trap at Mozhaisk, for example, somehow failed to close. Only a smashing Russian success in the Rzhev-Vyazma-Smolensk area could be interpreted as a real disruption of the German defensive strategy.

No Russian Victory to Date.

In summary, the accompanying map illustrating the Russian counter offensive reveals that, since the original German defeat before Moscow, Russian gains have been comparatively unimportant. Exceptions are the present advance in the north and the creation of the salient in the area where the Bryansk-Vyazma railroad was cut. These two towns and Orel are once again the stumbling blocks to a further advance.

This essentially conservative view of the Russian front is that of highly placed American military observers. It is to be contrasted with the British view which is in general decidedly more sanguine. Indeed the British Military Mission in Moscow is reported to be very optimistic, and one of their number feels that the destruction of the Nazi armies is very possible and that a spring offensive is beyond the means of the Germans.

Elsewhere on the eastern front no significant changes have been made. The Russians have resumed the attack south-east of Kharkov but have gained little or no ground. The striking initial successes in the Crimea have had no sequel, and in the eastern part of the peninsula the Soviets are actually falling back in places.

Continuing German Difficulties

Despite the somewhat limited character of Russian successes to date, it would be unwise to pass in silence the continuing difficulties of the Germans. A high military source notes that in recent weeks on the Moscow front the German air force does not appear to have been able seriously to interfere with the Russian supply system or to protect effectively its own retreating columns.

The Nazis have been unable to withdraw more than a few divisions for rest and refitting in Germany, notes the same

source, and the armored divisions have as a whole been in action for six months without a respite. Another division has just left France for Russia, bringing the total to nine in all. It is also reported that fifteen troop trains a day are moving currently from Buda-Pest to Bucharest. Three German units were also recently moved from Greece to the Russian Front.

Repercussions on the German Economic Front

Repercussions of the Russian campaign have also been felt in German industry where it is believed that the withdrawal of manpower to the eastern front during the past six months has reduced total German industrial production. The replacements—largely women, foreign workers, and prisoners—have probably been inadequate to fill the gap. A report from Bern notes that hours of labor, which were generally reduced to nine a day last summer, have been lengthened again.

Despite these difficulties German production figures remain impressive. All observers agree that the Nazis have recently made efforts to increase aircraft-plant capacity. Current aircraft production by Germany is estimated at 1,720-2,000 planes a month by a British source, and at 2,200-3,015 by an American source. To these we may add an Italian production of 350 planes a month (American source: 450), a French output of 200-250 (no American estimate), and a Japanese production of 350 (American source: 500).

The Germans are probably turning out submarines at the rate of 18 to 20 per month—a total of 250 being under construction at any one time. Fifty more are building in Italy, twelve in Japan, and five in France. Axis artillery production (exclusive of Japan) is estimated by the British source as follows: Field guns (75 mm. and higher), 700 a month; antitank guns, 575 a month; antiaircraft guns (light and heavy), 430 a month.

Toward the Nazi New Order in Europe

The march of the German soldier has been accompanied *pari passu* by the more subtle Nazi economic conquest of the Continent. "By a process that must be called the most gigantic theft in the history of modern capitalism, Germany has today an all but complete mastery of the business life of Europe," declares a report being prepared for the Coordinator of Information on the present status of the German New Order in Europe. The Nazis have seized all the government property of the conquered countries. German interests are supreme in banking and insurance; in coal, iron, and steel; in the machine and machine-tool industries; in light metals; in textiles; in electrical appliances; in chemicals and oil; and in transportation.

German business interests have been greatly enriched by this process, the report continues, and conservative business groups throughout Europe find themselves more and more dependent upon Hitler. In this way the New Order has won a menacing measure of success. Financial interests are so completely dependent upon the Nazi regime that in case of a German defeat they look forward to chaos.

The New Order in the East

Quite apart from the Nazi absorption of continental business, the New Order has other facets as well. The Nazis have promised "a living wall of German men" in the East, and 600,000 German "colonists" have been poured into the annexed areas of Poland. Poles have been systematically squeezed out of their occupations to make room for the conquerors. Property has been seized wholesale, it is reported, and these seizures have not been limited to property of the Jews or the government. Of 65,000 independent establishments of craftsmen which formerly existed in the Wartheland

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(of which some 4,700 were German-owned), there remain only 34,000, and 10,000 of these are in German hands.

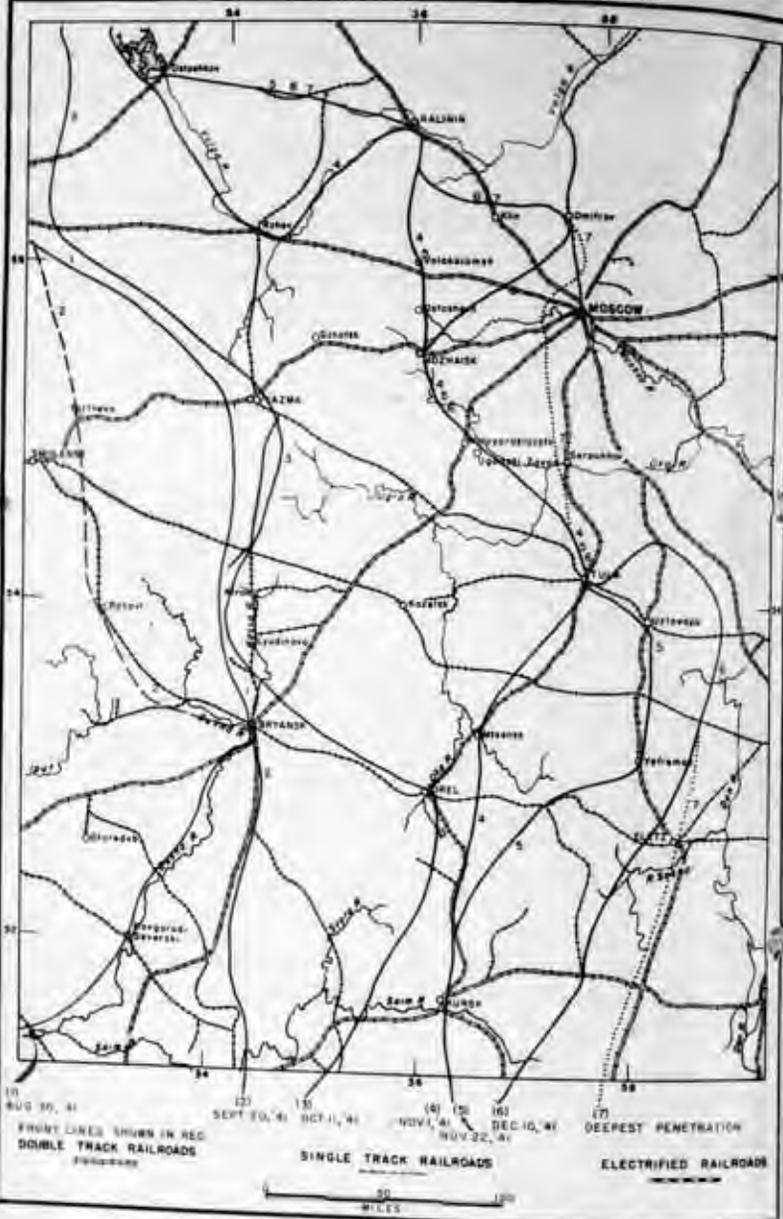
In Upper Silesia the story is the same, but the tempo is slower. The Nazis apologize for the slowness of the process, but promise that it will be thorough. In the Czechish "Protectorate," between Moravia and Austria, on a belt of land more than thirty miles wide, all Czech peasants have been removed and replaced by Germans from the east.

Compromise at Rio

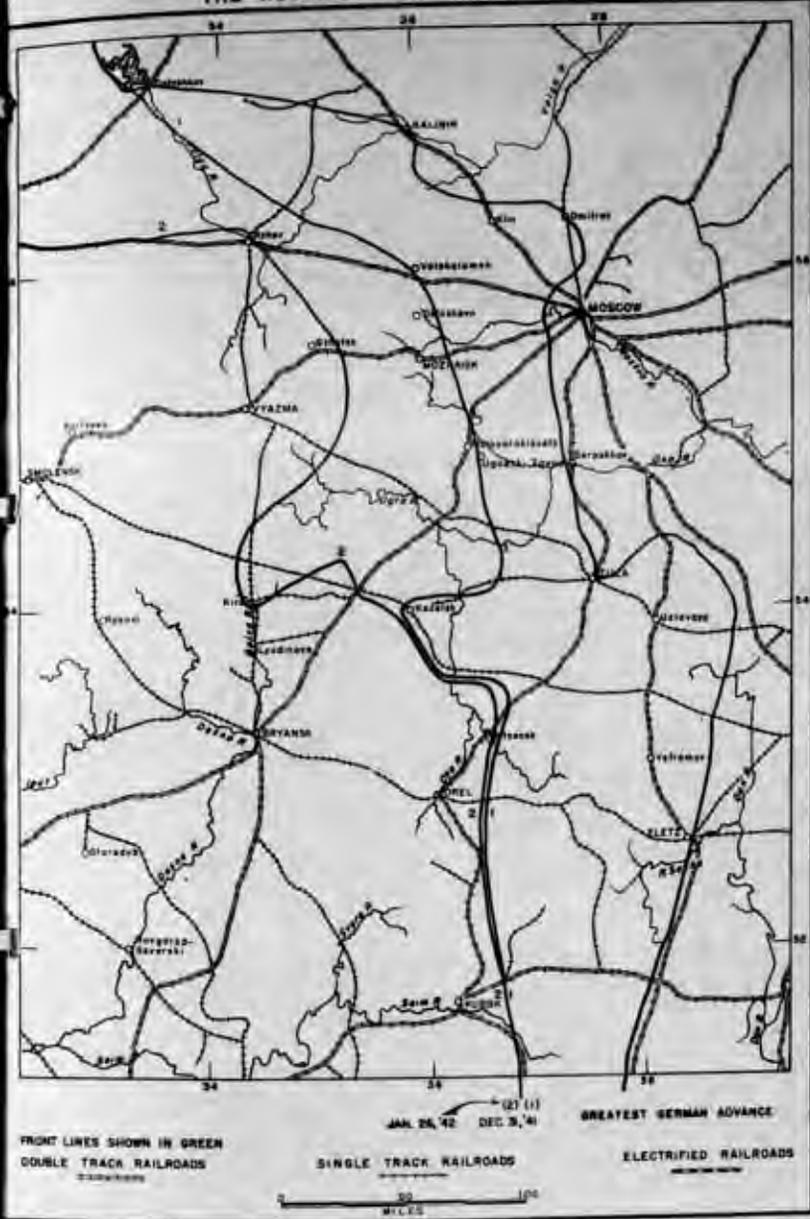
The closing days of the Rio Conference resulted in a compromise rather than in a complete diplomatic victory for the United States. Its most important achievement was, of course, the recommendation that every American republic sever relations with the Axis. Incidental to this were the agreements to coordinate production facilities and to eliminate trade barriers for the duration of the war. And a settlement of the long-standing boundary dispute between Peru and Ecuador seems to be in sight.

The original proposal for a mandatory rupture with the Axis, supported by the United States, Uruguay, Brazil, and the Caribbean countries, failed by only a narrow margin. At one point Ruiz Guiñazú, the Argentine foreign minister, appeared ready to sign such an agreement. But a last-minute telephone call from Acting President Castillo, expressing the characteristic stand of the conservative and "nationalist" Argentine government, induced Guiñazú to stiffen his attitude. The resulting compromise resolution was much closer to the original Argentine position than it was to that of the United States. So far, however, every American republic except Chile and Argentina has broken off relations with the Axis. The next few days will reveal to what extent these two intend to carry out the recommendation of the Rio Conference.

THE GERMAN ADVANCE IN CENTRAL RUSSIA



THE RUSSIAN COUNTER OFFENSIVE



COMPILED AND DRAWN IN CARTOGRAPHY DIVISION, G.I. MAP 90-100

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RESTRICTED

0-2/2657-220: No. 615

M.I.D., W.D. 11:00 A.M., January 29, 1942

SITUATION REPORT

I. Pacific Theater.

Philippines: Our artillery yesterday broke up headlong hostile infantry attacks on both our right and left flanks. The enemy suffered heavy losses. There was limited air activity against which our anti-aircraft functioned effectively. No change in Visayans or Mindanao. Hawaii: An enemy submarine torpedoed and sank a small American ship 30 miles north of the Island of Hawaii. 29 lives were lost. Malaya: Japanese have reached a general line from 40 to 50 miles north of Singapore. According to the press, the British are preparing fields of fire on the north shore of Singapore Island. Burma: There is no change in the ground situation as the Japanese continue operations for an attack on Moulmein. A Japanese air attack on Rangoon on the 28th was driven off with heavy losses to the enemy. Sumatra: The west Sumatra coast town, Emma Haven, suffered another Japanese air raid on January 28. Australasia: There is no material change in the situation. The enemy continues his air attacks on Islands north of Australia.

II. Eastern Theater.

Ground: Fighting continues along the Eastern front. On the Central front the Germans claim successful counterattacks. (No situation map will be issued this date.)

Air: The Russian High Command claims that 30 German planes were destroyed over the eastern front on January 28, with the loss of only 8 Russian planes.

III. Western Theater.

On the 28th, the RAF carried out further heavy attacks on objectives in eastern Germany and the Lowlands.

IV. Middle Eastern Theater.

Ground: Press reports indicate that Axis forces have shifted their main effort north and east of Msus to a northwest drive on Benghazi. A strong force is moving northward along the coastal strip south of Benghazi and another strong force, striking northwest out of Msus, has reached a position 16 miles east of Benghazi.

Air: On the 28th, the RAF carried out a heavy bombing attack on the Italian base at Tripoli. Its attacks on advancing Axis forces and supply lines continue. Axis air forces are active against British ground forces and are continuing their day and night bombing of Malta.

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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, January 30, 1942.

The Secretary of the Treasury, by this public notice, invites tenders for \$150,000,000, or thereabouts, of 91-day Treasury bills, to be issued on a discount basis under competitive bidding. The bills of this series will be dated February 4, 1942, and will mature May 6, 1942, when the face amount will be payable without interest. They will be issued in bearer form only, and in denominations of \$1,000, \$5,000, \$10,000, \$100,000, \$500,000, and \$1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, two o'clock p. m., Eastern Standard time, Monday, February 2, 1942. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of \$1,000, and the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Secretary of the Treasury of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on February 4, 1942.

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

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

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January 31, 1942
9:11 a.m.

Operator: Go ahead.

Ronald
Ransom: This is Ronald Ransom.

HMJr: Hello, Ronald.

R: How are you today?

HMJr: Okay.

R: Mrs. Ransom and I are having the Presidents of
the Federal Reserve Banks up for cocktails Monday
afternoon, between six and seven.

HMJr: Yes.

R: And she will call Mrs. Morgenthau and ask her.
I just hoped that you, too, could drop by.

HMJr: I'll try.

R: Yes. They're here on one of their regular meetings,
and I thought it would be very interesting to them
to have a chance to say hello to you.

HMJr: I'll try my best, Ronald. It's very kind of you
to think of me.

R: Yes. And I thought I'd ask Preston Delano and
his wife, also.....

HMJr: Well, that will be very nice.

R:and try to maintain some of these contacts.

HMJr: Righto.

R: Thanks. And Mrs. Ransom will call Mrs. Morgenthau
during the day.

HMJr: Are you asking Bell?

R: Yes.

HMJr: Good.

R: Yes. Okay. Good-bye.

HMJr: Good-bye.

January 30, 1942
9:30 a.m.

GROUP MEETING

Present: Mr. Morris
Mr. Buffington
Mr. Odegard
Mr. Sullivan
Mr. Paul
Mr. Graves
Mr. Kuhn
Mr. Thompson
Mr. Gaston
Mr. Haas
Mr. Schwarz
Mr. Blough
Mr. White
Mr. Foley
Mr. Viner
Mrs. Klotz

H.M.Jr: Have you anything?

MR. GASTON: Nothing except I mentioned in there they would like a Defense Savings exhibit in New York on February 23, Washington's Birthday. I assume that will be all right. Harold will take care of it. That is all.

MR. FOLEY: I have nothing. I would like to stay behind a minute, if I may, about that question you asked me last night.

H.M.JR: All right.

MR. MORRIS: I have a memo quoting a nice wire here from Armour's, who are an issuing agent (dated January 29). They are having a big campaign on February 9.

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H.M.JR: You sort of hesitated about sending these telegrams out, but I think that is good.

MR. MORRIS: It was more when I thought of the other things I had to do.

H.M.JR: That is all right. What else?

MR. MORRIS: That is all.

MR. SULLIVAN: We called off that Town Hall speaking date on February 12. You recall that the original invitation was to talk war financing, and you suggested I get it changed to taxes.

H.M.JR: I am listening.

MR. SULLIVAN: I called, and the woman with whom I had first spoken wasn't there, and I talked with her assistant, and I said I thought I might be able to arrange to get up there if we could talk about taxes. She said, "Well, I think the program is broad enough. I think we can do that. And that is certainly what Mr. Hanes had in mind when he agreed to take the other side." And I said, "What other side?" She said, "Well, the other side of the Treasury's six percent plan." (Laughter) I said, "Well, thank you very much. I will see what I can do and I will let you know." So then I talked with Herb and Ferdie and Randolph and Tommy and Roy and George Buffington, and we agreed that this was a plant if there ever was one and that I wasn't supposed to know it was to be on the six percent at all, and it was an experience like Randolph had when he debated there and they changed the topic five minutes before the program started. About fifteen minutes after that conversation, I called her back and asked her if she had done anything toward rearranging it, and she said, no, she hadn't, and I said, "That is fine, because something has just happened, and I will be tied up all that week."

MR. PAUL: Since that, they have been trying to call me up. (Laughter)

H.M.JR: What else.

MR. SULLIVAN: Senator LaFollette is putting your Cleveland speech in the Congressional Record. I have a thank-you note for the Governor of Rhode Island.

H.M.JR: Last night - where is Chick - at eleven-thirty over WJSV, they had a discussion on taxes, both sides. It was very good.

MR. SCHWARZ: Would you like to get it?

H.M.JR: No.

MR. PAUL: I would like to see it.

H.M.JR: It is the kind of thing that I hope that this committee that I appointed will do. For instance, they had what I said, what Eccles has said. Congressman from Oklahoma said so and so about the sales taxes.

MR. KUHN: Monroney.

MR. FOLEY: Purely irrelevant. (Laughter)

H.M.JR: And so forth and so on. So I think it is the kind of thing - it really was fairly impartial, but it showed - because it is a crazy hour to put the thing on. The voice was very familiar, but I couldn't recognize it.

MR. SULLIVAN: Wednesday afternoon we had quite a meeting on this committee that you have just referred to, and everybody seemed to feel that if this job is done right, it is just going to be a full time job, and we wondered about getting Knollie down to see if he would be willing to take it over. The only objection to Knollie was that he thought he could probably set up the machinery and get going on this one, but we seem to think there should be a more or less permanent organization that could go after other things other than just tax exemption.

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H.M.JR: Well, we have got two Disney organizations - three going now.

MR. SULLIVAN: Well, this is a little something more than just publicity, I think. Anyway, I think the concensus of the group was that if you approved, I would try to get Knollie down.

H.M.JR: That is all right, as long as something is done fast to get it out of the study stage.

MR. SULLIVAN: I will phone him this morning, then.

On the auto use stamps, we have run into a peculiar problem.

H.M.JR: What did you do, run out of spit. (Laughter)

MR. SULLIVAN: No. Many of the enforcement cars of not only the Federal Government but state and municipal governments should have these stamps on if they are not to be disclosed. I mean, a Secret Service car or a plain clothes policeman's car in New York City, so we are getting out an order giving these stamps to those agencies.

MR. FOLEY: I ran out on mine. I put it up three times, and three times it fell off, so they put it in the pocket of the car.

MR. VINER: Transferable.

MR. FOLEY: It is the cheapest job, I think, the Treasury has ever done. It is perfectly awful.

MR. SULLIVAN: I will answer that one afterward.

MR. WHITE: We will pass that.

H.M.JR: Because you need three hours?

MR. SULLIVAN: No, I don't need three hours.

H.M.JR: What else.

MR. SULLIVAN: The Commissioner is getting out a mimeograph to handle such situations as Detroit where they are having the conversion to military production, and the people are out of work saying that they will have to try to collect the tax where they can, but where this particular situation exists, the Collectors of Internal Revenue are assured that where reasonable forbearance is extended to the collection of Federal tax liabilities, the Collector will back him up. I mean, it is about as far as we can go, I think, in telling them to go easy.

H.M.JR: He will have to postpone them.

MR. SULLIVAN: That is right.

H.M.JR: Well, I don't know. Hold that one up. Has that gone out?

MR. SULLIVAN: No.

H.M.JR: I want to talk about that. Last year they kept postponing and postponing and postponing. I want to talk about that.

MR. SULLIVAN: All right. You have a letter from William Green asking you to support his request that Social Security taxes be taken up as a part of the tax program. Now, I think that you more or less agreed with Doughton and George that the tax program should come first. Randolph says he thinks they made the statement and you didn't disagree with them, but I think they believe that you feel that way.

H.M.JR: I think the answer to William Green is very simple. It is up to the Committee what comes first.

MR. SULLIVAN: He puts it another way. "May I ask your support of our request that the Social Security tax increases be considered at the same time." And

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I think that we just have to tell him that we are already have had discussions--

H.M.JR: I won't be able to answer that today. I have got to talk about it.

MR. SULLIVAN: All right. There is a Columbia Radio Broadcasting System broadcast at one forty-five on Saturday. They wanted me to talk on that on sales taxes.

H.M.JR: All right. They mentioned you last night on the sales taxes.

MR. SULLIVAN: Beg your pardon?

H.M.JR: This man reviewed what you said on the sales tax. He picked up everything anybody had said and did it very intelligently.

MR. SULLIVAN: You recall sometime ago Leon Henderson asked for some income tax data, and you thought we shouldn't give it to him. We have had several conversations with them, and they think that if they get just the transfer cards, that will answer their problem. I think they have a very good case in saying that they really have got to have those.

H.M.JR: What are the transfer cards?

MR. SULLIVAN: It contains the basic information that is gathered from the returns, but the detailed information on the returns, of course, isn't disclosed here.

H.M.JR: I think that would be all right.

MR. SULLIVAN: All right, sir, then I will get that ready.

H.M.JR: What else?

MR. SULLIVAN: That is all except--

H.M.JR: Go ahead.

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MR. SULLIVAN: Lausche and some other things I would like to see you about today.

H.M.JR: Well, see how we get along. Did you speak to Lausche?

MR. SULLIVAN: Yes, I talked with him yesterday morning, and he said, "I am in complete accord with the principle, and the reason I wasn't able to call you yesterday is because we have got a seventeen and a half million dollar deal on the sale of municipal railroads here, and I have got to discuss this with my cabinet, but I am sure I can call you back this afternoon."

He didn't do it.

H.M.JR: How many times have you talked to him?

MR. SULLIVAN: Yesterday? Once.

H.M.JR: Altogether.

MR. SULLIVAN: Three times.

H.M.JR: Did you tell him about your call to Tobin?

MR. SULLIVAN: No, he hadn't heard about it. It was the railroad deal that was holding him up.

H.M.JR: Well, anyway, we will see how we get along.

MR. SULLIVAN: All right.

H.M.JR: I have sent for Elmer Ireby, and I am directing him to act under me, directly responsible to me, on this New York alcohol case. I want a complete investigation on that starting with Berkshire right straight down through the line. I am just telling you in here.

MR. GASTON: Yes.

H.M.JR: I am going to have the investigation made directly under me. I can't understand it.

MR. SULLIVAN: They have been working on this for two years.

H.M.JR: Well, I can't understand it, but I want to start with Berkshire and go right straight down.

MR. GASTON: It is our own men, of course, that have made that investigation.

H.M.JR: I know, but on a thing like that, there are so many people involved, it seems impossible that somebody somewhere, some supervisor, up and down the line wouldn't know about it.

MR. SULLIVAN: The assistant supervisor was in on it.

H.M.JR: Well, then, his boss. Somebody has fallen down on his job, and I want to know who that is.

MR. PAUL: Nothing this morning.

MR. BUFFINGTON: Yesterday I had a call from Mr. Fulton, president of the Outdoor Advertising Association, assuring us that the sixteen thousand boards will be posted on or before February 15, which will give us a full month of showing.

Might I have a few minutes to discuss that Harford Powel letter and some of this other publicity?

H.M.JR: Possibly, but I have got to start right after this meeting with the Secretary of State at ten thirty on this Chinese question. We will see how long that lasts. I don't know. We will see. I will be in tomorrow morning.

MR. BUFFINGTON: All right.

H.M.JR: If anybody doesn't catch me today, I will be in tomorrow morning.

MR. BUFFINGTON: That is all.

MR. BLOUGH: Nothing this morning.

H.M.JR: Are you going to have something for me today, Jake?

MR. VINER: Yes. I prefer it this afternoon.

H.M.JR: Well, either this - are you going to be here tomorrow?

MR. VINER: Surely. I am here every day (laughter).
What a question.

H.M.JR: If I don't get it this afternoon --

MR. VINER: Sundays, too.

H.M.JR: If I don't get it this afternoon, I will get it tomorrow. Are you here tomorrow, Peter?

MR. ODEGARD: I will be here tomorrow morning.

H.M.JR: George?

MR. HAAS: Here is that table we have ready for you.

H.M.JR: This is the number of firms? I see. That is a jump-off date, is it? Harold, this affects you particularly. On January 10 five hundred persons

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and over, number of firms, three thousand one hundred ninety-two, and one week later, four thousand forty-three. It went from forty-four to fifty-five per cent. And a hundred to five hundred went from thirteen to twenty-two per cent. Have you seen this?

MR. GRAVES: Yes, George showed it to me.

H.M.JR: So that is beginning to come. I want to study that.

MR. HAAS: Then I made one on - I thought we had better put down all the information we had. Here is the total number of firms. There are the two tables you have got there, the nine thousand. These are under a hundred, you see. It makes sixteen thousand altogether. Down here the employees of the firms particularly, and it doesn't mean that all those employees participate, but they are members of these firms, so the exposed number of employees is fifteen million out of thirty-four.

H.M.JR: I see.

MR. HAAS: Mr. Swope thinks this could be discontinued. It is in good shape, you know, on Procurement.

H.M.JR: Let it go. Is much of your staff working on statistics for the English?

MR. HAAS: No, that is all over.

H.M.JR: Are you working on statistics for anybody else outside the Treasury?

MR. HAAS: No, sir.

H.M.JR: Anything else, George?

MR. HAAS: That is all.

H.M.JR: Chick?

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MR. SCHWARZ: Nothing.

H.M.JR: Harry?

MR. WHITE: Phillips was here, but what he had to say can wait until you are ready to take up the British situation, unless it is going to be too long delayed. He is concerned about getting an answer from the President on that seven hundred million dollars --

H.M.JR: If he gets it in a month, he is lucky.

MR. WHITE: because if the answer is one way or the other, he wants to take some action on the new proposed legislation of the Lend-Lease bill which is going to exclude the possibility of taking care of that amount under Lend-Lease as presently written.

H.M.JR: There was a beautiful leak on this meeting in my office with Stettinius and what happened - and yesterday Perlmeter, when I said, "Well, somebody outside must have helped you," Perlmeter said "No, it was somebody right in the Treasury who gave me all the information." That means somebody in the Treasury told Perlmeter what went on when Stettinius was here, and what they came to see about, because he had the whole thing. You were on an airplane, so you weren't here.

MR. WHITE: I didn't even see him. I will find out in my division.

H.M.JR: Somebody saw Perlmeter and talked.

MR. WHITE: Did persons in my division know about it? Who was here on it?

H.M.JR: Southard.

MR. WHITE: I will ask. I would be extremely surprised if anybody would do it, but I will inquire.

H.M.JR: I am not accusing anybody, but Perlmeter made the flat statement he got the information from the Treasury.

MR. SCHWARZ: A Treasury official, he said.

H.M.JR: Treasury official. I am not accusing anybody, but I am just passing it along for what it is worth. What else, Harry?

MR. WHITE: Well, I will re-raise that question whenever you are ready to take it up.

H.M.JR: Let's get the Chinese thing out of the way first.

MR. WHITE: The other things can all wait.

H.M.JR: Where is my Chinese time-table?

MR. WHITE: I have it here.

MR. VINER: Harry, what about war risk?

H.M.JR: Well, I am not going to --

MR. WHITE: We wanted to clear that with Bell first. He will be in at ten o'clock.

H.M.JR: I am not going to do that before I go to the State Department. Right after this meeting I want to go over that time-table with you. Is that it?

MR. WHITE: Yes.

H.M.JR: Harold, how are things up in New York?

MR. GRAVES: Very good. I think maybe you would like me some time to tell you in detail about them.

H.M.JR: Are they better?

MR. GRAVES: Very good.

H.M.JR: Harold, give me twenty-four hour service on this thing, will you please? That means I want an answer tomorrow.

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MR. GRAVES: I can answer this now.

H.M.JR: No. Really?

MR. GRAVES: There are forty-five such companies that have been awarded this "E" by the Navy. I wasn't here yesterday. I haven't gotten the list of those companies yet.

H.M.JR: Get the list and check off those --

MR. GRAVES: Yes.

H.M.JR: When will I get it? Tomorrow, maybe?

MR. GRAVES: I will have that tomorrow, yes. At your convenience I will tell you about New York. It is very good.

H.M.JR: All right. Ferdie?

MR. KUHN: The Canadian Minister asked some time ago whether you would speak on the radio to help them in their Victory Loan campaign, beginning in March. They now say that they would be willing to have it on a record so that it could be made during February any time at your convenience, and I think it is a swell opportunity.

H.M.JR: Why should I talk for the Canadians?

MR. KUHN: Well, they have asked it, and I think that it is - it gives you a chance to say some things that you wouldn't get a chance to say otherwise.

H.M.JR: It doesn't appeal to me.

MR. KUHN: Not at all?

H.M.JR: No. Why should I go to Canada or England and talk to them about raising money?

MR. WHITE: I don't think you should.

H.M.JR: What?

MR. WHITE: I don't think you should. Does anybody else think he should?

MR. SULLIVAN: Well, how would we like it if Sir Frederick Phillips talked on it here?

MR. KUHN: I don't think that is quite the same.

MR. SULLIVAN: I don't know, the Canadians are pretty touchy. If they have asked for it themselves I think they have made a mistake in asking for it.

MR. KUHN: They have asked for it, and they have heard the Secretary on the air. The radio is interchangeable between the two countries and they know about our bond campaign, just as we know about theirs.

H.M.JR: I will lend them Donald Duck.

MR. WHITE: Think they will be able to tell the difference? (Laughter).

MR. SULLIVAN: Back to South America for Harry (laughter).

MR. KUHN: Secretary Knox admires your showmanship but thinks it is a bad idea to have movie people down in the Navy Yard. He doesn't want to have them. He would much prefer to have it here, so they are not going to have movies at all.

H.M.JR: Couldn't they put it in a little spot?

MR. KUHN: They said they would have to shut down the park and so on, and he made all kinds of difficulties about it.

H.M.JR: All right.

MR. KUHN: It is their show.

H.M.JR: It is their show.

MR. KUHN: So we will have it here.

H.M.JR: That is all right.

MR. KUHN: I have a letter that can be signed.

H.M.JR: Do you suppose I can have that tomorrow, what I am going to say next Monday?

MR. KUHN: Yes, I will do it. It is only a minute and a half.

H.M.JR: Could I have it tomorrow?

MR. KUHN: Sure. That letter has been approved by Harold Graves. We have already sent them telegrams on that.

H.M.JR: Why do I send this?

MR. KUHN: Because we have sent telegrams to various papers.

H.M.JR: Well, do you know about Chick's complaint from the Chicago Sun about Hearst?

MR. KUHN: No.

H.M.JR: Well, show this to Chick because the Chicago Sun --

MR. SCHWARZ: Chicago Times.

H.M.JR: They sent a man in here and claimed that Hearst was not playing the game. I will sign it, but check with Chick.

MR. SCHWARZ: That was my call the other night.

H.M.JR: This is particularly the Chicago American. I was just going to say, next time couldn't they put Marion Davies and me?

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MR. KUHN: I had a talk with the Disney people yesterday afternoon and they said that your idea is coming along wonderfully, and that the best of the whole series is the business men, worked up better than any others. The one in which they have the most material ready is the child. That is, they have sketches of the children. They are very steamed up about it, and wanted you to know about it.

H.M.JR: You didn't let me know about Monday.

MR. KUHN: Oh, I thought I had.

H.M.JR: Is the answer "Yes"?

MR. KUHN: Yes, sir.

H.M.JR: You know about Monday night?

MR. GRAVES: Yes. I was going to say that I talked to Mr. Disney and told him about this poster thing. He will have the things that you asked for Monday night.

H.M.JR: And MacLeish and Lowell Mellett will be there.

MRS. KLOTZ: Did they accept?

H.M.JR: Well, I sat next to MacLeish last night. He said, "Sure". If you don't hear from Mrs. MacLeish I think they will be here.

MRS. KLOTZ: Well, I will call her.

H.M.JR: She doesn't get up until noon.

MRS. KLOTZ: Well, whenever you call she is at the Red Cross or in bed.

H.M.JR: I think I would call up Mr. MacLeish's office.

MRS. KLOTZ: I have.

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H.M.JR: She never gets up until noon.

MRS. KLOTZ: Wonderful. I am for Mrs. MacLeish.

H.M.JR: I think she is more of a singer.

MRS. KLOTZ: So am I.

MR. KUHN: I have nothing more.

MR. FOLEY: You would do anything to stay in bed until noon.

MR. THOMPSON: I think Ferdie will probably want to tell you about this stamp.

MR. KUHN: I took that up with them as you asked and they all approved it. They saw no reason why that shouldn't be done. That isn't the same as calling them Victory Bonds.

H.M.JR: Peter, are you on that?

MR. ODEGARD: We suggested that a long time ago (laughter).

H.M.JR: You and Roosevelt dreamed it, did you?

MR. ODEGARD: Mr. Secretary, right after Pearl Harbor, when all these things began to pour in, Ferdie and I talked about this, and we suggested this change on the copy then, because most of these criticisms were directed at the nature of the copy, rather than the bond. Most of the people that made the criticisms wouldn't know what the bond says on it, anyway.

H.M.JR: O.K. But put in the word "and".

MR. THOMPSON: Yes.

H.M.JR: All right. What else?

MR. THOMPSON: Here is a memorandum for your files of yesterday's meeting. I have indicated there that the

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next meeting will be Wednesday. Fitzgerald thought it was Tuesday.

H.M.JR: I didn't tell Fitz anything. When you go out, tell him.

MR. THOMPSON: That is all.

January 30, 1942.

MEMORANDUM FOR THE SECRETARY'S FILES

Meeting in Secretary Hull's Office
January 30, 1942
10:30 A. M.

Present: Secretary Hull
Secretary Morgenthau
Dr. Viner
Mr. White

Later Joined By: Mr. Berle
Mr. Hornbeck
Mr. Hamilton
Mr. Feis

HDW

The meeting had been arranged by Secretary Morgenthau over the telephone the previous day.

Secretary Hull began by a brief resume of the Far Eastern military scene. Secretary Hull said that as far back as last Spring he had pointed out to the Army and Navy officials that in the event of hostilities with Japan, that Japan and Germany between them might likely take over the South Sea Area and North Africa, and thereby create very difficult problems for the United States in the Atlantic. He said that the Army and Navy officials, however, did not think it likely at that time that Japan would be able to conquer the numerous bases in that area of the Pacific. Secretary Hull went on to say that for many months prior to the outbreak of hostilities with Japan, he had been strongly urged by General Marshall and by the heads of the Army and Navy (and by the President?) to do everything in his power to prevent outbreak of hostilities with Japan because the Army and Navy were not adequately prepared. He said that the situation in the Far East was critical and he appeared to be rather pessimistic as to developments there in the near future. He also stated that Russia was very displeased with the British, so much so that it was necessary for Eden to go there and attempt to placate them. The Russians were also disappointed at what the Russians claimed to be a small amount of aid they were getting from the United States. He said that Russia was not to be trusted and there is no telling what would happen if with increasing Japanese victories China felt she could not look to Britain and the United States for substantial help.

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He asked Secretary Morgenthau whether he (Secretary Hull) should have some of his staff in during the ensuing discussion of possible aid to China. Secretary Morgenthau replied that anybody Secretary Hull wished to have in would be all right with him. Secretary Hull thereupon sent for the above-named from the State Department.

Secretary Hull recounted the proposed methods of aid to China which Secretary Morgenthau had outlined in his letter of the previous day. He then asked his own staff to comment on what they thought would be the reaction in China if Singapore fall. Hornbeck replied that he thought the effect would be bad; that the Japanese would make most of the boast that they had been able to demolish the strongest of British bases. The Japanese would say that the Chinese would do well to come to terms and join them in the general struggle against domination by the white race, that numerous groups within China would likewise attempt to press the Generalissimo to make terms with Japan since all avenues of supply to China will have been closed.

Mr. Hamilton likewise felt that the loss of Singapore would have a bad effect on Chinese morale.

Secretary Hull said that he assumed there was agreement that under the circumstances financial aid to China was urgent. Secretary Morgenthau replied that he had set forth his position clearly in the letter to Secretary Hull of the previous day.

Secretary Hull asked for opinions as to which of the several methods suggested by the Treasury would be the best medium for giving help. He said he himself was not interested in the method. He said that should be the Treasury's business. He was solely interested in seeing that China did get aid in the present critical situation.

Mr. Hornbeck stated that he thought the ideal method of helping would be a Congressional statute providing for an extension of financial aid to China. He said that might, however, cause undue delay. He was not certain that legislation was the most practical method of approaching the problem. He stated that he did not think the matter was so urgent or acute that a matter of days were critical, but that if it were to take several weeks for Congress to pass such legislation, it would be too late. If legislation could be passed in a few days he favored legislation.

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Mr. Hornbeck went on to say that he thought that the sum should be \$500 million instead of the \$300 million which Secretary Hull had indicated in his letter to Secretary Morgenthau. Mr. Hornbeck thought that a reduction in the portion which the United States was prepared to give to \$300 million would be too great a reduction from the sum which Chiang-Kai-Shek was asking. He felt Chiang-Kai-Shek should be given what he asked for, namely \$500 million from the United States. Secretary Morgenthau agreed with Hornbeck, as did the others, and it was therefore decided that the sum which they would recommend would be \$500 million.

Secretary Hull stated that he appreciated Secretary Morgenthau's reluctance to use the stabilization fund for such purposes. Mr. Berle stated that he likewise felt Secretary Morgenthau was correct in giving last preference to use of the stabilization fund in this particular instance since, Mr. Berle went on to say, the use of stabilization for that purpose seemed to be clearly outside the purpose for which the fund had been created.

Secretary Hull said he presumed the matter was up to the President, and said that in line with Secretary Morgenthau's suggestion in the letter, that Secretary Hull and Secretary Morgenthau see the President on the matter. Secretary Morgenthau suggested that Secretary Hull and himself might stay behind the Cabinet meeting for a few minutes and get the President's decision on the matter. Then action in the form of an announcement could be made the following morning. Secretary Hull agreed, and it was decided that in the meantime a draft of a message and a bill should be prepared to show the President that afternoon in the event he agreed that was the way to handle the matter. Secretary Hull stated that he would like to have the Treasury Department handle it and State Department would be glad to collaborate.

The meeting was about to be adjourned when Secretary Morgenthau told Secretary Hull that there was another thing he would like to talk about with reference to British Lend-Lease. Hornbeck and Hamilton left. Secretary Morgenthau explained that he had been talking with the Army and Lend-Lease officials, who had spoken to him with respect to the operation of Lend-Lease. They had stated that shipping was the important problem and that it was essential to conserve as much shipping space as possible for essential war supplies; that, therefore, any supplies utilized by American troops that could be purchased locally should be so purchased. Such purchases raised the question as to how they should be paid for. It was felt that possibly such purchases should be financed through a "reverse" lend-lease procedure. Secretary Morgenthau said he did not know how much was being done in the State Department on that subject, but he would like to have the State Department cooperate with the Treasury in working on the problem. Secretary Hull said he would be glad to have his staff do so. Mr. Feis said that Dean Acheson was handling British Lend-Lease problems. Dean Acheson was called into the room. He said he would be glad to collaborate with the Treasury Department working on the problem.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE January 30, 1942

TO The Files
FROM Mr. Thompson

A meeting was held at 3:00 p.m. yesterday in Secretary Morgenthau's office to discuss the policies which should be adopted to govern the questions of deferments for reserve officers and draftees. Present at the meeting were: Secretary Morgenthau, Secretary Knox, Under Secretary of War Patterson, General Hershey, Mr. McReynolds, and Mr. Thompson.

Secretary Morgenthau stated the problem and expressed the necessity for the adoption of general rules to be followed by all branches of the Government as a guide in determining whether or not deferments should be requested in any case. Secretary Knox discussed the needs of the Navy particularly with reference to men in the Navy yards who hold commissions in the Army reserves and Under Secretary Patterson agreed that in these cases where vital need can be shown for the employee to remain in his present job, deferments probably should be granted at least temporarily pending efforts to acquire replacements. Generally, however, it was agreed that any reserve officer who preferred to remain in his present job rather than to go into the military service should resign his military commission.

Secretary Knox stated that it was his view that heads of departments cannot duck the responsibility of requesting deferments where the facts indicate that a man would be more valuable in his present job than in the military or naval services, but this view was not concurred in. General Hershey was particularly of the opinion that deferments for Secret Service agents could be justified.

With respect to draftees, there was general discussion as to public reaction to deferments and no definite decision was reached as to what the policy should be although it was agreed that if a deferment should be granted it should be only after the establishment of a vital need for the person in his present employment. No conclusion was reached on the general question and at Secretary Morgenthau's suggestion it was agreed that a further meeting be held in his office at 3:00 p.m. on Wednesday, February 4. In the meantime Mr. McReynolds and General Hershey were requested to draft regulations to govern policies to be followed in all departments and agencies with a view to uniformity of action in deferment cases.

Am

January 30, 1942
4:00 p.m.

AID TO CHINA

Present: Mr. Viner
Mr. White
Mrs. Klotz
Mr. Foley

H.M.JR: That thing should have been ready at a quarter of two, instead of holding me up an hour. I mean, you (Foley) were supposed to be ready at a quarter of one and then you held it back, and I sat there and they kept talking about the man, and I was on pins and needles for one hour. I mean, I wanted to see you alone.

MR. FOLEY: Well, that is all right.

H.M.JR: But anyway, for another time, don't do that to me because the man's name came up two or three times and I never knew when the President was going to ask for it.

MR. FOLEY: Well, it was good enough. I just wanted to tie it up a little bit.

H.M.JR: Well, just for the future.

MR. FOLEY: O.K.

H.M.JR: This is what happened. Evidently T.V. Soong was in to see the President this morning and brought up the question of a loan. I gathered he gave the impression I was dragging my feet, and the President

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must have called up Hull on the wire and asked him about it. I mean, this is all surmise. And Hull told him that I had been over there this morning, and that we would take it up this afternoon. When I came in to Cabinet I said to Hull, "Have you seen our memorandum and joint resolution?" He said, "No," and I said, "Well, here is the original. I gave him the original." Then I said, "Well, have you seen your own draft?" He said, "Oh, no, no." I said, "What your boys did on the message?" He said, "No, I have been too busy. I haven't seen it." So he said he hadn't seen that. So it came up and the President said, "Well, they don't want us to pay their army." I don't know whether he said it then or later. "Because they would have two kinds of currency." So he said, "Why can't we buy the yuan?" And then I said, "Let's Hull and you and I sit down after Cabinet together," so he said, "Fine." But he didn't do what he usually does, take us into his office. He did it with everybody buzzing around and talking at the top of their voices. We had just nicely started on the thing, you see. So Hull kept saying, "Where is Jesse, where is Jesse?" So he pulled Jesse in.

Well, Jesse was waiting just about three feet away from Hull and he dived right between Hull and the President. It really was funny. I mean, whenever there is anything like that up there, Jesse just sort of crowds himself, sort of leans over on them so he gets in on it. So he dives right in, what is it, what is it, you know.

So they talked. It was going all right, but Hull - I mean, at the last minute - he could have brought Jesse in at any time in the last month. At the last minute he brings him in and Jesse, smelling some new business, he was only two feet behind. The reason that Hull couldn't see him was that he was leaning right over Hull. That is the only reason he couldn't see him. So he barges his chair right between Hull and the President, and I tried to explain the thing just the way we said this morning, and Hull never said anything. I said, "Well, that is the way it was in your office, wasn't it, Cordell?" He said, "Yes, yes,

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I suppose so." So the President listened, and of course there was all this talking going on around. It was the most unfavorable circumstances that I ever presented anything in. Jesse said - tried to get in and the President said, "Well, why can't you, Jesse, buy some goods?" And Jesse - no, Jesse said, "I could lend them some money against some goods," and the President said, "No, no, that won't be any good." I said, "Mr. President, you might just as well do it right out in the open. So then - and then there will be Congressional action, and that is what Chiang Kai-shek wants. We tried the other and it didn't work. That is what he wants. He wants the prestige of a loan backed by Congress to give him face opposite the Japanese." So then Jesse said, "Well, wouldn't it be just as good if it was from the President?" Well, of course there was only one answer I could say. That was "Yes." So the President said, "Well, explore it, Jesse, and if you don't find there is a way that you can do it, then Hull, Jones, and Morgenthau should go up on the Hill together Monday and see the leaders. Well, I never saw anything torpedoed nicer or quicker than the way Hull did it.

Now, Jesse knows nothing about it. What I thought I would do is, because I would like to see the Chinese get this thing, I thought I would call up Berle and tell him just what happened and tell him I want to see them get this loan and this is what the President said and that Jones knows nothing about it and Mr. Hull brought him in, so it is his responsibility, but I am ready to do anything. But they will have to do something over there, see. And tell him just what happened. He is Assistant Secretary of State and has been handling this.

What do you boys think? It is either Berle or Hornbeck.

MR. WHITE: It is a little bit strange for you to tell Berle. I think it might be all right for somebody else to tell Berle.

H.M.JR: No, I would rather tell him. "This is what

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happened. Now, I would like to see the Chinese get this loan. I am very anxious to do it. Mr. Hull has brought Jones in, and will you please follow through on it and if there is anything that we can do, let me know."

MR. VINER: Is it Berle?

MR. FOLEY: Yes.

MR. WHITE: Would it be - the only thing, it is a little peculiar.

H.M.JR: The whole thing was peculiar.

MR. WHITE: Hull was there.

H.M.JR: Hull won't do anything about it. I don't care what they think. It is no more peculiar than the way Hull runs his Department or after one month's negotiations, when we sit down at the last minute, that he should bring Jesse Jones in. He could have brought him in any time. In one breath he tells us, "This is my business, I have got to work out the details," and the next thing, he brings - now, all of that, all the personnel - I don't care. We will do the way we always do. I will wave it all aside to get Chiang Kai-shek what he wants. A personal affront, anything like that, that is all waved to one side.

MR. WHITE: You might get Berle and Currie to take the edge off that, and it would be more effective, too.

H.M.JR: Well, you can tell Currie, and let me tell Berle.

MR. WHITE: Well, that isn't quite what I had in mind. I mean, you could give it a push from both, and it would be logical for you to turn to Currie to follow up the President's thinking, because he is the President's Administrative Assistant. It is Friday now. Something ought to be done. I don't understand Hull.

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I don't understand why - why did he handle it that way?

H.M.JR: Just his animosity personally for me. I don't care. Jones can take it. I made up my mind the Chinese should have it. Let me do it. My instinct is all right on this thing. Of course it is a funny piece of business, but everything in Washington is. The only way they can't lick me is, do I want to help the Chinese? Yes.

MR. VINER: Don't indicate to Berle that you feel aggrieved in any way. Go slow at first, at least.

H.M.JR: I don't feel aggrieved. I am used to it. It is Washington, and it is the way they do business here. Now, if I didn't want the Chinese to get anything I would just sit tight and do nothing, but I do want the Chinese to get something, so I am going to call up Berle and tell him that.

Now, these two papers here, this is all I have. I have this joint resolution and this thing from the State Department. The joint resolution is prepared --

MR. WHITE: Here.

H.M.JR: And the original is in the hands of Mr. Hull. I have a copy of the State Department memo --

MR. VINER: That is the message.

MR. FOLEY: That is the message to support the legislation.

H.M.JR: All of these things get down to the question, I want to help the Chinese.

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

January 30, 1942
4:10 p.m.

HMJr: Hello.

Adolf Berle: Yes, Mr. Secretary.

HMJr: This is Henry.

B: Yes, Henry.

HMJr: Are you alone?

B: I am, yes.

HMJr: Well, look, let me tell you what happened at Cabinet and after, see?

B: Yes.

HMJr: I brought this question up - no, let's get the thing - no, that isn't what happened. The President brought up the question for the loan to the Chinese, and it seemed that T. V. Soong was to have went to see the President today. I don't know about what, but he saw him this morning, see?

B: Yes.

HMJr: Maybe you know about it.

B: No, I don't.

HMJr: What?

B: No, I don't know what he talked about.

HMJr: Well, so - and then evidently he brought up the question of the loan, and I gather from what the President said at Cabinet, that the President must have called up Mr. Hull and asked him where it stood, and Hull told him that I'd been over there this morning and we were going to take it up at Cabinet. But Soong sort of must have given the President the impression that the thing wasn't going too well, you see?

B: That's wholly unfair to you, sir.

HMJr: It is, because you saw the letter from Soong to me, didn't you?

B: Yes, I did.

HMJr: And my answer.

B: Of course.

HMJr: But that's neither here nor there. I'm used to that.

B: (Laughs) Well, we all are, I think.

HMJr: What's that?

B: So are we all, I think.

HMJr: That's right. Now, then we stayed behind. Then I asked couldn't I see the President after Cabinet with Mr. Hull to discuss the Chinese matter, and the President said, "Fine". But he did it with most the Cabinet around talking very loudly, which it was about the worst possible place to bring it up.

B: Yes.

HMJr: So I started talking, and we were about just nicely started when Mr. Hull said, "Where's Jesse Jones? I want him to sit in on this thing." Well, Jesse was just behind Cordell, waiting. (Laughs)

B: (Laughs)

HMJr: So the only reason he couldn't see him was because he was right behind Hull, leaning over him.

B: (Laughs)

HMJr: So Jesse pulled up his chair between the President and Hull and sat down. And the President asked Jesse whether he couldn't do something about it, and Jesse said, "Well, I could make them a loan against future purchases." And the President said, "No, that would be too slow." So the President said, "Well, couldn't we buy fifty million a month

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from them?" Of yuans, you see.

B: Yes.

HMJr: And - he didn't say fifty a month, he said, "every so often buy fifty million dollars worth of yuans." So I said, "Well, Mr. President, two things. I'm impressed by what the State Department and the War Department tell me, that this is urgent; I'm for it, and this is something to build up Chiang Kai-shek vis-a-vis the Japanese; and also, the State Department says we mustn't do it in a way that T. V. Soong will get any credit out of it." And I said, "I'm impressed by that."

Now, I said, "We've explored all this thing for months, and whichever way we do it we're going to have to talk to Congress about it, and it's a question of your seeing the leaders."

Well, Jesse said, "Well, let me look into it. Let me look into it. Maybe I can do something." So the President said, "Well, if you can't, Jesse, I want Hull, Jones, and Morgenthau - the three of you - to go up on the Hill together." Hello.

B: Yes.

HMJr: Now, the purpose of my calling you is this. I'd like to see the Chinese get it. I'm convinced that for political and military reasons they should have it; and I thought if you knew what has happened, you'd be helpful in seeing that the thing didn't fall between three departments now.

B: I shall be very glad to, Mr. Secretary.

HMJr: And I'm ready to do anything to help.

B: Well, thank you very much. What I will do, if I may, after checking with the Chief, will be to - with Mr. Hull, I mean.....

HMJr: Yes.

B:will be to endeavor to see that the decision

arrives out of the other department right away quick; that is, that they don't spend an awful lot of time

HMJr: Well.....

B: Personally, I think the straight way to do it is to go straight to bat and ask them for it up there.

HMJr: Well, the President said - he said, "I think in the end," he said, "that -" he listened to me, you see. And he said, "I think that it's popular to help the Chinese", and he said, "maybe you can get it through in a couple of days."

B: I think you probably could, don't you?

HMJr: I'm sure that we can.

B: So am I.

HMJr: But if you're going to do some horse trading about it, and if Jones is going to make a horse deal out of this thing, it'll be another month.

B: Well, this is no horse dealing job as I see it.

HMJr: It isn't a banking job. This is a straight political, military proposition; and it must be done in the way, I'm convinced now, that'll leave a good taste in the mouth of the Generalissimo.

B: Well, I thought from time to time absolutely this morning when you said, "If we do it at all, the thing to do is to do it handsomely."

HMJr: That's right.

B: (Unintelligible)

HMJr: Well.....

B: I privately am sorry that your other idea didn't go through. All the fellows here seemed to think

that it probably wouldn't, but I was sorry it didn't, because I thought that would take us right out.

HMJr: You mean the soldiers.

B: Yeah.

HMJr: Well.....

B: But there's no use crying over spilt milk.

HMJr: Well, the President liked it, Mr. Churchill liked it, Lauch Currie liked it, but it didn't work, so that's all we can do.

B: We were skeptical as to whether the - our friend across the sea would like it, but that was our only fear, and that, unfortunately, was justified.

HMJr: You mean the Generalissimo.

B: Yeah. We kept our hands rigidly off, of course.

HMJr: Well, he didn't like it, and - I mean, evidently - I don't know how T. V. Soong got in to see the President.

B: I don't either.

HMJr: Somebody must have made the appointment and.....

B: Well, that, so far as I know, was not done here. I think that he just went in on his own.

HMJr: Well, he never has before. Somebody must have - anyway, he got in to see the President. You've got the whole story, and I know that you people over there are anxious - and what I was fearful of if I didn't call you, it would just fall between three departments.

B: Well, we will endeavor to see that it doesn't fall, certainly, between this and the other two, and endeavor to report back to you as rapidly as the decks can be cleared.

HMJr: Right. And remember that the President said that the three of us should go up on the Hill. Those were his instructions.

B: Right.

HMJr: And - Monday, he said.

B: Monday.

HMJr: That's what he said.

B: Well, all right.

HMJr: Now, I'm ready to do anything to help, and.....

B: Well, so are we.

HMJr:if you'll let me know just personally, because - I'll appreciate it.

B: I'll do that with pleasure. Thank you very much, Mr. Secretary.

HMJr: Thank you.

B: Good-bye, Henry.

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H.M.JR: That is all right, isn't it?

MR. VINER: Fine. Perfectly all right.

H.M.JR: What?

MR. VINER: Sure.

H.M.JR: I mean, he will go in and he will stir it up. You notice he said, "None of us, we stood by and did nothing, but we didn't think it would work"? I told Berle, I said, "Now, don't anybody over there send any cables messing this thing up now," but I would be glad if you (White) would say the same thing to Lauch Currie.

MR. WHITE: I will do that.

H.M.JR: And ask Lauch whether he got T. V. Soong in there to see the President.

MR. WHITE: I will find out.

H.M.JR: I am satisfied, aren't you?

MR. VINER: Yes.

H.M.JR: I mean, Berle sounded all right.

MR. FOLEY: Yes.

MR. WHITE: He is the most eager of the lot.

H.M.JR: That is all right. I have decided I want to do it. All right, let's get it done. Now, the fact that at the last second Hull brings in Jones - that is his method of doing things. He could have brought Jones in at any time.

MR. WHITE: When he speaks of your going up on the Hill Monday, does he mean to see --

MR. VINER: The leaders.

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MR. WHITE: The leaders?

H.M.JR: Yes.

MR. WHITE: And who presumably is going to arrange that? Who is going to take the responsibility for carrying this on?

H.M.JR: Well, we have needled him today. Berle will call up tomorrow. You call up Lauch tonight and needle him, and maybe we can get it back so when the President sees the leaders Monday - that is the time to do it. The President should do it, you see. But I will be here in the morning and we can get word to the Vice-President, maybe, and get this - but you get Lauch busy, will you?

MR. WHITE: I will do that.

MR. VINER: Did the President look at the drafts at all?

H.M.JR: Didn't look at anything. I have never seen people so rude. Here the President is trying to listen and everybody is talking around at the top of their voices, and the President could just look up and frown, and everybody would stop talking. He listened to me, but Hull sits there. In his own office Hull gives you a history of what he did on the Japanese and how he told this personally that all this is going to happen, and I don't know how you people felt. You notice he said, "Some day when you are on a vacation, I want to tell it all to you." But then this forecast, I just had to come back and just pull myself together and just say, "Well, being a historian doesn't make history." That is very good, Mrs. Klotz. Put it down. And that is what he was doing. He was being a historian, but he wasn't making history. He was narrating. And I had to come back and pull myself together so that I could get my chin up again, instead of having it down dragging the basement the way he was. He was terrible. I don't know

- 8 -

what it did to you fellows, but what he did to me was just wicked. Didn't you feel that way?

MR. VINER: Oh, it was very pessimistic, but it may be realistic. That I can't say.

H.M.JR: Granted, but that doesn't help win the war. If you listen to a thing like that all day long with a man's hands the color of pale yellow parchment, and shaking - and any time he could have taken this thing and said, "I want this thing done," and then wait until the last minute and then bring Jesse Jones in to torpedo it. Wasn't it terribly depressing?

MR. WHITE: I thought ninety per cent of it was hindsight. If he felt all that certainty about the importance of maintaining Chinese independence, there were a great many things that could have been done last spring and summer, which was six months before the outbreak of the Japanese war.

H.M.JR: What has he ever done to help China?

MR. WHITE: He took a trip once and let the twenty-five million dollar loan go through.

H.M.JR: While he was on the high seas.

MR. WHITE: No, I don't think he has ever done anything.

H.M.JR: Well, thank God I have got belief in this country and our people and that we will keep fighting until I have got no breath left. If I listen to that fellow - it was terrible. I don't know whether he did it to you fellows, but I came out of there just as though a steam roller had gone over me, and that I could take it and laugh and joke about what he did to me fifteen minutes ago --

MR. WHITE: It doesn't make sense.

H.M.JR: Here is something down your alley, Foley. This is just a very mild thing. That made me awfully nervous, about Batt. I was afraid the President would

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turn and say, "where is this, Henry?"

MRS. KLOTZ: I think you said to send it over by three o'clock.

H.M.JR: Well, I did, but --

MR. FOLEY: The memorandum was all right as it was. What I did was to re-write the second page to tell who General Monnet was, which I thought you wanted me to do, and then I tied up on the third page by saying, "Here these two men had voting trusts." It just made it a little clearer, that is all.

TO: Nell

1/31'42

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This is a copy of the Joint Resolution which was given to the Secretary last night.

It was initialed by Messrs.

Bernard (LJB)

Bernstein (BB)

Foley (EHFJR)

Viner (JV)

White (HDW)

MR. FOLEY

1/30/42

JOINT RESOLUTION

To authorize the President of the United States to render financial aid to China, and for other purposes.

WHEREAS China has for more than four years valiantly resisted the forces of Japanese aggression; and

WHEREAS financial and economic aid to China will increase her ability to oppose the forces of aggression; and

WHEREAS the defense of China is vital to the defense of the United States: Therefore be it

Resolved by the Senate and House of Representatives of the United States in Congress assembled, That the President is hereby authorized, on behalf of the United States, to loan or extend credit or give other financial aid to China in an amount not to exceed in the aggregate \$500,000,000 at such time or times and upon such terms and conditions as the President shall deem in the interest of the United States.

Sec. 2. The authority herein granted shall be in addition to any other authority provided by law.

Sec. 3. There is hereby appropriated out of any money in the Treasury not otherwise appropriated, such sum or sums not to exceed \$500,000,000 as may be necessary to carry out the provisions of this Joint Resolution.

January 30, 1942

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Draft of Presidential message to Congress
prepared by State Department.

(Two copies were furnished to Treasury by
Mr. Hornbeck, one of which the Secretary
gave to Secretary Jones.)

January 30, 1942

There have been brought to the attention of this Government, by responsible officials both of this Government and of the Government of China, reports on the subject of China's war effort and the situation in China which point to the existence of a practical need for an extension to China of economic assistance financial in character.

This country has during recent years afforded assistance to the Chinese Government by means of credits, loans and, under Lend-Lease authority, materials. The amount of assistance thus afforded, although not large in particular or in aggregate amounts, has been of obviously substantial benefit to China in her operations of armed resistance to a movement of aggression launched and carried on against her. It therefore has helped toward carrying out the policies in which this country believes as world policies. It has been a contribution on our part toward holding back the tide of conquest which we have long regarded as potentially menacing this country and which now we clearly perceive to be actually and gravely jeopardizing this country along with all other countries which desire to live in peace and refuse to submit to the demands and the attacks of the predatory nations with whom this country and its powerful associates, including China, are now at war.

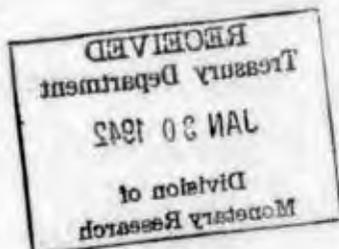
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In order to strengthen China's position both as regards her internal economy and as regards her capacity in general to function effectively as a co-belligerent with us in the effort which the United Nations are now making first to halt the movement of conquest and ultimately to achieve complete victory over those who have initiated it, this country is, fortunately, in position to render immediate assistance in the financial field. It is desired and proposed that the Congress appropriate a sum of \$500,000,000 and authorize granting therefrom of loans or credits or both to China under agreements to be entered into by the Treasury Department acting in consultation with the Department of State and with the approval of the President.

Among the purposes envisaged for the use of this sum are: to safeguard the position of the Government of China in relation to China's public finance; to enable the Chinese Government to encourage domestic production of important commodities, especially those essential to war effort; to facilitate making by the Chinese Government of purchases both in the domestic and in foreign markets; to assist in stabilization and effective control in China of Chinese currency; and in general to facilitate cooperation between China and the United States in the common war effort to which both countries along with others are committed.

With this aid, the Chinese Government, in its most valorous and effective combat against Japan, may be assisted in maintaining the economic activities essential to the ~~continued~~ effective prosecution of the war. It may be helped to finance its military effort in China without so enlarging its issues of paper currency as to create extreme price increases and price disorder; this is essential to maintain production, to sustain the necessary exchange of goods needed for living among the Chinese people, and to secure adequate supplies for the armed forces. This aid will make it easier for the Chinese Government to effect necessary revenue measures, and to regulate the flow of supplies and prices thereof.

In short, this measure of financial assistance is intended to contribute towards the strengthening within China of the same framework of economic, financial and production measures that is being found necessary within the United States for the pursuit of the war.



January 30, 1942

Telephone conversation between Mr. White and Sir Frederick on Friday, January 30, at 4:45 P.M.

Mr. White called Sir Frederick at 4:45 P. M. to return Sir Frederick's earlier call. Sir Frederick inquired about the China loan. Mr. White informed him that discussion was going forward but that there had been no final decision. Mr. White said that he thought a decision would be reached on Monday and that Sir Frederick would probably be informed either by the State Department or by the Treasury.

Concerning the takeouts, Mr. White said that, so far as he knew, nothing had been heard from the President. Sir Frederick said that the Lend-Lease Appropriation Bill had gone to Budget Director Smith and, lest it become too late, he asked whether he should call Colonel Oran to get some confirmation of Stettinius' statement that the Army could take over the contracts. Mr. White said he saw no reason why this should not be done.

HDW

January 30, 1942.

MEMORANDUM FOR THE SECRETARY'S RECORD

Mr. Jesse Jones telephoned Secretary Morgenthau at 5:30 P.M. on Friday, January 30, to say that he would like to call on the Secretary to learn more about the Chinese matter. Secretary Jones said he would like to get the "feel of the thing" and asked whether he could not see Secretary Morgenthau and talk with him about it. It was arranged that Mr. Jones would call at 10:30 Saturday morning in Secretary Morgenthau's office.

JPW

Treasury Department
Division of Monetary Research 176

Date.....2/7/42.....19

To: Miss Chauncey

In view of the discussions
which are going forward, I don't
think an answer to this letter
is necessary.

H.D.W.

MR. WHITE
Branch 2058 - Room 214½

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The Secretary wanted you to note - then
Miss Chauncey is to show to Mr. White.

sub B

OFFICE OF LEND-LEASE ADMINISTRATION
FIVE-FIFTEEN 22d STREET NW.
WASHINGTON, D. C.

E. R. Stettinius, Jr.
Administrator

January 30, 1942

Dear Henry:

Thank you for the copy of your letter of January 27 to the President, enclosing the note from the British Ambassador and the memorandum from you to the Chancellor of the Exchequer.

As I mentioned to you at our conference in your office on Tuesday of this week, I understand that the War Department is willing and has or will request the necessary funds from Congress to take over British contracts for munitions placed before the Lend-Lease Act was passed.

There is still some doubt, however, as to whether the War Department ought to or is making provision for taking over facilities contracts as contrasted with supply contracts. Since the War Department is now asking Congress for all funds for munitions to be supplied to Britain, and since the facilities in question are those located in the United States, it would seem to me that the question of taking over British facilities contracts should be put up to the War Department.

If I can be of any further assistance, please feel free to call upon me.

Sincerely,



The Honorable *W. A. Rorer*
The Secretary of the Treasury



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

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[Handwritten signature]

DATE JAN 30 1942

TO Secretary Morgenthau
FROM Mr. Foley

Pehle learned from Stopford that a representative of the Swiss branch of a German bank has recently indicated that he has succeeded in convincing the Swiss that the United States may not release blocked Swiss funds after the war, and that as a result the Swiss are very apprehensive about the future of their substantial assets in this country.

8.14 76

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

~~MA~~ 180

DATE JAN 30 1942

TO

Secretary Morgenthau

FROM

Mr. Foley

Personal and Confidential

Stopford has mentioned to Pehle that Floyd Blair of National City Bank has been criticizing the British attitude toward Vichy as being too strict. Stopford said Floyd Blair is very friendly with a number of people in the Vichy group, such as Lacour-Gayet.

S. W. FL

JAN 30 1942

MEMORANDUM FOR THE PRESIDENT:

You have asked me for information concerning William L. Batt's connection with American Bosch Corporation.

1. In order to have a clearer picture it is necessary to mention briefly Batt's connection with SKF. Batt has been associated with American SKF and its predecessors since 1913. He was general manager from 1919 to 1923, when he became president, which office he still holds. His salary as president has ranged from \$26,000 in 1935 to \$60,000 in 1940. He customarily files a joint return. He and his wife have no significant income other than his salary from American SKF Corporation.

On January 1, 1939, Swedish SKF owned 76 percent of the outstanding stock of American SKF; certain other Swedish interests owned approximately 18 percent. These shares were transferred to Batt under voting trust agreements early in 1941. Batt himself owns a trifling amount of shares in American SKF (65 shares).

2. In 1938 Batt became a director of American Bosch Corporation at a salary of \$2000 a year. The records of the company and the transfer agent do not reveal that he has ever owned any stock in American Bosch. He resigned as director of American Bosch on March 5, 1941.

The majority of the stock of American Bosch was re-acquired in 1931 by the German Bosch Company. In 1934 Mendelssohn & Co. nominally acquired the German Bosch interest in American Bosch. Shortly thereafter, George Murnane became director of American Bosch and represented Mendelssohn's interest in American Bosch. George Murnane is at present a member of the firm of Monnet, Murnane & Co. and formerly was a partner of Lee Higginson where he actively handled the Kreuger and Toll matters. Murnane's partner, Jean Monnet, formerly was chairman of the British French economic council, and is now a member of the British Supply Council. Murnane became chairman of the board of American Bosch in June 1937 and in 1938 effected a reorganization of the company. The financial reorganization left the stock in Mendelssohn & Co. and the managerial reorganization resulted in Donald F. Hess replacing Arthur T. Murray as president. At the same time Batt was made a director of American Bosch.

When Fritz Mannheimer, the head of Mendelssohn & Co. committed suicide in August 1939, Mendelssohn & Co. failed

and was liquidated. In May 1940, the Mendelssohn interests in American Bosch were sold to the Stockholm Enskilda Bank which is owned by the Wallenberg family. Murnane was then designated as the voting trustee of the Swedish interests in American Bosch.

At the present time, therefore, the Swedish interests in American SKF are represented by Batt, as voting trustee, and the so-called Swedish interests in American Bosch are represented by Murnane, as voting trustee.

* * * * *

3. In the course of our investigation of the personnel and records of American Bosch, which we started last Saturday, we have run across information which suggests that arrangements may have been made whereby the Germans would protect SKF holdings in German-occupied countries in exchange for efforts by the Wallenbergs to protect the German interests in American Bosch. Under such an arrangement the Wallenbergs would hold the Swedish interests in American Bosch until the end of the war when it would resell such interests to the Germans.

Murnane reported to one of our Treasury investigators that it was upon his recommendation that Batt was made president of SKF and that Hess who succeeded Murray in 1938 as president of American Bosch was suggested by Batt.

It has also been reported from another source that during the liquidation of the Mendelssohn (after the outbreak of war) English interests were asked to buy the Mendelssohn-

held shares in American Bosch with the understanding that at the end of the war the control would be resold at a profit to German interests; but the English exchange authorities refused to permit the transaction. Thereafter the Mendelssohn interests in American Bosch were sold to the present Swedish holders.

In view of the fact that our investigation of American Bosch has just begun we can not warrant the accuracy of the comments contained in section 3 of this memorandum.

(Signed) H. Morgenthau, Jr.

NATHAN J. STRAUSS
212 FIFTH AVENUE
NEW YORK, N. Y.

January 30, 1942.

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

Dear Mr. Secretary:-

I am enclosing herewith
a copy of the "Seattle Post Intelligencer"
dated Tuesday, November 18, 1930.

I came across this old
paper in my files, and was particularly
interested in an interview with your
honored father. I have marked the article
for your attention, and I know that you
will be extremely interested in the pre-
diction made at that early date as to the
possibility of another war.

Very truly yours,



NJS/PB
enc.

somebody pushed him out of the window—and I think there was a woman in the case."

That was the positive opinion expressed yesterday by Fred J. Libby, Valk's brother-in-law, after making a personal investigation of the wealthy Pullman contractor's mysterious plunge Sunday night from his room on the eighth floor of the Olympic Hotel.

Suicide Or Accident

Chief of Detectives Charles Tennant, however, was inclined to believe that it was a case of either suicide or accident, and his view was shared by Deputy Coroner Howard E. MacDonald.

At first MacDonald suspected Valk had been murdered, basing his opinion on the fact a woman's shirtwaist, unaccountably backed with a pair of scissors, had been found beside Valk's body where it landed on the pavement on the Fifth Avenue side of the hotel.

But he abandoned this bit of evidence after identifying the shirtwaist as one of the rags purchased by the Yellow Cab Company for the use of the drivers to polish their automobiles. D. D. Leche, one of the drivers in the rank where the body landed, witnessed the tragedy and told MacDonald and Detective N. P. Anderson he used his polishing rag to mop up some of the blood before the police arrived.

Coroner William J. Jones will hold an inquest into the tragedy tomorrow and delve into all the details. (Continued on Page 3, Column 2)



George Valk, wealthy Pullman contractor, whose dive to death from the eighth floor of the Olympic Hotel remains a mystery.

MORGENTHAU PREDICTS WAR

BATTLE CREEK, Mich., Nov. 17. —(A. P.)—Henry Morgenthau, former ambassador to Turkey, said today he believes another European war is imminent.

If it happens, he said, the United States will be forced to take a hand, just as surely as it was in the World War.

War, he asserted, can be averted only by the United States. He suggested that the United States propose a postponement of payments of war debts by European countries to the United States, for possibly a five-year period, with the stipulation that any country which is the aggressor in a war shall sacrifice this right of deferment.

France, the former ambassador said, is preparing to repel any attack, and is arranging alliances with Poland, Yugoslavia, Rumania and other countries.

Germany, he said, is not content without her colonies and territories and war talk is general.

DOCTOR ERRS AND 16 BABIES DIE

BOGOTA, Colombia, Nov. 17. —(A. P.)—Two of the foremost pediatricians in Colombia were hurrying to Medellin tonight in an effort to save the lives of thirty-three children dying of diphtheria. Sixteen of forty-nine infants in a private hospital there have died. Reports from Medellin said a physician at the hospital inoculated the children with diphtheria germs through an error.

MUSKRAT FIRES GUN, KILLS MAN

JAMESTOWN, N. Y., Nov. 17. —(A. P.)—Tearie H. George died today from wounds suffered when his shotgun was discharged by a muskrat. George caught the muskrat in a trap and attempted to free it because it was out of season. As he tried the trap open with the butt of his shotgun, the muskrat scrambled over the gun. One of its feet touched the trigger.

"The time has arrived," said "for immediate relief. 'Not a dollar in the States treasury is so sacred it must stay there when we men walking the streets search of work they cannot find.' He indicated that while President's committee under Arthur A. Woods is performing valuable service in its tabulation of unemployment statistics and its general promotion work for construction going on throughout the country, more than mere figures are needed at present.

Doles Likely

Borah did not make known just what sort of relief he intends to urge, but it was assumed he will take the general 400,000 Doles, either in money, food necessities, or both.

The projects of the war department, announced today, are mainly rivers and harbors construction work. Every penny available to the war department for the present fiscal year will be immediately thrown into the picture, the intent being to spend the entire sum by February.

Woman Forced Into Auto, Police Toll

A report telephoned police on this morning by Attorney Her Clay Agnew that a woman had been forced into an automotor near his home, 2041 Boyer Avenue, started a police search for the vehicle, which Agnew said sped west Boyer Avenue. He gave police license number.

Coolidge Sees U. S. In Europe

NORTHAMPTON, Nov. 17. —At the recent British conference the delegates tried to eat their cake and have it, too. They asked for equal rights with Britain and more self-government, which they wanted preferential tariffs within the empire, which they did not get. They asked for greater political freedom for themselves and less economic freedom for Britain. They wished to share the British markets, but not the British responsibilities. Economic unity and political unity usually go together, that reason the Briand project for a federated Europe is a national plan for closer economic relations. Our own Union

An Official Narrative of the Lost Polar Expedition



ANDREI

FOR THE PRESS

JANUARY 30, 1942.

IMMEDIATE RELEASE

STATEMENT BY THE PRESIDENT ON SIGNING THE EMERGENCY PRICE CONTROL ACT OF 1942.

The Emergency Price Control Act of 1942 is an important weapon in our armory against the onslaught of the Axis powers.

Nothing could better serve the purposes of our enemies than that we should become the victims of inflation. The total effort needed for victory means, of course, increasing sacrifices from each of us, as an ever larger portion of our goods and our labor is devoted to the production of ships, tanks, planes, and guns. Effective price control will insure that these sacrifices are equitably distributed.

The Act, taken all in all, is a workable one. It accomplishes the fundamental objectives of setting up a single Administrator, and empowering him to establish maximum prices and rents over a broad field, to prohibit related speculative and manipulative practices, and to buy and sell commodities in order to obtain the maximum production. To make price and rent control effective, the Administrator is given adequate powers to license persons subject to the Act, to investigate and enjoin attempted violations, and to bring about the commencement of criminal proceedings against violators. Civil suits for treble damages by private persons provide an additional enforcement tool.

But a price control measure must fall far short of being a democratic instrument if it fails to surround the individual with safeguards against ill-considered or arbitrary action. This Act, while granting the Administrator broad powers, imposes upon him a responsibility of equal breadth for fair play. He must, so far as is practicable, consult with industry members before issuing price regulations, and must accompany each such regulation by a statement of the considerations upon which it is based. The provisions for adjustment assure flexibility in administration. Persons adversely affected by an order have a speedy and effective remedy in the Emergency Court of Appeals. The Administrator may proceed for the revocation of a license only through the courts. Finally, the Administrator is required to transmit quarterly progress reports to the Congress,

The farm program which has been developed since 1933 has set parity prices and income as a goal. There is nothing in this Act to prevent farmers receiving parity or a fair return. But I feel that most farmers realize that when farm prices go much above parity, danger is ahead. One of the best ways of avoiding excessive price rises, of course, is abundant production. And I hope agricultural prices can be maintained at such level as to give farmers a fair return for increasing production.

In giving my approval to this legislation, I am acting with the understanding, confirmed by congressional leaders, that there is nothing contained therein which can be construed as a limitation upon the existing powers of governmental agencies, such as the Commodity Credit Corporation, to make sales of agricultural commodities in the normal conduct of their operations. In my message to the Congress on August 25, 1941, disapproving the bill H. R. 5300, I pointed out the extreme disadvantages of any action designed to peg prices through the arbitrary withholding of Government-owned stocks from the normal channels of trade and commerce.

- 2 -

I further pointed out that the Commodity Credit Corporation should be free to dispose of commodities acquired under its programs in an orderly manner, for otherwise it will be impossible to maintain an ever-normal granary, to protect farmers against surpluses and consumers against scarcity; and that to restrict the authority of this corporation would greatly increase its losses, nullify the effectiveness of existing programs, and by breaking faith with consumers be inconsistent with our present price control efforts.

I also should like to call attention to the fact that I am requesting the departments of the Government possessing commodities to make such commodities available to other departments in order to aid our war effort. This request, primarily, will affect the cotton stocks of the Commodity Credit Corporation and will permit such stocks to be utilized, directly or by exchange, in the production of war goods. Such transfers will be in addition to the quantities which are now available for sale. The request will also include grain and other commodities which may be needed by the departments concerned.

The enactment of price control legislation does not mean that the battle against inflation has been won. I have doubts as to the wisdom and adequacy of certain sections of the Act, and amendments to it may become necessary as we move ahead. Moreover, price control legislation alone cannot successfully combat inflation. To do that, an adequate tax and fiscal program, a broad savings program, a sound production program, and an effective priorities and rationing program, are all needed.

Finally, all bulwarks against inflation must fail, unless all of us — the business man, the worker, the farmer, and the consumer — are determined to make those bulwarks hold fast. In the last analysis, as Woodrow Wilson said,

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

MEMORANDUM FOR THE SECRETARY.

January 30, 1942.

Mail Report

Mail has been very heavy during the past week, entirely aside from any called forth by the Secretary's several speeches.

The new auto tax has been the subject of many complaints - not about the tax itself, but about the form of the stamp, and regulations in connection with it. There is a strong demand for permission to autograph the stamp or to carry it with the driver's license, and many of these letters are written as a result of the theft of the first stamp purchased.

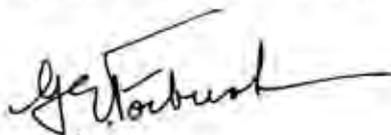
Small manufacturers and businessmen continue to write the Secretary, often saying that they know their problems do not come under his jurisdiction, but that he has the reputation of getting things done.

Suggestions for substitute names for Defense Bonds and Stamps continue to arrive. The greater proportion of these urge the name "Victory", but others suggest "Freedom", "Unity", and other substitute names.

Requests for the new tax song are just beginning to come in, and will probably increase as the Disney film is shown around the country.

Just as the abstract was being compiled, 3 letters came in praising the Secretary's radio broadcast on the subject of the President's birthday and infantile paralysis.

The address at Cleveland is the subject of a separate abstract sent herewith.



- 1 -

Comments on the Present Emergency

Ing. Enrique de Montalvo, President of the Mexican National Committee, Pro-Help to Democracies in War. With a pleasure I send you, as I offered you, one anexo (memo) about the New Individuals and Commercial and Industrial Firms in Mexico working in benefit of Axis Powers. I let you know that Avila Camacho's Govt. of Mexico talk too much about Democracies to please, and deceives the U. S., but acts indirectly favoring Axis activities. * * * Lots of spies of Japanese and Germans are working freely in Mexico, and the actual Government of Mexico knows them and make nothing to punish them.

Mrs. Myrtle Browning, Grand Saline, Tex. I have some land in Texas that has a good grade of lignite at a very shallow depth which could be mined cheaply. I am told that this lignite can be pressed into briquetts and that it would make very good fuel for furnaces, locomotives, etc. I am offering this lignite as a gift to the U.S. Government should it ever be needed to help in this struggle to preserve "The American Way of Life".

Katherine M. Wright, Wright's Trading Post, Albuquerque, N.M. The shops in this country have in stock a great deal of merchandise made in Japan. I have very little in my own shop, so little that it doesn't hurt me very much financially to pack it away. But there are lots of merchants that it does hurt. At the same time, we are all trying to buy bonds. If this merchandise, instead of being stored in basements, could be sold and all the money used to buy bonds, it would buy a tremendous lot of bonds. We could use Japan's merchandise to fight her in return for all our goods that she is using to fight us.

Aris J. Smith, Supt. of Bldg. Area, San Juan, Puerto Rico. Enclosed is a money order in the amount of \$49.25, to be used in the National Defense. This donation has been made by the 50 members of crew 14, shift 2, on the Army Terminal Contract. They have declared that it is a pleasure for them to make this contribution for the defense of democracy; and they intend to make a similar one every 15 days. (All names are Spanish in form.)

H. F. Shaffer, Chambersburg, Pa. * * * Many thousands of dollars are being held by collectors. Money that has no value whatever, as premium coins. Some folks save all their V nickels, and some all buffaloes with a Mint mark, Indians, etc. * * * One party I know has about 1,700 Indian cents. Some are smooth - none have premium value. Another has two two-quart jars full of Mint marked cents. One man tells me he has \$50 worth of V type 5-cent nickels. * * * Really Sir, these coins have no value as from a collector's viewpoint. They are being held in the hope that some day they will get big premiums on them. The facts are that the lots contain little or no extra value. * * * Ask these people to put back into circulation every available coin that does not carry extra premiums. Ask them to buy Defense Bonds with the loose coins of all values that they have on hand. * * * The exchange to Bonds will, in 10 years, produce value, while coins of only ordinary value will have no more value then than they now have, even up to 10 years. Ask for the release of Indian cents, Lincoln nickels, dimes, quarters, etc.

D. O. Alston, Gen. Manager, Bullitt Hat Company, New Kensington, Pa. Having been affiliated with one of the Departments in Washington, D. C., I am well aware of your ability for getting things done. (Describes difficulties in the hat manufacturing business.)

A letter signed by 20 different names comes from Harding College, Searcy, Ark. The names represent the entire group of students receiving N.Y.A. assistance there. " * * * We are requesting, with the approval of Harding College, that we be eliminated from the N.Y.A. payroll effective Feb. 1, 1942, and that the appropriation allotted to Harding College be henceforth used in national defense. We have been anxious to do our part to assist in the great defense program of our nation. We desire, however, that our allotment not be used to increase the allotment of some other college, which probably needs the assistance no more than our own college, and where the students could likely find other employment, just as we have found that we can get other employment here. This sacrifice is being made as a contribution to the defense of our nation. We are indeed happy that work is now abundant, that we do not longer need the NYA assistance, and that we can offer this contribution to the defense of our country.

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HELP! HELP! HELP!

Mrs. Ola McCants Spencer, Mobile, Ala. The Secretary of the Treasury. Henry Morgenthau. dear sir i am writting you about the way i have bin treated about my deciested husband which is bin dead for some time and here is where. * * * i have prove all the evidence they asked me for and still they wont consider my case and they ditting even buried him when he died. i had to bare all of the expence for his furnell my self. * * * if i dont get nothing but what i had to pay for the expence of burrying him, and after that i wss intiled to sumphing then, and he never have draw one penny out of his bonius, at all the 1936 bonius, and i know i am intiled to sume of it as i am his wife. * * * please help me and tell me exzact what i am due and i will sure thank you very much for a reply.

Ashley Miller, N.Y.C. (Telegram) Have a son in the Army and have been buying Defense Bonds. But now we learn from Congressional investigation that part of our money invested in Bonds does not go into munitions needed by Army and Navy, but into exorbitant profits for the pockets of grafters who have or arrange contracts for planes, ships, guns and other war materials. We loyal Americans want this stopped now.

Frances Opack, Sixth Grade, W. B. Powell School, Washington, D.C. (Encloses Money Order for \$9.00) The sixth grade of our school has organized a "Penny-a-Plane-Club." For each enemy plane that is shot down by our American fliers, we pay a penny. However, there is a limit to what we can pay in one day. If more than five planes are shot in a day, we can only pay five cents. Our "Penny-a-Plane-Club" is only for voluntary contributions. Enclosed is our contribution.

R. B. Cadwallader, Financial Agent and Consultant, Atlantic City, N.J. It is rumored that there is a captured German Sub at the Cape May Base. If this be correct, why can't the Government capitalize on it and place it on exhibition (preferably at Atlantic City), and charge the purchase of a Defense Stamp as the price of admission? Yours for an early and conclusive victory.

Chas. A. Koza, Invincible Tool Co., Fort Wayne, Indiana. Have been reading so many nice things about you in the papers recently that show you to be really human, and an American as well, that I am emboldened to write directly to you. * * * Is there any place for the very small business man, with Defense Contracts or orders 100%, in the present set-up, Sir? We have orders from General Electric, Federal Shipbuilding, The Army, The Navy -- from every line of Defense Work, for we make tools that are used in building and repairing ships of the sea and ships of the air. Ford wants them on his bomber, engine and other jobs, and all our orders come to us on AIA or AIB ratings. The OPM says they are not essential - so no priority rating for us. The banks say they cannot loan money on our orders, having our work done in outside job shops, although we have all our money tied up in materials in these shops. Our customers, who have received millions upon millions from the U. S., tell us they do not have to advance us any 30% as allowed them, and in turn to be passed on to the tool makers, as our tools are attachments and not machinery. We cannot borrow on unpaid accounts, except on ten-day notes -- and we have to wait from 4 to 12 weeks for our customers to pay us, when they already have had their money paid them. * * * Now, this is the story of not one, but many, small businessmen, who have been caught with more orders than they have money to swing. Properly financed, we could make tools up in a decent lot in good time - if we can get the priority - for there is a good demand for these tools and they are essential to National Defense. Hundreds of others are in the same boat. Do we have to quit and take our products off the market?

Joseph Marx, N.Y.C. About three weeks ago I applied for a position with the Fed. Reserve Bank in N.Y.C., as I heard they were taking on men. I was informed that there were no available positions, yet a friend of mine, of draft age, was accepted at once with the above bank. * * * I am a veteran of the first World War, and while I realize I am too old for active service in the armed forces of this country, I feel that I can be of service in other ways. (Lists bank experience, etc.)

Favorable Comments on Bonds

Robert S. Anderson, Assistant Principal, Western High School, Washington, D. C. Although not a philatelist, I am deeply interested in preserving samples of each of the U. S. Defense Postal Savings Stamps. It occurs to me that a special "Victory" folder, in which one of each of the series of Defense Savings Stamps might be mounted permanently, would appeal to a large number of people just as it does to me. If so, the sale of stamps would be increased and a great saving to the Government would result, since the souvenir folder would not be exchanged for Savings Bonds.

Helen Slobodian, Secretary, Club Ukraine, Brooklyn, N.Y.
* * * Our organization is composed of American youth of Ukrainian descent whose parents have fled their native land to seek peace and freedom here in this country. * * * We find that it is our duty and great privilege to serve our country as Americans of Ukrainian descent. * * * We are aware that during the first World War the Ukrainians were one of the largest buyers of Liberty Bonds in the Foreign Section. We sincerely hope and will try to do our best to see to it that this record may hold true for this war.

John A. Johnson, Laramie, Wyoming. Thanks for your letter of December, 1941, and I thank God for a country where we can write to a high Government official and know that the letter will be given respectful consideration.

Vilko Loric, N.Y.C. Your recent letter, with reference to my purchase of Defense Bonds, has been a great honor and privilege to me. It is now a further incentive for me to serve this country, which I hope to claim for my own some day, since I have recently immigrated. * * * Because I finally succeeded in converting my status from that of a visitor to that of a regular immigrant on Dec. 31, 1941, I have today purchased again - \$2,000 worth of Defense Bonds. And I shall always endeavor to follow the good and patriotic suggestions emanating from such high sources as your own office and person, whenever I am in a position to do so.

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Leonard Burke Solomon, N.Y.C. It may be presumptuous, my reaching the ripe old age of 13 1/2 and voicing my opinion of the manner in which Defense Bonds are now being sold. The sale of these Bonds and Stamps has been given a great deal of publicity. * * * We are told that by purchasing, we are performing a great deed of national loyalty and sacrifice. I am amazed that this is necessary. The people should realize that they are not sacrificing anything, they are not being heroes. They are making an investment, one they know is the soundest on earth.

Bernard Turteltaub, Awning & Shade Co., Englewood, N. J. I have just bought my fourteenth Defense Bond. I expect to buy one a week, you see - I am on crutches, an infantile paralysis sufferer. I cannot fight, but I can help in my own little way. I have two pieces of paper before me, both represent a great deal - both hold my future and both are dear to me. The first piece of paper is the new Bond, fresh and crisp. * * * The second, my father's citizenship papers, which this coming Sat. will be 42 years old. Yes, those papers permitted him to live his own life as he saw fit, and worship his God as he desired, and enjoy not only the four freedoms but the fifth also, and that was giving charity to the underprivileged. * * * You will be interested in knowing that one day I sat eight hours outside of the White House hoping to get a glimpse of the greatest man living, our President, no luck--. I will continue to buy Bonds, - Bonds are my weapons.

In sending a copy of one of the many letters urging that the word "Defense" be dropped from the Bonds, and "Victory" be substituted, Senator Carter Glass also sends a copy of his acknowledgment which reads - "I may say I quite agree with you that it is about time we abandoned the word defense and abandoned defensive thinking for a more aggressive name and attitude; and I have been glad to pass your suggestion along to the Secretary of the Treasury for consideration."

E. A. Rensmeyer, Boise, Idaho. The question has come up among a group of the Life Underwriters as to whether it is more patriotic to buy Govt. Defense Bonds, or Life Insurance and Insured Annuities. It has been the conviction of most

... us that bonds were offered as an alternate to saving.
*** Will you please advise us if a man is doing the
United States of America an injustice by buying life
insurance rather than Government Bonds, particularly when
there is a need for additional insurance on his life?

A very remarkable publication comes from E. M. Stigers,
Supervisor of Education, U. S. Penitentiary at Leavenworth,
Kans. It is THE NEW ERA, an attractive and readable maga-
zine printed by the inmates of the Penitentiary. The
magazine contains poems, general news articles and edi-
torials. There is a reprint of the President's indictment
of Japan; editorials on Pearl Harbor; blood donations; and
many "plugs" for Defense Stamps and Bonds. In particular,
Mr. Stigers calls the Secretary's attention to a chart
showing purchases made by prison inmates amounting to
\$32,175.00.

Benjamin Kaufman, National Commander, Jewish War Veterans
of the United States, N.Y.C. We of the Jewish War Veterans
of the U. S. appreciate the vital need for our people to
buy Defense Bonds and Stamps to aid the Government in order
to finance our tremendous war requirements, to prevent in-
flation, and to promote morale. The members of this organ-
ization have therefore pledged themselves to purchase, or
through their efforts, to sell, \$25,000,000 of Defense
Bonds prior to April 1, 1942. We are well on the way to-
wards achieving our goal.

Howard Yeager, Easton, Pa. We of the Interstate Blind
Friends Club want to purchase a Bond for \$18.75. We are
a small group. Can the U.S. Defense Bond be in the name
of the Club? All officers are blind, and no one individual
could very well be responsible for its safety, if it were
in the name of one person. Every one tells us a different
story, and the members would like the right way to proceed
so it could be in the name of the Club.

William J. Gorman, Secy., National Assn. of Letter Carriers,
Washington, D. C. Enclosed herewith we are sending you a
marked copy of our monthly issue, The Postal Record. ***
We would also like to take this opportunity to express our
commendation of the fine mats and other national defense
publicity we have received from time to time from the Treas.
Dept., and to thank you sincerely for the opportunity to
use them.

Unfavorable Comments on Bonds

Anonymous - The appeal to buy more Defense Bonds is beginning to leave me a bit less responsive - when I hear of so much aid to England, the Burma Road, Singapore, and not a word of our air men being sent to aid General MacArthur. Is Corregidor to be another Wake Island sacrifice?

Carl Zahler, (Hungarian Restaurant), N.Y.C. In discussions with customers, I have learned that they are "afraid" to buy Defense Bonds because if they should have an urgent need for funds, for rent or something equally necessary, they could not get an immediate loan thereon -- Defense Bonds "may not be hypothecated as collateral for a loan". They would like to own and keep Defense Bonds, but would like a so-called safety valve provision so that the Bonds could be used as collateral during a time of need. This is particularly true of those who work in a seasonal industry.

Miss Besse B. Marks, Sodus, N.Y. In my position as associate editor of The Record, I am able to do quite a bit toward promoting the sale of Defense Bonds and Stamps. I am also publicity chairman for the town committee promoting the sale. We have found cooperation in every department and in every way except one - the Post Office. * * * The local Post Office has Stamps for a day or two and then they are gone - and one cannot buy them for another week or more. We have all complained to the Postmaster, who assures us that the Post Office Dept. is to blame. We are told that the Sodus Post Office is allowed a credit of only \$200 for Stamps. * * * Surely there is some liaison officer in the Treasury Dept. who can take this up with the Post Office Dept. - and iron out a situation that should not exist. Sodus is a township of about 5,000 persons with a quota of \$500,000 worth of Bonds in 1942. We DO want to do our share in the war effort. Can someone in Washington help us?

Grace T. Lewis, Dean, Davis High School, Mount Vernon, N.Y. * * * I recently bought some tax anticipation bonds through my local bank and was amazed to see the bank note paper used in their preparation. Why are these expensive bonds necessary, especially since the civil population is told to save paper, and pay heavy taxes for defense. These bonds cannot be transferred and are not good for more than one year at a time. Why is a simple, numbered receipt not sufficient?

J. Newburger, Robert Woolen Co., N.Y.C. * * * Mrs. Jonas Gans of 115 Central Park West went to the East River Savings Bank at 96th Street and Amsterdam Ave to buy some Defense Savings Bonds. When they asked her name, she said, "Flossie Gans". The man then told her that he could not sell her any bonds as Flossie is not a name but is a "nickname". She told him that it has always been her name, that she signs her checks that way, and that she has drawn her will and so signed it. Still he would not accept it. He told her to go to the Board of Health and get a copy of her birth certificate so that "she can know what her right name is". She did that and found that she is registered there as "Baby" Gans, no name having yet been assigned to her when the doctor filed the birth certificate - so she was unable to buy her Bonds.

Mrs. S. Kanow, Bronx, N.Y.C. May I call to your attention what I believe to be a regrettable situation. This afternoon I took my son's \$0.25 Defense Stamp book to our subsidiary Post Office to convert same (filled to the extent of \$18.75) into a Bond, but was informed by the clerk that this could not be done at this branch. He suggested my taking it to the bank, where I was also told they could not accommodate me. I was referred to the Williamsbridge Post Office. I have since learned that this has been the plight of many, many housewives in this vicinity. This naturally causes a decline in stamp buying and bond accumulating - contrary to the "Buy a Defense Bond" drive.

Beatrice Kallman, N.Y.C. Our school is located in one of the poorest sections of N.Y.C. The response of the children, therefore, in the purchase of Defense Savings Stamps is not only encouraging, but inspiring. But the response, we know, can be and will be, much greater, if the obstacles interposed by the bank, where these children keep their savings, could be eliminated. The great preponderance of the children in our school come from families on relief. Yet both parents and children stint themselves in order to contribute to our country's defense efforts by investing, or attempting to invest, every penny that they can spare. * * * The children wish to purchase Defense Stamps with their funds on deposit. We have secured the signatures of an overwhelming number of parents for the withdrawal of these funds from the bank for

the purpose of buying defense stamps. We have offered numerous suggestions to the bank to facilitate such withdrawals. The bank, however, insists on personal visits by the parents in order to do this. This would involve either loss of time from work, or from home duties, aside from the fact that it would cost each parent ten-cents carfare - as the school is located four miles from the bank. The parents know, the children know, and we know that in this instance such expenditure of carfare is pure waste, when the same dime would buy another defense stamp. Neither will the bank convert these savings into defense stamps, even on the written authorization of the parents.

A Plain Citizen, Boston, Mass. The United States Government is advertising far and wide for citizens to buy bonds. I spent an hour today trying to buy a \$100 Defense Bond in Boston - trying the big banks, as well as your central Post Office in Federal Building. All stated they did not have any on hand. Also, the main Post Office had no \$100's, or \$50's, only \$25's. I took four \$25's, but really wanted just one \$100 Bond. * * * Last month I experienced the same result in trying to buy a \$100 Bond.

C. T. Stripp, University Heights, Ohio. I have received several letters from you relative to purchases which I have made in the past of U.S. Bonds for Defense; and I have also just signed an application for a regular monthly subscription to such Bonds. However, in this purchase, and based on advices which have been coming to us through every possible channel, regarding the urgent need for money for defense purposes, this money is gladly subscribed, with the stipulation, however, that when and if the funds are diverted in such wasteful extravagances as the St. Lawrence Waterways, the Beaver Mahoning, the Florida Ship, and the Tennessee Tombigbee River projects - all of which require money, men, and materials for a very doubtful result, my subscription will be cancelled. Expending money on such projects will immediately serve as a notice to that effect.

J. W. Morris, Malaga, Wash. * * * I am an Old Age Pensioner. By saving and doing without, I find I can save enough in three months to buy an \$18.75 Bond. But just before I bought a Bond, I heard about one of my friends who bought a Bond and the Board cut his pension.

L. A. Corya, (Real Estate Ins.), Scarsdale, N.Y. What moral right has the Government to urge the purchase of Defense Bonds as an investment if Secretary Wickard and the labor block in Congress refuse to place a ceiling on agriculture and wages? If a private business engaged in such a practice, the SEC would be quick to ask this question, and they might offer a legal reason why the corporation could not make such a promise as well.

Mrs. E. M. Bacheller, Melrose, Mass. Mr. Bacheller received, by mail today, an urgent request for us to purchase Defense Bonds - that certainly would be a great joy, but the Administration in Washington the past 8 years has ruined our investments, our securities have not been allowed to recover a small fraction of their actual value. It is our class of citizens who have suffered drastically from the unfair policies in the investment field in the past 8 years. The middle class of thrifty, patriotic American citizens who had saved their income to be comfortable in their old age are the ones, apparently, who still must suffer. (Lists their holdings.)
* * * We have been ruined while LABOR has been shown every favor regardless of the merits. Force these Labor people who are drawing large salaries or wages to pay their full share of the cost of this War, and reduce the salaries of those holding public office. Another class to tax is the MINISTERS, and all persons drawing a pension, large or small, from any fund, whether private or public. * * *
Let LABOR and those holding public office, and all pensioners do their part - we have been ruined. If the investment and real estate markets could be allowed to recover their normal values, you would have no difficulty to raise the necessary money.

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Comments on Taxation

Caroline Broune, San Francisco, Calif. In your interesting broadcast of a couple of weeks ago, you invited people to write you if they were interested in the Tax Saving Plan in industry. I am not interested in that particularly, but you always give the impression on the radio that you are interested in the problems of all the small taxpayers, and I thought you might wish to hear from one of the "little people", and the explanation of why we are not buying more Bonds. * * * I have always felt toward you as I do toward the President - that you have a deep feeling of friendliness and a real understanding of the problems of all Americans. It is because I admire your sense of fairness that I take the liberty of suggesting that your broadcast was a little premature. We want to buy Bonds but we cannot plan this year's budget until Congress passes the new Tax Bill.

Edw. A. Thompson, Arlington, Va. It is noted that a Fed. "Automobile Use" tax takes effect February 1, 1942. * * * We have no objection to the payment of such a tax, provided we can be assured of the use of the automobile during the period for which the tax is applicable. * * * It appears reasonable that such an assurance should accompany each Tax Certificate. We are fully aware of the necessity of additional taxes to meet any emergency in which our country may become involved, and this letter is not to be construed that we object in any way to a fair tax. The word "use" and not "ownership" is the reason for the question raised. May we have the pleasure of receiving your opinion.

Louis E. Orcutt, N.Y.C. (Asks better gluing on auto Tax Stamps.) By the way, I knew and greatly admired your father. I was an Editor of the Christian Herald from 1915 to 1918, during which time he represented our charities in Turkey and the Balkans. No one will ever know how well he did it.

Rad. Sayman, Chicago, Ill. (Sends news item saying Treas. announces it is illegal to write name on face of Auto Use Stamp.) Do 2 errors make it right? I purchased my auto stamp in good faith, and in order to prevent theft - because

of the U. S. Treasury Department's error, I put my name and auto license number on the face, and then took Scotch tape and pasted it on the windshield of my car. How can this be illegal when the error was first made by your Department?

Hon. Allen T. Treadway, House of Representatives, Washington, D.C. The simplified income tax return for persons with not more than \$3,000 gross income from certain sources is evidence of your interest in making it easier for taxpayers to meet their obligations to the Government. * * * It has come to my attention that Deputy Collectors of Internal Revenue, who are stationed at various points throughout each collection district for the convenience of taxpayers, are refusing to accept cash in payment of Federal taxes, and are insisting that payment be made by check or money order. * * * With the income tax now applying to those with incomes of more than \$750 in the case of single persons, and more than \$1,500 in the case of married persons and heads of families, it obviously affects many persons who do not have checking accounts, and who must necessarily go to the added expense of obtaining a money order to pay their income tax, due to the ruling that cash may not be accepted by Deputy Collectors. It occurs to me that the Treasury would be doing a distinct service to small taxpayers by rescinding this ruling. * * * I need not remind you that our Federal currency states that it is legal tender for all debts, public and private, and taxpayers are unable to reconcile this declaration with the above-mentioned ruling.

Miss Stasia L. Ketner, Reading, Pa. In August, 1941, when the U. S. Treasury Notes - Tax Series A-1943, were issued, I purchased two of the \$25 denomination. I considered it a very good idea. However, last week when I went to the Revenue office in our city to pay my income tax and offered these notes in payment, they did not know what to do with them. They did not know if I should endorse them, or just how they should be handled - with the result that I am ready to pay my tax with these notes and the balance with a check, and I cannot do it. My understanding is that they are NOT to be endorsed if they are used to pay Federal Income Taxes, but only if the holder wishes to cash them before maturity. Three clerks were consulted and none of them could help me, all stating they had received no information regarding same.

MEMORANDUM FOR THE SECRETARY.

January 30, 1942.

Letters prompted by the speech of last week-end did not follow the usual pattern. I expected a number of telegrams immediately thereafter, and a rush of letters, which gradually slackened up.

Instead, we had no telegrams - either of approval or disapproval - and for the first two or three days, the only letters received were those from cranks who had commodity dollar and other monetary theories. Then about the time that the rush of letters would usually be over, they began to come in, and while they do not equal, in number, those elicited by the inflation speech, and some others, there has been quite a respectable collection received.

They are about equally divided, favorable and unfavorable, and total so far, between 50 and 60. There have been only 3 or 4 requests for copies of the speech, and only 2 anonymous and abusive communications in connection with it.

Sample favorable and unfavorable abstracts follow:

Favorable Comments on Speech at Cleveland

Allan E. Baker, Perfumer, Brooklyn, N.Y. I read in the New York Times today a two-column excerpt from your speech in Cleveland, and congratulate you. And, by the way, this was tucked nicely away on page 34 of the Times, and few people ever get back that far in a newspaper. Of course, the situation is a damned outrage, and more than that, but what in hell can the average citizen do. Just as you say, it is not a matter of the amount of taxes one pays at all. It is a matter of fairness. Every time I pay my taxes I get mad enough to fight, not for the reason of the amount, but by reason of knowing that others with fifty times the income in state and federal securities don't pay a cent! * * * I can't spare either the time nor the money to run down to Washington, and even if I did come down there, I couldn't find anybody to fight, so far as I know. All I know that I can do is to write to the Ways and Means Committee and they'll throw my letter in the waste basket. Well, you are doing good work. Thanks.

Max L. Fraker, Urbana, Illinois. I believe your views on tax-exempt bonds are a step in the right direction. * * * Why can't we, who buy defense stamps and bonds, use them to pay local debts with? - As all the money used to buy defense stamps and bonds will be sent direct to the U. S. Treasury. I believe it will save the U. S. a lot of expenses in various ways.

William M. Davy, Cleveland, Ohio. Your speech was not disappointing - EXCEPT - to codfish aristocrats of the Plain Dealer type. Their idea is to use the war to cloak certain financial skullduggery. A hell of a fine way to build up morale. You ought to frame that last paragraph of their editorial (enclosed). I enjoyed your speech. Sock them in the midriff and let the grunts echo where they may.

T. E. Ward, New York, N. Y. The Morgenthau Plan for an international currency is on its way to being the greatest accomplishment in the world of commerce and currency since the introduction of bills of exchange and accounts current. You are, I know, better informed than I can possibly be on

the subject of Nazi economic measures, which are clearly those of desperate and daring men. It is evident that the Nazi determination is (1) Victory and world domination under an International Nazi Mark, and (2) If a Nazi defeat, bankruptcy of the democracies. The Morgenthau Plan will assure solvency in the victory of the democracies.

Wm. Redin Woodward, Boston, Mass. You are greatly to be commended on your clear and comprehensive statements of the loopholes in the tax laws. Your statement that the general public is not sufficiently aware of the existence and nature of these loopholes deserves an especially loud "Amen, brother!" Congressman Eliot wrote me last year that I was the only one of his constituents who wrote to him in favor of the compulsory joint return. Perhaps part of the reason for public ignorance on these matters is that most of the income-tax experts are lawyers whose business is chiefly the representing of wealthier taxpayers. * * * It is the Treasury experts who are best armed with facts and who are most likely to be able to bring the public to see what needs to be done. Consequently I hope that the Treasury will conduct a vigorous campaign of public information concerning those features of the tax laws which you so ably discussed.

Paul W. Brainard, Ithaca, New York. It was a pleasure to read your tax proposals given in Cleveland. I agree most heartily with them. I disagree violently with the loose argument advanced by one of our high New York State officials calling it a "breach of faith" to have the Government tax income from State and Municipal bonds. He might just as well say it's a "breach of faith" to draft our men to defend our very existence. If banking, business, labor and farming are primarily concerned with their own selfish interests, then we have lost the war already. Tax loop-holes must be eliminated if we are to pay for our enormous war production and protect so far as is possible the value of the good old American dollar. From the day Defense Bonds have been issued, I have "pushed" their sales. * * * Our Bank has been 100% enrolled, since August, on a payroll allotment plan. Our own investments have been 98% in United States Bonds since 1939. I am convinced that eventually the people will

really "go all out" for your splendid financing plans.

Amy A. Guy, Richmond, Va. Your talk last night over the radio was one of the finest I have ever heard. It was sincere, neighborly and kind and I could not help but feel, as you spoke, that President Roosevelt was certainly sent to us by God, to see us through such a critical period. He is indeed fortunate to be such a person that you could say those things about him. These are strenuous times in which to live but we have many things for which to be thankful - a great President and a great man as head of our financial structure.

Robert E. Barrett, Holyoke, Mass. Excerpts from your address at Cleveland indicate the desirability of taxing the income from State and Municipal securities. May I ask if there is any reason why the laws should not now be changed so as to tax the net income of state and municipally owned enterprises engaged in furnishing to the public such services as transportation, gas, electricity and water. In Massachusetts alone, there are over forty such municipally owned enterprises furnishing gas and electricity to the public with substantial annual net profits. * * * In Massachusetts the plant and real estate used by these municipal enterprises are tax-exempt, but with few exceptions, substantial sums are annually transferred from the profit and loss account of the department to relieve the taxes on real estate, but I know of no case where donations have been made to aid the Federal Government whose present activities are so essential to their future security.

Unfavorable Comments on Speech at Cleveland.

Dr. G. D. Fairbanks, Brownsville, Texas. * * * You have missed the greatest leak, viz., the millions and billions of dollars paid to officers and employees of corporations. The small stockholders, like myself, 15 to 18 million of us, have to pay the 30 or 40 per cent corporation tax and then on top of that their individual income tax on the same profits. Officers and employees only pay the individual tax but no part of the 40% tax. Many officers also take the money out of their company treasuries to pay even their individual tax. (See 279 U.S. Supreme Court Reports, page 716.) Don't you think a proper payroll tax should be assessed to equalize what the stockholders have to pay?

Mr. Harold J. Schwab, Birmingham, Alabama. If instead of making a drastic change by entirely removing income tax exemption on municipal bonds, the law could be fixed to allow exemption on half, or some fraction, the status would not be entirely changed and the exemptions violently stopped, merely an entering wedge. After carrying this for a year or more, it could be raised or eliminated. In other words, this idea is that the change from a non-taxable income to a taxable income would therefore not be forcible and sudden.

Mr. Harold W. Holt, Urbana, Illinois. Please permit me to point out that adoption by Congress of your proposal to tax income from state and municipal bonds would mean a violation of the understanding under which the states adopted the income tax amendment. They did not at that time understand that they were giving the federal government power to tax income from their securities. Quite the contrary!

Henry Y. Offutt, Louisville, Kentucky. In view of your expressed opinion advocating taxation by the Federal Government of the income from now outstanding State and Municipal bonds, I would sincerely appreciate knowing the principles of taxation which you advocate with reference to the income from United States Government bonds issued with the covenant that the income is free from all normal Federal Income taxation.

Walter Barlow, Yonkers, New York. I was dumbfounded to read your interview about taxing exempt government and state bonds. * * * I do not own any of these bonds as I have all I can do to support my family on my small salary but I do not believe in breaking a solemn pledge made by the U. S. KEEP these bonds exempt but make all new issues subject to tax. At least give the world an example of government honesty. I buy \$10 of

Defense Bonds every month.

R. D. Adair, Albuquerque, N.M. I read with interest of your statement regarding "tax discrimination" and "glaring examples" of tax exemptions. I was sorry to note, however, that you failed to mention the billion and a half Union racket with its utter lack of taxation. Recently in making out my tax report I listed \$18 for exemption as Union dues. This year, the Union says it will be \$24. Of course the worker should be allowed this exemption as in a great many instances he is forced to pay the dues and initiation fees for the privilege of working. In my own particular case, I was told after 18 years' satisfactory service with my employer, that I either had to join the Union and pay whatever dues they stipulated, or look for work elsewhere. Having a family to support and being unable to get other employment, I hung my head in shame and applied for membership. Now I learn that this money is not only exempt as far as the worker is concerned, but is also exempt from taxation after we turn it over to the Union.

Mary Murphy, Philadelphia, Pennsylvania. As you admit the holders of big govt. bonds should be compelled to pay income taxes, which would mean a large sum for the prosecution of the war, why don't you do something real about this, i.e., see that they do pay them, instead of considering taking more from the working people? Why don't you crusade for some real decent thing like that instead of touring the country trying to get more working people to buy defense bonds? * * * Give us the reason.

John M. Burton, Gloversville, New York. It would seem to me that any proposal to levy taxes on state, municipal or U.S. securities which were sold under a solemn pledge not to levy such taxes, would do far more harm than good. The greatest asset of the United States government is not the money in its Treasury, for this is very quickly spent. But the greatest strength and resource of our country lies in the CONFIDENCE and LOVE which our citizens have for our country. When the United States Government breaks its solemnly pledged word, then the respect and confidence of its citizens is very greatly impaired.

Mr. W. H. Hill, Newton & Hill, Fort Edward, New York. I have read with misgiving of your proposal to tax exempt government and municipal bonds now in the hands of the public. My own securities of this nature are so limited that the net difference

in my tax would not warrant writing this letter, but as a holder of life insurance and as president of our local bank, I feel it my duty to register a protest. * * * In a small community, we feel that our bank is the cornerstone of our business life. It is owned by many stockholders who have received little or no return on their money during the past several years and without complaint. Our depositors have likewise received only 1% on their deposits and without protest. Your plan, however, would place an extra expense upon us that would totally eliminate any income for either class. * * * It is no time to destroy the confidence of our citizens in the integrity of our Treasury Department. The present trend is towards disaster, which in turn creates dictators, and I can assure you that I frequently hear the question as to whether our "democracy" is worth the cost in bloodshed, to say nothing of resources. When you draft a boy into our army, you require an oath and you demand that he keep it - so why should he expect that the government itself should not stand by its own agreements?

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE January 30, 1942

TO Ferdinand Kuhn, Jr.
FROM Joseph Melia

**EDITORIAL COMMENT ON TAXES:
CLOSING THE LOOPHOLES**

The press has no quarrel with the general thesis that tax avoidance is wrong and should not be tolerated. Of Secretary Morgenthau's four recommendations for closing tax loopholes, however, only the proposal to tax outstanding issues of State and municipal bonds is creating appreciable editorial dissent at this time.

At present, editorial argument over tax exempts is confined to the East. Without exception those newspapers that have commented until now, including the financial journals, support the proposal to tax the income from future issues of State and municipal securities. With equal unanimity they bitterly attack the suggestion to tax the income from outstanding issues.

It is generally conceded that the Federal government has no legal contract with the holders of tax-exempts. Editorial writers nevertheless find an implied guarantee of tax exemption

for outstanding issues, since the Federal government never challenged the right of States and municipalities to issue tax-free bonds. If a tax is imposed on the bonds now outstanding, they hold it would be an inexcusable breach of faith and a gross abuse of Federal power.

The attitude of the Eastern press toward taxing the income from future and outstanding issues of State and municipal bonds is well mirrored by the Washington Post. Last week the Post, along with the Scripps-Howard chain, argued: "Under existing conditions the familiar arguments -- political and economic -- against Federal taxation of municipals have lost their validity.... Consequently existing loopholes for legal tax evasion should be plugged, both in fairness to taxpayers and for the sake of revenue...."

After Secretary Morgenthau's speech in Cleveland, however, the Post quickly made it clear that it did not regard outstanding issues as a "loophole."

"For years," said the Post, "it has been assumed, on the basis of court decisions, that municipal bonds are not subject to Federal taxation. Such bonds have been bought by investors with this understanding.... Suddenly to deprive holders of municipal bonds of the tax-exemption privilege would be regarded-- and rightly--as an indirect assault upon the sanctity of contracts... With war expenditures necessitating the borrowing of many billions, the Government needs more than ever to maintain a reputation for dealing fairly with the investing public."

Although grassroot editors as a whole have not yet entered the tax exempt argument, the line they may be expected to follow is indicated by the Conference on State Defense, an organization devoted to "preserving the rights" of State and municipal governments. On the very day of the Secretary's speech in Cleveland, the Conference issued a statement attacking the proposal to tax outstanding issues of municipal and State bonds. Every one of these bonds, it said, has been issued with the "full recognition" of the Treasury that they were "immune" from Federal taxation. "This repudiation," the Conference warned, "may well impose a moral obligation on every community, State and county in the country to make good every penny that will have to be paid out in taxes on these obligations."

The Conference did not mention in this statement the possibility of taxing future issues, but its traditional stand is that such a step would be "economically unsound, unconstitutional and a threat to the borrowing power of local governments." The Conference has also consistently called fallacious the argument that such a levy is necessary to finance the war and to plug a tax loophole. It maintains that the elimination of future tax exempts would yield no substantial income for forty or fifty years, and that, according to Treasury figures, only about six percent of the assets of large estates are in tax-free bonds.

Joint Returns

The proposal to make mandatory the filing of joint returns has been condemned by the General Federation of Women's Clubs and upheld by the CIO.

Claiming to represent two million women in 16,000 affiliated clubs, the board of directors of the Federation voted to oppose any legislation requiring joint returns on the grounds that such a law would be the worst "deterrent" women had suffered in 50 years. "What is \$389,000,000 compared to the rights of women?" one director is reported to have inquired when another had brought out that joint returns would increase Federal revenue by that amount. The Federation maintains also that joint returns would endanger the American home by discouraging marriage and encouraging divorce.

The CIO's endorsement of mandatory joint returns was contained in a tax resolution adopted this week by its executive board. The resolution served notice that the CIO would lobby for a tax program to "stop war profiteering and the creation of war millionaires and which will protect the standard of living necessary to maintain American production at a maximum." Specifically, the CIO resolved to oppose "most vigorously" any attempt to pass a general tax on wages or sales, and maintained that

sufficient war revenue could be obtained by (1) increased normal taxes and excess profit taxes on corporations, (2) increased taxes on the present individual income tax base, (3) closing loopholes in the individual and corporate income taxes, such as separate returns for husband and wife and tax-free bonds, (4) increased rates and lowered exemptions on estate and gift taxes, and (5) excise taxes on certain luxury goods.

Price Control

The only good word the press has to offer for the price control bill is that it might have been worse. Editorial writers are gloomily resigned to an inevitable climb in prices. Relieved that there is at last some sort of legislation on the books, however, they are hopeful that it will give Mr. Henderson enough authority to at least check runaway inflation. Criticism centers on the agricultural provisions and lack of wage control. When even such newspapers as the Hutchinson, Kansas, Herald hold that the farm ceilings will encourage inflation, it is safe to assume that many farmers are among those disgusted with their political spokesmen in Congress.

For your information

January 30, 1942

To Archibald MacLeish
From Alan Barth

EDITORIAL OPINION
ON THE WAR:
RESPONSE TO CANDOR

Shift

The pendulum of editorial attention has gone full swing from the Atlantic to the Pacific. There appears now to be almost complete agreement in the press that the Far East is at least the most urgent, if not the most important, sector of the war today.

Japanese advances, underscored by Australian demands for assistance, shocked the commentators into a state of serious alarm. Even The New York Times, staunch proponent of Hitler as Enemy No. 1, observes that "unless this drive is halted somewhere, the islands fringing Australia and Java will be as firmly in Japan's grip as her mandated archipelago. Our job of dislodging her will be colossal. No present comfort can be drawn from Japan's lengthening communication lines if no effort is made to cut them and if the bases from which they can be attacked are given up one by one." And William Randolph Hearst tells his readers that "The war in the Pacific

is not only the most serious situation that confronts the Allies, but it is the only phase of the war which is now vital." Secretary Knox's restatement of his view as to the relationship between the European and Asiatic fronts is in accord with the current consensus of editorial opinion.

In this atmosphere of general dismay, the Battle of Macassar Strait has glowed as a bright hope. Commentators see in it reassuring evidence that Japanese communications are becoming overextended and that the United Nations are capable of unified and effective action. Perhaps the importance of the blow dealt to this Japanese convoy has been overstated in headlines. But there are now very few signs of complacency in the editorial attitude toward Far Eastern problems.

Offensive

Despite absorption in the Pacific, most of the press now available is able to herald the landing of American troops in Northern Ireland as another hopeful indication of allied unity. Minority elements, particularly Irish and Catholic journals, clamor against the employment of our forces to aid England and against the exertion of pressure upon Eire. But the newspapers which have consistently supported Administration foreign policy

frankly rejoice that the United States is at last moving to meet the enemy on foreign fields. The Philadelphia Record, for example, deploring official reluctance to refer to this force as an AEF, declares: "The public understands quite as well as the highest officials that we cannot beat the Axis by staying home; that we cannot avenge Pearl Harbor merely by coast defense . . . It may be silly, as President Roosevelt says, to call the present force in Ulster an AEF. But it isn't silly to hope that it grows into one -- fast."

The Atlanta Constitution describes the contingent as the "vanguard of a new AEF" and "the forerunner of vast forces." The Christian Science Monitor feels that "the presence of an American force in Ireland will have tremendous effect on the morale of peoples in the Nazi-imprisoned countries and in those that are threatened -- like Eire." All in all, the press now shows a wholehearted understanding and acceptance of the lesson which the President so painstakingly propounded in the days when aid-to-Britain was a live and debatable proposition -- that defense begins abroad.

Catharsis

The Roberts report seems to have purged the worst phases of Pearl Harbor's unhappy aftermath. It served as a confession

and, as such, lifted in some measure the sense of guilt and shame which it acknowledged.

The Chicago Daily News expressed the prevailing appraisal of the report in calling it "fair, clear and complete." As to the placing of blame, an interesting distinction is to be noted between the majority of the press which has supported the Administration's foreign policy and the minority which has consistently opposed it. In the latter category falls William Randolph Hearst's judgment that "The Federal Administration at Washington has conducted an investigation, mainly concerning its own responsibility, in regard to the Pearl Harbor debacle." Similarly, The Chicago Tribune endeavors to show that "the army and navy departments, and almost all the top-ranking generals and admirals share the responsibility for the greatest defeat ever inflicted upon the American navy."

A great majority of commentators, however, feels that the basic blame must be spread among all Americans by reason of our complacency and our blindness to the intent of the Axis. They are inclined to place the lightest share of this responsibility upon the top men at Washington who repeatedly warned of impending danger. The Daily Oklahoman, indeed, goes so far as to assert: "This report shows that the Washington departments were fully informed, completely alert, and entirely cooperative."

Varying degrees of punishment for Admiral Kimmel and General Short are prescribed by the press. Many feel that humiliation and remorse have already given them all the suffering that is their due. Others urge that the ritual of courts-martial be fulfilled. In general, commentators insist that these officers pay an unspecified "appropriate penalty" for their "dereliction of duty."

The most common moral drawn from the report is that it demonstrates the need for unified command. The interpretation of the Roberts Commission comments on this score is somewhat confused. Proponents of a separate air force see their thesis vindicated in the failure of the army to disperse its planes and to appreciate the importance of air powers; those opposed to a separate air force find their objections confirmed by the report's demonstration that the coordination of sea, land and air forces is essential.

A good deal of indignation has been expressed about the gentle treatment of aliens in Hawaii. Comments on this phase of the report seem calculated to promote increased hostility toward foreign nationals in the United States, particularly Japanese.

The outstanding effect of the report is an immense restoration of confidence in the integrity and responsibility of the United States Government. "The Government," according to The St. Louis Post-Dispatch, "has honored itself by spreading the Pearl Harbor story upon the record. It is a triumph of the democratic method that the Government should make a confession of major error." In all sections of the country, this candor on the part of the Government was appreciated and respected. There is still a strong feeling in the press that the whole story about Pearl Harbor has not yet been told. But there is also a warmly compensating feeling that the Government has now told all of the story which national security permits it to tell.