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War Powers Act (First)
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February 12, 1942
10:41 a.m.

HMJr: Hello.

Secy. to
Sen. Glass: Yee, sir.

HMJr: Morgenthau speaking.

S: Yee, Mr. Secretary.

HMJr: I told the Senator when he was here I would drop in and see him before eleven o'clock.

S: Yes, sir.

HMJr: Will he be there?

S: He told me to have you come to his private room in the Appropriations Committee Room.

HMJr: Yeah. Now how do I get there? Where is that, please?

S: Well, that's - do you know how you get out of the Senate Wing of the Capitol?

HMJr: Yeah.

S: That little porte-cochère there.

HMJr: Yeah.

S: Well, it's right straight back.

HMJr: On that floor?

S: On that floor.

HMJr: What you call the first floor.

S: That's right. You go in that little door, and you just go right straight back as you can, past the restaurant.

HMJr: Past the restaurant. Then come - when I come to the end, do I turn....

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S: When you come - no, you don't turn anywhere. You walk right in the door.

HMJr: I go right in the Senate wing, on that floor, go by the - keep walking.....

S: Exactly straight.

HMJr: I see, and that's his room.

S: There's a big sign, "Appropriations Committee". You can go in there, and he has a private room to the left, in the Committee Room.

HMJr: Well, I'm leaving right now.

S: All right, sir. Well, I'll go over there and be on the look-out for you.

HMJr: I'm leaving - I ought to be up there in eight or ten minutes.

S: All right, sir; I'll meet you there at the entrance.

HMJr: Thank you.

S: Yes, sir.

2/12/42

Mr. Chairman, I appreciate the opportunity to appear before your Committee for the purpose of requesting that there be restored to the First Deficiency Bill, for the fiscal year 1942, several items, totalling \$95,000, which were approved by the House Committee on Appropriations but which were eliminated from the bill by the House of Representatives.

The amount of \$120,490 approved by the House Appropriations Committee for additional staff to handle tax work was reduced by a House amendment to \$25,490. This will cripple vital tax work of the Treasury.

While the discussion of the amendment contained no detailed breakdowns, the Treasury believes its intention was to reduce the amounts allowed by the Committee, as follows:

	House Committee Report	Remaining after Wigglesworth's Amendment
Division of Tax Research	\$26,950	\$10,640
Tax Legislative Counsel	19,250	14,850
Study of Federal-State and fiscal relations	62,890	-
Direction of tax legislative program	6,400	-
Direction of tax educational program	5,000	-
	<hr/>	<hr/>
	\$120,490	\$25,490

Before discussing the particular items in the foregoing schedule, it may be said in general that the additional funds were requested for tax programming work arising out of the emergency preceding our entrance into the war and accentuated by the advent of war. This work deals with the revenue requirements to be met by the measures about to be recommended to Congress and subsequent war legislation which may have to be enacted during the progress of the war. It has been the experience of all countries that their revenue systems have had to be reorganized to meet the strain of war.

The high rates of taxes under existing law and the expected new legislation have materially intensified this problem. The President's Budget Message called for \$9 billion of ^{additional} taxes for the fiscal year 1943, which involves tax increases twice as great as those called for by the record tax bill of last year. Even with such tax increases the deficit will be \$35 billion in fiscal 1943.

The problems of finding this new revenue in the most equitable and least harmful manner comes at a time when the volume of tax legislation has already multiplied far beyond the capacities of the normal Treasury tax staffs. Two revenue acts were enacted in 1940 and two in 1941.

The staffs of the Division of Tax Research and Tax Legislative Counsel have been wholly inadequate to cope with this increased work. The experience of the Treasury in connection with 1941 legislation proved this inadequacy. The members of the two staffs were then so overworked that in several cases health was affected and work on the revenue bills was retarded due to illness. Furthermore, such a degree of overwork impairs efficiency even if there is no illness.

As an illustration of the magnitude of the work of the divisions in question it may be stated that the Tax Legislative Counsel's office has under its consideration upwards of 150 amendments of the statute, all of which have to be analyzed in terms of their economic effects by the Division of Tax Research. Each of these amendments, as well as every policy question involving tax legislation, must be thoroughly canvassed by both these staffs in order that the utmost revenue may be obtained with the least interference with the war effort and the least possible dislocation of business.

It is earnestly hoped, therefore, that the Committee will take under serious consideration the need of the suggested additional staff in order to enable the Treasury adequately to cope with the complicated tax problems confronting it.

Study of Federal-State Fiscal Relations, \$62,890.

Coming to specific divisions and the need for appropriations therein, I wish to mention, first, the Study of the Federal-State Fiscal Relations. The work of this division embraces a study of the whole problem of State and Federal fiscal relations. The importance of this work has been greatly magnified by the war.

This study began in July 1941 and is expected to end in the fall of 1942. I initiated this study in accordance with a policy toward which I have been working for a considerable period of time, and in partial fulfillment of a recommendation made by the President in his Budget Message for 1941. The need of this study has been pressing for several years. The impending changes in the tax system made it hazardous to postpone longer the initiation of this work.

Some of the functions to be performed by the study may be indicated briefly. Recent and contemplated tax rate increases render it highly important to determine the respective impacts of Federal and State taxes.

Any Federal tax, which is enacted without reference to State taxes in the same field and collectible from the same sources of revenue, might be disastrous to the interest of the States and taxpayers, and might jeopardize the Federal revenue as well.

Moreover, with the advent of the war and the effects of price rises, material shortages, and shifts to war industry on revenue needs and collections, it becomes highly important for both the Federal and State governments to reconsider their sources of revenue in the light of new conditions. The whole problem of State and Federal taxation is interrelated and cannot be intelligently solved without a study of the interrelations of existing Federal and State taxes and of the new taxes and the problems arising therefrom.

Tax Legislative Counsel's office, \$19,250.

The office of the Tax Legislative Counsel concerns itself with legal aspects of the preparation of tax legislation and regulations necessary to implement that taxation after it has been enacted. Last year the Division examined and corrected 75 sets of Treasury Decisions and regulations. In this work it is necessary for the employees of this Division to interview taxpayers and other persons who suggest amendments; to cooperate with the Division of Tax Research as to the economic effect of amendments being considered, and to work with the Congressional drafting staff, Congressional Committees and individual members of Congress in the preparation of bills under consideration by the Congress.

This involves conference work, legal research, the drafting of statutory provisions, and an up-to-date knowledge of the decisions emanating from the Board of Tax Appeals, the 10 Circuit Courts of Appeals of the United States, the Court of Appeals of the District of Columbia, and the Supreme Court of the United States.

Division of Tax Research, \$26,950. The more important functions of the Division of Tax Research are to study the effects of the revenue laws in operation and of proposed revenue changes, and to investigate sources of revenue. The work is essentially economic research in the field of tax policy.

It is the task of the Division to ascertain, as nearly as possible in advance, how proposed revenue measures would operate, what effect they would have, and how the burdens would be distributed. The high rates of tax made necessary by the present emergency make it very important that the taxes be as equitable as possible, that they shall have the minimum harmful effects, and that hardships shall be eliminated wherever possible. This requires a large volume of detailed studies of specific situations. Members of the staff also work with the Ways and Means Committee and the Senate Finance Committee, furnishing information and other help as may be desired in the consideration of revenue legislation.

The requested additional staff is made necessary by the expansion of the work of the Division due to the passage of complicated new taxes, such as the excess profits taxes, to the effects of price rises, shortages and priorities, to the need for finding vast amounts of new revenue, and in general to the problem of adapting the revenue system to its difficult wartime role.

Direction of Tax Legislative Program, \$6,400.

To develop the war revenue program which will shortly be presented to Congress, I have persuaded Mr. Randolph E. Paul, who is the author of many books on taxation and an eminent authority in the tax field, to accept the financial sacrifice involved in taking charge of the preparation of the tax program in the Treasury.

His salary and that of his secretarial staff are included in this appropriation.

Finally, there is an item of \$5,000, covering salaries for four and a half months of Mr. Buffington and two clerical assistants, engaged in educational and promotional phases of the tax program.

Details as to the number of employees in the above divisions and their compensation appear in the Hearings Before the Subcommittee on the Committee on Appropriations of the House of Representatives, and any further information on this point will be willingly supplied.

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SENATE
SUB-COMMITTEE
on
DEFICIENCY APPROPRIATIONS
- - - - -

DEMOCRATS

- McKellar (Chairman)
- Glass
- Hayden
- Thomas (Okla)
- Tydings
- Russell
- McCarran
- Overton
- Bankhead
- O'Mahoney

REPUBLICANS

- Nye
- Lodge
- Holman
- Brooks

EXISTING PERMANENT TAX RESEARCH STAFF
 (BLOUGH and TARLEAU)
 AND PROPOSED INCREASE (ON AN
 ANNUAL BASIS.)

	Existing Permanent Force.		Additional force requested in pending deficiency estimate.	
	<u>Number.</u>	<u>Annual Cost.</u>	<u>Number.</u>	<u>Annual Cost.</u>
Mr. Blough's Division, ..	36	\$90,000	25	(a) \$75,000
Mr. Tarleau's Division, ..	10	40,960	15	(a) 50,140

(a) These amounts also include funds for employment of consultants on a part-time basis.

The House Committee approved the following items covering personal services for tax research and other functions relating to the tax program:-

For Mr. Blough's Division	\$26,950
For Mr. Tarleau's Division	19,250
For Mr. Gulick's staff	62,890
For Mr. Paul's staff	6,400
For Mr. Buffington's staff	<u>5,000</u>

TOTAL approved by House Committee \$120,490

Mr. Wigglesworth's amendment, approved
by the House, eliminated all but 25,490

The disallowance of personal services
for tax research and educational
work relating to the tax program
amounts to \$ 95,000

The \$95,000 disallowance affects the
following groups:-

Mr. Blough loses	\$ 16,310
Mr. Tarleau "	4,400
Mr. Gulick "	62,890
Mr. Paul "	6,400
Mr. Buffington"	<u>5,000</u>

\$ 95,000

The Treasury requests restoration of this \$95,000 to the Bill, so that the total to be appropriated under "Consolidated Emergency Fund" will be increased from \$172,000 to \$267,000.

Tax Research Items
contained in
"CONSOLIDATED EMERGENCY FUND"

- (1) As Approved by Budget.
(2) As Approved by House Committee.
(3) As Passed by House.

Item.	: Budget : Estimate.	: As Reported : by : Committee.	: As Passed : by : House.
Mr. Blough's Division.....	35,000	26,950	10,640
Mr. Tarleau's Division.....	25,070	19,250	14,850
Mr. Gulick's Staff.....	80,600	62,890	Disallowed
Mr. Paul's Staff.....	8,320	6,400	Disallowed
Mr. Buffington's Staff.....	6,500	5,000	Disallowed
Total	: \$155,490	: \$120,490	: \$25,490

MEMORANDUM

February 12, 1949.

TO: The Secretary

FROM: Mr. Sullivan

JWS

During the hearing before the Subcommittee on Deficiencies of the Senate Appropriations Committee this morning the proceedings went "off the record" and during this time that the record was suspended you were asked certain questions and made certain answers that may be of importance at some later date. Accordingly, I am submitting the following memoranda and suggest it be incorporated into your daily record:

Hearing of Subcommittee on Deficiency Appropriations

Present: Senator McCallister presiding, Senators Glass, Hayden, Tydings, McCarran, Nye, Thomas, Overton and O'Mahoney.
For the Treasury: Secretary Morgenthau, Messrs. Bell, Thompson, Schoeneman and Sullivan.

After the Disney film had been referred to by Senator Hayden, Senator McCarran asked Secretary Morgenthau if the Treasury intended to pay for the Disney film, and the Secretary replied in the affirmative. Senator O'Mahoney asked the Secretary if we had not made a contract with Disney. Secretary Morgenthau replied that we were obligated to pay this money and we were going to pay it.

Senator McCarran asked how the Treasury was going to pay it and Secretary Morgenthau replied that the Treasury would pay for this out of Internal Revenue funds. Senator McCarran inquired whether we could legally do this and Secretary Morgenthau replied that he had always been frank with the members of the Committee and he wished to tell them that he had looked into the matter and he was satisfied that he could legally pay this bill out of money already appropriated for the Internal Revenue Bureau. No one present suggested that this bill should not be paid.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 12, 1942.

TO Secretary Morgenthau
FROM Mr. Thompson

The Clerk of the Senate Appropriations Committee advises that the Committee has not voted on our item and probably will not do so until they take up the whole Bill in executive session for final action, in the next day or two.

Thompson

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE February 12, 1942

TO Secretary Morgenthau
FROM George Buffington

The checks have been mailed to Walt Disney
Productions and Technicolor Motion Picture
Corporation.

GHS.

February 12, 1942
12:12 p.m.

HMJr: Hello.
Operator: Mr. Welles is out of his office for two or three minutes. He'll call you right back.
HMJr: Two or three minutes?
Operator: Yes.
HMJr: Well, I'll wait that long but not much longer, tell him.
Operator: All right.

February 12, 1942
12:15 p.m.

Sumner
Welles: Hello.
HMJr: Sumner.
W: Good morning, Henry.
EMJr: How are you?
W: I'm fine, thanks.
HMJr: I tried to get you yesterday after getting your letter, and.....
W: The one on Ecuador?
HMJr: Yes.
W: Yeah.
HMJr: Now, here's the thing. Normally, I'd get a little - I'd say, "Well, why send me a letter" and all that, you see, but what I'm trying to do here is to be helpful wherever I can.
W: Well, I know that. The reason I sent you the

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letter, Henry, is this, that it's a matter of rather high political importance and I'll tell you why in two or three words.

HMJr: Yes.

W: As a result of this boundary dispute between Peru and Ecuador, which finally after a hundred and twenty-three years was settled as a result of the agreement reached at Rio.....

HMJr: Yeah.

W:there's a good deal of possibility of public resentment on the part of the ignorant part of the Ecuadorian population because they had to give up some of the things they thought for many years they were entitled to get; and there's a danger that if the thing isn't handled properly and if we don't give as much help as we can at this time, that the government itself will be overthrown and it's a government that's very friendly and cooperative to us. As you know, it's in a vitally important position strategically near the Panama Canal.

HMJr: Well, here's the thing, Sumner, which I think that you could make haste if that's what you're after. After getting your letter, I called up Jones.

W: Yes.

HMJr: I asked him if he'd got a letter, and he said he hadn't.

W: Well, his part of it was already agreed upon down in Rio.

HMJr: Well, he doesn't seem to know about it.

W: Probably not.

HMJr: And as I gather, there is something - I mean, I get it not directly, but by heresay - but whatever you want Jones to do, he hasn't done it yet.

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W: Well, the terms are now being agreed upon. He may not know it, but they are.

HMJr: Well, he doesn't seem to know.....

W: Probably not.

HMJr: Well, could you do this - whoever's working on this thing for you, let him give me a couple of pages, you see - hello.

W: Yeah.

HMJr: What are the terms?

W: I think Harry White has all of that.

HMJr: I asked him this morning, and he said not.

W: Really? I thought he'd talked that out at Rio. All right. I'll see that that's sent over to him.

HMJr: No, I asked him. He said he's only got it second-hand.

W: Well, I'll see that that's sent over to him immediately, and then he can give it to you.

HMJr: Will you do that?

W: You bet.

HMJr: And then, also, if on - when I talked to Jones, he said he'd have Warren Pearson get in touch yesterday, but I gathered as of yesterday nothing had happened over there.

W: Well, I'll check up on that, because I know the negotiations were proceeding rapidly and steadily since we got back, because the Ecuadorian representative has been right here sitting and working on it.

HMJr: Well, get somebody to give me a little background on it.

W: I'll be glad to do that.

HMJr: Right.

W: Henry, what I wanted to speak to you about particularly is this. I'm having this afternoon an off-the-record and first organization meeting of this new group here in the Department that's to go into the problem of post-war.....

HMJr: Yes.

W:matters.

HMJr: Yes.

W: And under the list of the members of the committee approved by the President is one representative of yourself.

HMJr: Yes.

W: And I wondered if you'd be kind enough to have your representative come over this afternoon at three so that we could all get together on this first organization meeting.

HMJr: Well, the trouble with that is, I don't know who I'd send. We have this Lend-Lease reverse at three here.

W: I know, and that's another problem. Without inconveniencing you, would it be possible for you to put that time, say, an hour later because.....

HMJr: No, I can't.

W: You can't?

HMJr: No, it's impossible.

W: Because I have a lot of outside people, you know, from out of Washington, coming to this.

HMJr: Well, so - well, I can't do it; that's all.

W: All right, Henry.

HMJr: I just - I have.....

W: Because Acheson is one of the people I wanted here, but I'll tell him to go over to you, then.

HMJr: Yes. Because I have one or two things, also.

W: Naturally.

HMJr: And.....

W: I'd change the hour here, except for the fact that I have out-of-town people coming and I can't very well change it now.

HMJr: Well, I have out-of-town people.

W: I see.

HMJr: But you're going to have your meeting at three?

W: Yes.

HMJr: Well, I'm not sure that I can send anybody to your first meeting, but - because everybody will be tied up here.

W: I see.

HMJr: But is this - is this always going to be on this informal basis?

W: No, no. Just as soon as I get it under way and when the moment's a little more propitious, there'll be a public announcement about it. There'll have to be an announcement, but I want to keep it quiet until the moment is.....

HMJr: Well, I'm seeing my people at two-thirty, and I'll ask who they think would be the best person.

W: Thank you so much, Henry. And if it's inconvenient, if you can't spare him this afternoon, that's okay. But let me know who it will be so that I can then arrange that he be here for the next one.

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HMJr: We've been under great pressure to clean up this Lend-Lease - I mean, the War Department and all those people have been after me now; and I told them as soon as I got my financing done and the Chinese thing, that was coming next.

W: Yeah. Yes, I understand fully.

HMJr: Yeah.

W: All right. Thanks again, Henry.

HMJr: Thank you.

W: Good-bye.

February 12, 1942
12:27 p.m.

HMJr: This is my last call for the day before I take the plunge.

Secretary Stimson: Well. (Laughs) I'll give you my best report up to date.

HMJr: All right.

S: But when you hear it you'll know how confidential it has to be.

HMJr: Yes, sir.

S: I ran into Bill on my way up to the Department. He's in here.

HMJr: Yes.

S: And he was very gloomy about it.

HMJr: Yes.

S: Wouldn't be at all surprised if they fell within twenty-four hours.

HMJr: I see.

S: But then I don't know - he doesn't know - I doubt if he knows anything more than I except the principal reports that we know.

HMJr: I see.

S: But that was the - I told you I'd give you everything. That's the only thing. Both Marshall and I have thought that they would probably last over Saturday.

HMJr: I see.

S: Over Friday, I mean.

HMJr: Over Friday. Is there anything else that might drop in my lap that's bad news tomorrow? Is there anything else?

S: (Laughs) Oh, God, there's so much could happen.

HMJr: I mean - how about MacArthur?

S: Oh, I think he's all right.

HMJr: He's all right.

S: The news from him - he's a little tempermental, but his temperment was up today.

HMJr: I mean, nothing could happen to him in the next day or two?

S: Well, I don't think so. I don't think so, and it will be with glory, whatever happens.

HMJr: I see. I see.

S: He's got his steam right up.

HMJr: Good. Good. Well, I think we'll go ahead and we'll just have to take.....

S: I think I'm in - I've been - the only cheerful thing I struck today was the news from MacArthur. I mean the - and that was purely psychological.

HMJr: Purely psychological.

S: He has confidence not only in his own American troops, but in the Filipino troops. He was renewing that, which is a thing that I wasn't sure of before.

HMJr: Good.

S: He said he trusted them equally with his American troops.

HMJr: Good. We can't get anything to him, can we?

S: Telegrams.

HMJr: But no, I mean in the way of.....

S: Oh.

HMJr: No, I mean in the way of bullets.

S: Oh, yes. Oh, don't worry about that. I don't mean to say, "don't worry" but don't talk about that at all.

HMJr: No.

S: It's not as bad as you just expressed.

HMJr: You mean we can get something.

S: We have gotten something.

HMJr: Oh, good. Good. Well, thank you. We'll go ahead, and we'll rely on the American public to take care of us.

S: All right. I think they will.

HMJr: I think so.

S: I had to face a press conference this morning, and although I didn't say anything on that subject, I was prepared to and the conference didn't press me on it at all.

HMJr: Uh huh.

S: They've been pretty good to me lately.

HMJr: Good.

S: I think they understand. I mean, I've taken them into my confidence off the record several times, and they haven't broken it and they've been very good about it, and shown their thanks about it. I gave them a story of what had happened since December.....

HMJr: Oh, yes.

S:a little while ago - since December 7 - an off-the-record one, and it worked magic with them. They were very delighted to have it.

HMJr: Fine.

S: Although, of course, it wasn't anything cheerful.

HMJr: Right. Well, thank you, Henry.

S: All right.

HMJr: Thank you.

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February 12, 1942
2:17 p.m.

HMJr: Hello.

Mr. D. W.
Bell: Yes.

HMJr: Dan. Hello.

B: Yes.

HMJr: Is this Daniel Bell?

B: Yes, sir.

HMJr: What does the W. stand for, Dan?

B: Oh, my gosh, I'd hate to tell you.

HMJr: What is it?

B: Wapina.

HMJr: (Laughs) Wapina?

B: (Laughs) Yeah. Indian name.

HMJr: Indian?

B: Yeah. You didn't know I was part Indian,
did you?

HMJr: No, are you part Indian?

B: No.

HMJr: How much part?

B: (Laughs) I don't know. (Laughs) Hind part,
I guess.

HMJr: What?

B: Hind part.

HMJr: Hide part?

B: Hind part.

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HMJr: Hind part.

B: (Laughs)

HMJr: Well, anyway, go ahead and do the financing.

B: Let her go, huh?

HMJr: Let her go.

B: The news is not any worse?

HMJr: Well.....

B: Is it?

HMJr: No, but I think that - well, I - you might just as well forget about Singapore.

B: Yes. All right. I'll send it right out.

HMJr: Okay.

B: Good-bye.

February 12, 1942
3:00 p.m.

LEND-LEASE IN REVERSE

Each to be a 500,000 sq ft
Present: Mr. Stettinius
Mr. Douglas
Mr. Dutmore
Mr. McCloy
Mr. Cox
Mr. Rostow
Mr. Locke
Capt. Hendron
Mr. LeCron
Mr. Wheeler
Mr. Acheson
Mr. Hicks
Mr. Foley
Mr. Swope
Mr. Bell
Mr. White
Mr. Viner
Mr. Stewart

H.M.JR: Are you (Hendron) going to represent the Navy?

CAPT. HENDRON: Yes, sir.

H.M.JR: How about the Army?

MR. COX: McCloy hasn't come yet.

H.M.JR: Well, let me start anyway, even though he isn't here. This is what we would like to find out from you, if you could help us. If you distributed, or whoever does the distributing, five hundred

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planes today, and let's say they were going to go to Australia and Canada and the Middle East, how are those charged up on the books? Are they charged up to Egypt, to Australia, to New Zealand, or to the British Empire?

MR. COX: They are charged both ways, and the reason that is - for that is that it is not yet determined whether on a retransfer, which is the way they go to Australia--

H.M.JR: Talk louder.

MR. COX: They go to Australia and to Egypt by retransfer. That is, the requisition is put in by the U. K. The U. K. asks for a request to retransfer to Australia or Egypt and that is the way they go. Now, the obligation in terms of the cost without evaluation is both ways because it hasn't yet been determined in so far as I understand in the master agreement with U. K. as to whether they are going to take on the full obligation for the empire or whether there may be another arrangement by which they take on the obligation for the stuff that went to the U.K. and the Dominions each take on the obligation for what went to them. Is that your understanding, Dean?

MR. ACHESON: Yes, that is right.

MR. BELL: You do have separate agreements, don't you, with those countries?

MR. COX: No, not yet. No.

MR. BELL: Oh, I thought you did have a Lend-Lease agreement.

MR. ACHESON: No, there is no Lend-Lease agreement as yet. That is one of the questions bound up in these discussions as to whether we will have ancillary agreements with each one of the Dominions which will pick up the transfers out of the main British account and will put that to the account of the Dominion, and then if the Dominion Lease-Lends back to us, it will get a credit on that account.

MR. WHITE: Dean, do I understand that that is one of the questions which is holding up the agreement?

MR. ACHESON: Oh, no. That is something that will come after we get the agreement. It isn't holding it up.

H.M.JR: I don't know which comes first, the chicken or the egg, but it is impossible for us to give you any suggestion on the financial thing until you tell us whether we are dealing with the United Kingdom or we are dealing with individual countries. Now, do you expect this meeting to decide which way you should go? Who is going to decide that? I mean, it makes a terrific amount of difference to the Treasury.

MR. COX: Well, I don't know that it can be decided here, because you have got the British in the picture on the other end of the transaction. I would guess that they would want it handled for the British Empire as a whole for fear that if you did it separately it would break up the sterling pool. Now, in determining this reciprocal aid thing, it seems to me in terms of the dollar position, you have to figure it both ways and then see what the British counter with in terms of the reverse process.

(Mr. McCloy entered the conference)

H.M.JR: Hello, Jack. Come up here. We have got a big question now. This is a question I asked; this gets to the nub of the thing. I asked this question. If they distribute five hundred planes today to England, the Middle East, to Australia, and New Zealand, who are they charged to, you see. I mean, are they charged to the United Kingdom or to the individual countries receiving them, but I am told - well, Oscar said it is done both ways.

MR. COX: It is done both ways.

H.M.JR: But it isn't done at all.

MR. COX: No, as far as Lend-Lease books are concerned, it is done both ways.

H.M.JR: But you can't do it both ways.

MR. COX: Why can't you?

H.M.JR: What are you running, two sets of books, one for the income tax and one for yourself?

MR. COX: Oh, no, we learned in the Treasury to run one.

H.M.JR: I don't understand what you do.

MR. COX: That depends upon what agreement the United States Government reaches either with the British Empire as a whole or with the U. K. and the dominions.

MR. WHITE: In other words, you are not doing it at all. You merely have the record from which you can do it.

MR. STETTINIUS: That is right.

MR. McCLOY: That is sound too.

MR. STETTINIUS: Sure.

H.M.JR: Who are the people that are going to decide which way this thing is going to be done?

MR. COX: Well, Dean is carrying the ball.

MR. ACHESON: We negotiate the agreements with you. We negotiate the kind of agreements that the government as a whole wants to negotiate. I think probably the people in this room are the people who are going to decide how that should be.

H.M.JR: Well, are there some other people, Dean, outside of this room who should be consulted?

MR. COX: The President is one.

H.M.JR: Well, he always is present.

MR. ACHESON: The only other person that will have any voice in this under the executive order would be the Chairman of the Board of Economic Warfare, who has to approve whatever is done or has to advise.

MR. STETTINIUS: Advise?

MR. ACHESON: Advise is the word, yes.

MR. STETTINIUS: Advise and consult.

MR. ACHESON: Go ahead.

H.M.JR: I can hold my thought.

MR. ACHESON: I think it is largely a question of how you can organize the bookkeeping arrangements. Whatever is done probably will have to be pulled together through one purchasing arrangement and one original charge, and then those charges can be distributed after the Dominions get them or the other foreign countries, taken off the U. K. account, but you can probably leave the management of all the dollar funds which are needed for all the Dominions here.

MR. WHITE: Well, Dean, the Secretary's point, and I think it is vital, is that in the determination as to how to arrange a policy with respect to the compensation on the other end; in order to determine that, you would have to have some concept as to what are the budgetary burdens, what are the foreign exchange burdens, of the particular units, or are you going to treat the British Empire as a whole so that part of the arrangement - the policy which you hope to shape here, can hardly be shaped unless you have the answer to the question as to whether in our considerations - in our evaluations of the budgetary burden and the foreign exchange burden, are you dealing with separate units, the Dominions and U. K., or are you dealing with the British Empire as a whole?

MR. ACHESON: I think you will have to deal with it as a whole, but you will have to deal with all of them together.

H.M.JR: Well, Dean, here is my problem now. This is in the room here, confidential. I sent over to the President this question, and - take it easy, Jack, don't throw your arms around - to the President about this six or seven hundred million dollars, and I got word back that the President considered it inappropriate to bring it up at this time, see. So that means that from the British Treasury's standpoint, I mean in the next two or three months, they have reason to be worried. Now, we can't let this thing drift on forever. Kingsley-Wood is pressing me very hard, so I think we will have to move a little bit faster, and the Lend-Lease people are going to have to make up their mind, are they going to deal with the British Empire or with the various members; and after that decision is made, then we can get down and talk finances.

MR. COX: Well, Mr. Secretary, we --

H.M.JR: You just can't leave it - have two sets of books, because that doesn't answer anything, Oscar.

MR. COX: Oh, no. I wasn't saying it answered this question. We would prefer to deal with them directly and separately.

MR. STETTINIUS: Each Dominion?

H.M.JR: You would rather do what?

MR. COX: Deal directly and separately. I mean, each Dominion, rather than the Empire as a whole. I mean, for purposes of Lend-Lease in reverse and for other purposes. Now, when you do that, you can then execute the policy you were talking about of starting off on the assumption that we would go on Lend-Lease in reverse for each one of these, and then meet the specific problems that each one had, which would be of various characters. One will be, in the case of Australia, they will say, "We need more supplies to make tires."

It is possible that a good many of those can be supplied through Lend-Lease. Or, they may come along and say their debt service in terms of sterling obligations in London and dollar obligations in the United States is such that they need some dollars and sterling or they may come along as in the case of China and say, "We need a loan from you for various purposes of our internal situation. Now, it seems to me that politically you could get a China kind of loan for Australia much easier than you could for the whole of the British Empire."

H.M.JR: Well, I said that earlier today.

MR. COX: Well, that is one of the reasons why I say that. Secondly, you can get all the coordination, it seems to me, that is necessary even though you deal with each one of them by dealing, as Dean pointed out, with all of them together.

H.M.JR: But, I mean, I have been in the Treasury long enough to realize that under war times the dollars take second place to munitions.

MR. COX: That is right.

MR. STETTINIUS: Sure.

H.M.JR: So, therefore, I think you people have got to settle this thing, which is a big political question, and military question, are you going to deal with the Empire as a whole or with the units, and then we can come along and fix up these fellows as best we can with their dollar requirements, but I think - I don't think I would want to say, decide, because on account of the dollar needs, whether it should be the Empire of the individual members. I think that is a secondary consideration, so I think you people in the State Department and wherever else - I have got these figures. It runs into a lot of money. I think the British Treasury is entitled to an answer, what we are going to do to help them out during the next few months. Then we get back to an entirely different thing that is pressing, this thing that everybody says to me, that shipping comes first and every time

we can buy a ton of supplies in any of these countries for our troops, that is just that much gained, and I don't think we are making very much headway that way, as far as I know. At least, if they are, I don't know of it. Also, the last thing that they mentioned, these shippers which are going out to Australia and New Zealand come back full rather than empty. Really, there are a lot of important things if this other thing could be settled. We could move very fast, Dean, on the financial thing. We could move very fast.

MR. WHITE: The major implications of the decision whether to deal with Dominions or with the whole unit is one, it seems to me, that affects the British Empire much more than it does us. It has political implications which are enormous and it seems to me they are the ones whose decision might be decisive.

MR. ACHESON: Yes, they wanted to be treated as a unit.

MR. WHITE: But do the dominions?

MR. ACHESON: Some of them, not.

MR. WHITE: I gathered that from--

MR. ACHESON: Canada doesn't want to be in on it.

MR. WHITE: Or Australia.

MR. ACHESON: And Australia wants to be treated separately, but you have got to treat them as a unit if you are going to make them pay seven hundred million dollars, because the only way they get that is by--

MR. WHITE: No, I don't think that that is the - I think we can work out something that could fit any decision you make. I think we can work out the exchange problem and the maintenance of their budgetary position and their exchange position to suit your needs and your decision. Therefore, I am inclined to think that a matter of that major importance could hardly be settled here without the British.

MR. COX: Don't you have two phases to it? One is what is the desire of the American Government for the purposes of putting it up to the British. If the American Government as a whole says, "We would like to deal directly with the dominion and in each case make currency or monetary or other arrangements to meet their particular problems," then the British take it up from there and probably what will happen is that Mr. Churchill will get in touch with the President and say, "We just can't do it. It's going to break up the Empire." Then you proceed from that point on.

MR. BELL: It seems to me in dealing with the individual countries you do run into this budgetary problem which we won't get involved in. Why don't we deal with the British Government and let them thrash out their inter-budgetary problems among themselves?

MR. COX: Except that there are a great multitude of reasons which we have seen in the operation where it is much more desirable in the main to deal directly even though there is a high degree of coordination between what any dominion does and the U. K. Government, because there are many cases where the interests conflict as between them, but not with the units.

MR. WHITE: That has been true of Canada, England, and Australia, is beginning to make that - take that position.

MR. COX: That is right.

MR. BELL: I can see difficulties. All of them except Canada are - if we get involved in their inter-budgetary problems, and we are going to spend say two hundred million dollars in Australia and they are getting fifty million dollars on Lend-Lease, then the question arises whether they get the extra dollars or we get credit on the British Lend-Lease. I should think you are going to get very involved by dealing with them separately, both from the dollar side and the budgetary side.

MR. ACHESON: Dan, it would be perfectly possible to have one central account or agency with which you deal and

then as they transfer things to Australia or somewhere else to take them out of that account and put them in the Australian account, or somebody else's account and that reduces the over-all burden of the United Kingdom. It deals the materials out where they are going to be anyway, and that is a secondary matter of bookkeeping. I quite agree in the first instance since they are pooling their dollars and pooling their obligations here you have to deal with the U.K. to start with, but you can have subsidiary and ancillary agreements so that as soon as it goes through the U.K. then it goes out where it will ultimately end up.

MR. WHITE: Let me give you a clear case of a problem, Mr. Secretary. Here is South Africa. South Africa has probably four hundred million dollars worth of gold and gold producing. Now, if you were dealing directly with South Africa, the problems of foreign exchange and budget would present a very different picture, and your treatment might be different than is the case now when you are dealing with U.K. and U.K. says, "We cannot include South African assets among our assets because of the delicate political situation and whatnot," and, therefore, though in a sense you are dealing with the British Empire and I don't know whether South Africa has asked for very much yet, but if she were, just how are you going to handle that? Now, you might say, "We will take U.K.'s word or her judgment as we have in the past and ignore the assets of the individual parts of the Empire." You could do that.

MR. COX: Well, the other variations which involves the three-sided thing the Secretary mentioned is in the case of Australia. They say, "We are ready and willing to give you everything that is produced or produceable in Australia, but we do have a problem and one of the problems is meeting the debt service of sterling obligations in the U.S." Now, it is conceivable that you have got a three-cornered possibility by which you say to the British, "As part of the return that we get for Lend-Leasing you, we would like to have you put up a sterling credit for the purposes of meeting the Australian obligations which are an inter-sterling thing," and to the Australians, saying, "In terms of goods and supplies and services you need, we will supply them under Lend-Lease and to the extent that you are afraid of inflationary tendencies in terms of your securities, we will go up and ask for a loan, for a China-kind of transaction.

H.M.JR: Well, can I switch a minute?

MR. ACHESON: Yes.

H.M.JR: We, here in the Treasury, are very curious to know what kind of a piece of paper you (McCloy) give as an I.O.U. when you buy these supplies from the U.K. You said you gave them something.

MR. McCLOY: We use the expression, chit. I haven't seen the chit. I know it attempts to evaluate. It puts evaluation on it. I can get one I suppose by cable. We have an agreement between ourselves as to what the value of the thing is. No money passes, but we just - it is in essence a receipt with a stated value on it.

H.M.JR: Could somebody get Bell let him know more about it.

MR. McCLOY: Surely, I will get you the exact--

H.M.JR: Then we want to ask, supposing you buy in Australia ten thousand dollars' worth of sugar and you give this chit. How does this local merchant get paid?

MR. McCLOY: To date the Australian Government pays the local merchant.

H.M.JR: The Australian Government?

MR. BELL: So you are dealing with the Australian Government.

MR. McCLOY: That is right.

H.M.JR: Do we have the details of those?

MR. McCLOY: Yes, you can have them.

H.M.JR: We wondered if it would be possible to get the Navy on a similar basis.

MR. McCLOY: I understand the Navy are operating on a quite different basis. They are paying dollars.

CAPT. HENDRON: So far I think there is some difference in the procedure with different countries. I know that a case came to my attention today where an issue was made to Navy and Coast Guard vessels by the Canadian Government, but was precluded from being paid for to the Canadian Government by the Secretary's dispatch that went out on the fifteenth of January. I don't know what was behind that but so far the Canadian Government has not been re-imbursed.

MR. BELL: But you are using sterling.

H.M.JR: The point we felt, until this thing was settled, because it may take - oh, it may possibly be a couple of months, mightn't it?

MR. ACHESON: It might, but I think it will be sooner than that.

H.M.JR: Well, it might. But if we could get some-way so that at least the U.S. Government was dealing with the U.K. on a similar basis and if you didn't want to do it this way, the suggestion we had as an alternative possibility, we could borrow enough sterling for you so that you could pay in sterling in these different countries, you see. We would just tell them why we were doing it and furnish you with enough sterling so that you (Hendron) could pay rather than to use dollars.

CAPT. HENDRON: The procedure with private individuals is cash on the barrel head so far as the Navy is concerned.

MR. COX: That is where the sterling is very important.

H.M.JR: Well, we would give you the sterling. We would borrow the sterling from the Bank of England, and tell them why and then make arrangements that you could be paying them in sterling pending this over-all agreement.

MR. McCLOY: How are you dealing with the Government? Supposing you buy something from the Government now?

The Australian Government, we will say.

CAPT. HENDRON: That is in a state of limbo pending some future decision, as I get it from what I discovered today.

MR. McCLOY: You are getting supplies every day now. You must be giving them a chit too, or something.

CAPT. HENDRON: I don't know what they are giving them but they are not giving them money. (laughter)

H.M. JR: Would you mind if we pressed you a little bit on this so we could find out?

CAPT. HENDRON: Yes.

MR. McCLOY: I will find out just exactly what we are doing with the Government and the private concerns on the ground.

H.M. JR: Because Mr. Acheson may find himself very well in the position that they will be facing him with an argument. Here the Army is doing one thing and the Navy is doing another, and he might be embarrassed.

MR. COX: I think he is likely to be faced tomorrow morning with the question of how are they buying food in Australia and other islands from private firms. He ought to be able to answer it tomorrow.

MR. WHITE: Have they indicated interest in that question or is somebody going to plant that question?

H.M. JR: No friend of Dean's will plant it. (laughter)

MR. COX: Friend or enemy.

MR. STETTINIUS: I think that question is very likely to arise.

MR. COX: Jack, I talked to Major Wainhouse and he said he was going to find out. I don't know whether he

has had any luck on the food thing, particularly in the Northern Islands. You may want to ask him about it.

MR. McCLOY: I will check up. Somebody over in your (Hendron's) place has been talking to us about it. I tried to check that just before I got here.

CAPT. HENDRON: Captain Rose in Supplies and Accounts, was it?

MR. McCLOY: I guess that is who it was. They had a meeting last week. I made some effort to try to clear that, get some uniformity, but I don't think they got very far.

CAPT. HENDRON: Who instituted your procedure of operating on a chit basis? Was that the Secretary of War's decision?

MR. McCLOY: It really was the Secretary of War's decision but it resulted from a call that Casey made, because I said, "We are ready to give you anything. You don't need to turn any money over."

H.M.JR: The Australian Minister?

MR. McCLOY: Yes. I think he instructed his Government to do it before he even saw us.

MR. BELL: We are furnishing you sterling down there. I don't know whether you are paying it out or not.

MR. COX: I think most of that is private. You see, you have got a gap there between the governmental things and the private things.

MR. BELL: Yes.

MR. WHITE: Well, how is this question going to be answered by the Navy or the Army if it is asked tomorrow? I mean, are they going to answer it in such way as is going to pre determine the policy or is the answer going to be a vague one in case it is forthcoming? Isn't that

one of the matters you want to consider here? If the question is going to be asked, how is it going to be answered?

H.M.JR: Well, it is kind of tough for - I don't think the Captain could really tell me today how it is being done, I gather. You don't know yourself, do you?

CAPT. HENDRON: No sir, I don't.

MR. WHEELER: Mr. Secretary, there is one question along that line that Secretary Wickard is worrying about, whether he might be asked and that is whether the Army or Navy is buying chese over there that we have sent over under Lend-Lease.

MR. COX: We had better check up on that.

MR. McCLOY: Yes, whether we are buying Lend-Leased cheese.

MR. COX: With American dollars.

MR. McCLOY: I think you are apt to get that question asked tomorrow.

MR. COX: That is the question.

MR. WHITE: Apparently you are just paying for the hole.

H.M.JR: We will have to decide with whom we are going to deal. I gather you (Acheson) are pressing for all you are worth on that.

MR. ACHESON: We are pressing as hard as we can, yes.

H.M.JR: And then if the Army and Navy would try their best not to make any commitments which could be thrown back at us so that we can keep this thing liquid. Nothing is decided, is it?

MR. McCLOY: I think that is just what we ought to say tomorrow. That is really what we are doing. We are making a record of every transaction. Maybe at the moment we will have to pay some dollars to get some gas on the

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ground. If we have to, we pay it. If we don't, we keep a record of the transaction pending some clearing house transaction which will determine what we are doing there.

H.M.JR: I would like to ask you one other question for my education. When an English or Canadian or an Australian flyer comes over here to be trained in this country, what is that financial arrangement?

MR. COX: It is all Lend-Lease except for personal expenses.

MR. STETTINIUS: Lend-Lease financed.

MR. COX: Except for personal expenses outside the line of--

H.M.JR: Who pays their salary?

MR. COX: The British Government.

MR. McCLOY: They pay their tuition.

MR. STETTINIUS: And their keep and transportation.

H.M.JR: Then put it this way, the British Government or Australian Government pays their salary, but everything else is Lend-Lease?

MR. COX: That is right.

MR. STETTINIUS: That is right.

MR. COX: What they do on their own time is --

H.M.JR: If we wanted to do the same thing in Australia, well, say we will pay the salary of our solidiers, but everything else would be Lend-Leased if we wanted to do the same and that would be the starting point.

MR. STETTINIUS: That is right. The plane and the fuel and the board and the keep of the boy would be --

H.M.JR: That is what we would start from and then we would get the best deal from there.

MR. STETTINIUS: That is right.

H.M.JR: But that is true with Australian flyers here or any--

MR. STETTINIUS: Any foreign flyers.

MR. ACHESON: May I ask a question that goes to the--

H.M.JR: Please.

MR. ACHESON: . . .to the substance of what we would have to work with the British on. If it is decided now that it is inappropriate to bring up the taking over of these pre-Lend-Lease contracts--

H.M.JR: Well, that is the President's decision. Didn't I send a copy of that to Mr. Hull?

MR. ACHESON: Probably, but it hasn't come to me. Does that decision, particularly, if it should continue right through until the end of the contracts, affect the question as to whether the British, either the U.K. or the dominions, can lend-lease in reverse to us? In other words, do they have to get paid in order to get the dollars to pay those pre-Lend Lease contracts?

H.M.JR: Say it again, Dean.

MR. ACHESON: If our decision, this government's decision, should be that the British pay the five hundred or six hundred million dollars on pre-Lend-Lease contracts, does that require us to buy these materials from the British and the dominions in order to give them the dollars to carry out--

MR. COX: No, but the British will--

MR. WHITE: You can't say, Mr. Secretary.

H.M.JR: No, because I can give you a case. We have spent- we can say to them, "We have spent I don't know how many millions of dollars in Bermuda and Jamaica and other places for bases. We have paid dollars. Now, whatever we are going to do will be from such and such a date, but we don't expect you to Lend-Lease what we have paid for the last year and a half."

MR. COX: But the British will argue back - you can't answer that. The British will argue back that despite that if they go in full hog on this Lend-Lease in reverse, they just can't practically or physically do it without the take-over of these pre-Lend-Lease contracts, because they haven't got the dollars to pay their pre-existing commitments.

MR. WHITE: Well, you don't know whether they would be justified in saying that. We don't know at this time, because they are going to have some money. The question is how much money, a, do you want them to have, and b, how much of these potential expenditures are going to cause them to buy more goods of a character that they would have to pay more dollars for. In other words, it is that - it is the answer to that question which I think has lead you (Secretary) to say you want to keep it fluid, because we just don't know how this is going to work out.

H.M.JR: Well, I didn't talk to the President about it. I sent it over and he sent it back. The word he used was inopportune. That doesn't close it.

MR. WHITE: No, it is not closed.

MR. ACHESON: I just wanted to know as a matter of financial fact whether accepting that decision and going ahead on it required us to modify Lend-Lease in reverse in order to furnish the dollars to the British.

H.M.JR: When you get into this deal, if you said to me, "Would you be willing to go to the President and ask him to reconsider it," I am perfectly willing to do

it. Is that what you mean?

MR. ACHESON: Yes.

H.M.JR: I would be very glad, if you get into a position where you have to, in order to keep up the English balances to a certain minimum level, you have to do it, I would be perfectly willing to go back to the President with the facts and say, "Now, you have just got to do it," for such and such a reason.

MR. WHITE: That would have to be in the next few months, because the amount is diminishing.

MR. BELL: I wonder if an answer to Dean's question isn't that they should keep this agreement so flexible that you could supply dollars from these Army and Navy payments to the British Government to meet these contracts if it was found necessary later on?

MR. COX: Or even more flexible than that, or by any other means which the American Government thinks wise to meet the dollar balance position. It may not be a take-over.

MR. WHITE: Yes, but that isn't an issue. Those other flexible means still remain.

MR. COX: That is right.

MR. BELL: I think we have got to see that they have dollars to meet those commitments.

MR. COX: That is right.

CAPT. HENDRON: I would like to ask you a question right now, Mr. Cox, to relieve us of some embarrassing situations that face us immediately. The British are asking us to take over the balance on some of these contracts. Now, I think that we have the money available in previous Lend-Lease commitments to use so that we can cancel some of those contracts with Lend-Lease money

taking over the balance of the equipment.

MR. COX: You had better direct that question at that fellow. That is the same question.

CAPT. HENDRON: I understood the Secretary's case to be one involving new funds.

MR. COX: No, it doesn't make any difference.

CAPT. HENDRON: As distinguished from existing funds.

H.M.JR: The thing I sent to the President was contracts entered into by the English prior to March 11, 1941, and it amounts to some six or seven hundred million dollars. They have asked us to take it over and I sent it over to the President and asked him to advise me and his answer was he considered it an inopportune moment to take it up.

MR. COX: Some of the Navy contracts were included in that.

CAPT. HENDRON: We have some right now that the British just aren't doing anything about. In other words, it is going to be a detriment to the production of munitions because they are just dropping them where they are.

H.M.JR: Well, that is something else.

MR. COX: That is something else. I mean, if production is going to be stopped--

CAPT. HENDRON: Well, we have the money to refinance them by canceling the old contract and making a new one. That is, money which we have in hand from the Lease-Lend Administration.

MR. COX: Well, can we take a look at those from the production standpoint and if it has got the financial

thing we will just leave it out for the time being.

H.M.JR: Well, the Captain said he would cancel it. That wouldn't mean that that would put any money back into their hands.

MR. COX: It would.

MR. WHITE: Reduce their commitments and they might get some cash.

MR. COX: They might get a refund from the manufacturers.

H.M.JR: Couldn't Cox take a look at that.

CAPT. HENDRON: Well, we have quite a number of them.

MR. STETTINIUS: Well, I am familiar with this, Mr. Secretary, and this falls in the broad category that you and Jack were talking about, about the over-all seven hundred million.

H.M.JR: It is the same thing.

MR. STETTINIUS: Exactly the same thing. You know that.

MR. SWOPE: Yes.

MR. STETTINIUS: And I think a policy decision for one is a policy decision for both.

CAPT. HENDRON: I am holding the things, not doing anything with them.

MR. McCLOY: We had a case similar to yours where there was a production hold up. We just took over that contract and the British did get a refund on it. It was machine guns. You remember, Oscar, that machine gun business.

MR. COX: Yes.

MR. McCLOY: They got a refund on that and we just carried on that and went into our Army's equipment. Theoretically it went into our Army's equipment at least, but it all went into the pool out of which--

CAPT. HENDRON: That is just another way of doing it.

MR. STETTINIUS: There have been a series of take-overs, Jack, over the months from time to time.

MR. McCLOY: And wherever there is apt to be a production lag, we step right in.

MR. COX: That is right.

MR. McCLOY: And take it over and call it our goods from then on.

MR. WHITE: Why is there a production lag, because they haven't got finances to pay for it? That is a very peculiar situation, Mr. McCloy. It isn't warranted by the facts.

MR. COX: That is the problem. They are using the production lags to get the bail-out.

H.M.JR: What?

MR. COX: The essential question is, are they using the production lag for the purpose of getting a bail-out, because, as Harry points out, factually they may have the dollars to continue the production. I mean, their present cash--

MR. WHITE: They told us they haven't got the dollars and therefore, are delayed in their ability to get the goods--if they have, that is something new.

H.M.JR: Well, Ed, I think somebody ought to sit down and take a look at this.

MR. STETTINIUS: Well, we will go into this.

H.M.JR: What else, gentlemen?

MR. COX: We may have to ask for Harry to sit in on this.

MR. McCLOY: I just wanted to point out - this may not be very apropos of what we are now discussing. You should bear in mind that although you may charge a given government with a certain number of planes, well say, those planes may stay in that government's possession only a day or two. When you are sending them, for example, into the ABDA sector, we are really sending them into the unified command. They may be only going through in transit, so that you can't build up much bookkeeping on the basis of the allocation to a particular government or munitions. Of course, the payment of dollars into a country is something else again but more and more as I visualize the development of the campaign we are going to send finished munitions into theaters of operation rather than a particular country, and we may get very confused and our bookkeeping may be very artificial if we try to tie it into the particular members of the British Dominion or the Dutch East Indies.

MR. COX: Well, isn't the Secretary's approach basically along that line, that is, if everyone extends themselves in terms of supplies, to throw them into the pot and through a dispensing station in the theater of operations. Then you ultimately come to the thing that the transactions may be completely washed out and that the only intermediate problem may be a question of having enough dollars for a particular purpose and that you meet, in each case, by whatever technique is the wisest to do it with. I mean obviously, you can't - when the soldiers are fighting in Australia and throw their guns to American soldiers, you can't keep a record of it but basically, if they are all willing to pitch in with their supplies primarily, and only treat the money thing as a secondary consideration, then your bookkeeping doesn't have to be as well done as it is done here in the Treasury.

MR. BELL: I don't know what that is.

H.M.JR: I don't either. Let it go.

MR. COX: That is just an old loyalty.

H.M.JR: Well then, Dean, we will wait on you.

MR. ACHESON: I will do my best.

H.M.JR: When you are ready, will you give us a call?

MR. ACHESON: Yes.

MR. McCLOY: And if possible let us know before hand what the type of transaction is whereby we get goods in Australia and the dominions now.

H.M.JR: If you would, and I wish the Navy would do the same.

MR. McCLOY: We will also find out whether we are buying cheese.

MR. HENDRON: I am worried by one practical consideration. At the present time I know that we are paying cash on the barrel head to private creditors, and it seems to me that you would have to get some sort of an arrangement with the Government in which these disbursing officers in the territory where they operate, the same - similar to what Mr. McCloy has in Australia, before we can switch over to the new procedure.

MR. WHITE: A simple device would be, all that could be arranged up on top and needn't concern the Navy at all if the Navy were given the currency with which to make payments, and that would be sterling, and that would be arranged by the Treasury so that you wouldn't have any problem at all. You could continue to pay cash wherever you needed to.

MR. HENDRON: Well, in the immediate interim, though, say tomorrow, you go to a local creditor and you say, "We have changed our procedure and we are not going to pay you cash." There is a little confusion in the interim.

MR. WHITE: I see.

MR. COX: Well, that you don't want to do now, do you? I mean, you don't want to force local private individuals until the higher government policy is determined to supply goods to the Army and Navy--

MR. HENDRON: I thought it was the other way. We want to keep it liquid from now on.

H.M.JR: No.

MR. COX: As I understand it, this is where the government itself wants to make available the goods--

H.M.JR: If possible, rather than pay cash; if we could get either on a chit basis or if not that, get onto a sterling basis; and if necessary, we could just tell the English we would like to borrow ten million or whatever is necessary, dollars or sterling from you. That way we would leave it all open, you see, and you could pay on the barrel head in sterling.

MR. COX: Mr. Secretary, could I ask you how you would intend to borrow it, because it might affect this pending appropriation politically.

H.M.JR: Oh, no. You wouldn't know anything about it.

MR. COX: Well, the question isn't whether I know, would Congress know?

H.M.JR: No, they wouldn't know anything about it. You just wouldn't know it any more than you know - you have got any idea how much we give the Army and Navy every day in dollars. I mean, you don't know how much the Army or the Navy calls up and says, "We want so many dollars today." If we gave it to them in sterling, it is just--

MR. BELL: We are giving it to them in sterling now.

MR. WHITE: In fact, there is an instrument whereby you can get it whenever you want.

H.M.JR: You wouldn't know it and there would be but two or three people who know it, and that would just hold everything in abeyance.

MR. HENDRON: I think, Mr. Secretary, that that will be the way it will work most efficiently and quickly, is to borrow the sterling and meet the commitments with sterling so far as our position is concerned, no preliminary groundwork having been laid for the chit basis.

H.M.JR: Well, Mr. Bell handles that now for the Army. You don't handle it for the Navy, do you?

MR. BELL: Oh, yes. Captain Rose is over here almost every day, getting a transfer into that area.

H.M.JR: You can give them sterling just as well as dollars.

MR. BELL: We have been giving them a dollar credit, but they take the dollar credit and convert it to sterling. They use sterling in a good many of those places.

MR. HENDRON: Isn't that question solved then by that means.

MR. BELL: No, because you are really paying out in effect the dollars, and they are gone. What the Secretary wants is to borrow the sterling and you pay that out, and then when it comes to settling the whole matter, we will wash out the sterling.

MR. WHITE: And that can be arranged by Mr. Bell, giving them sterling. How Mr. Bell gets the sterling wouldn't concern them. That could be very easily arranged.

H.M.JR: That is right.

MR. BELL: But the War Department, Mr. Secretary, as I understand it, pays the private creditors. The only thing for which they give a chit is the stuff that they get from the government arsenal.

MR. McCLOY: That is generally so. There was a case or two where there was a purchaser, I am told - no, they started that way, but they think they have got to give the private man money. It is too complicated to do it around the other way.

MR. HENDRON: I think our situation is the same, except that we aren't giving them the chit. We aren't giving them anything.

H.M.JR: O. K., is that all? Well, then, we will call a meeting again when you (Acheson) let us know.

MR. ACHESON: All right.

H.M.JR: Thank you.

ESTIMATE OF CASH TO BE SPENT BY UNITED STATES ARMED
FORCES IN FOREIGN TERRITORY DURING 1942

	<u>Military Pay</u>	<u>Civilian Pay</u>	<u>Supplies and Materials</u>	<u>Total</u>
<u>Lend-Lease</u>				
Sterling Area (Army)..	\$176,580,000	\$388,526,000	\$116,399,000	\$681,505,000
Sterling Area (Navy)..	25,200,000	22,800,000	17,750,000	65,750,000
Sub-total	201,780,000	411,326,000	134,149,000	747,255,000
Outside sterling area.	55,805,000	92,223,000	42,146,000	190,174,000
Total Lend-Lease ...	\$257,585,000	\$503,549,000	\$176,295,000	\$937,429,000
<u>Lend-Lease</u>	\$ 2,497,000	\$ 902,000	\$ 322,000	\$ 3,721,000
<u>Grand Total</u>	\$260,082,000	\$504,451,000	\$176,617,000	\$941,150,000

Under Secretary
February 12, 1942

64

HM JR TOOK TO WHITE HOUSE WITH
HIM ON 2/12/42

57(6)

"First War Powers Act, 1941" (Approved Dec. 18, 1941)

65

[PUBLIC LAW 354—77TH CONGRESS]

[CHAPTER 593—1ST SESSION]

[H. R. 6233]

AN ACT

To expedite the prosecution of the war effort.

As it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

TITLE I—COORDINATION OF EXECUTIVE BUREAUS IN THE INTEREST OF THE MORE EFFICIENT CONCENTRATION OF THE GOVERNMENT

SECTION 1. That for the national security and defense, for the successful prosecution of the war, for the support and maintenance of the Army and Navy, for the better utilization of resources and industries, and for the more effective exercise and more efficient administration by the President of his powers as Commander in Chief of the Army and Navy, the President is hereby authorized to make such redistribution of functions among executive agencies as he may deem necessary, including any functions, duties, and powers hitherto by law conferred upon any executive department, commission, bureau, agency, governmental corporation, office, or officer, in such manner as in his judgment shall seem best fitted to carry out the purposes of this title, and to this end is authorized to make such regulations and to issue such orders as he may deem necessary, which regulations and orders shall be in writing and shall be published in accordance with the Federal Register Act of 1935: *Provided*, That the termination of this title shall not affect any act done or any right or obligation accruing or accrued pursuant to this title and during the time that this title is in force: *Provided further*, That the authority by this title granted shall be exercised only in matters relating to the conduct of the present war: *Provided further*, That no redistribution of functions shall provide for the transfer, consolidation, or abolition of the whole or any part of the General Accounting Office or of all or any part of its functions.

SEC. 2. That in carrying out the purposes of this title the President is authorized to utilize, coordinate, or consolidate any executive or administrative commissions, bureaus, agencies, governmental corporations, offices, or officers now existing by law, to transfer any duties or powers from one existing department, commission, bureau, agency, governmental corporation, office, or officer to another, to transfer the personnel thereof or any part of it either by detail or assignment, together with the whole or any part of the records and public property belonging thereto.

SEC. 3. That for the purpose of carrying out the provisions of this title, any moneys heretofore and hereafter appropriated for the use

of any executive department, commission, bureau, agency, governmental corporation, office, or officer shall be expended only for the purposes for which it was appropriated under the direction of such other agency as may be directed by the President hereunder to perform and execute said functions, except to the extent hereafter authorized by the Congress in appropriation Acts or otherwise.

Sec. 4. That should the President, in redistributing the functions among the executive agencies as provided in this title, conclude that any bureau should be abolished and its or their duties and functions conferred upon some other department or bureau or eliminated entirely, he shall report his conclusions to Congress with such recommendations as he may deem proper.

Sec. 5. That all laws or parts of laws conflicting with the provisions of this title are to the extent of such conflict suspended while this title is in force.

Upon the termination of this title all executive or administrative agencies, governmental corporations, departments, commissions, bureaus, offices, or officers shall exercise the same functions, duties, and powers as heretofore or as hereafter by law may be provided, any authorization of the President under this title to the contrary notwithstanding.

TITLE II—CONTRACTS

Sec. 201. The President may authorize any department or agency of the Government exercising functions in connection with the prosecution of the war effort, in accordance with regulations prescribed by the President for the protection of the interests of the Government, to enter into contracts and into amendments or modifications of contracts heretofore or hereafter made and to make advance, progress and other payments thereon, without regard to the provisions of law relating to the making, performance, amendment, or modification of contracts whenever he deems such action would facilitate the prosecution of the war: *Provided*, That nothing herein shall be construed to authorize the use of the cost-plus-a-percentage-of-cost system of contracting: *Provided further*, That nothing herein shall be construed to authorize any contracts in violation of existing law relating to limitation of profits: *Provided further*, That all acts under the authority of this section shall be made a matter of public record under regulations prescribed by the President and when deemed by him not to be incompatible with the public interest.

TITLE III—TRADING WITH THE ENEMY

Sec. 301. The first sentence of subdivision (b) of section 5 of the Trading With the Enemy Act of October 6, 1917 (40 Stat. 411), as amended, is hereby amended to read as follows:

"(1) During the time of war or during any other period of national emergency declared by the President, the President may, through any agency that he may designate, or otherwise, and under such rules and regulations as he may prescribe, by means of instructions, licenses, or otherwise—

"(A) investigate, regulate, or prohibit, any transactions in foreign exchange, transfers of credit or payments between, by, through, or to any banking institution, and the importing, exporting, hoarding, melting, or earmarking of gold or silver coin or bullion, currency or securities, and

"(B) investigate, regulate, direct and compel, nullify, void, prevent or prohibit, any acquisition holding, withholding, use, transfer, withdrawal, transportation, importation or exportation of, or dealing in, or exercising any right, power, or privilege with respect to, or transactions involving, any property in which any foreign country or a national thereof has any interest,

by any person, or with respect to any property, subject to the jurisdiction of the United States; and any property or interest of any foreign country or national thereof shall vest, when, as, and upon the terms, directed by the President, in such agency or person as may be designated from time to time by the President, and upon such terms and conditions as the President may prescribe such interest or property shall be held, used, administered, liquidated, sold, or otherwise dealt with in the interest of and for the benefit of the United States, and such designated agency or person may perform any and all acts incident to the accomplishment or furtherance of these purposes; and the President shall, in the manner hereinabove provided, require any person to keep a full record of, and to furnish under oath, in the form of reports or otherwise, complete information relative to any act or transaction referred to in this subdivision either before, during, or after the completion thereof, or relative to any interest in foreign property, or relative to any property in which any foreign country or any national thereof has or has had any interest, or as may be otherwise necessary to enforce the provisions of this subdivision, and in any case in which a report could be required, the President may, in the manner hereinabove provided, require the production, or if necessary to the national security or defense, the seizure, of any books of account, records, contracts, letters, memoranda, or other papers, in the custody or control of such person; and the President may, in the manner hereinabove provided, take other and further measures not inconsistent herewith for the enforcement of this subdivision.

"(2) Any payment, conveyance, transfer, assignment, or delivery of property or interest therein, made to or for the account of the United States, or as otherwise directed, pursuant to this subdivision or any rule, regulation, instruction, or direction issued hereunder shall to the extent thereof be a full acquittance and discharge for all purposes of the obligation of the person making the same; and no person shall be held liable in any court for or in respect to anything done or omitted in good faith in connection with the administration of, or in pursuance of and in reliance on, this subdivision, or any rule, regulation, instruction, or direction issued hereunder.

"(3) As used in this subdivision the term 'United States' means the United States and any place subject to the jurisdiction thereof, including the Philippine Islands, and the several courts of first instance of the Commonwealth of the Philippine Islands shall have jurisdiction in all cases, civil or criminal, arising under this subdivision in the Philippine Islands and concurrent jurisdiction with the district courts of the United States of all cases, civil or criminal, arising upon

the high seas: *Provided, however,* That the foregoing shall not be construed as a limitation upon the power of the President, which is hereby conferred, to prescribe from time to time, definitions, not inconsistent with the purposes of this subdivision, for any or all of the terms used in this subdivision."

SEC. 302. All acts, actions, regulations, rules, orders, and proclamations heretofore taken, promulgated, made, or issued by, or pursuant to the direction of, the President or the Secretary of the Treasury under the Trading With the Enemy Act of October 6, 1917 (40 Stat. 411), as amended, which would have been authorized if the provisions of this Act and the amendments made by it had been in effect, are hereby approved, ratified, and confirmed.

SEC. 303. Whenever, during the present war, the President shall deem that the public safety demands it, he may cause to be censored under such rules and regulations as he may from time to time establish, communications by mail, cable, radio, or other means of transmission passing between the United States and any foreign country he may from time to time specify, or which may be carried by any vessel or other means of transportation touching at any port, place, or Territory of the United States and bound to or from any foreign country. Any person who willfully evades or attempts to evade the submission of any such communication to such censorship or willfully uses or attempts to use any code or other device for the purpose of concealing from such censorship the intended meaning of such communication shall, upon conviction, be fined not more than \$10,000, or, if a natural person, imprisoned for not more than ten years, or both; and the officer, director, or agent of any corporation who knowingly participates in such violation shall be punished by a like fine, imprisonment, or both, and any property, funds, securities, papers, or other articles or documents, or any vessel, together with her tackle, apparel, furniture, and equipment, concerned in such violation shall be forfeited to the United States.

TITLE IV—TIME LIMIT AND SHORT TITLE

SEC. 401. Titles I and II of this Act shall remain in force during the continuance of the present war and for six months after the termination of the war, or until such earlier time as the Congress by concurrent resolution or the President may designate.

SEC. 402. This Act may be cited as the "First War Powers Act, 1941".

Approved, December 18, 1941.

TRADING WITH THE ENEMY ACT, AS AMENDED

SEC. 3. That it shall be unlawful—

(a) For any person in the United States, except with a license of the President, granted to such person, or to the enemy, or ally of enemy, as provided in this Act, to trade, or attempt to trade, either directly or indirectly, with, to, or from, or for, or on account of, or on behalf of, or for the benefit of, any other person, with knowledge or reasonable cause to believe that such other person is an enemy or ally of enemy, or is conducting or taking part in such trade, directly or indirectly, for, or on account of, or on behalf of, or for the benefit of, an enemy or ally of enemy.

2/12/42

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Mr. Jr took this with him when he saw the President today, and the President signed the memo.



THE SECRETARY OF THE TREASURY
WASHINGTON

63

February 12, 1942.

STANDARD FORM NO. 64

Memorandum for the President:

You will recall that you authorized the Secretary of the Treasury to delegate to High Commissioner Sayre in the Philippines, and to Governor Poindexter in Hawaii all of your power and authority under section 5(b) of the Trading with the Enemy Act.

From time to time you have approved specific memoranda submitted to you authorizing the Secretary of the Treasury to take various affirmative action under the Trading with the Enemy Act.

We believe that the problems constantly arising in connection with the control of foreign property and business enterprises dominated by enemy aliens could be more adequately dealt with if you were to sign the attached memorandum delegating to the Secretary of the Treasury your authority under sections 3(a) and 5(b) of the Trading with the Enemy Act. This will avoid your being bothered with a multitude of individual cases and at the same time avoid any public delegation of powers pending final decision by you on the over-all administration of enemy property.

Henry M. Nathan
Leo G. Crowley

RECEIVED
FEB 15 1942
TREASURY

THE WHITE HOUSE
WASHINGTON

February 12, 1942

2

Memorandum to the Secretary of the Treasury:

All power and authority conferred upon me by Sections 3(a) and 5(b) of the Trading with the Enemy Act, as amended, are hereby delegated to the Secretary of the Treasury.

Lincoln P. French

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ALTERNATE MEMO PREPARED BUT
NOT PRESENTED TO THE PRESIDENT.



THE SECRETARY OF THE TREASURY
WASHINGTON

72

February 12, 1942

Memorandum for the President:

In order to deal more adequately with the problems constantly arising in connection with the control of foreign property and of business enterprises in this country which are dominated by enemy aliens and other foreign interests, I recommend that you should sign the attached order which will vest in the Secretary of the Treasury the necessary authority to deal with these problems.

This order delegates to the Secretary of the Treasury all authority under sections 3 (a) and 5 (b) of the Trading with the Enemy Act as amended by the First War Powers Act, 1941, including the power to vest enemy property.

With such an order, these problems can be worked out without bothering you further with the details.

A. M. ...



EXECUTIVE ORDER

- - - -

CONFERRING CERTAIN POWERS ON THE SECRETARY
OF THE TREASURY UNDER SECTIONS 3(a) AND 5(b)
OF THE TRADING WITH THE ENEMY ACT.

By virtue of and pursuant to the authority vested in me by the Trading with the enemy Act, as amended, by virtue of all other authority vested in me, and by virtue of the existence of a period of unlimited national emergency and of a state of war involving the United States of America, and finding that this Order is in the public interest and is necessary in the interest of national defense and security, I, FRANKLIN D. ROOSEVELT, PRESIDENT of the UNITED STATES OF AMERICA, do prescribe the following:

Section 1. All power and authority conferred upon me by sections 3(a) and 5(b) of the Trading with the enemy Act of October 6, 1917 (40 Stat. 415), as amended by sections 301 and 302 of Title III of the First War Powers Act, 1941, (Public No. 354, 77th Congress) are hereby vested in the Secretary of the Treasury, who may exercise such power and authority through any persons or agencies that he may designate.

Section 2. Any outstanding order, proclamation, regulation, ruling, license or instruction issued pursuant to sections 3(a) or 5(b) of the Trading with the enemy Act, as

- 2 -

amended, shall remain in full force and effect in accordance with the provisions thereof unless and until amended or revoked by the Secretary of the Treasury or otherwise.

THE WHITE HOUSE,



THE SECRETARY OF THE TREASURY
WASHINGTON

Memorandum for the President:

In order to deal more adequately with the problems constantly arising in connection with the control of foreign property and of business enterprises in this country which are dominated by enemy aliens and other foreign interests, I believe that you should sign the attached order which will vest in the Secretary of the Treasury the necessary authority to deal with these problems.

This order delegates to the Secretary of the Treasury all authority under sections 3(a) and 5(b) of the Trading with the enemy Act as amended by the First War Powers Act, 1941, including the power to vest enemy property.

With such an order, these problems can be worked out without bothering you further with the details.

FOR DEFENSE



February 12, 1942
12:00 Noon

HMJr: Hello.

Operator: Mr. Crowley is out of the building, and she doesn't know whether she can get him or not.

HMJr: Well, tell him after lunch will be okay.

Operator: All right.

HMJr: I'd like to talk to him.

Operator: All right.

February 12, 1942
2:22 p.m.

Operator: Go ahead.

HMJr: Hello.

Leo Crowley: Hello.

HMJr: Leo.

C: Yeah.

HMJr: Well, I took your advice. It was good.

C: Fine.

HMJr: Do you remember the short memorandum you signed? *7 dated 2/12/42 -*

C: That's right.

HMJr: Well, I took it over to let the President read it. He didn't even let me say anything, and he grabbed for his fountain pen and signed it.

C: Fine. Fine.

HMJr: So, that's that. Now, I'm going to also take

advantage of your offer that you would advise us, and so as we go into these different businesses and you have time, I'd like you to sit in.

C: Anything you want me to do at all, I'll do.

HMJr: Well, I'd like very much to have you sit in as we go into these different businesses until we strike a pattern.

C: Fine. And I think now that you've got that, it'll help you take care of a lot of that stuff out on the Coast.

HMJr: Yes, and we won't have to bother the President now.

C: That's right. Well, he was fine about it, then?

HMJr: Leo, I went in and gave it to him and as soon as he finished, he never said a word; and he reached for his pen and signed it.

C: Well, now, that's grand. That's grand.

HMJr: And I said, "Now, Mr. President, there's just one thing I'd like to say. We, the Treasury, feel that we shouldn't attempt to sell any of these businesses. First, there won't be the flies around the honey; and the second, if we have these businesses, it's something for you to dispose of when you sit down at the peace table."

C: That's right.

HMJr: And he said, "Well, I like that."

C: That's fine. That's fine. Now, have Ed call me any time at all that he has any problem, and I'll be glad - very happy to sit in.

HMJr: Well, he's going to, and he's got one tomorrow.

C: Fine.

HMJr: And your advice was good, and I want to thank you.

- 3 -

C: Not at all, and I'm glad I could be helpful
on the thing.

HMJr: All right, Leo.

C: Good-bye.

HMJr: Good-bye.

SECRETARY MORGENTHAU ANSWERING "RECURRING RUMORS," EMPHATICALLY DENIED THAT THE GOVERNMENT PLANS TO CONFISCATE SAVING ACCOUNTS.
IN A FORMAL STATEMENT AT HIS REGULAR PRESS CONFERENCE, MORGENTHAU SAID:

"I WISH TO STATE MOST EMPHATICALLY THAT THERE ARE NO FOUNDATIONS WHATEVER FOR SUCH RUMORS. THE FEDERAL GOVERNMENT DOES NOT HAVE UNDER CONSIDERATION ANY PROPOSAL INVOLVING THE CONFISCATION OF SAVING DEPOSITS OF THIS COUNTRY FOR ANY PURPOSE.

"FURTHERMORE, ANY ONE CIRCULATING RUMORS OF THIS CHARACTER IS ACTING AGAINST THE WELFARE OF THE NATION.

1/12--SB510P

80

Original returned to Mrs. Roosevelt
today without a transmittal letter.

2/12/42

ELIZABETH F. READ

February 5, 1942

Dear Eleanor,

This is just to keep you informed and requires no action on your part.

The "routine" examination of your federal tax returns for 1939 and 1940 was made yesterday. The interesting point is that the agent has had your 1939 return and has simply been holding it. He spoke of the political significance of your return, of the likelihood of its being gone into with a change of Administration, etc., etc. He also spoke of Hall's return (in fact, he talked a lot too much) which he has evidently been discussing with Harry Hooker. He said that Hall had not reported his income from trusts and indicated that additional tax on Hall's returns would be payable. You probably know all this from Harry Hooker, but since the federal agent - George Allen - was so loquacious I am simply passing the information on to you.

With reference to your own return, he admitted there was "nothing to it". However, he thinks that the Bank of New York's statement is unsatisfactory on two grounds: (1) some bonds (New York City bonds, Scovill Manufacturing Bonds, and U. S. Steel Bonds) were called during the period of these two returns and there is no indication as to whether loss or gain accrued; (2) the other point he objected to is that the Bank of New York, as your agent, foreclosed mortgages on several premises (in several of which your interest seems to have been almost infinitesimal) and Allen thinks that the Bank's statement should have noted loss or gain on these transactions. He is going to ask the Bank for a fuller statement, after the busy period is over, about April 15.

ELIZABETH F. READ

In the course of three years, these were the only points he brought up, but just at the end, he asked for certain data about Tommy's salary, which I will ask Tommy to send me.

Love as ever,

403

February 12, 1942

Dear Mr. Woollcott:

Thank you very much for sending me Mr. Osborn's letter about the Donald Duck film. It has been of the greatest possible usefulness to us, and I promptly sent a copy of it to Congressman Taber, our chief critic in the House of Representatives.

I am sorry to hear that you are laid up, and I hope that you will be better very soon.

Sincerely,

(Signed) W. Morgenthau, Jr.

Mr. Alexander Woollcott,
Bomoseen,
Vermont.

FK/hkb

Sila M. M. C.
Copies to Thompson

84

Negative of Osborn
letter to Mr. Buffington
2/11/42

ALEXANDER WOOLLCOTT

February 5, 1942

My dear Mr. Morgenthau:

I enclose a letter which may be of interest to you.

When I encountered you for a moment at the Cabinet dinner and you bade me get in touch with you about some radio work, I told you that I was brooding over an idea of my own which, if it ever hatched, would, I thought, be of more service to the government than any the government itself could sponsor. I still think that, but I have had to get off the nest because my heart has started misbehaving again and I have been sentenced to bed for some time to come. I have compromised by taking to a couch and doing only eight or nine hours' work a day. However, I cannot travel or broadcast until further notice. I will let you know when I can report back for duty.

1942
A. Woolcott

NOTED
G. BUFFINGTON

BONOSSEN, VERMONT

Batten, Barton, Durstine & Osborn, Inc.

ELdorado 5-5800

383 Madison Avenue, New York

Advertising

February 4, 1942

Mr. Alexander Woolcott
Bomoseen, Vermont

Dear Alex:

Perhaps this comment might be worth passing along as your own comment to those in Washington who have to guide public morale....

At the Radio City Music Hall, the other night, I saw a Donald Duck. When it came on the screen the audience clapped. The picture, with no sacrifice of humor or dramatic action or entertainment value, changed the minds of the audience about paying taxes. Within a few minutes, people who had long since made up their mind that they are being mistreated in being made to pay income taxes, were made to feel that it is a pleasure and a privilege to pay the government every penny they could make or borrow.

This picture could be taken as a model against which every proposal for propaganda might well be tested.

Cordially,



AFQ:K

February 9, 1942

My dear Mr. Taber:

Mr. Alexander Woolcott was kind enough to send me a letter from Mr. Osborn of the well known advertising firm of Eatten, Barton, Durstine & Osborn. You undoubtedly must know former Congressman Bruce Barton who is a member of this firm.

I thought what Mr. Osborn had to say about our Donald Duck picture might interest you.

Yours sincerely,

(Signed) E. Wernathau, JFJ

Hon. John Taber,
House of Representatives.

February 9, 1942

My dear Mr. Cannon:

I am sending you a copy of a letter which I have just sent to Congressman Teber. I thought you also would be interested in this splendid letter from Mr. Osborn.

Yours sincerely,

[Signed] H. Wergenthau, *HW*

Hon. Clarence Cannon,
House of Representatives.

Batten, Barton, Durstine & Osborn, Inc.

89

Eldorado 5-5800

383 Madison Avenue, New York

Advertising

February 4, 1942

Mr. Alexander Woolcott
Bromoseen, Vermont

Dear Alex:

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This picture could be taken as a model against which every proposal for propaganda might well be tested.

Cordially,



AFO:K

February 12, 1942

My dear Frank:

I am sending you herewith a copy of Mr. Freeman's letter to me, dated February 6, and copy of my reply to him.

I thought you would be interested in reading this correspondence.

Yours sincerely,

(Signed) Henry

Honorable Frank Walker,
The Postmaster General.

Philo Fila
N.M.C.

FEB 11 1942

My dear Mr. Freeman:

I was glad to have your letter of February 6.

Let me reassure you that I understood clearly that you came to the Treasury as the representative of the industry as a whole, and that no question such as you now suggest occurred to me.

You will doubtless appreciate that the plan you suggested would require considerable study here, not merely from the point of view of its propriety in relation to the Defense Bond program, but also from the standpoint of financing, since the costs involved would obviously be greater than could be met by any appropriation now available to this Department.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Y. Frank Freeman,
President,
Association of Motion Picture Producers, Inc.,
5504 Hollywood Boulevard,
Hollywood, California.

HNG:fns

ASSOCIATION OF MOTION PICTURE PRODUCERS, INC.

5504 Hollywood Boulevard
HOLLYWOOD, CALIFORNIA
GLadstone 6111

T. FRANK FREEMAN, PRESIDENT
DEAN J. MARSH, 1ST VICE-PRESIDENT
CLIFF WONG, 2ND VICE-PRESIDENT
FRED W. BERTSON, EXECUTIVE VICE-PRESIDENT

February 6th 1942

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

My dear Mr. Secretary:

This is the first opportunity I have had since my visit to Washington to write and express to you my appreciation for the appointment given to me to outline to you the thoughts which originated out here in connection with the train caravan across the country to assist in the sale of Defense Bonds and Stamps.

I left Washington with a feeling that I failed in my representations, to clear your mind that the idea was not one which I was presenting individually or in my capacity as president of the Association of Motion Picture Producers; but that I had been requested to discuss this matter with you by all of the representatives of the various branches of the industry, including the War Activities Committee and the Victory Committee Cooperating for Defense. I would never want you or any other representative of the government to gain any idea that I would do anything from a personal or selfish motive, or anything contrary to the organization plan set up by the motion picture industry to cooperate with the government in the war effort program.

I have fought as hard as anyone, to help organize the industry so that all efforts could be through a united front, so coordinated as to get the maximum value and not to have different individuals trying to do various and sundry jobs which in the end could lead only to confusion.

Postmaster General Frank Walker, with whom I have been associated for many years, had volunteered to accompany me to your office and be there with me during our discussion. Unfortunately, at the last moment some urgent matters came up in his office and he was unable to do this.

There is real merit in the whole program and if at any future time your Department should care to consider it, it will be a pleasure for me to do all I can to try and see if it can be worked out.

Sincerely,

T. Frank Freeman

TFF:b

UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During
 First Nine Business Days of February and January 1942 and December 1941
 (February 1-11, January 1-10, December 1-10)
 On Basis of Issue Price

(Amounts in thousands of dollars)

Item	Sales			Amount of Increase or Decrease (-)		Percentage of Increase or Decrease (-)	
	February 1942	January 1942	December 1941	February over January	January over December	February over January	January over December
	Series E - Post Offices	\$ 41,156	\$ 54,038	\$ 17,903	-\$ 12,882	\$ 36,135	- 23.8%
Series E - Banks	<u>155,203</u>	<u>135,858</u>	<u>32,572</u>	<u>19,345</u>	<u>103,286</u>	<u>14.2</u>	<u>317.1</u>
Series E - Total	196,359	189,896	50,475	6,463	139,421	3.4	276.2
Series F - Banks	26,802	21,050	7,463	5,752	13,587	27.3	182.1
Series G - Banks	<u>133,842</u>	<u>84,142</u>	<u>52,340</u>	<u>49,700</u>	<u>31,802</u>	<u>59.1</u>	<u>60.8</u>
Total	<u>\$357,003</u>	<u>\$295,087</u>	<u>\$110,278</u>	<u>\$ 61,916</u>	<u>\$184,809</u>	<u>21.0%</u>	<u>167.6%</u>

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

February 12, 1942.

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

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

UNITED STATES SAVINGS BONDS

Daily Sales - February 1942
On Basis of Issue Price

(In thousands of dollars)

Date	Post Office Bond Sales	Bank Bond Sales				All Bond Sales				
		Series E	Series M	Series F	Series G	Total	Series E	Series F	Series G	Total
February 1942										
2	\$ 8,435	\$ 34,150	\$ 6,191	\$ 19,795	\$ 60,136	\$ 42,585	\$ 6,191	\$ 19,795	\$ 68,571	
3	3,572	7,887	2,793	19,518	30,199	11,459	2,793	19,518	33,770	
4	4,893	16,537	3,937	18,515	38,989	21,430	3,937	18,515	43,882	
5	4,257	16,149	2,367	14,640	33,156	20,406	2,367	14,640	37,413	
6	4,310	23,510	3,829	18,620	45,958	27,820	3,829	18,620	50,269	
7	3,023	10,039	2,019	6,174	18,233	13,062	2,019	6,174	21,255	
9	5,486	25,354	3,071	16,265	44,690	30,839	3,071	16,265	50,175	
10	3,902	11,794	1,109	12,679	25,581	15,695	1,109	12,679	29,483	
11	3,279	9,782	1,487	7,637	18,906	13,061	1,487	7,637	22,185	
Total	\$ 41,156	\$155,203	\$ 26,802	\$133,842	\$315,847	\$196,359	\$ 26,802	\$133,842	\$357,003	

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

February 12, 1942.

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

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

Daily Changes in the Stock of Series E Savings Bonds on Hand 1/
(In thousands of pieces)

	: Number of : pieces sold: : this day :	: Number of pieces : manufactured : this day :	Stock on hand at close of day	IBM deliveries this day
Jan. 27	186	1,000	11,852	-
28	251	1,000	12,601	2,000
29	265	1,000	13,336	-
30	283	800	13,853	2,000
31	139	800	14,514	-
Feb. 1	none-closed	none-closed	14,514	-
2	505	800	14,809	-
3	158	800	15,451	-
4	262	800	15,989	2,500
5	250	800	16,539	-
6	341	800	16,998	2,500
7	159	none-closed	16,839	-
8	none-closed	none-closed	16,839	-
9	379	740	17,200	-
10	193	705	17,712	2,000
11	159	695	18,248	-

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

February 12, 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.

February 12, 1942.

My dear Mr. President:

On his return to this country, Mr. A. Manuel Fox brought a letter which Dr. H. H. Kung asked to have transmitted to you. I am very glad to do this on his behalf, and I am enclosing the letter as I received it.

Faithfully yours,

(Signed) H. Morgenthau. JMD

The President,

The White House.

Enclosure.

Secret Service 5:25

GEF/dbs

C
O
P
Y

THE EXECUTIVE YUAN

National Government, China.

Chungking, January 14, 1942.

President Franklin D. Roosevelt,
The White House,
Washington, D. C.,
U. S. A.

Dear Mr. President,

I welcome the opportunity to send you personal greetings from Chungking through the kind offices of Mr. Fox.

The developments of the last few years have amply if tragically vindicated your foresight. That which you so often and eloquently repeated is now evident to all. No single member of the comity of nations is safe when aggressor nations are allowed to choose their victims one by one.

We in China realize how much you have done to support our just cause in the past. It is, therefore, with redoubled confidence that we look forward to the future. For a while dark times may lie ahead, but the ultimate defeat of the enemies of humanity is certain, thanks in no small measure to your inspiring statesmanship and leadership under which America will save herself by her endeavor and the world by her example. While the outcome of the war will be to a considerable extent determined by American energy and resources, we are fully assured that the outcome of the peace will be guided by your sense of fair play and justice and that the New Deal you have given to America will be the model for the coming world settlement.

I sincerely hope that you are in the best of health. Please accept my kindest personal wishes and regards.

Cordially yours,

(Signed) H. H. Kung

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

OFFICE OF THE CHAIRMAN

FEB 4 1942

The Honorable

The Secretary of Treasury

Dear Mr. Secretary:

The Board of Economic Warfare was recently asked to prepare a policy statement with respect to priorities on gold mining equipment to be allocated to gold producing countries. I am sending you herewith a draft of such a statement. Will you be good enough to let me have your approval or suggestions for revision?

The first three points on Page 2 of this statement are in general agreement with the positions taken by other agencies. Point four suggests a new line of action which, if it meets with your approval, we may want to explore immediately.

Sincerely yours,

H. A. Wallace

H. A. Wallace

Attachment

100

STATEMENT OF POLICY ON GOLD MINING EQUIPMENT

The Declaration by the United Nations of January 2, 1942, and the Victory Program announced by the President in the State of the Nation address of January 6, 1942 have established the imperative need of devoting the utmost in resources, manpower, and industrial equipment to meeting military requirements or otherwise to promoting the war effort.

Gold serves no defense purpose, and, except for that relatively small part of total gold output which is mined from ores containing a high proportion of strategic and other essential metals, the production of gold does not promote the war effort but diverts essential materials, labor, and machinery away from war output.

The production of gold is no longer necessary in order to provide friendly foreign governments with dollar exchange for war needs because the United States Government has, through Lend-Lease and similar arrangements, found other ways of relieving the shortage of dollar exchange.

New gold output is unnecessary for monetary purposes during wartime as most currencies are now divorced from any specific tie to gold, and the gold stock of the United States is already abundant.

No new gold is required for post-war monetary reconstruction as the proper redistribution of the existing world stock of over 30 billion dollars being adequate for the purpose.

In view of the preceding considerations, it is the policy of the Board of Economic Warfare that

1. Gold mining equipment shall be made available in the first instance for mines whose ores contain, in addition to gold, a high proportion of strategic and other essential metals.
2. Gold mining equipment shall also be made available when adequate proof has been provided that its refusal would entail large economic dislocation owing to the impossibility of finding or creating alternative openings for the employment of men and resources engaged in gold mining. In such cases, equipment may be provided in minimum amounts, and only for the purpose of maintenance and repair.
3. The United States Government shall enlist the cooperation of other interested governments in the enforcement of the above policy, especially by seeking that these other governments place restrictions on the production of new gold mining equipment within their own territories.
4. The United States Government shall enlist the cooperation of other interested governments in initiating as soon as possible a program

of a general transfer of labor and resources from the mining of gold to the production of war supplies or of other essential commodities. The United States Government declares its readiness to offer to other governments all possible technical assistance in effecting such a transfer of labor and resources and to meet its share of the financial burdens arising from the relief of the working population in process of shifting from gold mining to other occupations.

TREASURY DEPARTMENT

103

INTER OFFICE COMMUNICATION

DATE February 11, 1942

TO: Secretary Morgenthau

FROM: Mr. White

SUBJECT: Vice President Wallace's Letter
of February 4, 1942

While we agree that productive resources in general, and not merely gold-mining machinery, should not in the absence of overriding political or economic factors be used for gold mining when usable for the war effort, it is our feeling that it would be unwise to issue a statement of policy to this effect as suggested by Vice President Wallace.

1. A statement such as is suggested does not, of itself, seem to us to have the possibility of obtaining useful results.

2. Any decisions with respect to the reduction in gold mining in foreign countries should be a matter of confidential negotiation between the United States and the particular country concerned. The situation differs from country to country economically and politically and requires different evaluation.

3. The policy with respect to granting priorities on gold-mining equipment is one that can be determined without a prior statement of policy which may make it difficult to consider individual cases on their merits.

4. Finally, the statement as it is written has the implication, when taken together with other discussions with the British Treasury and the Canadian Treasury, of committing the United States to make up any deficit in dollar exchange resulting from such action and this calls for careful consideration.

We feel that instead of analyzing the memorandum attached to Vice President Wallace's letter, it would be preferable in your reply to suggest to him that he delegate somebody to discuss the problem with your staff. Attached is a draft of the proposed reply.

200/10120

Salaries and Expenses

Foreign Exchange Control 1942

FOUNDERSHIP

FEB 11 1942

GOVERNOR

HAWAII

Following for Free from Foreign Funds Control:

You are requested to make arrangements for the immediate return to the office of Herbert Salder, whose services are urgently needed here by the Division of Monetary Research. This office is transferring immediately to Honolulu Herbert L. Merrill, CAF-11, annual salary \$3600, and James D. Scremin, CAF-2, annual salary \$1440, to be attached to your staff. It is suggested that these men, in addition to undertaking the administrative duties heretofore performed by Salder, will be of assistance to Underwood and may make certain suggestions to you with regard to investigation and analysis of TFR-300 reports.

With reference to Towson's conference with bankers, you are advised that if Honolulu bankers wish to place orders for recorders or similar equipment, this office will use its best efforts to obtain priority for shipment thereof.

(Signed) E. H. Foley, Jr.

E. H. Foley, Jr.
Acting Secretary of the Treasury

Out BB-2-12-42.

W. E. Towson:lfb 2/10/42

February 12, 1942.

Conference in Mr. White's Office
February 12, 1942
10:00 A. M.

Present: Mr. White
Dr. Soong

Dr. Soong called on Mr. White at Dr. Soong's request.

Dr. Soong said he would like to see the Secretary to know what the next step in the loan arrangement should be, but he thought the Secretary was very busy this week and he (Soong) was leaving for New York for a day and would therefore try to make an appointment with the Secretary on Monday. Mr. White told him he thought that would be preferable because the Secretary was extremely busy this week and probably would be able to give more time to the problem next week.

Dr. Soong stated that he did not believe that his Government had any more specific ideas as to the use to be made of the funds than had already been communicated to him and to Mr. Fox. He expressed the view that it might be better to settle the general terms of the agreement while going ahead with the suggestions as to the use to which the funds could be put. He also expressed the view that it would partly defeat the purpose of the loan if conditions were attached to the use. The Generalissimo might regard conditions as evidence of lack of faith. Mr. White suggested those were matters Dr. Soong should discuss with the Secretary, but that we, on our part, would be ready to go ahead at once with the discussions as to possible uses to which the Fund might be most helpfully put.

[PUBLIC LAW 452—77TH CONGRESS]

[CHAPTER 71—2D SESSION]

[H. J. Res. 378]

JOINT RESOLUTION

Making an appropriation to provide financial aid to China.

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That the sum of \$500,000,000 is hereby appropriated, out of any money in the Treasury not otherwise appropriated, to enable the Secretary of the Treasury to carry out the provisions of the joint resolution entitled "Joint resolution to authorize the President of the United States to render financial aid to China, and for other purposes," approved February 7, 1942, and to remain available until June 30, 1943.

Approved, February 12, 1942.

**BRITISH AIR COMMISSION**

1785 MASSACHUSETTS AVENUE

WASHINGTON, D. C.

TELEPHONE HOBART 9000

PLEASE QUOTE

REFERENCE NO. _____

With the compliments of British Air Commission,
who enclose Statement No. 20 - Aircraft Despatched
- for week ended February 10, 1942.

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

February 12, 1942

STATEMENT NO. 20

AIRCRAFT DESPATCHED FROM THE UNITED STATES DURINGWEEK ENDED, FEBRUARY 10th, 1942

DESTINATION	ASSEMBLY POINT	BY SEA	BY AIR	FLIGHT DELIVERED FOR USE IN CAN.
Cobra	U.K.	U.K.	9	
en III	Russia	Basrah	13	
<u>VALIDATED</u> ina	U.K.	U.K. (via Bermuda)		3
<u>ESS</u> awks	Middle East	Port Sudan	9	
	Canada			1
<u>MARTIN</u> ore	Middle East	Port Sudan	16	
	" "	Alexandra	4	
<u>AMERICAN</u> rd II	Canada			4
fg	U.K.	U.K.	40	
			91	3
				5

British Air Commission,

February 12th, 1942.

SAFE HAND

BRITISH EMBASSY,

WASHINGTON, D.C.

W.T. 1102/13/42

12th February, 1942

With the Compliments of

Mr. R. J. Stopford

Copy of the Trading with the Enemy
(Custodian) (No. 1) Order, 1942.

Mr. Frank Dietrich,
U.S. Treasury Department,
Stabilization Office, Room 279,
Washington, D.C.
WR:OSB

cc: Mr. J. W. Pehle
Dr. F. Livesey
Mr. Bernard Bernstein

STATUTORY RULES AND ORDERS

110

1942 No. 10

TRADING WITH THE ENEMY
CUSTODIAN

The Trading with the Enemy (Custodian) (No. 1) Order, 1942, dated 5th January, 1942, made by the Board of Trade under Sections 7 and 15 of the Trading with the Enemy Act, 1939 (2 & 3 Geo. 6 c. 69).

The Board of Trade in exercise of the powers conferred upon them by Sections 7 and 15 of the Trading with the Enemy Act, 1939, and of all other powers enabling them in that behalf do hereby make the following Order:

1. Paragraph I of the Trading with the Enemy (Custodian) Order, 1939(a), shall not apply to any money which but for the existence of a state of war would be payable by a Bank to or for the benefit of (i) any individual who is an enemy only because he is resident in Hong Kong, (ii) any body of persons (whether corporate or unincorporate), carrying on business in any place, which is an enemy only because it is controlled by a person resident in Hong Kong and (iii) any individual or any body of persons (whether corporate or unincorporate) who or which is an enemy only because of his or its carrying on business in Hong Kong.
 2. Any Bank which invests such money in any securities registered as to both principal and interest for the time being specified by the Treasury under Regulation 3E of the Defence (Finance) Regulations, 1939, for the investment of sums standing to the credit of a blocked account, shall not by reason only of so doing be deemed to have traded with the enemy.
 3. A bank which credits interest in its books on any such money shall not by reason only of so doing be deemed to have traded with the enemy.
- . This order may be cited as the Trading with the Enemy (Custodian) (No. 1) Order, 1942.

Dated this fifth day of January, 1942.

H. S. HODGSON
A Secretary of the Board of Trade

COPY

171

DEPARTMENT OF STATE
WASHINGTON

February 12, 1942

In reply refer to
FD

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses copies of the paraphrase of an unnumbered telegram from the American Consulate, Yunnanfu, China, via Chungking and Naval Radio, concerning foreign exchange conditions at Yunnanfu.

Enclosure:

From Consulate, Yunnanfu,
dated February 10, 1942.

Copy:lc:2/13/42

C O P Y

LEGATION OF SWEDEN

113

WASHINGTON, D. C.

February 12, 1948.

accounts designated "Mr. Ollmar Bostrom and Mr. Harry Eriksson, acting jointly property of Sveriges Riksbank subject to disposal by Mr. Bostrom, Minister of Sweden to the United States, and Mr. Eriksson, Commercial Counselor of the Swedish Legation in Washington, acting jointly)".

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

Dear Sirs:

We beg to inform you that in pursuance of the established policy to keep a certain proportion of Swedish foreign assets in gold, it has been decided to increase the gold holdings for Sweden's account in the United States by gold bars to the approximate value of \$25,000,000.

We should, therefore, be obliged if you would be good enough to increase the amount of gold you are holding for our account as designated above with fine gold bars to the approximate value of \$25,000,000 and debit the purchase price, at \$35.00 per fine ounce, plus 2.5 promille, to the dollar account which also bears the above designation.

The balance of this account, at present being only \$10,844,764.76 will be increased by \$7,500,000 from Treasury bills which mature on February 18th. Further \$6,700,000 will be transferred to the said account by the Sveriges Riksbank in accordance with direct instructions which you will receive from them.

This amount of \$6,700,000 is to be repaid to the Sveriges Riksbank as follows:

\$5,000,000 on February 25th

and \$1,700,000 on March 4th

out of the proceeds of our Treasury bills maturing on these dates. We herewith request you to credit the account of the Sveriges Riksbank accordingly.

Very truly yours,

(Signed)
HARRY ERIKSSON
Commercial Counselor etc.

(signed)
W. BOSTROM
Minister of Sweden

147000

HRL

PLAIN

Cairo

Dated February 12, 1942

Rec'd 7:30 p.m.

Secretary of State,
Washington.

243. twelfth, 10 a.m.

This morning's newspapers state that Mahas Pasha stated yesterday to the press that he intended to establish a State Council for the purpose of controlling all Government expenditures in accordance with the state budget. The press has also announced that the new Cabinet reexamining the budget for 1942-1943 approved by previous Cabinet.

KIRK

LMS

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DEPARTMENT OF STATE
WASHINGTON

February 12, 1942

In reply refer to
FD

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses copies of telegram no. 18, dated February 11, 1942 from the American Consulate General, Capetown, Union of South Africa, in regard to arrangements with the Federal Reserve Bank of South Africa for handling United States currency.

Enclosure:

From Consulate, Capetown,
no. 18, February 11, 1942.

Copy:ec:2-13-42

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

Capetown

Dated February 11, 1942

Rec'd 4:29 p.m.

Secretary of State,
Washington.

18, February 11, 5 p.m.

The message from the Treasury Department in the
Department's telegram no. 11, February 9, 9 p.m. has
been sent to the governor of the South African Reserve
Bank and a copy of telegram no. 11 has been handed to
the American Consul at Capetown for his guidance in the
matter.

KHENA

RWR

Copy: ec:2-13-42

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BRITISH EMBASSY
WASHINGTON, D.C.

February 12th, 1942

PERSONAL AND SECRET

Dear Mr. Secretary,

I enclose herein for your
personal and secret information copies
of the latest reports received from
London on the military situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Halifax

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

BRITISH MOST SECRET

(U.S. SECRET)

REF. No. 43

Following is supplementary resume of operational events covering the period 29th January - 5th February, 1942.

1. NAVAL

Axis shipping casualties in the MEDITERRANEAN during January inflicted by our naval forces totalled 50,490 tons sunk, 7,216 probably sunk and 38,728 damaged. In demolitions carried out in SINGAPORE dockyard, the large floating dock has been sunk and the power station, graving dock, pumping machine and caissons put out of action.

The battle cruisers SCHARNHORST and GNEISENAU and the cruisers BRINC EUGEN appear to be ready for sea. Seven mine-sweepers and five torpedo boats arrived at BREST between 26th and 29th January. In the BALTIC, the pocket battleship ADMIRAL SCHEER and cruisers are also ready for sea. TIRPITZ was still at TRONDHEIM on 4th. Little change in number and disposition of U-boats operating in the North Atlantic. A Japanese submarine flotilla is probably now based at PENANG. Submarines have been operating off MADRAS and west of CEYLON. Shipping losses were again considerable mainly owing to U-boat attacks off the east coast of NORTH AMERICA where 11 ships were reported torpedoed, four were attacked by submarines in the INDIAN OCEAN. Shipping and transports were heavily attacked by aircraft in the approaches to SINGAPORE.

Imports in convoy into the UNITED KINGDOM during week ending 31st January were 570,000 tons and included 153,000 tons of oil. An Italian 2,000 ton tanker arrived at ISTANBUL on 31st January and sailed for ITALY the following day fully laden.

2. MILITARY

LIBYA. The enemy managed to place himself astride the line of re-employment of the 7th Indian Infantry Brigade covering BENHAZI which was thus cut off from the remainder of its division in the BARCE area. A quantity of equipment and much transport had to be abandoned and destroyed but isolated columns amounting to the greater part of the Brigade and of its attached artillery succeeded in fighting their way out to the East. The personnel and moveable equipment at BENHAZI which had been assembled in connection with the development of the position as a base were evacuated over a period of several days before the enemy entered. The enemy is probably now suffering from the same maintenance difficulties as affected us when we were operating in Western CYRENICAIA. We have been compelled to withdraw about 200 miles.

BRITISH (MOST SECRET)

(U.S. SECRET)

OPTEL No. 49

Following is supplementary resume of operational events covering the period 29th January - 5th February, 1942.

1. NAVAL

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SUMATRA. The following reinforcements arrived during the week, 19th Division (less one Brigade already arrived). Reinforcements for 9th and 11th Indian Divisions. One Light tank squadron of 17 light tanks and one Light anti-aircraft battery, Indian Army.

PAK EAST. Events during the week were shown,

(A) the gradual extension of enemy bases south and south-west in BORNEO and the CELEBES, making a definite threat against the MALAY barrier.

(B) continued enemy air operations south and south-east from the

INDIAN ARCHIPELAGO.

(C) definite indications that the Japanese plan to occupy an area

known in THEPHALISBANAN district of SUMATRA. The main intentions of the Japanese appear to be the reduction of SIMALANG, the ending of resistance in the PHILIPPINES, an attack on BURMA to capture HANOON, and the occupation of bases in the NETHERLANDS EAST INDIES to close the SUPRA STRAIT. There are indications of imminent enemy action to secure further bases in the NETHERLANDS EAST INDIES.

RUSSIA. Russian progress continues but German resistance is

stiffening particularly on the central front before MOSCOW where German defenses positions are believed to be strong and disposed in great depth. From the German point of view the Russian threat to DNIEROPTROWEN is probably the most serious aspect at present but there are no indications as to how the situation here is likely to develop in the near future.

3. AIR OPERATIONS

WESTERN FRONT. All operations were severely curtailed by bad weather. Bomber command could operate on only two nights. Coastal command continued their attacks on enemy vessels. About 10,500 tons of shipping is thought to have been hit.

LIBYA. Heavy attacks on enemy motor transport were made throughout the period, by our fighters and bombers by daylight and by bombers at night. 82 tons of bombs were dropped in three nights and on one of them every available aircraft was used.

Enemy activity by day was negligible.

It is estimated that 24,000 tons of enemy shipping in the MEDITERRANEAN was sunk or seriously damaged during the week, chiefly by naval torpedo aircraft.

INDIA. Heavy attacks by day and night were constant, the former being the more severe and destructive. Enemy bombers on daylight raids were strongly escorted by fighters and directed their attacks on our aerodromes, two of which remained water-logged and unserviceable.

- 3 -

FAR EAST. MALAYA. Our fighters covered the withdrawal of our troops to SINGAPORE ISLAND. Our offensive operations were slight. The Japanese made about twenty attacks on SINGAPORE, damaging the aerodromes and docks and causing numerous casualties among the civilian Asiatic population. Six enemy aircraft were brought down by our fighters and eight by A.A.

RUSSIA. The Russian Air Force is maintaining a considerable effort in co-operation with their ground forces to the west of MOSCOW. It is directed chiefly upon the congested roads by which the Germans are retreating upon which troops and vehicles offer excellent targets. There is evidence of the effectiveness of the Russian air attack. Liaison between the Infantry and the Air Force is maintained by an Air Staff Officer with each Infantry Divisional Headquarters and air support is generally forthcoming in about an hour. High-level attacks on German supply bases and aerodromes have increased both by day and night. There is evidence that parachute troops have been used in considerable numbers on the central front. In this sector, Russian activity by night increased with a corresponding decline in German night operations. In the daytime, particularly in the MOJAIST sector, German air activity has been negligible, enabling the Russians to use the roads freely and thus maintain maximum pressure along the front.

BRITISH MOST SECRET

(U.S. SECRET)

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OPTEL No. 50

Information received up to 7 A.M., 11th February, 1942.

1. NAVAL

9th. H.M.S. LACMEDON (Boom Carrier) was torpedoed by U-boat 45 miles south-east of CEYLON and has been taken in tow.

10th. A small British merchant ship was damaged by aircraft off north coast of CORNWALL. 10th. A large British tanker reported torpedoed 270 miles north-west of BERMUDA.

2. MILITARY

SINGAPORE. Northern Front: Several barges carrying enemy troops were sunk in JOHORE STRAIT. 9th/10th. Further Japanese landings took place just west of the JOHORE Causeway. Our artillery, supported by mortars and machine-gun fire, maintained harassing fire on the Causeway (16 out of 18 in enemy working party killed).

Western Front: Strong enemy pressure, supported by artillery fire, dive-bombing and machinegun fire, has caused a general withdrawal to a line running just West of the JOHORE BAHRU-SINGAPORE road as far south as BUKIT TIRAH village, thence south-west to SUNGAI PANDAN, with some infiltration reported towards BUONA VISTA. A counter-attack to regain the line SUNGAI KRANJI-SUNGAI JURONG reported in progress and first piece successfully completed.

BURMA. An enemy patrol reported to have reached the MARTABAN-THATON Road.

NETHERLANDS EAST INDIES. 10th. Japanese troops landed at MACASSAR. Prepared demolitions carried out and resistance continues.

NEW BRITAIN. 8th. Japanese troops landed at GASMATA.

RUSSIA. Fighting continues in the RZHEV and DONE TS Sectors. No information regarding progress. Situation CRUEA unchanged.

3. AIR OPERATIONS

WESTERN FRONT. 10th. Two R.C.A.F. Squadrons took part in fighter sweeps. No casualties. 10th/11th. Aircraft was despatched as follows: BREMP 55, ERBST 20, EMBEN 3. No reports available. Three enemy aircraft flew over CORNWALL, where no incidents reported, and one over TEEDMOUTH, where a few people were injured and some houses damaged.

LIBYA. 9th. Our fighters carried out sweeps in the GAZALA Area and shot down two enemy bombers. Enemy aircraft bombed MERSA MATRUH and landing grounds at EL ADEM and GAMBUT where one of our aircraft was destroyed on the ground and three damaged.

MALTA. 9th/10th. On 10th 34 enemy aircraft raided the Island, causing damage to civilian property.

GREECE. Four Wellingtons bombed the Piraeus, causing an explosion and fire at a chemical works.

SINGAPORE. All operational aircraft previously based on SINGAPORE have been withdrawn to SUMATRA. On 10th, enemy aircraft were very active against our troops and gun positions, and also attacked KEPPEL HARBOUR, where warehouses were damaged.

JAVA. 9th. Aerodrome at BATAVIA was attacked by 17 fighters, which destroyed an aircraft on the ground. One enemy aircraft was destroyed by fighters.

BURMA. 10th. Blenheims and Lysanders bombed enemy troop concentrations near PAAN and barrack area at CHIENGRAI (250 miles north-east of RANGOON).

4. JAPANESE AIR FORCE

The presence of twin-engined bombers is reliably reported at LESOD (50 miles east of MOULMEIN) aerodrome. This type has not hitherto been reported operating in THAILAND but only in MALAYA.

5. First reports indicated that BENGHAZI was being used by enemy ships about three days after their troops occupied the town. Information has since been received, however, that considerable difficulty is being experienced by the enemy in clearing the harbour and approaches of mines. Moreover, reliable reports now indicate that no arrivals at or departures from BENGHAZI have so far taken place since enemy reoccupation.

NUMBER 19

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COORDINATOR OF INFORMATION

THE WAR THIS WEEK

February 12-19, 1942



Printed for the Board of Analysts

Copy No. 3

Secretary of the Treasury

FEBRUARY 12-19, 1942

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Coordinator of Information

THE WAR THIS WEEK

February 12-19, 1942

As the Japanese offensive engulfed Singapore and moved on unabated, Axis forces in the Mediterranean prepared to reap full advantage of Allied dispersion and defeat. A blow at the weakened British in the Mediterranean, an early spring drive in southern Russia for Caucasus oil, even eventual union with the Japanese in India were envisaged by responsible authorities.

The coordinated designs of Axis grand strategy were displayed on every hand, and nowhere more effectively than in the field of psychological warfare. Axis propaganda vigorously exploited defeatism among the still unconquered, and it is probably legitimate to see in the timing of the naval clash through the Channel with the fall of Singapore a Nazi attempt to demoralize British opinion. At the same time the reunion of German naval forces was believed to presage a future sortie into the North Atlantic and a consequent fresh source of confusion to the Allies.

The Battle of Java Begins

Using to the full their unquestioned air supremacy, the Japanese succeeded in forcing the unconditional surrender of Singapore city on Sunday, February 15, just ten weeks to the day after the attack on Pearl Harbor. They claimed the capture of some 60,000 Imperial troops.

On the same day the Japanese began their anticipated attack on Java by way of Palembang in southern Sumatra.

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They have also occupied Banjarmasin in Borneo and Macassar in the Celebes. Finally, a force of seven transports, seven destroyers, and three cruisers sighted southeast of the Celebes, near Kendari, indicates the preparation of a thrust on Timor or other islands in the lesser Sundas. From these four points, the way would be open for the virtual encirclement of Java.

The destruction of the oil establishments at Palembang, largest refining center in the Netherlands Indies, prevented this rich prize from falling into Japanese hands, but it leaves the United Nations without local access to aviation gasoline and lubricating oils. Java itself has oil refineries, but none capable of supplying lubricants and high octane gasoline.

Whether Java can hold out before the ample military resources of the Japanese will not be left long undecided. Prior to the arrival of recent reinforcements, it was reported from Batavia that some of the inhabitants felt that Java could be overrun in a matter of days, once the assault was launched. Radio broadcasts from Batavia have shown increasing signs of dismay and emotion, but no suggestions of capitulation.

Future Japanese Strategy

With the capture of Singapore, the Japanese may be expected to redouble their efforts to sell Asia to the Asiatics. Premier Tojo has now publicized a schedule of conquest—Burma, China, India, the Netherlands Indies, Australia, and New Zealand, in that order—in which he has carefully distinguished between Chinese, Burmese, Indians, and Indonesians, and their various governments. It is to be noted, however, that conquered Singapore has been flamboyantly renamed in Japanese as Shonan, "Light of the South."

Australia and New Zealand the Premier has warned to avoid "useless" war in reliance upon British and American

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aid. A Japanese military attaché in an unnamed neutral country has made the time-table more specific: Rangoon by February 18, Sumatra by February 20, New Guinea "soon," Dutch Timor and Port Darwin by February 28. The Japanese, he says, will then attack the Suez Canal.

American military experts warn that these boasts are not to be taken too lightly. Once the Japanese have again put Singapore in working order as a naval base, have conquered Java, and have cleaned up all significant centers of resistance in the Netherlands Indies, they may well attempt the simultaneous capture of Port Darwin and a naval thrust across the Bay of Bengal to ports in India.

The China-India Front

Although the fall of Singapore has increased the importance of holding Burma, the British have been driven back once more to a new line—or rather a "series of strong points"—on the Bilin River. Apparently the Japanese have crossed the Bilin at one point and may soon threaten the vital railroad to Mandalay, fundamental link in the China supply route. The peril in which Burma stands has focussed attention on the importance of the cooperation of China and India in this area, and the visit of Chiang Kai-shek to India is an element in this picture.

There are, however, some indications that this visit was "premature" and badly planned, and that neither side has offered any plans for concrete collaboration. Furthermore, the government of India appears to have made an effort to restrict the contacts that the Generalissimo could make. At first he appears to have seen only those Indian leaders who would consent to come to the Viceroy's house. His more recent conversations with Gandhi, however, may have represented a significant departure from this restriction.

The American Loan to China

Meanwhile the new half-billion dollar American loan to China—coupled with the British loan of 50 million pounds—has significantly strengthened Chiang Kai-shek's hand. The magnitude of the sum, the speed with which it was granted, and the complete lack of conditions attached to it, are recognition of China's importance in the united war effort. Since Finance Minister H. H. Kung as well as the Generalissimo ~~originally~~ requested the loan, its successful completion will undoubtedly strengthen the position of the pro-American Kung group at Chungking.

The loan has other implications. It represents an effort to check the present currency inflation in China—a real political necessity, since high prices have bankrupted and demoralized the intellectual classes from which China usually derives a large measure of her leadership. An issue of securities in China based on the new loan might reduce the amount of paper money outstanding and would give hoarders in China an object of hoarding less damaging to the Chinese currency than the commodities they now hoard.

The problem of making the present loan to China effective might well serve to demonstrate to Americans the fallacy that money will fight the war. The Burma road's maximum of 17,500 tons a month has hardly been adequate to implement the American lend lease policy. Getting goods to China is a problem of transportation, and behind that a naval and military problem; it is only in the slightest measure an economic or financial one. The assistance made available through the new loan must rest upon the use which China can make of credits within the United States.

Alternative Routes to China

The current Japanese drive on Rangoon may soon cripple the principal existing supply routes to China and raise in the most acute form the problem of alternative routes to Chungking. In the first place, Japanese activity in the Bay of Bengal may sharply reduce the use of east coast Indian facilities and make Bombay and west coast ports the chief points of entry for supplies destined for China. In that event, the difficulties of transportation across India would at once arise. The trans-Indian railways are already congested, there appears to be no through motor route from Bengal into Assam, and the distance from Bombay to Chungking by the most feasible routes would be approximately 4000 miles.

In the presence of high and rugged ranges of mountains which fringe Assam, extreme northeasterly province of India, three alternative routes are now receiving special consideration. From Assam the most immediately usable route to China is the Manipur route, now being constructed by the British—Manipur Road, Impbal, Kalewa, Monywa, thence to the Burma Road by any one of three different routes—Mandalay-Lashio; Bhamo-Wanting; or by highway via Hsipaw (see the accompanying map).

On the second or Myitkyina route, road construction can be completed in five months and has just been arranged in India in an agreement between the governments of China, India, and Burma. This route begins at Ledo (near the end of the Assam-Bengal Railway) and runs to Putao, Sumprabum, Myitkyina, and thence to the Burma Road via Mandalay, Bhamo or a short cut being constructed by way of Tengehung. At its shortest this route is 500 miles in length, and at least 175 miles of new construction are required. These routes from northern Assam are favored by a local fuel supply: the oil fields at Digboi produced 67 million

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gallons of petroleum in 1935, and there are refineries there and at Lakhimpur which are believed to make motor fuel but not high octane gasoline.

The most promising immediate possibility is the third alternative, the establishment of an air freight service to run from the airport at Sadiya, taking a route to the south-east through the Hukawng Valley, crossing a relatively low pass (6,000 feet), and thence preferably direct to Kunming, or alternatively to Myitkyina, where an adequate airfield is now being completed.

The Psychological Front

A final element in the Far Eastern situation is the repercussions that the fall of Singapore and other Allied reverses have had on friend and foe alike. The Axis has, of course, been jubilant. The Tokyo radio has waxed mystical about the powers of the Nipponese armed forces. If the Japanese take the Netherlands Indies in addition to Singapore, it asserts, they will be able to fight a war lasting 50 or 100 years if necessary. Berlin has quoted an American magazine to the effect that after the fall of Singapore, neither the British nor the American fleet would be able to operate in the Western Pacific. And Rome has echoed that "Singapore will be the greatest Japanese base in eastern Asia for centuries to come."

Meanwhile the broadcasts from the United Nations, in a combination of discouragement and recrimination, have betokened a severe loss of morale. Although "disillusions" have made them "a little afraid even to hope," the Dutch pledge themselves to defend Java to the utmost. Australia, more outspokenly, has refused to accept British explanations of what it calls "Australia's Dunkirk" and has condemned the British failure to get planes to Malaya after two months

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of war in the Far East. Finally, the Chinese, although stressing their undeviating support for the United Nations, have shown resentment against Britain for its reluctance to apply scorched-earth tactics in Malaya and its failure fully to utilize Chinese troops in Burma. A new Chinese pride is manifest in their comparison between the British fiasco in Malaya and their own record in the four-year-old "China incident."

The Approaching Crisis in the Eastern Mediterranean:

While Allied disasters accumulate in the east, Axis strategy, with characteristic coordination, is preparing to strike a fresh blow in the west. Rommel's advance in Libya, last week's cabinet crisis in Egypt, Goering's visit to southern Italy, and American irritation at the apparent willingness of the Vichy Government to send supplies to Axis troops in North Africa—all these are merely symptoms of a fast-developing crisis in the eastern Mediterranean. Reports concur in predicting this area will be the next field for a major Axis offensive—coupled, of course, with continued submarine activity in the Atlantic, and with an unremitting effort to hold some sort of a "winter line" in Russia.

Such a drive would aim at conquering Egypt and the Suez Canal and clearing the naval and air forces of Great Britain from the Mediterranean. Admiral Darlan is reported to have expressed the opinion that this offensive will take place during the good weather from March to May, inclusive, before the heat becomes too severe. Then in June, a supplementary attack in southern Russia would begin.

The Nazis Turn to Southern Russia

Other observers think this latter attack might start as early as April, when southern Russia will be sufficiently dry for

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extended operations. Competent military opinion believes that this time the Germans will not make an effort to destroy the Russian armies, in a campaign parallel to that of 1941. It is argued that, aside from the oil of the Caucasus, no urgently needed raw materials would be found in Russia on this side of the Urals. Moreover, the mounting costs of a drive along the whole Russian front, the difficulty of policing newly conquered areas, and the recurrent danger from guerrillas in the German rear, would militate against an extended effort in Russia. It seems likely that the Germans will attempt to hold the present line in the north and center, while driving through the whole southern region—to the bend of the Don river, across to Stalingrad on the Volga, and thence southeast to Astrakhan to reach the oil of the Caucasus.

Oil would, of course, be one of the chief goals of the two joint offensives. The wells of the Caucasus, of Iraq, and of Iran would go to the victors. Economic observers believe that Germany by next spring may be in need of replenishing her stocks of petroleum. A similar shortage in textile fibers would make the cotton of Egypt (six per cent of world production, 1938) another rich prize.

Reunion in India

The extreme goals of these two coordinate drives remind us of the most fantastic ambitions of Napoleon. Eventually they would unite in a vast Middle-Eastern offensive. First the conquest of the Persian Gulf area would aim to close one route of lend-lease supplies to Russia, to pinch off the source of oil for Allied naval and merchant vessels operating in the Indian Ocean, and to provide bases for submarine operations in that area. Beyond would lie India, and the hope of uniting forces with the Japanese in the Far East.

Unless complete control of the Mediterranean were ensured,

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however, such a campaign would be extremely difficult. Land supply routes from Germany would involve long distances, with relatively poor and vulnerable rail facilities. Furthermore, to commit large numbers of troops, planes and matériel in this region, with Russia still potentially an offensive power, and with Allied strength in the west increasing, would be highly dangerous.

Imminent Blow in the Eastern Mediterranean?

Where and how the Germans will strike must remain a matter of speculation. Recent developments, however, suggest the imminence of a blow or coordinated blows, in the eastern Mediterranean area. The rapid decline of British sea power in this region is an invitation to action. Previously it was estimated that the British were destroying as much as 60 per cent of all the Axis convoys which set out for Libya. Recently that figure dropped to negligible proportions and may now stand at only five to ten per cent. German leaders are represented as mystified by this situation and as wondering whether it reflects the withdrawal of naval forces to Asia or naval and air losses recently suffered by the British.

British Weakness in the Mediterranean

This darkening picture of British weakness must also take account of the fact that Rommel's forces continue to be strengthened and can now be described as an "army" and not merely a "corps." Reports once more indicate that Rommel may only be awaiting arrival of additional divisions, now ready in Italy, to resume the offensive. Moreover, the Germans have concentrated 700 or more planes in Crete and southern Italy, perhaps amounting to nearly a

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third of the Nazis' first line air strength. From the latter area, they have been inflicting a heavy daily pounding on Malta in an effort, it is reported, to soften that base up in preparation for an eventual assault. Already it is said to have been reduced to a condition of extremely limited usefulness as a bomber base.

Despite British weaknesses, however, there is some indication that they still possess air superiority in the Libyan theatre. And an observer recently returned from this area gives an optimistic account of the strong defensive position on the Egyptian frontier, where he is certain the British would make a firm and effective stand.

Axis Psychological Offensive

Concomitant with its plans for a military blow, the Axis has launched a psychological offensive on the Arab-speaking peoples under British and Free French control. Broadcasts in Arabic from Berlin and Bari are exploiting statements by prominent Americans in favor of a Palestinian army and a Palestinian state. The pro-Ally Nuri government in Iraq is finding that British defeats in Asia and Africa have emboldened anti-Ally circles in that country.

Both Germans and Italians, especially the latter, are making every effort to win over the Egyptians. They take pains to point out that the recent change of ministry there represents a turning against the British. Such a point of view would seem to be corroborated by the letter of Premier Nahas to the British Ambassador with its implied rebuke to the latter for his interference in Egyptian internal affairs, and by his declaration to King Faruq that "As regards its foreign policy, the cabinet will first and foremost attempt to spare the country the horrors of war."

The generally pro-Ally foreign language press in Egypt has

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been making the best of the situation. *L'Orient* of Beirut has maintained that the change of government in Egypt constitutes the "official adherence of Arab nationalism to the Allied cause." And the Turkish newspaper *Tan* has made similar efforts to counteract Axis exploitation of the ministerial crisis. Fundamentally, however, Egyptian public opinion cannot be regarded as a potentially decisive force on either side.

Rejoinder of the United Nations.

There are other indications that the United Nations will not be caught napping on the psychological front. A pan-Arab congress in Cairo under Allied auspices is reported to have been proposed by the foreign minister of Saudi Arabia. More concretely, Iraq and Saudi Arabia, a report from London states, are considering adhering to the pact of the United Nations, and the latter has received extensive financial assistance from Great Britain.

An observer recently returned from Syria has stated that the inhabitants there and in the Lebanon have found Free French control, with its regime of nominal independence, preferable to the previous Vichy administration. General Catroux, in inaugurating the new Damascus broadcasting station, has emphasized its mission of proclaiming the doctrines of "humanity" and "independence" to the Arab world. And the supposedly neutral Turks, in the semi-official *Ulus*, have presented the most apt rebuttal to the Axis propaganda offensive by remarking that the Grand Mufti of Jerusalem and the former Iraqi premier have been too well received at Rome, and that it is difficult to understand why the Fascist administration interests itself in the fate of countries under British protection rather than in giving independence to

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Libya. The present African offensive, they conclude significantly, has very ambitious aims.

The French Fleet as a Potential Axis Asset

In the western Mediterranean France and Spain are the central elements in the picture. Both have been superficially quiet sectors during the past week, but Nazi pressure for increased collaboration is never far below the political surface.

In the case of France, the fleet is the great prize. The present available striking force of that fleet in the Mediterranean includes perhaps two capital ships, five cruisers, and a number of destroyers and submarines on which precise figures are not available. In this hour of grave Allied naval stringency, the addition of the Vichy fleet to the Axis navies might well prove of crucial importance. It would at the very least give the Axis immediate control of the western Mediterranean.

Spain's Economic Plight

Spanish policy in recent months has reflected in very large measure the realities of a deepening economic crisis which is a legacy of the Civil War, intensified by the pressures of the world conflict. Spain's strictly economic interests constitute a force tending strongly to preserve her neutrality. In trade negotiations with Spain during the past four months, the government of the United States has sought to strengthen the Spanish economic position and hence the resistance of the Spanish to potential German pressure.

Spain's economic plight is visible in almost every direction. Extremely poor crops in 1940 and below average crops in 1941 reflected inability to import sufficient quantities of fertilizers, insecticides, and fungicides. Lack of tires and fuel

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has reduced road transport and added to the burdens of the railroads, where a serious shortage of rolling stock was left by the war. The cork cut has been greatly reduced by inability to feed the crews at any distance from accessible points. Countries, like Germany, that would take Spanish preserved foods cannot supply the required tinplate for the cans. Important Spanish fishing grounds lie in belligerent waters, and the Spanish fishing fleet is short of liquid fuel.

Economic Aid to Spain

The most efficacious remedies for Spain's plight would be imports of fertilizers, and especially liquid fuels. Spain is willing to use its own overworked ships for exporting anything the Nazis will recognize as not contraband, and is anxiously awaiting a requested German contraband list, which is expected to be long. She is unwilling to risk her own ships, sorely needed for food imports, in exporting contraband, which might be picked up in any event at Iberian ports by Allied convoys. Meanwhile, in the interest of relieving Spain's acute petroleum shortage, two Spanish ships have been allowed to take on cargoes of gas oil in this country, and it appears likely that, pending a definitive agreement, these vessels will be allowed to proceed in return for Spanish assurances regarding final disposition of the oil and exports of commodities in which this country is interested.

The Escape of the Scharnhorst and Gneisenau

The dramatic escape of the *Scharnhorst* and *Gneisenau* from Brest through the Straits of Dover to Germany was a striking illustration of the decisive role of the weather in combined naval and air operations. The Germans had apparently studied with care the meteorological reports transmitted

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presumably by their planes and submarines at sea. An independent check on the weather map for the three days previous indicates that the day the Nazis chose was the logical one, and that hence surprise, although important, was not the chief factor in the success of the daring venture. Similarly the fact that German aircraft in Belgium and Occupied France had presumably been informed of an exact time of rendezvous over the Channel was less important than the fact that the British planes could not effectively operate in getting to a precision target in such murky weather.

In repeated bombing of the two battleships at Brest the British had already lost perhaps 100 planes—brought down by the unexcelled aircraft, anti-aircraft guns, and precision instruments of the port's defenses. Not only have these sacrifices been in vain. The United Nations are now facing a naval threat of the first magnitude. Presumably in a few months the *Scharnhorst* and *Gneisenau* will again be ready for action. To them the Germans could add the heavy cruisers *Admiral Hipper* and *Prinz Eugen* (and the *Seydlitz*, if then completed), the pocket battleships *Lützow* and *Admiral Scheer*, the aircraft carrier *Graf Zeppelin*, and the battleship *Tirpitz* (now reported as lying in Norwegian waters) to form a fast, modern battle fleet. When we recall that the *Tirpitz* in respect to speed, size, and armor probably is the most powerful warship afloat, and that the British battleship *Nelson*, after 45 minutes of flat trajectory broadsides at close range, was unable to sink its sister ship, the *Bismarck*, we can realize the major threat now presented to the British Home Fleet and the American Atlantic Fleet.

The Turks Await the Spring

(The following forecast has been prepared by a seasoned observer of the Turkish scene.)

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In Turkey the coming of spring is awaited with some anxiety. When the bottomless mud of Thrace dries and the snow of the Anatolian plateau melts, the season for campaigning arrives. Four centuries ago governments used to speculate during the winter months whether the annual foray of the Ottoman army would be directed westward against Europe or eastward against Iran, but today they watch the eyes of a Führer in Berlin rather than a sultan in Istanbul.

Only Hitler himself can answer the question "Is the conquest of Turkey worth what it would cost?" No one seems to doubt that the mechanized German army could overrun Turkey in Europe and reach the Straits with relative ease, that it could force the Bosphorus and Dardanelles and invade the Aegean coastlands and that it commands adequate means of transport to bring up the large forces needed for storming the mountainous rim of the Anatolian plateau.

Yet the Turks have at least three quarters of a million tough and well-trained troops. Their country is exceedingly rough and almost roadless. The plunder to be had in Turkey, chrome and a little food, provides little incentive for conquest. A Turkey which cannot attack Hitler and is afraid to lend itself to an attack on him by others is a solid buttress for the right flank of his eastern armies. He will probably think twice before engaging a large force against Turkey and extending his communication lines by hundreds of miles while the Russian forces remain vigorously active. The danger to Turkey would seem to increase in proportion as Russian resistance is subdued and wider fields of conquest fire the Führer's imagination. Unless the Russians collapse completely this spring or Egypt is penetrated by the Nazis, Turkey has a good prospect of remaining untouched for months to come.

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Russia as a Factor in Turkey's Fate

If Russia is liquidated as a military power, then Turkey is the obvious starting point for an invasion of the East in emulation of the great Alexander, for it is the most accessible land bridge to Asia, with its riches of oil in Iraq, Arabia and Iran, with its vast market in India, the ideal land for an imperial conqueror. Further, from western Asia leads what is by far the most practicable route to Africa. Once Russian resistance is broken, the attraction of the East will almost inevitably lead Hitler through Turkey to wider conquests, in lands where Britain can be at least seriously hurt if not immediately destroyed.

What if Russia should not break, if the German battle line should be stabilized and Hitler should have to face Anglo-American attacks in force? He knows that Turkey has refrained from attacking him only through fear, that Turkey's foothold in Europe offers one of the few bases whence armies could reach him, that the Balkan peoples are in a mood to welcome and aid his enemies. He knows also that the mountain-girt plateau of Anatolia is a natural fortress which has never been taken from the east or south when strongly defended. It is, therefore, conceivable that he might attack Turkey in order to obtain this immensely strong defensive bastion for a long war of attrition. Control of the sea route through the Straits to Rumania and Russia would add greatly to his facilities for movement and supply of troops. He has already made other moves not less daring, for example, the attack on Norway. So stabilization of the Russian front might prove almost as dangerous to Turkey as a complete collapse of Stalin's armies.

The Anglo-American Stake in Turkey

The Turks meanwhile unceasingly prepare against attack from the north and beg for airplanes, tanks and means to combat Luftwaffe and Panzer forces. Already they constitute a far more powerful obstacle to German advance into Asia than do the Anglo-American forces. Already they are of necessity the passive allies of the latter. With increasing support in terms of matériel they can follow a stronger and more active policy which will give expression to their almost universal sympathy with the Anglo-American cause. Their leaders know that the defeat of the Axis is as important for the Turks as for the Allies. The task of Allied diplomacy is the development of this community of interests through tangible aid to Turkey.

Toward a Stalemate in Russia

Through the haze of claims and counter-claims represented by rival communiqués, only one thing on the Russian front is clear—neither side is making any real progress. Russian reports of the relief of Leningrad and of an advance in White Russia to within 85 miles of the old Polish border (presumably an extension of the Valdai hills salient in the direction of Vitebsk) meet with a certain scepticism in American military circles. Similar Nazi reports that German, Rumanian, and Croatian forces have driven back the Russians all along the Kharkov front have received no confirmation.

Meanwhile both sides appear to be girding for the inevitable spring offensive. As Sir Stafford Cripps has pointed out, the position of the rival armies at the end of March may be decisive. The period of thaw from late March to May is the worst part of the year for military operations or transport. Hence if either side is going to make any sig-

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nificant gains before the launching of a German offensive in May, it must do so within the next few weeks. As jumping-off points for such a drive, the Germans would probably need to hold approximately the present winter line. To brace themselves against it, the Russians will presumably try to relieve Leningrad and take Smolensk and Dnepropetrovsk with a view to disorganizing the German system of lateral communications.

The Settlement Between Ecuador and Peru

The United States has attached great importance to the settlement of the Ecuador-Peru boundary dispute. As a likely subject for Axis intrigue, a possible source of political revolution, or a factor depressing normal economic activity, the controversy, especially with regard to Ecuador, threatened hemispheric solidarity. At the Rio Conference the United States made definite and extensive financial commitments to Ecuador, comprising loans and stabilization funds of about \$20,000,000. These loans were informally contingent upon a settlement of the boundary; and shortly afterward on January 29, during the last sweltering night of the Conference, Ecuador and Peru signed a Protocol to terminate the dispute. Ecuador subsequently subscribed to the Rio agreements.

The Protocol, kept secret for some time, provided for the withdrawal within fifteen days (that is, by February 13) of Peruvian troops to a carefully specified line (see the map at back of this report). In the territory thus evacuated, Ecuador received civil, but not military, jurisdiction, and was granted equal privileges with Brazil and Colombia in the navigation of the western tributaries of the Amazon. These measures were to be supervised by neutral observers from the mediating powers (Argentina, Brazil, Chile, and the United States), and the Protocol was to be ratified within

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30 days by the Congresses of the two disputants (that is, by February 28). The terms of the Protocol have thus far been faithfully executed, and await the stipulated ratification.

The permanence of the new boundary, however, will undoubtedly be affected by the sparring of Colombia, Ecuador, and Peru for strategic and economic advantage in the Oriente region. In a former settlement with Colombia, Peru obtained, as compensation for allowing Colombia access to the navigation of the Amazon, a strip of territory stretching along the southern border of Colombia almost to the Pacific. The value of this strip is immensely augmented by Peru's territorial acquisition from the settlement with Ecuador. Fearing in addition a possible separatist movement resulting in a union of Guayaquil with Peru, Colombian statesmen now profess anxiety concerning the growing dominance of Peru in this region of South America.

Ratification Expected

Even though the Peruvians are obliged by the settlement to withdraw their forces from El Oro province in Ecuador, the accord patently favors Peru, and the extraordinary session of the Peruvian Congress, convoked for February 14 to 28, is expected to ratify it with little opposition. In Ecuador general chagrin over the loss of territory, and the intention of Socialist and other opposition elements in the legislature to block ratification, are delicately balanced by supporters of the administration who regard the settlement as the best solution of a nearly hopeless situation. The Union Nacional Ecuatoriana, an opposition group of increasing influence, favors ratification. Close observers here feel that the balance will probably tip in favor of ratification.

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The Ailments of Ecuador

Ecuador remains, however, wracked with political and economic ailments. President Arroyo's prestige and following are weak; politicians in exile like former President Velasco Ibarra wilfully interfere in Ecuadorian politics; and the businessmen of Guayaquil are openly hostile to the politicians of Quito.

A corresponding economic instability exists, brought to the edge of crisis by the expense and dislocations of the boundary war. Particularly is this true of the looted and occupied province of El Oro, once producing one-fifth of Ecuador's most important export crops. The repatriation of its inhabitants and the rehabilitation of its economic life are formidable tasks, quite beyond the capabilities of Ecuador. The financial commitments made by the United States at Rio do not apply specifically to El Oro; but the urgent needs of that province are now being canvassed by the Coordinator of Inter-American Affairs, the American Red Cross, and the Pan American Sanitary Bureau. Prompt assistance would undoubtedly do much to hasten the reconciliation of Peru and Ecuador, and to win public support for the ratification of the boundary protocol by the Ecuadorian Congress.

RESTRICTED

G-2/2657-220: No. 629 M.I.D., W.D. 11 A.M., February 12, 1942.

SITUATION REPORTI. Pacific Theater.

Philippines: There are no changes to report in Luzon or Mindanao. Hawaii: No further reports of enemy activity. Singapore: Japanese pressure is being intensified; tanks and dive bombers are affording close support to enemy infantry. Japanese planes continue offensive against evacuation ships in the harbor. A Japanese demand for unconditional surrender has received no reply from the British. Burma: Heavy fighting in the Paan area is reported, as the British position becomes more serious. Japanese aircraft is supporting infantry attacks. Contact between Chinese and Japanese forces along the Thai-Burma border has been reported. West Coast: There are no reports of enemy activity.

II. Eastern Theater.

There is no change in the situation. (A situation map will not be issued this date.)

III. Western Theater.

The R.A.F. raided Mannheim, Brest, and LaHavre on February 11.

IV. Middle Eastern Theater.

Ground: No action of importance. British patrols have been unable to penetrate to west of present defensive positions.

Air: The Italian High Command reports German bomb hits on a British cruiser in an attack on Malta on February 11.

RESTRICTED

TREASURY DEPARTMENT
Washington

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FOR RELEASE, MORNING NEWSPAPERS,
Friday, February 13, 1942.
2/11/42

Press Service
No. 30-28

Secretary of the Treasury Morgenthau today announced the offering, through the Federal Reserve Banks, for cash subscription, of \$1,500,000,000, or thereabouts, of 2-1/4 percent Treasury Bonds of 1952-55. For the benefit of small investors, preferential allotments will be given to subscribers up to \$5,000, where delivery in registered bonds 90 days after issue date is specified; those who enter such a subscription for preferential allotment may not enter any other subscription.

The Treasury Bonds of 1952-55, now offered for cash subscription, will be dated February 25, 1942, and will bear interest at the rate of 2-1/4 percent per annum, payable semiannually on June 15 and December 15, with the first coupon due June 15, 1942 for a fractional period. The bonds will mature June 15, 1955, but may be redeemed, at the option of the United States, on and after June 15, 1952.

The bonds will be issued in two forms: bearer bonds with interest coupons attached, and bonds registered both as to principal and interest. Both forms will be issued in the denominations of \$50, \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000.

Pursuant to the provisions of the Public Debt Act of 1941, interest upon the bonds now offered shall not have any exemption, as such, under Federal Tax Acts now or hereafter enacted. Otherwise the bonds will be accorded the same exemptions from taxation as are accorded other issues of Treasury bonds now outstanding. These provisions are specifically set forth in the official circular released today.

Subscriptions will be received at the Federal Reserve Banks and Branches, and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies. Subscriptions for the bonds from banks and trust companies for their own account will be received without deposit, but subscriptions from all others must be accompanied by payment of 10 percent of the amount of bonds applied for. The bases on which subscriptions will be entertained from the various classes of subscribers will be the same as announced on December 3, 1941, for the December 15 cash offerings.

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The right is reserved to close the books as to any or all subscriptions or classes of subscriptions at any time without notice. The basis of allotment of subscriptions will be publicly announced, and payment for any bonds allotted must be made or completed on or before February 25, 1942, or on later allotment.

The text of the official circular follows:

2-1/4 PERCENT TREASURY BONDS OF 1952-55

Dated and bearing interest from February 26, 1942

Due June 15, 1955

REDEEMABLE AT THE OPTION OF THE UNITED STATES AT PAR AND ACCRUED INTEREST ON AND
AFTER JUNE 15, 1952

Interest payable June 15 and December 15

1942
Department Circular No. 681

Fiscal Service
Bureau of the Public Debt

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, February 13, 1942.

I. OFFERING OF BONDS

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, as amended, invites subscriptions, at par and accrued interest, from the people of the United States for 2-1/4 percent bonds of the United States, designated Treasury Bonds of 1952-55. The amount of the offering is \$1,500,000,000 or thereabouts.

II. DESCRIPTION OF BONDS

1. The bonds will be dated February 25, 1942, and will bear interest from that date at the rate of 2-1/4 percent per annum, payable on a semiannual basis on June 15 and December 15 in each year until the principal amount becomes payable. They will mature June 15, 1955, but may be redeemed at the option of the United States on and after June 15, 1952, in whole or in part, at par and accrued interest, on any interest day or days, on 4 months' notice of redemption given in such manner as the Secretary of the Treasury shall prescribe. In case of partial redemption the bonds to be redeemed will be determined by such method as may be prescribed by the Secretary of the Treasury. From the date of redemption designated in any such notice, interest on the bonds called for redemption shall cease.

2. The income derived from the bonds shall be subject to all Federal taxes, now or hereafter imposed. The bonds 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.

3. The bonds will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege and will not be entitled to any privilege of conversion.

4. Bearer bonds with interest coupons attached, and bonds registered as to principal and interest, will be issued in denominations of \$50, \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000. Provision will be made for the interchange of bonds of different denominations and of coupon and registered bonds, and for the transfer of registered bonds, under rules and regulations prescribed by the Secretary of the Treasury.

6. The bonds will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States bonds.

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve Banks and Branches and at the Treasury Department, Washington. Subscribers must agree not to sell or otherwise dispose of their subscriptions, or of the securities which may be allotted thereon, prior to the closing of the subscription books. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies. Others than banking institutions will not be permitted to enter subscriptions except for their own account. Subscriptions from banks and trust companies for their own account will be received without deposit. Subscriptions from all others must be accompanied by payment of 10 percent of the amount of bonds applied for. Subscriptions will be entertained from the various classes of subscribers on the following basis:

1. Banks and trust companies for their own account - not to exceed 50 percent of capital and surplus.
2. Mutual savings and cooperative banks, Federal Savings and Loan Associations, trust accounts and investment corporations, pension funds, insurance companies, and similar institutions and funds - not to exceed ten percent of total resources.
3. Corporations organized for profit, and dealers and brokers - not to exceed 50 percent of net worth.
4. Individuals - not to exceed 50 percent of net worth or 100 percent of cash deposited with subscription. (Note: No preferred allotment will be made on such full-paid subscriptions.)

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of bonds applied for, and to close the books as to any or all subscriptions at any time without notice; and any action he may take in these respects shall be final. Subscriptions for amounts up to and including \$5,000 where the subscribers specify that delivery be made in registered bonds 90 days after the issue date will be given preferred allotment. In each such case a subscriber may not enter any other subscription, and payment must be made as provided in Section IV of this circular. Allotment notices will be sent out promptly upon allotment, and the basis of the allotment will be publicly announced.

IV. PAYMENT

1. Payment at par and accrued interest, if any, for bonds allotted hereunder must be made or completed on or before February 25, 1942, or on later allotment. In every case where payment is not so completed, the payment with application up to 10 percent of the amount of bonds applied for shall, upon declaration made by the

Secretary of the Treasury in his discretion, be forfeited to the United States. Any qualified depository will be permitted to make payment by credit for bonds allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve Bank of its district.

V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve Banks of the respective districts, to issue allotment notices, to receive payment for bonds allotted, to make delivery of bonds on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive bonds.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve Banks.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

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 18, 1942, and will mature May 20, 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 16, 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 18, 1942.

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

disposition of Treasury bills shall not have any special treatment, 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.

February 13, 1942.
9:52 a.m.

HWJr: Hello.

Senator
McKeller: Yes.

HWJr: Henry Morgenthau.

M: Yes, sir.

HWJr: I just want to explain to you why I wouldn't be at the committee because you were kind enough to say that you wanted me there.

M: Yeah - I - I - we're making some little progress along the lines that we agreed upon - I mean that we reported.

HWJr: Yeah.

M: And - and I suppose you have a man in your place always, don't you, Mr.....?

HWJr: Oh, yes. Well, I was flattered, but here's - I want to give you my reason - I didn't want to say it.

M: Well, that's all right. I know how - I know it's a good reason.

HWJr: Yeah, but I want - we - we today are raising a billion and a half dollars.....

M: Yeah.

HWJr: In one day. (Laughs.) And when that happens I never leave my desk.

M: Well, I think you're right.

HWJr: Because something might happen.

M: Oh, surely.

HWJr: And I just can't fail.

M: Well, I'm sorry you can't be there, but the first meeting you can, I wish you'd come in.....

HWJr: I'm coming.

M:because we'd like to have you there.

HMJr: But I was quite flattered to think that you wanted me.

M: Yes, sir.

HMJr: And.....

M: I think - I think your suggestions have been highly beneficial.

HMJr: Fine.

M: All right.

HMJr: How did I make out yesterday?

M: How's that?

HMJr: How did I make out with your.....

M: Oh, fine.

HMJr: Did I make out all right?

M: Oh, yes.

HMJr: Everything's all right?

M: Yes.

HMJr: Pardon me?

M: Yes.

HMJr: That's awfully nice.

M: Yeah.

HMJr: Thank you.

M: All right.

HMJr: Good-bye.

February 13, 1942.
10:46 a.m.

HMJr: How's it going?

Mr. Allan
Sproul: All right.

HMJr: How's our - our offering?

S: Well, the ~~the~~ new issue is being received fairly well, I think. The rest of the market is a little uncertain.

HMJr: What do you mean by the rest of the market?

S: Well, the - the sudden selling of - the attempt to sell tax-exempt issues in that middle area.....

HMJr: Yeah.

S: And not - no buyers - uncertainty about what the tax program is going to be, I think is the factor there.

HMJr: Yeah.

S: There's some marking down of quotations of other taxable issues - that is, the two, the fifty-one/five, and the two and a half, the fifty-two/four, which are right around the new bonds, but actually very little business, if any, being done.

HMJr: How do they price the new bond?

S: They price the new bond around five and three-quarters to a hundred one and a quarter - something around there. Of course, there's no trading in it yet, so - there won't be until the books close, so they don't know exactly where it will come out, but they think somewhere around a hundred and one right now.

HMJr: Well, that's good; that's.....

S: That's all right, yeah.

HMJr: Now when will the New York banks begin to put in their subscriptions?

S: Well, they won't put them in until late this afternoon.

HMJr: They won't?

S: No. They'll take a good long look at what's going on and then begin to come in.

HMJr: I see. So you don't know yet?

S: No, I don't know anything about.....

HMJr: Well, would you say the reception is satisfactory?

S: Yes, I would.

HMJr: Right. Are you satisfied?

S: Yes, I am.

HMJr: Good. Well, then, I'm satisfied.

S: Well, it looks all right.

HMJr: Thank you.

S: All right.

February 13, 1942.
10:55 a.m.

HMJr: Hello.

Mr. Allan
Sproul: Hello, Mr. Secretary.

HMJr: Talking.

S: I just wanted to let you know the Chase Bank has just come in for a hundred million, so you'll only need fourteen more of that size now.

(Laughs.)

HMJr: The Chase took a hundred?

S: They put in a subscription for a hundred, yeah.

HMJr: Well, that's good.

S: Yeah.

HMJr: Now, is that their limit?

S: Just about, yeah.

HMJr: Just about. Well, when the Guaranty comes in, be sure and call me.

S: All right, I'll do that.

HMJr: I wouldn't be a bit surprised if they did.....

S: Neither would I.

HMJr:after that meeting we had. You heard about that, did you?

S: No, I haven't heard about it.

HMJr: Well, they were in here - the president is Conway, isn't it?

S: Conway, yeah. He's the chairman.

HMJr: Yeah. And he had a long discussion. I kept asking him whether he would subscribe. He kept evading me. So I didn't - I let it drop, and he said, "Of course, if we asked" - I said, "Nobody's going to ask you to subscribe."

S: Yeah.

HMJr: Well, then, evidently when he got out he was quite worried and I asked him - I told him that Senator Glass was on his way up, would he mind leaving - he'd been there almost a half an hour, you see.....

S: Yeah.

HMJr: So then when he got out, he told Bell, he said, "I wish I could get back there because I'm afraid the Secretary has the impression that we in the bank don't want to back up the Government....."

S: I see.

HMJr: "And I didn't want to leave that impression with him, and I'm really worried. I wish you'd tell him." So I was delighted that he had left here worried, you see.....

S: Yeah.

HMJr:rather than have him feel that I'd sent for him to put some pressure on him which I didn't.

S: No.

HMJr: And I simply told him we weren't going to ask him, but - and so - but Bell thought that the meeting was very good and he left here with Conway, but, by God, I'm going to show them, so I want to watch his subscription particularly.

S: All right, we'll let you know.

HMJr: Wonderful.

S: All right.

HMJr: Thank you.

February 13, 1942.
1:52 p.m.

Operator: Go ahead.

HMJr: Hello.

Mr. Robert
Rouse: Hello.

HMJr: Rouse? Bob?

R: Yes, sir.

HMJr: How's she going?

R: Well, pretty well.

HMJr: Pretty well.

R: Ah - as far as the banks are concerned, we get the impression that the bulk of them will subscribe to the limit.....

HMJr: Yes.

R: That there will be a number who will be more careful and not go for their - for their limit.

HMJr: Uh-huh.

R: The joy-riders - that will probably be reduced.

HMJr: Well, that's all right.

R: Which, if you get a lower subscription, is significant - a good hat - a good hat-hanger.

HMJr: Yeah.

R: Ah - our figures here are - at the moment - are three hundred and sixty million against five hundred thirty-two million on the - on the two and a halves in December.

HMJr: Yeah.

R: Doesn't mean very much.

HMJr: Yeah.

R: Too early. I think Allan told you that the Chase Bank was in for their limit.....

HMJr: Yeah.

R: Then the City Bank came in for theirs.....

HMJr: How much was that - the City Bank?

R: Seventy-seven million, five hundred thousand.

HMJr: Yeah.

R: The Corn Exchange, fifteen million.....

HMJr: Yeah.

R: The Public National Bank, seven.....

HMJr: Yeah.

R: That's about all the names I have in front of me.

HMJr: Yeah.

R: Morgan is in, I think for only half their limit.

HMJr: Ah - J. P. Morgan in?

R: That's about the picture as it stands. The market is - is steady. There have been small supplies of the two's in fifty-one, fifty-five, and there has been very free par to par one bids, and they have been able to move a fair amount of them. There don't seem to be any serious market problems so far.....

HMJr: Uh-huh.

R: General discussion hinges around the allotment of twenty to twenty-five per cent.

HMJr: Yeah.

R: And everybody is thinking in terms of par and three-quarters to a hundred and one, as far as price is concerned.

HMJr: Par what?

R: Par and three-quarters to a hundred and one.

HMJr: Yeah.

R: As far as the initial trading.

HMJr: Yeah.

R: They all think that - practically everybody thinks they're worth a hundred and one or a little more.

HMJr: And no criticisms.

R: We've had no criticisms - no. There has been some comment that the all-in-one issue would have to make for a larger allotment and so on.- people would be careful.

HMJr: All right.

R: All right, sir.

HMJr: Don't - you're watching them and not going to let those couple of issues go below par.

R: I have been at the trading desk all morning, and Allan's been here most of the time.

HMJr: And so far you haven't had to buy anything?

R: No, not a thing.

HMJr: Well, that's good.

R: Good.

HMJr: But I'm not afraid to buy.

R: Right - I understand.

HMJr: I mean, I think it'd be a good investment at this price.

R: Good.

HMJr: All right.

R: All right, sir.

HMJr: Goodbye.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE February 13, 1942

TO Mrs. Klotz
FROM Mr. Morgenthau

Nelson Rockefeller and Mr. Whitney are coming to see me about ten o'clock about our next Disney film. They haven't seen Donald Duck. Please have our man in the movie theater ready to show it at 10:00. Please also remind me as soon as I get in to get in touch with Colonel Donovan's office as I would like either to have him or Sherwood or somebody to come over at ten o'clock to interest them in our next picture. I also want Kuhn at the ten o'clock meeting; also George Buffington. Thank you. When Nelson Rockefeller is present, I also want Norman Thompson present. Also Foley unless he has some other conference.

All taken care of -

TREASURY DEPARTMENT

143

INTER OFFICE COMMUNICATION

DATE February 13, 1942

TO The Secretary's Files

FROM W. N. Thompson

The Secretary held a conference in his office today at which were present: Nelson Rockefeller, Coordinator of Inter-American Affairs, John Hay Whitney of Mr. Rockefeller's organization, Atherton Richards, Deputy Coordinator of Information (Colonel Donovan's organization), Mr. Graves, and Mr. Thompson.

The subject of moving pictures was under discussion, the Secretary advising those present that he was proceeding to have not more than six pictures made by the Walt Disney organization, which would be used in the Defense Savings Bond campaign and paid for from the appropriation for Expenses of Loans. Both Messrs. Rockefeller and Richards were impressed with the type of pictures to be made, which could be used by their organizations in their publicity activities, and it was agreed that the Treasury Department would bear 50 per cent of any costs on the pictures, the other 50 per cent to be borne 25 per cent each by Mr. Rockefeller's and Colonel Donovan's organizations.

It was brought out that perhaps the pictures could be made by the Walt Disney organization for showing on a commercial basis so that there might be no cost to the Government, any such possible cost being confined to the amount of any possible loss in connection with any of the pictures; the Government would underwrite any such cost, the three agencies concerned sharing the amount to be paid on the percentage basis above indicated, the total underwriting guaranteed for any one picture not to exceed \$30,000.

WNT

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Sent to Secretary's house evening of 2/12
and discussed with Kuhn at breakfast at
HM, Jr's house on 2/13

DRAFT OF SECRETARY MORGENTHAU'S SPEECH
TO THE ADVERTISING CLUB IN BALTIMORE
FEBRUARY 14, 1942

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This great occasion gives me an opportunity to thank the volunteer workers of Maryland and all of the other states where thousands of men and women and children are giving freely of their time and energy to help in financing the winning of this war.

Ever since the start of the Defense Savings program, and especially since the start of our actual war effort, I have been convinced that the American people are ready to do their part. They are ready to roll up their sleeves, to work longer hours, to accept restrictions of all kinds, to sweat and to save and never to let up until the war is won.

Today the need for such effort is greater than ever. We have just gone through a black week in the war, a week of terrible events which should have swept the last cobweb of complacency from our minds. Nobody can say how much the war has been lengthened by the fall of Singapore, or the setback in Libya or the sinking of so many ^{valuable} ~~precious~~ ships and cargoes on the high seas. But it is simple common sense to realize that the war has been made longer, harder and costlier, and that these tragedies will have to be paid for before victory can be won.

That is why I say that this war will call for a supreme effort from now on, for every ounce of energy in every field of our national life. At a time like this it is vitally important that we who are engaged

in the Defense Bond campaign, as well as all others who are busy in the war effort, should see and understand the new dimensions of our job. To show you one example of what these new dimensions will involve, I should like to speak to you for a few minutes in financial terms.

We ~~happen to~~ have sold more than \$1 billion of Defense Bonds in the month of January alone. That was a great and impressive figure, yet you must forgive me if I do not throw my hat in the air at this response. Early last month the President sent to Congress a budget message calling for expenditures of \$48 billion in this calendar year. Don't our billion dollars in January look a little different when they are set against that budget figure? Doesn't the entire total of \$3½ billion

that we have raised through the sale of Savings Bonds since last May look less than "good enough"?

The money we shall have to spend in this war has got to be raised by every conceivable method and it will be raised. We shall have to get as much of it as possible from taxes; and you will hear later this month how we at the Treasury would suggest doing that essential part of the job. Some of it will have to be raised by new forms of borrowing, and some of it in the conventional but inflationary manner of going to the banks. I hear suggestions from time to time that we ought to raise some of it by compulsory savings, but, as you know, I have always preferred the voluntary method, and I still prefer it, ~~It is worth remembering that in England, after two years of war, voluntary~~

savings yielded 600,000,000 pounds, one-tenth of the entire national income, from small savers alone in the past year, in spite of a crushing load of taxes, in spite of the physical devastation of bombs, and in spite of dislocations and restrictions such as we in our country have never known. If our partners across the ocean can do so well, why can't we do even better?

No, the voluntary savings effort in this country has been planned and begun on the right lines, but we shall have to expand and intensify it by every means in our power in the year ahead. We shall have to get down to the grass roots of America, to the millions whose future happiness and welfare and freedom are utterly dependent on our victory in this war. We shall

have to raise more from Defense Savings than any of us ever supposed, for if we were left with too much to borrow from the banks, no amount of price control or rationing could avert the rise in prices which would then ensue.

~~Our problem in this Defense Savings campaign is not one of drawing on money that has accumulated in the savings banks. The money now resting in individual savings bank accounts does not add to our inflationary problem so long as it is kept out of circulation, so long as it is not being spent for goods that compete with war production. I am not interested in having savings bank depositors transfer their money into Defense Bonds. It is encouraging to see the patriotism that prompts many people to invest their accumulated~~

savings in Defense Bonds, but the fact remains that more than half of the billion dollars we raised in January came from persons who were able to buy their entire year's limit at once, and that more than half of the billion did not, therefore, represent true saving out of current income.

The money that should and must be put into Defense Bonds is the money that is currently earned in pay checks every week or every month. We estimate that about 7 million individuals have bought Defense Bonds since they first went on sale in May, but we also know that there are between 40 and 50 million individuals who are earning regular income. That, again, will show you the dimensions of the job ahead of us. Our greatest effort in the coming year must

be directed at pay rolls, so that every one of these 40 to 50 million men and women will set aside a substantial part of their earnings to help win the war.

You may well ask what I mean by "a substantial part". I have already said publicly that I do not mean a mere token, I do not mean spare change, I do not mean two or three or four percent. We cannot get at this problem by fixing a flat rate for everyone; we must approach it in a more flexible way.

The largest single group of wage earners in this country consists of those who are earning from \$20 to \$30 a week. There are 10,740,000 of such small wage earners out of a total of perhaps 48 million for the entire country. There is no reason why the average wage earner in the \$20 to \$30 a week group should not

be able to set aside \$1.25 each week for the purchase of Defense Bonds. If he is single with no dependents, he should be able to save much more than this; if he has a large family or unusual financial burdens, he cannot be expected to save as much. But if the average of \$1.25 a week were to be followed by all the wage earners in this category, we should produce total annual savings of more than \$698,000,000 from this group alone. There is no better example to my mind of the fact that great oaks from little acorns grow.

Let's take another income group. There are $7 \frac{3}{4}$ millions of men and women earning from \$30 to \$40 a week. Here again the average savings each week should be at least \$2.00. The amount in itself, each week, is small enough, yet if everyone earning from \$30 to \$40 were to save at this rate, it would mean a total annual

savings of more than \$908,000,000 from this group.

Let me take just one more example, and then I will be through. There are 5,794,000 persons earning between \$40 and \$50 a week. If everyone in this group were to save only \$4 out of every pay-check, their total saving would amount to \$1,205,000,000 a year.

If you are interested in this approach, I have brought with me some copies of a table giving a suggested savings schedule for all incomes beginning with those from the \$5 to \$10 a week group and going as far as the \$150 to \$200 a week group. I offer it to you, and

we at the Treasury are circulating it throughout the country, not with any idea of setting a quota. Each individual, after all, is the best judge of how much he can invest in Defense Bonds, ~~No one is going to tell him how much he must invest,~~ ^{that} for ~~it~~ is the essence of the voluntary system. ~~that he shall make his own free choice.~~ But if the average week-by-week investment reaches the figure that we think can be reached, we shall raise more than \$10 billion a year from small savers alone, not counting the amounts that I know we can obtain from larger investors.

Some may say that this is a huge sacrifice to be asking of the American people. I do not call it a sacrifice at all. Is it a sacrifice to lend your

savings to your Government in time of war and to get a handsome rate of interest in the process? We at the Treasury have not used the word "sacrifice" in connection with Defense Bonds because we do not believe that the word applies.

Our people will be asked to do many more difficult things in this war than the purchase of Defense Bonds. If we are to do our part, each of us will have to do without many luxuries and even conveniences. Each of us will have to conserve on materials, to use busses and trains instead of cars, to work longer hours, to pay higher taxes, to stop the waste of food and materials and effort that has been characteristic of our country and of all young and lusty countries like ours.

Even these will not be sacrifices to my mind; they

will simply be a challenge to our inventiveness, our adaptability and our courage. It should be a proud adventure for us to get along with less, to accustom ourselves to wartime conditions, to play our individual part in a great war for freedom.

If we should lose this war -- and never forget that we can lose it -- we should lose everything. My own confident belief is that we shall go forward all the way to victory, never counting the cost, never grudging the hardship, always remembering that our stake in this war is everything we have, everything that we have built up for 150 years, everything that has come to us from our forefathers.

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Discussed in Secretary's office
2/13 at 4:30 pm

DRAFT OF SECRETARY MORGENTHAU'S SPEECH
TO THE ADVERTISING CLUB IN BALTIMORE
FEBRUARY 14, 1942

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We have just gone through a black week in the war, a week of terrible events which should have swept the last cobweb of complacency from our minds. Nobody can say how much the war has been lengthened by the siege of Singapore, or the setback in Libya, or the sinking of so many valuable ships and cargoes on the high seas. But it is simple common sense to realize that the war has been made longer, harder and costlier, and that these tragedies will have to be paid for before victory can be won.

That is why I say that this war will call for a supreme effort from this very moment, for every ounce of energy in every field of our national life.

The job ahead of us has taken on new dimensions, and it is vitally important at a time like this that we understand those new dimensions and act accordingly, in the financial field as in every other.

For example, we have sold more than \$1 billion of Defense Bonds in the month of January alone. That was a great and impressive figure, yet you must forgive me if I do not throw my hat in the air at this response. Early last month the President sent to Congress a budget message calling for expenditures of \$40 billion on the war in this calendar year. ~~Doesn't~~ Our billion in January look small and inadequate when it is set against that budget figure?

The money we shall have to spend in this war has got to be raised and it will be raised. ~~It~~ We shall have

to get as much of it as possible from taxes. You will hear soon how Congress and the Treasury would suggest doing that essential part of the job. At this moment I can only tell you this: that just as war knows no avoidance, the next tax program will not allow anyone to escape from paying his fair share. Some of our wartime needs will also have to be met by borrowing from new sources, and some of it in the conventional manner of going to the banks.

I hear suggestions from time to time that we ought to raise some of it by compulsory savings, but, as you know, I have always preferred the voluntary *because it is the democratic method and* method. I still prefer it, because I am certain that [^] it will work.

In England, after two years of war, voluntary savings yielded ^{2,000,000,000} ~~600,000,000~~ [#] pounds, one-tenth of the entire national income, from small savers alone in the past year. That is what the English were able to save in spite of a crushing load of taxes, in spite of the physical devastation of bombs, in spite of dislocations and restrictions such as we in our country have never known. One-tenth of our own national income would be more than \$10 billion in a year. If ~~our~~ ^{the} British ^{people} ~~partners~~ can do so well in the face of such hardships, why can't we do even better?

I know that the American people can do better, ~~and I can prove it.~~ The proof came from Honolulu in the second week of December, while the sky was still

dark with the smoke of the first direct attack on American soil. Shops and homes were in ruins, and civilians had been killed, but the people of Honolulu just wiped the dust from their hands and the grime from their eyes and showed what free Americans can do when they are aroused. The day after Pearl Harbor, Honolulu was buying Defense Bonds ten times as fast as before, and within a few days we at the Treasury had a telegram begging us to authorize the issuance of receipts instead of bonds because the supply of bonds had run out. (That was the American way of answering the enemy.)

Do we have to wait until the bombs fall on us before we rouse ourselves? Do we have to wait until

our homes are in ruins, our fields devastated, our property seized? What are we waiting for? Must we have more disaster, more tragedies like Pearl Harbor before we realize that this war is a life-and-death struggle for every one of us?

All around us we can see evidences of the fact that fighting spirit has not died among free men. We can see it not only in England, not only in Hawaii. We can see it in the Philippines, where ~~General MacArthur~~ *Americans and Filipinos together* and his men are writing a new epic of human courage. We can see it in China, where hundreds of millions have kept their heads high during ^{*still fight on after*} 4½ years of terrible war. We can see it in Russia where men are fighting and dying, in freezing cold amid unimaginable hardships, to drive the invader from their soil. We can see it

through the darkness in all the oppressed and conquered nations of Europe, where all of Hitler's firing squads cannot kill the love of liberty. The battlefields of this war are not thousands of miles away; they are right here in our factories and our homes, our hearts and our minds, and the need for sweat and effort is as great as if the enemy were at our gates.

Ever since the start of our Defense Savings effort, long before Pearl Harbor, I have been convinced that the American people were ready to do their part. But readiness and willingness are not enough; the time has come for all of us to translate that readiness into action. We can, we will, we must. We can do it voluntarily and effectively in the purchase

of Defense Bonds as in every other phase of our war effort. Why, if everyone who earns between \$40 and \$50 a week were to set aside just \$4 out of every pay check for buying Defense Bonds -- and there are almost eight million income earners in this salary group alone -- it would bring the Government \$1,200,000,000 a year. I have with me a table showing what the average income-earner should be able to save for Defense Bonds, beginning with those who earn \$5 a week and going up to the \$200 a week group. We are circulating this table throughout the country as a suggested yardstick for income-earners, to show that it is entirely possible to raise almost \$11 billion a year from payroll savings, not counting the additional billions which the larger

investors can subscribe.

That will show you, perhaps, how little we have done already and how much remains to be done. We have reached only about one-seventh of all the income earners in the country; we must reach the others without delay. We must have every income earner in the country saving regularly on a week-to-week basis if we are to finance this war without bringing the evils of inflation upon us.

Some may say that this is a big sacrifice to be asking of the American people, especially of those with fixed incomes. I do not call it "sacrifice" at all. Is it a sacrifice to lend your savings to your country in time of war and to get a handsome rate of

interest in the process? We shall be asked to do many more difficult things than the purchase of Defense Bonds. If we are to do our part, each of us will have to conserve resources, to use buses and trains instead of cars, to work longer hours, to cut down on luxuries and on many necessities, to stop our habitual waste of food and materials and effort, and to alter our everyday lives to any extent that may be necessary to meet the needs of war.

Occasionally I hear it said that we must not dislocate business or disturb our economy in wartime -- as if you could fight a band of gangsters in your house without scratching the furniture. Occasionally this group or that protests that it should be exempt from

military service ~~or from time rationing~~ or from paying higher taxes. In Washington and elsewhere I can hear men of little minds, ~~making~~ their complaints that we were not better prepared. They happen to be the same men of little minds and narrow vision who tried to prevent the President from building up our Navy nine years ago; the same men who voted against the fortification of Guam and other bases; the same men who fought every military and naval appropriation, even after the fall of France; the same men who cried "warmonger" whenever the President sought to consult our potential allies in preparation for an attack which he knew would surely come.

Fortunately we have a man in the White House who

saw the terrible meaning of this war from the very beginning, who saw the immensity of the danger when his critics called him a "warmonger." I see a good deal of the President at close range in these days of crisis; and every time I see him I wish that the whole American people could see him and hear him as he directs this vast and complicated war effort. They would catch something of his courage, his patience, his vision, and they would see him as he is already proving himself to be -- a great war President, a worthy leader of the whole free world.

Fortunately there is no lack of patriotism among us. | The croaking voices are few in number and small in influence; they were discredited forever on the

very day the war began. But it is up to all of us now to show that we are worthy of our past and of our great place in the world. The time has come for all of us to sweat and work and save, and never to let up until the war and the peace are won.

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BALTIMORE MD FEB 13 1942 323P

HENRY MORGENTHAU JR, SECRETARY OF THE TREASURY

TREASURY BLDG

MARYLAND AWAITS WITH PLEASURE YOUR VISIT TO STATE TOMORROW

ANTICIPATE OPPORTUNITY OF GREETING YOU PERSONALLY AT BANQUET

ASSURE YOU OF CORDIAL WELCOME BY OUR CITIZENS. KINDEST

REGARDS

GOVERNOR HERBERT R OCONOR.

401P

CONGRESS OF THE UNITED STATES

JOINT COMMITTEE ON REDUCTION OF
NONESSENTIAL FEDERAL EXPENDITURES

There will be a meeting of the Joint Committee in
Room 314 Senate Office Building on Friday, Feb. 13,
at 10:00 a.m.

To _____

2-11-42Bill to removeE. J. F.HARRY FLOOD BYRD,
Chairman

oro 6010



TREASURY DEPARTMENT

WASHINGTON

February 13, 1942.

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

A meeting was called at 10:00 A. M., Friday, February 13, in the Senate Finance Committee Room in the Senate Office Building. There were present:

Senators:
Byrd
McKellar
George
Nye
Glass
LaFollette

Congressman:
None
Bureau of the Budget:
Mr. Lawton
General Accounting Office:
Mr. Barger
Farm Security Administration:
Mr. Baldwin and associates.

Senator Byrd opened the meeting with the statement that Mr. Baldwin was being furnished an opportunity to answer the charges which had been made against the FSA. Senator Byrd stated that up to this point the Committee had devoted $8\frac{1}{2}$ hours of time to taking testimony which filled 316 pages of the record. He said 4 hours and 20 minutes were devoted to hearing critical testimony; 3 hours had been devoted to hearing Mr. Baldwin's answers, and that the balance of the time had been used by the representatives of the Bureau of the Budget in furnishing information on the program.

Mr. Baldwin requested an opportunity to make a complete statement without interruptions and took up point by point the various criticisms and charges which had been made against the FSA. He pointed out that many of the subjects of criticism directed against the organization were matters which were specifically required under various provisions of law.

Upon completion of Mr. Baldwin's statements Senator Byrd called attention to the statement reported in the press of the preceding day that the President had indicated his disapproval of the practice of FSA in paying poll taxes contrary to State laws.

In reply to an inquiry by Senator McKellar Mr. Baldwin listed the programs administered by the FSA, as follows:



Bankhead Jones Farm Tenant Act
Rehabilitation Loans, Grants and Migratory Labor Problems
Wheeler-Case Act
Water Facilities Act
Lanham Act (defense housing).

Mr. Baldwin furnished information as to the amount of money available and expended under various programs and the amount of outstanding loans and other data concerning the activities of his organization.

Mr. Baldwin called the Committee's attention to the fact he had just been informed that in the President's press conference held a few minutes before the President had issued a new statement with respect to the practice of the FSA in including poll taxes among the allowable expenditures of its borrowers and had indicated that he saw no objection to this practice.

Senators Byrd, McKellar and Nye left the meeting at 12:15 P. M. Senator Glass left at 12:20 P. M. Senator LaFollette and Senator George remained to give Mr. Maury Lincoln of Columbus, Ohio, Executive Secretary of the Ohio Farm Bureau Federation, and others an opportunity to testify.

Mr. Maury Lincoln made a short statement in support of the activities of the FSA.

Senator LaFollette invited Mr. E. R. Talley of the Department of Agriculture, who had worked on the Government "Food for Victory" program, to outline the manner in which this program had been arrived at and the extent to which it relied upon people in low income families served by the FSA to participate in this program. Mr. Talley furnished considerable information along these lines.

Mr. James G. Patton, President of the Farmers' Educational and Cooperative Union of America, was given an opportunity to submit a statement in support of the FSA. This organization is made up of 15,000 tenant farmers in 6 Southern States and was organized at Memphis, Tennessee, in July, 1934.

Thereupon the meeting adjourned at 1:15 P. M.

WTK

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE February 13, 1942

TO Secretary Morgenthau
FROM George Buffington *G.B.*

National Screen Service has not yet submitted to me a complete detailed report covering the number of theatres in which "The New Spirit" was exhibited for the period ending February 8.

I am told verbally that, as of February 8, the picture has been shown in 1,800 theatres, with two distributing points not reporting. This is regarded as satisfactory for the first period, inasmuch as the film remained in certain first run theatres a full week. We originally contemplated exhibiting the film, beginning February 8, in 2,000 theatres each week during five weeks to attain distribution in 10,000 theatres. Having completed the picture before February 8, it now appears as though we will be able to distribute it through more than 10,000 theatres before March 15.

Analysis of Exposure to Payroll Savings Plans
February 7, 1942

	Number exposed to payroll savings plans	Total number in the country	Percent of total exposed
Part A - Summary by Number of Organizations Exposed			
I. Business organizations			
(1) Railroads.....	144	156	92
(2) Other firms with 500 employees or more.....	4,502	7,251	62
(3) Other firms with 100 to 499 employees.....	<u>8,178</u>	<u>26,969</u>	<u>30</u>
(4) Subtotal - large firms.....	12,824	34,376	37
(5) Firms with less than 100 employees.	<u>10,932</u>	*	*
(6) Total business organizations.....	23,756	*	*
II. Governmental organizations.....	*	*	*
III. Grand total.....	<u>23,756</u>	<u>*</u>	<u>*</u>

Part B - Summary by Number of Employees Exposed

I. Business organizations			
(1) Railroads.....	1,324,909	*	*
(2) Other firms with 500 employees or more.....	12,227,608	*	*
(3) Other firms with 100 to 499 employees.....	<u>1,864,906</u>	*	*
(4) Subtotal - large firms.....	15,417,423	*	*
(5) Firms with less than 100 employees.	<u>337,318</u>	*	*
(6) Total business organizations.....	<u>15,754,741</u>	<u>30,400,000</u> 1/	<u>52</u>
II. Governmental organizations			
(1) Federal Government.....	*	1,700,000 1/	*
(2) State and local governments.....	<u>673,064</u>	<u>2,700,000</u>	<u>25</u>
(3) Total governmental organizations...	<u>673,064</u>	<u>4,400,000</u>	<u>=</u>
III. Grand total.....	<u>16,427,805</u>	<u>34,800,000</u> 1/	<u>47</u>

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

February 13, 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.

Firms Employing 500 Persons or More Participating in Payroll Savings Plans

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

State	Number of Firms with payroll savings plans			Total number of firms	Percent of Total having payroll savings plans		
	Jan. 10	Jan. 31	Feb. 7		Jan. 10	Jan. 31	Feb. 7
Alabama.....	0	27	29	76	12	36	38
Arizona.....	10	12	12*	18	53	100	100
Arkansas.....	5	15	16	18	33	83	89
Northern California.....	114	136	139	196	58	69	71
Southern California.....	123	147	168	165	75	89	90
Colorado.....	22	22	22	32	69	69	69
Connecticut.....	37	132	134	185	32	71	72
Delaware.....	2	2	2	28	7	7	7
District of Columbia.....	12	22	22	52	23	42	42
Florida.....	14	24	25	66	27	36	38
Georgia.....	31	42	42	143	24	29	29
Idaho.....	0	3	0	10	0	30	30
Illinois.....	277	336	347	634	44	53	55
Indiana.....	41	67	80	180	23	37	44
Iowa.....	9	11	22	53	17	21	42
Kansas.....	16	31	31	31	52	100	100
Kentucky.....	12	31	33	70	27	44	47
Louisiana.....	0	0	0	55	0	0	0
Maine.....	42	42	51	51	82	94	100
Maryland.....	40	86	93	154	26	56	52
Massachusetts.....	41	212	230	370	11	57	62
Michigan.....	305	303	314	333	92	93	94
Minnesota.....	27	96	98	105	23	91	93
Mississippi.....	12	13	13	28	43	46	46
Missouri.....	0	104	125	125	0	99	100
Montana.....	4	5	5	5	80	100	100
Nebraska.....	22	32	32	41	68	78	78
Nevada.....	3	3	3	3	100	100	100
New Hampshire.....	17	27	27	27	65	100	100
New Jersey.....	125	204	208	238	72	86	87
New Mexico.....	0	6	6	6	0	100	100
New York.....	431	647	693	1,350	32	48	51
North Carolina.....	45	77	78	168	23	46	46
North Dakota.....	0	1	1	1	0	100	100
District of Columbia.....	22	377	402	557	51	68	72
Oklahoma.....	22	37	37	62	35	60	60
Oregon.....	23	60	62	62	82	97	100
Pennsylvania.....	336	402	440	625	54	64	70
Rhode Island.....	2	64	67	90	2	71	74
South Carolina.....	2	37	41	96	22	39	43
South Dakota.....	3	3	3	3	100	100	100
Tennessee.....	1	13	13	106	1	10	12
Texas.....	91	46	46	187	13	25	26
Utah.....	0	0	0	14	0	64	64
Vermont.....	10	12	12	13	77	92	92
Virginia.....	41	70	71	95	43	74	75
Washington.....	42	43	43	85	51	56	57
West Virginia.....	2	25	25	67	3	37	37
Wisconsin.....	64	116	122	137	61	85	93
Wyoming.....	0	1	1	1	0	100	100
Alaska.....	0	0	3	3	0	0	100
Railroads.....	22	22	22	102	21	21	21
Total.....	<u>3,185</u>	<u>4,377</u>	<u>4,600</u>	<u>7,359</u>	<u>43</u>	<u>50</u>	<u>53</u>

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

February 13, 1942

* Data are for January 31, inasmuch as no February 7 report was received.

Firms Employing 100 to 499 Persons Participating in Payroll Savings Plans
(As reported by the Defense Savings Staff's State Administrators)

State	Number of firms with payroll savings plans			Total number of firms	Percent of total having payroll savings plans		
	Jan. 10	Jan. 31	Feb. 7		Jan. 10	Jan. 31	Feb. 7
Alabama.....	17	67	73	285	6	24	26
Arizona.....	15	20	20*	58	26	34	34
Arkansas.....	22	30	32	142	15	21	23
Northern California.....	160	375	390	489	33	77	80
Southern California.....	495	603	620	1,171	42	51	53
Colorado.....	64	89	90	198	32	45	45
Connecticut.....	100	206	217	622	16	33	35
Delaware.....	0	0	0	84	0	0	0
District of Columbia.....	8	15	15	152	5	10	10
Florida.....	48	73	80	139	35	53	58
Georgia.....	56	71	76	589	10	12	14
Idaho.....	19	22	23	50	38	44	46
Illinois.....	48	258	419	2,252	2	11	19
Indiana.....	0	154	204	556	0	26	35
Iowa.....	4	11	26	271	1	4	10
Kansas.....	114	270	272	272	42	99	100
Kentucky.....	75	83	88	312	24	27	28
Louisiana.....	0	0	0	384	0	0	0
Maine.....	3	27	32	198	2	14	16
Maryland.....	32	57	66	405	8	14	16
Massachusetts.....	53	425	453	1,523	3	28	30
Michigan.....	137	197	342	1,022	13	19	23
Minnesota.....	181	279	309	399	45	70	77
Mississippi.....	30	42	45	143	21	29	31
Missouri.....	0	215	235	664	0	32	35
Montana.....	22	26	30	39	56	67	77
Nebraska.....	6	45	51	123	5	37	41
Nevada.....	8	14	14	24	33	58	58
New Hampshire.....	7	38	50	145	5	26	34
New Jersey.....	171	238	250	869	20	27	29
New Mexico.....	12	24	26	35	34	69	74
New York.....	505	999	1,085	4,239	12	24	26
North Carolina.....	29	99	112	499	6	20	22
North Dakota.....	4	5	6	29	14	17	21
Ohio.....	0	311	438	1,733	0	18	25
Oklahoma.....	29	99	115	345	8	29	33
Oregon.....	21	65	90	317	7	21	28
Pennsylvania.....	713	884	1,024	2,032	35	44	50
Rhode Island.....	49	74	77	284	22	33	34
South Carolina.....	13	29	36	174	7	17	21
South Dakota.....	5	7	13	19	26	37	68
Tennessee.....	0	29	38	448	0	8	8
Texas.....	74	114	131	1,375	5	8	10
Utah.....	13	19	19*	111	12	17	17
Vermont.....	30	42	43	63	47	67	68
Virginia.....	31	84	98	328	9	25	29
Washington.....	71	88	104	406	17	22	26
West Virginia.....	0	30	30	272	0	11	11
Wisconsin.....	0	101	148	680	0	15	22
Wyoming.....	1	5	11	12	8	42	92
Alaska.....	0	0	2	2	0	0	100
Railroads.....	46	46	46	46	96	96	96
Total.....	<u>3,541</u>	<u>7,105</u>	<u>8,224</u>	<u>27,017</u>	<u>13</u>	<u>26</u>	<u>30</u>

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

* Data are for January 31, inasmuch as no February 7 report was received.

February 13, 1942

Analysis of Exposure to Payroll Savings Plans
February 14, 1942

	Number exposed to payroll savings plans	Total number in the country	Percent of total exposed
Part A - Summary by Number of Organizations Exposed			
I. Business organizations			
(1) Railroads.....	144	156	92
(2) Other firms with 500 employees or more..	4,752	7,257	65
(3) Other firms with 100 to 499 employees...	<u>9,270</u>	<u>26,970</u>	<u>34</u>
(4) Subtotal - large firms.....	14,166	34,383	41
(5) Firms with less than 100 employees.....	<u>14,095</u>	*	*
(6) Total business organizations.....	28,261	*	*
II. Governmental organizations.....	*	*	*
III. Grand total.....	<u>28,261</u>	*	*

Part B - Summary by Number of Employees Exposed			
I. Business organizations			
(1) Railroads.....	1,325,560	*	*
(2) Other firms with 500 employees or more..	12,595,783	*	*
(3) Other firms with 100 to 499 employees...	<u>2,093,988</u>	*	*
(4) Subtotal - large firms.....	16,015,331	*	*
(5) Firms with less than 100 employees.....	<u>412,989</u>	*	*
(6) Total business organizations.....	<u>16,428,320</u>	<u>30,400,000</u> 1/	<u>54</u>
II. Governmental organizations			
(1) Federal Government.....	*	1,700,000 1/	*
(2) State and local governments.....	<u>769,000</u>	<u>2,700,000</u>	<u>28</u>
(3) Total governmental organizations.....	*	<u>4,400,000</u>	*
III. Grand total.....	<u>17,197,320</u>	<u>34,800,000</u> 1/	<u>49</u>

February 20, 1942

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

- 1/ 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.

2-13-42

Number of agents in Other Corporations and Investment Industry
qualified to issue Series E Savings Bonds, by Federal Re-
serve districts - January 10 to date. 1/

Date	Atlanta	Boston	Chicago	Cleveland	Dallas	Kansas City	Minne- apolis	New York	Phila- delphia	Richmond	San Fran- cisco	St. Louis	Total
Other Corporations													
Jan. 10	4	-	8	-	-	-	-	-	-	-	-	-	12
17	12	-	27	-	1	-	-	4	65	8	-	1	118
24	15	2	61	22	13	-	1	21	83	15	4	3	240
31	17	14	90	28	27	1	3	32	101	19	8	11	351
Feb. 7	20	19	115	33	42	5	3	41	124	23	14	16	457
Investment Industry													
Jan. 24	-	-	5	-	-	2	-	1	-	2	-	-	10
31	-	-	10	3	-	2	-	7	-	6	1	8	37
Feb. 7	-	-	13	6	-	2	-	9	-	7	3	3	48

1/ Other Corporations authorized as of December 27, 1941 and Investment Industry as of January 17, 1942.

UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During
 First Ten Business Days of February and January 1942 and December 1941
 (February 1-12, January 1-12, December 1-11)
 On Basis of Issue Price

(Amounts in thousands of dollars)

Item	Sales			Amount of Increase or Decrease (-)		Percentage of Increase or Decrease (-)	
	February	January	December	February	January	February	January
	1942	1942	1941	over January	over December	over January	over December
Series E - Post Offices	\$ 44,448	\$ 64,225	\$ 19,812	-\$ 19,777	\$ 44,413	= 30.8%	224.2%
Series E - Banks	<u>169,873</u>	<u>173,341</u>	<u>37,335</u>	= <u>3,468</u>	<u>136,006</u>	= <u>2.0</u>	<u>364.3</u>
Series E - Total	214,322	237,566	57,147	- 23,244	180,419	= 9.8	315.7
Series F - Banks	28,386	24,880	8,182	3,506	16,698	14.1	204.1
Series G - Banks	<u>141,624</u>	<u>98,495</u>	<u>55,763</u>	<u>43,129</u>	<u>42,732</u>	<u>43.8</u>	<u>76.6</u>
Total	<u>\$384,331</u>	<u>\$360,940</u>	<u>\$121,092</u>	<u>\$ 23,391</u>	<u>\$239,848</u>	<u>6.5%</u>	<u>198.1%</u>

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

February 13, 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 - February 1942
On Basis of Issue Price

(In thousands of dollars)

Date	Post Office Bond Sales	Bank Bond Sales				All Bond Sales			
		Series E	Series F	Series G	Total	Series E	Series F	Series G	Total
February 1942									
2	\$ 8,435	\$ 34,150	\$ 6,191	\$ 19,795	\$ 60,136	\$ 42,585	\$ 6,191	\$ 19,795	\$ 68,571
3	3,572	7,887	2,793	19,518	30,199	11,459	2,793	19,518	33,770
4	4,833	16,537	3,937	18,515	38,989	21,430	3,937	18,515	43,882
5	4,257	16,149	2,367	14,640	33,156	20,406	2,367	14,640	37,413
6	4,310	23,510	3,829	18,620	45,958	27,820	3,829	18,620	50,269
7	3,023	10,039	2,019	6,174	18,233	13,062	2,019	6,174	21,256
9	5,486	25,354	3,071	16,265	44,690	30,839	3,071	16,265	50,176
10	3,902	11,794	1,109	12,679	25,581	15,695	1,109	12,679	29,483
11	3,179	9,782	1,487	7,637	18,906	13,061	1,487	7,637	22,185
12	3,293	14,670	1,584	7,781	24,035	17,963	1,584	7,781	27,328
Total	\$ 44,148	\$169,873	\$ 28,386	\$141,624	\$339,883	\$214,322	\$ 28,386	\$141,624	\$384,331

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

February 13, 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.

CONFIDENTIAL

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Daily Changes in the Stock of Series E Savings Bonds on Hand ^{1/}
(In thousands of pieces)

	: Number of : pieces sold : this day	: Number of pieces : manufactured : this day	: Stock on hand : at close of : day	: IBM : deliveries : this day
Jan. 27	186	1,000	11,852	-
28	251	1,000	12,601	2,000
29	265	1,000	13,336	-
30	283	800	13,853	2,000
31	139	800	14,514	-
Feb. 1	none-closed	none-closed	14,514	-
2	505	800	14,809	-
3	158	800	15,451	-
4	262	800	15,989	2,500
5	250	800	16,539	-
6	341	800	16,998	2,500
7	159	none-closed	16,839	-
8	none-closed	none-closed	16,839	-
9	379	740	17,200	-
10	193	705	17,712	2,000
11	159	695	18,248	-
12	220	640	18,668	-

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

February 13, 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.

POSTAL SAVINGS STAMPS

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Estimated Total Value and Number of Units Sold
by Denominations and by Months
May 1941 - January 1942

(All figures in thousands)

Month	Number of Units by Denomination						Total Value
	10¢	25¢	50¢	\$1.00	\$5.00	Total	
1941							
May	2,444	5,170	1,169	673	111	9,567	\$ 3,349
June	1,557	5,595	855	457	60	8,524	2,736
July	1,739	7,859	1,111	571	51	11,331	3,520
August	2,617	9,946	1,198	751	55	14,567	4,372
September	4,120	12,347	1,318	687	69	18,542	5,192
October	4,664	14,526	1,516	787	68	21,563	5,985
November	5,799	14,996	1,575	847	78	23,295	6,354
December	53,616	53,108	4,991	2,640	385	114,740	25,699
1942							
January	<u>110,003</u>	<u>85,651</u>	<u>7,130</u>	<u>3,638</u>	<u>278</u>	<u>206,700</u>	<u>41,006</u>
Total	<u>186,558</u>	<u>209,199</u>	<u>20,864</u>	<u>11,052</u>	<u>1,155</u>	<u>428,828</u>	
Total Value	<u>\$18,656</u>	<u>\$52,300</u>	<u>\$10,432</u>	<u>\$11,052</u>	<u>\$5,776</u>		<u>\$98,216</u>

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

February 13, 1942.

Source: Division of Postal Savings, Post Office Department. Total dollar sales for May through November are audited figures. Number of units by denominations for these months, as estimated by the Post Office Department, are prorated in this table to agree with audited dollar sales. Dollar sales and number of units for December and January are complete but unaudited reports of first class post offices and district accounting offices.

Note: Figures have been rounded to nearest thousand and will not necessarily add to totals. For the same reason, the sum of units times denominations does not necessarily agree exactly with total value.

February 13, 1942

Ed Foley

Secretary Morgenthau

I met Mrs. Robert Bacon last night and she asked me what, as a citizen of New York State, she should do about paying taxes in the District. She doesn't want to lose her vote in New York. Would you mind calling her up this morning and telling her what the law is?

Foley took care of - 2/13/42 -

February 13, 1942

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Foley took care of - 2/13/42 -

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See Grace memo of 2/16/42 attaching
memo from Mr. Mahan -
Finished.

12/24/41

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Discussed at Group Meeting. Graves reported that the stations in some of these places aren't suitable for murals, and that each mural had to be made individually, so it would take a couple of months before the next one is ready. HM Jr told him to keep on working on it.

Follow up 2/1⁴/41 - Miss Finnegan will check with Mr. Graves.

~~Follow up~~ Follow up next 9:30.

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Follow up -

12/18/41 -

Taking care of

~~Follow up 1/16/41~~
~~12/28/41 -~~

December 13, 1941

Harold Graves

Secretary Morgenthau

I wish you would make the necessary arrangements to have a photographic mural put up in stations in Washington, Chicago, St. Louis and some stations on the Pacific Coast. I don't know if they have a union station in New Orleans, but if they have I would think about it. Let me put it another way. I would like to see it put up in at least five additional stations where the greatest number of people go through, but particularly I would like to have it in Chicago and Washington. I should think if they were duplicating it and knew that they had to have five more murals that it would be cheaper to make five at one time than it would to order one at a time.

MEMORANDUM FOR THE SECRETARY.

February 13, 1942.

The past week has reflected in correspondence received, the general condition of criticism and dissatisfaction that seems to have swept the country. A special group of "sour notes" is appended at the end of the general report. It contains all sorts of criticisms, but the quotations have been taken almost entirely from letters which also said the particular point of criticism had affected the sale of Bonds.

Comments on the question of taxing tax-exempt securities continue to come in, with a few endorsements of the Secretary's stand, and a great many letters opposing it. The latter group is considerably increased by letters transmitting formal resolutions passed by city officials, condemning the idea of taxing municipal bonds. Such formal action has evidently been requested by the League of Texas Municipalities, and similar organizations. Letters have come from the cities of Wilkes-Barre, Pa., Hamtramck, Mich., Superior, Wis., Sioux City, Iowa, Johnstown, Pa., Irvington, N.J., etc.

There have been a number of letters opposing Joint Income Tax Returns; others attacking the Secretary's most recent statement on silver.

The kicks on automobile stamps continue, with constant requests for receipts, protection against thievery, etc.

Some very interesting gifts have been received, including old coins, crocheted doilies, silver napkin rings, and a package from Justice M. M. Marquardt, Golconda, Ill. He sends a Japanese medal conferred upon him, together with some Japanese coins which he wishes to "go back to Japan with a message from the U.S.A.". He also sends a Liberty half-dollar, 1836, to be sold and used for defense.

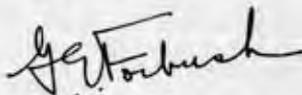
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Memorandum for the Secretary.

February 13, 1942.

There is continued distrust of Hearst's cooperation with the Defense Bond campaign. One contributor says she is sending her check directly to the Treasury, as she then feels we will actually get it. Another tells of the loss of a couple's life savings through buying Hearst stock, but says they will now invest their savings in bombers, but not because Hearst suggested it. Another points to Hearst's constant opposition to every outstanding policy or act of the Roosevelt Administration and says he should be interned, rather than given the opportunity for personal glorification.

In January, 1940, we received 588 letters by reference from the White House; in January, 1941, 625. During the past January, 1942, we received and handled 1,047.



(Spelling, in each case, follows the original.)

Comments on Speeches

Robert E. Lee Gavon, Washington, D. C. You are absolutely right in wanting payment on State and Municipal Bonds. They are only an evasion. More power to you!

E. W. Schaumburg, N.Y.C. * * * I have been dealing in "Municipal Bonds" for 40 years, and during that time sold great quantities to men and women in small and large units. These investors were concerned primarily with safety of principal and interest. * * * To tax this form of investment after years of freedom from taxation, in the face of a moral and in the case of New York State a contractual relationship is a serious matter. This in itself is bad enough, but very much more important is that relationship between the States and the Federal Government. It is not unreasonable to assume that the desire to raise revenue may well jeopardize the very existence of the states through the power to tax to the point where it may destroy. Bear in mind that you, and our beloved President, for whom I voted three times, will not always be in office to guard the interests of all the people. * * * Think long and hard, weigh the true value, and then remember that our form of Government is regarded as the finest in all this world. That is why we are a united Nation as never before. Our President and men like you have helped make it so, please don't make a mistake now.

E. J. Ketchem, President, Security Bank of Rich Hill, Rich Hill, Mo. I see that you advocate taxing state and municipal bonds. * * * Those already issued have been purchased by thousands of citizens with the understanding that they were tax exempt, as to principal and interest. The investor has received 1% to 2 1/2% on his money, and the state has benefited thereby. Both ends of the bargain based on fair and honest dealing. Now you come along and recommend that the Federal Government "high-jack" these same investors out of \$350,000,000 by an income tax on existing municipal bonds. * * * We are supporting your campaign to sell Stamps and Bonds to help win the war. Now we ask you to do your part by conducting your office in a way that all American citizens will have confidence in you and your judgment.

T. Saxonmeyer, Stocks-Bonds, Seattle, Wash. The recent statement credited to you to the effect "that you would be glad to see Congress strike all the silver legislation off the books because of the cost to the Treasury" surely must have been a misquotation, and I am writing you in the hope that if you were misquoted you will take immediate steps to correct such serious misinformation. * * * Silver is performing such a wonderful part in our defense program, to say nothing of its duties in our monetary system, that it deserves encouraging praise instead of criticism.

E. G. Kroger, Judge, District Court, Grand Island, Neb. Some months ago I received a copy of your speech before the Advertising Club of Boston, entitled, "The Fight Against Inflation", and have read and reread the same. * * * You apparently are of the opinion that the high cost of living reflected in the cost of food, clothing and shelter is traceable entirely to the increased cost of the raw product. As a basis for that assumption, I call your attention to your suggestion that the increase in the cost of a bag of flour could be prevented by importing more wheat from Canada or by releasing some of the reserve stocks on hand in this country. * * * This, of course, is in line with New Deal thinking, which has convinced itself that labor and other costs have no effect upon the price to the consumer. * * * I realize that you have spent your entire life in an industrial section. Naturally you are interested in high wages and low food costs, and under those conditions it is easy to overlook the fact that high wages are what cause high food costs, and that reducing or limiting the price paid for the raw materials is not going to have effect on the cost to the consumer.

A. E. Weiler, Assessor, Township of Maplewood, Maplewood, N. J. The N. J. State League of Municipalities in their Legislative Bulletin have asked that City Officials write their Senators and Congressmen opposing the Bill to tax municipal bonds, because of the increased cost to the taxpayer in future municipal financing. Unfortunately, I cannot agree with the attitude of the League in this thought, but this letter must not be construed to be the opinion of all the officials in this Township. It is written not in any official capacity, but from experience in that capacity.

Comments on Present Emergency

Kingsley Ozumba Mbadiwe, Executive Secretary, The African Students' Association, N.Y.C. We, the African Students in America, touched by your comprehensive broadcast on January 4 this year, to the people of the U. S. concerning their "job ahead", and moved by the deep and real concern for the issues which are being bitterly contested on far-flung battlefields, wish to inform you of their intentions to give a token in tribute to the spirit of the peoples of the U. S. on behalf of our Mother country. * * * We hope, when the date of presentation has been fixed, it will be made convenient for you to receive this gift in person for the United States Government, now our Ally.

Louise Wood, Indianapolis, Ind. We see that you are quoted as of the opinion that the national credit is as high as it has ever been. We beg leave to take issue with that. * * * You are an intelligent man, and, what seems strangest to some of us watching, a man of honor, working there in a perfect nest of perversion. * * * For to men of honor, the present Administration has been a disgrace to this land, supporting itself upon the weaknesses of men, disregarding of that beautiful virtue which was still a repository for our ideals. We, the conservative common people, are impatient of many things. We are tired of fireside talk and do not believe what we are told. We should be glad in this time of our country's trouble to have leaders whom we might honor, and whose judgment we might trust. Mr. Roosevelt has been improvident and experimental and now, because of the word "War", we are to wait with our questioning. * * *

George M. Clark, President, Clark & Gibby, (Office Furniture), N.Y.C. I want your advice as to what to do to secure payment of a very old bill which is owing to this corporation by the U.S. Treasury, for office furniture amounting to \$1,242.26 (attended to by Miss Wais) Aug. 6, 1941. These goods were delivered by us on Aug. 6th and the office at 1270 Sixth Ave. says they can do nothing to help us, the bill having been O.K.'d by them months ago and sent to Washington. * * * What on earth can we do to collect this money? We have written the U. S. Treasury in Washington time and again,

but get absolutely no satisfaction. Our last letter was to Mr. Edward Berney, Main Treasury Building, Room 26½, Washington, D. C., dated October 10th, and remains unanswered. It does seem as though there are enough Government employees to answer every communication of every kind. Meantime, we have borrowed from our bank at 6%.

S. M. Evans, Shreveport, La. "Remember Pearl Harbor!" I certainly do and will. I was in the A.E.F. in World War No. 1, and learned something about war. However, about 12 years ago my "economic ship" was nearly sunk at Bogota, Colombia. * * * Well, Mr. Secretary, it looks like everybody's ship gets repaired except mine. Even I have helped Colombia repair her economic ship by paying higher prices for my coffee and my Government has helped her too, by making new loans to Bogota. But my ship is still on its side right at Bogota. Apparently, it has not had much effort applied to upright it. If you gentlemen in Washington could help by getting Colombia to restore equitable service on our bonds, it would mobilize a good bit of money.

J. A. Gordon, Chicago, Ill. The writer will confess at once that he finds himself all too frequently out of step with the policies pursued by the Administration. Criticism is one of the media running towards successful operation of our Republic; but, if one indulges liberally in criticism, it is only fair that he give credit when credit is due, and I want to lift my hat to you for two of the very sound positions which you have taken. The first is curtailment of non-defense expenditures to the end of lightening our tax burdens, and I am not going to elaborate on that. Your more recent advocacy of amending the silver legislation now upon the books strikes me as worthy of the highest commendation.

Alfred Roberts, Edgemere, L.I., New York, sends a clipping from the New York Post, reprinting Treasury Dept. envelopes and releases which are received in duplicate, too late to be of service, or are otherwise useless and a waste of paper. Mr. Roberts hopes that the Government will take steps to comply with its own request as to the saving of paper of all sorts and sizes.

Favorable Comments on Bonds

Milton Kantor, Dayton, Ohio. I wish to compliment you upon the wonderful job that you are doing, and to wish you continued success. Through your wonderful work you have given me a chance to prove myself as one of the youngest patriots of today. * * * I am only a youngster of 14, but I am getting my revenge on those Japs anyhow. As you know, newsboys are allowed to sell Defense Stamps. I am speaking for all the newsboys of America and wish to thank you for allowing us to sell a share in America. Up to date, I have sold 14,005 Defense Stamps, and they are still going strong.

Fred C. Smith, Thermal, Calif. Regarding your letter about the purchasing of bonds, wish to say that after all, I am a farmer, and therefore I am in no position to make future plans. * * * When we start selling our May corn, with good luck and the blessing of the Lord, I will be in a position to buy some more. I assure you I will buy with my last dollar. Last year, as you are aware, I purchased \$3,000 worth. * * * Mr. Morgenthau, I just wanted you to understand what the farmer and his family is doing (or should be doing) for the great cause, and your personal letter to me is just about the biggest and finest thing that a great man like yourself could think of doing to a farmer. Under this kind of leadership, GOD HAVE MERCY ON OUR ENEMIES.

C. H. Bundy, Drexel, Mo. I am writing on behalf of my father-in-law, the Rev. H. A. Pfost, and myself. We are on the mailing list of the Treasury Dept. for promotional material on behalf of U. S. Defense Bonds. In our case, this is a needless expense. We have bought Bonds with every dollar we could scrape up, and we will continue to do so so long as there is need of our money. My father-in-law is nearly 80 years of age, and I am a veteran of World War No. 1, classified as totally and permanently disabled. * * * We feel we are buying, not simply an investment for what little money we have, but greater than all, we are sharing in the task of maintaining freedom. We each have an income of about \$80 per month, yet each of us has purchased \$1,400 worth of Bonds, and we will continue to add to this amount as much as we can. Please take our names off the mailing list and use this money to send "presents" to our "friends", the Japanese and the Germans.

Unfavorable Comments on Bonds

F. A. Hewitt, Hoover & Diggs Insurance Company, Pittsburgh, Pa. We held a meeting of all our employees on Monday, February 2nd, for the purpose of urging them to participate in our salary allotment plan for the purchase of Defense Savings Bonds. We think we did a pretty good job for Uncle Sam, but Mrs. Roosevelt's action as described in the attached clipping has offset much of our effort. (Mayris Chaney story.) As an employer, I wonder how many others had this called to their attention by their employees?

Charles H. Roloson, Jr., Chairman, Maryland Defense Savings Committee, Baltimore, Md. Today's news of the Senate approval of a Bill granting pensions of approximately \$750 to 2,276 civilians who worked on the Panama Canal construction project 28 years ago, or to their widows, has created such a storm of protest that I am confident it will seriously retard the future sale of Defense Bonds, which at the moment is gaining much momentum in this state. I am sure you will agree that dissipating funds in such a manner at this time makes it self-evident that either there is no need to raise large sums for the prosecution of the war, or that the finances of the nation are in incompetent hands. If this or similar legislation becomes law, I feel very definitely that the usefulness of your present Maryland Defense Savings Committee will be at an end.

R. C. Stein, Office Manager, Ex-Cell-O Corporation, Detroit, Mich. We hear considerable comment from employees in our organization relative to difficulty they have in securing refund on U. S. Defense Bonds. These complaints have been placed before the local Federal Reserve Bank, who advise us that they are merely adhering to instructions given them. * * * We have found that quite a few persons have placed all of their savings in these Defense Bonds, thus making it necessary that they redeem at least a portion of their Bonds for the purpose of making income tax payments. The difficulty and inconvenience caused them does not in any way help the further sale of Bonds in any organization, and it is hoped that there might be some method available to those desiring to redeem Bonds, other than the present requirements. (Outlines procedure and difficulty of working man's taking time to follow.) * * * This condition has, unquestionably, been previously

brought to your attention, but is only because it is our desire to extend our full cooperation to the Pay-roll Deduction Plan, for the purchase of Defense Bonds, that we ask your advice in connection with this matter, and if there is contemplated some further method whereby the present serious inconvenience might be eliminated.

John D. Williams, New Orleans, La. This letter is addressed to you to express my opinion of what I consider to be the biggest gross misrepresentation ever put before the American public. I refer to the sale of Defense Bonds and Stamps, as far as the advertising to the people that their money can be had when needed, after a Bond is sixty-days old. In November of 1941, I purchased ten \$25 Bonds from my bank. * * * On the 28th of January, 1942, I was in dead need of some immediate cash and tried to cash, at my bank, 3 of my Bonds. I was advised that neither the bank, Federal Reserve or Post Office had the authority to cash these Bonds, and that it would be necessary for the Bonds to be sent to Atlanta. * * * It has now been 10 days since I surrendered these Bonds, and today was advised by my bank that the Bonds had been forwarded from Atlanta to Washington, and that this was the usual procedure. * * * In my belief, the facts regarding the redeeming of these Bonds have been misstated, intentional or unintentional. In view of the way these matters are to be handled, I am advising members of my family to stop their purchase of Stamps or Bonds and place their savings where they will be more accessible in time of need.

Elizabeth Shepley Sergeant, The Parkside, N.Y.C. Every few weeks I receive a letter from you, and usually three, sent to various addresses used in buying Savings Bonds. You urge me to buy regularly. I have done so, monthly since last spring, out of funds reserved for old age and illness, and gladly too. I am a strong New Dealer, and intend to keep on buying, in the measure of my powers. For this very reason I cannot help being irritated by this perpetual circulation which is so costly and so unnecessary for those who are convinced, and so badly organized that you write to the same person in three places, the same month. * * * I am a writer and interested in the psychological implications and results of propaganda, and I figure that if I, with my strong sympathies am irritated, rather than spurred, by your "Literature", there is something wrong with the method employed. Pardon this observation, which is intended to help, not to discourage your effort.

Leon P. Brown, St. Petersburg, Fla. When a new issue of Treasury Notes or Bonds are to be sold, I should like to be notified. If you can't notify me of such, I certainly shall not pay any attention to Defense issues.

John Barnaby, Santa Monica, Calif. Accustomed as we are to the inefficiency of our Federal Government, and to the utter waste resulting from lack of "planning", some items bring this waste sharply to our attention. This morning brought a letter (signed by "E. W. Sloan"), and a lot of circular matter, intended to stimulate the buying of Defense Bonds. But I have just purchased 11 - \$25 Bonds and already have others. Is it possible that our Treasury Dept. (a financial institution) does not know, from day-to-day, who buys Defense Bonds? If the loyalty of our people was in direct ratio to the efficient management of our Federal Government, God help America!

L. C. Larsen, President, Chamber of Commerce, La Junta, Colorado. * * * La Junta has done pretty well on the purchase of Stamps and Bonds. During the month of January we purchased \$54,125 in Series E; \$4,150 Series F; \$12,000 Series G, or a total of \$70,215 plus \$3,100 in stamps -- which is not bad for a town of 7,040 population. We won't be able to maintain that pace, because people are talking. They're talking about one of these nine-million-dollar duplications just 60 miles away. Through the strenuous efforts of high pressure lobbyists, arrangements have been made to build a nine-million-dollar tactical aviation base 5 miles east of the city of Pueblo. * * * This airport will lie five miles from the huge Pueblo municipal airport; 15 minutes flight from Colorado Springs airport; 25 minutes from three airports in Denver and 24 minutes from the recently completed airport in La Junta. The Federal Government has just spent some \$200,000 constructing and preparing the La Junta airport for an Army base. Now they move just 40 air miles away and do it again. * * * We are just an average American community. What happens here, evidently is happening at various other points in the country. We have no axe to grind, we have a good airport, and we got it before the bombing of Pearl Harbor. If Colorado is the site for a tactical base, there are six fields ready for it, that would save time and money. Could it be that our politicians are trying to capitalize from a national emergency?

Rudolph F. Klancer, Business Agent, Leather Workers' Union of Gowanda, N.Y. Our union has been trying to have the Moench Tanning Co. here in Gowanda, a subsidiary of the Brown Shoe Company of St. Louis, Mo., to install the pay allotment plan for the purchase of Defense Bonds. For the past several months the company has done nothing but give evasive answers, and as yet, no system of any kind has been put into practice. The company refuses to fly the American Flag, even after our union offered to purchase a pole and a Flag for the company. With a company of this kind, it is difficult to put into practice any of the many methods of Defense Bond purchases. * * * The workers wish to purchase Bonds through the pay allotment plan, but there is no cooperation on the part of the company.

Comments on Taxation

Russell D. Brown, General Counsel, Independent Petroleum Assn. of America, Washington, D. C. * * * Your Cleveland speech has created much uneasiness among producers of petroleum who have felt that their full attention should be given to meeting the demand for this vitally necessary raw material. Already beset by many perplexing problems, they recognize in your proposal a suggestion which might, if accepted by Congress, lead to their destruction. Coming at a time when we are all filled with a spirit of patriotic sacrifice and a willingness to provide the largest possible revenue in support of the war, such a recommendation from so high a Governmental official makes many fear that your proposal might have disproportionate weight. The producers of crude petroleum feel that their duty at the present time is to stay with their own problems and their own tasks, rather than to come to Washington to make clear to Congress their situation in regard to this question upon which Congress has so often passed during recent years. * * * Your statement contains no new revelations. Similar statements have been made by you or representatives of the Department from time to time. In other words, this is no newly discovered situation. You have presented fully and ably to the Congress of the United States for its information and guidance all of the facts available to your very efficient department of government. * * * The Congress has been responsive to your wishes and has carefully studied your suggestions. Special committees as well as the regular tax committees have reviewed your proposals with that degree of deference due to such an important division of government as the Treasury Department. Much time has been given this subject by both branches of Congress. * * * The percentage method of reckoning this allowance has been agreed to as the best practical method. The reports of the Joint Committee on Internal Revenue Taxation, Part 2, of Volume 1, division of investigation, indicates that percentage depletion in the oil and gas industries has proven satisfactory to the Government, and has afforded a deduction that very closely approximates that formerly allowed under the valuation method. The ratios allowed the various industries affected were determined as fair and equitable. * * * May we express to you the hope that in this critical period we may not be called upon to divert our efforts from production essential to the war effort to again defend a policy which successive Congresses have approved as fair and equitable.

William A. Zink, Aetna Life Insurance Co., Hartford, Conn. My experience with the Automobile Use Tax is the experience of thousands of automobile owners. I purchased the automobile use tax stamp on January 31st, pasted the stamp on the instrument board of my car on February 1st. On February 2nd the stamp was stolen. It seems to me that the pasting of a \$2.09 stamp on the instrument board or windshield of a car is much the same as pasting on a \$2.00 Bank Note. It invites the unscrupulous people to steal it.

Charles J. Johnston, Ray Brook, New York. I am taking the liberty of addressing you regarding the question of income taxes on the value of living quarters and meals furnished to persons employed by a hospital, and residing on institution grounds. This question, apparently, is left up to the Collector of Internal Revenue for each District who, in turn, makes his decision based upon each individual case. * * * As far as I can ascertain, different decision have been made by District Collectors where the cases would appear to be exactly the same. One District apparently will allow certain employees at hospitals, such as doctors, operating room supervisors and business managers, to file a return based on salary only, exclusive of maintenance value, because it is ruled that, in their cases they are considered to be on 24-hour a day duty and, therefore, their living quarters and meals are given as a convenience to the employer. Another District will insist on this maintenance value being included in taxable income. * * * In any event, it would seem that a ruling should be made in Washington, so that all cases in the same category would receive the same treatment in each Collection District.

James H. Causey, Investment Securities, N.Y.C. I am delighted to see the stand you are taking in relation to the taxation of state and municipal bonds. Our firm has handled this type of bonds for a great many years covering most of the states in the Union. While there might be a few in which the tax exemption makes such bonds saleable when otherwise they would not be saleable, we feel that the needs of the Government far outweigh the slight saving in interest to the public. This is the time to press this highly important matter which has been delayed for many years, and I wish you success in your efforts.

Frank J. Fell, Jr., R.D. 1, Phoenixville, Pa. * * * Some of the things which the Internal Revenue Department do are aggravating and seem absolutely senseless to the average taxpayer who is trying to be fair and honest in his statement of income. For instance: In 1941 we were all urged to buy Tax Anticipation Warrants and along with the rest of the gullible public, I purchased almost enough Tax Anticipation Warrants to pay my taxes for the year 1941. It has been my practice in the past to pay my full income taxes for the year on March 1st. Now I am informed by the Internal Revenue Department that if I attempt to do this, I will only be allowed the value of such Tax Anticipation Notes which exists at the time I turn them into the Government, so that to get the slight advantage which they hold, I must make my payments in the four installments and cannot turn in the Warrants for full value on March 1st. This seems a senseless proceeding to me as I want to liquidate my indebtedness to the Government on March 1st, but I am prevented in doing so by a ruling which appears not to be based on common sense or good business. * * * If this letter cannot be answered without an alibi, please don't answer it.

Comments on Economy (Donald Duck Issue)

Mrs. Mary T. Leland, N.Y.C. I read in this morning's paper that you claimed "full responsibility" for the Donald Duck short, and that it was "the best investment the Treasury has made". If it takes \$80,000 worth of such rot as that to get us in the spirit to pay our taxes, or whatever the purpose of it may be, I say that we are an all out nation of morons. What a laugh Hitler must get if his agents here report to him the antics going on in Washington! Enough to cheer him up for his Russian setback.

A. Van Blarcum, Brooklyn, N.Y. I don't think any of us so dam dum that we need to spend 80,000 of the tax payars money to show us how to make out our income tax. Let Walt Disney do his bit by giving the picture to the Government, if he thinks it is so worth while. I know many cheaper ways to learn how to make out an income tax.

B. E. James, Washington, D. C. In the Washington Star appeared a partial copy of the Donald Duck film, a section which shows Disney's character as having the American flag across the cornea of either eye. Without discussing for a moment the authority resident in any one in the Government to make a business-trade of the flag with an amusement concern, or in any way to offend the sense of dignity in which their emblem is held by the people. I am sure that I express the sense of many in deploring this as a misuse of the "colors" under which our sons are fighting. The general effect cannot be otherwise than unfortunate, even apart from the attitude of flippancy in respect to the matter of war, which accounts for the general denunciation of a specific instance in relation to the Office of Civilian Defense.

J. G. Butler, Minister, Summerfield Methodist Church, New Haven, Connecticut. The other day I had the opportunity of witnessing a cartoon by Walt Disney, "Donald Duck" and his income tax. The first part was clean, funny, and good. It got its point across. But unfortunately, the film degenerated to a plane of unadulterated hate, with raucous voice and bestial figures representing Japanese and Germans. I wish you would use your influence to see that such venom does not become part of the program of the Treasury Dept. in its efforts to get people to buy Defense Bonds.

June Hoffmann, University of Connecticut, Storrs, Conn. This past week-end I witnessed a picture, "Donald Duck", made by Walt Disney and obviously sponsored by the Treasury Department. While I think the basic idea of using the Disney characters is unique and commendable, I do not think that our Government should participate in this type of hate-producing propaganda. In particular, the portrayal of German and Japanese men as beasts, the fiery scenes of destruction, and the snarling voice of the commentator will not arouse the kind of emotions which will seek a just and durable peace when this war is ended. In short, this picture is not worthy of our Government.

David Ehrlich, Brooklyn, N.Y. In this year of higher income taxation, the seasonal complaint of the taxpayer has become even more prevalent than in previous periods -- especially with entire new brackets of income taxpayers being compelled to file. I believe, and apparently the Treasury Dept. concurs (if the Disney cartoon and the like are the criteria), that the pill could be sugar-coated very easily. * * * It is too abstract a conception to indicate the governmental services per "the return on the investment". Hence, I suggest that when a taxpayer pays his income tax, some sort of insignia, not necessarily expensive in form, be given to him. A miniature bomber or tank with the inscription: "I paid my income tax today" -- would seem to be adequate.

W. M. Randol, Baltimore, Md. I noticed in the press of yesterday a statement from you that the Donald Duck short was "the best investment the Treasury has made", and that you took full responsibility for it. If this is a good investment for the peoples' savings, the Lord help us. Evidently you are of the opinion that the people are so "damn dumb" in the words of Harry Hopkins that they can be cajoled into buying Defense Bonds by such wasteful and useless ways. From the wave of resentment stirred up by these O.C.D. projects, it looks very much as if they would act as a boomerang and that the general public will be hesitant to put their money into Bonds and have the proceeds squandered so recklessly.

Comments on Economy (O.C.D. Incident)

Anonymous - St. Louis, Mo. Yes Sir Boss, I was going to buy a Defense Bond the other day, but when I read that (OCD clipping), I bought myself some sugar instead. That kind of playing personal favoritisms has weakened the morale and the interest of half the population, and is filtering into the minds and the morale of our fighting men who get less than \$500 a year.

Peter H. McCarthy, Dubuque, Iowa. I think that it is a crying shame the way the labor racketeers and payroll racketeers are allowed to loot the U. S. Treasury, and at the same time, the people of this country are raking and scraping every cent they can to buy Defense Bonds in order that Mrs. Eleanor Roosevelt may pay her actor friend, Melvyn, a salary of \$8,000 per annum; her dancer friend, Miss Chaney, and her alleged young Communist friend, Joe Lash, no doubt a fancy salary too - and at the same time, as per the press, this work is fully covered. * * * If that Washington crowd wants to be patriotic, they should take a cut right now of at least 50% in salary, and then they are overpaid.

Archie M. Edwards, Santa Barbara, Calif. I should like to suggest that while you are requesting all of us to buy Defense Bonds that you also do everything in your power to prevent this money being thrown away by such things as the employment of Melvyn Douglas, and people of his ilk, in useless and unnecessary jobs at fat salaries.

Edith A. Cooke, Brooklyn, N. Y. A few days ago I received a circular from your Dept. with request to buy Defense Bonds. * * * I am a retired teacher, living on a pension, and fully expected to buy Defense Bonds, but since appointments can be made carrying with them salaries of more than \$4,000 to teach children dancing, I do not feel the Government is in need of the small amount I could give. Children are taught dancing, have games, and calisthenics of all kinds, and teachers are appointed for such recreations by the Board of Education. I think the appointment of Mr. Douglas and Miss Chaney have done more to hurt the selling of Defense Bonds than anything else.

D. Z. Gardner, Los Angeles, Calif. What is the matter with the Government at Washington? I am 89 and in all my life I never saw things so perfectly topsy-turvy. Some nine or ten kindred spirits have been buying Defense Bonds, something over 10,000 among us, and our dollars do not come too easy, but there is hot rebellion in the ranks. They can't understand why the Government hires dancing girls at \$4,600. Why, some commentator and our leading newspapers say that is twice the salary that ~~the~~ Colin Kelly was getting, and how much will his wife get now? Then hire a movie actor for useless tasks for \$8,000. Why, that's as much as General McArthur gets for risking his life. * * * Then hire a man Landis at \$10,000 to engage in work he has never had any experience in and knows nothing about. And it is claimed all of these are Communists or near such. Well, our crowd will buy no more Bonds and will get the money on those they have just as soon as the 60 days are up, and can you blame them? If their money is to go to enable proteges of higher-ups to get on the payrolls at enormous salaries, well, no more of it. And everyone I hear, talks the same way.

Charles N. Smith, Brooklyn, N.W. I believe all Americans are willing to help and sacrifice to win the war, but what are our officials and elected officers doing, especially that terrible woman, Eleanor. Congress votes itself a pension, bureaus are created with a vast army of workers, so that there are more workers in Washington than there are men in the Army & Navy. Eleanor appoints a dancer and a movie actor; her shocking behavior at the Dies investigation and other places -- she is a disgrace to the Country. Tell me, what good is the purchase of Stamps and Bonds when the money will be spent for all kinds of crack-pot schemes.

Alice M. Van Dlusey, Rochester, N.Y. * * * Since yesterday, we have decided that until you people down in Washington decide that we are atwar (and wars are not won by dancing masters), and put a stop to some of this nonsense, and to our Royal Family scattering our money, like a farmer feeding his chickens, we are buying no more Bonds. And don't let us hear anything more about a "withholding tax", either. You had better do a little "withholding" where it will do the most good. This is not merely "letting off steam" - we mean it. No more Bonds until you show some common sense.

E. E. Johnson, Sea Island, Georgia. * * * This is written at the request of a group of Southern gentlemen who are competent to give you a fair cross-section of opinion. In this group are three bankers, two retired justices of state courts, several prominent lawyers and half a dozen outstanding figures in the cotton industry. First, there is a strong feeling of resentment against the Congress which is retarding investment in Defense Bonds. Take my own case: I have already invested some thousands of dollars in these Bonds, and had in mind going still further for patriotic reasons. But when it became glaringly apparent that a servile Congress was betraying the country into the hands of rapacious pressure groups and ruthless labor brigands, I changed my mind. Some of the pernicious activities of Mrs. Roosevelt contributed to the change. The resentment against Mrs. Roosevelt relates to her persistent infiltration of fan dancers, Hollywood actors, and a choice specimen or two of her Communist proteges. * * * This performance is too strong a dose for some of the people of the South, at least. Our group, to a man, vowed to invest not another dollar in Defense Bonds until and unless these parasites are kicked out of the OCD. In deference to the President, this condition does not apply to Mrs. Roosevelt, though the opinion was voiced that her withdrawal from the OCD would doubtless make for its efficiency. These, my dear sir, are but a few of the causes for resentment that is making itself so manifest, not only down here, but pretty much all over the country. * * * In common with all the decent people of the land, we want to give every penny to the winning of the war, but we also want to be convinced that we are putting our money in a sacred cause that is unreservedly backed by every man and woman in the land - not excluding those in the halls of Congress and the White House.

L. H. Thibauer, Miami, Fla. For more than 40 years I was a constant smoker. This year I gave up smoking to be able to save money to buy Defense Stamps. As, at 62, I am reduced to odd jobs to earn my living, I have so far been able to get only one \$18.75 Bond. But I want you to know, Mr. Morgenthau, that I did not make my sacrifice to provide Government funds to pay salaries to dancers or to movie actors who earn more in one year than I have in my whole life.

Anonymous Postal Card from N.Y.C. - NO MORE DEFENSE BONDS
OR STAMPS UNTIL "ELEANOR" QUILTS!

Miss Mona E. Palmer, Oakland, Calif. It would be a lot easier for our Government to raise money if we who are paying knew the money was going into bombs instead of Congressmen's pensions and Mrs. Roosevelt's friends for morale boosting. In fact, if our bombs are successful, that will be the best morale booster we could have, and best Bond money seducer possible. Donald Duck and his \$80,000 wouldn't be necessary. There is going to be a limit to what the people will stand to some of this lavish extravagance of tax money. Why not be more careful with what money the Government gets, and then it wouldn't have to create additional dissatisfaction by trying to get so much more money?

Comments on Economy (Congressional Pensions)

Anonymous - Philadelphia, Pa.. "United States Savings Bonds are the quickest way in which you can both serve your country and conserve your earnings. To meet the needs of all our people, the Government now offers three kinds of Savings Bonds:" - AND TO PAY PENSIONS TO TRAITORS!

Mrs. Grace E. Marsh, Johnson City, N.Y. I recently received a letter with circulars on Defense Bonds, and asking that the order blank enclosed be filled in and returned. You will find that I have already bought several hundred dollars worth of these Defense Bonds; I admit as a financial investment, they are to be recommended. I have a friend at Pearl Harbor, and may I state right here that he writes that he feels he was lucky to come out of it alive. * * * Wanting to do the best I could with this boy in mind, I bought and bought, however, so please discontinue sending me literature, letters, etc., regarding Defense Bonds, and send it all, tons of it, to the politicians living on the fat of the land. * * * While we were buying Bonds to help keep our Democracy, hearing it over the air waves night after night, how the Government needed our dollars, that at the same time these politicians sneak a rider on a Bill, place it on the President's desk, and with no loss of time, it is signed. There have been many, many Bills put on that same desk which have lain there for days, and no doubt weeks, the rapidity with which this Bill was signed has shocked the country, to say nothing of what the reaction to the pension clause has done.

Colonel C. Browning Smith, (Retired), Greenville, S.C. It is unfortunate that the Congress should thoughtlessly have passed a pension law for themselves. This heedless act on their part cannot help but deepen in the minds of millions of the public a cynicism and distrust of our representative form of Government, and thereby play directly into the hands of Axis propagandists. * * * This episode, small as it may appear, is tragic and may have far reaching consequences that the sponsors of the law little dreamed of.

J. J. Wiesendauger, Salina, Kansas. Can you explain to me why men who have been elected to make laws for the whole people should pass special favor laws and pension themselves? Why do they dilly-dally around and go right on bankrupting the country financially, and then pass a special favor law for themselves?

I. H. Hjermsstad, Duluth, Minn. (Encloses Clipping - "The Senate's Shame"). This lousy plan was put forth under cover of war clouds, so relatively few people knew about it, but this editorial certainly expresses the opinion of every loyal American. The sale of Defense Bonds depends on faith in this great land, and faith in those who rule it. A few more such Acts will certainly greatly weaken that faith at a very critical moment. If the Senators want to retire in comfort, why don't they pass the lottery bill, then buy a ticket and take the same chance as the rest of us.

GENERAL Comments on Economy

Mrs. Anna Jones Wooten, Kinston, N.C. When I received the money for rent from a building I own (my only income) I bought a Defense Bond this month, and had planned to buy one each month, as I was able. But now I don't know whether I really would be aiding in Defense, or whether I would be helping to pay the salaries of actors and dancers and pensions for the Congressmen, all of whom have, and continue to receive, much more than I do, and I have dependents too. The antics of Congress and the Powers That Be at Washington are certainly not conducive to bolstering morale.

Dr. J. E. W. Wallin, Newport, Delaware. The 100,000,000 who have received no pay increases, or only nominal ones, protest against all unholy Profiteering Squandermania which will bankrupt the Government.

Anonymous - Boulder, Colorado. I am urged to write you in effect to your recent statement concerning the lack of support by the public in contributing to the sale of Defense Bonds, saying that, "We have very, very far to go". Hearing a great deal of sentiment, freely expressed, it is easy to understand why the existing condition. For instance, the appeal for unity and playing politics by the appellant; appointing movie stars that have no sense of realities, at high salaries. * * * Practically going down on the knees, appealing to John Lewis to be a good American. * * * The appointment of Dean Landis to a high position, who found the prosecuting witnesses in the Harry Bridges case to be liars. Etc., etc.

Henry Phillips, Syracuse, N.Y. If the Treasury's need of cash is so very great, let me inquire as to why the President and Congress do not get busy and decrease the ordinary running expense of the Government. So far as I am able to notice, there appears to be very little interest in that subject, with the exception of your own and Senator Byrd's suggestions. Six months of debate was required in Congress to get even a price control bill in operation. * * * Our

citizens are being accused of failing to appreciate the seriousness of the war situation. On the other hand, citizens might say that there is not altogether clear evidence that the Administration itself knows what it is all about.

H. Tyler, Boston, Mass. More people would invest in Defense Bonds if squandering had not been so prevalent in the last 8 years. Men who have been working from 40 to 50 years, and put away a little money in the savings banks, to live on the interest in their advanced years, cannot put money in Bonds which pay no income.

Peter H. McCarthy, Dubuque, Iowa. I am just 100% behind Congressman Wigglesworth of Mass. in that "NOT A BUCK FOR DONALD DUCK", and I am just 100% opposed to your logic in getting every cent that you can scrape together from the back-broken and down-trodden taxpayers, only to have the money from the Defense Bonds squandered on Donald Duck; Miss Chaney, Mrs. Roosevelt's dancer friend; Melvyn Douglas' \$8,000 salary; and Mr. Joseph Lash, Mrs. Roosevelt's young communist-leaning friend. Now if all this Defense Bond money is squandered on such bunk as this, then why should we buy any Bonds until the authorities at Washington wake up to the way the money is being squandered.

John S. Clough, Lisbon, N. H. Don't expect me to pay any income taxes -- not while those two sleepy-heads responsible for the death of 3,000 at Pearl Harbor are drawing \$8,000 per year pension. Never mind answering this as I fully realize that the two or three hundred stenographers in Washington are so very busy defending our country at \$1,460, and up per year. Do you know what the damn fool soldier, serving whether he likes it or not, gets?

George Gerver, Kiowa, Kansas. Why should I continue to buy Defense Stamps when part of the money goes to pay salaries of dancers, actors and other useless persons? Mrs. Roosevelt is not as well liked out here as she formally was.

Mr. F. C. Pratley, Alcazar Hotel, Chicago, Ill. You people keep on telling us to buy War Stamps, and keep on buying - for WHAT? The more we hear of your Washington, and the graft there, the more we wonder! Tommy-the-Cork - God, man, are we dumb that we cannot get such jobs; that is, selling contracts to the manufacturers and draw down the graft of 10%. Why is it that such is allowed? What are you men on the payroll for? * * * If you only knew how people are talking - and then the Congressmen pass a pension Bill that lets out all the Lame Ducks on a pension.

Dwight D. Kimball, Consulting Engineer, N.Y.C. Can it be that our officials in Washington, including our Senators and Congressmen, are so blind to the rapidly mounting and widespread feelings of resentment, indignation, dissension and disunity that they will permit the Congressional action on pensions to stand; that an appropriation for O.C.D. boondoggling will be granted, and that this public feeling will be indefinitely ignored. Recently it has seemed to me to become plainly evident that these things are bringing about a clearly defined trend to a state of mind which may seriously affect the sale of Defense Bonds and Stamps. * * * This being the case, pensions to Legislators and OCD boondoggling represent too great a price at this critical time for these cruel grabs.

For your information.

February 13, 1942.

To Archibald MacLeish

From Alan Barth

EDITORIAL OPINION
ON THE WAR:
THE WAR GROWS REAL

Alarm

Singapore, as Mark Watson observed in the Baltimore Sun, "was regarded (by everyone except, obviously, Japan) as the one impregnable stronghold west of Hawaii." When the Japanese succeeded in landing troops there, they scaled a battlement of the editorial mind, producing a shocked awakening of a sort which has not been experienced since the fall of France. Singapore was a symbol.

For some time past, commentators have pointed to the possibility that Singapore might be taken by the enemy. It seems highly doubtful, however, that they seriously believed their own warnings. Clearly, at any rate, they had no expectation that the conquest could be achieved so soon. In a bewildered effort to assess the causes, there is now a marked tendency to blame the British for mismanagement and unpreparedness, for lack of foresight, imagination and initiative.

In appraising the consequences, editorial judgments exhibit fright and deep dismay. The isolation of China and perhaps of Russia is commonly foreseen. Japanese domination of the Indian Ocean is considered probable. India is thought likely to fall under the sway of the Axis through a juncture of Japanese and German strength. Scant hope is held out for the Philippines or the Netherlands East Indies. Most baleful of all, the bases for potential offensive action against Japan are seen as lost to the United Nations.

Evaluation of the Japanese success in such terms has brought forth a rash of editorials with titles similar to that chosen by The New York Herald Tribune -- The War Can Be Lost. The bulk of the press is inclined to view grand strategy in the terms outlined by the President at a recent press conference. They recognize that the current task is to hold strategic points until we can amass the overwhelming superiority requisite for ultimate victory. Confidence in the ultimate victory remains at a fairly high level. But there is now a rather widespread feeling of alarm and discouragement over the cost which it will entail in time and money, as well as in human lives.

Most of the press understands that present strategic losses are due to a shortage of supplies in relation to the demands of vast and widely separated fronts. Accordingly, there is now an

intense and swelling editorial plea for a great production effort as the indispensable remedy. But, in addition, a number of commentators urge that the Army and Navy seize the initiative where they can, even at the risk of serious immediate losses.

Complacency?

The siege of Singapore has brought to a climax an editorial chorus charging the American public with complacency. The Christian Science Monitor says, for example, "There are cheers for General MacArthur, but a tendency to think it's his war."

The nature of the alleged complacency is rarely more clearly defined than this. It may amount to smugness -- and, on the other hand, to a mere absence of hysteria or defeatism. A large segment of the press, nevertheless, is exercised over its conviction that the American people as a whole do not appreciate the seriousness of the situation confronting them today. It seems evident that a portion of the editorial comment on the problems posed by Singapore is attributable to a desire to shock the public into keener awareness.

Some of the editorial accusations lay the blame for this state of mind upon the public itself. But a number of others feel that the Government is responsible. These latter, although their own news pages have chronicled the reverses at Pearl Harbor,

the Philippines and Singapore, assert that the Government pursues a policy of withholding bad news from the people. Winston Churchill's candor in recounting losses is frequently cited as a model for President Roosevelt. Many commentators exhort the President to give the public, through newspapers, a more thorough understanding of the strategic problems posed by the war.

Decision

There is a strong feeling in the press that the time has come for a final showdown with the Vichy Government. British assertions that General Rommel has been supplied through the connivance of the French in North Africa have received widespread credence over here. So, too, have indications of French collaboration with the Japanese in Indo-China. The prevailing reaction appears to be that Marshal Petain must now definitely be catalogued as friend or foe -- and that his Government can no longer be permitted to talk one way and act another.

The New York Post comments on the situation in a tone which is representative of that extremely vigorous group of newspapers which long before December 7 favored an outright declaration of war against the Axis: "Has appeasement failed once more and are the appeasers once again moving toward one of those typical shabby climaxes in their affairs, like the 'stab in the back' which followed our sale of scrap iron to Mussolini, and the Pearl Harbor which followed our sale of oil to Japan?"

The bulk of the press shows more patience. It recognizes the difficulty of Marshal Petain's position and appreciates the efforts of the State Department to keep the French fleet from openly serving Axis ends. But it appears to incline now toward the belief that further placation is futile and to be ready to write the Vichy Government off as a bad investment.

The term "appeasement" is again being bandied about loosely and angrily. In editorial minds, it may be said to stand for diplomacy that fails, although diplomacy itself may be nothing more than appeasement which prevails. The dominant feeling now, apparently, is that the time for diplomacy is ended.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 13, 1942

TO Ferdinand Kuhn, Jr.,

FROM Joseph Melia

EDITORIAL COMMENT ON TAXES:
BORROWING -- BONDS OR BANKS?

Editorial writers view price control as only one of many weapons in the battle against runaway inflation, a weapon that will be ineffective unless supplemented by drastic taxes and widespread purchases of Defense Bonds. To check inflation and to finance the war, they are fully prepared to shoulder the burden of nine billion dollars in new taxes. And they insistently urge their readers to buy bonds and more bonds -- and to buy them regularly.

Subt

On the whole, the press views calmly the prospect of a \$110 billion debt. This calmness in the face of unprecedented government borrowing is predicated, however, upon the widespread trust that the Treasury will not have to resort to too much inflationary bank borrowing. It is generally assumed, or at least fervently hoped, that the

(Treasury will be able to finance a large part of the cost of the war through new taxes and voluntary purchases of Defense Bonds.

As yet there is no widespread editorial awareness of the increasing gap between estimated income from these sources and government expenditures. Nor is much editorial attention being given as yet to the Second War Powers bill authorizing the Federal Reserve System to purchase government securities directly from the Treasury. Although a few small newspapers and some financial columnists agree with Senator Taft and Walter E. Spahr, secretary of the Economists' National Committee on Monetary Policy, that this measure will "open the door to inflation," the New York Times reflected the prevailing trust in government fiscal policies in editorializing:

"It is, of course, true that in normal times the ability of a government to disregard market conditions and finance itself by dipping into the funds of the central bank offers a dangerous road to inflation. But that is not a sound argument against the War Powers Bill. In time of war the fiscal authorities of the country ought not to be handicapped. If the Federal Reserve authorities were determined to conspire with the Treasury to bring on inflation, the restriction against direct purchases of government securities would be no safeguard. If, as is actually the case, they are determined to do everything possible to avoid inflation, the removal of this technical restraint upon their operations will not add to the danger."

Opposed to the majority of the press, a few newspapers view our mounting wartime deficit with increasing alarm. These newspapers recognize that even with heavy new taxes the present rate of Defense Bond purchases is far from enough to check inflation. Fearing that the government may have to resort to large-scale bank borrowing, they call for quick passage of drastically increased taxes and voluntary payroll savings. This slowly awakening realization of the gap between government expenditures and estimated income is evidenced by a recent Washington Post editorial which stated:

"On the basis of revenue estimates and on the very optimistic assumption that sales of Defense Bonds continue at January levels, the Treasury will still have to raise an additional 30 billion dollars in 1943 . . . If we are to be protected against the kind of deficit financing that spells uncontrollable inflation, a large part of that 30 billion dollars will have to be covered by new taxes and by increased drafts upon the savings of the people. Otherwise the commercial banks of the country will be called upon to supply the funds required by the Treasury through credit operation that will inflate our deposit currency and boost prices. The nine billion dollars in new taxes . . . requested by the President in his budget message is a modest sum compared with the extent of the fiscal need."

In editorials exhorting people to buy bonds and more bonds, there are also recurrent warnings that if sales do not improve, the Treasury may have to resort to an enforced savings program.

Practically no editorial attention has been paid to the suggestion made by Professor Alvin H. Hansen of Harvard in his study made for the National Resources Planning Board that part payment of wages and salaries should be made in Defense Bonds. But past editorial comment indicates that a large section of the press would be opposed to such a program.

Taxes

Editorial discussion of taxes continues to emphasize the possibility of a general sales levy as the "fairest" way to raise new revenue and drain off inflationary buying power. Small-town newspapers are also continuing their attack upon Secretary Morgenthau's suggestion to tax the income from outstanding and future issues of state and municipal securities. The Secretary's suggestion is also opposed frequently in the letters-to-the-editor columns.

There is an awakening sympathy with the plight of those thrown out of work by conversion and priorities who have no current income and not enough savings to pay their taxes on last year's earnings. The Detroit Free Press and the Philadelphia Inquirer are among those newspapers which favor changing the law so that individual income taxes will be levied on current income rather than past earnings. They also favor permitting monthly or weekly

payments of income taxes and a moratorium on the taxes due March 15 for those temporarily unemployed.

The daily press generally assumes that "unfair" profits are already being or will be soaked up by excess profits taxes. But the weekly labor and liberal publications view our present tax system as being lopsided in favor of business; they are afraid that the present trend indicates a continuance of this policy. In the current issue of The New Republic it is maintained:

"The Treasury is so uncertain of support for the kind of tax bill it considers necessary that it is postponing the evil day when it must present and defend its recommendations before the House Ways and Means Committee. Everyone acknowledges the danger of disastrous war inflation . . . Yet there is no basis for hope that Congress will do any better, if as well, with taxes than it has done with price control. Last year's tax bill was carefully designed to protect Coca Cola, the tobacco companies and other big favorites of Southern committee chairmen from hard-hitting excess-profits taxes. It will be the same old fight all over again this year . . ."

Economies

With hardly a dissenting voice, editors argue heatedly that the Congressional pensions and the Silver Act are "indefensible handouts" and that certain OCD activities are examples of the "wasteful fripperies" carried on by the government. The Silver Purchase Act is upheld only by the newspapers in the silver States of Nevada and Colorado; OCD was defended only by such pro-Administration newspapers as the New York Post, which regarded

the bitterness of the Congressional attack as an unwarranted effort to embarrass the Administration.

The Treasury's \$80,000 duck received little adverse editorial comment. As might be expected, the Chicago Tribune commented caustically on the cost of the film. On the other hand, the New York Post criticized Congress for "jumping up and down on Donald Duck like Donald Duck." Complimenting the Treasury for doing "a great job of bringing home to the people . . . that income taxes are not just an invention of the devil, but a necessary and bearable duty of citizenship," the Post concluded: "That's not boondoggling, Congressmen; that's advertising. That's businesslike administration. You've been asking for it. Remember?"

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE
February 13, 1942.

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

I am attaching two memoranda from Joe O'Connell in regard to the General Aniline and Film situation which should be interesting reading. Although one of the memoranda is fairly long, it is easy to read and shouldn't take more than ten or fifteen minutes.

The shorter memorandum deals with the problem on which there is a difference of opinion within the Treasury, i.e., the manner of handling the I. G. Farben personnel within General Aniline and Film Corporation. Joe O'Connell feels that employees with I. G. Farben backgrounds should be eliminated when that can be done without impairment of the productivity of the corporation; on the other hand, Judge Mack and Mr. Swope take the view that the fact that a person may have had an I. G. Farben connection does not in and of itself constitute grounds for dismissal.

This is an issue which must be resolved before we can indicate a policy in regard to personnel.

J. H. F.

Attachments 2.

February 11, 1942.

MEMORANDUM TO MR. FOLLEY:

I feel so strongly about several aspects of the General Aniline situation which are under current consideration in the Department that I thought it best to set down on paper at this point what my views are.

There has been substantial unanimity of opinion among all concerned as to the necessity for vesting the stock in the Secretary of the Treasury. There has also been agreement, at least among the Treasury people, that a man of known competency should be selected without delay to head up the management of the company. However, when we get around to a discussion of what we actually propose to do, or what policy we expect to follow in the operation of the company, there is a real divergence of view. We have tended to talk in terms

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of the "Americanization" of the company without any agreement on what the term actually means. I think it is perfectly obvious that Judge Mack, Mr. Swope and all the rest of us would have no difficulty in agreeing on the desirability of "Americanizing" the company. It is when we get down to cases that the difficulties arise, since the word is apparently one which means all things to all men.

For example it was quite clear during the discussion we had in your office on Monday that Mr. Swope's view as to what our policy should be with regard to personnel in the company differs widely from mine.

Mr. Swope's position, if I understood him correctly, concurs pretty much with that of Judge Mack, and is to the effect that there is nothing wrong with I. G. Farben as a business organization and that there is nothing wrong with I. G. Farben men, as such. He feels that if we can demonstrate that any I. G. Farben man is "disloyal" or is engaged in subversive activities we should get rid of him, but that we should not go further.

On the other hand, it has been my understanding from the beginning that we are committed to a program of the elimination of all things in this company which represent control by German interests. These controls, which stemmed in the first instance from ownership of the company by I. G. Farben, have manifested themselves in a number of ways, including dictation of managerial policy from Germany, contractual arrangements between the two companies such as cross-licensing agreements for the exchange of patents and know-how, and the placing and retention of I. G. Farben men in key positions in the company.

We have already agreed that title to the German stock should be vested in the Secretary of the Treasury. The line of communication between the two companies in so far as it relates to the open exchange of information and know-how has been broken, and the more obvious ways in which the operations of General Aniline have been controlled from Germany in the past are being dealt with. It is to the personnel program which I wish now to address myself most particularly.

It has been my view that our objective, in terms of personnel, is the elimination from the company of all employees who have in the past been identified with the I. G. Farben organization. This would apply not only to the more obvious cases, of which Dr. Hutz was the prime example, but also to other men in the company, both German and American, who in the past have been identified with and have helped to perpetuate the control of the operation of the company by the German Dye Trust. I feel very strongly that this objective is absolutely sound and represents a course from which we should not deviate.

From the beginning we have known this organization to be permeated with I. G. Farben men from the top down (though very few at the bottom), and have felt that we cannot do an effective job of freeing the organization from German domination and control without following a policy of eliminating the men who represent this type of control. An agreement upon this as an objective does not involve the immediate discharge

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of all such individuals, nor does it necessarily mean the ultimate elimination of all of them.

It may be that after we have installed efficient, competent management, dedicated to this same proposition, we will find that one or more of these men is indispensable even over a period of time. If we find such a situation I am willing to concede that such an individual must be kept, even if we have to keep two men to watch him. I do not know whether such a situation will arise, but agreement upon an objective along the lines I have suggested, would leave the management in a sufficiently flexible position to take care of such situations as we proceed. I do not think any of us can know now how close we can come to attaining such an objective, but it seems to me that we should agree upon it before going any further.

Admittedly, there is room for honest difference of opinion on the desirability of or necessity for following the path I have espoused. I shall not attempt to develop the case for it here, though I suggest that the

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material sent you today under separate cover, particularly the part dealing with the relationship that exists between I. G. Farben and the Hitler Government, tends to demonstrate that the simple test of loyalty does not meet this situation.

Furthermore, I feel very strongly that the decision should be made without giving too much weight (or any, for that matter) to the effect of our decision upon the existing setup. To put it another way, Mr. Swope, if I understand him correctly, starts out by assuming that Judge Mack is to continue in the company, and from there arrives at the conclusion that any program we work out must of necessity take that into account and must be satisfactory to him. It seems to me that we should decide what our objective is in this regard without any consideration of the personalities concerned and, having done so, can then examine the implications of such a program on Judge Mack's position along with the position of other employees of the company.

Such a program as I propose would apparently be one to which Judge Mack would not be willing to subscribe. So far as I am concerned, if this be so, we will just have to get along without Judge Mack. In any event, it seems to me that this is no time to decide a major question of this sort on a basis of whether or not Judge Mack will go along.

There is another thing which concerned me about an approach to the problem which assumes the necessity of retaining any of the present officers or directors of the company. Such an assumption in effect ratifies the series of moves which have been made by Breed, Abbott and Morgan for the purpose of entrenching themselves in positions of power in the affairs of the company through the selection of officers and directors picked for reasons that clearly have nothing to do with their background or known ability to contribute anything towards a solution of any problems of management. I for one would not care ever to be in a position of defending the existing organization (particularly at the top) or of having to say that we in the Department "went along" in any degree with them.

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Finally, it seems to me that to vest the stock in the Secretary of the Treasury without taking further and constructive steps is worse than not to vest the stock at all. Also, to select a competent man to be in the position of General Manager of the Corporation, responsible to the Treasury, will not be effective or a step which we ought to take, unless, prior to that time, we have fairly met the problem of attitude with respect to personnel in general, and the problem created by the presence on the Board of Directors and in the management of people with whom we cannot deal with confidence.

Joseph J. O'Connell

RECEIVED FEB 15 1945

OFFICE

February 11, 1942.

MEMORANDUM TO MR. FOLEY:

Attached is a memorandum on the General Aniline & Film Corporation which you may wish to give to the Secretary. Although it is by no means the complete story I believe it will be of value in presenting to the Secretary a thumbnail sketch of the existing situation. I hope you will have an opportunity to read it, and that the Secretary will too.

Joseph J. O'Connell

Enclosure.

MS LEB 15 W 10 20

FEDERAL BUREAU OF INVESTIGATION
U. S. DEPARTMENT OF JUSTICE

A SHORT SURVEY OF GENERAL ANILINE & FILM CORPORATION
ITS BUSINESS AND PERSONNEL

I. Corporate and Financial Data in General.

The General Aniline and Film Corporation was formed in 1929 by I. G. Farbenindustrie of Frankfort-on-the-Main, acting in cooperation with I. G. Chemie of Basle, Switzerland, and the National City Bank of the City of New York. The corporation is engaged in the manufacture and sale of chemicals, dyestuffs, cameras and photographic equipment, and machinery and sensitized papers for the rapid dry reproduction of documents, blueprints, maps, etc. The corporation employs roughly 5750 persons in its plants, two central offices and numerous branch offices. Its total assets as of September 30, 1941 exceeded \$66,000,000 of which almost \$50,000,000 were current assets and investment portfolio. The liabilities of the corporation include \$18,000,000 in 5 1/2% convertible debentures due May 1, 1949 and guaranteed by I. G. Farbenindustrie. These are the unretired bonds of a \$30,000,000 issue marketed in 1929.

The sales of the company totalled more than \$41,000,000 in 1941 and resulted from a variety of sales methods, including the use of an exclusive agent for the chemical business, General Dyestuff Corporation, and the use of branch offices and independent sales agencies for the remainder of the corporate business. Net profits of the company (after taxes) amounted in 1940 to \$4,100,000, in 1941 to \$4,750,000. The increase in profits, before taxes, from 1940 to 1941 was 100% (income taxes amounted in 1941 to \$6,000,000).

The shares of the company consist of approximately 580,000 "A" shares and 2,050,000 "B" shares, each "A" share being entitled to receive ten times the dividend paid on each "B" share. It is conceded by General Aniline and Film that 98% of its shares are presently owned by I. G. Chemie of Switzerland, and virtually conceded that the latter concern is controlled by I. G. Farben. On the other hand, 95% of the outstanding debentures are held by the American public.

The company has four wholly owned subsidiaries:

Collway Colors, Inc., Agfa Raw Film Corporation, Agfa Ansco, Limited, and Agfa Film Products. The first is a small operating company; the second is a sales agency for moving picture films; the third is a Canadian sales agency; and the fourth is a corporation having no significant assets.

The security portfolio as of December 31, 1941 included stocks and bonds having a market value of more than \$9,000,000 plus investments having no quoted market value but a stated cost of \$15,500,000. In the former category were, for example, shares of Standard Oil Company (New Jersey), Sterling Products Corporation, E. I. du Pont de Nemours and Company and others. In the latter category were holdings in Winthrop Chemical Company, Alba Pharmaceutical Company and Plaskon Company, Inc. Also in the latter category were 84,900 shares of I. G. Chemie, the parent company, having a stated cost of almost \$15,000,000.

II. Divisions of the Company - General Aniline Works.

The largest division of the corporation is General Aniline Works, which employs 2200 persons and accounted for sales through General Dyestuff Corporation, of \$15,600,000 in 1940 and \$24,400,000 in 1941. This division is engaged in the manufacture in plants at Rensselaer, New York, and at Linden, New Jersey, of over two thousand different chemicals and dyestuffs. Although for the most part, the dyestuffs and chemicals produced by General Aniline Works are of an expensive type, nevertheless, the division ranks among the first three American dyestuff companies on a tonnage-volume basis. Statistics compiled by the company from Tariff Commission information indicate that in 1940 roughly 20 to 30 per cent of all dyes sold in the United States were produced by General Aniline Works. They estimate that their percentage should be higher for 1941.

Of the products of General Aniline Works Division, vat dyes are of principal importance. Tested by their fastness to light and water, they are the finest type of

dyestuff for the coloring of cotton and are exclusively specified by the quartermasters corps for dyeing such items of apparel as summer shirts, trousers, caps, ties, and socks. General Aniline Works appears to be the largest U. S. producer of vat dyes and it is estimated that at present, 85% of such production is used for "defense" purposes as that term is defined in the WPB regulations. The company is also a major producer of chrome, alizarine, and acid type dyestuff used in the coloring of wool and leather goods. These dyestuffs are specified by the quartermasters corps for such Army equipment as woolen shirts, trousers, overcoats, blankets, and socks. About 90% of these dyestuffs are being used for defense. The company claims that in excess of 40% of all dyes being used in the coloring of textiles for defense materials are manufactured by the General Aniline Works Division. The company is engaged in making hundreds of other types of less important dyestuffs used for almost every conceivable purpose in the defense program.

An example is heliogen dye used to color the plastic in the instrument panels of airplanes.

From an overall standpoint the percentage of chemicals and dyes produced by General Aniline Works going into "defense" work has been steadily increasing. During the early summer months of 1941, 30% of the output was going to defense. This increased to 43.9% in August, 47% in September and 52.2% in October. In November this was raised to 55.4% and finally reached 62% in December.

Agfa Ansco.

Agfa Ansco Division is the second of the three divisions in value of business, but first in the number of employees, having 3,200 persons on its payroll. In 1940 the sales of this division amounted to \$11,300,000.00; in 1941 to \$14,800,000.00. Its products include, in the order of importance: films (still, movie, and x-ray), photographic papers, cameras and accessories, and chemicals such as developers. This division has its principal plant at Binghamton, New York, and ten branch sales offices through which it wholesales its products. In the moving picture film industry, Agfa Ansco does not have a strong position;

out of 1,860,000,000 feet of positive and negative 35 mm film sold to the trade generally in 1941, only 44,000,000 feet were sold by this division. This is due in part to a boycott instituted some years ago by the film industry because of the German affiliations of the Division. Capacity of Agfa Ansco is approximately 100,000,000 feet of film per annum, in the absence of extraordinary demands for other products of the division and if raw materials in sufficient quantity are procured.

Of far more importance is the general film business of Agfa Ansco. The Division's sales in this category amount to 20% of the corresponding sales of Eastman Kodak Company. In quality, the Agfa Ansco - Eastman Kodak products are roughly equal for "amateur" film, but Agfa Ansco film and papers are probably superior in the "advanced" or "professional" class; thus, Agfa Ansco has a color film which is unique in that the user can process it himself, instead of sending it to the company's laboratories. The entire output of this film is said to be allocated to the Army at present.

The Agfa Ansco Division has a number of contracts with various branches of the Federal Government to supply photographic equipment, including cameras, various types of films, and chemicals used for development. Sales under such contracts amounted to 9.38% of the total sales of Agfa Ansco in October, 9.78% in November, and 11.95% in December of 1941. Agfa Ansco also claims to be able to produce projectiles, fuse parts, depth bomb fuses, aircraft sub assemblies, and other war essentials.

More than twenty separate quotations on such items have been submitted by the company to war agencies, and orders placed with the company include: \$1,566,000 for bomb tail fuses (Army Ordnance - February 1942); \$43,000 for Navy torpedo parts; \$250,000 for Link Aviation Devices; and \$57,000 for miscellaneous gun parts.

Ozalid Products Division

Under patents and processes derived from Kalle & Company in Germany, (an I. G. Farben concern), Ozalid builds and sells machinery and sensitized paper for in-

stantaneous dry reproduction of maps, blueprints, letters, or other documents. As the process does not involve the washing of prints, there is no shrinkage or warping, and maps and diagrams are reproduced in exact size. The speed of the process and its economy recommend it for many uses. However, the process is not effective on certain types of paper, or on documents which have printing on both sides of the paper. Many prominent concerns such as Sperry Gyroscope Company use the Ozalid process, but the Division has serious competition, especially in the field of sensitized papers. As the Ozalid machine continues to exhibit a large number of flaws, the servicing of these machines forms a large part of Ozalid activity.

The history of Ozalid begins in 1933, when total sales were only \$37,000. Since that time there has been an uninterrupted rise in sales which has become spectacular in the last few years and has reached totals of \$1,800,000 in 1940 and \$2,300,000 in 1941. Of this latter figure, \$1,600,000 was attributable to sales of sensitized paper and miscellaneous items, while \$660,000 was attributable to sales of machines and parts. A large portion of these sales derive from "defense" orders; the machines are now

to be found in many aircraft and munition plants, and in such governmental departments as War and Navy. The company claims 90% of its products are sold for defense work.

New Commercial Developments in the Above Divisions

General Aniline and Film currently is developing a number of products which are either new or have heretofore been produced only in Germany. Most important of these is a "carbonyl iron powder" which is pressed into various shapes for use in high frequency radio transmitters, especially transmitters of the compact variety found in aircraft instruments. The process used by the corporation was purchased outright from I. G. Farben in 1940 with free American dollars. Through purchase and dismantling of a competitive plant in California, General Aniline now has the position of sole United States producer of iron carbonyl powder.

A second new development by the corporation lies in the "vinyl ethers" field. This family of products, now in the semi-commercial stage, furnishes polishes, plastics,

and adhesives. Here too, the right to exploit the patents involved, was secured only after the outbreak of the War and as a part of a broad scheme of liquidating I. G. Farben properties in America.

In a third field, it is claimed that General Aniline & Film has derived the formulas of sensitizing dyes used in the photographing industry. According to representations of the company, I. G. Farben refused to sell the formulas for these dyes and one of the company's chemists has succeeded in deriving them, supplying them to Agfa Ansco since the outbreak of the war.

III. Sales Agent: General Dyestuff Corporation

Sharing office and factory space with General Aniline Works, General Dyestuff Corporation is the exclusive United States sales agent for dye and chemical products of I. G. Farben and General Aniline and Film Corporation. General Dyestuff Corporation was formed in 1925 as a consolidation of prior German agencies here, paralleling the formation of I. G. Farben at the same time. Control of

the company was unquestionably in the latter concern until 1939, when outstanding stock options are said to have been "cancelled." On the records, Mr. E. K. Halbach controls the company by ownership of 4725 out of 8678 shares of capital stock.

With the exclusive contract mentioned above as principal starting asset, the corporation at present owns \$3,000,000 in cash and \$5,000,000 in tangible assets. The corporation maintains six branch agencies in the United States, employs 670 persons, and, with monthly sales volume of \$2,600,000, ties with du Pont for sales leadership in the chemical and dye field.

General Dyestuff's contract with I. G. Farben prevented exports to Latin America until 1940, when the provision was rescinded on condition that sales were made only to I. G. Farben South American agencies. In 1940 exports to Latin America were \$1,389,520.00 and in 1941, \$3,018,732.00. Since 1941, exports have been negligible, due to domestic defense demands.

IV. The I. G. Farbenindustrie as an Instrument of Nazi Militarism.*

With its vast industrial power, financial resources exceeding 1 billion marks, and army of over 250,000 workers, ~~the~~ the I. G. Farbenindustrie is by far the main economic base and support of Germany's war economy and military machine. By developing an adequate production of essential war and other industrial materials, in close collaboration with the Army General Staff, it has enabled Germany to wage war and withstand the otherwise strangulating effects of the enemy blockade. It is reasonable to assume that but for the vitally necessary contributions of the I. G. Farbenindustrie in creating an assured domestic supply of vital war and other materials in fulfillment of the Nazi war-preparedness program, the Nazi regime would never have embarked upon war.

The Farbenindustrie is of necessity a creature of the Nazi regime not only because of its close collaboration in the supplying of indispensable industrial materials

*Section IV was written by Mr. Sydney B. Redecker, for ten years U. S. Consul at Frankfort-on-the-Main, headquarters of the I. G. Farbenindustrie.

but also by virtue of the Nazi totalitarian system under which private capitalism has been effectively suppressed in Germany and all economic enterprises and especially the larger industrial organizations are under rigorous official control. Because of the totalitarian system and the outstanding place occupied by the Farbenindustrie in the Nazi war machine, the Farbenindustrie is essentially an extension of the Nazi regime itself in almost the same sense as the military services. Because of their close relations with the Nazi hierarchy and the secret nature of their duties, the Farbenindustrie executives manifestly must enjoy the full confidence of the Nazi regime in order to hold office. Not only must they take oaths of allegiance to Hitler personally as "Führer" of the German nation but in nearly all cases these executives are members of Nazi political and paramilitary uniformed organizations like the "S. S." and "S. A." Hermann Schmitz, Chairman of the Farbenindustrie, for instance, is a member of the Nazi Reichstag, to which he was appointed by the Nazi hierarchy.

In the foreign field the I. G. Farbenindustrie has been able to render invaluable service to the Nazi cause by virtue of its extensive foreign interests, branches, subsidiaries, investments, bank deposits, etc. which have been made available to the Nazi regime for supporting its aggressive policies. By utilizing these facilities the Farbenindustrie has assisted the regime in masking foreign transactions such as financing of propaganda and other activities which the regime desired to keep secret. The staffs of the Farbenindustrie's foreign enterprises, all carefully selected men of unquestioned loyalty to the Fatherland, have rendered valuable services to the Nazi regime by supplying information and other assistance made possible by their expert knowledge of conditions in the countries of their residence. Through membership in various important international trade groups, cartels, syndicates, etc., executives have been able to establish close contacts with business leaders and Government officials in foreign countries which have been useful in furthering Nazi policies. The executive

management of the Farbenindustrie has encouraged members of its foreign staffs to acquire the nationality of the country where they reside in order that, as citizens, they can penetrate more deeply into the life of the country and thus augment the value of their services in the furtherance of German interests.

V. I. G. Farben Personnel

An organizational chart of the General Aniline and Film Corporation shows that practically every key management position is held by a "former" I. G. Farben man. In the General Aniline Works Division, there are three important management positions in the New York office, all held by I. G. Farben men. The plant management committee consists of four I. G. Farben men. At the West Works plant, the plant manager and three of the four important subordinate management positions are held by I. G. Farben men. At the Albany Works, the plant manager and the head of research are both I. G. Farben men. In Agfa Ansco, the production manager, assistant production manager, and important heads of departments are I. G. Farben men. American born officials at Agfa Ansco are primarily in the sales division. In the Ozalid Division, the head is a former representative of the German Zeppelin Company.

Some of the employees who originally came from I.G. Farben, pursuant to I. G. Farben employment contracts, have returned to Germany after a period of employment here and a great number of others now with General Aniline and Film have continued to pay into the I. G. Farben Pension Fund. Secret manufacturing processes have been entrusted to German technical men only, and American employees have not had access to this knowledge.

Among others, the following short case histories will illustrate the type of individual assigned to work in the corporation:

Dr. Rudolph Hutz.

Dr. Rudolph Hutz, director and vice president of General Aniline and Film Corporation, at \$85,000 per year, was an I. G. Farbenindustrie employee in Germany, came to the United States in 1909 and since that time has been employed here by companies dominated by I. G. Farben. Although he observed the form of naturalization, he continued after thirty-three years in America, to speak German

at the office and remained a member of, and contributed to, the I. G. Farben Pension Fund. He contributed to the Nazi Winter Relief until 1940, and secretly assisted interned German sailors of the scuttled "Columbus." For three months of each year he vacationed at his estate in Starnberg, Bavaria, where he expects to live permanently on retirement. During such "vacations" he renewed his close contacts with Fritz ter Meer and Dr. Loehr, top I. G. Farben executives.

As early as 1937, after first securing a legal opinion from Breed, Abbott and Morgan, he began a systematic destruction of records, evidencing control of General Aniline Works by I. G. Farben, and after service of a subpoena upon him in Anti-Trust proceedings, he directed the secretion of documents not yet destroyed. Hutz suggested to his secretary who assisted in the destruction of records that if ever called, he be a forgetful witness, and threatened him by saying that any interference by the government in the affairs of the corporation would be only "temporary", whereas intervention by I. G. Farben was "permanent". To illustrate, he pointed to a Mr. Crowther who, as New York Office Manager at the time of the last war, informed the government concerning the affairs of a predecessor of

General Aniline Works, and for his action was broken by the company and retained in a position of unimportance as an object lesson to other employees.

It is significant that I. G. Farbenindustrie has given its lucrative law business in the United States to a young son of Dr. Hutz. Another son, who received his Ph.D. in chemistry for studies pursued at Munich, Germany from 1936 to 1940, has recently returned to the United States with a German wife, the former Edith von Maltzan, daughter of Baron von Maltzen.

Dr. Hutz was suspended by the Treasury on January 13, 1942.

Dr. Hans Aickelin

German-born Hans Aickelin, was a top flight chemist for I. G. Farben until 1931 when he came to the United States where he became vice president and production manager of General Aniline Works at \$60,000 per year.

Dr. Fritz ter Meer, one of the chief executives of I. G. Farben, told Dr. Hutz that Dr. Aickelin had at last been chosen as "the" man for the technical position in charge of General Aniline Works because it was felt that he "would completely realize that he was expected to have

the interests of I. G. Farben at heart."

Dr. Aickelin entered the country with a five year contract under the "Contract Labor Clause". He rapidly took over the technical management of the two General Aniline Works plants, handling all of the confidential secret processes, analyses, and specifications. This resulted in the centralization of the operational management into his hands.

From the date of his arrival in 1931, he insisted that all of his discussions at the office with his secretaries be held in German. He returned to Germany almost every year and as the I. G. Farben liason man with American industry, he assisted them in getting their technical men into United States industrial plants. It is reliably reported that when the news first came over the radio that London was being bombed, by the Nazis, he and his daughters could not control themselves and openly expressed their glee. Dr. Aickelin has written that he is happy that his daughters consider Germany as their homeland.

Dr. Aickelin has shown that I. G. Farben confidence in him has not been misplaced. He remains tied to I. G. Farben by means of the I. G. Pension Fund and was suggested by I. G. Farben as the proper individual to negotiate with them at Switzerland with respect to the means whereby I. G. Farben patents and other assets would be taken over by General Aniline and Film in order to avoid seizure during the war.

Since Dr. Aickelin arrived in the United States, Dr. Hutz concerned himself less and less with the plant management and until recently Dr. Aickelin himself handled these matters. Dr. Aickelin's closeness to Dr. Hutz and his constant use of information contained in the files of General Aniline Works clearly indicate that he knew of the destruction of the records at the General Aniline Works executive offices.

He was suspended from the company by the Treasury Department, January 13, 1942.

F. W. von Meister

F. W. von Meister, son of Dr. Wilhelm von Meister, who was a high ranking German diplomat and one of the founders

of I. G. Farben, is the head of Ozalid Products Division at a salary of \$25,000.00. He is a protege of Count von Eckener, the dirigible expert. Von Meister's mother was British, but he was educated in Germany; he at times emphasizes his British connections, including his having a brother who is in the Royal Air Force. However, he does not freely disclose that his half-brother, with whom he has been in active correspondence, is serving in the German Navy. At the time of his marriage to an Austrian countess, he wrote to a friend that his union to an Austrian was consistent with Nazi principles. The marriage was performed by von Meister's intimate friend, Father Schulte, the "Flying Priest", who was in the German Air Force in the last war and was grounded by Canada in 1939. Von Meister is a godson of Kaiser Wilhelm II, and his mother was in recent years on friendly terms with the monarch and the Empress Hermine. Until recently, Mrs. von Meister has received a pension from the German government, a pension which the Nazi government as a special mark of favor, continued to pay although she resided in Switzerland.

F. W. von Meister has cultivated many friends in the United States. They are of two principal classes: Germans and industrialists. Among his suspect German friends or acquaintances, is Werner von Clemm, pro-Nazi, who has recently been indicted for disposing of German military loot in the United States. Von Meister's industrialist friends included airplane manufacturers, ship-builders, automotive engineers, army and navy officers, a high ranking weather bureau head, and other persons capable of affording him valuable information of strategic importance. Documentary evidence discloses that he used his friendship with an industrialist (who later had a high place in OPM) to secure for and transmit to Germany, confidential metallurgical information.

He has been host to a number of German industrialists who visited in the United States. One of the more important of these was a young man named Dornier, son of the manufacturer of German war-planes. This man he received in 1940 and gave the use of his apartment, introducing him into the aircraft industry with a request that he be shown its operations.

Von Meister has been interested in South America and acted as agent for a Bolivian airways company in the purchase and delivery of an airplane, using his own credit for certain expenses of the pilot. Furthermore, one Hermann Schroth, described by von Meister as an acquaintance of long standing, was imprisoned by the government of Bolivia in an anti-Nazi purge, for the smuggling into that country of substantial quantities of arms and ammunition and for the clandestine operation of a radio station.

Von Meister, on more than one occasion, assisted the immigration and location of German aliens. One man named Kuhn was employed by Ozalid at his direction and on the suggestion of the German consul for New York: this man's services to the corporation were so unsatisfactory that officials at the plant called him in, after a short time, to give him instructions. Ozalid files show that his citizenship views were so objectionable that the plant officials discharged him despite the circumstances under which he was employed.

Von Meister owns and has recently learned to operate a plane. He has chosen a Fairchild, which is adapted to and most suitable for aerial photography. His correspondence indicates that he has experimented in the aerial photography field. He has encouraged an associate of his to fly and has permitted a long air junket by this associate in areas having numerous defense plants. Von Meister has a highly sensitive short wave receiver in his apartment.

Von Meister and his family have large financial interests in Switzerland, if not in Germany itself. He was active in attempting to induce Congress to pass legislation to release helium to Germany.

He was characterized by a former employee, John Cassell, as pro-Nazi.

Von Meister and his cousin, Wilhelm von Rath, were suspended by the Treasury on January 13, 1942.

Erich Schoder

A typical "second-line" executive, Schoder came to the United States under an I. G. Farben employment contract,

and was assigned to the position of engineer at the Agfa plant in Binghamton, in September 1931, and later transferred to head the technical work at the 435 West 55th Street film plant in New York City. An unnaturalized alien, he stated to the Treasury Representative that he was "still working for I. G. Farben". Suspended by the management of G. A. F. because of suspected espionage activity, the subject of F. B. I., Navy Intelligence, and other investigations, Schoder was told by his superiors to "just stay home until this blows over", and has recently been reemployed at the Binghamton, New York plant without the knowledge or consent of the Treasury Department supervisors.

VI. The "New Management".

On January 1, 1933 the downtown law firm of Breed, Abbott and Morgan first accepted an annual retainer from General Aniline and Film Corporation, in the sum of \$6,000 per annum. The increasing share of the firm in the corporate affairs is marked by the placing of Hugh Williamson, former partner of the firm, in an executive capacity with the corporation and the election of Mr. Breed to the Board

of Directors in 1939. By 1941, legal fees accruing directly to Breed, Abbott and Morgan reached the amount of nearly \$225,000. There are many indications that Breed, Abbott and Morgan have been largely responsible for the selection of the "independent" American directors elected to the Board late in 1941.

It is almost startling to find that in the new personnel thus elevated to the Board, there is not a single individual with experience in any of the highly technical fields of operations covered by the properties of General Aniline and Film. Illustrious "names" elected include: William L. Bullitt, diplomat; John E. Mack, lawyer and former judge; and Ralph Budd, well-known in transportation. The other new members are Nelson S. Talbott, of Dayton, Ohio, John G. Baragwanath, of New York City, Robert L. Stevens, of Hoboken, New Jersey, and Charles L. McCann of Poughkeepsie, New York. Aside from D. A. Schmitz, deposed president, and Rudolph Hutz, vice-president suspended by Treasury order, the remaining members of the board, who might be classed as "holdovers" are Hugh S. Williamson, William C. Breed and Walter H. Bennett.

An analysis of recent corporate action and disbursements gives cause for belief that considerations of personal gain, favoritism and political strategy unduly occupy the new management, particularly in view of the need for primary attention by expert executives to matters of operation and production.

Two individuals in the new management deserve special attention, the first because of his nominal position and the second because of his de facto control of corporate affairs, subject to Breed, Abbott and Morgan.

1. John E. Mack.

Judge Mack, self-styled "country lawyer", has had no connection of any kind with, or experience in, the chemical industry. On October 31, 1941 he was named as President of General Aniline and Film Corporation at a salary of \$90,000 per year. A considerable portion of his time is spent in the private practice of law in and about Poughkeepsie. In fact, Judge Mack's familiarity with the affairs of the corporation is so slight that he stated to a Treasury representative, after two and one-half months as President, that he did not know F. W. von Meister, suspended head of one of the corporation's three divisions.

Judge Mack has referred in correspondence to the "inspiration of I. G. Farben", has said that he intends to make as few changes as possible, has told a plant manager that the Treasury men would be "out" in a short time and that little attention should be paid to them, and has said that the men suspended by the Treasury would be shortly reinstated. He selected as his confidential secretary a young man named Ogden Hammond, Jr., who was suspended by the Department of State for consorting with the Nazi Lily Stein, since convicted of espionage. The Treasury Department directed that Mr. Hammond be dismissed from his position several weeks ago.

2. Hugh S. Williamson.

Mr. Williamson is a member of the Board, Vice-President and Treasurer of the corporation. He was until 1939 a partner of Breed, Abbott and Morgan specializing in court litigation. He first came to the especial notice of German I. G. and American I. G. in 1936, when he successfully prosecuted patent litigation for the Unyte Corporation, a predecessor of Plaskon Corporation. He later appeared for and counselled the company's witnesses in the investigation conducted by the SEC in 1938 for the purpose of

establishing the facts as to ownership and control of American I. G. Chemical Corporation. The investigation was notably unsuccessful. Mr. Williamson was selected by I. G. Farben ~~to~~ make journeys to Switzerland during 1940, in an attempt to arrange protection of the foreign interests here during the then impending war and he has since been in frequent communication with I. G. Chemie/I.G. Farben officials.

Mr. Williamson has had little or no background in the chemical industry, nor has he had experience as an executive in any line.

EX-115 W 10 21

001
FEDERAL BUREAU OF INVESTIGATION
U. S. DEPARTMENT OF JUSTICE

TREASURY DEPARTMENT

257

INTER-OFFICE COMMUNICATION

DATE February 13, 1942

TO Secretary Morgenthau

FROM Mr. White

Subject: Status of Stabilization and Gold Purchase Agreements.

1. Stabilization Agreements in Operation

Country	Date		Amount		Collateral
	Signed	Expires	Commitment	Outstanding	
Philippines	7/15/37	7/15/42	\$60,000,000	\$ 3,000,000	\$ 3,072,500 gold
China	7/14/37	6/30/42	50,000,000	19,112,500	19,379,000 gold
India	4/ 1/41	6/30/42	50,000,000	None	None required

2. Stabilization Agreements Concluded but not yet Ratified

Cuba	1/1/41	1/30/41 ^{2/}	\$50,000,000	None	None required
Mexico	11/1/41	1/30/43	\$40,000,000	None	None required

3. Gold Purchase Agreements

Country	Dated	Delivery by	Commitment to buy	Gold still undelivered	Advance still outstanding
China	10/10/41	4/8/42	\$31,605,000	\$11,868,000	\$ 9,803,000 ^{3/}
China	1/ 3/42	7/2/42	\$21,070,000	21,070,000	20,000,000

This agreement also provides for sale to Brazil of up to \$50,000,000 of gold, of which \$29,465,000 has been sold.

Argentine's informed agreement can be revived on ratification.

Original advance was \$30,000,000.

FEB 13 1942

My dear Mr. Secretary:

I am enclosing copy of report on our experts to some selected countries during the week ending January 31, 1942.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

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

Enclosure

By Messenger *Hopkins 12:20*

n.m.c.

c.c. - Dr. White's office

Ret to Secy's office

HEW:mdh
2/4/42

FEB 13 1942

My dear Colonel Donovan:

I am enclosing copy of report on our experts to some selected countries during the week ending January 31, 1942.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Colonel William J. Donovan,
Coordinator,
Office of Coordinator of Information,
Old National Institute of Health Building,
25th and E Streets, N. W.,
Washington, D. C.

Enclosure

By Messenger *Hopkins 12:20*

nmc.

cc - Dr. White's office

HDW:msh
2/1/42

Ret. to Secy's office

FEB 13 1942

My dear Mr. Perkins:

I am enclosing five copies of the report on our experts to some selected countries during the week ending January 31, 1942.

Sincerely yours,

(signed) H. Morgenthau, Jr.

Secretary of the Treasury

Mr. Milo Perkins,
Executive Director,
Board of Economic Warfare,
2501 Que Street, N. W.,
Washington, D. C.

Enclosures

HDW:meh
2/1/42

By Messenger *Hypkins 12:20*
n.m.c.
cc - Dr. White's office

Ret. to Secy's office

FEB 13 1942

My dear Mr. President:

I am enclosing report on our exports to some selected countries during the week ending January 31, 1942.

Faithfully,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

The President,
The White House.

Enclosure

*Delivered by Secret Service
12:40 p.m.*

N.M.C.

cc - Dr. White

HDW:msb
2/2/42

February 10, 1942.

Exports to Russia, Free China, Burma and other blocked countries, as reported to the Treasury Department during the week ending January 31, 1942.

1. Exports to Russia

Exports to Russia, as reported to the Treasury during the week ending January 31, 1942, amounted to more than \$9,600,000, of which the chief items were landplanes, and military tanks and parts. (See Appendix C.)

2. Exports to Free China and Burma

Exports to Free China during the week under review amounted to nearly \$7 million, the largest figure for any single week since July 28, 1941. The principal item was landplanes. (See Appendix D.)

Exports to Burma amounted to \$923,000. A large percentage of the exports to Burma are destined for Free China. (See Appendix E.)

3. Exports to France

No exports to France were reported during the week ending January 31, 1942.

4. Exports to other blocked countries

Exports to other blocked countries are given in Appendix A.

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

July 28, 1941 to January 31, 1942.

(In thousands of dollars)

	July 28 to Jan. 17	Week ended January 24	Week ended January 31	Total Domestic Exports
U. S. S. R.	\$94,669	\$ 3,880	\$ 9,608	\$ 108,157
Free China	30,155	-	6,938	37,093
Burma 2/	8,522	-	923	9,445
France 3/	6	-	-	6
Occupied France	2	-	-	2
Unoccupied France	.4	-	-	.4
Spain	2,334	78	81	2,493
Switzerland	5,279	600	906	6,785
Sweden	11,516	566	75	12,157
Portugal	5,467	6	1	5,474
French North Africa 4/	1,731	-	16	1,747

Treasury Department, Division of Monetary Research

February 4, 1942.

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

NOTE: Starting February 10, 1942, this report will be released on a ten day or tri-monthly basis in order to coincide with the time period of expected releases by the Department of Commerce.

JHW:mef 2/4/42

APPENDIX B

Exports from the U. S. to Free China, Burma and
U.S.S.R., as reported to the Treasury Department
July 28, 1941 - January 31, 1942
(Thousands of Dollars) 1/

	<u>Exports to Free China</u>	<u>Exports to Burma 1/</u>	<u>Exports to U.S.S.R.</u>
July 28 - Aug. 2	395		4,523
Aug. 4 - Aug. 9	-		421
Aug. 11 - Aug. 16	309		686
Aug. 18 - Aug. 23	2		2,734
Aug. 25 - Aug. 30	1		1,023
Sept. 2 - Sept. 6	204		4,280
Sept. 8 - Sept. 13	2,281 2/		5,217
Sept. 15 - Sept. 20	3,522 1/		752
Sept. 22 - Sept. 27	110	449	2,333
Sept. 29 - Oct. 4	1,225	684	323
Oct. 6 - Oct. 11	5,312	1,157	6,245
Oct. 13 - Oct. 18	5	35	1,224
Oct. 20 - Oct. 25	269	403	5,223
Oct. 27 - Nov. 1	4,772	58	4,484
Nov. 3 - Nov. 8	1,672	342	4,522
Nov. 10 - Nov. 15	2,851	22	2,677
Nov. 17 - Nov. 22	1,228	1,021	3,581
Nov. 24 - Nov. 29	3,239	1,368	2,436
Dec. 1 - Dec. 6	791	64	3,609
Dec. 8 - Dec. 13	2,337	18	12,040
Dec. 15 - Dec. 20	111	6	4,580
Dec. 22 - Dec. 27	1	196	1,229
Dec. 29 - Jan. 3	35	2	3,993
Jan. 5 - Jan. 10	91	1,073	2,247
Jan. 12 - Jan. 17	1,695	447	5,674
Jan. 19 - Jan. 24	-	-	3,225
Jan. 26 - Jan. 31	6,936	923	9,608
Total	639,696	48,332	1108,510

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

Treasury Department, Division of Monetary Research

February 9, 1942.

ISF-of 2/9/42

APPENDIX C

Principal Exports from U.S. to U.S.S.R.
as reported to the Treasury Department
during the week ending January 31, 1942

(Thousands of Dollars)

Total Exports \$ 9,600

Principal Items:

Landplanes, powered	2,573
Military tanks and parts	1,891
Wheat	794
Explosive shells and projectiles	394
Insulated copper wire	307
Motor trucks and chassis	288
Ethyl fluid (anti-knock compound)	257
Copper pipes and tubes	244
Wheat flour	229
Aluminum plates, sheets, bars, strips and rods	222
Seal leather	206
Refined copper	205
Brass and bronze plates and sheets	170
Coated wire, a.c.s.	142
Forging machinery and parts	119
Trinitro toluene (T.N.T.)	116
Drilling machines	115
Tool, cutter, and universal grinding machines	97

APPENDIX D

Principal Exports from U.S. to Free China
as reported to the Treasury Department
during the week ending January 31, 1942.

(Thousands of dollars)

Total Exports \$ 6,938

Principal Items:

Landplanes, powered (P-43)	3,510
Motor trucks	479
Printed matter (bank notes)	397
Cotton sheeting	362
Aircraft parts and accessories, n.e.s.	328
Auto replacement parts	276
Refined copper	239
Anti-tank guns and parts	175
Smokeless powder	154
Explosive bombs	130
Projectiles	111
Steel bars	110
Relief supplies - surgical and hospital	86

APPENDIX E

Principal Exports from U. S. to Burma
as reported to the Treasury Department
during the week ending January 31, 1942

(Thousands of Dollars)

Total Exports \$ 923

Principal Items:

Motor trucks and chassis	267
Metallic cartridges	208
Condensed and evaporated milk	95
Steel sheets	68
Iron and steel bars	46
Insulated copper wire	31
Roll and refining machinery	23
Auto replacement parts	17
Portable air compressors	17
Barbed wire	16



THE SECRETARY OF STATE
WASHINGTON

February 13, 1942

Dear Mr. Secretary:

I have just received your letter of February thirteenth enclosing a copy of a report on our exports to some selected countries during the week ending January 31, 1942, for which I thank you.

Sincerely yours,

A handwritten signature in cursive script, reading "Cordell Hull". The signature is written in dark ink and is positioned below the typed name.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

February 13, 1942.

NOTE FOR THE SECRETARY'S FILES

Sir Frederick Phillips telephoned Mr. White this afternoon. He stated that he had communicated to his Ambassador the information received from Mr. White as to the President's reply to Secretary Morgenthau on the matter of the British take-outs of \$600 million. Phillips said that the Ambassador wished to have the President's reply in writing. He stated that the reply could be sent either directly to the Ambassador or to himself to transmit to the Ambassador.

Mr. White told Sir Frederick he would communicate the request to the Secretary.

TREASURY DEPARTMENT

280

INTER OFFICE COMMUNICATION

DATE February 13, 1942

TO Secretary Morgenthau
FROM Mr. Kamarck
Subject: Shipment of Planes to British Forces

1. In the week ending February 10, a total of 99 planes of all types (95 combat planes) were shipped to British forces. More than half of the total (52) went to the United Kingdom.

2. In contrast to last year, when bombers predominated, the trend so far in 1942 has been for the bulk of the shipments to the United Kingdom to consist of pursuit planes.

3. It is obvious that the British regard the Bell Airacobra and the North American Mustang fighters as better than the Curtiss Kittyhawk. The Airacobras and Mustangs are all sent to England, while the Kittyhawks are sent to the Middle East.

Table A - Shipments by Area

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	Week Ending Feb. 10, 1942	Total Shipped in 1942 to date	Total Shipped since Jan. 1, 1941
<u>To the United Kingdom</u>			
Light and medium bombers	0	1	1,125
Heavy bombers	0	0	104
Naval patrol bombers	3	3	105
Pursuit	49	111	422
Army Cooperation	0	13	44
Trainers	0	0	24
Total to the United Kingdom	52	128	1,824
<u>To the Middle East</u>			
Light and medium bombers	20	82	412
Heavy bombers	0	0	5
Pursuit	9	132	980
Army Cooperation	0	0	0
Trainers	0	8	150
Total to the Middle East	29	222	1,547
<u>To the British Pacific Forces</u>			
Light and medium bombers	0	0	95
Naval patrol bombers	0	0	27
Pursuit	0	0	168
Trainers	0	0	105
Total to Pacific Forces	0	0	395
<u>To the Forces in Russia</u>			
Light and medium bombers	13	17	61
Pursuit	0	0	49
Total to Russian Forces	13	17	110
<u>To the Canadian Forces</u>			
Light and medium bombers	0	1	55
Naval patrol bombers	0	11	19
Pursuit	1	28	70
Trainers	4	124	1,298
Total to Canadian Forces	5	164	1,442
<u>Totals</u>			
Light and medium bombers	33	101	1,748
Heavy bombers	0	0	109
Naval patrol bombers	3	14	151
Pursuit	59	271	1,689
Army Cooperation	0	13	44
Trainers	4	132	1,577
Totals	99	531	5,318

- 3 -
Table B - Shipments by Types

	Week Ending Feb. 10, 1942	Total Shipped in 1942 to date	282 Total Shipped since Jan. 1, 1941
Bell Airacobra	9	9	163
Boeing B-17	0	0	20
Boston III	13	13	52
Brewster Buffalo	0	0	168
Cessna T-50	0	86	634
Consolidated Catalina	3	14	151
L.B. 30 (B-24)	0	0	6
Liberator I (B-24A)	0	0	19
Liberator II (B-24B)	0	0	64
Curtiss Kittyhawk	10	162	544
Tomahawk	0	0	593
Douglas Boston I	0	0	1
Boston II	0	0	81
Boston III	0	4	443
Fairchild 24 R-9	0	5	27
Glenn Martin Baltimore	20	82	150
Maryland	0	0	150
Grumman Martlet II	0	5	46
Lockheed Hudson I	0	0	1
Hudson III	0	1	352
Hudson IV	0	0	70
Hudson V	0	1	398
North American Harvard II	4	46	943
Mustang	40	95	175
Pittcairn Autogiro	0	0	5
Vought Sikorsky Chesapeake	0	0	50
Vultee Stinson-049	0	8	12
Grand Total - All Types	99	531	5,318

Table C - Plane Shipments to the British by Weeks

<u>Week Ended</u>	<u>Light and medium bombers</u>	<u>Heavy bombers</u>	<u>Naval patrol bombers</u>	<u>Pursuit</u>	<u>Army Cooperation</u>	<u>Trainers</u>	<u>Total</u>
Weekly Average of shipments in 1941	32	2	3	27	1	28	92
January 6, 1942	24	0	5	30	4	9	72
January 13, 1942	3	0	2	58	0	42	105
January 20, 1942	8	0	0	14	0	60	82
January 27, 1942	24	0	1	100	5	13	143
February 3, 1942	9	0	3	10	4	4	30
February 10, 1942	<u>33</u>	<u>0</u>	<u>3</u>	<u>59</u>	<u>0</u>	<u>4</u>	<u>99</u>
Total shipments, since January 1, 1941 to date	1,748	109	151	1,689	44	1,577	5,318

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

284

DATE February 13, 1942

TO Mr. White

FROM Mr. Friedman

SUBJECT: Digest of report of Mr. Fox to the Secretary of the Treasury on the Stabilization Board of China.

1. Mr. Fox outlines briefly the history of the Board since it began operation on August 13, 1941.
2. Of the \$70 million and \$5 million originally available to the Board, it had spent by December 1, 1941 about \$15 million and \$2 million. At first the major portion went to Shanghai but since November 1 about \$2 million per month have been granted to Free China, especially through Kunming.
3. The Board has used every precaution possible to see that the exchange granted was most effectively employed. In Kunming and Chungking letters of guarantee are required from applicants.
4. The Board has been criticized from time to time -- in Shanghai for lack of generosity and, in Chungking, for dealing too extravagantly with Shanghai.
5. The Minister of Communications has submitted to the Generalissimo the suggestion that a bond issue be guaranteed by the Stabilization Board in order to inspire confidence in the bond issue.
6. The Generalissimo and Dr. Kung have expressed dissatisfaction with the April 1st Agreement. They were especially displeased with the fact that the Agreement could be rescinded by the Secretary of the Treasury on one month's notice while similar opportunity was not accorded to China. The suggestion is given that if a loan is made to China advantage should be taken of the occasion to modify the terms of the Agreement.
7. The Board's principal activity at present is the consideration of exchange applications through Chungking and Kunming. These are limited by the facilities of the Burma Road but opportunities may develop for bringing imports through Russia and the Northwest.

To: The Secretary of the Treasury

February 1, 1942 285

From: A. M. Fox

Subject: The Stabilization Board of China

My return to the United States presents an opportunity for a report on the Stabilization Board of China. Arrangements for my return were made so hurriedly that there was no time for preparing such a report before leaving China, and such basic material regarding the Board and its operations as I have with me are in my case which has been sealed by the Censor. I do not, therefore, have at my disposal any source material for reference. The report must necessarily be brief and in general terms.

The Stabilization Board of China has been in operation about five and a half months. The Board was slow in organizing officially, holding its first official meeting on August 13th, 1941, a little over two months after the three Chinese members and the American member began holding informal conferences in Chungking, China. This was due to the delay in appointing the British member and the apparent hesitancy of the Chinese members to organize officially until the full Board was constituted. There has been even greater delay in the appointment of the alternate members. The British alternate was appointed early in December, and the alternate to the Chairman has not yet been selected. Two of the alternate members, Drs. Taylor and Lin, were not able to get out of Hongkong when the War broke out on December 8th. Dr. Taylor had returned to Hongkong from Kunming on December 6th, and was to take the Clipper for the United States on December 10th. Dr. Lin was to leave by plane Monday night December 8th for his post in Kunming, China. As both Drs. Taylor and Lin were stationed in Kunming, a critical situation was created by their inability to leave Hongkong. To meet this situation, the General Sec-

retary, Dr. Chi and I, proceeded to Kunming, and spent the last two weeks in December there, reorganizing and strengthening that office.

Of the 70,000,000 U. S. dollars, and 5,000,000 pounds sterling originally available to the Board, it had spent by December 1, 1941, about U. S. \$15,000,000 and 2,000,000 pounds sterling. If the exchange acquired by Shanghai banks from other sources had been used to offset applications to the Board for exchange, these figures would be reduced. The exact amount will not be known until a complete audit has been made, if then, but the amount due to the Board is probably 10% of the applications. At first, the major portion went to Shanghai, but since November about 2 million U. S. dollars per month have been granted to Free China, especially through Kunming.

The Board has used every precaution possible to see that the exchange granted was most effectively employed. In Kunming and Chungking letters of guarantee are required from applicants, emphasis being laid on the following assurances:

1. That transportation over the Burma Road has been arranged for.
2. That the particular product would not be sold at exorbitant price, but would be based on costs plus a reasonable profit.
3. That such exchange as was not used for the purpose applied for would be resold to the Board at the official rates.

In connection with Shanghai the Board finally developed a new technique by negotiating with representatives of each industry, or group applying for exchange, and jointly worked out the conditions under which the exchange was to be granted. This compelled each group to study its annual requirements for foreign exchange and to submit a schedule of its minimum needs. Each group was required to guarantee that it would not deal with groups whose interests were inimical

to China; that it would keep its prices at a reasonable level, making available to the Shanghai public a volume of goods at least equal to that for which exchange was being granted; and that the arrangements would be reexamined after three or four months to make certain the conditions were being complied with. In this way the Board was able to control the outflow of its funds, but can not compel the admission that abuses did arise and effective means were not always instrumental in checking such abuses. But the procedure in connection with Shanghai was sufficiently improved to warrant the statement that the funds were effectively employed, and much thereof for economic warfare.

The Board has been criticised from time to time, in Shanghai for lack of generosity, and in Chungking for dealing too extravagantly with Shanghai. The Board was confronted with the peculiar situation of having many Chungking officials, at one and the same time, criticise the Board for its continuance in supporting Shanghai and manifesting concern over the low level which the Chinese dollar reached in Shanghai. The Board rarely only gave out statements to the press, or attempted to meet criticism or rumors in any other way. On the whole the Board's efforts to control the black market in exchange were reasonably successful and the favorable reaction toward the Board far exceeded the negative opinion of the Board. Recently the Minister of Communications submitted to the Generalissimo ~~of~~ a plan for a Chinese bond issue. This contained the suggestion that to inspire confidence in the issue the bonds should be guaranteed by the Stabilization Board. This confidence in the Board is fairly widespread and has been a matter of gradual growth.

To the Board's credit too it must be pointed out that the prestige of the Foreign Exchange Control Commission has declined; that of

the Stabilization Board has risen. Both agencies were created as a result of the April 1, 1941 agreement and the April 25, 1941, exchange of letters; to the Board, being assigned the task of looking after exchange for commercial needs; to the Commission, exchange for government agencies. It is generally agreed that the Commission with its staff of 200 has been a source of much irritation and delay. One agency would serve China more effectively than do two at present. Both the Generalissimo and the Kungs have expressed dissatisfaction with the agreement, claiming that the terms were too one-sided and smacked of a colonial agreement. They were especially displeased with the fact that the agreement could be rescinded by the Secretary of the Treasury of the United States on one month's notice and a similar opportunity was not accorded to China.

The Board's principal activities now are limited to the consideration of exchange applications through Chungking and Kunming. These have been increasing in number and amount lately but are necessarily limited by the transportation facilities of the Burma Road. Opportunities may develop for bringing imports through Russia and the Northwest. And before I left Chungking there was some expectation of being able to increase the amount of goods smuggled out of Shanghai into Free China.

The suggestion has been made that since the imports into China will for some time be very small, it might be desirable to liquidate the Stabilization Fund. Most people in China, however, would rather

see the Board strengthened because of the growing confidence in the Board and the increasing belief that it would be the best vehicle to which to tie a bond issue, and to provide for its amortization.

If a loan is to be made to China, it would seem desirable to take advantage of the occasion to modify the terms of the Stabilization Agreement. The features which are disliked by the Chinese Authorities could be eliminated or modified, the Board's funds increased to meet greater responsibilities which a new bond issue could impose and generally to strengthen it.

Mr. Livezey

FEB 13 1942

D. W. Bell

Referring to telephonic conversation, will you please send the following cable to the American Embassy, Chungking, China.

From Treasury:

(1) The Navy Department has received a cable from the Naval Attache, Chungking, that his bill of exchange issued December 30 and Tutuila Treasury check of January 9 were returned from Rangoon with the information that the National City Bank there had refused to purchase them. Treasury understands Navy Department communicating with Attache regarding bill of exchange. To facilitate the negotiation of checks drawn on the Treasurer of the United States the following procedure is suggested.

(2) All U. S. dollar checks drawn on the Treasurer of the United States negotiated by the Central Bank of China are to be delivered to the American Embassy, Chungking, accompanied by list in triplicate with complete description each check as follows: Name of drawer; symbol number; check number; amount; payee's name; date of check.

Embassy will carefully verify checks against list and advise Treasury by wire through State Department aggregate amount of checks delivered by bank. Upon receipt of this advice Treasury will effect credit in corresponding amount to account of Central Bank of China with the Federal Reserve Bank of New York.

Embassy should instruct Central Bank of China to use all possible diligence in identification of payee and determining validity of endorsements. The Central Bank of China should endorse checks as follows: Quote Pay to the order of the Treasurer of the United States for credit of our account with the Federal Reserve Bank of New York. Signed Central Bank of China. Unquote. Treasury will look to bank only for usual guaranty under laws applicable in China.

Embassy should forward checks accompanied by one copy of list to Treasurer of United States, Washington, as promptly as possible by safest means available. Second copy of list should follow by separate carrier at earliest possible date. Third copy should be retained by Embassy.

(3) Embassy should make no arrangements for insurance as shipments will be covered by Government Losses in Shipment Act.

(4) The Central Bank of China, Chungking, is hereby designated a depository of public moneys of the United States in order to carry out the procedure outlined in this telegram.

(5) Please advise Central Bank of China, Naval Attache and other U. S. Government officials appropriate parts hereof.

(6) To minimize number of checks drawn on Treasurer of United States, suggest you advise disbursing officers that they should cable through their respective departments their local currency requirements. Arrangements will then be made to advance dollar credits to Central Bank of China through Federal Reserve Bank of New York."

The Department approves the foregoing. Any expense incurred in carrying out the instructions contained in this telegram should be included in regular accounts as separate item for billing Treasury in accordance Sec. V-45, Foreign Service Regulations.

Mr. Livesey,

Will you please have the appropriate parts of this message repeated to the Consular Offices in China with the information that checks drawn on the Treasurer of the United States can be negotiated through the Central Bank of China.

TELEGRAM SENT

PH

GRAY

February 13, 1942

Rec'd 8 p.m.

AMEMBASSY

CHUNGKING (CHINA) VIA R.R.

90

One. Newspapers throughout the country have recently devoted extended comment to China, stressing particularly (1) China's pivotal role in the strategy of the United Nations; (2) China's successful Changsha campaign; (3) China's willingness to assist in the defense of areas outside of China; and (4) China's bravery and resourcefulness throughout four and one-half years of fighting against a better equipped enemy. The half billion dollar appropriation for financial aid to China has been applauded by the press as merited recognition of China's gallant struggle and China's significance to the United Nations. Prominence has been given to the favorable opinions expressed by members of Congress and to the report of the House Committee on Foreign Affairs in which the loan is described as QUOTE intended to contribute toward the same strengthening within China of the structure of

-2-798, February 13, 8 p.m. to Chungking (China) via H.R.

structure of economic, financial, and production measures that is being found necessary within the United States for the pursuit and winning of the war UNQUOTE.

Two. Following are excerpts from editorial comment:

Christian Science Monitor QUOTE Fighting . . . for their own survival, the Chinese have been defending the freedom and interests of all peoples who subscribe to civilized methods of insuring the security of nations. How important this resistance has been can be measured only as the pattern of the war unfolds. There are some who believe the Chinese front may develop a significance equal to that of the Russian, especially when the time comes for a great Allied offensive against the Japanese terror in its own citadels UNQUOTE.

Philadelphia Bulletin QUOTE If China's needs are met . . . its vast reservoir of manpower may be decisive in beating back the Japanese in the whole Pacific region. Financial support of China is reinforcement for a vital spot in the defense of the United Nations UNQUOTE. New York Herald Tribune The House's

-3-798, February 13, 8 p.m. to Chungking (China) via N.R.

House's QUOTE speedy and spontaneous action undoubtedly reflected accurately the feeling of the American people toward their Chungking allies, and American appreciation of the gallant four-year struggle of the Chinese in defense of their homeland against almost insuperable odds in man power, money and equipment UNQUOTE. New York Times QUOTE These credits must be converted into weapons if they are to help China in her struggle . . . Every lover of liberty must hope from the bottom of his heart that we will get there with enough help soon enough UNQUOTE. Chicago Daily News QUOTE To permit China to be beaten down would be to surrender not only a vital wedge in the Jap flank but also one of our best bases for early offensive operations against Nippon at home UNQUOTE. Houston, Texas, Chronicle QUOTE . . . never has this government made a loan which will be applauded more whole-heartedly by the entire people than the half-billion dollar credit to China which is now going through the congressional mill UNQUOTE.

Three. Please advise the Department whether you consider that the sending to you of similar summaries of press comment at intervals would serve a useful purpose.

HULL
(SW)

FE:RB:MEJK/HES FE PA/H CI
A-L

February 13, 1942

Mr. Livesey

Mr. Dietrich

Will you kindly send the following telegram to the American Embassy, Habana, Cuba:

"From Harry White as Chief of American Technical Mission.

With reference to intention of Cuban Government to obtain authorization to issue twenty million pesos of silver certificates, it might be called to attention of Cuban Government that our Bureau of Engraving and Printing has received no request to prepare to print new notes, and that the Bureau will be less able to fill an order than it was two months ago."

TELEGRAM SENT

LM

GRAY

February 13, 1942

Midnight

AMEMBASSY

HABANA (CUBA)

72

From Harry White as Chief of American Technical Mission.

QUOTE. With reference to intention of Cuban Government to obtain authorization to issue twenty million pesos of silver certificates, it might be called to attention of Cuban Government that our Bureau of Engraving and Printing has received no request to prepare to print new notes, and that the Bureau will be less able to fill an order than it was two months ago. UNQUOTE.

HULL
(FL)

FD:FL:BMcB

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297

TRANSLATION

February 13, 1942.

From Banco Central de Reserva del Peru, Lima
To Federal Reserve Bank of New York, New York

Gentlemen:

We confirm our cable of the 6 inst. reading:

"SHIPPING STEAMER ACONCAGUA SCHEDULED TO SAIL 11
FEBRUARY CONSIGNED TO YOU 13 CASES BARS GOLD
WORTH \$870,250 OCEAN FREIGHT INCLUDED STOP PLEASE
COVER INSURANCE DOOR TO DOOR AGAINST ALL RISKS
AND CONFIRM"

and thank you for your reply:

"YOUR NUMBER 4 HAVE COVERED INSURANCE SUBJECT TO
LIMITATIONS NOW IN EFFECT YOUR ACCOUNT AND RISK
DOOR TO DOOR 12-1/2 CENTS PER \$100 MARINE RISK \$1.25
PER \$100 WAR RISK SUBJECT TO ADJUSTMENT IF STEAMER
DOES NOT SAIL ON OR BEFORE 13th FEBRUARY"

In this connection, we are sending you herewith the bill of
lading, consular invoice, and list of contents and weights covering

B.C.R.P.	1/13	13 cases containing gold bars representing
NEW YORK		788.478000 kilos fine gold,

shipped yesterday per s.s. "ACONCAGUA", bound for New York, consigned
to you.

We must inform you that this gold is of Japanese origin; it
was purchased by us and received in Peru before December 7 last. The
United States Embassy was informed of all this; furthermore, before
making the shipment, our Minister of Finance, who attended the Conference
at Rio de Janeiro, informed Mr. White, the delegate of the United States
Treasury, of the matter, who stated, that inasmuch as we had acquired

and received said gold prior to December 7, we could export it freely to the United States. In addition, the United States Consulate at Lima was informed by us of the origin of this gold prior to the certification of the consular invoice, and the Consulate signed the invoice only after having received special permission by cable from Washington to do so.

We suggest that you hold this gold in custody in our name, and of course you remain authorized to remelt it and verify your analysis if you should deem it advisable.

We hope to receive your reply by air mail, and remain

Yours, etc.

Incs.
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DEPARTMENT OF STATE
WASHINGTON

February 13, 1942

In reply refer to
FF 840.51 Frozen Credits/5254

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith a copy, part of which is paraphrased, of telegram no. 418 of February 11, 1942 to Bern, quoting the text of a note delivered on February 11, 1942 to the Swiss Minister concerning the problem involved by the Swiss Government's representation of German, Italian and Bulgarian interests in the United States, and also summarizing similar notes delivered to the Swedish Minister regarding the representation of Rumanian interests and to the Spanish Ambassador regarding the representation of Japanese interests.

Enclosure:

To Bern, no. 418,
February 11, 1942,
with paraphrase.

Copy:vw:2-14-42

TELEGRAM SENT

EJ

A portion of this telegram must be closely paraphrased before being communicated to anyone.

February 11, 1942

8 p.m.

AMERICAN LEGATION,

BERN.

418

RESTRICTED. There follows the text of a note which was delivered on February 11, 1942 to the Swiss Minister:

"The Secretary of State presents his compliments to the Honorable the Minister of Switzerland and has the honor to refer to the problem presented by the representation by the Swiss Government of the interests in the United States of the Governments of Germany, Italy and Bulgaria and the necessity of the Swiss Government having access to dollar funds in the United States in order to enable it to carry out the duties imposed upon it by such representation.

"Under Executive Order No. 8389, as amended, the Swiss Government can engage in financial transactions in this country on behalf of these three Governments, or their nationals, only pursuant to license. It should be pointed out, also, that it is the position of this Government that this control imposed

-2-#418, February 11, 1942, 8 p.m. to Bern

by Executive Order No. 8389, as amended, applies to transactions involving the currency which was deposited with representatives of the Swiss Government by the representatives of these three Governments in the United States, as well as to bank balances which stand to the credit of these three Governments. It is expected, therefore, that the Swiss Legation will deposit promptly in an appropriate bank account the currency which has been turned over to it by the official establishments and personnel of these three Governments.

"The Government of the United States is prepared to facilitate arrangements to be made by the Swiss Government so that the Swiss Government can obtain and utilize the funds necessary for its representation of the interests of these three Governments in the United States. Thus, the Government of the United States is prepared to license under Executive Order No. 8389, as amended, the opening of accounts by the Swiss Government from which funds can be drawn, and to license with-drawals from those accounts for appropriate expenditures on behalf of these three Governments.

"It is not the policy of the Government of the United States to permit the use of existing blocked funds of enemy governments in this country for expenditures on behalf of such enemy governments in the United States. Therefore, the Government of the United States will not be prepared to permit the transfer to these accounts of existing bank balances, currency, or other assets

-3-418, February 11, 1942, 8 p.m. to Bern

belonging to these three Governments. The Government of the United States is prepared, however, to facilitate arrangements, on a reciprocal basis, for making remittances to this country to place funds in the aforementioned accounts.

"This Government has already remitted funds to Switzerland which are deposited in a Special Swiss Franc Account with the Swiss National Bank in favor of the American Legation at Bern, from which funds are to be supplied to the Swiss Government for the purpose of purchasing the currencies necessary to represent the interests of the United States in third countries. The Government of the United States is prepared to agree to an arrangement whereby the Swiss Government, when it wishes to place funds in the accounts which it operates on behalf of these three Governments in the United States, acquires the dollars necessary to do so from the Federal Reserve Bank in New York in return for an equivalent credit to the Special Swiss Franc Account with the Swiss National Bank in favor of the American Legation at Bern.

"The Swiss Minister is informed that similar proposals have been made relating to the availability of funds for expenditures on behalf of enemy governments which are not represented in this country by the Swiss Government. These Governments have been informed that it is not the policy of this Government to permit the use of existing blocked funds of enemy governments

4418, February 11, 1942, 8 p.m. to Bern

in this country for expenditures on behalf of such enemy governments in the United States. These governments have been informed that funds for such purpose should be remitted to this country from outside the United States and that an acceptable means of remittance would be by crediting Swiss francs to the Special Swiss Franc Account in favor of the American Legation at Bern as against dollars being made available in this country.

"In certain cases in which emergencies have made it necessary for funds to be made available immediately, this Government has indicated that it would agree to release small amounts of blocked funds on the understanding that these blocked funds would be replenished by remittances from outside this country through a credit to the Special Swiss Franc Account in favor of the American Legation at Bern. It has been pointed out that if these countries have difficulty in acquiring the necessary Swiss francs to make remittances in this manner, this Government will agree to such remittances being delayed until the equivalent amounts of Swiss francs have been spent by the Swiss Government for the purpose of acquiring local currencies for the representation of American interests in such countries." **END RESTRICTED.**

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PARAPHRASE OF TELEGRAM SENT

TO: AMLEGATION, Bern
DATED: February 11, 1942, 8 p.m.
NUMBER: 416

BEGIN PARAPHRASE. There also have been delivered to the Minister of Sweden notes concerning representation by Sweden of Rumanian interests and to the Ambassador of Spain concerning representation by Spain of Japanese interests, setting forth a proposal for an arrangement of a permanent nature similar to that contained in the note to the Minister of Switzerland, by which funds may be made available for representational expenses, and along the same lines as indicated in the note to the Minister of Sweden with regard to Swedish representation of Hungarian interests, stated in the Department's no. 262, 4 p.m., of January 29, 1942. It was indicated in these notes that only pursuant to Executive Order No. 8389, as amended, could financial transactions on behalf of the governments represented, be engaged in, whether involving cash or bank balances. The statement was made that it was the expectation of the Government that the cash which had been received from the officials of the enemy governments would be deposited in an appropriate bank account. The statement was also made that licenses would be issued permitting the establishment of accounts from which funds could

-2-

be drawn for representational purposes and into which funds for these purposes could be deposited. This Government would not license the use of cash and existing blocked balances of enemy governments for the purpose of establishing these accounts, but it would allow the transmission of funds to such accounts by a deposit of Swiss francs to the credit of the Special Swiss Franc Account in favor of the American Legation at Bern, as against the deposit in this country of dollars into the accounts previously described. Also in the note it was stated that if there should be an emergency need for funds in this country, there could be arrangements made similar to those set forth in the Department's no. 262, offering a temporary arrangement to Hungary. It was pointed out that where Rumania is concerned, funds had already been released for these purposes, and that it was felt Rumania might replenish the accounts in the proposed manner as an acknowledgment of this courtesy.

Copy:lc:2/14/42

TREASURY DEPARTMENT

306

INTER-OFFICE COMMUNICATION

DATE February 13, 1942

TO Secretary Morgenthau

FROM Mr. Dietrich

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£ 70,000
Purchased from commercial concerns	£106,000

Of the latter amount, £75,000 was reported to have represented the proceeds of cocoa shipments to Canada.

Open market sterling held steady at 4.03-3/4, with no reported transactions.

The Canadian dollar improved to a closing quotation of 11-1/2¢ discount, as against 11-3/4¢ earlier this week.

New York banks reported today that the Cuban peso was offered in Havana at a premium of 1/2%, as against 1/4% two days ago. It is possible that the peso moved somewhat erratically yesterday as a telegram received from Havana mentioned that the peso and dollar were at par.

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

Argentine peso (free)	.2360
Brazilian milreis (free)	.0516
Colombian peso	.5775
Mexican peso	.2065
Venezuelan bolivar	.2800
Uruguayan peso (free)	.5295

In order to increase the Stabilization Fund's gold balance, we purchased \$5,900,000 in gold from the General Fund through the New York Assay Office.

No new gold engagements were reported.

In London, spot silver was quoted at 23-1/2d, unchanged. The forward quotation was also 23-1/2d, off 1/16d. The U. S. equivalent of this price is 42.67¢.

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

We made no purchases of silver today.

- 3 -

The report of February 4 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 \$3,322,000, a decrease of \$456,000 in the short position since January 28. Net changes were as follows:

<u>Country</u>	<u>Short Position</u> <u>January 28</u>	<u>Short Position</u> <u>February 4</u>	<u>Change in</u> <u>Short Position *</u>
England **	\$ 698,000 (Long)	\$1,154,000 (Long)	- \$ 456,000
Europe	2,534,000	2,419,000	- 115,000
Canada	485,000 (Long)	383,000 (Long)	+ 102,000
Latin America	32,000 (Long)	24,000 (Long)	+ 8,000
Japan	160,000	160,000	-
Other Asia	2,276,000	2,276,000	- 1,000
All Others	23,000	29,000	+ 6,000
Total	\$3,778,000	\$3,322,000	- \$ 456,000

* 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



308

BRITISH EMBASSY
WASHINGTON, D.C.

February 13th, 1942

PERSONAL AND SECRET

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Halifax

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

BRITISH MOST SECRET

(U.S. SECRET)

OPTCL No. 51

Information received up to 7 A.M., 12th February, 1942.

1. NAVAL

A Norwegian steamship (4,000 tons) homeward bound in convoy was torpedoed and sunk on the 11th 380 miles W.N.W. of IRELAND (R).

2. MILITARY

SINGAPORE. Our counter attacks although partially successful failed to restore the position. Continued enemy pressure assisted by tanks, caused further withdrawals and by evening of 11th our position had been stabilised along the general line Naval Base-NEEISCOON Village-Pierce Reservoir-Race Course-PASIR PANWANI Village.

BURMA. Road MARTABAN-THATON has been cut by the enemy. Our positions in MARTABAN were shelled for one and half hours. A Chinese Division has been in contact with Siamese forces near the BURMA-SIAM frontier.

NETHERLANDS EAST INDIES. GARONGIA (NORTH CELEBES) reported occupied by the enemy who also continue penetrations north of SAMARINDA and BANJER MASIN in BORNEO.

RUSSIA. Russian penetrations south of TROPETS have been extended to within 50 miles of VITERSK and SMOLENSK. In the DONETS sector the Germans are continuing to offer resistance and to deliver local counter attacks.

3. AIR OPERATIONS

WESTERN FRONT. 10th/11th. Forty five tons of H.E. on BREMEN but identification difficult and results generally unobserved.

11th. Spitfires hit a probable escort vessel near DUNKIRK with cannon fire.

11th/12th. Aircraft were despatched as follows: MANHEIM 49, HAVRE 31, BREST 18. Leaflets - PARIS-CHERBOURG 5. Sea mining off FRISIAN ISLAND 1. Aerodromes Northern France 2. 2 Wellingtons missing. 5 enemy aircraft operated against shipping off the Cornish coast.

MALTA. On 10th/11th and 11th a total of 76 enemy aircraft attacked aerodromes at LUQA, TAKALI and HAL FAR and incoming naval forces. 2 Wellingtons on the ground slightly damaged, one crater on runway at LUQA, otherwise no damage to aerodromes. One enemy bomber probably destroyed and a further five aircraft damaged.

LIBYA. Night 9th/10th. Wellingtons attacked MARTUBA landing ground. Bombs fell amongst dispersed aircraft and large fires were started.

DODECANESE. 9th/10th. Small scale attacks were made on the submarine base at LEROS ISLAND, naval buildings in EPIDA COVE (PORTOLAGO BAY) and aerodrome on SCARPANTO ISLAND.

SINGAPORE. 11th. Several high level raids were made on SINGAPORE town. An Indian hospital was burnt out with severe casualties and two large petrol dumps were destroyed.

BURMA. 11th. Blenheims escorted by fighters attacked enemy troops at PAAN where five probable ammunition fires were started and the water front at MOUMEIN.

NETHERLANDS EAST INDIES. 9th. Enemy aircraft caused considerable damage to an army camp near MALANG. One enemy bomber shot down.

9th/10th. An enemy vessel possibly an aircraft carrier was claimed to be hit east of MACASSAR.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE February 13, 1942

TO Secretary Morgenthau

FROM Mr. Kamarck

Subject: Summary of Military Reports

Far East

The Japanese objectives appear to be, at the present time, to mop up Singapore, to crush the remaining resistance in the Philippines, to take Rangoon and cut the Burma Road, and to dominate the Sunda Straits (between Sumatra and Java).

There are definite indications that the Japanese are planning to occupy an airdrome in the Palembang district of Sumatra (in the southeastern section of the island).

(U.K. Operations Report, January 29-February 5, 1942)

The initial Japanese bombings of Rangoon late in December, caused more than half of the population of 500,000 to leave the city. The Indians, who constitute the bulk of Rangoon's labor force, fled to the northwest in the hope of returning to India. They were stopped 150 miles northwest of Rangoon and persuaded to remain in Burma. Some of them have since returned to Rangoon, but there is still a severe labor shortage. It has been necessary to import Chinese from Yunnan to work as stevedores.

Two convoys of Japanese troops have been located recently, one near Anambas Island, northeast of Singapore and the other off Banka Island, southeast of Singapore. (These troops are evidently designed for Java).

The Burmese desire for independence is an unsettling factor. As recently as last January, the British Governor of Burma confidentially described the situation in the country as "fairly lousy". In the opinion of most observers, there is little likelihood that the Burmese will actually fight against the Japanese invaders.

(C.O.I., "The War This Week," February 5-12, 1942)

German Navy

(The two battle cruisers, "Scharnhorst" and "Gneisenau" and the heavy cruiser "Prinz Eugen" have reached North Sea ports). The German battleship, "Tirpitz" and four destroyers were at Trondheim on February 9. The pocket battleship, "Admiral Scheer" and several other German cruisers are in the Baltic ready for sea duty. (The location of the "Tirpitz" at Trondheim may be for possible protection against an Allied landing in Norway, against which the Axis radio has recently been warning.)

(U.K. Operations Report, February 10, 1942)

Russo-German War

According to a report from Helsinki, the Germans have completely taken over Hango. This they are going to develop into their chief Finnish base, as it controls entrance to the Gulf of Finland. (This is the base about which the Russo-Finnish War was chiefly fought, since, according to the Finnish documents, this was the one position which they refused to allow the Russians to take as a base).

(C.O.I., "The War This Week", February 5-12, 1942)

Middle East

According to Colonel Donovan's representative in Cairo, the relations between the British Army and the Free French show improvement. There is very frank criticism by British officers of the way the military situation is going. If six divisions can be spared by Hitler, they believe he can take the Near East. The Free French leader, Catroux, says that the Near East needs a total of 18,000 tanks in order to clear up the desert and insure Turkish participation. He urges that Madagascar be occupied immediately, before it is too late. (Madagascar is still under the control of the Vichy French, although it is under British blockade).

(C.O.I., Cable from representative in Cairo, February 13, 1942)

FEB 13 1942

Dear Bill:

Thank you for sending me a copy of the intelligence summary you receive from your people abroad.

I hope you will send this to me periodically in the future.

Sincerely,

(Signed) Henry

Secretary of the Treasury

Colonel William J. Donovan,
Coordinator,
Office of Coordinator of Information,
Old National Institute of Health Building,
25th and E Streets, N. W.,
Washington, D. C.

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G-2/2657-220: No. 630 M.I.D., W.D. 11 A.M., February 13, 1942.

SITUATION REPORT

I. Pacific Theater.

Philippines: In Luzon the heavy fighting is dying down, but patrol activity continues. Two enemy dive bombers were shot down by A.A. Enemy 122d Regiment (6th Division) mistakenly bombed and strafed by own planes. Food situation of Philippine population reported becoming acute in 60 days. Nothing to report from Mindanao. Masbate has been occupied by enemy. Hawaii: No changes to report. Singapore: Heavy fighting continues along a general north-south line through the center of the island. British counter-attacks are only partially successful. Evacuation of certain material is reported by the press. Burma: The British state that attacks north of Martaban, near Paan, were repulsed and a river crossing denied to the Japanese. Air action continues over front areas. Australasia: Reconnaissance and small bombing missions are carried out by both sides in the islands north of Australia. Dutch bombers attacked a naval concentration which included an aircraft carrier in the Gulf of Bone, Celebes, on February 12. West Coast: No further reports of hostile action.

II. Eastern Theater.

Both Russian and German sources report fighting at various points along the front. No change. (A situation map will not be issued this date.)

III. Western Theater.

German squadron, including the Scharnhorst, Gneisenau, Prinz Eugen, destroyers, and small craft, with air protection passed through Dover Strait and was attacked by British destroyers, aircraft, and coastal guns. Detailed results are as yet unreported. Twenty British bombers and 16 fighters were lost, and six "Swordfish" torpedo-carrying planes are missing. German losses reported as at least 18 fighters.

IV. Middle Eastern Theater.

Ground: There has been no major change in the ground situation. Axis and British patrols have been quite active in MeKili, Gazala, Thimi area.

Air: R.A.F. and Axis air forces continue to concentrate their main effort against supply lines. Malta is still under desultory aerial bombardment.

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