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April 1, 1942
9:15 a.m.

FINANCING

Present: Mr. Bryce
Mr. Buffington
Mr. Haas
Mr. Lindow
Mr. Murphy
Mr. Mills
Mrs. Klotz
Mr. Hadley

H.M.JR: I haven't had a chance to read your (Buffington's) report or Mills' so as you go along, if either of you in your conversations with these people don't think they are going to buy these notes, I wish you would talk up. Do you think they are going to buy - the people you see, would they buy some of these notes?

MR. MILLS: The Treasury certificates of indebtedness?

H.M.JR: Yes.

MR. MILLS: Yes indeed. Where they have the funds and they can extend that long, the more active manufacturing concerns use their funds pretty much to the limit.

H.M.JR: Do you think where they have them, they will buy?

MR. MILLS: Yes.

MR. BELL: Those, you mean, of the non-defense people?

MR. MILLS: Well, and the defense people, too, might vary them with tax anticipation notes in some cases as the money comes in to them. It depends on the surety.

H.M.JR: What is your over-night thought on the billion and a half, Dan?

MR. BELL: Well, George and I discussed it yesterday afternoon a little. First you have got a press release that says that there will be two issues this month. You have got to get around that if you have only one. We sort of feel that a billion would be better in order to test the market and test the rate, and it would even be better from a market angle if you had four five-hundred million dollar issues and have them mature at different dates so they could just keep rolling over like bills. I think that a billion dollars, two issues, would be better.

H.M.JR: Well, let me argue with you a little bit. I don't like a billion and a half in one issue either, but I don't like two financings. Let me make a suggestion. How about having either two or three issues of five hundred million each but dating them different?

MR. BELL: All at once?

H.M.JR: Yes, and get it over with, and dating them differently.

MR. BELL: I take it the real objection to that would be the pricing. You are in sort of an uncharted field here, and you wouldn't know how to price it.

MR. HAAS: Yes, if you had one out, that would be ideal. That is the type of thing - the way they should be done.

MR. BELL: We spoke yesterday of putting out two, one at six and one at nine, but I think the boys felt

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the pricing would be a little bit difficult.

H.M.JR: Well, again, like I told you yesterday, that is mechanics, and that is what these fellows are hired for.

MR. HAAS: The mechanics might let you down, even doing the best they can.

H.M.JR: Well, I will tell you, I don't like - in the first place, to go to a man and say, "Now, we are going to have a billion-dollar or seven-hundred-fifty-million-dollar issue on the first of April, and we are going to hit you again in two weeks."

"Well, I am not ready today. I guess I will wait until two weeks from now and see how the thing goes."

He can say that, too.

MR. BRYCE: I would give him the whole business right now.

H.M.JR: He can sit back and say, "Well, maybe the Treasury priced this thing wrong. Let's see what acceptance it gets." I don't like a billion or a billion and a half, coming around and refunding. We have got ourselves in such beautiful shape. We have got the decks cleared, and we are in beautiful shape.

MR. BELL: Next year.

H.M.JR: How much?

MR. BELL: I would say the next year is all right. Did you say the next four years?

H.M.JR: The next three years. There is nothing there.

MR. BELL: Of course if we had two one-billion-dollar issues out, when we came around to refunding them we could put out four five-hundred-million-dollar issues, and they

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would roll over just like bills.

H.M.JR: You could put three five-hundred-million-dollar issues or two seven-hundred-fifty-million-dollar issues.

MR. BELL: This is a little different money than the--

H.M.JR: I will tell you, I have been inconsistent on this thing, and I thought Eccles was very fair yesterday, and don't forget this is - I mean, I have forced this on them.

MR. BELL: Well, while it is a little different from what they recommended, yet it is the same type of money and does the same thing as the bills, and it goes a little further. It wasn't hard for them to take.

H.M.JR: It was hard for what's-his-name in New York to take.

MR. BELL: I think the hardest part of this program for them to take is the part urging business to come in on it. They think it is a bank issue and it can do more good if it goes to the banks.

H.M.JR: Did they say anything yesterday about it.

MR. BELL: No, they didn't say much about it, but I think that is the harder part of the program.

H.M.JR: What's-his-name in New York, the head of the Fed?

MR. BELL: Allan Sproul. Allan, I think, from a market angle would like to have the billion and a half and only have one issue in April.

H.M.JR: That is what I want to ask him.

MR. BELL: I talked to Bob Rouse yesterday after he had talked to Allan.

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H.M.JR: Where are you, George? George Buffington.

MR. BUFFINGTON: In these discussions with these corporations--

H.M.JR: No, I mean as to one issue.

MR. BUFFINGTON: I was going to touch on that. These corporations have not been asked by us specifically about the issue coming April 6, and many of them have indicated that they have ninety-day bills that they would be turning over. It would seem to me that if you could have two issues so that those who weren't ready on April 6, in thirty days might have funds. They have short securities, but we haven't - at least I haven't gone specifically enough to them to ask if on April 6 they are going to have funds to invest, and many of them indicated that they had bills running off, but whether they are in a position to buy this issue on April 6 - whereas if there were another issue later in the month, I think many of those people might buy that type of funds.

H.M.JR: Where are you, Henry?

MR. MURPHY: I would be very strongly in favor of two issues. It seems to me that we shouldn't think of these as a financing in a formal sense. We put out four issues of bills in a month, five if there happen to be that many weeks, and we think nothing of it, and I think the market could be made to do the certificates in the same way. It seems to me also that the building up of the market for the long businessmen should be used more as a matter of habit formation than as a matter of any single purpose. We should solicit these people not so much in the expectation that they might subscribe immediately - many of them will - but as the operation is repetitive and as they have funds they should become used to the instrument.

(The Secretary held a telephone conversation with Mr. Rouse as follows:)

April 1, 1942
9:31 a.m.

HMJr: Hello. You're on the loudspeaker, Bob.

Robert Rouse: All right.

HMJr: I just wanted to warn you.

R: Glad you did.

HMJr: Bob, on this question of these issues, this is the way we stand now. We only have to raise about a billion and a half in April, see.

R: Right.

HMJr: And the Board yesterday thought they'd like to have us raise it at one shot, see.

R: Right. Yeah.

HMJr: The billion and a half.

R: Yes, sir.

HMJr: Of course, I said we'd have two in April, but that could be explained. I wondered from the market standpoint what you'd recommend.

R: I'd recommend all at one shot.

HMJr: All at one shot.

R: I think you'll have some financing to do in May, and I think it would be better to come to the well only once in the meantime.

HMJr: I see. Have you talked.....

R: Be better for the market.

HMJr: It would be?

R: Yeah, and I think it would give people enough

of these things to make a far better understanding of them.....

HMJr: Uh huh.

R:and prevent some bidding up for them and get away from possible premiums.....

HMJr: Uh huh.

R:that would make it more difficult.

HMJr: Let me ask you this: supposing I followed your advice. What would you think of splitting it and say - as to the date - and say half on one date and half a month further off rather than having a billion and a half coming due on us, see?

R: Uh huh.

HMJr: What?

R: Yes, I understand.

HMJr: I mean, it's going to fall due some day.

R: How far apart would you want your dates?

HMJr: Well, as far as I'm concerned, a month would be all right.

R: Yeah.

HMJr: Bell says it could be six and nine.

R: I think that would be all right.

HMJr: Do you - well - you think that would be all right.

R: Yes, I do.

HMJr: Wait a minute. Buffington's going to.....

(Talks aside) No, we wouldn't have it on that date. Couldn't, because it would be October 15. That would be January 15.

What?

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R: That would be October and January.

HMJr: October and January.

R: They wouldn't fit on the tax dates.

HMJr: No, no. I figure it would be October 15 and January 15, wouldn't it, Dan?

(Talks aside) But it wouldn't - no, no, no, I said October 15 is a tax date.

You wouldn't want it on a tax date, do you? Hello.

R: Why - (clears throat) excuse me.

HMJr: That's all right.

R: On the tax date, they do have some - it depends on your refinancing, sir.

HMJr: Yeah.

R: They could fit in very well on the tax date in that if it coincided with the payment for a new issue of Treasury securities on which they could take war loan credit. In other words, they could take part payment in cash - get cash on these - and pay for new securities by war loan deposit credit and improve your situation around the tax date, just as the bills helped it this past month.

HMJr: I see.

R: And it's entirely feasible for a tax date.

HMJr: Well, of course.....

R: I think the maturity of these G.I.'s depends more on your refinancing plans as you look ahead and to make that as convenient for you as possible, and that's the only reservation I have on the two issues, if you won't complicate your situation by creating too many maturities.

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HMJr: Well, as far as the tax date is concerned, we have these Tax Anticipation Warrants - whatever they call them - which the corporations have invested in heavily, and they're supposed to take care of that.

R: Those and the Treasury Bills, so you don't need these.

HMJr: No, that's the way I figure.

R: Uh huh. And if you do have them mature on tax dates, they will interfere - they will anyway to some extent.

HMJr: But, of course, the nicest thing would be - from my standpoint - say, if I had five hundred million of these coming due every month.

R: That would work out all right.

HMJr: What?

R: That would work out all right, or that hundred and fifty million every other month.

HMJr: Well, if we had it every three months, that would be three billion dollars. I don't think we contemplate there would be more than three billion of these out.

R: No, not unless.....

HMJr: Well, of course, there wouldn't be - yes, there might be at one time.

R: Add that out with - have some increase in bills; that would give you plenty of short-term funds.

HMJr: Yeah.

R: I think that would work all right.

HMJr: But you.....

R: I couldn't quarrel with your two issues. Of course, you have to - you'd have to differentiate

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in rate.

HMJr: Oh, yes.

R: And the higher rate would interfere a little, possibly, with your tax notes; but I don't think have any material effect.

HMJr: Well, I don't, frankly - I don't like to go to the market more than once in a month, you see?

R: I think you're dead right on that.

HMJr: The boys say they think it will be a little hard to price the six and the nine. Do you think so?

R: Yes, I think they're right in that, in that six months at a half is pretty sweet.

HMJr: How sweet?

R: Well, of course, you're dealing in such small premiums - let me get my book out - theoretically six months is worth about forty.

HMJr: How many thirty-seconds? I figure in thirty-seconds.

R: Well, at forty it's only about two-thirty-seconds.

HMJr: Well, that's what they figure here, two, or three-thirty-seconds.

R: Yeah. And then you'd go to a five-eighths at nine months. That would be presumably the next stopping place.

HMJr: Five-eighths for how much?

R: If you put a five-eighths coupon on for nine months.

HMJr: Yeah. What would that - how many thirty-seconds?

R: Well, at fifty - well, that again would be about two.

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HMJr: About two. Well.....

R: Two to three - yeah, about two-thirty-seconds.

HMJr: I don't know what's so difficult about pricing.

R: Do they feel differently than that?

HMJr: I don't know.

(Talks aside) Nine months. No, I mean five-eighths. We're thinking of doing seven hundred and fifty - that's six months of seven hundred and fifty.

Hadley says he might even stretch it to a year. He doesn't know, but he's somewhere in there. Hello.

R: Yes. I wouldn't stretch it five-eighths to a year.

HMJr: No. But as you think about it, don't you think if you're going to do - if it's a good thing market-wise to do it in one shot, isn't it also good not to have a billion and a half hit us in the face six months from now?

R: Well, in view of the larger plan, that is, if you'd like to have a maturity of them every other month.....

HMJr: Yeah.

R:or every month.....

HMJr: Or every third month.

R:you might as well start doing that. You'd have to start rather than put up the billion and a half at once and then refinance as you go along.

HMJr: I think so.

R: I'd go along on that very much.

HMJr: You would.

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R: Yeah.

HMJr: Well, as soon.....

R: I haven't discussed it with Allan, so I don't know how he feels.

HMJr: Well, as soon as he comes in, discuss it with him; and if he could call me up just as soon as he's digested it, I'd appreciate it.

R: I'll do that, and be in touch with you.

HMJr: They tell me he's coming in about ten.

R: Uh huh.

HMJr: And just as soon as he comes in, talk with him; then the two of you call me. Will you please?

R: Yes, indeed.

HMJr: Thank you.

R: Any other of these points you wanted to cover now?

HMJr: No, that's about all, except how are you feeling?

R: Oh, I feel much better. I took the week-end off while you were away in Arizona.

HMJr: Good for you.

R: I boondoggled out in the sun with the rake and leaves and I had a swell time.

HMJr: Good. Your head's better, huh?

R: Yeah, much better.

HMJr: That's good. Thank you.

R: Nice to hear from you, sir.

HMJr: Thank you.

R: Good-bye.

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(Mrs. Klotz and Mr. Hadley entered the conference.)

MR. BELL: That might be all right, if the boys can price it. Of course, they can't be much off. One or two thirty-seconds is about as much as you can miss it, isn't it? That might be pretty swell in that area.

MR. MURPHY: I think it would go entirely all right. Of course the pricing is entirely by ear. I would rather have it by note, but there aren't any notes. (Laughter)

H.M.JR: The most you could be off would be on the plus side. Right? You mean, you might give it to them too sweet?

MR. MURPHY: If the nine months one is five-eighths, I don't think there is much danger of being too thin.

H.M.JR: Have you expressed yourself?

MR. LINDOW: Well, I still prefer the one issue, I think, for a new thing of this kind. I think it is more conservative and safer; and, if it went over with a bang, I think it would set a better tone for future issues of this kind. I think that the half at six months and the five eighths at nine months would go all right. In fact, I think as Hadley does that probably you could go further than nine months. I just did some rough figuring here and thought we might get about four thirty-seconds at nine months as against two at six months on the half.

MR. BELL: You might go to February 15. I hate January 15 anyhow. It is right after Congress meets and the budget goes up. I would like to get out of that area in financing.

H.M.JR: Well, this is new, and the boys have got an hour to do some figuring. I will tell you, Dan, I was worrying during the night. I don't like to have

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a billion-and-a-half issue. I think Eccles is right. I think we ought to do it once and get it over and just simply tell the market we have changed and we want to do this, and when the market settles down we can begin immediately figuring what we want to do for May. Everybody says that this thing is going to go very big.

MR. BELL: Oh, it has gotten a good reception. Treasury bills this week, total bid received, fell off from about five hundred twenty-five million to three hundred fifty, I think it was.

H.M.JR: What?

MR. BELL: Million.

H.M.JR: What was the rate?

MR. BELL: Twenty-two three, I think. Last time it was twenty and a half, and this time it is twenty-two three. I think there are two reasons for that. One is they are anticipating this certificate and the other is they are getting over some of the tax dates out in the West.

H.M.JR: George, one thing while we are on it that I would like you to do, you know the curve that you have there of around March 25?

MR. HAAS: Yes, sir.

H.M.JR: Put that, so to speak, on a permanent sheet, you see, and then on isinglass, give me the thing once a week. That is the time when we started talking. If the Fed is going to keep this relative position, you can put isinglass over it and let me know where it changes.

MR. HAAS: Swell.

H.M.JR: Then once a week I could see it using the last date you had but once a week - and then if they break through at any particular point you could indicate it. It isn't isinglass, but you know what I mean.

MR. HAAS: Yes, I know, and the isinglass would have the curve as of the date you spoke to them.

H.M.JR: No, the curve that I spoke to them would be

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the basic curve which would be on the permanent sheet.

MR. HAAS: Oh, I see, the other way around.

H.M.JR: No, the permanent sheet, the bottom sheet, would be the date I talked to them. The isinglass could be changed each week.

MR. HAAS: Fine. I get it.

H.M.JR: The one underneath would be our Maginot Line.

MR. HAAS: And we could see where reinforcements are necessary.

H.M.JR: Yes, and the ones over it would be so you could see what is happening.

MR. BELL: The curve has gone down a little since we talked hasn't it?

MR. MURPHY: Yes.

H.M.JR: You might have a succession of isinglasses for each week.

MR. HAAS: We will just save them.

H.M.JR: You can say this is where it began moving, but you get the idea?

MR. HAAS: Yes, I get it. Are you going to take up those others? There are some other points Eccles mentioned, you know.

H.M.JR: What about giving them the right to subscribe their entire capital?

MR. BELL: You won't need that if you split the issue because they can subscribe to one hundred percent.

H.M.JR: Listen, you have got to give Eccles something.

MR. BELL: If you have seven hundred fifty million, that means that they can subscribe two hundred and seven, their capital surplus, taking both issues into account.

H.M.JR: I see. You don't like to change it?

MR. BELL: I don't see the necessity for changing it, and if we change it I think we ought to give consideration probably to the other points made by the Federal Reserve Banks and the insurance companies. Of course, they are not interested in this particular issue, but we ought to consider it anyway. I think it would be much better from a market standpoint if we said, "No change."

H.M.JR: I have no feelings. I will let you do the arguing with Eccles on that.

MR. BELL: I don't believe Eccles will - if you have two issue, I don't believe Eccles will ask for--

H.M.JR: How about the twenty-five thousand?

MR. BELL: The twenty-five thousand is pretty well agreed to. It is a question of whether you give - in your statement say, "allotment in full," or whether you just say "preferred allotment." I don't know that it makes a lot of difference--

H.M.JR: Yes it does.

MR. BELL: ...in the ultimate result. They will probably both be the same, but the stock phrase is, "preferred allotment." If you get a lot of padding you might want to use preferred allotments. Otherwise, it won't make any difference either way.

H.M.JR: What is twenty-five thousand times fifteen thousand, one of you mathematicians?

MR. LINDOW: Times fifteen thousand?

H.M.JR: Yes.

MR. LINDOW: Three hundred seventy-five million.

H.M.JR: Well, that is if every bank takes twenty-

five thousand. That is not bad. Fifteen thousand banks, if they each take twenty-five, there is only three seventy-five.

MR. HADLEY: Of course if you had two issues with twenty-five in each you would have twice that much.

H.M.JR: But I was trying to think, if you gave every bank twenty-five thousand--

MR. HAAS: You wouldn't run over your limit.

H.M.JR: You wouldn't run over your limit.

MR. BELL: But this is what will happen: You have got a bank that wants a hundred thousand dollars and four employees of that bank will put in twenty-five thousand dollar subscriptions.

H.M.JR: Won't you find that out?

MR. BELL: It will be pretty hard to catch because it won't be connected up with the bank in any way. The bank will certify that they have got four customers that want twenty-five thousand dollars and they have got the required down payment. They have got the full payment for the full allotment. That is what they will certify.

H.M.JR: Do you think a bank would do that?

MR. BELL: Oh, they did it in all of the ten thousand dollar subscriptions before we put on the registered security right along. We had banks that put in their whole employee list for ten thousand each or five thousand each.

H.M.JR: That was down the ladder wasn't it?

MR. BELL: No, it was all over the country. Now, of course, in those securities there is a chance to make a profit on the market. Here they can't make much profit but if they want this security, here is a chance

for them to do it.

H.M.JR: How would you word it to overcome that?

MR. BELL: We would say, "preferred allotment," and that doesn't mean one hundred percent. If you want to cut it down to eighty because some of this stuff--

H.M.JR: Do you fellows have any objection to that?

MR. BRYCE: No, I think that is a dangerous situation, if the banks can do that, and I am sure they can. But I should think you could control that in some way or other. You never know where you stand. That keeps on that padding stuff.

MR. MILLS: Federal Reserve Banks, though, have checked up pretty thoroughly in the part of the country I come from. They know who the employees of the different banks are and if there is that type of padding they come in with a polite little reminder that it isn't quite nice.

MR. BELL: Well, they do policing, but they just can't catch it.

H.M.JR: Well, we had one of the four national banks in Atlanta who came in and sat here and said, "Mr. Morgenthau, I just want you to know that we do lend money to our customers to buy Government bonds and take a free ride." I said, "Well, what do you do it for? Haven't you read the regulations?" He said, "No, I haven't read them, but as long as the other three banks do it I have got to do it if I am going to stay in business."

MR. BRYCE: Yes, that is the trouble.

H.M.JR: So I said, "Aren't you ashamed of yourself?" and he said, "Yes." and then Dan kept saying, "But we wrote you and telegraphed you and so forth." and he said, "Well, I don't read any telegrams. I just don't read them."

MR. BELL: But it did some good. I think they went back and got together and said they would make no more loans.

H.M.JR: Yes, we shamed them into it, but it was sort of a disgusting performance.

MR. LINDOW: The other side of this story, Mr. Secretary, I think, is that some of these corporations which we are trying to get in now, which haven't been used to buying Government securities won't understand that the term "preferred allotment," has always meant that they were probably going to get a hundred percent allotment.

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

MR. LINDOW: Now, if we say twenty-five thousand will get allotted in full they will understand that.

H.M.JR: Well, What I am playing for this time is the corporations. Those are the people I want to get.

MR. BRYCE: If you lend even that second maturity, you are going to hear a little more from the corporations, because they have got money kicking around waiting for that last tax date. Don't you think so, George?

MR. BUFFINGTON: Yes.

MR. BRYCE: And here is a negotiable piece of paper that they could have money invested in, and whether it happens to come due at that time or not, they can get in and out.

MR. BELL: You think they would take that instead of the tax notes.

MR. BRYCE: I should think so. They like negotiability.

MR. BUFFINGTON: Dan, not only that, they are more flexible and many corporations are not buying tax notes this year, because once they buy them they only get interest in payment of taxes and where their working

capital is indefinite, if they could have something a little more flexible so they could get out if they needed their working capital and get interest they would be more inclined to buy them. That is one reason I hoped it might be possible to get near that December 15 tax period.

MR. BRYCE: We ran into - excuse me, George. We ran into - you remember those two gloomy investment bankers you had in here yesterday. I wish you could have seen them last night because they are all underway and stirred up--

H.M.JR: They most likely had a couple of drinks.
(Laughter)

MR. BRYCE: Maybe, but they were on the telephone doing their stuff and there is great interest and they came back with that thing about the - if you had a piece of paper in this case coming due about that tax date that there is great demand for that. This would fit into that all right. You get more corporate interest if you have that second maturity.

H.M.JR: They got enthusiastic because they got reaction from the field, is that it?

MR. BRYCE: Yes, that wasn't a hundred percent, but I mean they got stirred up plenty.

MR. BELL: Maybe we had better issue these instead of tax notes.

MR. BUFFINGTON: That problem with the corporations is increasing and I talked to a number of them who indicated that if they had these certificates maturing about that time it would give them a much more flexible investment than the notes give them, and many of them are fearful of buying notes this early in the year, not knowing what their working capital requirements are going to be. That is why I hoped we might consider it.

H.M.JR: This piece of paper at nine months at five eighths, how would that compare with the tax notes?

MR. BELL: Tax anticipation notes are 48.

H.M.JR: For how long?

MR. BELL: A year.

H.M.JR: Oh.

MR. BELL: That is right, isn't it, 48?

MR. MURPHY: It can be for any given period. It can be up to two years. It depends upon when they pay their taxes.

MR. BELL: Well, if it is 48 a year on the basis of--

MR. MURPHY: Oh, yes, 48 a year.

H.M.JR: And this is going to kill it?

MR. HADLEY: Well, the only thing is it will be a limited amount of this and they can buy any amount of the tax notes and it isn't stopped by a billion and a half.

H.M.JR: What is the excuse for paying more for this than for the--

MR. HADLEY: It is a market issue. The other one has no market risk.

MR. BELL: No fluctuation of the price.

H.M.JR: That is a good answer.

MR. BELL: We could allow the tax notes to run out and issue these securities in their stead, accept

them at tax dates with accrued interest up to the tax date regardless of their maturity. We have that authority now.

MR. BUFFINGTON: That would overcome this difficulty. Many corporations, when they bought tax notes last year, knew pretty much what their working capital requirements would be and could set aside the funds for taxes. This year they are in a little less definite position.

H.M.JR: What would you do with them, Dan?

MR. BELL: We could accept these in payment of taxes on any tax date with accrued interest up to that date and if you did that I think tax notes would gradually go out of the picture. Of course, what you would have would be a terrible uncertainty in your tax date, because if these securities sold for four thirty-seconds or any premium they would sell them on the market and pay us the cash. Whereas, our estimates might contain that several hundred million dollars of Treasury certificates to be turned in, and if we didn't get them and got the cash instead, we would have a money market problem. It would check the uncertainty in that picture. But we could get around it maybe some way.

MR. MURPHY: The tax notes are a neater instrument and it would seem a shame to have them elbowed out.

MR. BELL: Well, I agree they are a neater instrument.

MR. BUFFINGTON: But they meet the demands of many corporations who can set that fund aside and many of them who are buying them are doing so on that basis, but there are certain corporations who would get interested in these certificates if they were maturing near a tax date.

MR. MURPHY: There is a good chance, Mr. Secretary, that if only the six months halves were put out now, we could later put out the nine months as halves. That could only be found out though by putting out the six months halves first and then seeing.

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H.M.JR: I know. I am up against a human relations proposal here, because here I talked ten days ago about wanting liquidity in the market and ironing out the excess reserves, and here I come along and go out and send out eight thousand telegrams to the corporations asking them please to buy this thing. I have got to be a little bit acceptable to suggestions from the Fed on this thing even if it costs me more money.

MR. BELL: Well, either way it isn't going to cost very much.

MR. HAAS: Well, I don't like to see one of your fixed - one of the Treasury's fixed securities interfered with because of a market rate, because that ought to be a bench mark that is going to be held, because once you get the tax notes and start on the Savings Bonds, and you have to have a new issue of those--

H.M.JR: In other words, keep these off the tax date?

MR. HAAS: I would keep the rate on these new ones from interfering with the rate on the tax notes, because I think once you break one of those securities that way, you have opened the ground for breaking some of your other fixed securities like Savings Bonds.

H.M.JR: And on that you would--

MR. HAAS: I was just turning over in my mind, despite some of the disadvantages I see maybe it is better on this - I would like to go about a billion dollars; but maybe because of that interference with the rate on the tax note, maybe it would be better to go the whole billion and a half at one shot.

MR. BELL: You are thinking that five-eighths might interfere with the tax note rate?

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MR. HAAS: Yes.

MR. BELL: There is a possibility of that.

H.M.JR: I see. And you would put it where?
On a tax date?

MR. HAAS: I would do it all six months.

H.M.JR: And put it on a tax date?

MR. HAAS: No, sir, October.

MR. BELL: It is all right if you do it that way, Mr. Secretary, because when you come to October, then you can split it up.

MR. HAAS: Split it up later on. You might say to your press people what your ultimate plan is.

H.M.JR: Well, this is a little less, and here I have said what I was going to do at the end of April, and now for the first time I have set up what I am going to do at the end of April, and I have got it staring me in my face and everybody bothering me about it. Why should I say what I am going to do in October?

MR. HADLEY: That is right. (Laughter.)

H.M.JR: Here I am bothered about what I am going to do two weeks from now.

MR. BELL: Well, I didn't have in mind that you would say what you were going to do, but you could split it up when you came to October.

H.M.JR: And make it two issues?

MR. BELL: Then.

H.M.JR: But you don't like to break the half percent?

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MR. HAAS: No, sir, I think that is a bad precedent.

MR. HADLEY: I agree with Mr. Haas on that. I look at this certificate as something that you are going to do every so often, and I don't like to see it taken in one big lump and set that aside and say, "Here is our certificate issue, and maybe some time later we are going to do another big lump." I would rather have it come in steps every so often, one a month, a billion dollars or something like that.

H.M.JR: But George is saying to do a billion and a half.

MR. HAAS: I agree with him, but to solve the immediate problem that you want to do a billion and a half, it is a question of whether you do it in one issue or two issues and those two alternatives, I am inclined to do it all in one if those are the only alternatives; because if you do it in two, it interferes with the rate on your tax notes.

H.M.JR: Where are you, Hadley?

MR. HADLEY: I would rather do the billion and a half in one issue at a half percent if that is the only choice, but I would rather do two separate offerings of a billion each.

MR. HAAS: I agree with him.

MR. LINDOW: Yes.

MR. MURPHY: Yes.

MR. HADLEY: Do the second one right near the end of April

MR. BELL: It is like Treasury bill money.

MR. HAAS: I think Marriner would understand that it really isn't a financing. It is more like a bill financing rather than the other.

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H.M.JR: But here you would be figuring on the end of April for another one of these things instead of concentrating on something longer.

MR. BRYCE: That is what I was wondering, what you had to do in May.

H.M.JR: We have got two billion dollars to do.

MR. BRYCE: That was my argument, to get it now instead of going twice in the month.

H.M.JR: Have you got any more ideas?

MR. MILLS: I follow along with Mr. Murphy and Mr. Hadley. Possibly one issue now that wouldn't conflict with the tax anticipation note, and then follow with the future Treasury certificates of indebtedness, space them out; and then when you would get to October with that issue, then Mr. Bell's idea, break that down so it fits down into the Treasury bill program. These different types of businesses have different seasons that they come into funds. The milling industry, for instance, comes into funds around January. Now, we learned that the brewing industry comes in later in the summer; and probably in the East where you have manufacturing industries, they may have some seasonal conditions that makes the Treasury certificate of indebtedness more suitable to their requirements at one time of year than another.

H.M.JR: If you had the problem to decide as between - well, if you could go three ways, you could have a billion now and a billion the end of April, a billion and a half now in one issue, or a billion and a half in two issues now.

MR. MILLS: The thought of Mr. Hadley, a billion now, and then a billion maybe three weeks to a month from now, and then have that up to the point that the full amount of certificates of indebtedness would be outstanding, that fits into the entire program. In

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other words, reach out to the full amount of that type of financing as soon as it is practicable to do it, and then rotate those maturities.

H.M.JR: Well, let's settle one thing anyway, Dan. What are you going to do about that twenty-five thousand? How do you think you want to do that? You have got your meeting, haven't you, at ten?

MR. BELL: Yes. Well, I would prefer the stock language, preferred allotment, but then I wouldn't kick if you wanted to put it the other way.

H.M.JR: You wouldn't?

MR. BELL: No, I wouldn't kick about it. I think you might have this padding which - even though you do have it, you won't get over - you will just give full allotment anyway.

H.M.JR: What?

MR. BELL: I think you will give full allotment anyway, even though you do have to pay.

H.M.JR: You do?

MR. BELL: Yes.

MR. MURPHY: In preferred allotment you merely cut down somebody else to make room for the bidding.

MR. BELL: But you cut down everybody, and they are all padding, most of them. You cut down the amount of securities that go into that class and a lot more to the general subscribers when you say preferred allotment.

H.M.JR: What is the other language?

MR. BELL: One would say "Subscriptions for amounts up to and including twenty-five thousand dollars will

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be given preferred allotment." The other one, "Subscriptions for amounts up to and including twenty-five thousand will be allotted in full."

H.M.JR: Well, supposing you do the latter? Can't we again caution the Federal Reserve Banks to do their policing?

MR. BELL: Oh, they will police. There is no question about that, but just--

H.M.JR: When there are a half dozen employees, can't they try to catch it?

MR. BELL: Yes, but you don't know that they are employees of the banks, in many cases. There is John Jones and Jim Smith subscribing. You can't tell.

MR. BRYCE: Not only employees, but some of those banks call up their dealers and say, "Put in an order, and we will take all you get," and then you have your dealers in Government Bonds going around and calling up people.

MR. BELL: That is right.

MR. BRYCE: That is the thing that must have been confusing all of the time, just to get down that list you are talking about, of your clients, who they really are. There are so many tricks to it.

H.M.JR: Well, I mean, will it make much difference whether we say preferred or the other?

MR. BELL: Well, I don't know. It all depends on the padding involved.

H.M.JR: I mean, would it help your policing to say preferred?

MR. BELL: No. Well, yes, it wouldn't help it, but it would be more of a job. If you said allotment

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in full up to twenty-five thousand, they would just throw those subscriptions, probably, aside.

H.M.JR: Wouldn't they take a look at them?

MR. BELL: Well, they wouldn't take as much of a look at them.

H.M.JR: You can't tell who pays for them, whether it is bank money or is not?

MR. BELL: In many cases they can not. Like Mr. Bryce said, if they go around and call up their customers and ask them to put in subscriptions for twenty-five thousand, and they will take them off their hands when the allotment is made--

H.M.JR: From the standpoint of selling the corporations, how important is the one way or the other?

MR. BUFFINGTON: I think --

MR. BRYCE: Go ahead, George.

MR. BUFFINGTON: I think it is important to the corporation that they be allotted in full, because they are not accustomed to this arrangement, and probably wouldn't even know what the preferred allotment was. They wouldn't understand it as well as the banks would; and if they knew they could come in and get what they subscribed for in these amounts in full, I think it would be a much better way of handling it.

H.M.JR: Well, let's do it that way.

MR. BELL: All right.

MR. BRYCE: But, I don't know how the mechanics work, but I know reading that letter, if I were a treasurer or something, I would understand it, whereas the other won't be so clear.

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H.M.JR: Let's try it once.

MR. BELL: The mechanics are not difficult. It is just a question of what you want to do when you get in this volume of subscriptions. All right.

H.M.JR: I am going to be influenced by what Sproul says when I talk to him. What time will you be through with your meeting?

MR. BELL: Well, it usually lasts about an hour. It is the Endowment Fund Committee.

H.M.JR: You go in. I just want to ask these men a little bit about what happened last night. We will meet again at eleven, Dan?

MR. BELL: Yes.

H.M.JR: Where are you with your security dealers?

MR. BUFFINGTON: They have set up an organization or a temporary organization to handle this by contacting investment bankers in each of the big industrial centers and putting one or two houses in charge, and they in turn are going to build up a temporary organization to handle it. Immediately following our discussion with you yesterday, we talked to them, and I would say by evening or by two o'clock in the afternoon they were waiting to do this job and get released, and were tremendously enthusiastic, and have gotten an excellent reception from the people with whom they had talked last night.

MR. BRYCE: I think the only bad spot was Los Angeles, and they were talking with a municipal man, not in touch with the corporations, and I think that is going to change. But San Francisco and Chicago and Philadelphia and so forth, it was well received. I mean, just talking to bond men. They are enthusiastic. Of course, they haven't had a chance to

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the corporations, but I thought it was a good field.

(Mrs. Klotz left the conference.)

H.M.JR: Well, we will see the Fed again at eleven.

April 1, 1942
10:18 a.m.

HMJr: Hello.

Thomas B.
McCabe: Hello, Mr. Secretary.

HMJr: How are you?

Mc: How are you this morning?

HMJr: I'm fine. Mr. Stettinius is not yet well?

Mc: Why he's still in the hospital, and will be there until the end of this week.

HMJr: Oh.

Mc: I think the doctor's making a special dispensation to allow him to go to his farm.....

HMJr: I see.

Mc:Sunday.

HMJr: Oh.

Mc: And then I think that he's going to keep him there where he's nearby for another - I'd say another ten days anyway.

HMJr: Well, then he really was quite sick, huh?

Mc: Yes, he not only had this kidney thing, but he was generally run down and I think the doctor thinks that this is a good chance to work on him.

HMJr: I see. Well, I'm - if you speak to him, will you tell him I was asking after him?

Mc: Indeed I will.

HMJr: Mr. McCabe, I wonder if you can enlighten me on this great mystery. Mr. Tickton was up again in Philadelphia on Monday.

Mc: Yes.

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HMJr: I don't know whether they've sent you a copy of his report or not, but we will. Who decides how many ships should be put into each port?

Mc: The War Shipping Board.

HMJr: The War Shipping Board?

Mc: Yes.

HMJr: Who's that?

Mc: Admiral Land.

HMJr: Well, does he, for instance, ever say to you, "Now, Mr. McCabe, how many ships have you got cargo for", or does he just stick the ships in there?

Mc: He never specifically asks us that question, because we've been on the other side - on the Russian side - of demanding enough ships, you see, to fulfil our obligations.

HMJr: But now, for instance, they tell me in Philadelphia they put in more ships there than they could possible handle with the pier space.....

Mc: Yes.

HMJr:and the Maritime Shipping representative said, "Well, I guess I made a mistake."

Mc: Yes.

HMJr: And I just wonder, for instance, if they put in five or ten ships, do they ever inquire from you whether you've got enough bottom cargo to fill these ships.

Mc: No, they haven't.

HMJr: In other words, it's just a sort of hit-and-miss plan.

Mc: Yes. You see, as you brought out in your office there in that conference, this whole shipping

thing I'm sorry to say.....

HMJr: Can you talk a little louder?

Mc: I say, as you brought out in the conference in your office, this whole shipping thing has been in a very complex state.

HMJr: Yes.

Mc: And Bob Patterson, as a result of your appointment of him to try to work it out.....

HMJr: Yeah.

Mc:has brought - that committee which works with him - representative from Eastman, one from Land, and General Somervell - brought a little order out of the chaos.

HMJr: Yeah.

Mc: Now, the difficulty there was that their final decision again was based on a cooperative effort.

HMJr: Yeah.

Mc: And Somervell felt very strongly that someone should be designated to have the final say.

HMJr: I hear much better now.

Mc: And in spite of the agreement which was reached, which was a cooperative one, the Army has more and more stepped in to take charge; and it might interest you to know that last Wednesday night I went up to Philadelphia - I was up there on some other things.....

HMJr: Yeah.

Mc:and I spent two hours - from about eleven o'clock at night until one - going over some of the piers and the yards and what-not, trying to get a first-hand feel of that situation; and when I got back, I went and reported the result of my trip to Somervell and in greater detail to

General Gross, his assistant.

HMJr: Yeah.

Mc: And they have assured me over in the Army that Colonel Williams, who's in charge at Philadelphia, is moving in more and more to be the central head there in determining all the factors of shipping at the ports.

HMJr: Yeah, but that - I understand that part of it. But that still doesn't prevent Admiral Land, if he wants to send ten ships in there tomorrow, to send them in without asking whether they can be handled.

Mc: Well, now, their answer to that would be this, that Somervell's office - their man and Land's man and Eastman's man theoretically are in daily contact here in Washington.

HMJr: Theoretically is right!

Mc: And those three men are supposed to decide together the allocation of ships at the ports - whether the facilities of the ports are adequate and the movement of freight into the port. That's the set-up as it exists.

HMJr: Yeah, but it isn't functioning.

Mc: I'd say this, that it's functioning better than it was a week ago and much better than it was two weeks ago.

HMJr: That's right.

Mc: But it's still far from being what you and I would like to see it.

HMJr: That's right.

Mc: Now, I got shold of - Lew Douglas got shold of me about a week ago. Lew is advising with Land.

HMJr: Yeah, I know

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Mc: And is trying to get all these facts together on how long it takes to turn the ship around when she comes into port, and gathering all the factual side of that so he can constantly bring it to the attention of the Shipping Board as to where they're losing valuable days on ships.

My personal opinion is, and it may not be worth very much, but when you can't meet - have to meet an acute situation as we have facing us on this shipping thing, that more and more you've got to centralize that responsibility.

HMJr: Well, of course, to me, I can't understand the Maritime Commission's been going for years. Now we're in the war, and they suddenly decide how they're going to handle ships in the ports, and I've got ships on my records here that have been in port since early February waiting repairs.

Mc: That's right.

HMJr: And the thing that Admiral Land said, that in war-time you've got to expect fifty per cent efficiency, well, to me it's just shocking; and why this thing wasn't all planned - I mean, it isn't as though we've got too many ships, we've got too few. And it's just as though there was a little boy, and say, "Well, I'll show him; I'll give him so many ships he can't handle them."

Mc: That's right. I feel.....

HMJr: Why they should scramble around at this late date and get somebody like Lew Douglas to try to figure it out - to me it's just criminal.

Mc: I feel, Mr. Secretary, that the shipping thing is the most serious problem that we have in the whole war effort; and it's the number one bottleneck that we have.

HMJr: But I mean, I don't know what Admiral Land does over there. I mean, if he doesn't do this.

Mc: Well, to me it's a very, very, very serious problem.

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HMJr: Well, I just wondered. I have the same information that you have that it's better, but it's far from being good.

Mc: That's right.

HMJr: Yeah.

Mc: It has improved each week since you had that conference in your office.

HMJr: Now, let me ask you another thing, if I may.

Mc: Yes.

HMJr: Do you, for instance, have anywhere in your office, the number of tons leaving each mill on Russian Lend-Lease for each port each night?

Mc: No.

HMJr: You don't know, for instance, how many tons are rolling each day?

Mc: No. The only way we get that is to - you see, that responsibility is on each Procurement Division.

HMJr: Yeah. Well, if you don't mind my saying so - I mean, how in God's name, McCabe, can - let's say that Jerry Land was the greatest fellow in the world.

Mc: Yes.

HMJr: And how can he or any Board allocate ships if you can't tell him one week in advance how much stuff is going to roll from each mill? I mean, to me it's - I mean, if I were sitting there, I'd want to know one week in advance how much stuff each mill is going to roll or can roll on a car towards a given port. Then I can say, "Well, I'll have so many ships there to take care of it."

Mc: Yeah. Now, what we do have here, we have on the Russian program, we have a definite schedule per month - that is, we have for March for each item

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the definite amount allocated and that's promised by each Procurement Division of exactly what can be expected for that month. Now, for instance.....

HMJr: But they've never lived up to it.

Mc: The point is, we've got to depend, for instance, on the heavy cargo which is a tight one now - we've got a definite promise here from War Production Board and from your fellows that we can expect so much copper, so much armor-plate, so much steel. We have on a schedule, which I have right here on my desk, what was available at the end of February, what they have promised for March, what they have promised for April, and for May and for June.

HMJr: Have they ever lived up to their promises?

Mc: Well, I'd say this, that in the main the Army, on the fighting equipment have come, I'd say, very close to their promises. The most difficult thing we've had is the heavy cargo - that's the metal.

HMJr: Yeah.

Mc: And, incidentally, on that, I'm having a conference with Bill Batt and Don Nelson at eleven-thirty on that, and see if we can't speed up the delivery of metals - that is, even get them ahead of the promised schedules here - so that we can have some backlog of the metals at the ports.

HMJr: Yeah. Well, what I'll be able to show you tomorrow is a table showing how much stuff that we buy is rolling every night.

Mc: Yes.

HMJr: See?

Mc: Yes.

HMJr: And we'll furnish you with that.

Mc: Yes.

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- HMJr: And how much we're supposed to furnish, say, for this week.
- Mc: Yes.
- HMJr: And my thought is, if you like it, I should think you'd want the same thing from every other purchasing agency; and then correlate it into a master sheet.
- Mc: Now, under this set-up that they have, the War Department is supposed to have in their clearance section there - under the Quartermaster there - this information from the Army and from Treasury Procurement and from the different agencies, and they authorize the releases in accordance with these schedules, you see.
- HMJr: Yes.
- Mc: Now, that set-up is the - that is the set-up the Army has put into effect over there.
- HMJr: Well, let me get this over to you, but I'm going to - Hopkins is having lunch with me tomorrow and I'm going over the whole thing with him then.
- Mc: Yes.
- HMJr: Because it's just got to be improved. I mean, I still - I mean, you can't win a war doing it the way we're doing it now.
- Mc: That's right.
- HMJr: It's impossible.
- Mc: That's right. You see, this function is a correlation of shipping, a definite function; and responsibility as it's set up now, rests with these three agencies to coordinate the whole program.
- HMJr: Yeah.
- Mc: And these three agencies are supposed to work

through each Procurement Division to have the data there before them upon which to make all the allocations.

HMJr: Well, okay. I'll be talking to you again.

Ma: Now, would you be interested in this schedule that we've worked up that we furnish the President on the shipments and availability of materials under the Protocol.

HMJr: Very much.

Ma: Well, I'll send you over a copy. We haven't had a comment from him yet.

HMJr: I'd like very much to see it.

Ma: But on that, we have the break-down for each item.....

HMJr: Yeah.

Ma: ...the actual shipments of February 28 that was available in February, and then the monthly schedule of availability from here out to the end of June.

HMJr: Well, now, do you furnish that to the Maritime Commission?

Ma: No. You see, this is the confidential report that he asked us to get for him after checking with all the departments here.

HMJr: No, I mean - but this committee of three doesn't have that, the Maritime and Army and the railroads.

Ma: Well, now, this committee though - in this set-up that they've made over in the War Department - have a direct wire to your Treasury Procurement, a direct wire to War Department, so that they can take the information that's furnished them by these Procurement Divisions and tie that together, and that's supposed to be their responsibility to tie that together to regulate

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the movement of freight into the ports.

HMJr: Well, send it over to me and let me take a look at it.

Mc: All right.

HMJr: Thank you.

Mc: Thank you, Mr. Secretary.

HMJr: Okay.

Mc: Good-bye.

April 1, 1942

Dear Mr. McCabe:

In accordance with our telephone conversation of this morning, I am sending you herewith a copy of Mr. Tickton's latest report concerning the transportation situation involved in the movement of Lend-Lease material for Russia from Philadelphia. *dated 3/31*

Sincerely yours,

(Signed) H. Wergenthan, Jr.

Mr. Thomas B. McCabe,
Acting Administrator,
Lend-Lease Administration,
Washington, D.C.

n.m.c.

By Messenger *Memo 4:35*

Number of Carloads of Russian Lend-Lease Freight
Placed Aboard Ships at the Port of Philadelphia

Day	Date	Number of carloads
Wednesday	March 11	109
Thursday	12	105
Friday	13	123
Saturday	14	60
Sunday	15	58
Monday	16	117
Tuesday	17	121
Wednesday	18	126
Thursday	19	136
Friday	20	142
Saturday	21	75
Sunday	22	67
Monday	23	139
Tuesday	24	178
Wednesday	25	196
Thursday	26	202
Friday	27	249
Saturday	28	252
Sunday	29	80
Monday	30	342
Tuesday	31	206
Wednesday	April 1	345 (preliminary)

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

Note: The number of carloads placed aboard ship on Tuesday, March 31, was lower than on the preceding day because of a rainstorm in the morning.

April 1, 1942
10:45 a.m.

HMJr: Hello.

Allan
Sproul: Good morning, Mr. Secretary.

HMJr: How are you?

S: Fine. How are you?

HMJr: I'm very well.

S: Good. I hope you had a good holiday.

HMJr: Yes, I did. It did me a lot of good.

S: Well, that's fine. I've talked over with Mr. Rouse the proposed offering you talked over with him this morning, and two issues make sense to me. Well, first, I agree - as I think he told you - that one and a half billion at one time you can do, and I think it's preferable to do it.

HMJr: You do.

S: Yes. Second, I think that the two issues is a good move in the light of the program you have outlined ahead for putting out these certificates.

HMJr: Which would you rather see us do, to make two offerings in April, or one?

S: I think I prefer the two offerings in view.....

HMJr: No, I mean, would you - the beginning of April and the end of April, or do it.....

S: Oh, no. I'd rather have the one offering.

HMJr: The one offering.

S: One offering.

HMJr: The one offering.

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S: One offering, a billion and a half; but I'd prefer to have it, I think, split in the two issues the way you outlined it this morning.

HMJr: That's your feeling.

S: Yes.

HMJr: Uh huh. Well, that's what I wanted to get. The Board members are coming in at eleven. Will you be available between eleven and eleven-thirty?

S: Yes.

HMJr: Well, I'll most likely want to call you and Rouse.

S: Well, we'll be available. Just one other suggestion on the maturity and price.

HMJr: Yes.

S: I understand you talked in terms of a six months' issue and a nine months' issue.

HMJr: Yeah.

S: I suggest you might consider seven and a ten months', which would make it a little closer to the market and perhaps give you a little better month to work in as you roll on through the year.

HMJr: Well, what would the seven months' be?

S: Well, it would be a half.

HMJr: A half?

S: Yeah.

HMJr: You think we can go a half?

S: Yeah.

HMJr: And the ten months'?

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S: That would be five-eighths.

HMJr: Oh, you think we can go that strong?

S: Yeah.

HMJr: I see. Well, that's interesting.

S: And that would give you November and February for your first two maturities, and would go on to May and November for the next two.

HMJr: But you think we can stretch it to seven months?

S: Yes, I do.

HMJr: I see. Well.....

S: I don't think the choice there is very important or very great between six and nine and seven and ten, but I think you could do it.

HMJr: Well, we wouldn't have to decide that until Friday night.

S: No.

HMJr: Well, I'm glad to get that.

S: Right.

HMJr: Anything else?

S: No.

HMJr: Thank you.

S: We'll be available.

HMJr: Thank you.

April 1, 1942
11:00 a.m.

FINANCING

Present: Mr. Haas
Mr. Buffington
Mr. Bryce
Mr. Lindow
Mr. Murphy
Mr. Baker
Mr. Hadley
Mr. Mills
Mr. Bell
Mr. Eccles
Mr. Piser
Mr. Szymczak
Mr. Goldenweiser
Mr. Draper

H.M.JR: Well, gentlemen, since seeing you yesterday, here is the way we would like to put the proposition to you, a little bit differently. I talked this morning to Sproul and Rouse, and they are standing by, and they lean a little bit toward going to the market just once in April rather than twice.

MR. ECCLES: That was the way we leaned yesterday.

H.M.JR: Now, I put up the proposal to them, if we did do a billion and a half the way you suggested, how about making it two issues instead of one. They kind of liked that. But some of our boys in the Treasury don't, because they sort of hate to break the one-half rate,

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you see. They say if we did the billion and a half in one lot at a half a percent, then when the thing came due, if we wanted to refund it, we could refund it in two issues. We would like to discuss that first and try to settle that one way or the other. Should we--

MR. BELL: You might say that the reason they don't want to do that principally is because it interferes with the tax note rate.

MR. ECCLES: Yes, it would, wouldn't it? Well, we - I talked to Sproul yesterday after I left here, because I wanted to report to him as he is a member of the Executive Committee, so I called him up and told him what we had discussed and what the other members of the Committee had agreed upon, which was one financing of the billion and a half, the twenty-five thousand minimum allotment of subscriptions, and I also discussed with him the letter. Well, they weren't so enthusiastic about the letter idea, but they - it wasn't - I told them that you felt that the corporations should - this matter should be called to their attention beforehand and that they were asked to wire in if they were interested so that then that could be sent to the banks and the banks could put them on their list and send out the notices of the offering. They were - Allan was also - liked very much the idea of increasing the allotment to the banks if we went to the billion and a half on the ground that this was a type of investment that we would like to see the banks own and would like to get it distributed over the country as far as possible to give the fluidity to the excess reserves. Now, that was the gist of the discussion, so the Executive Committee are in pretty full agreement on that as a general policy as we discussed it yesterday.

H.M. JR: May I interrupt you? I don't think there would be much disagreement - Dan may - if it was one issue, we would increase the banks' right to subscribe; but, if it was two, we didn't think it would be necessary.

MR. ECCLES: Well, that is possibly right. Two

- 3 -

issues of seven fifty is pretty small; and, if you are going to get any kind of a distribution other than banks, of course you possibly wouldn't increase the banks. I feel awfully strong about the one issue, personally. I think to put two issues out would be a big mistake.

MR. SZYMCZAK: Well, Mr. Secretary, as I understand it, it is a question of two issues at this time, a certificate and perhaps a note, or a bond. Is that the question?

H.M.JR: No, there are two things. Some of the people here in the Treasury still want me to stick to an issue on April 6 and one the latter part of April.

MR. SZYMCZAK: Oh!

H.M.JR: A billion each. Some of the rest of them feel that we should just go to the market once in April for a billion and a half and if we do take a billion and a half, should we do it in one piece of paper or two pieces of paper.

MR. BELL: But two of the same kind of pieces of paper, a six-months, say, and a nine-months certificate.

H.M.JR: And Sproul, incidentally, thinks we could go seven and ten.

MR. ECCLES: Is Allan in favor of the two pieces of paper if you go one issue?

H.M.JR: He kind of liked the two pieces. He put it that way, "I kind of like it."

MR. ECCLES: We didn't discuss that.

H.M.JR: Well, I only got the thought of it this morning, and I didn't want to interrupt you at your meeting. Otherwise I would have called you. We only got the idea this morning.

MR. ECCLES: What are the arguments for one issue

and two pieces?

H.M.JR: The arguments are that you won't have a billion and a half coming due on one date.

MR. ECCLES: Well, ordinarily that would be a good argument, but with the size of this picture, it doesn't seem to me that a billion and a half is - proportionally it isn't any worse than you used to have falling due all the time of three or four hundred million. With the total of the increase in the debt and the amount of issues you are going to have out, it seems to me that if you are going to figure less than a billion and a half coming due on one date, you are going to have maturities very, very often. I think it would be well to reduce the maturities to some extent by having larger amounts come due in lieu of the problem you have got ahead of you.

MR. BELL: From the market standpoint, Marriner, it would be better if we had a half billion every other month wouldn't it, than to have a billion and a half at one date?

MR. ECCLES: It would if you didn't have other issues, but you have other things coming due.

MR. BELL: No, after we got this schedule completed we would treat these more or less like Treasury bills, a half billion every other month and do our other financing right along at the same time just like we do with bills.

MR. ECCLES: You don't want these to take the place of bills?

MR. BELL: No.

MR. ECCLES: I was thinking of these as quite a separate matter from the bills.

MR. BELL: The same kind of money, that is what I meant.

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MR. SZYMCZAK: Couldn't you give some thought, then, to getting out a billion and get out more bills at the same time, and see what you have to do in April later? You could take another look at it.

H.M.JR: We need a billion and a half as a minimum for April.

MR. SZYMCZAK: Well, you could get bills out, that is my only suggestion.

MR. ECCLES: Your idea of making several issues, Dan, was to have seven hundred fifty thousand or five hundred - I mean seven hundred fifty or five hundred million coming due at one time instead of a billion and a half coming due at one time so that the roll-over would be smaller.

MR. BELL: We would take them just like Treasury bills--

MR. ECCLES: I would think that might be all right if after you - after you got to going, but I would think on the first offering that you ought to have a substantial amount - if you had a billion and a half, for instance, coming due in - six months from now, then I think you possibly could arrange your roll-overs then at five hundred million with one maturity, five hundred another, and maybe five hundred another, but to put out less than - you need a billion and a half this month, and why not put it out in one issue and arrange your roll-overs at five hundred million at the time when this comes due, with different maturities?

MR. BELL: That can be done.

MR. ECCLES: That is one way you could get it on the basis of five hundred million.

H.M.JR: Say it again, will you?

MR. ECCLES: A billion and a half now and when the

- 6 -

billion and a half comes due refund it into two or three issues with six months maturities, seven months maturities, and eight months maturities so that from then on you have got your roll-over, but you get these out now and that would take care of that problem that Dan raises, if you want to do that.

MR. SZYMCAK: And it would give you a feeler with the corporations and the municipalities, and it would also give you a chance to get the banks the short maturities they want.

MR. ECCLES: This would be bad, if you put seven hundred fifty million out, and you get a very small allotment. If you get an allotment of a tenth, say, or a sixth or an eighth or something of that sort. I think it is desirable, especially if your corporations are coming in, if they have got funds and they make a subscription and they only get a fraction of what they want to put into it, or a lot of banks. I think it is better to have their subscriptions filled as nearly as possible. Then they get away from the padding, and you likewise - they can plan much more accurately on the use of their funds. A person has got, say, a million dollars they want to invest and they get a hundred thousand and they have still got a problem of nine hundred thousand.

MR. BELL: Yes.

MR. ECCLES: And the smaller the issue, it seems to me, the smaller the allotment they are likely to get. That is another reason I favor the larger issue.

MR. PISER: I think there is one more reason, too. That is, if two issues are put out, no matter how closely we try to price them here, we find one issue is more attractive in the market, and there may be a lot of switching back and forth as a result.

MR. BELL: That is true.

MR. PISER: It is very difficult to price two issues so they will come out exactly the same in the market.

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MR. BELL: Do you think the second issue above a half percent would interfere with the tax notes, Piser?

MR. PISER: I think they probably would, yes.

MR. BELL: That is what is worrying us.

H.M.JR: But not at the half a percent.

MR. BELL: No, we don't think the half - that is too short a period, but if we put out a five-eighths for nine or ten months, it might interfere with the tax notes.

MR. ECCLES: Well, it certainly is competition with them.

H.M.JR: Well, supposing we call up Allan and see how he talks. What?

MR. ECCLES: All right. I would sooner see one issue with two maturities than two issues.

MR. BELL: Except for time?

MR. ECCLES: That is right. I would sooner see a billion and a half and make it two different maturities than make two offerings.

MR. DRAPER: It seems to me that even better than that would be the suggestion of a billion and a half and then split it into three parts on the refunding.

MR. BELL: I would like to have that extra half billion.

H.M.JR: What extra half?

MR. BELL: A billion dollars in each issue, two issues.

MR. ECCLES: You can put out some bills, Dan.

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H.M.JR: How about if we did the billion and a half, how do you feel about increasing the banks' right to subscribe up to a hundred percent?

(The Secretary held a telephone conversation with Mr. Sproul and Mr. Rouse as follows:)

April 1, 1942
11:18 a.m.

HMJr: Hello.

Operator: Sproul and Rouse.

HMJr: Hello.

Allan
Sproul: Hello, Mr. Secretary.

HMJr: You're on the air here.

S: Yeah.

HMJr: We've been talking the thing over, and the Fed people feel inclined to only going to the market once this April. Hello.

S: Yes.

HMJr: So the question has been raised that if we get out an issue for five-eighths, it might interfere with our Tax Anticipation Notes.

S: Well, I think it probably will; and an issue at one-half will also. That's inherent in the program. They have to - as far as the corporate buyers are concerned, it's a question of which one they prefer.

HMJr: Well, the sentiment here a little bit is towards just one issue.

S: Well, as I say, I don't think that's very important. I think one issue of a billion and a half would go and be all right. I think the two issues would work out a little better.

HMJr: I see. Just a moment.

(Talks aside) Do you want to ask him something?

Marriner
Eccles: No.

HMJr: (Back on phone) Well, that's the way you feel. Do you think there will be any trouble with one

- 2 -

issue of a billion and a half?

S: No, I do not.

HMJr: You think they're going to like it.

S: I think they're going to like it, and it's going to go well.

HMJr: I see.

S: The two issues would enable you to retain the fifty per cent allotment to banks, fifty per cent on each issue, which would give the hundred per cent allotment which I understand was discussed yesterday, without making a change in the subscription rules which you might have to change back on a subsequent bond issue, and would be desirable from that standpoint. It would also enable you, if you adopted the suggestion of full allotment up to twenty-five thousand to have the full allotment on the two issues, which I think would have some advantages.

HMJr: Well, supposing we adjusted it to one issue, how would you feel about making it a hundred per cent of their capital and surplus.

S: I think that would be all right, but there is the question of possibly having to revert back to fifty per cent on subsequent bond issue and perhaps have the lack of understanding of just....

HMJr: Well, that wouldn't be good.

S: Fifty per cent allotment on two issues, however, one of six and one of nine or one of seven and one of ten would meet that situation very nicely, I think.

HMJr: Well, I wouldn't want to be changing every time.

S: Well, that's what I say. If you do it with two issues and have fifty per cent allotment on each, you get in effect a hundred per cent allotment on the two, but without having to

- 3 -

change your subscription rules.

HMJr: But supposing we decide just to do one - one issue? What would you do about your rules?

S: Well, I would change the rules myself.

HMJr: You would?

S: Yeah.

HMJr: You mean make it a hundred per cent?

S: Yes.

HMJr: You really would?

S: Yes, I would.

HMJr: Why?

S: Because from my standpoint I think this is primarily a money market issue which will be a prime bank investment and it would be desirable to get a large amount of it into the market where it could be used to adjust positions between banks and between markets.

HMJr: Well, that's true. But you think a fifty per cent wouldn't do it, huh?

S: Well, it would do it, but to a lesser extent.

HMJr: Okay. Will you be around until noon?

S: Yes, I will.

HMJr: Thank you.

S: All right.

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MR. BELL: I hate to see the rules changed just for this one issue and then change back in the bond issue when it comes along, and I think you will have to change back. We put out those rules to try to cut down as much padding as we could and give the permanent investors a little more opportunity. Now, of course, this is a bank issue. Yet, on the other hand, we are going out after corporations and everybody outside of the banks, and I think the banks will get a substantial part of it anyhow, but I don't feel strong enough to argue very much about it.

MR. ECCLES: You have this situation though, it seems to me, with the corporations. Their allotment now is very favorable on bonds, much more than banks. I think that you need to have two different allotments to the banks. If you are going to put out a long bond issue, you don't want the banks - I wouldn't hesitate on a long bond issue to cut them to twenty-five percent of their capital surplus. It just seems to me that you don't want the banks to take long bonds. They have already loaded up with them. I would cut them accordingly. Now, when you put out an issue that you want them to take, and you want them to go there, and you want to reduce the secondary market to the limit - if you have the banks take a larger allotment in long bonds, all you have got is a much more difficult secondary market because they will subscribe and underwrite these bonds, and they will sell them and take their profit. I would cut them down when it is an issue you don't want them to have. I wouldn't hesitate a minute to do it. I would let the banks understand that here is an issue that is designed for the banks, that here is another issue that is largely designed elsewhere and - because if you believe that the short issues should go to the banks and the longer issues to the investors, then it seems to me the rules should be fitted into that philosophy.

MR. SZYM CZAK: Also, since you are circularizing the corporations and municipalities and want them to take some of these certificates, it makes logic to increase the amount of the allotment to the banks to a hundred percent. I mean, you are consistent.

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MR. BELL: I would call that inconsistent.

MR. SZYMCAK: Consistency in inconsistency.

MR. BELL: It does have this advantage, Mr. Secretary, that if you have an open end issue in May, say leaving the long bond issue open for several days, you can eliminate the banks entirely from that issue, saying "We gave you a hundred percent back there in April in the type of issue in which you were more interested, and this one you should stay out of and, therefore, you are not permitted to subscribe at all." There is that advantage.

MR. ECCLES: With the inflationary development that is certainly under way, I think that everything possible has got to be done to keep down the growth of bank investment in Governments. Now, we don't want to keep it down, however, in the short issue, but you certainly want to keep it down and try to almost eliminate it in the long issue and that is one reason we were so strongly in favor of the non-negotiable issues, because then you could keep them out of those issues. You could keep away from the market issues which they were loading up on.

H.M.JR: I think it makes sense to have the banks a hundred percent for this and maybe twenty-five percent for a bond issue.

MR. ECCLES: Of course, it makes sense, complete sense--

H.M.JR: I think it makes sense.

MR. ECCLES: ... and I think they might just as well get used to it.

H.M.JR: It is a new conception.

MR. ECCLES: Of course, it is. You have got an entirely different job of financing than you have

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ever had before and what you want to do, as you have said, is to reduce the amount of bank expansion or the creation of more money to the fullest extent possible, using the existing funds. You want to get the corporations and the individuals to use their current income as they get it and not spend it, to divert it back to the Government, and, therefore, you ought to design your program to accomplish that very thing, using the banks only as a very last resort. What worries me tremendously is a continued growth in bank deposits and currency, even though you control prices, if we do, and control wages and other things for the direct method of preventing inflation. When this thing is over with, if our bank deposit structure is a hundred billion, then where are you? Then you are in a hell of a fix because that money begins to go when you take your controls off, and I think it is tremendously important, fundamental in this whole picture, that we restrict to the fullest extent the growth of the supply of money. Now, the Germans have done it, the British are doing it, the Canadians are fighting it to the last ditch. The Germans even adopted what they call the Iron Savings Scheme so as to use existing funds instead of creating more bank deposits. The Canadians have resisted it, and the British have resisted it. Now, we are the only ones up to date that haven't resisted it, and I think we have got to do that very thing; and if that issue is the kind of an issue that is for the banks and they need short issues, then I think we should do something to put it there; and when we begin to put out long market issues, or if we put out non-negotiable issues, we will exclude the banks, try to keep them out of those issues, just using them as a last resort in the short field. That is the way I feel about the picture.

H.M.JR: Well, there isn't any difference. If we do it this way and come along and exclude them in the next one, they have got no kick.

MR. ECCLES: That is right. They haven't any

MR. BELL: I would like to exclude them on the long one.

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MR. ECCLES: So would I.

MR. SZYMCAK: I think you are right.

H.M.JR: This way the objections which were raised by Burgess and the others, "Well, we have given you this now." What?

MR. ECCLES: That is right.

H.M.JR: Well, let's decide then, Dan, we will do a billion and a half at a half of one percent and let the banks subscribe a hundred percent of their capital surplus and everybody get up to twenty-five thousand dollars.

MR. PISER: Mr. Secretary, I was wondering if it might not be well to announce, at the same time, that on longer issues the banks might be cut down or excluded, so they won't think they are getting a bigger break on all issues.

H.M.JR: Well, that will be something to say for background to the newspapers. Bell can keep it in mind.

MR. BELL: I don't know whether we want to say that or not. You could announce in view of the fact that this is more of a bank issue that we have changed the rules to - so as to permit them to subscribe up to a hundred percent.

MR. ECCLES: And by implication if it isn't for a bank issue we would stop there anyway. I think it is implied. At least, you could say off the record that that is the implication and let the press draw that implication without making any commitment or announcement.

MR. BELL: I think that is better. You may not want to change the rules.

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MR. ECCLES: That is right. But if you do say you are doing it for this reason now, by implication the press could draw the conclusion that you might cut it down or eliminate them on the other types of issues.

H.M.JR: All right, gentlemen?

MR. ECCLES: Fine.

H.M.JR: If my own people would stay, please. Thank you very much.

(Mr. Draper, Mr. Goldenweiser, Mr. Szymczak, Mr. Piser, Mr. Eccles, and Mr. Mills left the conference.)

H.M.JR: How will this letter read now?

MR. BELL: Do you want me to read it?

H.M.JR: You read them.

MR. BELL: This is the ones to the presidents of the corporations. "The Treasury Department expects to make a public offering of one billion five hundred million dollars of Treasury certificates of indebtedness on Monday, April 6, 1942. The certificates will be offered at par and will bear interest at the rate of one half percent, payable by coupon. The maturity will be about six months. Many corporations have indicated their desire to invest current accumulations of business funds in this type of security. I am calling this issue to your attention since it occurs to me that your corporation may wish to obtain some of these securities on direct subscription."

H.M.JR: Your corporation may what?

MR. BELL: "May wish to obtain some of these securities."

H.M.JR: Why not use the word, "buy"?

MR. BELL: By direct subscription?

H.M.JR: No, instead of "obtain," use the word "buy."

MR. BELL: Well, subscribe. It is buying from us, yes, but subscribe for some of these securities.

H.M.JR: Instead of the word "obtain"?

MR. BELL: "May wish to buy." That might indicate to them in the market. I guess that is all right.

MR. BRYCE: Your point, though, is that they don't buy on subscription. You are tying it into your subscriptions.

MR. BELL: That is right. Well, they do buy.

H.M.JR: I don't care. I just thought it was a simpler word but if it connotates something else I don't care.

MR. HADLEY: It might be better just to say, "You may wish to subscribe."

MR. BUFFINGTON: To subscribe.

MR. BRYCE: That is what I was saying.

H.M.JR: How are you going to have it, Dan?

MR. BELL: "To subscribe directly."

H.M.JR: What does directly mean?

MR. MURPHY: It is merely an intensive to differentiate from buying them in the market.

H.M.JR: I wouldn't put in the word "directly."

MR. BUFFINGTON: Subscribe for these securities.

MR. BELL: To subscribe for some of these securities. "If you will telegraph me not later than Friday evening, April 3, 1942, indicating your interest, I shall be glad to have sent to you before the offering date complete details of the terms of this issue, and see that you are advised about subsequent offerings of Government securities. As the new offering may be open only one

day, prompt action is necessary if you wish to participate. Subscriptions for amounts up to and including twenty-five thousand dollars will be allotted in full."

H.M.JR: Can I just see, that a moment? It is all right with me.

MR. BELL: The other one is the same.

H.M.JR: I don't have to see it again.

MR. BELL: Well, we wanted you to sign it.

H.M.JR: Well, when will you bring it in?

MR. BELL: Before one o'clock.

H.M.JR: I am satisfied. Anybody got any second thoughts?

MR. BUFFINGTON: We are going all on one maturity?

H.M.JR: Yes.

MR. BAKER: Mr. Secretary, will there be any announcement to the effect that this will not be the first of two issues?

MR. BELL: Yes, we will have to change that. I don't know whether you will want to do that informally or have a formal press release.

MR. BRYCE: I should think that would be awfully easy.

H.M.JR: Tell it to the press tonight, will you?

MR. BELL: All right.

H.M.JR: There will be a press release on it?

MR. BELL: If you want a press release. I am not so sure that we shouldn't give out these letters, because

they are given out when you send them to seven thousand people.

MR. BRYCE: You have got some news there, that you are sending a letter or wire to corporations. That has never happened before.

MR. BELL: In the release of the letter you can say that we have decided to have one issue instead of two.

MR. BRYCE: May I crowd in again? I am just wondering if your thought was that in the letter - as I understand it, you have never done this before have you?

H.M.JR: No.

MR. BRYCE: Well, there is news in that and you want corporation orders, as I understand.

H.M.JR: Yes.

MR. BRYCE: And I should think that any corporation that failed to get a wire and so forth, reading that in the paper if it was spread well, might come in and want some too. You might get some more names, you see.

MR. BUFFINGTON: I think that is a good idea.

H.M.JR: Let's give out both letters.

MR. BELL: Yes, and the letters don't go to all cities either, no counties. It only goes to those of a certain population.

MR. HAAS: Twenty-five thousand or more.

MR. BELL: You might get some of the others in.

MR. BUFFINGTON: We would like to let the investment bankers also have this letter in advance.

MR. BELL: You see what happened in the last letter we sent out, some of the banks immediately called Goldsmith and gave him all the questions. He was about the only reporter that had them and I think we should give it to all of them.

H.M.JR: I would give it out, but I would try to get it out not later than three o'clock.

MR. BELL: All right.

H.M.JR: For tomorrow morning's papers. What?

MR. BELL: And then it is in the mail too and they will be getting it tomorrow morning.

H.M.JR: Yes. That gives them a chance to get it on the wires.

MR. BELL: Do you want to work on a little lead?

MR. BUFFINGTON: Yes, we will.

MR. BELL: I wonder if we shouldn't have a separate press release for this one hundred percent.

H.M.JR: Oh, yes.

MR. BELL: Because we kept that, see, as a sort of Treasury circular and have referred to it right along.

H.M.JR: Can't that go out Saturday?

MR. BELL: Oh no, that ought to go out before your offering so they will know. The only trouble we had the first time we offered it, it was too close to the sale date.

H.M.JR: Would you tell them about the security deal?

MR. BRYCE: Sure. It is news and that is what they are after. If it is just routine they just throw it around.

H.M.JR: I don't mind saying that we have invited these two gentlemen down here to cooperate with us.

MR. BUFFINGTON: That is fine. That is wonderful. That is all right.

MR. BRYCE: That is good news.

H.M.JR: These two men have come down here to cooperate.

MR. BRYCE: You will probably have to throw the others in that they didn't get, Emil Schram and Burns.

MR. BUFFINGTON: They have been in constant telephone contact with them.

H.M.JR: You gentlemen assist Bell, just as long as it is out by three. But I would say we have invited them in, that this was a new thing, and so forth and so on. Why not put in the thing, "If by any chance we overlooked any city or county or corporation, it was purely an oversight."

MR. BELL: Yes, we will.

H.M.JR: But that doesn't mean that they can't buy just the same.

MR. BRYCE: Sure, that will stir them up. That is good.

MR. BELL: They are privileged to wire the same as those who received the letter.

H.M.JR: "Maybe we overlooked somebody and if we did, we don't want to have anybody feel that they are on the outside."

MR. BUFFINGTON: It is all right.

H.M.JR: You know that worked out - sending those --

how many telegrams were there altogether?

MR. BUFFINGTON: Eighty-five hundred.

H.M.JR: And it only cost between five and six thousand dollars.

MR. BRYCE: It is well worth that.

H.M.JR: Oh, yes.

MR. BELL: It will cost a little more now that the letter is a little longer.

H.M.JR: No, but it is amazing that you could do it for that.

MR. BELL: About seventy cents a wire.

H.M.JR: That was good. It is for a billion and a half issue.

MR. BELL: It was Government rates. Decentralizing helps out a lot.

H.M.JR: I don't think I have to see you any more, do I?

MR. BELL: No, except these letters I will bring back to you. You don't want to see the press release?

H.M.JR: Yes, do you want to come in about five minutes of one?

MR. BUFFINGTON: Half an hour more than that?

H.M.JR: Half an hour more?

MR. BUFFINGTON: I meant if we could do it a little bit later.

H.M.JR: No, you can't, not if you are going to have it mimeographed and everything else.

MR. BRYCE: Oh, we can get it.

MR. BUFFINGTON: We will get it.

H.M.JR: They can't mimeograph it. It is impossible.

MR. BUFFINGTON: Can we see you (Bell) for a minute?

MR. BELL: Yes.

H.M.JR: Bring it in in pencil.

4-1-42

TO THE PRESIDENT OF THE CORPORATION ADDRESSED:

The Treasury Department expects to make a public offering of about \$1,500,000,000 of Treasury certificates of indebtedness on Monday, April 6, 1942. The certificates will be offered at par and will bear interest at the rate of 1/2%, payable by coupon. The maturity will be about six months.

Many corporations have indicated the desire to invest current accumulations of business funds in this type of security. I am calling this issue to your attention since it occurs to me that your corporation may wish to subscribe for some of these securities.

If you will telegraph me not later than Friday evening, April 3, 1942, indicating your interest, I shall be glad to have sent to you before the offering date, complete details of the terms of this issue and see that you are advised about subsequent offerings of Government securities. As the new offering may be open only one day, prompt action is necessary if you wish to participate. Subscriptions for amounts up to and including \$25,000 will be allotted in full.

Sincerely yours,

Secretary of the Treasury

DWB:NLE

4-1-471

(GOVERNOR OF THE STATE ADDRESSED:)
TO THE (CHIEF EXECUTIVE OFFICER) OF THE (CITY) ADDRESSSED:
(COUNTY OR)
(DISTRICT)

The Treasury Department expects to make a public offering of about \$1,500,000,000 of Treasury certificates of indebtedness on Monday, April 6, 1942. The certificates will be offered at par and will bear interest at the rate of 1/2%, payable by coupon. The maturity will be about six months.

Many States and local Governmental units have indicated the desire to invest current accumulations of funds in this type of security. I am calling this issue to your attention since it occurs to me that you may wish to subscribe for some of these securities for your official account.

If you will telegraph me not later than Friday evening, April 3, 1942, indicating your interest, I shall be glad to have sent to you before the offering date, complete details of the terms of this issue and see that you are advised about subsequent offerings of Government securities. As the new offering may be open only one day, prompt action is necessary if you wish to participate. Subscriptions for amounts up to and including \$25,000 will be allotted in full.

Sincerely yours,

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

DWB:NLK

April 1, 1942
4:53 p.m.

HMJr: Hello.

Jesse
Jones: Hello.

HMJr: Jesse?

J: Yeah. How are you?

HMJr: Fine.

J: Have a nice trip?

HMJr: Very nice. Two things.

J: Yeah.

HMJr: I thought you'd like to know the next money
we're going to borrow is a billion and a half.

J: Yeah.

HMJr: And we're going to borrow - it will be some-
where between six and seven months for a half
of a per cent.

J: Uh huh.

HMJr: We thought we'd use a certificate of indebted-
ness in order to give them all equity.

J: Uh huh.

HMJr: The banks don't seem to have enough of this
short-term stuff.

J: Uh huh.

HMJr: And we want to get some out, and we think some
corporations may buy it also.

J: Uh huh.

HMJr: But I thought you might be interested.

J: Fine. I am.

HMJr: And.....

- 2 -

J: Thank you for calling me about it.

HMJr: And the preliminary announcement will be tomorrow.

J: Uh huh.

HMJr: And then we'll decide Friday or Saturday whether it's six or seven months.

J: Yeah.

HMJr: It's a little bit different, but the money market's too tight, that's the trouble.

J: Uh huh.

HMJr: And we thought we'd try it. Jesse, would you - whoever's looking after you - I wrote you a letter on the twentieth of March.....

J: About that.....

HMJr:about English plants.

J: Those plants. And I've got the boys checking up.....

HMJr: Yeah.

J:and.....

HMJr: Could you put a little heat on them?

J: Yes, I will. The report I got at the time was that the British weren't very much interested; but anyway I'll check up again, Henry.

HMJr: Oh, gee, the British Treasury's been on my neck!

J: They have, eh?

HMJr: Yeah.

J: Well, maybe there's some misunderstanding

- 2 -

here, but I'll check again and I'll ask for a report; because I asked for it at the time you wrote me.

HMJr: If you don't mind.

J: I will.

HMJr: Thank you.

J: Okay.

April 1, 1942
5:01 p.m.

HMJr: Hello.

Operator: Sir Frederick Phillips.

HMJr: Hello.

Sir
Frederick
Phillips: Good afternoon.

HMJr: How are you?

P: All right, thank you.

HMJr: Phillips, I just called up Jesse Jones.....

P: Yes.

HMJr:to remind him of a letter I wrote him
on March 20.....

P: Yes.

HMJr:about buying up English plants in this
country.

P: Yes.

HMJr: And to my amazement he said he got the im-
pression that the English were not interested
particularly.

P: Oh, we're interested. Certainly.

HMJr: Well, I said there must be some misunderstanding.

P: Surely.

HMJr: So I wondered if there could be some way that
you could convey to him that you are interested.

P: Yes. I'll call on him.

HMJr: Because I've been pressing him, and now he says
he's under the impression that you're not
interested.

- 2 -

P: Oh, no, he's quite wrong there.

HMJr: Well, do you think you could clear that up?

P: Certainly. I'll take an early opportunity of calling on him - tomorrow if I can.

HMJr: Thank you. And I'm following up on Mr. Stimson also.

P: I see.

HMJr: Yes.

P: Thank you very much.

HMJr: Right.

P: Good-bye.

April 1, 1942
5:05 p.m.

HMJr: Hello. Hello.

Operator: They said they were putting him on.

HMJr: Hello.

Secretary
Stimson: Hello.

HMJr: Hello.

S: Yes.

HMJr: Is this Stimson?

S: Yes.

HMJr: The name is Henry Morgenthau.

S: Yes, Henry.

HMJr: How are you?

S: First rate.

HMJr: Around March 20 I wrote you a letter in regard to some hundred million dollars worth of planes that you took from the English which they had bought and paid for in this country with their own money. I don't think I've heard from you.

S: (Laughs) Well, right.

HMJr: I'd love to clean it up.

S: Yes. The incident.....

HMJr: What's that?

S: If I had the papers, I've forgotten the incident.

HMJr: Could you give it to somebody, because it really.....

S: Yes. Identify it - March 20.

HMJr: It's March 20. As I get it, I think there's

- 2 -

some hundred million dollars worth of planes that we took which they bought and paid for in this country.

S: A hundred million dollars.

HMJr: Yes. And I really think we should reimburse them unless there's some reason that I don't know about.

S: A hundred million dollars of planes - we took over the planes.

HMJr: That's right. I don't know whether you sent them to Russia or what you did with them; but anyway, they bought and paid for them with their own money.

S: Yes. I'm writing it down.

HMJr: It's been a matter of some time, and I'm quite sure it was on the 20th of March that I wrote you.

S: Yes.

HMJr: Would it help any if I sent you another copy of the letter?

S: Well, it's probably in the more of McCloy.

HMJr: Well, if you could just.....

S: But it may have slipped some other way.

HMJr: Yes.

S: I don't remember it now.

HMJr: No. I've mentioned it to McCloy before, but I haven't got anywhere.

S: Well, I think on - let's see - I was wondering whether that was while I was away.

HMJr: No, I - it was - as far as I remember it, it was the 20th of March.

- 3 -

S: Yes. I don't remember the days that I was away now.

HMJr: Oh.

S: But it was about - yes, it.....

HMJr: Yeah. We sent it over to you, and I called your secretary and said it was coming to make sure that you'd get it.

S: Yes. All right.

HMJr: It's one of those things that I think they could say yes or no to.

S: Yes.

HMJr: And the British Treasury - we've got to keep up their morale. They're getting a little low on cash.

S: Yes, I see. I see. All right. Well, I'll look it right up and run it right down.

HMJr: I thank you.

S: Good-bye.

HMJr: Good-bye.

APR 1 1941 ✓

My dear Mr. Attorney General:

Reference is made to your letter of October 1, 1938 and to this Department's letter of October 5, 1938, relative to the employment of Henry L. Stimson as Special Assistant to the Attorney General in the Spanish silver cases.

Mr. Stimson rendered extensive services to the Government during the years 1938 and 1939 in such cases. It is respectfully requested that you issue the certificate referred to in R.S. 365, in order that Mr. Stimson may be paid for such services, as stated in our letter to you of October 5, 1938.

Very truly yours,

(Signed) H. Morgenthau, JR.

Secretary of the Treasury.

The Honorable

The Attorney General of the United States.

FRraft

12/30/41

By Messenger *Mans 9270* 4/2/42
 File to *Stompson*
 c - *N.M.C.*

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE **MAR 21 1942**

TO Secretary Morgenthau
FROM Mr. Foley

Re: Payment for services rendered and expenses incurred by Henry L. Stimson, the firm of Winthrop, Stimson, Putnam and Roberts, and the Federal Reserve Bank of New York in the Spanish silver cases.

You will recall that, in connection with the purchase by the United States of 35,000,000 ounces of silver from the Spanish Government, after several suits had been filed by the Banca de Espana contesting the title of the United States, the President approved the hiring of Henry L. Stimson as Special Counsel to the Government. It was also arranged to have the firm of Winthrop, Stimson, Putnam and Roberts participate in the conduct of the defense of this litigation and to advise with respect to such litigation and any other problems relating to the purchase of said silver.

The five suits instituted all went to trial and were finally disposed of in favor of the Government and the Federal Reserve Bank on appeal to the Circuit Court of Appeals for the Second Circuit. Both Mr. Stimson and the firm of Winthrop, Stimson, Putnam and Roberts rendered extensive legal services during the years 1938 and 1939 in connection with these cases.

- 2 -

The following comments are made with respect to the payments to be made for services rendered and expenses incurred in connection with the purchase of this silver:

(1) Mr. Stimson was appointed a Special Assistant to the Attorney General by Attorney General Cummings, with the understanding that the Treasury Department would compensate Mr. Stimson and that the Attorney General would issue a certificate with respect to Mr. Stimson's services, as required by statute. Now that the time has come to arrange for payment to Mr. Stimson, a letter has been prepared to the Attorney General requesting that he issue the required certificate, and stating that the Treasury Department will make payment to Mr. Stimson. This payment, as previously agreed to, will amount to \$10,000 per year for the years 1938 and 1939.

(2) The firm of Winthrop, Stimson, Putnam and Roberts has rendered a bill to the Federal Reserve Bank of New York as Fiscal Agent of the United States for services rendered and disbursements incurred in the amount of \$51,470.47, in connection with the above-mentioned litigation. This bill covers the services rendered by this firm in connection with the defense of these suits, including studying and advising with respect to contracts and other documents relating to the purchase of this silver; making suggestions and recommendations with respect thereto; engaging in numerous conferences; the examination and preparation of pleadings and other documents filed in these cases; the preparation and serving of various notices, demands, etc.; the preparation of evidence for submission to the court; arranging and entering into stipulations with attorneys for the plaintiff; the preparation of memoranda of law and briefs for use in these cases; and such other services as were involved in the preparation of these cases for trial and appeal. Nine attorneys in the firm were engaged in rendering these services.

(3) The Federal Reserve Bank of New York has also rendered a bill to the Treasury for expenses aggregating \$1,258.10 incurred by such bank in connection with the above-mentioned litigation.

- 3 -

It is proposed that the aforementioned sums of \$51,470.47 and \$1,258.10 be paid at this time to the firm of Winthrop, Stimson, Putnam and Roberts and to the Federal Reserve Bank of New York, respectively; and that, after the Attorney General has given his approval, payment of the \$20,000 will be made to Henry L. Stimson.

It is proposed that the proceeds of the Spanish silver now held in "Special Account, Symbol 17-750 - Secretary of the Treasury - Balance of Proceeds of Silver Purchased from the Spanish Government" will be used to effect these payments. In this connection, you will recall that in April 1941 you advised the Spanish Ambassador that the attorneys' fees and other expenses of the litigation involving such shipments of silver had not as yet been ascertained, but that he would be promptly advised in this respect as soon as the matter was determined.

I believe that the amount of the fees to be paid is appropriate and reasonable in view of the services which have been rendered and the importance of the case. You might particularly want to consider the amount of the fee due to Winthrop, Stimson, Putnam and Roberts. It is my view that the important function which this firm, together with Colonel Stimson, served in the whole case and the quality of the extensive services rendered by them in connection with the acquisition of and litigation

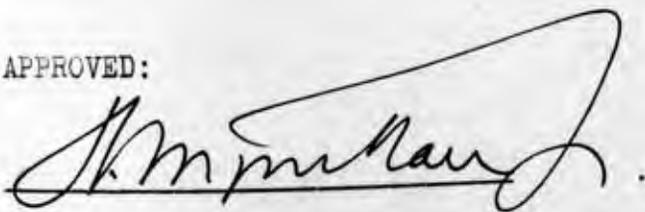
- 4 -

over the 35 million ounces of silver makes the amount of the firm's bill reasonable. In this connection, you may be interested in the fact that the Federal Reserve Bank of New York has advised us that in the British-American Tobacco case they paid Dean Acheson's firm about \$57,600 through the trial of this case and then paid \$8,500 to the firm for the appeal to the Court of Appeals and the denial of certiorari in the Supreme Court.

If you approve of the foregoing proposal, will you please indicate your approval below, and also sign the attached letter to the Attorney General, relating to the employment of Henry L. Stimson.

F. W. Foley

APPROVED:



Attachment

April 1, 1942

Col. Greenbaum phoned that Mr. Niemeyer, of Handy and Harmon, had telephoned him to say that they have read with interest the Secretary's statement in regard to silver. Mr. Niemeyer has considerable information which he thinks the Secretary might find helpful and either Mr. Niemeyer or others from Handy and Harmon would be glad to come down for a meeting if the Secretary should wish it.

n.m.c.

C
O
P
Y

April 1, 1942

My dear Mr. Attorney General:

The task of production brought on by the present war, together with the loss of certain foreign sources of supply, has created a serious shortage in many of the basic metals necessary for the successful accomplishment of the defense production program. Among the vital metals in which a shortage exists is copper. In order to alleviate that shortage to some extent, attempts are being made to use products, of which an ample supply exists, in substitution for copper wherever possible. To effectuate that purpose, the Congress has recently passed, and the President approved, the Second War Powers Act, 1942 (Public Law 507, 77th Cong.), which contains a provision in Title XII to permit substitution of silver for all of the nickel and part of the copper used in coining the five-cent piece.

It is now suggested that the available silver stocks of the Government be used in industrial defense plants, both Government and privately owned, in substitution for copper. It is not intended that the silver will become a part of the products or be used up, but rather will

- 2 -

become a part of the plant equipment in such a way as to permit substantially all of it to be returned to the Government at the termination of the war or before at the Government's request. The silver will not be sold, and safeguards will be adopted to insure the return of the silver at the termination of the war or at the Government's request and properly to indemnify the Government if any silver is lost from wear and tear or for other reason.

In view of section 5 of the Silver Purchase Act of 1934, 48 Stat. 1178 (U.S.C., 1940 ed., title 31, sec. 405a), only "free silver" is intended to be used to carry out the program. The term "free silver" includes only uncoined silver in the Treasury which is not then held for redemption of any outstanding silver certificates. However, the supply of "free silver" available, if employed as suggested, is adequate to release large quantities of copper for other defense needs if it is possible, under present laws, to carry out the proposed plan.

In order that the Department may know whether the "free silver" in its possession can be so employed, your opinion is requested on the question whether there is authority in the President to permit the use of the "free silver" in industrial plants, both Government

- 3 -

and privately owned, in substitution for copper.

There is enclosed a copy of the opinion of the General Counsel for the Department of the Treasury on the question.

Very truly yours,

(sgd.) Henry Morgenthau, Jr.

Secretary of the Treasury.

The Honorable

The Attorney General of the United States

RB:ST-ss 3/31/42

(init) copy sent
to Mr. Fiedler's
office

TREASURY DEPARTMENT

89

INTER OFFICE COMMUNICATION

DATE April 1, 1942

TO Secretary Morgenthau
FROM Mr. Thompson

On checking with Commissioner Sayre as to our six men in the Philippines, he advises that one of them, Mr. Saxon, went with him to Corregidor and has since left there for the States or soon will do so. The other five men are left in Manila and constitute a part of Mr. Sayre's diplomatic staff. With such status they are accorded certain privileges and immunities. Mr. Sayre indicated that although he felt it extremely dangerous to attempt to contact any of the members of his staff, including our men, since he went to Corregidor, nevertheless he has heard through indirect channels since that time that these people were all safe and living together and had ample food supplies.

Mr. Sayre plans to take up with the State Department the question of arranging for the return of all of the members of his staff, including our men, in exchange for Japanese located here. As you know, we have had up with the State Department the question of some such arrangement and the Secretary of State advised that everything possible would be done in this direction. However, with Mr. Sayre getting back of the plan perhaps it will move along more definitely.

I have in mind writing the families of our six men in the Philippines, telling them of the latest information as a word of encouragement.

Thompson

good
AM

Kamark
7-96

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 1, 1942

TO Secretary Morgenthau

FROM Mr. Kamark

Subject: Shipment of Planes and Tanks to our Allies

The attached tables might be of interest. According to these figures:

(a) Our exports of planes and tanks to Russia are far below what the Russians asked for, according to my remembrance of your conference with Wayne Coy last August.

(b) Our shipments to Russia to March 20, totalling 675 planes and about 600 tanks, can have had no appreciable effect on the war, so far. Our shipments have replaced only around 10 percent of the losses suffered in the first five months of the war, i.e., have replaced the losses of about two weeks of fighting. (The Russians admitted the loss of 6,400 planes and 7,900 tanks to November 22, 1941.)

(c) British forces are receiving in 1942 twice as many planes as the Russians are. While our figures on tanks are incomplete, the available figures appear to indicate that the Russians are probably receiving more tanks in 1942 than the British.

- 2 -

Table A

Shipments of U.S. Combat Planes

<u>Destination</u>	<u>1941</u>	<u>1942*</u>	<u>Total 1941 and 1942</u>
British Forces	3,493	1,031	4,524
Russian Forces	210	465	675
Chinese Forces	100	167	267

* Through March 24 for British, March 20 for Russian and Chinese.

Table B

Shipments of U.S. Tanks

<u>Destination</u>	<u>1941</u>	<u>Jan. 1 to March 20, 1942</u>	<u>Total 1941 and 1942</u>
Egypt	Est. 700 - 800	Est. 300	Est. 1,000-1,100
Russia	Est. 120	Est. 485	Est. 605
China	0	0	0

(Only the value figures for 1941 shipments were available, so quantity estimates were made from these. February, 1942 figures were not available for Egypt; exports in January totalled 196 tanks; March 1 - 20, 17 tanks.)

THE WHITE HOUSE
WASHINGTON

April 1, 1942

MEMORANDUM FOR THE
SECRETARY OF THE TREASURY:

FOR YOUR INFORMATION.

HARRY L. HOPKINS

COPY

10, Downing Street,
Whitehall

25th February, 1942

PRIVATE AND PERSONAL

Dear Harry,

I took up at once on our return here the point you raised about a posthumous Honour for A. B. Purvis. It has been considered very sympathetically by those concerned here but I am afraid the conclusion is that nothing can be done now.

Best wishes,

/s/ JOHN M. MARTIN

Mr. Harry Hopkins.

COPY

10, Downing Street,
Whitehall

25th February, 1942

PRIVATE AND PERSONAL

Dear Harry,

I took up at once on our return here the point you raised about a posthumous Honour for A. B. Purvis. It has been considered very sympathetically by those concerned here but I am afraid the conclusion is that nothing can be done now.

Best wishes,

/s/ JOHN M. MARTIN

Mr. Harry Hopkins.

CONFIDENTIAL

UNITED STATES SAVINGS BONDS

Sales Since May 1, 1941, by Months
On Basis of Issue Price
(In thousands of dollars)

Month	Series E			Series F	Series G	Total
	Post Offices	Banks	Total			
<u>1941</u>						
May	\$ 42,836	\$ 57,745	\$ 100,581	\$ 37,817	\$ 211,420	\$ 349,818
June	40,788	61,729	102,517	28,876	183,134	314,527
July	50,558	94,717	145,274	27,359	169,498	342,132
August	40,725	76,878	117,603	20,318	127,685	265,606
September	38,117	67,123	105,241	18,099	108,987	232,327
October	41,634	81,250	122,884	22,963	124,866	270,713
November	37,997	71,478	109,475	18,978	105,035	233,487
December	103,154	237,930	341,085	33,272	154,242	528,599
<u>1942</u>						
January	158,469	508,942	667,411	77,559	315,576	1,060,546
February	86,938	311,051	397,989	51,820	253,391	703,200
March	<u>86,278</u>	<u>251,321</u>	<u>337,599</u>	<u>41,070</u>	<u>179,223</u>	<u>557,892</u>
Total	<u>\$ 727,497</u>	<u>\$1,820,163</u>	<u>\$2,547,660</u>	<u>\$ 378,131</u>	<u>\$1,933,058</u>	<u>\$4,858,848</u>

April 1, 1942.

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

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

Comparative Statement of Sales During
First Business Day of April, March and February 1942
(April 1, March 2, February 2)
On Basis of Issue Price

(Amounts in thousands of dollars)

Item	Sales			Amount of Increase or Decrease (-)		Percentage of Increase or Decrease (-)	
	April	March	February	April over March	March over February	April over March	March over February
Series E - Post Offices	\$ 2,476	\$ 5,811	\$ 8,435	-\$ 3,335	-\$ 2,624	- 57.4%	- 31.1%
Series E - Banks	<u>10,517</u>	<u>15,868</u>	<u>34,150</u>	- <u>5,351</u>	- <u>18,282</u>	- <u>33.7</u>	- <u>53.5</u>
Series E - Total	12,993	21,678	42,585	- 8,685	- 20,907	- 40.1	- 49.1
Series F - Banks	2,380	2,043	6,191	337	- 4,148	16.5	- 67.0
Series G - Banks	<u>9,608</u>	<u>8,726</u>	<u>19,795</u>	<u>882</u>	- <u>11,069</u>	<u>10.1</u>	- <u>55.9</u>
Total	<u>\$ 24,980</u>	<u>\$ 32,447</u>	<u>\$ 68,571</u>	- <u>\$ 7,467</u>	- <u>\$36,124</u>	- <u>23.0%</u>	- <u>52.7%</u>

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

April 2, 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 - April, 1942
On Basis of Issue Price

(In thousands of dollars)

Date	Post Office Bond Sales Series E	Bank Bond Sales				All Bond Sales			
		Series E	Series F	Series G	Total	Series E	Series F	Series G	Total
April 1942 1	\$ 2,476	\$ 10,517	\$ 2,380	\$ 9,608	\$ 22,504	\$ 12,993	\$ 2,380	\$ 9,608	\$ 24,980

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

April 2, 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
March 23	312	300	26,728	-
24	129	300	26,899	750
25	186	300	27,013	-
26	211	300	27,102	-
27	181	300	27,221	-
28	132	none-closed	27,089	600
29	none-closed	none-closed	27,089	-
30	357	-	26,732	-
31	118	-	26,614	-

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

April 1, 1942

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

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

CONFIDENTIAL

Date	Post Office Bond Sales Series E	Bank Bond Sales				All Bond Sales			
		Series E	Series F	Series G	Total	Series E	Series F	Series G	Total
March 1942									
2	\$ 5,811	\$ 15,868	\$ 2,043	\$ 8,726	\$ 26,636	\$ 21,678	\$ 2,043	\$ 8,726	\$ 32,447
3	2,975	8,459	1,629	8,780	18,868	11,434	1,629	8,780	21,843
4	3,395	8,833	2,658	12,558	24,048	12,228	2,658	12,558	27,443
5	3,869	10,448	1,680	11,870	23,998	14,317	1,680	11,870	27,867
6	4,179	10,696	1,759	10,825	23,279	14,875	1,759	10,825	27,458
7	3,480	11,586	1,586	6,328	19,499	15,066	1,586	6,328	22,979
9	4,967	18,636	3,944	8,488	31,068	23,604	3,944	8,488	36,035
10	2,804	5,719	1,365	4,162	11,246	8,523	1,365	4,162	14,050
11	3,156	10,002	1,533	7,287	18,823	13,158	1,533	7,287	21,979
12	2,686	8,114	1,133	5,504	14,750	10,800	1,133	5,504	17,436
13	2,682	10,594	1,065	5,007	16,666	13,276	1,065	5,007	19,348
14	2,797	6,616	1,102	4,745	12,463	9,413	1,102	4,745	15,260
16	4,464	13,193	1,415	8,693	23,301	17,658	1,415	8,693	27,766
17	2,967	6,384	1,015	2,561	9,961	9,351	1,015	2,561	12,927
18	2,552	7,097	1,201	9,433	17,731	9,650	1,201	9,433	20,283
19	2,559	7,911	1,019	5,527	14,457	10,470	1,019	5,527	17,016
20	3,510	13,306	1,511	5,524	20,341	16,817	1,511	5,524	23,852
21	2,662	7,998	1,122	3,714	12,833	10,660	1,122	3,714	15,495
23	4,362	13,955	1,953	8,199	24,107	18,317	1,953	8,199	28,469
24	2,297	5,330	900	3,604	9,833	7,628	900	3,604	12,131
25	3,003	7,982	2,207	9,076	19,265	10,985	2,207	9,076	22,268
26	3,045	9,393	2,002	6,391	17,785	12,437	2,002	6,391	20,830
27	2,515	8,149	1,315	5,056	14,519	10,664	1,315	5,056	17,034
28	2,489	5,212	674	3,849	9,734	7,700	674	3,849	12,222
30	4,355	15,841	2,376	9,325	27,541	20,196	2,376	9,325	31,896
31	2,699	3,997	866	3,997	8,859	6,696	866	3,997	11,558
Total	\$ 86,278	\$251,321	\$ 41,070	\$179,223	\$471,614	\$337,599	\$ 41,070	\$179,223	\$557,892

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

April 1, 1942.

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

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

Regraded Unclassified

UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During
January, February, and March 1942

On Basis of Issue Price

(Amounts in thousands of dollars)

Item	Sales			Amount of Increase or Decrease (-)		Percentage of Increase or Decrease (-)	
	March	February	January	March over February	February over January	March over February	February over January
Series E - Post Offices	\$ 86,278	\$ 86,938	\$158,469	-\$ 660	-\$ 71,531	- 0.8%	- 45.1%
Series E - Banks	<u>251,321</u>	<u>311,051</u>	<u>508,942</u>	- <u>59,730</u>	- <u>197,891</u>	- <u>19.2</u>	- <u>38.9</u>
Series E - Total	337,599	397,989	667,411	- 60,390	- 269,422	- 15.2	- 40.4
Series F - Banks	41,070	51,820	77,559	- 10,750	- 25,739	- 20.7	- 33.2
Series G - Banks	<u>179,223</u>	<u>253,391</u>	<u>315,576</u>	- <u>74,168</u>	- <u>62,185</u>	- <u>29.3</u>	- <u>19.7</u>
Total	<u>\$557,892</u>	<u>\$703,200</u>	<u>\$1,060,546</u>	- <u>\$145,308</u>	- <u>\$357,346</u>	- <u>20.7%</u>	- <u>33.7%</u>

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

April 1, 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.

Number of agents in Other Corporations and Investment Industry
qualified to issue Series E Defense Savings Bonds, by
Federal Reserve 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
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	18	457
14	23	22	151	40	49	9	3	46	135	27	15	32	552
21	23	27	170	43	53	14	3	53	148	27	18	35	614
28	23	37	198	44	58	16	4	55	159	30	21	41	686
Mar. 7	25	50	234	46	59	17	4	56	174	31	25	42	763
14	27	54	261	46	62	19	5	61	184	31	28	43	826
21	27	64	282	51	62	22	6	64	192	40	30	45	885
28	27	66	300	52	63	24	7	67	204	41	34	46	931
Investment Industry													
Jan. 24	-	-	5	-	-	2	-	1	-	2	-	-	10
31	-	-	10	3	-	2	-	7	-	6	-	-	37
Feb. 7	-	-	13	6	-	2	-	9	-	7	1	8	48
14	-	-	15	6	3	2	-	10	-	7	3	8	54
21	-	-	17	7	3	2	-	14	-	7	3	8	61
28	-	1	17	7	3	2	-	14	-	8	3	8	63
Mar. 7	-	1	17	7	3	2	-	16	-	8	3	8	65
14	-	1	17	7	3	2	-	18	-	8	3	8	67
21	-	1	17	7	3	2	-	17	-	8	3	8	66
28	-	1	17	7	3	2	-	17	-	8	3	8	66

^{1/} Other Corporations authorized as of December 27, 1941, and Investment Industry as of January 17, 1942.

April 1, 1942

Dear Herbert:

Please talk to me about your letter of March 24 to Secretary Ickes and your letter of March 25 to Col. Donovan. I don't want to investigate any more people for any other Department.

H.M., Jr.

I talked to the Secretary
 about this at the 9:30 conference
 Monday, April 6. He said not to
 start any investigations outside (the
 other agencies) without his approval.
 I called his attention to the fact
 that, as to Donovan, all he asks
 is a check of our records on people
 we have employed in the past and
 that we have agreed to nothing in
 the Bureau of Mines, which has already
 asked FBI for help.

WEG

March 25, 1942.

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

My dear Colonel Donovan:

For Secretary Morgenthau I am acknowledging receipt of your letter of March 24, in which you state your desire to obtain data available in the files of the Treasury Department with respect to candidates for duty in certain special services of your Agency.

We shall be glad to supply you any data of this character which we may have available. Your office may communicate with me in person or by letter at any time and I shall undertake to see that appropriate investigations are made.

Very truly yours,

(Signed) Herbert E. Gaston

Herbert E. Gaston
Assistant Secretary of the Treasury.

File returned to Mrs. McHugh

UNITED STATES GOVERNMENT
COORDINATOR OF INFORMATION
WASHINGTON, D. C.



March 24, 1942

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

My dear Mr. Secretary:

In connection with the investigation of candidates for duty in certain special services of this Agency, we are most anxious to have access to such data as may be obtainable from the files of the five divisions of your Department in which, as I understand it, material of this nature is gathered. We are now receiving assistance, in this direction, from the Federal Bureau of Investigation and the Army and Navy.

It would greatly facilitate the investigation work in which we are engaged if the pertinent information from your records could be made available to us.

Respectfully,

A handwritten signature in cursive script, appearing to read "William J. Donovan".

William J. Donovan

March 27, 1942.

The Honorable

The Secretary of the Interior.

Dear Mr. Secretary:

For Secretary Morgenthau receipt is acknowledged of your letter of March 24, in which you inquire whether it would be possible for investigative agencies of the Treasury Department to render assistance in the administration of the Federal Explosives Act of December 26, 1941.

I have discussed this matter over the telephone with Dr. R. R. Sayers, Director of the Bureau of Mines, and have arranged with him that Mr. Daniel Harrington, Chief of the Health and Safety Branch of the Bureau of Mines, will get in touch with Mr. Elmer L. Irey, Coordinator of Treasury Law Enforcement Agencies, with the purpose of devising a plan of cooperation.

Please be assured that it is the desire of this Department to render any assistance that may be practicable.

Very truly yours,

(Signed) Herbert K. Gaston

Herbert K. Gaston
Assistant Secretary of the Treasury.

Copy to Mr. Irey, with copy of letter from Secretary Ickes.
" " Miss Chauncey with original incoming letter.



THE SECRETARY OF THE INTERIOR
WASHINGTON

MAR 24 1942

My dear Mr. Secretary:

This Department is charged with the administration of the Federal Explosives Act of December 26, 1941 (Public No. 381, 77th Cong.), which requires all persons, firms, and corporations manufacturing, using, possessing, or dealing in explosives or ingredients thereof to secure licenses. As a great many of the important industries of the country, including nearly all of those that are significant in the war effort, use explosives or ingredients to a greater or lesser extent, it has been and is necessary to issue licenses under the act as expeditiously as possible to avoid interfering with all this activity. Merely to provide for the issuance of licenses all over the United States has presented a difficult administrative problem, and this Department has been and is without adequate facilities for investigating each applicant.

Many licenses have been issued to date, and it is believed that many applications for licenses will yet be filed. The proper investigation of these licensees and applicants for licenses is now a matter of immediate concern. Would it be possible for you at this time to designate a representative of your Department who would assume the task of examining the list of persons, firms, and corporations to whom licenses have been issued, as well as those whose applications now are or may be pending, with a view to apprising this Department of such pertinent information and records as your Department may now have or secure bearing upon the loyalty and character of such licensees and applicants?

With respect to the future issuance of licenses, some channel of advice from your Department prior to the issuance of the license would be especially helpful. You will, of course, appreciate that because of urgent industrial needs in war and other industries it would not be desirable to require any serious delay, in ordinary cases, between the time of applying for a license and the time of granting such application. The needs of this situation might be met in several ways. In the first place, if it were possible for your investigative personnel to furnish this Department with lists of names, or other means of identification, of persons who should not receive

licenses, this would provide a useful safeguard, and this would be true even though such a list made no pretense of completeness. An alternative mode of assistance might be effectuated through the designation of regional investigative officers of your Department to whom spot inquiries could be directed in doubtful cases, for the purpose of securing immediate guidance for local licensing officers. These are merely two suggestions, and it may well be that other methods of collaboration will prove preferable to either, from the standpoint of your Department.

It is, of course, a matter of extreme urgency to all of us that every feasible precaution be taken against the acquisition of explosives by unpatriotic individuals and groups. Now that the basic machinery for the administration of the Federal Explosives Act has been established, it seems desirable to determine the exact scope within which other departments having greater facilities for the investigation of criminal and unpatriotic elements may assist in such administration, and I know that I shall be able to count on your cooperation in the attainment of this objective.

Sincerely yours,

Harold T. Pehos

Secretary of the Interior.

Hon. Henry Morgenthau, Jr.,

Secretary of the Treasury.

APR 1 1942 ✓

Dear Mr. Foley:

You are hereby designated to act as my deputy on the Liaison Committee on War Relocation of the War Relocation Authority, established by Executive Order No. 9103 of March 18, 1942, a copy of which appears in the attached copy of the Federal Register of March 20, 1942.

The President, by letter of March 18, 1942, appointed Mr. Milton S. Eisenhower as Director, War Relocation Authority.

Very truly yours,

(Signed) H. Hergott, Jr.

Secretary of the Treasury.

Honorable Edward H. Foley, Jr.,
General Counsel, Treasury Department.

HH:r

n.m.c.
Copy to Thompson

THE NATIONAL ARCHIVES
LETTER FROM MARSH
OF THE UNITED STATES
1934

FEDERAL REGISTER

VOLUME 1 NUMBER 53

Washington, Friday, March 20, 1942

The President.

EXECUTIVE ORDER 9102

ESTABLISHING THE WAR RELOCATION AUTHORITY IN THE EXECUTIVE OFFICE OF THE PRESIDENT AND DEFINING ITS POWERS AND DUTIES

By virtue of the authority vested in me by the Constitution and statutes of the United States, as President of the United States and Commander in Chief of the Army and Navy, and in order to provide for the removal from designated areas of persons whose removal is necessary in the interests of national security, it is ordered as follows:

1. There is established in the Office for Emergency Management of the Executive Office of the President the War Relocation Authority, at the head of which shall be a Director appointed by and responsible to the President.

2. The Director of the War Relocation Authority is authorized and directed to formulate and effectuate a program for the removal, from the areas designated from time to time by the Secretary of War or appropriate military commander under the authority of Executive Order No. 9066 of February 19, 1942, of the persons or classes of persons designated under such Executive Order, and for their relocation, maintenance, and supervision.

3. In effectuating such program the Director shall have authority to—

(a) Accomplish all necessary evacuations not undertaken by the Secretary of War or appropriate military commander, provide for the relocation of such persons in appropriate places, provide for their needs in such manner as may be appropriate and supervise their activities.

(b) Provide, insofar as feasible and desirable, for the employment of such persons as useful work in industry, commerce, agriculture, or public projects, prescribe the terms and conditions of such public employment, and safeguard

the public interest in the private employment of such persons.

(c) Secure the cooperation, assistance, or services of any governmental agency.

(d) Prescribe regulations necessary or desirable to promote effective execution of such program, and, as a means of coordinating evacuation and relocation activities, consult with the Secretary of War with respect to regulations issued and measures taken by him.

(e) Make such delegations of authority as he may deem necessary.

(f) Employ necessary personnel, and make such expenditures, including the making of loans and grants and the purchase of real property, as may be necessary, within the limits of such funds as may be made available to the Authority.

4. The Director shall consult with the United States Employment Service and other agencies on employment and other problems incident to activities under this order.

5. The Director shall cooperate with the Alien Property Custodian appointed pursuant to Executive Order No. 9095 of March 11, 1942, in formulating policies to govern the custody, management, and disposal by the Alien Property Custodian of property belonging to foreign nationals removed under this order or under Executive Order No. 9066 of February 19, 1942; and may assist all other persons removed under either of such Executive Orders in the management and disposal of their property.

6. Departments and agencies of the United States are directed to cooperate with and assist the Director in his activities hereunder. The Departments of War and Justice, under the direction of the Secretary of War and the Attorney General, respectively, shall insofar as consistent with the national interest provide such protective, police and investigational services as the Director shall find necessary in connection with activities under this order.

7. There is established within the War Relocation Authority the War Relocation Work Corps. The Director shall provide, by general regulations, for the

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THE PRESIDENT

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FEDERAL REGISTER

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enlistment in such Corps, for the duration of the present war, of persons removed under this order or under Executive Order No. 9066 of February 19, 1942, and shall prescribe the terms and conditions of the work to be performed by such Corps, and the compensation to be paid.

5. There is established within the War Relocation Authority a Liaison Committee on War Relocation, which shall consist of the Secretary of War, the Secretary of the Treasury, the Attorney General, the Secretary of Agriculture, the Secretary of Labor, the Federal Security Administrator, the Director of Civilian Defense, and the Alien Property Custodian, or their deputies, and such other persons or agencies as the Director may designate. The Liaison Committee shall meet at the call of the Director and shall assist him in his duties.

9. The Director shall keep the President informed with regard to the progress made in carrying out this order, and perform such related duties as the President may from time to time assign to him.

10. In order to avoid duplication of evacuation activities under this order and Executive Order No. 9066 of February 19, 1942, the Director shall not undertake any evacuation activities within military areas designated under said Executive Order No. 9066, without the prior approval of the Secretary of War or the appropriate military commander.

11. This order does not limit the authority granted in Executive Order No. 9972¹ of December 12, 1941; Executive Order No. 9066 of February 19, 1942; Executive Order No. 9095 of March 11, 1942; Executive Proclamation No. 2525² of December 7, 1941; Executive Proclamation No. 2526³ of December 8, 1941; Executive Proclamation No. 2527⁴ of December 8, 1941; Executive Proclamation No. 2593⁵ of December 29, 1941; or Executive Proclamation No. 2597⁶ of January 14, 1942; nor does it limit the functions of the Federal Bureau of Investigation.

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE,

March 18, 1942.

[F. R. Doc. 42-2379; Filed, March 19, 1942; 9:52 a. m.]

+6 F. R. 6230
+6 F. R. 6231
+8 F. R. 9529
+8 F. R. 6236
+7 F. R. 35
+7 F. R. 239.

EXECUTIVE ORDER 918

PROVIDING UNIFORM CONTROL OVER THE PUBLICATION AND USE OF FEDERAL STATISTICAL INFORMATION WHICH WOULD GIVE AID AND COMFORT TO THE ENEMY

By virtue of the authority vested in me by Title I of the First War Powers Act, 1941 (Public Law 354, 77th Congress, 1st Session) approved December 18, 1941, and in order to prevent the publication by Government agencies of statistical information which would lead aid or comfort to the enemy, and at the same time to make available to appropriate Federal officials such information as may be withheld from general publication during the war, it is hereby ordered as follows:

1. The Director of the Bureau of the Budget shall maintain a continuous surveillance of governmental publications of statistical data and shall determine in any instance whether the publication of statistical data by any Government agency would be in accordance with governmental policy designed to guard against the unauthorized disclosure of vital information as such policy is formulated by appropriate authority.

2. Statistical data ordinarily release to the public but withheld from general publication during the war shall be released to authorized users in Federal agencies in such manner and under such rules and regulations as the Director of the Bureau of the Budget may prescribe. This section shall not apply to statistical data classified by the Department of War or Navy or the War Production Board as "secret."

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE,

March 18, 1942.

[F. R. Doc. 42-2385; Filed, March 19, 1942; 11:20 a. m.]

EXECUTIVE ORDER 919

WITHDRAWING PUBLIC LANDS FOR USE OF THE WAR DEPARTMENT AS AN AERIAL GUNNERY RANGE

ARIZONA

By virtue of the authority vested in me by the act of July 9, 1918, c. 143, 40 Stat. 846, 848 (U.S.C., title 10, sec. 1341), it is ordered that, subject to valid existing rights and to power site classification No. 229, the public lands in the following-described areas be, and they are hereby withdrawn from all forms of appropriation under the public-land laws, including the mining laws, and reserved for the use of the War Department as an aerial gunnery range:

COCA AND BALT RIVER WASHOON

T. 6 S., R. 4 W.
sec. 15, lots 1, 4, 2 $\frac{1}{2}$ SW $\frac{1}{4}$;
sec. 19, lots 1, 2, 3, 4, 2 $\frac{1}{2}$ W $\frac{1}{2}$;
sec. 20, 10 $\frac{1}{2}$ L. N. S $\frac{1}{2}$ NW $\frac{1}{4}$;
T. 6 S., R. 4 W.
sec. 19;
sec. 14, 2 $\frac{1}{2}$ SW $\frac{1}{4}$, 2 $\frac{1}{2}$ NW $\frac{1}{4}$;
sec. 19;
sec. 19;
sec. 17;
sec. 18, lots 2, 4, 2 $\frac{1}{2}$ SW $\frac{1}{4}$, 2 $\frac{1}{2}$ NW $\frac{1}{4}$;
2 $\frac{1}{2}$ NW $\frac{1}{4}$, SW $\frac{1}{4}$ NW $\frac{1}{4}$;
secs. 12 to 20 and 25 to 36, 1942.

T. T. E. R. & W.
Secs. 1 to 19, incl.
T. T. E. R. & W.
Sec. 19, SW $\frac{1}{4}$ SE $\frac{1}{4}$, SW $\frac{1}{4}$ SE $\frac{1}{4}$, SE $\frac{1}{4}$ SW $\frac{1}{4}$;
Sec. 22, SW $\frac{1}{4}$ SE $\frac{1}{4}$, SW $\frac{1}{4}$ SE $\frac{1}{4}$, SE $\frac{1}{4}$ SW $\frac{1}{4}$;
Sec. 23, S $\frac{1}{2}$, SE $\frac{1}{4}$ NE $\frac{1}{4}$, SW $\frac{1}{4}$ NE $\frac{1}{4}$,
SE $\frac{1}{4}$ SW $\frac{1}{4}$;
Secs. 25 to 27 and 28 to 30, incl.;
T. T. E. R. & W.
Secs. 1 to 3 and 10 to 12, incl.;
T. T. E. R. & W.
Sec. 3, lot 4, SW $\frac{1}{4}$ SW $\frac{1}{4}$, W $\frac{1}{2}$ SW $\frac{1}{4}$;
Secs. 4 to 9, incl.;
Sec. 10, W $\frac{1}{2}$ SW $\frac{1}{4}$, SW $\frac{1}{4}$;
Secs. 13 to 21, incl.;
Sec. 22, W $\frac{1}{2}$;
Sec. 23, E $\frac{1}{2}$;
Sec. 24, W $\frac{1}{2}$ W $\frac{1}{2}$;
Sec. 25, W $\frac{1}{2}$ SW $\frac{1}{4}$;
Sec. 26 to 30, incl.

The areas described, including both public and nonpublic lands, aggregate 43,168.09 acres.

This order shall take precedence over, but shall not rescind or revoke the order of the Secretary of the Interior of July 14, 1936, establishing Grazing District No. 2, Arizona, so far as such order affects any of the above-described lands.

It is intended that the lands described herein shall be returned to the administration of the Department of the Interior when they are no longer needed for the purpose for which they are reserved.

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE,
March 18, 1942.

[F. R. Doc. 42-2394; Filed, March 19, 1942;
9:35 a. m.]

Rules, Regulations, Orders

TITLE 10—ARMY: WAR DEPARTMENT

Chapter VII—Personnel

PART 70—PRESCRIBED SERVICE UNIFORMS

§ 70.22 *Distinguished Service Medal.* The coat of arms of the United States in bronze surrounded by a circle of dark blue enamel $1\frac{1}{2}$ inches in diameter, bearing the inscription "For Distinguished Service—MCMXXVIII". On the reverse is a scroll for the name of the recipient (which is to be engraved) upon a trophy of flags and weapons. The medal is suspended by a bar from a watered-silk ribbon $1\frac{1}{2}$ inches in length and $1\frac{3}{8}$ inches in width, composed of a band of scarlet ($\frac{7}{16}$ inch), a stripe of dark blue ($\frac{1}{16}$ inch), a band of white ($\frac{1}{16}$ inch), a stripe of dark blue ($\frac{1}{16}$ inch), and a band of scarlet ($\frac{1}{16}$ inch). All medals to be serially numbered on the rim. (R. S. 1296; 10 U. S. C. 1201) (Par. 35, AR 600-35, Nov. 10, 1941, as amended by Cir. 75, W. D., March 12, 1942)

§ 70.60 *Helm.*

(b) *Warrant officers.* (1) A belt of Army russet leather $2\frac{1}{2}$ inches in width, fastened, with a brass center bar buckle, and provided with a russet leather keeper.

§§ 70.63 and 70.66 (b) are amended.

(2) The officers' belt, (404), same as in paragraph (a) (2) of this section. (R. S. 1296; 10 U. S. C. 1201) (Par. 36, AR 600-35, Nov. 10, 1941, as amended by Cir. 75, W. D., March 12, 1942)

(SERIAL)

J. A. ULIO,
Major General,
The Adjutant General.

[F. R. Doc. 42-2377; Filed, March 19, 1942;
9:59 a. m.]

TITLE 12—BANKS AND BANKING

Chapter II—Board of Governors of the Federal Reserve System

PART 201—DISCOUNTS FOR AND ADVANCES TO MEMBER BANKS BY FEDERAL RESERVE BANKS

Section 201.2 (b) is amended, effective March 20, 1942, to read as follows:

§ 201.2 *Advances to member banks.*

(b) *Advances on Government obligations.* Any Federal Reserve Bank may make advances, under authority of section 13 of the Federal Reserve Act, to any of its member banks for periods not exceeding ninety days' on the promissory note of such member bank secured by direct obligations of the United States, and for periods not exceeding fifteen days on the promissory note of such member bank secured (1) by the deposit or pledge of debentures or other such obligations of Federal Intermediate Credit Banks having maturities of not exceeding six months from the date of the advance, or (2) by the deposit or pledge of Federal Farm Mortgage Corporation bonds issued under the Federal Farm Mortgage Corporation Act and guaranteed both as to principal and interest by the United States, or (3) by the deposit or pledge of Home Owners' Loan Corporation bonds issued under the provisions of subsection (c) of section 4 of the Home Owners' Loan Act of 1933, as amended, and guaranteed both as to principal and interest by the United States. (Sec. 3, 48 Stat. 163, sec. 4, 40 Stat. 234, 42 Stat. 621, sec. 204, 49 Stat. 705, sec. 11 (1), 38 Stat. 262, sec. 402, 42 Stat. 1478, 1479, 45 Stat. 975, 46 Stat. 162, sec. 403, 42 Stat. 1479, sec. 9, 43 Stat. 180, sec. 16 (a), 48 Stat. 348, sec. 7 (a), 40 Stat. 946, 39 Stat. 753, sec. 5, 40 Stat. 235, 39 Stat. 754, sec. 404, 42 Stat. 1478, sec. 5, 47 Stat. 160, sec. 10, 40 Stat. 239, sec. 605 (b), 48 Stat. 1263; 12 U. S. C. 301, 330, 12 U. S. C.

The eighth paragraph of section 13 of the Federal Reserve Act authorizes advances to member banks for periods not exceeding fifteen days secured by bonds, notes, certificates of indebtedness, or Treasury bills of the United States. However, the last paragraph of section 13 authorizes any Federal Reserve Bank to make advances for periods not exceeding ninety days "to any individual, partnership or corporation" on the promissory notes of such individual, partnership or corporation secured by "direct obligations of the United States"; and the term "corporation" includes an incorporated bank.

Sup. 347b, 12 U. S. C. 348 (1), 342, 347, 361, 372, 373, 346-349, 361, 352, 374, 371)

Board of Governors of the Federal Reserve System.

(SERIAL) S. R. CARPENTER,
Assistant Secretary.

[F. R. Doc. 42-2328; Filed, March 19, 1942;
9:37 a. m.]

TITLE 15—COMMODITY AND SECURITIES EXCHANGES

Chapter II—Securities and Exchange Commission

**PART 239—FORMS, SECURITIES ACT OF 1933
AMENDMENT TO THE INSTRUCTION BOOK FOR FORM A-2**

The Securities and Exchange Commission, acting pursuant to authority conferred upon it by the Securities Act of 1933, particularly sections 7, 10 and 19 (a) thereof, and deeming such action necessary and appropriate in the public interest and for the protection of investors and necessary to carry out the functions vested in it by said Act, hereby amends the Instructions as to Prospectuses for Employees' Savings, Profit Sharing or Pension Plans in the Instruction Book for Form A-2 to read as follows:

III. INSTRUCTIONS AS TO PROSPECTUSES FOR EMPLOYEES' SAVINGS, PROFIT SHARING OR PENSION PLANS

1. These instructions shall apply to prospectuses for shares of stock of an issuer in which funds of a savings, profit sharing, or pension plan for employees of the issuer are to be invested. If the prospectuses prepared in accordance herewith are sent or given only to employees of the issuer who have previously received a prospectus for registered interests or participations in the plan and for registered shares of stock of the issuer, and who have become members of the plan prior to receipt of a prospectus prepared in accordance herewith.

2. Any prospectus which is used as specified in instruction 1 above need contain only the following information:

(a) Such information (other than financial statements) in regard to the plan and the administration thereof and in regard to the issuer of the underlying stock and its subsidiaries as may be necessary to bring up to date the corresponding information furnished to members of the plan in previous prospectuses.

(b) Financial statements of the plan, corresponding to those included in previous prospectuses, for each fiscal year after the last fiscal year for which financial statements of the plan were furnished to members of the plan in previous prospectuses.

(c) Financial statements of the issuer of the underlying stock and its subsidiaries, corresponding to those included in previous prospectuses, for each fiscal year after the last fiscal year for which financial statements of the issuer and its subsidiaries were furnished to members of the plan in previous prospectuses.

3. The financial statements specified in instruction 2 above may be omitted from any prospectus used as specified in instruction 1 above.

(a) The fiscal year of the issuer of the underlying stock has ended within 90 days

and no person shall agree, offer, attempt to sell or deliver motor fuel at service stations in the curtailment area at prices higher than the maximum prices.

§ 1240.171. In 1942, inclusive, annual payment to P. L. Law 801, Title C, as amended.

§ 1240.172. Less than maximum prices. Lower prices than those set forth in Paragraph A of § 1240.161 may be charged, demanded, paid or offered.

§ 1240.173. Conditional agreements. No order of motor fuel at service stations in the curtailment area shall enter into an agreement permitting the adjustment of the price to prices which may be higher than the maximum prices provided by § 1240.161, in the event that this Temporary Maximum Price Regulation No. 11 is amended or is determined by a court to be invalid or upon any other contingency. Provided, That if a petition for amendment under § 1240.172 has been only filed, and such petition requires extensive investigation, and the Administrator determines that an objection would be in the public interest pending such consideration, the Administrator may grant an exception from the provisions of this section permitting the making of contracts adjustable upon the granting of the petition for amendment.

§ 1240.174. Exemption. The price maximum set forth in this Temporary Maximum Price Regulation No. 11 shall not be enforceable where it is used in indirect methods in connection with an offer, solicitation, agreement, sale, delivery, purchase or receipt of or trading in motor fuel sold at service stations in the curtailment area, alone or in conjunction with any other commodity or by way of commission, service, transportation, or other charges, or discount, premium or other privilege, or by transportation or other trade understanding, or otherwise.

§ 1240.175. Posting of prices. Every person selling motor fuel at a service station in the curtailment area in the course of trade or business, or otherwise dealing therein, shall post conspicuously the maximum prices established by Temporary Maximum Price Regulation No. 11 for each grade of motor fuel sold at that service station. Such maximum price postings shall be marked "Maximum Prices" in letters at least five inches in height, and shall indicate the maximum price for each grade of motor fuel in figures no smaller than those in which the selling price at the pump is posted.

§ 1240.176. Records and reports. Every person making sales of motor fuel after March 22, 1942, at a service station in the curtailment area in the course of trade or business, or otherwise dealing therein, shall keep such records for inspection and submit such reports to the Office of Price Administration as it may from time to time require.

§ 1240.177. Enforcement. (a) Except violations any provision of this Temporary Maximum Price Regulation No. 11 are subject to the criminal penalties and civil enforcement actions provided for by the Emergency Price Control Act of 1942.

(b) Persons who have evidence of any violation of this Temporary Maximum

Price Regulation No. 11 or any price schedule, regulation or order issued by the Office of Price Administration or of any acts or practices which constitute such a violation are liable to communication with the nearest field or regional office of the Office of Price Administration or its principal office in Washington, D. C.

§ 1240.178. Petitions for amendment. Persons seeking any modification of this Temporary Maximum Price Regulation No. 11 or of an adjustment or exemption not provided for therein may file petitions for amendment in accordance with the provisions of Procedural Regulation No. 1, issued by the Office of Price Administration.

§ 1240.179. Replacement by regulation. This Temporary Maximum Price Regulation No. 11 may be replaced by a permanent maximum price regulation or order issued under the Emergency Price Control Act of 1942, which upon issuance shall have the effect of repealing this Temporary Maximum Price Regulation No. 11.

§ 1240.180. Definitions. (a) Who is used in this Temporary Maximum Price Regulation No. 11, the term:

(1) "Person" includes an individual, corporation, partnership, association, or any other organized group of persons, or any legal successor or representative of any of the foregoing, and includes the United States or any agency thereof, or any other government or any of its political subdivisions or any agency of any of the foregoing.

(2) "Motor fuel" means liquid fuel, except diesel fuel, used for the propulsion of motor vehicles or motor boats and shall include any liquid fuel to which Federal gasoline taxes apply except the fuel used solely for the propulsion of aircraft.

(3) "Service station" means any place of business or part thereof, where motor fuel is delivered into the fuel supply tanks of motor vehicles or motor boats.

(4) "Curtailment area" means the States of Oregon, Washington, Connecticut, Delaware, Florida east of the Apalachicola River, Georgia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, North Carolina, Pennsylvania, Rhode Island, South Carolina, Vermont, Virginia, West Virginia, and the District of Columbia.

(5) Unless the context otherwise requires, the definitions set forth in section 203 of the Emergency Price Control Act of 1942 shall apply to other terms used herein.

§ 1240.181. Appendix A. Maximum prices for motor fuel sold at service stations in the curtailment area. (a) The maximum price for each grade of motor fuel at each service station in the curtailment area shall be no higher than the price posted at such service station for each grade of motor fuel at the close of business or at eleven o'clock on still 30 March 13, 1942.

(b) Where the maximum price for any grade of motor fuel at a service station in the curtailment area cannot be determined under (a) above, the maximum price shall not be in excess of the price

charged on the last sale of such grade of motor fuel prior to March 14, 1942 at the same service station, provided such sale was made after January 13, 1942.

(c) Where the maximum price for any grade of motor fuel at a service station in the curtailment area cannot be determined under (a) or (b) above, such person may establish a temporary maximum price, which must be equal to or lower than the maximum price for that grade of motor fuel for other service stations in the locality, if any, which shall be submitted to the Office of Price Administration within ten days after the establishment of such price for approval or disapproval.

§ 1240.182. Effective period. Temporary Maximum Price Regulation No. 11 (1) 1240.171 to 1240.182, inclusive, shall become effective March 23, 1942, and shall, unless earlier revoked or replaced, expire at twelve o'clock on still 30 May 31, 1942.

Issued this 18th day of March 1942.
JOSEF S. HANCOCK
Acting Administrator.

(P. L. Dec. 80-284; Final, issued at 2:07 p. m.)

PART 1261—STEAM AND FUEL OILS
ORDER NO. 1 (REVISED) PRICE SCHEDULE NO. 82—724

The reasons set forth in an opinion issued simultaneously herewith and file with the Division of the Federal Reserve and under the authority vested in the Price Administrator by the Emergency Price Control Act of 1942, it is hereby ordered:

§ 1261.101. Order No. 1 under House Price Schedule No. 82, 724. (a) Steam, Smith Company, Warren and Washburn Streets, New York and Elmer Fuel Products Corp., 22 Hudson Street, New York may sell and deliver, and may offer, solicit and attempt to sell and deliver, the items, grades and quantities of the set forth in paragraph (b), at prices not in excess of those stated therein, and the persons named herein as the buyers may buy and receive, all agree, offer, solicit and attempt to sell and receive, such such quantities and quantities of the set of such price from Elmer Fuel Products Corp., respectively.

(b) The prices listed below shall be the maximum prices at which each of the sellers listed may deliver the kind, grade and quality of the same:

(1) The following prices apply to the steam, Smith Company.

Table with 2 columns: Name, Price per 100 lbs. (Net)

17 P. M. 1942

On the following forms apply to Elmer Fuel Products Corp.:

Table with 3 columns: Form No., Name, Location

(c) Unless the context otherwise requires, the definitions set forth in § 203.1261 of Revised Price Schedule No. 82 shall apply to terms used herein. (Pub. Law, 41, 77th Cong., 93 Stat.)

This Order No. 1 shall become effective March 20, 1942. Issued this 18th day of March, 1942.

JOSEF S. HANCOCK
Acting Administrator.

(P. L. Dec. 80-287; Final, issued at 2:02 a. m.)

Chapter XVI—Office of Consular Registration (Regulation No. 1)

PART 1604—FOUR-COUNTRY REGULATIONS

MARKING OF PUBLICATIONS CONTAINING SCIENTIFIC, TECHNICAL OR PROFESSIONAL DATA

Sec. 1604.1. License necessary for export.

1604.2. Application for license.

1604.3. Questionnaire and affidavit.

1604.4. Review of publication material.

1604.5. Issuance of license.

1604.6. Exemption of material.

1604.7. Correspondence.

1604.8. With and under application.

§ 1604.1. License necessary for export.

1604.2. Application for license.

1604.3. Questionnaire and affidavit.

1604.4. Review of publication material.

1604.5. Issuance of license.

1604.6. Exemption of material.

1604.7. Correspondence.

1604.8. With and under application.

§ 1604.2. Questionnaire and affidavit. With the initial application for a license a questionnaire and affidavit shall be filed on forms provided by and available at the Technical Data License Division. This questionnaire will show concise information concerning the publisher, including the nationality of all officials and a list of all enemy alien employees. At the time the initial application is made, such publisher will be required to assignees from one to three employees to be charged with securing the wrapping of the publication. Accompanying the questionnaire will be an affidavit of each such employee showing that he is an American citizen or, if not a citizen, that he has been approved by the Chief Postal Inspector, length of time employed by the applicant, and that the employee has never been, and is not now, connected with any organization advocating the overthrow of the United States Government by force or violence, and that such employee is loyal and trustworthy. This affidavit must be signed by a responsible officer of the applicant.

§ 1604.3. Review of publication material. Upon receipt of such application for a license, the Technical Data License Division, Office of Export Control, Board of Economic Warfare, will review the copies of the publication submitted for objectionable subject matter from the viewpoint of Consular, Demographic and Statistics, and National Security. Every effort will be made to notify applicants of approval or other decision within forty-eight hours of receipt of the material. If certain portions are not approved for export, such portions will be suitably marked and the material returned to the applicant. The material may then be resubmitted on the same application form for further examination after deletion of the marked portions. Upon final approval of the material, the Technical Data License Division will recommend to the Office of Consular Registration that a license be granted. Ordinarily, such license will issue immediately thereafter.

§ 1604.4. Issuance of license. A license from the Office of Consular Registration, when granted, will authorize the publisher to export the designated number of copies of the particular issue of the publication to the foreign countries specified therein. The license will not be transferable, and will be subject to revocation without notice. The possession of the license will not relieve the holder of the necessity of obtaining any other permit or license that may be required by any other Governmental agency. The license will be granted on the express condition that

§ 1604.5. Exemption of material. A license from the Office of Consular Registration, when granted, will authorize the publisher to export the designated number of copies of the particular issue of the publication to the foreign countries specified therein. The license will not be transferable, and will be subject to revocation without notice. The possession of the license will not relieve the holder of the necessity of obtaining any other permit or license that may be required by any other Governmental agency. The license will be granted on the express condition that

§ 1604.6. Exemption of material. A license from the Office of Consular Registration, when granted, will authorize the publisher to export the designated number of copies of the particular issue of the publication to the foreign countries specified therein. The license will not be transferable, and will be subject to revocation without notice. The possession of the license will not relieve the holder of the necessity of obtaining any other permit or license that may be required by any other Governmental agency. The license will be granted on the express condition that

§ 1604.7. Correspondence. With each application there shall be submitted two copies of the publication in galley proof or other copy.

DEPARTMENT OF LABOR.

Division of Public Contracts.

IN THE MATTER OF THE DETERMINATION OF THE PREVAILING MINIMUM WAGES IN THE CASE BEARING NUMBER 400 BEET SUGAR MANUFACTURING DISTRICTS.

NOTICE OF HEARING.

All interested parties are hereby notified that a hearing will be held before the Public Contracts Board in Room 5229, Department of Labor Building, Washington, D. C., commencing at 10 a. m., on Tuesday, April 7, 1942, to take testimony and receive evidence upon which findings of fact and recommendations shall be made by the Board to assist the Secretary of Labor in determining the prevailing minimum wages in the Beet Sugar Refining and Beet Sugar Manufacturing Industries pursuant to the provisions of section 1 (a) of the Act of June 30, 1938 (52 Stat. 2036; 41 U. S. C. Supp. III 35), otherwise known as the Walsh-Healey Public Contracts Act.

The Beet Sugar Refining and Beet Sugar Manufacturing Industries have been defined as follows:

1. "The Beet Sugar Refining Industry is that industry which is engaged in the refining of raw beet sugar."

2. "The Beet Sugar Manufacturing Industry is that industry which is engaged in the manufacture of sugar from sugar beets."

A tabulation of wage information currently furnished by members of the Beet Sugar Refining Industry, of the members of a committee made up of management and labor representatives, and published by the Research Section of the Division of Public Contracts, Department of Labor, will be submitted in evidence at the hearing. Similar data were obtained from members of the Beet Sugar Manufacturing Industry through the cooperation of the United States Beet Sugar Association and the Farmers and Manufacturers Beet Sugar Association. Copies of these wage tabulations may be had on application to the Administrator, Division of Public Contracts, Washington, D. C. Any additional data indicating wage changes that may have occurred since the period covered by the tabulated schedule (October 1941) will also be received, as well as evidence for the purpose of determining what provision, if any, should be made in the prevailing minimum wage determination for the employment of apprentices and learners.

At the hearing an opportunity to be heard, either in person or by duly appointed representatives, will be given to persons named in the above named schedule, either as employers or as employees, to groups of such persons, and to others within the discretion of the Board. Briefs or telegraphic communications may be filed with the Administrator, Division of Public Contracts, Department of Labor, and they should be received on or before the hearing date. No fee for the brief is prescribed but an original and four copies must be submitted.

The entire record will be considered by the Secretary of Labor before the final determination is made.

Dated: March 19, 1942.

Wm. E. McCann,
Assistant Administrator.

(U. S. Doc. 40-2082, Filed March 19, 1942; 12-42 a. m.)

FEDERAL POWER COMMISSION.

(Order No. 6-229)

IN THE MATTER OF SOUTHERN PIPE LINE COMPANY (DELAWARE).

ORDER POSTPONING HEARING.

March 17, 1942.

Upon motion filed March 17, 1942, by applicant, Border Pipe Line Company (Delaware), for continuance of the hearing set in the above-captioned matter, it appears to the Commission that: Good cause has been shown for the postponement of the date of hearing heretofore.

The Commission orders that the hearing in the above-captioned matter be postponed to March 26, 1942, be and it is hereby postponed to April 6, 1942, at the same time and place as heretofore set.

By the Commission:

(SEAL) LAMM M. FORD,
Secretary.

(U. S. Doc. 42-2682, Filed March 18, 1942; 9:39 a. m.)

SECURITIES AND EXCHANGE COMMISSION.

(File No. 70-111)

IN THE MATTER OF PANHANDLE EASTERN PIPE LINE COMPANY.

NOTICE HOLDING FILING.

At a regular session of the Securities and Exchange Commission, held at its office in the City of Philadelphia, Pennsylvania, on the 17th day of March 1942.

Notice is hereby given that a declaration of application (or both) has been filed with this Commission pursuant to the Public Utility Holding Company Act of 1935 by Panhandle Eastern Pipe Line Company, a subsidiary of Columbia Oil & Gasoline Corporation, in turn a subsidiary of Columbia Gas & Electric Corporation, a registered holding company and, in turn, a subsidiary of The United Corporation, also a registered holding company; and

Notice is further given that any interested persons may, not later than March 26, 1942, at 3:30 P. M., E. W. T., request the Commission in writing that a hearing be held on such matter, stating the reasons for such request and the nature of his interest, or may request that he be notified if the Commission should order a hearing thereon. At any time thereafter, such declaration or application, as filed or as amended, may become effective or may be granted,

as provided in Rule D-26 of the Rules and Regulations promulgated pursuant to said Act, or the Commission may execute such transaction, as provided in Rule D-26 (a) and D-106 (b) (1) (i) of said Act, as amended.

All interested persons are hereby notified that a declaration or application, such as a statement of the transaction therein proposed, which may be summarized as follows:

Declarant proposes to acquire on or about April 1, 1942, in exchange for redeemable shares of the 5.00% Cumulative Preferred Stock in amount equal to the cash proceeds contained in the trust, cash relating to said Preferred Stock, whereunder \$109,000 is to be deposited on April 1, 1942 in a segregated account and a sum sufficient to redeem not more than 2½% of the largest par amount at any time outstanding (presently \$22,000) of April 1, 1942.

The declarant may anticipate, at any time or from time to time, all or any part of the sinking fund payments due annually on April 1 (a) by delivering to the sinking fund shares of the said Preferred Stock which have been purchased or otherwise acquired, or (b) by redeeming shares of said Preferred stock at \$100 per share, plus accrued dividends, the number of shares of said Preferred Stock acquired in anticipation of sinking fund payments to be limited to the amount necessary to satisfy the next sinking fund payment.

Any acquisition to be in compliance with the restrictions contained in declarant's Mortgage and Debt of Trust dated November 1, 1940, as amended on February 1, 1942, restrictions, among other things, the acquisition and payment of any stock to the amount of surplus earned since January 1, 1940, plus \$1,500,000. As provided in the Certificate relating to said Preferred Stock, no acquisition will be made with 100% in default in dividends except with the consent of the holders of the preferred of said Preferred Stock. According to the declaration, no acquisition will be made from affiliates or associate companies except when shares of said Preferred Stock are called for for redemption; no acquisition of said Preferred Stock will be made from any Principal Officer, officer, or any other person during the period of distribution thereof; and all purchases are to be made at the best price obtainable but not to exceed the sinking fund redemption price (\$105.00 per share), and all purchases in the open market are to be made only through or from licensed brokers and dealers.

To the extent that shares of said Preferred Stock acquired will be insufficient to meet the requirements of said sinking fund, then the money contained in said sinking fund will be applied to the redemption of shares of said Preferred Stock, to be selected by the sinking fund redemption price (\$105.00 per share) as provided in the

DECLARATION CONTAINED IN SAID PREFERRED STOCK.

Articles 11 of the Act and Rule D-43 promulgated hereunder are designated as being applicable to the proposed transaction.

By the Commission:

(SEAL) FRANCIS P. BRANSON,
Secretary.

(U. S. Doc. 42-2681, Filed March 19, 1942; 9:38 a. m.)

(File No. 67-20)

IN THE MATTER OF ATLANTIC UTILITY SERVICE CORPORATION.

ORDER POSTPONING DATE OF HEARING.

At a regular session of the Securities and Exchange Commission held at its office in the City of Philadelphia, Pa., on the 17th day of March, A. D. 1942.

The Commission having on January 23, 1942, issued its Notice of Filing and Order to Hearings pursuant to section 12 of the Public Utility Holding Company Act of 1935 in the above entitled matter and said order having set the date for the hearing therein on February 17, 1942, and

All date of hearing having been postponed by the request of the several parties to the matter, be subsequent orders of the Commission to March 10, 1942; and

Atlantic Utility Service Corporation having requested that said date of hearing be further postponed subject to the Commission or Counsel for Atlantic Utility Service Corporation; and

The Commission being of the opinion that said request should not appropriately be granted but that a postponement of the date of hearing to said hearing date of

March 19, 1942, may appropriately be granted.

It is ordered, That the date of the hearing in this matter be and is hereby postponed to April 3, 1942, at 10 a. m. at the office of the Securities and Exchange Commission, 18th and Locust Streets, Philadelphia, Pennsylvania, in such room as may be designated by the hearing room clerk in room 516, before the officer of the Commission previously designated herein.

By the Commission:

(SEAL) FRANCIS P. BRANSON,
Secretary.

(U. S. Doc. 42-2679, Filed March 19, 1942; 9:39 a. m.)

(File No. 10-471)

IN THE MATTER OF LOUISVILLE GAS AND ELECTRIC COMPANY (Ky.), LOUISVILLE TRANSMISSION CORPORATION (Ky.), AND LOUISVILLE TRANSMISSION CORPORATION (Ind.).

SUPPLEMENTAL FINDINGS AND ORDER.

At a regular session of the Securities and Exchange Commission held at its office in the City of Philadelphia, Pa., on the 18th day of March, A. D. 1942.

The Commission having upon February 3, 1942, granted the application, as amended, and permitting the declaration, as amended, to become effective forthwith, except that no findings were made in regard to the prior to the Louisville Transmission Corporation (Kentucky), and the distribution thereof and redemption prices applicable to the First Mortgage Sinking Fund Bonds due March 1, 1947, to be used and sold by said Corporation, and the Commission having reserved jurisdiction to said order in regard thereto;

It is ordered, That said application, as amended, be and it is hereby granted and said declaration, as amended, be and it is hereby permitted to become effective forthwith in regard to the issue to the issuer and redemption prices applicable to said Bonds subject, however, to the terms and conditions specified in Rule D-26.

By the Commission:

(SEAL) FRANCIS P. BRANSON,
Secretary.

(U. S. Doc. 42-2678, Filed March 19, 1942; 9:39 a. m.)

An amendment to said application and declaration having been filed as provided in Rule D-26 (c) amending the proposals which had been received for the redemption of convertible bonds therefor, and stating that Louisville Transmission Corporation (Kentucky) had accepted a bid from The Northwestern Mutual Life Insurance Company of 100% for the Bonds bearing coupons of 2½%, said bonds to be redeemable initially at 101½% in the case of redemption for sinking fund purposes or in case of redemption after a warrant of Louisville Transmission Corporation (Kentucky) and Louisville Gas and Electric Company (Kentucky), and otherwise at 101½%, and redemption price applicable thereto at the rate of 101% of the initial premium on March 1, 1947, and by an additional ¼% of the initial premium on each March 1 thereafter.

The Commission having examined the record and making no adverse findings under section 7 (b) of the Public Utility Holding Company Act of 1935 in regard to the issue and redemption prices applicable to said Bonds, and there being no appeal as the purchaser is not required to accept said Bonds to the public:

It is ordered, That said application, as amended, be and it is hereby granted and said declaration, as amended, be and it is hereby permitted to become effective forthwith in regard to the issue to the issuer and redemption prices applicable to said Bonds subject, however, to the terms and conditions specified in Rule D-26.

By the Commission:

(SEAL) FRANCIS P. BRANSON,
Secretary.

(U. S. Doc. 42-2677, Filed March 19, 1942; 9:39 a. m.)

APR 1 1942

Dear Mr. Eisenhower:

Please be advised that I have designated Honorable Edward H. Foley, Jr., the General Counsel for the Treasury Department, as my deputy to serve on the Liaison Committee on War Relocation of the War Relocation Authority.

Very truly yours,
(Signed) E. Hergenthan, Jr.

Secretary of the Treasury.

Honorable Milton S. Eisenhower,
Director, War Relocation Authority,
Office for Emergency Management,
Executive Office of the President,
Washington, D. C.

HR:r

m.m.c.

Copy to Hampton

By Messenger *Manus 9:40*
4/2/42

APR 1 1942

Dear Mr. Eisenhower:

This is to acknowledge receipt of your letter of March 25, 1942, delegating to the Treasury Department and its agencies, including the Federal Reserve Bank of San Francisco, the authority vested in you under Executive Order No. 9102 of March 18, 1942, to assist persons removed under Executive Order No. 9102, or under Executive Order No. 9066 of February 19, 1942, in the management and disposal of their property.

In response to the request made in your letter, there are enclosed for your information reports as of March 20 and 30, 1942, filed by the Federal Reserve Bank of San Francisco.

Very truly yours,

(Signed) E. H. Foley, Jr.

Acting Secretary of the Treasury,

Mr. M. S. Eisenhower,
Director, War Relocation Authority,
Room 303, Administration Building,
Department of Agriculture.

Enclosures

JWPehleged 3/30/42

SF 3-24-42-353

PHILE

Report of Evacuee Property Department as of March 20, 1942.

1. Number of Evacuee Property Offices opened since March 10, 1942:

California	38
Oregon	1
Washington	2
Total	41

2. Location of offices open March 20, 1942, number of interviews at each and total persons represented at interviews.

	<u>Location</u>	<u>Interviews</u>	<u>Persons Represented</u>
CALIFORNIA (head office zone)	Alameda	6	80
	Bakersfield	3	3
	Berkeley	11	47
	Chico	21	27
	Fresno	10	11
	Hayward	4	8
	Marysville	6	6
	Merced	0	0
	Oakland	20	224
	Pittsburg	1	4
	Richmond	0	0
	Sacramento	2	85
	Salinas	4	6
	San Francisco	400	3,573
	San Jose	28	832
	San Mateo	15	44
	Santa Rose	10	1,103
Stockton	0	0	
Visalia	2	9	
Watsonville	5	10	
CALIFORNIA (Los Angeles Branch Zone)	Burbank	7	7
	El Centro	0	0
	Inglewood	0	0
	Long Beach	10	10
	Los Angeles	462	644
	Pasadena	32	32
	Pomona	4	4
	Redlands	4	4
	Riverside	2	2
	San Bernardino	7	7

- 2 -

	San Diego	0	0
	San Fernando	0	0
	Santamarco	4	4
	Santa Monica	0	0
	San Pedro	0	0
	Torrance	8	8
	Ventura	4	4
	Whittier	0	0
OREGON	Portland	266	444
WASHINGTON	Seattle	287	326/325
	Tacoma	15	128
TOTALS		1,657	6,702

3. Communities visited by Field Representatives during period and dates of visits.

	<u>Locations</u>	<u>Dates of Visit</u>
CALIFORNIA (Head office zone)	None	
CALIFORNIA (Los Angeles Branch Zone)	None	
OREGON	Hood River	3-17-42
		to 3-18-42
WASHINGTON	None	

4. Powers of Attorney accepted during period: None

EVERSON

March 30, 1942
7:58 P.M.

OPY
BY 5

SF 30-430

FILE
FOREIGN FUNDS CONTROL

Reurwire 30. Report with respect to progress evacuation program.

- (1) List of buy and sell offers for head office territory being forwarded to you tonight. Branches instructed to make similar lists.
- (2) Warehousing of furniture and similar personal property of evacuees not yet begun in San Francisco. Army's program provides that warehousing facilities be made available after evacuation notice has been posted in area affected. We have rented suitable space in San Francisco which will probably accommodate furniture of all Japanese families. Guards have been arranged for. We are now working on space for parking automobiles. This will be completed at an early date. Anticipate using both facilities within next two or three days.
- (3) Investigative Unit forwarding separate report direct to you.
- (4) We have not had to use our freezing powers to date and no property has been designated as special blocked property. The mere existence of the power and the cooperation of the creditors has been sufficient to date. Number of instances in which through intervention by us, creditors and evacuees have been able to make amicable settlement not available for reason that evacuees in most instances do not report back to this office after original interview with us and our communications with creditors. We estimate that between 25 percent and 40 percent of all interviews would fall into this category.

EVERSON

March 25, 1942.

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

My dear Mr. Secretary:

Under Executive Order No. 9102 of March 18, 1942, establishing the War Relocation Authority in the Executive Office of the President and defining its functions and duties, the Director of the War Relocation Authority is authorized and directed to formulate and effectuate a program for the removal, from the areas designated from time to time by the Secretary of War or appropriate military commander, under the authority of Executive Order No. 9066 of February 19, 1942, of the persons or classes of persons designated under such Executive Order, and for their relocation, maintenance, and supervision.

I have been furnished with copies of the program to deal with the property of such persons, and with the delegation of authority to the Federal Reserve Bank of San Francisco, as fiscal agent of the United States, by the Secretary of the Treasury and by John L. DeWitt, Commanding General of the Western Defense Command and Fourth Army. I am also familiar with the progress being made in putting such program into effect, with Special Regulation No. 1 issued by the Federal Reserve Bank of San Francisco, and with the contemplated plan for dealing with farms owned or operated by persons to be evacuated.

I am in agreement with and approve the program as contemplated and now in effect and, as Director of the War Relocation Authority and to

the extent of my authority to do so, delegate to the Treasury Department and its agencies, including the Federal Reserve Bank of San Francisco, the authority vested in me under Executive Order No. 9102 of March 18, 1942, to assist persons removed under such Executive Order No. 9102 or under Executive Order No. 9066 of February 19, 1942, in the management and disposal of their property.

I shall advise you promptly of any special needs or problems that may develop in connection with such property management as our experience brings them to light, and shall appreciate your sending me copies of any reports of progress, or other reports, that may be made to you from time to time by those directly charged with such management.

Copies of this letter are being sent to Mr. Leo C. Crowley, Alien Property Custodian, and to General John L. DeWitt.

Very truly yours,

M. S. Eisenhower,
Director,
War Relocation Authority.

PMG/GAC

714.13

APR 1 1942

My dear Governor:

The receipt is acknowledged of your letter of March 19, 1942 (FCB:ms), in regard to furniture and other personal effects belonging to the defenders of the Bataan Peninsula, which have been awaiting delivery so long upon the San Francisco docks that they are now subject to sale under the law. You suggest that steps be taken to prevent the arbitrary sale of these articles.

I am glad to inform you that the collector of customs at San Francisco has today been instructed to withhold from auction for one year from the date of this letter any of such goods which have become subject to disposition as unclaimed merchandise under section 491 of the Tariff Act of 1930, as amended (U.S.C., 1940 edition, title 19, section 1491). Upon the expiration of this period he has also been instructed to bring the matter to the attention of the Commissioner of Customs in order that such further action as may be necessary may be taken.

As you are doubtless aware there is now pending in Congress a bill, S 2351, "To exempt from duty personal and household

- 2 -

714.12

effects brought into the United States under Government orders." If enacted, this bill will enable these goods to be entered free of duty.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable
Culbert L. Olson,
Governor of California,
Sacramento, California.

BHF/ac 3/30/42

See 7 Mail
r.m.c.

724.12

APR 1 1941

The Collector of Customs,
San Francisco, California.

Sir:

You are hereby authorized to withhold from sale for one year from the date of this letter any personal or household effects described in the attached copy of S 2351, a bill "To exempt from duty personal and household effects brought in the United States under Government orders."

If the bill referred to has not been enacted and other disposition has not been made of the effects above mentioned before the expiration of the one-year period, the matter shall be brought to the Bureau's attention for further instructions.

Very truly yours,

Commissioner of Customs.

Enclosure No. 32385.

BHF:mc 3-30-42
WRJ/a 3-30-42*Air Mail*

3309

7/4.12



State of California
GOVERNOR'S OFFICE
SACRAMENTO

CULBERT L. OLSON
GOVERNOR

March 19, 1942

*Brook. in by
Mrs. McHugh*

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

Dear Mr. Secretary:

I have been advised that a large amount of furniture and other personal goods belonging to the army defenders of Bataan Peninsula have been awaiting delivery so long on the San Francisco docks that under the law they are now subject to sale.

Doubtless, both dock congestion and the paucity of shipping space, together with the wartime difficulties of transportation, have been responsible for this situation.

However, I am hopeful that you will lend your good offices to the prevention of an arbitrary sale of these effects, since it seems only fair that a grateful country should relax a rule or regulation providing for sale in this instance. Possibly it may take an act of congress to accomplish this, and I know that if you are aware of the circumstances, you will lend such an act your complete and unqualified support.

Sincerely yours,

Culbert Olson
GOVERNOR OF CALIFORNIA

FCS:ms

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE

April 1, 1942

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

?

I think you will be interested in glancing through the attached booklet in regard to I. G. Farben. While it is written in flamboyant style, the author brings out many things which we have known about this German company for some time.

If you think well of it we might have a talk with the author and give him access to some of *no* our files.

S. H. 7 L.

Attachment

W. TAB

The Uncensored Story:
**HOW YOUR DIMES AND QUARTERS
HELPED PAY FOR HITLER'S WAR**

I.G. FARBEN

25¢



**FUEL
THE
HORSE**

SEQUEL TO THE APOCALYPSE, in the publisher's opinion, is the most important book issued in any language in 100 years or more.

Here, never before published, is the earth-shaking story of how, when, where and by whom World War II was deliberately planned. Here, unmasked in plain view, are the arch-plotters of TOTAL WAR. Not one American in a million has heard their names or seen their pictures, but their names and their photographs are printed in these revelations.

With the verdict of War Guilt thus fixed, there unfolds the incredible story of how you and I and 130,000,000 other Americans have unwittingly poured a vast fortune into Adolf Hitler's lap and thereby helped finance the most terrible war the world has ever seen.

Do you know, for example:

That ninety percent of the dye used in making uniforms for America's present Army was bought from a firm 97 percent owned by Germans?

That the secret blueprints for America's newest planes and tanks were developed on machines made by a company controlled by Germans?

That even Uncle Sam's secret army maneuvers were photographed with a process controlled by a German-owned firm?

These and other truths will startle and amaze you as you read SEQUEL TO THE APOCALYPSE—first of the BOOKTAB series of monthly 25-cent publications, on sale at newsstands. Their exciting titles will provide an index to Unknown and Unaccountable events, hitherto confused by censorship abroad or suppressed by powerful private interests.

THE PUBLISHER

SEQUEL To The APOCALYPSE

The Uncensored Story:
**HOW YOUR DIMES AND QUARTERS
HELPED PAY FOR HITLER'S WAR**

By
JOHN BOYLAN

Foreword By
REX STOUT

Illustrated By
WILLIAM SHARP

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1942

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FOREWORD

Hitler and Goebbels and Goering are dead.

Let us say that those three ARE dead. What then?

What difference does that make? None whatever.

The astute and patient and gluttonous men who greased the ascent of those three to power will still be guiding Germany to the destiny they have ordained for her.

They will still be laying the German plans and making the German decisions, not in hysteria but in cold blood, ready to rule the world if the German Army wins, equally READY TO CHEAT US OUT OF VICTORY, as they did the last time, if the German Army loses.

THIS BOOK NAMES THOSE MEN and shows them greedily and tenaciously and ruthlessly at work, wriggling and squirming when they have to, marching boldly and insolently when they can.

Until we know their names, and what they have done and are now doing, we do not even know who our enemy is, and we stand a good chance of losing the fight again even if we win on the battlefield.

It was an American who said: "Never give a sucker an even break."

That is not a counsel of brotherly love, but at least it is good and tough.

Never has it been so utterly disregarded as by the American lawyers and business men who were selected, between 1923 and 1936, by certain Germans for certain functions; and never has it been so carefully followed, and so brilliantly applied, as by the Germans who did the selecting.

This book tells about it.

We Americans, all of us, should know about it.

It is comparatively unimportant whether certain of our fellow citizens have consciously and WILFULLY BETRAYED US or are merely supersuckers; but it is vital that we should understand WHOM they have been working for, and HOW and WHEN and WHERE.

IF THIS IS NO LONGER THEIR AMERICA, AT LEAST IT IS STILL OURS, AND WE INTEND TO KEEP IT.

If you read this book, you will be better equipped to help.

REX STOUT



THE SEVEN CONSPIRATORS
 Long before Hitler was heard of, they were planning world domination. Left to right, standing: Hjalmar Schacht, Fritz Thyssen, Hermann Schmitz. Sitting, Karl Duisberg, Krupp von Bohlen und Halbach, Max Hager. In the foreground is Heinrich Gattineau, Duisberg's secretary.

BLUEPRINT FOR ARMAGEDDON

Seven German Plunder Barons, with a world to conquer, needed a Napoleon. Unknown to them was the neurotic Austrian paperhanger in a trench-coat, with dreams of his own . . .

CHAPTER I

ONLY the weather was beneficent in Frankfurt-on-the-Main on the warm summer evening of June 7th, 1920.

Evil forces were abroad. Sinister figures crept through dim lit streets.

The German people were war weary and desperately hungry. Communism, Socialism and Democracy formed a hodge-podge of government unintelligible to any man. Defeated Germany was on the verge of internal anarchy and occupation by the victorious forces of the Allies.

Well-meaning leaders of the German people were working without rest trying to organize a German Republic from the chaos left behind by the fleeing Kaiser. President Fritz Ebert, the former saddle maker, was desperately trying to restore order and transform Germany's great war industry into peacetime production. His Minister of Finance, Mathias Erzberger, sought frantically for ways and means to meet the huge reparations demanded by the Allies to pay for the colossal destruction of the war.

Germany had sunk into an abyss of sullen frustration. Ordinary citizens feared to walk the streets. Marauders and thugs roamed at will, robbing, assaulting, killing—virtually without hindrance. Sporadic riots and revolts swept through the country. The future of the incipient Republic looked dismal.

In this disorder, the seven sinister individuals that furtively approached an old-fashioned, inconspicuous house on the Kaiserplatz in Frankfurt, were little noted and entirely unheeded by the preoccupied burghers of the metropolis on the Main.

They didn't rock and never knew—as the world at large was not to know—that the meeting of these seven men was to affect the lives of every human being in the world less than twenty years later.

None knew, except the conspirators themselves, that the fateful plans they were initiating were to set the stage and prepare the way for a second attempt at world conquest.

It would have been fantastic even to suspect a gathering of seven defeated Germans in 1920. What could they do? What decisions could they reach that

would alter the demonstrated fact that Germany had been beaten in her knees? Germany was threatened with occupation by the most powerful armed force ever assembled. The Germans were licked and the Allies were already constructing a world league which would forever outlaw war.

Even today—with documented proof of the many events which have transpired as a result of the meeting in Frankfurt twenty-two years ago—it seems almost incredible that those seven men have come perilously close to accomplishing their purpose—the conquest and domination of the entire world.

Who were these seven men? Whence came their power to thwart the rest of the world in its idealistic effort to banish war among civilized nations? How have they come so far along the road to world conquest?

The record is one of incredible human gullibility—of human cupidity—of genius mixed with infamy—of treachery salted down with bribery—of utter contempt for man as an individual—a complete negation of the Christian concepts of ethics and morals.

In it Adolf Hitler will be discovered to have been the monstrous creation of a small group of wilful, powerful men—without whom Hitler would never have emerged from the obscurity of Munich's political underworld.

Preiding at the meeting in Frankfurt was old Karl Duisberg, the brilliant chemist of Germany's first world war economy—the man who discovered and perfected ersatz materials and ersatz food.

Present was middle-aged Krupp von Bohlen und Halbach, the consort of Bertha Krupp, and the world's greatest manufacturer of armament.

There was Fritz Thyssen—the weak son of a pioneer German industrialist—also a steel master and arms manufacturer.

Next in order of prestige was Hjalmar Schacht, a former director of the National Bank of Germany and more recently the financial administrator in occupied Belgium who directed the financial looting of that unfortunate nation during the world war.

Less conspicuous were the other three men, all of

SEQUEL TO THE APOCALYPSE

them much younger than the old stalwarts and the heavy industry barons.

Hermann Schmitt took precedence in the younger group. He had done a brilliant job as director of the "Kriegswirtschaft-Abteilung Chemie" — the war time organization of Germany's vast chemical industry.

The other two younger men were Schmitt's nephews, Max Ilgner and Heinrich Gattinau, old Duisberg's secretary.

The old men did the talking. The young men listened. For the moment the latter were cast in secondary roles. But mark their names. The world will long have reason to remember every one of them.

Duisberg stated the purpose of the evilly disposed gathering in a few curt words.

Said Duisberg—

"The Kaiser and the Junkers have lost. But German industry has won. Today we are in a stronger position than ever before. By proper organization we can seize the markets of the world. We can not do this tonight—or perhaps tomorrow. It will take time. But it can be done. German planning and German thoroughness will make it possible in due course of time."

The fateful conversations in Frankfurt continued throughout the night. In the early dawn of June 16th, the conspirators stole away to take up their self-assumed tasks of preparing for German aggression against the world.

It is not known in detail all that was talked about in Frankfurt but decisions reached in this preparation for World War II included—

1. The overthrow of the German Republic.
2. The debasement of German national finances.
3. The evasion of war reparation payments.
4. A working arrangement with industrial leaders of the major powers.
5. A world wide network of economic and political espionage.
6. The fomenting of disunity and disorder in the Allied nations.
7. The secret organization and rearmament of the world's most powerful war machine—to be used as a threat, or as an aggressive force in event other measures failed.
8. The demoralization of the German people by economic pressure against the vast majority of Germans dependent on industry for existence.
9. The creation of a corporative State in Germany—a total economy—controlled by Germany's industrial overlords.
10. The selection of a national political leader to serve as a screen for his creators, who would lead the masses in the paths to be laid out for them.

These were the essential subjects of discussion at

the first organization meeting for a (1914) was not any. This was the skeleton outline for German aggression against the world.

Old Duisberg counseled patience. He urged that Germany must not strike again until she was completely prepared. He blamed the half-way measures of the Kaiser and the Junkers for the 1918 defeat.

There was considerable speculation about the "strong man" that must be found. Hadenburg was dismissed as too old—and probably too much of a Junker. Ludendorff was regarded as brilliant but too erratic and without any political sense. It was understood without words that no German industrialist could successfully appeal to the German masses. That problem was also noted for future consideration.

Two hundred miles from Frankfurt, a short, portly man, with a funny mustache, was serving a bare existence as a spy for the Reichswehr — the Army—in the ranks of the German Workers' Union.

Nose in Frankfurt dreamed of his existence. Had they known of him, the little man with the funny mustache would have been dismissed as a demagogic clown—completely lacking in any kind of ability and not even taken seriously by the trade unions upon whom he was spying.

Those two old reactionaries—Krupp and Thyssen—proposed the restoration of the monarchy when the time was ripe. If the Kaiser were deemed suitable, there was the Crown Prince who might escape the blame for military defeat.

Krupp and Thyssen in 1920 still envisioned themselves as the dominant industrialists of post-war Germany. They were entirely unaware of plan-brewing in the minds of old Karl Duisberg and his three young disciples. Duisberg had no intention of restoring the nobility—the Junkers—in place of power. The Junkers did not understand business. Nor did Karl Duisberg propose that heavy industry should continue to rule German economy. He has plans of his own for the promotion of the chemical industry to the pinnacle of German economic authority.

Thus was spawned the germ of total war aimed before the echoes of exploding guns had died away on the Western Front. And had the Allies known of these fateful discussions, it is doubtful that anything would have been done. Old Duisberg and his associates would have been dismissed as disappointed old men, slightly hysterical in defeat and talking against the wind.

But today—as a result—the entire world is in arms! Most of the old men present at Frankfurt are dead or in exile. The younger men have come very near making their dreams of world conquest come true.

The record is clear! The men, who plotted, planned and created the second world war, are known! None of them was named Adolf Hitler!

"GERMANY NEVER LOSES A WAR"

Old Bismarck knew that Germany's chemical genius could rule the world—no matter what fate overtook her armies. But a defeated Germany after World War I needed money. Millions were waiting in America.

CHAPTER II

OLD Karl Duisberg spoke truly when he said Germany never loses a war. Germany—as a nation—has never lost a war because, regardless of losses suffered or military defeats inflicted, Germany has inevitably emerged ten-fold stronger in world commerce and power politics.

Many Germans may have been killed. Much material and property may have been destroyed. But German industry and international influence have always profited after war.

To understand this paradox, one must look to the members of the huge German trusts—not the Army or the armament manufacturers. Particularly one must understand the universal nature and ramifications of the German chemical industry—"A State Within a State."

It is true that Krupp and Thyssen, who made huge profits out of promoting wars and manufacturing armament, had a large share of responsibility for World War I. Krupp, in particular, was well served by a world organization of agent-salesmen and agents provocateurs. But since the last quarter of the nineteenth century, the German chemical industry has been equally well or better served.

Krupp and the "Merchants of Death" have borne the onus of German militarism. The unknown members of the chemical industry have thus far remained successfully in the background.

The creator of the German Empire—Bismarck—was the first world statesman to grasp the tremendous implications of chemistry in the modern world. Long before the Franco-Prussian War of 1870, the Iron Chancellor lent encouragement and aid to the infant German chemical industries.

In peace time the manufacture of dyes and pharmaceuticals is an apparently harmless occupation. It is not looked upon with suspicion by other powers. As a matter of fact, the unpublicized chemists are hailed as benefactors of mankind.

Wily Bismarck was well aware, however, that chemical invention is the father of high explosives. And the greatest cannon Krupp might construct would be useless without tremendously destructive explosives.

More important, the manufacturers and salesmen of synthetic dyes and medicines had entry into the

innermost business circles in every nation—an entry barred in many cases to the salesmen of armament or explosives. More than any other commercial representative of Germany, the chemical agents had access to an intimate knowledge of international economics. This in an age of "economic war."

Bismarck made the most of the situation. The German Foreign Office maintained the closest relations with representatives abroad of German chemical firms.

As long ago as 1904, Karl Duisberg in a memorandum to the Imperial government urged the merger of all chemical firms into one huge trust. He said—"The world-wide rule of German industry, (particularly the dye industry), which now exists, would then be secured for the future."

Duisberg could not accomplish this objective under the Kaiser until World War I, when all chemical industries in Germany were placed under the supervision of Hermann Schmitt and the Imperial government spent billions of marks in war subsidies for plant expansion and research.

However, Duisberg was not boasting in 1904. Germany did control world markets. The United States, Britain, and the rest of the world, were dependent on Germany for essential dyes and chemicals. German patents were the key to the manufacture of high explosives.

Germany's emergence as a dominant power was marked by the discovery of synthetic indigo and aniline towards the close of the last century. Cheap aniline flooded world markets and the indigo planters of India, of the southern United States and elsewhere, were ruined.

The discovery of aniline revolutionized the manufacture of pharmaceutical drugs and even at the beginning of the twentieth century Imperial Germany was engaged in the ruinous practice of "dumping" chemicals to capture markets. The Nazis did not invent "dumping."

The venerable Julius Liebig—first of Germany's famed chemists—died long before the first world war. But the science he created produced three outstanding disciples and these three almost won the first world war for the Kaiser.

One was old Karl Duisberg, the arch plotter of

SEQUEL TO THE APOCALYPSE

Frankfurt, the chief chemist of the German Bayer Company, one of a number of German chemical firms. Dulsberg's invention of ersatz clothes and ersatz food helped prolong the first world war long after Germany's internal production would have been exhausted.

Another was Karl Bosch, the chief chemist of Badische Anilin-und-Soda Fabrik. Bosch's contribution to prolonging the world war was the invention of chlorine poison gas, sulphuric acid and yperite—the three deadly, poison gases that burst on an unsuspecting world in 1916.

The third was Fritz Haber, head of the Kaiser Wilhelm Institute, a research organization. Haber invented synthetic nitrogen for the manufacture of explosives and fertilizer when the Allied blockade had cut Germany off from all natural sources. More than any single man, Haber was responsible for prolonging the first world war by his discovery of how to make nitrogen out of the air.

It might be noted that Haber was a Jew. He was forced to retire when Hitler came into power and he died shortly afterwards, a disillusioned, disappointed old man. It is from confidantes of Haber that much of what transpired in pre-Nazi Germany is now known.

These three elderly men—each a genius in his own field—have undoubtedly contributed much to the welfare of humanity. But their willingness to pervert science to the awful uses of a German war machine has more than offset their contributions to humanity.

The three gifted scientists met at the Leuna plant of the I. G. Farben Company late in August in 1920. With them were Hermann Schmitz, Max Igner and Heinrich Gattineau.

The vast Leuna plant was idle. Its thousands of workers were unemployed. Only maintenance men and caretakers were at work. The Leuna plant and the Oppau works were built at a cost of more than one billion dollars to manufacture synthetic nitrogen. The people of Germany had paid for the plant investment.

Dulsberg, Bosch and Haber were idling, waiting impatiently for some kind of order to emerge from the post-war chaos. Meanwhile, they met to consider prospects.

Dulsberg again presided. He asked Hermann Schmitz to explain the tenor of conversations held a few weeks before in Frankfurt. Haber and Bosch listened intently and in the way of research men took copious notes.

When Schmitz had concluded, Dulsberg addressed Haber:

"Fritz," he said, "you have given us the commercial weapon with which we will recapture our international markets. Your synthetic nitrogen process is a secret that is still undiscovered by the rest of the world. We are equipped to manufacture and market the synthetic product far cheaper than nitrogen can be made from natural nitrates. With synthetic nitrogen as an entering wedge, we can recapture the dye and pharmaceutical markets."

"Ja, it can be," said the venerable Haber. "The Leuna and Oppau plants are ready for commercial production at a moment's notice."

"Exactly. We have the plant capacity. We have precisely available that we could never have built ourselves. That is my thesis, gentlemen, German industry never loses in a war."

The taciturn Bosch interjected:

"What are we going to use for money? There are salaries to be paid and materials to be bought. The workers are now running wild and there is no money in Germany. What there is the Allies will demand. We should be lucky if they don't take our plants also." "The Allies demand our products to pay the war reparations and the Weimar government has agreed."

Old Dulsberg smiled tolerantly:

"Karl, Germany will not pay reparations," he said. "The figure is fantastic. Even the Allies must know that such a colossal sum can not be paid by one nation in goods without ruining the markets for all other nations."

"As for our own immediate financing, we have great reserves in Holland and more in Switzerland."

"Even in America we have funds the United States has never uncovered. This money is held by citizens of those countries and, when the time is opportune, it will be available."

Bosch was not so optimistic.

"We must resign ourselves to the loss of markets in North and South America," he said. "Europe, we can regain, I think, and perhaps the Balkans and the Middle East, even part of the Asiatic market. But America and Britain seized our patents during the war. They have built up respectable chemical industries of their own."

Hermann Schmitz grinned inquiringly at Dulsberg and the old man nodded.

"Herr Bosch," said Schmitz, "you forget that the patents seized by Washington and Britain are not enough. During the war, the Americans tried to manufacture Salvarsan from our patent. The result was mass poisoning in their army when they tried to use it to cure syphilis. WE HAVE ALWAYS WITHHELD ESSENTIAL INFORMATION WHEN WE FILED PATENTS. The Americans and the British will have to call on us for help before they can use our patents."

"In that connection we should do something for Dr. Hugo Schweitzer. He was, as you know, the chief chemist for the American Bayer Company, until the United States entered the war. In that capacity, Schweitzer seriously curtailed American munitions manufacture by withholding great quantities of Phenol badly needed for the high explosives."

Haber roused himself from an apparent reverie.

"The same thing is true in connection with our patents in France and Switzerland, I believe."

"Quite true, Herr Haber," replied Schmitz. "England and America are developing an important chemical industry and we face competition. But we have

SEQUEL TO THE APOCALYPSE



READY FOR WORLD CONQUEST

Karl Dulsberg tells his farben associates in 1925 that he has become the real boss of all German industry. Plans are made to oust foreign rivals and create a world monopoly.

secrets and patents to trade and I think arrangements can be made. They quickly discovered the secrets of the poison gases and they have dyes that we not had. But as Herr Dulsberg pointed out, our first field is synthetic nitrogen. There we have a world monopoly. Afterwards we can proceed as the situation may seem to demand."

"How about the heavy industries, Krupp and Thyssen and the rest?" asked Bosch.

"They are with us," said Dulsberg. "The heavy industries, under Krupp's direction, are financing the Free Corps of officers and soldiers. One day the Free Corps will take the lead in seizing the government. Meanwhile they serve to keep the socialist government distracted so that it can accomplish little."

"What about the banks?" inquired Haber.

Dulsberg replied:

"The banks are under our control," he said. "As things stand, there is no real money inside Germany. Reichsbank tells us that as a result of war financing through internal loans, there are less than three billion Reich marks to back 20 billion notes in circulation. The banks are helpless. The only way

Germany can be financed is through foreign loans and only German industry is in a position to negotiate foreign loans. That is where synthetic nitrogen is of particular value."

"It is ironical," observed Haber. "Certainly, foreign bankers are not going to finance competitive German industry."

"Why not?" said Schmitz. "America has all of the money in the world now. She will be eager to invest it. Where better than in Germany, where, for a time at least, she can be assured of big returns. We will have no trouble there."

"That is sound, I suppose," said Haber, "but I am fearful of these plans for a new army. The Germans are badly beaten and I, for one, can not envision them entering another war. Not in our lifetime at least. Is an army necessary? Wouldn't a secret army infuriate the Allies? It would seem we could best accomplish our purpose through enterprise alone."

Dulsberg replied:

"We hope so, Fritz," he said. "Economic conquest without war by all means. But history shows that

when peaceful measures fail, arms must be employed. It is urgent that we have a powerful army, as a useful threat if for nothing else."

"We shall need a strong army also to keep our own government in line," said Schmitz.

"What is the Army's attitude?" asked Bosch.

"No—and that is most important," said Duisberg. "They are professional officers. They don't know anything but army. They have to eat and they will follow anyone who promises to re-establish the German Army. Krupp and Thyssen are supporting them now through the Free Corps and we shall take steps to see that our men are placed to advantage in the Ministry of Defense."

"But, we shall not appear publicly in any of this?" said Schmitz.

"No—and that is most important," said Duisberg. "Business men are notoriously bad politicians. Take Thyssen as an example. He is riding for a fall. It is far better to buy and elect the politician. We should never appear openly or accept public offices."

Haber again interrupted a protracted silence. "It will take a powerful organization, Karl," he said, "the most powerful commercial organization in the world. It will require the most excellent brains and many of them. We are old men to begin anything so extensive."

Duisberg replied:

"Fritz," he said, "Germany has the best technical brains in the world. The war has developed many brilliant younger men. Like Hermann, and Max and Heinrich here. Later we will talk about personnel. Now, we must plan and await developments."

"And our plans?"

"Suppose we think abstractly for a while. Herr Bosch can consider Austria, the Balkans and the Near East, where he is acquainted. Herr Haber is well acquainted in Asia. Myself, I shall look into the rest of Europe."

"And America?"

"America will be well taken care of. It is a young country. It demands the attention of young men. Herr Schmitz is a young man—and he knows America."

"There is much to be done," said Haber.

"Ja, much," said old Duisberg. "But nothing that is impossible."

Herr Schmitz was almost ecstatic as he followed the old men from the office in the Leuna plant of I. G. Farben. He was thinking far into the future.

And in Munich, a little man, with a foxy mustache, was ranting to inattentive comrades in a beer hall, preaching his utter detestation of big business and corporations, demanding that the workers take over, organize national societies. No one paid him much attention.

ASSASSINATION OF THE REPUBLIC

The destruction of Democracy begins at home. Murder and inflation, deliberately planned, undermined the people and their leaders. Out of chaos come Hitler.

CHAPTER III

A Republican form of government in Germany after World War I was foredoomed to destruction. The cards were stacked against German democratic aspirations even before the Republic was organized in 1919.

Looking back at the record it is surprising that the Republic lasted for fourteen years. The men in power under the Republic were no match either in intrigue or ability for the powerful interests arrayed against them.

However, no single factor can be held responsible for the downfall of the Republic. Certainly Adolf Hitler was more or less of an accident. The industrialists who made him possible got aboard the Nazi bandwagon at the last minute. And the dominant interests in the promotion of World War II almost missed it entirely.

Postwar Germany was a nation of opportunists after the defeat in 1918 and the history of the Weimar Republic is therefore one of confusion and apparent contradiction. The designers of World War II veered with the winds—waiting for the opportune moment.

The National Assembly that met in Weimar in February, 1919, to elect Fritz Ebert the first president of Germany met in auspicious circumstances.

Idealists and pacifists in all of the Allied Nations urged support and help for the new Republic. It was firmly believed that the Germans had learned a terrible lesson in the war. It was hoped they could be taught the principles of democracy—the will to peace and an abhorrence of militarism. Bitter French statesmen were high-pressured by Anglo-Americans into lending the new Republic a helping hand.

Poor Ebert did his best. The former saddle maker had no training and little aptitude for statesmanship. However, as head of the Social Democrat Party and boss of the German labor movement, he was apparently the best available.

His problems began as soon as he took office. President Ebert's "strong man" was Matthias Erzberger, leader of the Catholic Center Party. It was Erzberger who came to terms with Marshal Foch in the forest of Compiègne in 1918. The German nationalists never forgave him for agreeing to the Armistice. Ebert appointed him Minister of Fi-

nance in a hope that Erzberger's well-known liberalism would lead to concessions by the Allies in the payment of war reparations.

Marauding assassins of the Free Corps—financed by the industrial barons—caught the Finance Minister unguarded in Baden during his first year in office and shot him to death. Erzberger's death was a loss from which the young Republic never recovered.

Ebert and his Cabinet probably suspected what was happening during the next two years after Erzberger's murder but they were too unskilled in high finance to fix the blame or take remedial steps.

German industry steadfastly refused to return to a peace-time production. Obviously this was the first move against the Republic. Hungry, disconsolate workers blamed the government for their woes. None could see the hidden hands of the barons of industry.

Nor could the people of Germany understand the debasement of German currency that was being systematically accomplished from abroad. The German organized raid against the mark was well under way when France occupied the Ruhr in 1923 to demand over-due payments of war reparations.

This was the first real opportunity to attack the Republic in a major way.

Incited by cleverly paid agitators, German workers went on a passive strike against the French occupation. Naturally, that only made matters worse and Germany reached her lowest economic depths in 1923 when the German mark was quoted at 42 billion to the American dollar!

The men behind the scenes who engineered this scheme met frequently that year. German industry pooled its resources to destroy democracy. For the moment, they were unsuccessful and Ebert hung on, striving without success to solve the financial disaster confronting him.

With the German mark at a fantastic figure, the next step was to obtain foreign loans to rehabilitate German finance. It was fondly hoped that reparations would be forgiven and forgotten.

However, it didn't pan out that way. On January 20th, 1921, shortly after the murder of Finance Minister Erzberger, representatives of the government were summoned to London and curtly presented with a bill for 66 billion gold marks—about \$16,500,000,



The gigantic main plant, the Leuna Werk, capital of the I. G. Farben chemical empire. Here was held the meeting of the seven plunder barons in 1920, to draw up plans for World War II and for domination of the international chemical and drug markets.

000—the sum fixed for war reparations.

It was to be paid in goods—coal, chemicals, steel and so forth—and in whatever gold marks might be available. France was the chief claimant. The United States expected some part might be used to repay the war debts owed her by the Allies.

Duisberg's prediction that the sum was impossible and that steps would be taken to prevent payment was simply borne out. Thus in 1923, former Vice President Charles G. Dawes arrived in Paris to see what could be done.

Dawes recognized the need for a foreign loan but he was unwilling to make the Germans an outright gift. After several months of negotiation, the Dawes Plan emerged. It provided for a loan of 800 million marks in gold for the Reichsbank, secured by mortgages on German National Railways and certain taxes. Germany was, thereafter, to pay her reparations bill at the rate of one billion gold marks a year, increasing to two and a half billion in the fifth year. These payments were to be paid in part in manufactured goods or raw materials.

The Dawes plan was bitterly opposed by German industrialists. They welcomed the loans, principally from America,—where, as Hermann Schmitz remarked, most of the money in the world was deposited—but they resented the payments.

President Ebert died of overwork and frustration during the first year of the Dawes Plan. He was succeeded by old Field Marshal von Hindenburg—the first evidence of success among the masses of the highly organized campaign to undermine the Republic. The workers had not forgotten the misery of 1923 when marks were 42 billion to the dollar.

Under a succession of liberal but politically inept Chancellors, Germany paid reparations until the gold devaluation by Britain in 1928. Then came the Young Plan which considerably reduced annual payments but demanded them all to be paid in gold marks. The Allies were suffering from a glut of German-made goods in the world markets.

So far so good. But the wily high financiers in Germany were just starting. German banks failed and were unable to meet foreign commitments. The banks were controlled largely by the industrial bosses. The independent bankers went along with the business barons.

As a result in 1931, President Hoover yielded to German demands and declared a one year moratorium. The following year, 1932, Franz von Papen—the master villain of German foreign relations—who was then Chancellor, got the reparations reduced to a final payment of one billion gold marks.

The billion was never paid because the next year Hitler came to power through Von Papen's connivance. And Hitler never pays debts—quite the contrary!

Authoritative estimates fix the total of Germany's reparations payments at about 12 billion marks—mostly in goods and raw material. The German



THE LATE DR. KARL DUISBERG

To the end, his chemical genius brewed trouble for the rest of the world in I. G. Farben's vast laboratories.

master-minds didn't do so badly. By skillful financial legerdemain and callous disregard for the hideous starvation of the German people, they succeeded in bringing Germany up to the eye of World War II without paying more than 16 per cent of the bill submitted by the Allies.

The reparations story is only one factor in the mastery intrigue that emanated from the original meeting in Frankfurt in 1920. It does not take into account huge private loans and investments by Americans in Germany. Henry Ford, General Motors, various oil companies, and others invested more than two billion dollars in Germany before Hitler. Hitler has it all now.

In addition, an estimated billion and a half dollars in private loans flowed from America to Germany. The last quotation on this sort of investment was about 25 cents on the dollar—with no possibility of payment. Of course the investments are now completely worthless until the outcome of the war is decided.

Truly German financial cunning was the pest! It also destroyed the first German Republic!

BANKRUPT GERMANY REARMS IN SECRET

Intrigue and Double-cross set the pattern for Germany's future. Out of the Black Reichswehr sprang a mighty military machine—armed in stealth, again awaiting DER TAG.

CHAPTER IV

THE financial demoralization of the German people by their industrial masters was only one prong in the present German onslaught against the world.

Equally important—as enunciated by old Karl Duisberg many years ago—was the formation and equipment of the mightiest war machine in the world. Economic conquest as far as possible. A resort to arms when peaceful means are of no avail.

Many people are still shaking their heads in wonder today, as startled intelligence agents shook their heads in 1918, when a compact German Army leads in 1936, when a compact German Army equipped with new and deadlier weapons of war appeared on the Fascist side in the Spanish Civil War. How could Hitler have accomplished rearmament in three short years?

He didn't: The German Army never ceased to exist. Since 1918, it has been supported financially and physically by the same German interests that engineered an appearance of German bankruptcy to deceive the Democrats.

When Hitler came into power in 1933, he found a German Army ready trained and equipped—more deadly efficient even than the much vaunted French Army, supposedly the greatest Army in the world.

The Versailles Peace Treaty fixed the maximum size of the German Army at no more than 100,000 officers and men. It was to be limited to the preservation of internal order. In no circumstances were German militarists to be allowed to build up another monstrous war machine.

As has been recorded herein, this conception of the Allies was greeted with derision in Germany. The industrialists had no idea of disbanding their still efficient war machine.

President Ebert appointed General Wilhelm Groener as his chief military adviser when the Republic came into being. Groener accepted the appointment in all good faith. He had done a highly successful job in the World War by organizing military transport.

Groener had much to do with German labor and trade unions during the war and his political sentiments favored the growth of the new Republic.

But Groener was a trustful soul and he surrounded himself with younger comrades-in-arms upon whom he thought he could rely. The small German

Army was of great importance in the early days of the Republic. It required exceptional officers to combat the various revolutions and riots that sought to oust the Ebert government.

Groener thought he had found them in a junior officer named Kurt von Schleicher and another named Von Seeckt. He was to be cruelly disillusioned.

Von Schleicher was from the outset the tool of German industrialists and early allied himself with National Socialism at their request. He was the active organizer of the Black Reichswehr—the German army trained in secret—through funds furnished by the vengeance seeking industrial barons.

But Schleicher had to feel his way during the term of Ebert. He kept very much in the background. Meanwhile, he was the transmission line for funds from industrialists to Major Duesterberg, organizer of the Stahlhelm (Steel Helmets), the veterans of the first World War.

Duesterberg's job was to keep the veterans militarily fit and nationalistic in sentiment—as opposed to democratic. Major Duesterberg did a good job but nevertheless he had to quit in 1933 when Hitler appeared. Duesterberg was of part Jewish origin.

More sinister, however, was Schleicher's support of the Free Corps whence came the assassins used to terrorize the Republican government and murder their ministers. Behind the scenes, Schleicher paid off Captain Erhardt, Captain Schlegel and other notorious Free Corps leaders. The Free Corps was admittedly organized in prevent the fulfillment of disarmament clauses in the Versailles Treaty. Its methods were to terrify and harass the government. The Free Corps had the bestial support of the chemical and heavy industries of Germany.

Von Schleicher early organized the War Ministry on a scientific military basis for the training of a new High Command. As early as 1925, old Fritz Haber—the chemist inventor of synthetic nitrogen—held several confidential lectures before a select group of officers of the general staff without General Groener's knowledge.

Old Professor Haber analyzed the economic lessons that Germany should have learned from the first World War. He said Germany's principal failure was lack of preparation. Haber urged a total war economy before the next war was launched.

The old Professor hadn't the slightest doubt about the eventualty of another war. He denounced the Versailles Treaty as unworkable and declared that German destiny demanded hegemony over all Europe.

The old Professor, however, was merely introductory to another, and now much better known, lecturer at these secret sessions of Black Reichswehr officers.

The newcomer, long hidden behind the scenes was Herr Professor Major-General Karl E. Nikolaus Haushofer — the inventor of GEO-POLITIK, LEBENSRAUM, GROSSRAUMWIRTSCHAFT, and other Nazi jargon. His Institute of Geo-Politik in Munich was the pet of Dulberg and Schmitz and heavily financed by I. G. Farben.

Haushofer's theme was simple. All he demanded in his lectures at the War Ministry was a share for Germany in the determination of politics and markets everywhere in the world. His mission before the Black Reichswehr was to teach future Staff Officers the mechanics of achieving that aim.

General Professor Haushofer is 72 years old, another of the old men instrumental in bringing about World War II. As long ago as 1902, he conceived the idea of geo-politics—that a nation's destiny is essentially controlled by its geographical environment. In 1908, as a young officer, he visited Japan and Asia. Later he wrote a book on "The Geopolitik of the Pacific"—the bible today of the Japanese in the war against America, Britain, China and the Netherlands.

Haushofer became a professor of geography at the Munich University in 1910 and proceeded to develop his theories on "lebensraum"—living space—and "grossraumwirtschaft"—continental economy. During the World War, he served as a Major-General in the artillery. After the war he returned to Munich.

Van Schleicher with an eye on Rudolph Hess, Hitler and Ludendorff employed Haushofer to watch them. Thus on November 8th, 1923, when Hitler led the opera bouffe Munich beer hall putsch, Haushofer was on the job. During the few months Hitler and Hess were in the Landsberg prison after the attempted revolt, Haushofer and his wife were frequent visitors. Today the old geo-politician is given much credit for the weird concepts of Hitler as set forth in "Mein Kampf."

However, when Haushofer was expounding world hegemony to the officers of the Black Reichswehr in 1925, Adolf Hitler was still unimportant. As an agitator and trouble maker for the Republic, he was an ally of the industrialists. He was paid off as such, and watched accordingly. It was surprising in 1933, how many agents of the big industries revealed themselves as marchers in the original Hitler putsch ten years before. No one had ever suspected it until Hitler was Chancellor.

But in 1925, rearmament operations were still

secret. After Ebert died and Hindenburg became President, Schleicher and his associates became bolder.

It was all very well to have a highly skilled staff command, versed in geo-politics as well as the science of war. Equally important was the recruiting and training of youth for service in the ranks.

This phase was undertaken cautiously because the most obtuse Allied intelligence officer could scarcely fail to note military training in the mass.

In the late twenties was begun the organization of sports camps and recreational centers throughout Germany. All the young in Germany apparently became suddenly interested in physical culture. Long hikes and calisthenics were the order of the day. Equally noticeable was the organization of glider clubs. The construction of military planes was forbidden by the Allies.

By 1930, when Hitler was beginning to show some strength—the Nazis had 107 out of 342 seats in the Reichstag—Von Schleicher came out in the open.

Hermann Goering had organized the Nazi Storm Troopers and as street fighters they were terrorizing the electorate, intimidating Germans into voting for the Nazis.

General Groener—now Minister of Defense as well as of the interior—had control of the police as well as the Army. He forbade the wearing of Nazi uniforms and Schleicher began intriguing through Major Oscar von Hindenburg, son of the ancient and now senile President. Before the year was up, Groener was out and Schleicher was in.

Thenceforth the lid was off. The Nazi gangsters were allowed the widest latitude and the wraps were taken off the Black Reichswehr to a certain extent. However, the cautious Schleicher, who had thus far skillfully concealed his activities from both the Republican Reichstag and the Allies, proceeded slowly.

Cleverly directing Palace intrigue, Von Schleicher engineered the idealistic Chancellor Bruening into invoking Article 48 of the Weimar Constitution. Bruening was then trying to govern during the second panic precipitated by the financial jugglers responsible for the breakdown of the Republic's finances.

Article 48 provided for government by decree during an emergency. Its effect was to nullify the authority of the Reichstag. Under Bruening the administration of government by decree was undertaken.

However, Schleicher shortly ousted Bruening through his influence in the Presidential Palace, and set up Franz von Papen—another master of intrigue and double-crossing—as Chancellor. Von Papen, is of course well-known as the director of German spies and saboteurs in the United States during World War I.

Von Papen continued to govern by decree. He lasted only a few months. Apparently he had met his master in Schleicher. The ancient Hindenburg



HAUSHOFER: HITLER'S ONE-MAN BRAIN TRUST

He guided Hitler from the first. "Lebensraum" (Room for Living) and "Grossraumwirtschaft" (Continent-wide Economy) were two of the ideas of Professor Major-General Karl E. Nikolaus Haushofer, head of the famous Geopolitik Academy in Munich. The scholarly plotter of German world domination maintained, as long as 30 years ago, that the Japanese were destined to conquer and rule the Far East.

had to dismiss Von Papen and asked Schleicher to form a government at the end of 1932.

Schleicher pretended to be courting the German labor elements and worked heel and toe between Hitler's Nazi Party and the legitimate trade unionists. His real purpose was to break up trade unions and political parties. His mistake was to intrigue with Gregor Strasser to oust Hitler as Nazi leader.

A new element had entered the perfidious relationship. Aware of Hitler's powers to sway the German masses, large sections of German industry were devoting their major funds to the Nazi party. They had entertained and courted Goering, Hess and at length Hitler.

Then, Von Papen stepped back into the picture and persuaded old Hindenburg that Schleicher was plotting a revolt. He also told the old President that Schleicher planned to reveal some several millions of marks in graft of government funds—American loans—by the Junkers. Part of the graft was the purchase of a large landed estate for Hindenburg, the site of his place of birth. The head of the committee which did this was Karl Duisberg. Actually the senile old President was guiltless. The deal was swung by his son, Major Oscar, with the aid and connivance of Von Papen.

In the ensuing elections, Von Papen threw his weight to Hitler and the Nazis won 238 seats in the Reichstag. Coupled with the 92 seats of the industrialist dominated Nationalist Party, Hitler won a majority in the German parliament. It has never existed as a legislative body since because in March,

1933, Hitler became Chancellor and using Article 48 of the Constitution—so unfortunately employed by the liberal-minded Brüning from 1930 to 1932—government in Germany has been "legally" by decree ever since.

Von Schleicher went down fast. He and his wife were finally murdered by Goering's assassins in their Berlin home during the June purges of 1934.

However, Schleicher had done a marvelous job. He deserved a better fate from the designers of World War II. How much money passed through his hands to finance the illegal Black Reichswehr will probably never be known. It must have amounted to billions of marks during the fourteen years of the Republic. It was a masterpiece in deception. Few knew that the German Army was ready the moment Hitler became Chancellor.

All the Army needed was equipment. It was on its way. German industry had been furiously busy during the rise and fall of the Republic.

Not only had funds been provided for training an Army, but the industrialists had penetrated every corner of the globe, organizing one of the most efficient espionage and propaganda machines the world has known. Fifth columns were ready for Hitler. New machines, new synthetics, new explosives, everything was ready to go into production.

But that is the story of the emergence of the "Interessengemeinschaft Farbenindustrie Aktiengesellschaft"—**THE GREATEST AND MOST POWERFUL CORPORATION ON EARTH**—the "State Within a State" that is actually responsible for Hitlerism.

THE OCTOPUS: I. G. FARBEⁿ

All the world welcomed the blessings of Germany's chemical magic, blissfully unaware that the dimes and quarters they paid for it were feeding a monster of destruction.

CHAPTER V

IN 1925, the United States, Great Britain, France, Japan, Italy, China, Portugal, Belgium and Holland met in Washington and solemnly ratified the Nine Power Arms Limitation Treaties. The same year the German Republic solemnly ratified the Locarno anti-war treaties.

The people of the United States, however, were far more interested in the pyrotechnics of the Scopes "monkey trial" at Dayton, Tennessee, and the oratorical talents of William Jennings Bryan and Clarence Darrow. Thinking people nodded in approval over the Nine Power Treaties and the Locarno pact and relaxed into a feeling of security.

A very different sort of meeting was held in Berlin late in 1925. Again old Karl Duisberg presided. Present were a majority of the conspirators of Frankfurt. But present, also, were many newcomers—men who were to work unpublished and unknown in preparation for the second World War.

Old Fritz Haber was there as was Karl Bosch, the other two members of the chemical trio.

The three old men were triumphant. After the death of President Ebert in the previous February and the incumbency of President Field Marshal von Hindenburg, the three old men had achieved a lifetime ambition.

They had merged every important chemical firm in Germany into one huge trust! It was capitalized at a comparatively modest figure. Its hidden assets and its plant equipment were enormous. It was ready for world conquest!

It was known as "Interessengemeinschaft Farbenindustrie Aktiengesellschaft." In the United States it was known more simply as I. G. Farben. In nations throughout the world it was to remain unknown under many different names. However, the center of this most powerful economic and espionage organization was always to be at the headquarters in Berlin.

Karl Duisberg, as a fitting tribute to the leading spirit responsible for Farben, was chairman of the Board. Old Karl Bosch was President.

Among the newcomers was Walter vom Rath, vice chairman of Farben, a hitherto unknown Colonel Georg Thomas, of as yet uncertain status, a Dr. Otto Klein, a Professor Othmar Spann of Vienna, Albert Voelger, director general of the United Steel

Works, another member trust, old Adolf Kirdorf, already in his eighties but czar of the German Coal Trust, Krupp von Bohlen, Fritz Thyssen, Hjalmar Scharht, Hugo Stinnes and many others.

Also present were the younger men—Hermann Schmitz, Max Ilgner, Heinrich Gattiness and many others!

Strangely enough this was not a board meeting of I. G. Farben. It was even more important.

It was for the announcement of old Karl Duisberg that henceforth he was the boss of all German industry—that the heavy industries, the steel masters, must give way to the chemical trust and be subordinate to it.

The heavy industries knew when they were licked. Duisberg's success in merging the chemical firms made him the most powerful figure in German big business.

Stinnes, Krupp and Thyssen had remained mute a few months before when Duisberg high-pressed a Krupp Director, Dr. Sorge, out of the presidency of the all-powerful central German business organization—the "Reichsverband der Deutschen Industrie." The chemical trust took over the former dominant position of the heavy industries.

However, Krupp hadn't been idle. Nor Thyssen or Stinnes. Krupp had safely and successfully transferred vast quantities of arms and machines for armament manufacture to a dummy company in Holland. Other dummy companies were already set up and operating in Spain.

Stinnes had been a leading figure in the debasement of the German currency by his raids on the German mark. And Thyssen was the leader of the passive strike against the French in 1923. German industrialists had accomplished much unknown to the Allies. There was still much to do.

Old Karl Duisberg—with his right hand man Hermann Schmitz—was to direct the future. Schmitz was now Director General of I. G. Farben.

There were to be betrayals and desertions from the German cause in years to come and the seeds of the Berlin meeting was to be revealed long after World War II was begun. But for many years the skill and deception imposed on the gullibility of the democracies was to maintain the secret.

In his role as the Big Boss of German Big Busi-



ness, Duisberg opened the meeting.

"Germany," said Duisberg, "has re-established confidence among the other powers. The signing of the Locarno Treaty was a master stroke. Shortly from information we have received, the German Republic will be admitted to the League of Nations."

Old Duisberg was right. Germany entered the League within the year.

"Meanwhile," he continued, "we must act with great circumspection. We must appear to support the Republic. Until we are ready none must suspect our ultimate design. You have been informed by a prepared memorandum in a general way of our plan of campaign."

The big bosses of German industry listened intently as Duisberg continued.

"First we must re-establish our position internationally in the world of trade. We must build up a far more perfect information and intelligence service than prevailed before the last war. We must establish business and social connections in all foreign countries.

Our agents must become citizens of foreign countries so that next time we will not lose our foreign investments and patents. They must be owned by naturalized citizens of foreign nations.

"In this connection, we must set up holding companies in traditionally neutral nations so that contact can be maintained and funds transferred during war time. We have already organized I. G. Chemie in Switzerland as a holding company for all our foreign enterprises. We plan to set up similar holding companies in Holland in the near future."

Duisberg then turned to the main objective, the offensive in the Western Hemisphere.

"In the United States we have regained complete control of all our former holdings and extended into new. They will later be combined in one trust. This we shall call the American I. G. Chemical Corporation (later to be known as the General Aniline and Film Corporation). Shortly we expect to have control of South American imports and our agents are already located there. We have a working agreement that controls the French chemical industry and negotiations are under way in Switzerland, in Italy, and in Japan. We can coerce these countries. In England and the United States we must act with more circumspection. But we have patents and secrets they must have if they are to compete. We can come to satisfactory arrangements without interfering with our ultimate goal."

Colonel Thomas was seen to nod warm approval when Duisberg said:

"Second, we must re-arm and re-equip the German Army in a way far superior to the German Army of the last war. The chemical industry is prepared to make Germany self-sufficient during the period of an enemy blockade. It will produce new explosives, new gases, war material, and synthetics on a scale undreamed of before. I assure you, gentlemen, that this can be done. The methods have been perfected."

According to one present, old Duisberg decreed

the death of the Republic at that meeting. He said—

"This leads me to the final problem. We can not accomplish our plans without the complete cooperation of the German government. We must have intimate contact with German envoys abroad, the complete cooperation of the German Foreign Office, the German Finance Minister, and the German Minister of Economics. We already have a secret control of the War Ministry. In short, gentlemen, we must control the German government."

Duisberg then concluded—

"This can not be done under the Republic but with Herr Field Marshal von Hindenburg in power, we now see our way clear. Let me caution once more that we must act with great circumspection until we are ready. We are not yet sufficiently strong. We may be in a few years or may be in many years.

"But as to our business set-up abroad, I shall call on young Herr Mas Ligner to report on America."

Young Herr Ligner's reports were more complete, however, at a later date. They will be reserved for a later chapter. Likewise reports from Latin-America, Europe and elsewhere.

However, old Fritz Haber had a report of consequence in 1925. He had just returned from an extensive tour of Japan and China.

"As you know," reported old Fritz Haber, "our only serious competitors in world markets are the Dupont and Allied Chemical companies of the United States and the Imperial Chemical company of Great Britain. All have competent men and vast resources. In many instances we shall have to make a deal with these three, agreeing to divide rather than compete in certain markets.

"It would seem we can control Europe. England has established a 33 per cent tariff against dyes and chemical imports and we are stopped there for the time being. The United States is being developed. And Latin-American prospects are excellent. The British Empire is doubtful.

"However, in Japan and China I can assure you we can take the markets away from any competitor. China is in a state of disorganization. There is no established government and one simply deals with War Lords or native importers. There is a vast market in China."

Krupp paid particular attention when Haber declared—

"Japan presents a more serious situation. The government in power is liberally inclined and not receptive to our proposals. There is on the other hand a strong nationalistic group—as there is in Germany today—that is preparing for the future.

"The nationalists in Japan control the Army and have great influence in the Navy. Among the populace many secret nationalistic societies flourish. They are well-versed in Herr Professor Haushofer's book on 'The Geo-politics of the Pacific.' The economics of the situation make a Japanese attack on China inevitable. **EVENTUALLY, JAPAN WILL FIGHT THE ANGLO-SAXON POWERS FOR SUPREMACY.**"

Thus Haber concluded—

For these reasons the Japanese wish to tie up with us to learn from us the tricks of manufacture—at least to learn it quicker than they could learn it themselves. They want especially to learn it from us because of their fierce competition in the Chinese market with the United States and England.

"German patents seized by Japan in the war have been turned over to two big concerns—Mitsui and Mitsubishi—who are most willing to have Farben men come to their plants and help them. In that connection, we reached a tentative agreement for the sale of synthetic nitrogen in the Far East."

Old Fritz wound up his Far Eastern report on a note of optimism. He said—

"I left negotiations in the hands of our Ambassador, Dr. Solt, in Tokio. He is a very able man and will cooperate fully with our agents. Incidentally, the Japanese Army is very much interested in German weapons and methods of waging war. Our military attaches should make much progress there. That briefly sums up the situation in Asia at this time."

Krupp von Bohlen, however, had many questions to ask concerning Japanese and Chinese armament needs. He was prepared to fill them from his plants in Holland and Spain. Krupp at that time was experimenting with models and new designs in his Essen plant. His actual manufacture was done abroad to escape the inspectors of the International Arms Control Commission.

Duisberg returned to the order of business, however, with a request for a report from his young Director-General Hermann Schmitz.

Schmitz reported—

"Here Professor Haber was too modest in his mention of synthetic nitrogen. He hesitates to speak of his own great discovery.

"I can report, however, that shortly we will control an International Nitrogen Cartel absolutely dominating its manufacture everywhere. Chile, the greatest source of nitrogen, is already willing to come to terms. But the American Guggenheims are fighting us trying to restore Chile's nitrate trade. They cannot win because we are prepared always to under-sell them—even if it means giving our product away.

"It is essential that we control the nitrogen trade because that will be our greatest source of revenue for the penetration of other chemical markets. We think that will have been accomplished within a very few years."

Schmitz then launched the Farben plan for a price war throughout the world. He continued—

"It is essential also that all German manufacturers in the export trade must be willing to under-sell—that is to say 'dump' as our competitors express it—until we have control of the foreign market. Nitrogen will enable us to finance dumping in other fields. We shall need the help of the combined resources of everyone present. But I am certain that all will profit in the long run."

There was much discussion and many questions asked when Schmitz sat down—particularly about politics in the Presidential Palace, Schmitz suggested

that talk of internal politics was premature. When one asked about developments in the Army, Fritz Thyssen was reported to have asked this question—evidently wanting to compare his own information. Krupp and Stinnes seemed equally interested.

Duisberg called on the heretofore silent and heretofore unknown young Colonel Georg Thomas. The officer was brief and crisp, a German soldier of long standing.

"Things proceed well in the Army," said Colonel Thomas. "General von Schleicher has the situation well in hand. We have organized the 'Wohlfahrt'—the War Economy division. I have the honor to hand it. It must be conducted in secret. It trains staff officers for a future army. We have the support and benefit of lectures by the leading professors and experts of Germany. This is, of course, given in the greatest degree of confidence."

Colonel Thomas answered many questions put to him. The industrial bureau appeared very well satisfied. Today, Colonel Thomas is Major-General Thomas at the head of Hitler's War Economy Board. He was, economically, an apt pupil of Duisberg, Haber, Schmitz, and I. G. Farben.

They imbued him with their spirit of economic imperialism and taught him their methods, according to which a war economy should be as minutely and scientifically, as coldly planned and carried out as a chemical experiment in the laboratory.

But eight more years were to intervene before the Colonel became Major-General Thomas under Der Fuehrer.

Many new personalities all over the world were to be discovered and nurtured by I. G. Farben during the next eight years. As old Fritz Haber might have expressed it "Ja, there is much to be done before we are ready for The Leader." At that time, Thyssen and Kirdorf and Stinnes and others were still thinking of the restoration of the Hohenzollerns.

That year, in 1925, the year of peace pacts and disarmament treaties, Adolf Hitler's book "Mein Kampf" first saw the light of day. It was published in Munich and had a small circulation. It was reprinted again in 1927, when the Nazis met at their first Congress in Nuremberg, and had a greater circulation. No, however, until after 1933, when Der Fuehrer did his own publishing, did "Mein Kampf" become compulsory reading for every German, young and old.

In 1925, the industrial barons pursued their sinister plans under the direction of I. G. Farben, contributing to the publication of "Mein Kampf" as an offering to the Republic, but disdaining that year even to read copies given them in return for their contributions.

The achievement of a world congress peacefully if possible; by a resort to arms if necessary—occupied the men who left the office of I. G. Farben in Berlin in 1925. Each had a definite task to perform. Herr Schmitz had the biggest job of all—the first to plant his agents in all departments of the German Republic.

A MILLION FOR THE LITTLE MAN OF MUNICH

German science had achieved many miracles. It was child's play to produce an Ersatz Napoleon, Adolf Hitler became the puppet. I. G. Farben became the state.

CHAPTER VI

THE German people were comparatively happy for a few brief years after the stabilization of their currency in 1923 and popular well-being found expression in a smashing democratic victory in the 1928 elections.

The anti-democratic forces were hiding their time, completing their world organization and subtly penetrating the ranks of the German government.

The German Army worked firmly entrenched in a solid position as a professional Army under the coming direction of General Von Schleicher.

In the vast plants of the I. G. Farben Company many and amazing experiments were completed. Farben was impatient for the advent of a friendly government that would subsidize production. The Republic showed no interest in the manufacture of explosives, of poison gases, or synthetics for natural products which could be imported cheaper.

Karl Duisberg, Karl Bosch, and Fritz Haber were aging rapidly. More and more Hermann Schmitz and Max ligner took over active direction of I. G. Farben's rapidly expanding industrial empire. The old men advised. The young men executed. The old men were to thank their lucky stars the old men stayed on the job because they might have missed the Nazi bandwagon entirely.

By 1931, Schmitz had completely recaptured the entire European chemical market. The big French firm—Etablissements Kuhlmann—was forced into a more binding agreement in 1927 by a reckless policy of price-cutting. Two years later, the same tactics secured control for Farben of the three largest chemical companies in Switzerland—the Ciba, the Geigy and the Sandoz companies.

The German-French-Swiss trust was rounded off in 1931 when Mussolini forced the Italian firm of Montecatini to join the Farben monopoly. Il Duce was ambitious to establish a great Italian chemical industry for war purposes. Farben patents and Farben techniques were needed.

In Fascist Italy, Montecatini had no choice. The Anchemie Chimiche Nationali Associate was organized to manufacture all dyes, heavy chemicals and aluminum. Farben took 43 percent of the stock. Montecatini got 51 percent but because again of patent control, the Italian industry was shortly just another Farben plant in Europe.

It was at this point that Karl Duisberg's famous

policy-making speech was made in Munich March 26, 1931).

"Only a solid economic bloc from Odessa to Bordeaux will give Europe that economic backbone which it needs in order to maintain its position in the world," said Duisberg.

In effect, long before the German armies stood in Odessa and in Bordeaux, the leaders of I. G. Farben by propaganda, espionage and economic control, had marked the imperialistic ways of Hitler's "New Order."

Thus I. G. Farben controlled all of Europe and by 1931 the dye production in Europe was approximately 5 percent each to Switzerland and Italy, 3 percent to France, and 82 PERCENT to I. G. Farben.

In 1930, even the comparatively strong British chemical industry had to make certain market arrangements with Farben. In the same year, Schmitz achieved his dream of an International Nitrogen Cartel, forcing his principal competitors, France and Chile, to yield to Farben's policy of quota restrictions in favor of German preponderance.

While accomplishing this economic conquest in Europe, Schmitz, Duisberg, Bosch and Haber were working behind the scenes—through von Schleicher—extending their influence in army and civil service circles—with particular attention to the Ministry of Finance, the Ministry of Economics, the Economic Department of the German Foreign Office and the Economic Department of the Ministry of War.

With income falling in from the four corners of the globe, these four men were rapidly becoming the most powerful in Germany—so powerful that even the democratic leaders could not ignore them.

Schmitz had already placed his own men, Ministerial-Director Ritter, in charge of the Foreign Office Economic Department. Ritter was later to be sent to Brazil as Ambassador by Hitler and be expelled for subversive activities.

I. G. Farben's real opportunity came, however, in the wake of the Wall Street crash in October, 1929. The impact of the financial disaster in America spread rapidly to Germany where it was fostered and encouraged by the industrial barons. Unemployment rose in Germany and the German budget staggered.

The German Finance Minister at the time was Dr. Rudolf Hilferding (recently murdered by the Gestapo after his extradition by Vichy), a social Democrat

who proposed to float a foreign loan to check the panic. President Hjalmar Schacht, of the Reichsbank, objected.

Schacht had only recently emerged in his real colors by protesting violently against the terms of the Young Plan. Now he stepped all the way out and flatly demanded a change in government policy to one under the influence and in the confidence of German business. Schacht's was the voice but Schmitz was the man who formulated the demands.

Both Schacht and Schmitz were operating closely with General von Schleicher who by now was persona grata with President Hindenburg through the influence of the old man's son, Major Oscar, that sinister spawn of the Junkers.

The combination of Army and Big Business—with intimate entree to the Presidential Palace—was too much for Hilferding. He was forced to resign; a member of the board of I. G. Farben—a Dr. Muldenhauer—became Minister of Finance.

Moldenhauer served as the spearhead of the anti-democratic forces seeking to oust the existing government and set up a government controlled by an informal committee of "Big Business and Army" which would prepare for the restoration of the Hohenzollerns as the only guarantee against a government of "political democracy and international reconciliation."

By March, 1930, the intriguers had succeeded. The government of Chancellor Hermann Mueller was forced to resign. Mueller was a former chairman of the German Apprentices Union and a signer of the Versailles Treaty. As such, he was anathema to "Business and the Army."

Heinrich Brüning, leader of the conservative wing of the Catholic Party, was called to form a new Cabinet. With Brüning as Chancellor, Schmitz gained his strongest personal foothold in the German government.

As they were against Ebert in 1925, the cards were stacked against Dr. Brüning in 1930. German banks were falling right and left, declaring their inability to meet their obligations. Unemployment was at a new peak. Brüning was universally regarded as a spiritually independent man and no one suspected his motives in allowing Hermann Schmitz virtually to take over the government.

Brüning was apparently convinced that the only way out of the misery that endangered the Republic was close co-operation with the Army and that part of Big Business that apparently did not support an outright Nazi revolution.

Dulberg and Schmitz had played their cards cleverly. Never in the history of the Republic did they appear openly against it. As a matter of fact, by reposing too much confidence in Schleicher they almost lost out entirely.

From the very beginning Hermann Schmitz was Chancellor Brüning's principal advisor. The other was General Kurt von Schleicher—the creature of I. G. Farben. Schmitz represented "Big Business" and Schleicher the Army—the two major factors on which Brüning relied to restore stability.

Brüning offered Schmitz the post of Minister of Economics but Schmitz followed old Dulberg's policy. He refused. I. G. Farben wanted to rule but it didn't want to take the responsibility for government. But from behind the scenes with the help of Article 48, I. G. Farben did rule Germany by decree through Brüning. The Reichstag was shortly to be known as a veritable "Schwitzbude" (sweat box), a name contemptuously applied to it by Hindenburg many years ago and revived by the industrial barons under Brüning.

The following year (1931) things had gone from bad to worse. Chancellor Brüning's efforts to re-establish the Republic met with growing opposition from the right and the National Socialist Party was beginning to show its strength.

Brüning again offered Schmitz the post of Minister of Economics (in Oct. 1931). This time Schmitz accepted. However, at the last moment an accident happened. Brüning, presiding at a meeting of the Cabinet, was just about to move the formal appointment of Schmitz when his secretary placed a slip of paper on the table before him.

Brüning's face whitened and in the midst of his speech he stopped short. The slip of paper was a report that I. G. Farben in violation of the German Foreign Exchange laws had concealed its huge foreign holdings from the Reichsbank. Farben was just now declaring some of its assets in view of a just published amnesty which was coupled with strict penalties for further violations. There is little doubt that Hermann Schmitz arranged this bit of hypocrisy intentionally in order to withdraw again from public responsibility.

As always, Schmitz preferred to remain in the background. That has been the technique of all the I. G. Farben wire-pullers. Their products are well-known, but their machinations were known to few.

The incident did not affect I. G. Farben's relations with the government. The monster trust was too important to be ignored. Instead of Hermann Schmitz, another Farben man—Dr. Hermann Warmbold—became Minister of Economics. Schmitz now controlled the War Ministry, the Minister of Finance, the Minister of Economics, and the Economics Department of the Foreign Office. His dream of a government by Big Business and the Army was on the way to being realized.

I. G. Farben apparently blundered badly soon after Farben men had been appointed to strategic posts in the Ministries of the Brüning government. Hermann Schmitz persuaded Chancellor Brüning and his Foreign Secretary Curtius to incorporate Germany and Austria into one customs union.

To the world at large—particularly to the democracies—this was subsequently made to appear as a disaster to Germany. Perhaps it was a disaster to the German people. It was a tremendous triumph for I. G. Farben and the Nazi pace-makers striving for the downfall of the Republic.

As a matter of fact, Hermann Schmitz had more planned very carefully. If the Brüning government got away with this insipid "Anschluss," I. G. Farben stood to prosper. For I. G. Farben at-



CONTRIBUTION TOWARD CHAOS

ready owned the Österreichische Dynamit & G. in Vienna and thus dominated the manufacture of explosives in Austria.

Farben in addition owned the Anilin Chemie A. G. in Vienna which controlled the chemical and pharmaceutical markets of Austria. Anilin Chemie by its predominance was the sole trading company for all Austrian chemical manufacturers. Thus I. G. Farben indirectly controlled the entire Austrian chemical field and much of the market in the adjacent Balkan countries.

It was to I. G. Farben's very great interest, therefore, to get Austria and Germany to live within one common tariff frontier. This move was regarded as a prelude to Germany taking over Austria completely.

France roared and threatened occupation. Little Czechoslovakia, threatened with this encirclement by Austrian and German territories, was frightened. The Little Entente—Yugoslavia, Rumania, and Czechoslovakia, together with France and Poland—bared their teeth.

Not since the assassination of Archduke Francis Ferdinand in 1914 had Europe been confronted with so serious a crisis. It was engineered and worked out by Hermann Schmitz and Max Huger at "Buerre I. G., Berlin NW7."

Into this situation stepped President Hoover. France's threats against Germany implied the bankruptcy of the German nation. Huge reparations payments were due and the Germans were still pleading their inability to pay.

More important the tremendous value of American private investments in Germany was at stake, and President Hoover declared the one-year moratorium on reparations.

However, France continued to stall and threaten and in Germany the same riders that acted in concert in the crisis of 1924—during the Ruhr occupation and the passive strike of Fritz Thyssen and the heavy industries—struck again at the finances of the Weimar Republic.

Germany literally went bankrupt. American investments were frozen. Banks closed and the moratorium on reparations meant that payments would never be resumed. Chancellor Brüning and Foreign Secretary Curtius were forced to renounce the "Anschluss" with Austria. The Weimar Republic was utterly discredited among the disillusioned German people. The way was now clear for the coming of Hitler.

This Farben inspired coup, however, not only spelled the end of the Republic, it liquidated a huge German debt to America. Germany was bankrupt and couldn't pay, although it retained the great public works, the highways, the railroads and other improvements made possible by American capital. As in 1924, during the first bankruptcy, the German people starved and cursed their Republic. The German industrialists went

And then the heavy industry heroes—long resentful of the increasing power and influence of Farben—almost toppled the playhouse of Dulsberg, Bosch, Haber and Schmitz.

Fritz Thyssen, Albert Voegler, old Adolf Kirdorf,

together with Baron von Schroeder, the Cologne banker, had been quietly but lavishly supporting the rowdy Nazi street fighters under the impression that Nazism would mean the restoration of the monarchy.

They backed Franz von Papen for the Chancellorship and with the help of Major Oscar Hindenburg ousted Brüning from office in 1932. Schmitz might have seen the handwriting on the wall that year but he didn't. He continued to back General von Schleicher, his own man. Within a few months von Schleicher had intrigued successfully and von Papen was out. The old Field Marshal asked von Schleicher to form a government. It now looked as though I. G. Farben controlled the government completely.

However, that is to have reckoned without Franz von Papen, the sinister master of the double-cross whose name is a synonym in world capitals for treachery. Von Papen had shortly intrigued against Schleicher and with the funds of the industrialists won an overwhelming victory for Hitler in March, 1933. Hitler was made Chancellor. The Nazis had arrived.

Hitler apparently owed Schmitz nothing. It was a time for worry and trepidation in the palatial offices of I. G. Farben in Berlin.

But old Karl Dulsberg had an ace—a couple of aces—up his sleeve. While Schmitz built up his world empire and worked to get control of key government posts, the old man had not been idle.

Dulsberg kept his eye on Hitler. In those days in Germany, almost anything was possible.

Thus, when Hitler marched in Munich in 1933, there was an I. G. Farben man tagging along. No less a person than Heinrich Gattineau, Dulsberg's own secretary. It is true that Gattineau fled even as Hitler when the first shots were fired in Munich. But in 1933, it was something to be able to claim having been an original Storm Trooper in Germany.

Gattineau became the new liaison man between I. G. Farben and the Nazi government. Unfortunately Gattineau was a poor politician. He stayed too close to Captain Ernst Roehm and nearly met a string squad the night of June 30, 1934, when Hitler purged the Nazis.

However, once more the older men were forehanded. They had contrived to contact no less a person than Hermann Goering and astutely saw that Hermann did not lack for pocket money during the lean days of early Nazism.

As a matter of fact, only a few weeks before the purge, I. G. Farben among others was invited to the feudal palace Goering had seized at HIA Leptiner Platz in Berlin.

Herr Georg von Schnitzler represented I. G. Farben at the party in Goering's palace. After a good talk to the assembled industrialists and bankers, Goering told them they would have to pony up three million reichsmarks to replenish the badly depleted Nazi treasury.

While others hesitated, Herr von Schnitzler—I. G. Farben's No. 1 commercial man—made the first substantial contribution. He gave one million reichsmarks—a third of the take—without even bother-

ing to consult his board.

Von Schnitzler had joined the Nazis at once after the 1932 elections. His contribution to Goering established his career in the Third Reich. Today he is one of the most influential members in the Goering circle.

It is important to note that Von Schnitzler's son-in-law, Dr. Herbert Scholtz, aka No. 3 Head of the Nazi Secret Service in the U. S., until his forced departure on the S. S. West Point in June, 1941, was operating under the guise of German Consul General in Boston.

But only von Schnitzler received warmly and he opened the way for Hermann Schmitz, Max Huger, and certainly saved Heinrich Gattineau's life the night of the purge.

There have been other substantial payments made to the party by Farben, but after 1934 when Goering realized what I. G. Farben meant in a total war economy, the Nazis became the supplicants. They would not have gone to war without Farben.

Schmitz was named a member of the Hitler-appointed Reichstag, an honorary member of the Nazis, and appointed "Wehrwirtschaftsfuehrer" ("War Economy Chief") by Adolf Hitler.

The late Reichsmarschall was astounded to what Farben had to offer. Schmitz pledged Goering that German industry could make Germany self-sufficient for war purposes if the government was willing.

Obviously, it was Schmitz then who was sum-

moned by Goering in 1936 to help draft the four year plan in preparation for total war. As in the days of the Weimar Republic Schmitz was still in danger of being dragged into the Cabinet. Thus far he has remained behind the scenes, the driving genius in Nazi war production.

However, other I. G. Farben men were not so fearful of responsibility. Karl Krauch, now chairman of the Board of Farben, is General Commissioner for the German Chemical Industry, the key man in war production. Professor Beck, another Farben man, was placed in charge of war metal production. Others are scattered far and wide in government service. Schmitz was offered the post of Minister again recently and refused it. With his entire enormous organization geared to total war and with the control of all essential departments of the War Economy in the hands of I. G. Farben, Schmitz is doing very well outside of the Cabinet, ready to deny all responsibility in event of another German defeat.

Poor old Fritz Haber, retired when Hitler came in, died in 1935. Tired old Karl Dulsberg died the same year. In 1940, old Karl Bosch followed them to the grave. Three old men—each one an evil genius—each sharing a terrible responsibility for the second world war. Old men who couldn't live to see the outcome of the Hitlerism they made possible.

The fruits of their teaching live after them, however, and apt disciples are on the job in Germany. Dulsberg, Haber, and Bosch were the pace-makers for younger men who are even more sinister in the Total World War.

"BUERO I. G., BERLIN NW7"

Everyone knew about the Gestapo. Few knew that I. G. Farben's innumerable offices abroad functioned as a world-wide spy network. Out of huge profits, they financed a hundred Fifth Columns.

CHAPTER VII

MAX IIGNER is the nephew of Herman Schmitz, of I. G. Farben in Germany and of Dietrich A. Schmitz of General Aniline & Film Corp. in New York. He is also head of I. G. Farben's vast spy organization and he is known as the paymaster of Nazi espionage, propaganda and sabotage agents in countries all over the world.

Officially Max Iigner is a director of the Central Finance Administration of I. G. Farben and the Deutsche Laenderbank—the financial headquarters of the largest corporation in the world.

Iigner is a man of intrigue. To his intimates he comes in as boundless as his ambition is great. Next to Hermann Schmitz he is the most important man in the German war economy.

The financial headquarters of I. G. Farben are housed in the building at 82 Unter den Linden, one of the remodeled features of Hitler's Neroic plans for re-building Berlin. It is located beside the French Embassy and has all the appearances of an innocent office building.

Unknown to the world, however, is another conglomeration of offices in the same building, the address of which is simply "Buero I. G., Berlin, NW7." This is the political headquarters of I. G. Farben, presided over by Max Iigner himself.

From this highly organized nerve center have gone instructions and funds to a world-wide intelligence and propaganda service. To "Buero I. G., Berlin, NW7," have come reports and information containing the secrets of all civilized nations.

In "Buero I. G." were hatched plans for Fifth Columns everywhere. Here intimate information on leading statesmen of the world was gathered. Here the weaknesses and vulnerabilities of military men, naval men and business men in other nations were plumbed and evaluated.

At 82 Unter den Linden, in the very heart of Berlin, Max Iigner spun the web of treachery and deceit that prepared the way for Hitler. It was well spun before 1933. Thereafter, it was perfected. Iigner thoroughly purged his spy machine after 1933. All persons not entirely reliable from a Nazi view-

point were recalled or kicked out.

Even before 1933 reports that came to "Buero I. G." were collated and elaborated and relayed simultaneously to the German Foreign Office and the German War Ministry.

After 1933, the organization was reorganized and greatly enlarged. Thereafter, "Buero I. G." reported simultaneously to the "Ausserhandelsamt"—the Foreign Commerce Office—and the "Auslands-Organisation"—the Foreign Organization—both units in the Nazi Party.

Similar reports were made to Foreign Minister von Ribbentrop's office, to the Nazi War Ministry, and last, but not least, to the "Kanzlei des Fuehrers"—Hitler's personal office.

Abroad the agents of the Nazi Party worked in close co-operation with I. G. Farben's men. The Party agents were independent of the regular Nazi diplomatic and consular agents. The Germans learned a lesson in World War I, when Franz von Papen and Captain Boy-Ed, military and naval attaches at the German Embassy, were caught red-handed serving as paymasters and directors of saboteurs and spies in America.

Agents of the Nazi Foreign Commerce and Foreign Organization units were thus afforded access to business and economic information not available to the traditionally narrow limits of the diplomatic or consular service. However even these non-diplomatic trade representatives were too conspicuous for really delicate assignments. These were taken over by I. G. Farben's men—Max Iigner's agents—who work more discreetly and more subtly through pure "business" methods and as "simple business men."

Thus a vast amount of real inside information as to production capacity, economic resources, social conditions, armament and other vital factors in total war flowed unchecked from many nations to "Buero I. G., Berlin, NW7" during the years leading up to and the early years of actual warfare.

The other side of "Buero I. G." has to do with propaganda, Fifth Columnists and sabotage. Iigner handled all that too. Not in so crude a fashion as von Papen and Boy-Ed in the first World War. It has been remarked that Iigner is smart.

Long before Hitler, Iigner was already penetrating



WORLD ESPIONAGE HEADQUARTERS

The sinister figures who filtered through the many rooms of this office building on the Unter den Linden, in Berlin, developed Hitler's most potent secret weapon—an espionage-propaganda-sabotage organization that covered the globe. It was here, rather than in the Gestapo headquarters on Prinz-Albrecht-Strasse, that plans were laid for penetrating and undermining the countries victimized by Germany. Here Max Iigner rules as paymaster for the innumerable agents of Buero I. G.

other countries politically, picking out weak and wily statesmen, alienating important members of military and civil services and of big business men from loyalty to their own countries.

Iigner's men were therefore instructed to become deeply entrenched in the social life of the country in which they were assigned, marry women of these countries, and most important of all become citizens of these countries at the earliest possible moment. When necessary, I. G. Farben's men have been ordered to appear as anti-Nazi and outspoken liberals.

In each guise, the most loyal agents serving Hitler

were free to travel wherever they chose, to dispose of their bank accounts as they pleased, to be free from alien registration in time of war, and to be treated as citizens and not as the enemy agents of the Axis Powers that they really are.

Up to 1933, these world wide operations were primarily to effect economic conquest for I. G. Farben although Iigner always worked in close collaboration with the German Foreign Office. After 1933, Iigner expanded immeasurably.

It was Max Iigner who first discovered "Mein Kampf." Throughout the years of scheming and plotting with Dulberg, Haber, Bosch and Schmitz, there

was never a clear conception as to when and how their dream for world military aggression might be launched.

"Mein Kampf" came to Iqner's attention on the eve of Hitler's victory at the polls. In his capacity as intelligence chief of I. G. Farben, Iqner read it, unlike most German industrialists of the day. It had been recommended to him by a close associate, one Alfred Hugenberg, who was the paymaster between the industrialists and the Nazi gang in Munich.

Hugenberg held on to much of the money that passed through his hands and he wound up owning UFA, the big German movie company, ALA, a dominant publicity organization, and he had control of the Berlin publishing firm of August Scherl. He gave the Nazis free handouts for their newspapers in the early days. Later, he had to turn over some real money.

After talking to Hugenberg, Iqner summoned his "brain trust"—the bright young men who are his chief aides. Among them were Dr. Krueger, Dr. Pfeiffer, Frank-Fähle, and Mario Passarge.

There were plenty of unread copies of "Mein Kampf" lying around. The "brain trust" was ordered to read and report.

But it was Max Iqner himself who pronounced the verdict.

Said Iqner:

"It's the craziest damn thing I have ever read. But it is just crazy enough to work. The man has a time-table that fits in with what we would like to see done. He seems to be the man we have been waiting for. If he's got any brains at all, we can use him. Keep this Hitler very much in mind."

It is a matter of history now that Hitler could scarcely believe his good luck when these heretofore distant chemical trust bosses offered to present him with the finest intelligence and propaganda service extant.

But Hitler hadn't seen anything yet. Max Iqner was just beginning in 1933. After old Karl Dulsberg died in 1935, the restraining influence that counseled a policy of circumspection was removed. Iqner was now more or less on his own. And he was feeling his oats.

Not that Max Iqner was out and out brash. He had been too long trained in the school of Dulsberg, Haber and Bosch and he stuck to "business" avenues and "business" methods.

However, by virtue of the huge profits piled up annually by I. G. Farben in Europe, Asia, North and South America, Iqner had at his command a vast amount of foreign exchange. He was in an ideal position to become the paymaster for the Nazi political and propagandist machinery abroad.

Hitler realized immediately that he would never be able to carry on without Farben. Der Fuehrer in those days was in a curious state of confusion. Under the influence of Professor General Haushofer and his geopolitical ideology, Hitler was contemplating mil-

itary strategy. Under the influence of Professor Haushofer, of Vienna, he toyed with the idea of a corporative State, an improvement on the corporative ideas put into effect by Mussolini in Italy.

Iqner and Schmitt quickly disillusioned Der Fuehrer on that score. They had no intention of allowing I. G. Farben to be taken over by the State. Quite the other way around, they proposed to take over the State. In this they were backed by Krupp, the cannon king; Kirdorf, the coal czar; and other big business barons.

Thyssen by this time was already slipping. Shortly after the outbreak of the war, Thyssen was to be stripped of his great fortune and exiled. The last heard of him he was in France, presumably taken by the Nazis when they took over that country.

This combination of industrialists was too much even for Hitler. He was willing to make a deal.

THE MAN WHO

Pierre Laval, Farben's attorney, wasn't present when this gay banquet was held in a Paris restaurant to celebrate I. G. Farben's successful conquest of French industry. But Laval, who had helped engineer the triumph for the Germans, was there in spirit.



Iqner was given authority to take over all the functions of a Nazi intelligence and propaganda service which in turn I. G. Farben would finance. The Nazi government would provide State subsidies for vast plant expansions to make explosives, synthetics and chemicals for I. G. Farben. The deal thus best restrictions in foreign exchange with no loss to either party. It may have been unorthodox business but certainly it proved effective.

With this arrangement, Hitler freed himself from what otherwise would have been a major—and probably insurmountable—problem—an efficient worldwide intelligence and propaganda service. He had plenty of time nearer home to devote to getting things ready for total war. It becomes much clearer now how a former house painter has seemed to accomplish the impossible in such a short space of time.

Iqner's men by this time were firmly entrenched

DIDN'T COME TO DINNER

The beaming, cherubic countenance of Max Iqner, brains of I. G. Farben's foreign business-espionage organization, can be seen between the two women guests on the right. Willibald Passarge, head of I. G. Farben's Paris office, is the man with eyeglasses.

throughout the world as apparently loyal citizens of the countries of their residence. His organization was in splendid working order.

An early questionnaire sent out by Iqner to all of his agents is revealing. It goes far beyond the normal interests of a commercial organization.

For example, Iqner wanted to know all about automobile traffic. He sent out the following questionnaire:—

How many automobiles are there in the country?
How many of these are passenger cars, how many trucks, how many buses?

Countries of origin?

What makes?

Are there any automobile factories in the country?

How many repair shops?

How is gasoline distribution organized?

How many tank stations?

Organized by what concern?

Also Max Iqner was much concerned about movies. He sent out a questionnaire like this:—

How many movie theaters are there in the country?
How many of these are in the large, in the middle-sized, and in the small cities and villages?

As to the movies in the cities:—

What is their seating capacity?

What is their average attendance?

Who are the theater owners?

Are they foreigners or natives?

What films are shown?

Country of origin of those films?

What is the reaction of movie-goers to German films?

Similar questionnaires sought information about radio facilities, programs, ownership. Others wanted to know about newspapers. In fact, there was little that Max Iqner's "Bureau I. G." didn't want to know. His curiosity might have seemed incredible.

With this information collated, Iqner and his brain trust were ready for propaganda on a scale the world had not yet experienced. Literally millions of dollars to advertise I. G. Farben products—Bayer Aspirin, Luminal, Salvarsan and many others—were spent in radio stations and newspapers throughout the world.

Advertising accounts were in many instances subsidies for German propaganda because Iqner saw it that specially favored radio owners or newspaper publishers were given Farben untroubled funds. In many cases struggling newspapers and radio stations willing to carry Nazi propaganda were kept alive by "Bureau I. G."

However, Iqner went far beyond mere propaganda. After Schacht initiated barter trade from Germany and Hitler froze German funds, Iqner's control of foreign exchange from profits in many countries became the real source of funds to finance Nazi administrative organizations.

In countries where I. G. Farben's credits were low, there was no problem. Schmitz and Ilgner were reaping rich rewards from their United States enterprises. It was a simple matter to transfer American dollars to the I. G. Chemie, in Switzerland, or the two I. G. Farben holding companies in Holland—even in war time. From these two neutral countries, Nazi funds were sent to agents everywhere.

Schmitz and Ilgner slipped up on the Holland holding companies. They strangely neglected to transfer early enough their USA stock holdings from Holland to Switzerland before the Nazi invasion. The President of the United States froze Dutch assets and that pipeline was blocked. The one through Switzerland continued to operate.

In pursuance of the Duisberg policy of economic penetration before military conquest, Ilgner concentrated on the demoralization of Europe as a primary task under the Nazis.

I. G. Farben was already in a strong position in Holland through holding companies, investments, and connections with established Dutch "business" men, particularly Fawcett Van Vilsongen, president of the International Chamber of Commerce.

But it was Ilgner's idea to take Prince Bernhard as Lappe-Biesenfeld into the Farben organization. Ilgner had cultivated the acquaintance of Prince Bernhard's father and shortly the young Prince went to work in the Central Finance Administration Office in Berlin under Ilgner's direct supervision.

The Prince was taught business and international relations. The existence of "Buero I. G." on other floors in the same building was kept secret from him.

After Prince Bernhard became engaged to Princess Juliana, heiress to the throne of Holland, he was sent to Rotterdam to work for one of the I. G. Farben holding companies. Ilgner's idea was that once the young Prince had acquired a knowledge of politics, he would become influential in the Dutch government and could be influenced from the Farben headquarters in Berlin. It was not Max Ilgner's fault that Prince Bernhard became a loyal protagonist of the Dutch after his marriage to the Princess. Ilgner had done his best.

I. G. Farben's representative in Paris was Willibald Passarge—the brother of Maria, one of Ilgner's brain trust in "Buero I. G." One of Willibald Passarge's early achievements was the retention of Pierre Laval as Parisian counsel for I. G. Farben.

Through the years before the second world war, Laval received large fees for doing little or nothing in the way of legal work for I. G. Farben. However, Laval was the nucleus around which the French Fifth Column that brought about the French collapse was organized. Its other adherents—all beneficiaries of Farben—have become notorious since the occupation of France.

"Buero I. G." was well-established in Spain also before the outbreak of the Spanish Civil War. Hermann Schmitz through the Farben controlled International Nitrogen Cartel had acquired control of the Spanish nitrogen and high explosives industries. Krupp was working alongside of Farben in Spain

making munitions.

Dictator Franco was financed to a large extent by Max Ilgner through Juan March, the Ambassador of Spain.

Max Ilgner's real break came in Spain, however, in the second year of the Civil War when Ramon Serrano Suner—Franco's brother-in-law—was captured by the Loyalists. He was on the eve of being executed when Farben agents in Madrid interceded with the Loyalists and arranged for an exchange of Serrano Suner for a prominent Loyalist captured by the Fascists.

After his release in Spain, Serrano Suner was met at the French frontier by Willibald Passarge and escorted to Paris where he was wine and dined and given funds to get back to the Fascist side in Spain.

Today, Serrano Suner is the Foreign Minister of Spain, head of the Spanish Falange, and the leading pro-Nazi in his country. The Spanish Foreign Minister exercises much influence in Spanish circles of Latin-America where Ilgner's subversive activities are now carried on largely by members of the Spanish Falange. Serrano Suner could scarcely help being grateful to the men who saved his life. And it is assumed that Dictator Franco also valued his brother-in-law's life. Ilgner did very well in Spain.

Thus the authenticated record reveals that Max Ilgner through the vast resources of the world's largest corporation organized and financed the contacts with foreign conspirators that eventually made the Nazi conquest of Europe possible.

Ilgner financed the "Iron Guard" in Rumania and only recently Germans were implicated by former King Carol in the poisoning of former Rumanian Foreign Minister Titulescu—an outspoken anti-Nazi. I. G. Farben's men were in Rumania long before Hitler's soldiers arrived.

The I. G. Farben Company also financed the organization of the Fifth Column "Ustachi" in Yugoslavia and was implicated in the assassination of King Alexander in Marseille in 1934. Anton Pavlovich, present puppet Premier of Nazi-created Croatia, was charged with responsibility for the assassination. He fled to Mussolini for asylum when the authorities sought him. Today he is rewarded by being made Premier of a puppet state. He was on Max Ilgner's payroll for many years.

The "Arrow Cross" fascists in Hungary, the Quilings in Norway, the fifth columnists everywhere that prepared for Hitler's aggression by creating dissension and fostering disloyalty, were all creatures of the "Buero I. G., Berlin, NW7."

Max Ilgner's next offensive was to be against the Western Hemisphere where the ground had already been well-cultivated since as far back as 1931.

However, in the story of I. G. Farben, the unprecedented expansion of chemical plants, the manufacture of explosives, gases, synthetic oil, synthetic rubber, synthetic fibers, interwoven in preparation for the opening of World War II on September 1, 1939.

This was primarily Hermann Schmitz's job—operating behind the ample front of Reichsmarshall Goebbels, the director of the Four Year Plan for total war.

WITCHCRAFT IN THE LABORATORY

"Double, double toil and trouble; Fire, burn; and cauldron, bubble."—Macbeth, Act 4, Scene 1.

With diabolical cunning, war was brewed in German test-tubes . . . and I. G. Farben had a formula that could not fail.

CHAPTER VIII

NO ONE was better sworn than Hermann Schmitz—the apt student of Duisberg, Haber and Bosch—that I. G. Farben had nothing to lose by going headlong into total war with Adolf Hitler.

Every detail of corporate planning by I. G. Farben during the fourteen years of the Republic was designed for the coming of an irresponsible aggressor like Hitler—one that could be directed and used.

Hitler was still in a state of exalted frenzy when he came into power in 1933. His time had been devoted almost exclusively to stimulating the passions and lusts of his gangster Sturm-Abteilungen (Storm Troops), and to campaigning among the masses to arouse hatreds that would bring a Nazi victory in the national elections.

As a consequence, he was ignorant of the war economy already perfected for him by the vast I. G. Farben interests. He expressed his amazement to Rudolf Hess when he was made acquainted with Max Ilgner's super-efficient espionage organization and he could scarcely contain himself when Professor General Haushofer showed him how geopolitics could be pursued under a total economy already perfected by I. G. Farben.

The mighty Fuehrer on that occasion is described as having gone into a luscious dance—goosestep, eye-popping and a child-like grin of glee on his face—such as he evicted in northern France seven years later when told that Paris had surrendered.

It was no secret in the inner circle of Nazidom that Hitler during his frequent moods of melancholy oft-times despaired of discovering ways and means of imposing "Mein Kampf" on a hostile world. On these occasions Haushofer, Hess and Goebbels bolstered the faltering nerve of the future Fuehrer by smothering him those problems would be met when they appeared.

It was Hermann Schmitz—president of I. G. Farben—who was being held in reserve by Haushofer and Goebbels. Schmitz was inclined to dismiss much of "Mein Kampf" as the illiterate and confused ramblings of a megalomaniac. But he was convinced that hidden in a torrent of words I. G. Farben's principles were truly expressed in "Mein Kampf."

More important Hitler had proved that his practical imagination—aided by the ruthless intimidation of the German masses by the Storm Troopers—was an ideal medium for achieving Farben's ambitions.

Schmitz's policies were strictly "business." Through a war economy, the already massive I. G. Farben corporation could obtain vast funds from the Nazi State for plant expansion and research.

Should Hitler win the war—and Schmitz was convinced that Germany could win—I. G. Farben, the largest corporation in the world, might consolidate the world empire into a world monopoly of economic necessities.

There was always the possibility that Germany might lose. But Schmitz was prepared for a military defeat. As in 1918, when I. G. Farben had the secret of Fritz Haber's synthetic nitrogen for an economic offensive against world markets, Schmitz proposed to have a tremendous production of synthetics ready to flood and demoralize the international markets if Germany lost again. In any event, Hermann Schmitz considered all precautions to assure German industry of winning World War II, regardless of the decision on the fields of battle.

No matter how hard they tried, the combination of Duisberg, Bosch, Haber and Schmitz was never able to sell the Weimar Republic a bill of synthetic goods. And it is on record that many attempts were made.

There were times when the German Republic might have been justified in subsidizing synthetic materials and synthetic foods—as during the financial debacle of 1923 and again in 1930.

However, the democratic leaders pursued a policy of international cooperation. Democratic economists were well aware that German economy was dependent on export trade.

Unlike Hitler, whose declaration that "Germany must export or die" was later used to justify force, the men of Weimar maintained that natural products could be imported at far less cost than synthetics could be manufactured.

The economists of the Republic were convinced that Germany could survive economically only by trading her technical genius and industrial ability

for the raw resources of other nations. This of course did not take into consideration the use of force to steal raw materials and foreign markets.

For these reasons I. G. Farben was curiously dismissed whenever synthetic manufacture was proposed. Even in the darkest days, just before the Republic collapsed, Chancellor Brüning told Schmitz that German democracy would not, and could not, subsidize synthetic manufacture for the sole purpose of making Germany self-sufficient in war.

This democratic policy was abandoned instantly when Hitler took over. Goering, lavishly bribed, but keenly aware of Farben's potentialities, pressed Schmitz's cause before Hitler.

Comparatively modest expansions were undertaken by Farben immediately after Hitler. In 1934, however, after the death of old President Hindenburg, Hitler was supreme. Hermann Schmitz was told to go ahead.

I. G. Farben was ready. Complete in detail was a four year plan for total war. Hitler approved it and named Goering director of the Four Year Plan. No one admits quicker than Field Marshal Goering that he knows nothing about production and even less about economics. His only accomplishment was as a wartime aviator twenty years before he got so grossly fat.

Nazi propaganda credits Goering with the creation of the Luftwaffe—the Nazi air force. Goering is also hailed as the production genius who made the Four Year Plan—launched publicly in 1936 but actually begun many years before—the great success it turned out to be.

As a matter of fact the late General Ernst Udet—killed in a mysterious "accident" during the third year of the war—and General Milch, whose mother was accused of adultery in the birth of the future General to excuse her Jewish husband, Milch's real father—were the creators of the terrorist, brutal Luftwaffe, the assassins of innocent civilians and helpless women and children.

Goering's sole role was his knowledge of aerial combat, gained during World War I in the famous Richthofen Squadron. Goering's position in the Nazi Party was founded on his savage leadership of Storm Troopers in the early days and his super-efficiency as the Assassin in Berlin during the purge of June, 1934.

As in the case of Udet and Milch, Goering had little or nothing to do with the Four Year Plan. He had the authority under Hitler to employ any means he saw fit to see that it was effectively carried out. It was Hermann Schmitz who administered the Four Year Plan. Schmitz told Goering what to do and the Fat Marshal was only too willing to do it. Von Schmitz's gift of a million Reichmarks in 1934 bore fruitful dividends.

Expense didn't count under the Hitler-Goering-Schmitz program. Like the working arrangement between Hitler-Ribbentrop-Singer in foreign espionage, the home front was organized as a partnership between the State and I. G. Farben.

State subsidies paid for new Farben plant construction, for the salaries of hundreds of thousands of workers, for research and development. When funds were not immediately available, Goering ordered confiscation. The slaughter of Jews and the confiscation of their wealth was particularly useful during this phase.

Hermann Schmitz had four principal synthetics without which Hitler could not have gone to war. Altogether, I. G. Farben exhibited more than 250 synthetics at the exposition in Frankfurt in 1937.

The four main inventions, however, were, in the order of their importance, synthetic rubber, synthetic gasoline and oil, synthetic fabrics for clothes, and synthetic foods and vitamins.

As early as 1936—the year the Four Year Plan was announced—Farben and Krupp were already able to assure Hitler of sufficient military material to intimidate the democracies. That year Hitler dared reoccupy the Rhineland. The same year Hitler precipitated the Spanish Civil War to test new German war material. Professor General Haushofer's geo-political theories were on their way to realization.

But Germany was not really ready for total war in 1936. By a firm stand, the democracies might have stopped the Nazis in their tracks. However, Max Ligner's intelligence service assured Hitler that the democracies would stay put. History records that they did.

Thus after 1936, Nazi diplomacy became bolder and bolder, while Hermann Schmitz and his huge organization worked night and day to complete the Four Year Plan on time.

Contrary to general opinion, the first victim of the Hitler-Schmitz aggression was the vainglorious Benito Mussolini. When Hitler first visited Mussolini he was treated with scant courtesy by the Italians.

The flamboyantly uniformed Duce and his satellites were openly contemptuous of the grotesque figure in a bedraggled trench coat. Hitler didn't measure up to Mussolini's idea of a dictator.

However, the almighty Duce was shortly to be informed. He was made to realize that his entire war machine was dependent on the whims of I. G. Farben through its control of Mussolini's chemical industry. Farben controlled the patents and processes used by the Italian Montecatini company. Farben agents ran the huge plant. Farben finances could make or break the Italian war economy.

From here on Mussolini realized he was No. 2 dictator—not No. 1. Thereafter, Il Duce was a lackey to Adolf Hitler—and Hermann Schmitz.

Farben won the Spanish Civil War through its ownership of Ramon Serrano Suner and Dictator Franco. The seeds were planted in France where Pierre Laval was on the Farben payroll. Economically, Farben controlled all the rest of Europe.

Only Czechoslovakia and Russia were uncertain, but Professor General Haushofer had theories ready to apply to those countries. Poland didn't count in German opinion and it was conceded that Germany



REHEARSAL IN SPAIN

The new explosives and war machines created by Farben, Krupp, Thyssen and others were given a thorough testing in the Spanish civil war. When perfected, they were ready for the titanic struggle that engulfed the world.

would have to fight Great Britain and, perhaps, the United States.

The lines were rapidly approaching for the creation of the new familiar totalitarian Axis—the pre-stated division of the entire world into two hostile camps.

However, formation of the Axis had to await completion of Hermann Schmitz's program for a wartime self-sufficiency. The German Bayer Company—one of the subsidiaries of the I. G. Farben trust—invented synthetic rubber as long ago as 1909. It was more costly than natural rubber and imperfect in quality. The Kaiser showed little interest.

In the first World War, the Allied blockade created an acute rubber shortage in Germany. The German Navy was the first to feel the squeeze and discarded rubber for accumulator cases in submarines. The German Bayer Company furnished it.

During the last year of World War I, Bayer was producing about 3,000 tons of synthetic rubber annually. After the Armistice, production was almost closed. The first synthetic rubber was imperfect and much more costly than the natural rubber available in quantities. Moreover, the Republic wasn't interested in self-sufficiency.

The chemical wizards of I. G. Farben, however, were not discouraged. New experiments and refinements of the original processes were never interrupted.

That in 1933, Farben was ready for the mass production of this synthetic rubber. But it takes time to build plants and train workers and several years were to pass before mass production was accomplished.

By 1933, most of the motorized equipment of the Nazis rolled into Austria and Buna rubber. The world was led to believe that this was an "ersatz" product on jerry-built tanks and trucks that littered the highways with broken-down equipment. Poland and France, the Balkans and Russia were to prove later that Farben had reserved the production of efficient synthetic rubber.

Hermann Schmitz had not been idle.

In 1930, Schmitz had 18,000 workers employed at a new rubber plant near Solingen. Another plant was set up near Marl-Bucks where exhaust gases from the hydrogenation works at Solingen could be utilized. Still a third works was built near Bruns after the seizure of Czechoslovakia. These new plants are in addition to the original Farben works which were also vastly expanded.

The combined annual production of these major plants—others are several subsidiary plants where Farben patents are farmed out—is to exceed of 206,000 tons of synthetic rubber each year, or equal to Germany's pre-war needs and, under a ration system, ample for Nazi war purposes. It is scarcely necessary to say that all of this production is controlled by I. G. Farben.

Thus on September 1, 1939, the Nazi War machine was on its toes—of rubber in the Farben produced rubber ready for Hitler's order to launch World

War II by the invasion of Poland.

Diplomatic pressure and Hitler's well-known patience, when his hunch or astronomical information tells him the time has come, precipitated the war a year ahead of time. But Schmitz had production well in hand. Wartime pressure further expanded workers and extended their working hours. Schmitz was able to keep pace with Hitler.

Next in importance to rubber in German self-sufficiency was the production of synthetic gasoline and oil. In 1913, Karl Bosch, then with Badische Anilin-und-Soda-Fabrik, invented a process for extracting oil from coal known as hydrogenation.

The world was less dependent on oil in those days and Bosch's invention was of little interest to the world at large. It was regarded as an interesting laboratory experiment but of no utility when there was more than ample oil for everyone at low costs.

Under the Four Year Plan, Hermann Schmitz expanded Farben's huge nitrogen-Lowmolekule plant in order to produce the new "Leinölmaschine." The "Leinölmaschine" adjunct was built in 1937 as a "pilot" plant. Production was stepped up in 1932. Hitler was told in 1933 that Farben would soon be capable of producing more than half of Germany's gasoline requirements.

The fueler was assured that I. G. Farben could make Germany independent of gas and oil imports—given State credits and State aid. So the agreement made between Schmitz and Hitler for oil identical with that in the case of rubber.

The Nazis had accumulated large stock piles of high octane gasoline before the outbreak of World War II. They obtained an agreement with Russia for additional supplies through the Hitler-Stalin pact. But the Nazi war machine really relied on the synthetic production of I. G. Farben.

When war came, I. G. Farben was operating eleven hydrogenation plants in Germany, one in Austria and one in Czechoslovakia. In addition, Schmitz controlled nine gas distilleries that manufactured intermediates for hydrogenation. Thus, all experts were convinced that Germany could produce all her own ordinary gasoline and light all requirements in line of war.

There was reason to believe that hydrogenation did not successfully produce high octane gasoline for war planes. However, there was a similar belief in 1918 that Germany had exhausted her nitrogen resources. The Farben chemists solved that problem. Their successors were at work in the Nazi laboratories in the third year of World War II under the whip of Hermann Schmitz and there was no reason to believe that high octane gas was beyond the grasp. At least the eventually was not discovered in spite of the hit-up in Nazi air raids that year.

During World War I, the German chemists suffered bitterly for want of real clothing. All had to be sacrificed to clothe the soldiers at the front and in the last period of the war even the soldiers were trying to wear "ersatz" uniforms.

Along with starvation, this cloth famine caused by the Allied blockade was blamed for the German

Hitler was resolved that a similar cloth famine would not defeat him in World War II.

Also a crying need of the early Nazis was for uniforms. Imported fabrics were costly and the Nazis then were not too well to do. In 1933, Hitler ordered the Economic Commissioner—Herr Keppler—to begin the mass production of synthetic staple fiber regardless of its imperfections.

Incidentally, wisened propagandist Minister Goebbels went into a huddle with himself about that time and came forth with a warning not to use the term "ersatz" in connection with the resplendent new uniforms of the Elite Guard. Goebbels reasoned—and rightly—that too many Germans still remembered the awful "ersatz" clothing that fell off them in World War I, and therefore he ordered that the new "ersatz" be called "Neue Werkstoffe"—new production materials.

It is a fact that "Neue Werkstoffe" is incomparably better than "ersatz." In the first World War, I. G. Farben was primarily experimenting to make explosives—cellulose out of pine wood instead of cotton—and succeeded. The "ersatz" clothing was a by-product of those experiments.

After the Armistice, the Germans clamored for real clothing. They were heartily fed up on "ersatz." Also, the Weimar Republic sought trade relations with cotton producing countries and the manufacture of synthetic fibers languished. Again, however, Farben chemists kept right on with their laboratory work.

When Hitler ordered "Neue Werkstoffe" in 1934, Germany was still dependent on imports—100 per cent for cotton, 95 per cent for wool, 100 per cent for jute and other basic fibers, 90 per cent for hemp, and 85 per cent for flax. Only rayon was produced in sufficient quantity by Farben and the Glanzstoff Company.

Under Hitler's orders—at the request of Hermann Schmitz—the Nazi government forced contracts for synthetic upon all textile plants in Germany and fixed prices for their products. To relieve I. G. Farben of the financial risk involved in an uncertain business venture, the Nazis forced the textile industry to contribute capital for new factories.

In effect, the German textile industry—once a flourishing business—was ruined. It was because—although greatly improved—synthetic fabrics would not stand up under wear, and, more important, they were not warm regardless of their weight. This was to prove disastrous during the Russian winter of 1941-42.

However, Farben produced 7,000 tons of "Neue Werkstoffe" for uniforms in 1934. Production increased each year as the regimented masses were informed—from tiny boys to elderly men, from little girls to older women. In 1938, I. G. Farben presented Hitler an annual production of 360,000 tons and the Nazi War Machine was ready to roll.

The mass destruction of German forests to make synthetic fibers became alarming and Farben was reported experimenting on a new process that would produce a pure synthetic fiber without the use of

wood. For a time, wood pulp from conquered Rumania and Baltic territories relieved the situation. Carried to an extreme—or over a period of time—Germany's synthetic fiber production would have denuded the country entirely of trees.

In addition to control over rubber, oil and fabrics, I. G. Farben also controlled numerous other synthetics. Derived for the most part from coal, carbon, nitrogen and sulphur, new synthetics appeared continuously. Hundreds of small companies took part in manufacturing but all were subservient to I. G. Farben.

Very important in the Nazi war economy was the supply by Farben of synthetic chocolates, egg-flour and other foods as well as vitamins vital in the nutrition of children as substitutes for fish, eggs, fruits and vegetables. Important also were their substitutes for metal, leather, rock, asbestos and similar strategic materials.

On the side of the purely military economy, Hermann Schmitz rapidly accomplished mass production of high explosives, liquid flame poison gas and other instruments of death. The large reserves of poison gas stored in Germany in 1942 were believed to be in reserve for a last desperate effort to achieve victory. It was a Farben chemist—Professor Meyer—who unambiguously said, "The gas weapon can be developed, not only to one of the most efficient, but one of the most humane weapons of war." The implication was that Farben had invented a gas to put enemies to sleep without serious permanent injuries!

In the Farben subsidiary—"Dynamit Nobel A. G."—and the Farben controlled "Westfälisch-Anhaltische Sprengstoff A. G."—virtually all of Hitler's explosives were manufactured. New weapons about which there were mysterious hints were employed in the reduction of the famous Belgian Fort Eben-Emael early in the war and shortly after in the reduction of the famous Maginot Line in France.

Finally the chemists of I. G. Farben produced new metals and alloys, less expensive and lighter in weight in comparison to the tensile strength of other metals. Significantly an I. G. Farben man—Professor Beck—was in complete charge of metal production for the Nazi War Economy.

Verily, Hermann Schmitz had done his job. He had made the Nazis self-sufficient in war. The rest was up to the military men. As for Hermann Schmitz, his busy mind was already turning to after-the-war plans.

Schmitz had two alternative programs—one for use in case of a Nazi world victory—the other in case the democracies licked Hitler.

Meanwhile, I. G. Farben's position in the Western Hemisphere was to be reviewed because much of the great wealth used to finance the second World War was drained by I. G. Farben out of the Western Hemisphere—and particularly from the United States—and I. G. Farben was still well organized throughout the Western Hemisphere in the third year of the second World War.

trust was at the American Bayer Company, which had acquired the German Bayer patents from the Allen Property Custodian.

As in the transformation of the lesser Grassell firm to the vast General Aniline and Film Corporation, American Bayer was forced through a similar corporative wringer. It emerged as an I. G. Farben unit in the Sterling Products Corporation.

American Bayer during World War I had built up an important export trade in pharmaceuticals in Latin America, the Far East, Canada and other parts of the British Empire, and, of course, throughout the United States.

Thus, Duisberg, Schmitz, Ilgner, and vom Rath, of the United States, could report in 1933 to Duisberg, Schmitz, Ilgner and Vom Rath in Berlin that I. G. Farben now had a huge dye firm in the process of construction to be known as General Aniline and Film Corporation. And that Farben had a toe-hold in pharmaceuticals in America to be known as Sterling Products Corporation.

Old Karl Duisberg is said to have been truly astonished at the rapidity with which this was accomplished. He could scarcely believe the terms of the contract forced on the American Bayer Company as early as 1933—only five years after the war!

The contract completely restored I. G. Farben's pharmaceutical markets throughout Latin America. Three clauses in the agreement restored these markets.

1. The American Bayer Company (Sterling Products) was to supply aspirin in Latin America for sale through the German Bayer (I. G. Farben) agencies.

2. The German Bayer was to supply these pharmaceuticals if it could do it cheaper than the American firm. (Of course, it could because a primary Farben policy was to undersell, or "dump," to regain markets.)

3. The German Bayer (Farben) was to pay 10 per cent of all net profits.

It might be supposed that I. G. Farben had put a gun at the heads of American business men to get such an agreement. But, that wasn't necessary. This was during an era of good feeling for the misled Germans who were trying to establish themselves in a world safe for democracy.

More important was Farben's cunning trick of withholding essential information in patents filed in Washington. The experience of American chemists in trying to make Salvarsan—which poisoned American soldiers in World War I—had been enlightening. They encountered similar difficulties in trying to use many other German patents acquired from the Allen Property Custodian. Perhaps, in time, American research would have plumbed the German secrets.

During the money mad twenties, however, there was no time to be lost. American business was willing to deal with I. G. Farben in return for licenses to use Farben processes. The loss of Latin America at the time seemed unimportant.

I. G. Farben, of course, pointed out that only Farben men knew the processes. They must be called in from Germany and employed in America—where they were to become American citizens and later key men in the most vital of war industry plants.

Thus even before 1925, Farben was re-established in the United States—safe and secure as though there had never been a war. The first funds from plutocratic America were flowing steadily to I. G. Farben via the I. G. Chamile pipelines in Switzerland. Germany never loses!

However, this was only a beginning. Greedy I. G. Farben wanted a share in the United States and Canadian markets as well as Latin America. This required much more adroitness and was to last a longer time. But it was done!

FARBEN DIVIDES AND RULES IN THE U. S.

The crafty Germans made "friends" of Edsel Ford and Standard Oil in the pre-Hitler years — while lesser industrial giants learned a costly lesson in treachery.

CHAPTER I

OLD KARL DUISBERG was a trifle apprehensive about the reception his expeditionary force might encounter in the United States after the First World War. He counseled patience and warned against direct action. Methods that might be successful in Europe would never do in America.

Duisberg needn't have worried. Hermann Schmitz and Max Ilgner had considered the United States problem very carefully.

They both knew that the price-cutting, dumping tactic that could be used in Europe, Latin America, and the Far East, might prove disastrous in the United States.

Hermann Schmitz had a healthy respect for the economic illness of America. Even the powerful German dye trust could not afford to precipitate a war with these powerful corporations.

The Du Pont Corporation and Allied Chemical—along with the British Imperial Chemical organization—were the only competitors strong enough to seriously challenge I. G. Farben's campaign for world monopoly.

Hermann Schmitz was determined to avoid that challenge. A veteran wardheel politician long ago decided that—"If you can't lick 'em, join 'em." And Imperial Rome on its way to world conquest pursued a policy of "Divide and Rule."

This age old principle of notorious aggressors was equally applicable to Farben's position in the United States during the years before the outbreak of World War II.

Schmitz had two objectives in his offensive against America. The first was against the exports of DuPont and Allied Chemical in foreign markets. The second was a share in the United States market itself.

These called for a "gentlemen's agreement" with Du Pont. I. G. Farben had much to offer the American firm in an exchange of patents and information. There was also a tacit understanding on a division of markets in other parts of the world.

Generally speaking, the idea of I. G. Farben was to reserve to itself the export of the more expensive Aniline and Indanthrene dyes, at the same time, however, getting a large share in the bulk of the cheaper Aniline dyes. The United States market

also absorbed much of the heavy chemicals and other products of DuPont and Allied Chemical.

American business interests were perfectly willing to avoid a mutually ruinous commercial war with the Germans. Following sound business practice, it was felt there was room for all and production efficiency would determine the eventual markets of the various competitors.

However, this didn't fit the I. G. Farben book at all. Before 1930, I. G. Farben was treacherously disregarding the tacit agreement with the American and British firms. Hermann Schmitz was dumping and underselling everywhere outside of the United States.

Schmitz opened his campaign against the United States in the export field in the Far East. It will be recalled old Fritz Haber went to Tokio in 1924 and initiated an agreement with the Japs. He left the negotiations in the hands of the German Ambassador—Dr. Soil.

Following Haber, German technicians, students and tourists descended on Japan en masse. They were accorded a hearty welcome. As old Fritz Haber had reported, the Japs were eager and anxious for German help.

In 1926, the Japanese government signed a formal agreement with I. G. Farben under which Farben was to take over the Japanese chemical industry and train the Japanese in the manufacture of explosives, synthetics, light metals, and other war and civil material. Poison gas was included in this agreement and, since June 1940, the Sumitomo Chemical Co., plant at Uihima, Ehime Prefecture, have been working on the latest types of poison gases, under a German chief chemist loaned by I. G. Farben. Thus, here again, I. G. Farben prepares the deadly weapons that Japan, in the last desperate stages of its war against the United Nations, may use to kill American boys.

As a gesture of amity and partnership, old Fritz Haber, before leaving Japan, presented the Japanese Minister of Education with a highly valuable chemical library.

At the same time, I. G. Farben and Japan signed an agreement in regard to synthetic nitrogen. The Japs were not doing so well trying to use confiscated German patents. They were perfectly willing to let the Germans take over—for a consideration.

The agreement provided for the German import of nitrogen and the payment of a license fee to the Japanese super-states of Mitsui and Mitsubishi, who had acquired the German patents from the Japanese government.

Almost immediately—in concert with the Japanese—I. G. Farben was under-riding and dumping in China and other parts of the vast Far Eastern market. DuPont, Allied and Imperial Chemicals took a real licking in the Orient.

This success of the subsequent Axis was to bear fruit only three years later, when the Japs trained and supplied to Farben, moved in on Manchukuo and launched the age of ruthless aggression. Manchukuo was the first step in carrying out the doctrine of German Professor General Haushofer in his "Geo-politik of the Pacific"—the Bible of the Japanese war machine in the creation of a "Greater Asia."

The seizure of foreign markets, however, was comparatively simple in contrast to the penetration of the United States market, because despite the "gentleman's agreements," American firms were not to be pushed around in their own back yard.

Hermann Schmitz needed other and more powerful allies. The Farben expeditionary force had already accomplished preliminary work. The agreements with Sterling Products and American Bayer for control of the Latin-American markets were a high point in this phase.

Rudolph Higner, Wilhelm vom Rath, W. H. Dulberg, and Dietrich A. Schmitz, established confidence in American business and social circles. They were on their way to becoming American citizens.

American investors and business organizations found the I. G. Farben men ever so helpful in advising them and guiding them in American investments that poured into Germany during the life of the Dawes Plan and the Young Plan.

Americans could only in courtesy reciprocate this deceitful treatment and I. G. Farben was soon reaping favors and help from powerful American interests.

Chief among them—Hermann Schmitz always had an eye to the main chance—were the Ford Motor Company and the Standard Oil Company of New Jersey.

I. G. Farben gained Henry Ford's confidence by taking over a substantial share of stock in the Ford plant at Cologne, Germany. Edsel Ford reciprocated by taking out shares in the I. G. Farben organization in the United States, i. e., General Aniline and Film Corp.

Farben protected Ford in Germany. Ford helped Farben in the United States. When the German automobile industry attacked the Ford factory in Germany, old Karl Dulsberg leaped to the rescue. The Germans protested against Ford's "foreign infiltration." Old Karl shot them up curtly.

As head of the "Reichsverband der Deutschen In-

dustric" old Dulsberg was the industrial spokesman for the Germans. In a public statement, Dulsberg pointed out that Ford cars were mostly built by German workers and with German materials. No war was heard on the subject.

In America, Edsel Ford became a member of the Board of Directors of the General Aniline and Film Corporation—Farben's major unit in the United States.

Henry Ford has long been distinguished for his interest in the production of synthetics—the use of soybeans and other farm products for making desirable goods. During the depression of the early thirties, when farm products were a glut on the market, Ford was hailed as the future savior of the American farmer.

There is no direct evidence on the subject but it is reasonable to suppose that a "gentleman's agreement" for the exchange of information in connection with synthetics was a logical development in these close relations between the Ford Motor Company and I. G. Farben.

In any event—Fritz Kuhn, the notorious leader who headed the Nazi Bund in the United States before the war, was first employed in America as a chemist in the Ford Motor plant. His subsequent career as a bullying braggart, finally sent to jail for grand larceny, is well-known. Kuhn was convicted of embezzling Bund funds. He had become an American citizen and, although he had presided over huge mass-meetings denouncing democracy and "selling" Hitler, he was never bothered by the American authorities because of his subservient activities.

What connection this close association of Ford with Farben had with Hitler's presentation of a Nazi medal to Henry Ford is not known; nor what connection it may have had with Ford's refusal early in World War II to manufacture airplane motors for the British.

But even more to be feared in the export field as well as in the United States, was the powerful Standard Oil Company, of New Jersey. Above all Hermann Schmitz didn't want to arouse the ire of Standard Oil.

Early in the game, I. G. Farben's agents approached Standard Oil to discuss the hydrogenation of coal—the process for making synthetic oil and gas. Schmitz was anxious for an understanding with the largest natural oil company in the world.

The first thing done was the organization of all other of the myriad of Farben corporations scattered through the world. This one was the Standard Oil Company, an American firm controlled jointly by I. G. Farben and Standard Oil. It acquired all I. G. Farben patents in the United States for the manufacture of synthetic gasoline. There was little likelihood that synthetics would compete with natural oil as long as Standard oil flowed in America.

However, Schmitz was willing to go a step further

This was before the Nazis enabled Farben to produce in mass production of synthetic oil in Germany. Schmitz let Standard in on a world monopoly of the hydrogenation process.

Another corporation was organized. It was called the International Hydrogenation Patents Company, for the rest of the world, except the United States and Germany. Farben held the German monopoly. Standard got the American.

The International was owned jointly by Farben and Standard. Later, competitive pressure and "other considerations" brought Royal Dutch Shell and Imperial Chemicals—the British interests—into International Hydrogenation.

Significantly, this all-powerful corporation—holding a world monopoly on synthetic oil production and embracing four of the greatest corporations in the world—was organized in the tiny principality of Lichtenstein. Its official address is International Hydrogenation Patents, Vaduz, Lichtenstein.

The capital at Vaduz has a population of 1,710. Lichtenstein covers an area of 65 square miles. But the tiny principality northeast of Switzerland was neutral. Farben was to see that Hitler kept it neutral and thus escape belligerent interference with International Hydrogenation.

Lichtenstein was even more obscure and free from foreign interference than Switzerland—where I. G. Farben was to handle Farben financial interests and credits during time of war. Lichtenstein might be called the Delaware of Europe. It has very liberal incorporation laws and virtually no regulation. It is doubtful if Lichtenstein authorities ever heard of anti-trust laws. There are no trusts in Lichtenstein and the tiny country prospers from incorporation fees and corporation taxes—no questions asked.

After this understanding had been reached, Standard Oil showed its appreciation by placing its own board chairman, Walter C. Teagle, on the board of the General Aniline and Film Corporation—the master concern that now did most of Farben's manufacturing in the United States.

With Edsel Ford and Walter C. Teagle on its board General Aniline's position was well-nigh unassailable. These eminent industrialists served as a perfect screen for the more shadowy activities of Hermann Schmitz and Max Higner in America.

Thus, General Aniline prospered and flourished with the approval of the American business world generally. Hundreds of I. G. Farben technicians and executives came to America and became citizens long before World War II was launched.

Prominent among them were—Dietrich A. Schmitz, brother of Hermann Schmitz, an uncle of Max Higner, who became president of General Aniline.

Walter H. Dulberg, son of old Karl Dulsberg, who was the vice president and treasurer, and a director.

Wilhelm vom Rath, one of the largest stockholders

in I. G. Farben and son of the late vice-chairman of Farben, secretary, vice-president and director of General Aniline.

Hans Alckelin, a veteran I. G. Farben man, also a vice-president of General Aniline. Ernst Schwartz, director and vice-president. Karl Milde, assistant secretary and treasurer.

Rudolph Hutz, who was arrested for espionage on August 21st, 1918, and interned for the duration of World War I.

Hutz was arrested by American secret service men at his summer home in Meredith, N. H.

He was charged with attempting "to deliver to the German government or its representatives certain documents, writings, code books, photographs, blueprints, models, plans, maps, instruments, appliances and information relating to United States national defense."

In Germany, he would have been shot. In America, he was interned. He became a general manager, vice-president and a director and key man in General Aniline and an American citizen.

There were many others who came and went during the years, but these were the Farben principals destined to operate in America after World War II broke out.

Probably the most powerful General Aniline director was Felix Iselin. But Iselin never attended a directors' meeting. As a matter of fact, he wasn't in America. Iselin was the head of I. G. Farben's Swiss holding company—the I. G. Chemie, through which funds were drafted from the United States for transmission to Nazi Germany.

(Small wonder that Hitler's armies spared little Switzerland when all Europe was being overrun!)

Besides Edsel Ford and Walter C. Teagle, there were from time to time other prominent Americans on the General Aniline board although 25 per cent of the concern's stock was owned by the Swiss I. G. Chemie and the two Dutch holding companies—both of which countries were expected to be neutrals in World War II.

General Aniline had many subsidiaries in America. The most sinister of these—at least the most mysterious—was the Chemnyco Company headed by Rudolph Higner, brother of Max Higner, and the nephew of Hermann and Dietrich Schmitz.

Chemnyco was organized to handle I. G. Farben's patent licenses in the Western Hemisphere. It represented a tremendous amount of capital and was charged with the transmission of huge royalty payments from the Americas to I. G. Farben in Berlin by way of Felix Iselin and I. G. Chemie in Switzerland. It was through Chemnyco also that the deal was made with Standard Oil.

Then, there was the General Dyestuff Corporation which had a "perpetual" contract for the marketing of all General Aniline dyes and chemicals in the United States. General Dyestuff was owned by two men—W. H. Dulberg and Ernst Halbach. Like Dulberg, Halbach was a veteran I. G. Farben man.

traced completely by Farben's High Command—Hermann Schmitz, Max Ilgner, and Karl Krauch. General Dyestuff was incorporated for only a few million dollars. It handled countless millions collected in the United States and forwarded to I. G. Farben in Berlin.

Also, there was the Advance Solvents and Chemical Corporation, handling Farben imports into the Americas; and others too numerous to mention. Only Max Ilgner and Hermann Schmitz at "Bureau I. G., Berlin NW7," were believed to know all of the corporate ramifications of I. G. Farben in America.

In the Sterling Products Corporation—American owned but then subject to Farben influence—were other subsidiaries, including American Bayer, the Winthrop Chemical Company and others. The leading men in Sterling were W. E. Weiss, A. H. Diebold, Earl McClintock, all native Americans.

The Winthrop company was one of the major pharmaceutical manufacturers in the Western Hemisphere. I. G. Farben forced Winthrop into an even more subservient contract for the sale of pharmaceuticals in America than the contract to which American Bayer had to submit. Eventually, I. G. Farben acquired 50 per cent of Winthrop's shares and became an outright co-proprietor with Sterling. Shortly afterwards, W. E. Weiss, chairman of the board of Sterling, became a director in Farben's General Aniline organization.

General Aniline had a vast dye and chemical plant at Linden, N. J., another equally large dye plant in Kenilworth, N. Y., and a great film factory at Binghamton, N. Y., and another at Johnson City, N. Y. Nearly 10,000 employees were on the General Aniline payroll.

Its annual business was in excess of \$40,000,000 from the United States market alone. General Aniline was second only to DuPont and Allied Chemicals in the American market. It accounted for more than one-fourth of American chemical production. It was second in film manufacture.

Its close associate and co-partner, Sterling Products, was well-nigh supreme in the pharmaceutical fields and I. G. Farben was in intimate relationship with Standard Oil, the Ford Motor Company, and other giants of American business.

The only mild alarm to annoy I. G. Farben in the years before World War II was a Congressional investigation of the late Ivy Lee, the noted American press agent and publicist. In 1934, Congress suspected Ivy Lee of being a propagandist and a lobbyist. They wanted to know where he was getting

his money and whom he represented.

Ivy Lee testified frankly. It was strictly a business proposition with him. After the Nazis came to power, Hitler's persecution of the Jews and the purge of June, 1934, had set in motion a nation-wide boycott of German products in the United States.

As the man who made John D. Rockefeller popular in his old age (Lee is credited with the "giving away of dime" idea), Lee was recommended to I. G. Farben as the man to organize a campaign to counteract the anti-Nazi boycott. So Lee went on the payroll of I. G. Farben at \$25,000, per year, plus expenses.

As part of his duties, Lee went to Germany where he had personal talks with Goebbels, the Nazi Propaganda Minister, and other Nazi big shots. Lee was introduced to Goebbels by Max Ilgner, the head of Farben's world-wide intelligence service—(Bureau I. G., Berlin, NW7.)

Upon his return, Lee planned an extensive radio and press campaign to overcome American sympathy to things Nazi. He spent millions for the Nazi government and I. G. Farben with radio stations, newspapers and other publicity mediums. All details were worked out directly with I. G. Farben through Max Ilgner in Berlin. Lee was paid through General Aniline in the United States and through the Farben holding company—I. G. Chemik—in Switzerland.

There was some popular indignation over the revelations but it died down quickly. After all Americans were more concerned with unemployment, the New Deal and the depression in 1934. The Congressional investigation of Ivy Lee attracted little interest.

No one welcomed the American lack of interest more than I. G. Farben's field commanders in the United States. Now that the Nazis were in power Max Ilgner's intelligence service gained so importance undreamed of before and the Farben organization was to assume much more sinister significance.

It was time in 1939 to tie the Farben organization in Latin-America and the Orient more closely with the western headquarters in the United States. Hermann Schmitz had the counter-types to Diewick Schmitz, W. H. Dulberg, Rudolph Ilgner and Wilhelm vom Rath, of the United States, located throughout the nations below the Rio Grande.

Before September 1, 1939, these far flung agents and spies were to be welded into one hemispherical organization for the double Farben purpose of maintaining a hold on markets during the coming war and to further Adolf Hitler's designs for a conquest of the world.

THE CONQUEST OF LATIN AMERICA

Below the Rio Grande there was little animosity toward Germany. So Farben agents carefully studied the South American way—and easily seized up the business of all the New World republics.

CHAPTER XI

HERMANN SCHMITZ and Max Ilgner didn't anticipate any trouble in the Latin nations of the Americas after the first World War. Their subversion was that Latin America had no particular enmity for things Germanic.

Moreover the German Bayer name was a household word throughout Latin-America. Before the war German pharmaceutical and chemical firms were predominant all through South and Central America.

None of the Latin-American nations had been actively at war with Germany. Some declared war but more for prestige reasons in the United States than anything else. Ilgner was assured no one in Latin-America was sore at Germany.

On the other hand there were large colonies of Germans in Argentina, Brazil and Chile. Smaller ones were located in all other Latin-American countries.

Mexico was still in the throes of the incipient revolution and still hostile to the United States. In many other countries south of the Rio Grande there was a barely veiled feeling of resentment against North American imperialism. Nor was this hostility assuaged during the boom period of the twenties when American Marines went into Nicaragua and Haiti. The era of Good Neighborliness had not begun yet.

I. G. Farben was thus assured of a market among German colonials of the sub-set. It remained only to capture markets taken over by American Bayer and other North American firms during the war.

The reward has revealed that I. G. Farben's agents in the United States had little trouble in that respect. In trades, deals and agreements, Farben was shortly in control of all Latin-American pharmaceutical markets. Within a few years it was predominant in the heavy chemical and dye markets.

It was unnecessary, therefore, for Hermann Schmitz and the same type of agent to Latin-America as brother Diewick, Ilgner, Dulberg, and Vom Rath who were in the United States. Latin-America presented cunning and deception rather than swiftness, social grace and business acumen. South American agents of Farben were generally of a lower order of intelligence and ability than the men in the States.

Outside Farben in Latin-America was to become subservient to the Farben organization in the United

States eventually. The funds for the entire Western Hemisphere were to be provided from North America.

Hermann Schmitz and Max Ilgner began their campaign in South America with a ruthless thrust at Chile's nitrate trade. I. G. Farben had no fear of a dominant corporation that might be able to pit up a fight.

It was true that most of Chile's government revenue came from nitrate exports. Her national prosperity was dependent on the nitrate trade.

It is worthy of note that the Guggenheim interests of North America spent a fortune trying to bolster Chilean nitrates against Farben's practical raid. The Guggenheims were not interested in nitrates themselves. As copper kings, they were the largest producers of copper in Chile.

Chilean economists date much of their political, as well as their economic woes, from the beginning of Farben's offensive against natural nitrates. The series of revolutions and social discontent that marked the years between World War I and World War II are mainly attributed to this organized destruction of Chile's major industry.

Chile's experience was enlightening to other Latin-American nations. None cared to test the ruthless power of I. G. Farben.

And as in the United States, I. G. Farben men immediately announced their intention of becoming citizens. They married into Latin-American families. They did business favors for Latin-American business men. And they were amply supplied with funds.

The chief of the Farben expeditionary force in Latin-America was Alfredo Moll, Director of Anilinas Alemanas, the I. G. Farben subsidiary in Buenos Aires. Alfredo Moll has direct supervision over all other Farben agents in Latin America. Significantly, Moll's sister is married to a noted Argentine financial expert and director of the Banco Central de la Argentina.

Moll was, of course, a naturalized citizen of Argentina. He had an Argentine passport and received the preferential treatment accorded citizens of the Latin American countries in tours of the southern continent. Moll has never concealed his pro-Nazi sentiments and was known as one of the most prominent followers of Hitler on the southern continent.

SEQUEL To The APOCALYPSE

I. G. Farben was represented in South American countries by a chemical, a photographic and a pharmaceutical branch. The chemical companies were generally known as ANILINAS ALEMANAS. The photographic companies are known under the name of AGFA. The pharmaceutical companies centered around the German BAYER name, a name familiar to Latin-Americans for years past.

As a matter of fact, many Latin Americans were never aware that American Bayer supplied them with pharmaceuticals during World War I. Bayer was Bayer to the average South American and Bayer meant Germany to him. The Farben organization made the most of that.

One of Alfredo Moll's ablest lieutenants was a man named Arnold Mageric, Director of the Bayer Company in Venezuela. Mageric was also "Landesgruppenleiter"—the Regional Head—of the Nazi Party in Venezuela. At the same time, he was "Stützpunkt-leiter"—Point of Support Leader—of the Nazi Party for all of the West Indies. He was in constant touch with other Nazi regional heads and German agents through Alfredo Moll and served as a pipeline between Moll and Farben agents in Central America and Mexico.

Other key Farben men in Latin America included Edwin Grosser, head of the German Bayer Company in San Jose, Costa Rica. Grosser was the Nazi "Ortsgruppenleiter"—the Local Leader—in San Jose. He received instructions directly from Otto Reinebeck, the Nazi Minister for Central America, in Guatemala. Grosser served as a Nazi courier to other agents scattered throughout the countries just north of the Panama Canal.

A prominent Farben agent in Mexico City was Enrique Paredes, who was closely associated with Grosser in Costa Rica. Paredes received coded messages and subscriptions from Nazi members from all parts of Latin America.

Ludwig Schreiber, manager of the German Bayer

Company, was one of the leading Nazis of Mexico City and his assistant, a man named Hermann, charged with being a Nazi espionage agent. Another other Farben man, J. M. Fischer, Director of Anilinas Alemanas, was the head Nazi propagandist in Mexico.

In Chile two officials of the German Bayer Company—Walter Bergerer Kirach and Werner Schmidt—were arrested on charges of pro-Nazi subversive activities. The manager of the Bayer Company in Chile was arrested also but later paroled without charge being prosecuted.

And thus it went throughout Latin America every country. Farben agents served as Nazi spies and propagandists. There was no particular break in the days leading up to the rapprochement between the United States and Latin America for I. G. Farben to be circumspect on the southern continent. North American firms had turned Latin American markets over to Farben. There was nothing to be afraid of.

Thus long before Hitler, Max Igner and Hermann Schmitz were concentrating on political positions in South America, satisfied with I. G. Farben's domination of the industrial markets.

One of the biggest breaks for I. G. Farben in Latin America was Max Igner's foresight in going to the rescue of Ramon Serrano Sener on the eve of his intended execution by the Loyalists in the Spanish Civil War.

Thus, when Serrano Sener came to power, he was approached by Farben men in Madrid, and I. G. Farben furnished finances for Falange propaganda throughout Latin America. Conservative Latin Americans of Spanish birth and descent were susceptible to Falange propaganda which they would have sent from Farben or Nazi agents.

Igner was satisfied. The Western Hemisphere was under control. So far as I. G. Farben was concerned in North and South America, Hitler could do World War II whenever he was ready.

"WHERE IS THE MONEY COMING FROM?"

Millions for espionage, but not one sent for credit.
That was Hitler's policy toward America.
Fueled F. B. I. investigators lost their way in the vast maze of Farben's financial empire.

CHAPTER XII

THE MOST remarkable accomplishment of I. G. Farben in the promotion of World War II was the complete anonymity with which Max Igner and Hermann Schmitz surrounded German subversive activities in North and South America.

To a certain extent, Igner and Schmitz adhered to old Karl Dulsberg's admonition to be patient and avoid direct action. But progress was made easy for I. G. Farben in its offensive against the world by the normal decencies of the democracies.

However, in all of the confused allegations and charges against organizations and individuals in the United States prior to World War II, Igner and Schmitz successfully kept the name of I. G. Farben, General Anilinas and Film Corporation, and all other Farben organizations, out of investigations and out of the public prints.

Except for the minor flurry, when Congress investigated Ivy Lee, the publicist—and got nowhere—I. G. Farben was never under suspicion in the United States. Even more so, I. G. Farben avoided investigation in South America. There wasn't so much as an Ivy Lee flurry to annoy Max Igner south of the Rio Grande.

This apparent immunity encouraged the arrogant, uncouth master of "Buero I. G., Berlin, NW7." The astounding success of his brother Rudolph Igner and his associates in the United States and the comparable success of Alfredo Moll and his satellites in Latin America developed a Napoleonic complex in Max Igner. He began to believe he couldn't make a mistake. As a fact, he didn't make many. If "Buero I. G., Berlin, NW7" collapses in the Western Hemisphere, it will be because of conditions beyond the control of Max Igner.

In the third year of the war—more than two months after Pearl Harbor—Max Igner's brother, Rudolph, was still a respected American citizen, quietly living on his farm in New Jersey. Yet Rudolph Igner, as head of Chemnyne—collectors of royalty payments in the Western Hemisphere for I. G. Farben—was the main source for transmission of funds to Axis agents in the Western Hemisphere.

Hermann Schmitz's job in the United States was to appease American Big Business. His secondary task was to recapture the Latin American markets from United States manufacturers. He succeeded

with amazing speed in both instances.

Max Igner's assignment was to convince Americans that Germany was not to blame for the war. His agents—who were the identical agents of Hermann Schmitz—were to establish confidence and prepare the way for the real espionage agents who were to follow at the appointed time.

By 1932, Max Igner had the groundwork all laid. There was a minor resentment against the Nazis during their early career. But depression and the expenditure of millions of dollars over the radio and in the newspapers under the able direction of Ivy Lee soon overcame that.

After 1934, "Buero I. G., Berlin, NW7," sent more and more agents to the United States in the guise of salesmen, technicians and scientists. Fritz Kuhn, the ex-chemist of the Ford Motor Company, the head of the Nazi Bund in the United States, was the most notorious in North America.

It is a toss up as to who was the most notorious of Max Igner's intelligence agents in Latin America. Gustave von Mares, leader of the Nazis in Chile? The men who tried to foment insurrection in Bolivia? The conspirators in the Misiones province of Argentina? The Bundmen of the Rio Grande Do Sul in Brazil? The Nazi organization that was prepared to take over Uruguay and make it a German naval base in the Western Hemisphere? The pro-Axis government in Panama?

Max Igner had detailed reports on the activities of everyone of these individuals in North and South America throughout the years before World War II. His reports, as have been recorded, went to the Nazi Foreign organization, to the Economic Bureau of the War Ministry, to the Foreign Commerce Department, to the German Foreign office, and, most important, to Adolf Hitler's private office.

Yet never so much as a breath of suspicion was attached to I. G. Farben or any of its minions. The democracies of the West were aware that huge sums were being spent on Nazi propaganda and for Nazi provocation of disunity in the western nations in preparation for the German entry—whether it be I. G. Farben in a ruthless commercial way or Adolf Hitler with his Panzer divisions and Hermann Goering's Luftwaffe.

Secret Service intelligence men were convinced that the Nazi embassies and consulates were not dis-

tributing funds. For many years they were unable to penetrate the corporate labyrinth of I. G. Farben through which funds were distributed to all points in the hemisphere. When they were convinced, they couldn't get action against the offenders.

To this day, American intelligence operatives are not certain who were the mainprings in Max Igner's organization in the Americas. Nevertheless, it is known that I. G. Farben subsidiaries everywhere acted as the paymasters and directors of the motley swarm of cheap spies and the esoteric band of highly skilled Nazi operatives that established themselves in the Western Hemisphere long before World War II.

When Captain Fritz Wiedemann, Hitler's company commander in World War I, came to the United States to take up his post as Nazi Consul General in the strategic post at San Francisco, I. G. Farben men—now American citizens—made him welcome. Wiedemann had a typically Farben personality. He was engaging and soft spoken. For long he was a sort of society pet.

Likewise, when the Princess Stephanie Hohenlohe arrived in the United States, she was introduced into society by Farben men—now established and influential American citizens. Princess Stephanie was a self-admitted agent of Adolf Hitler and once bragged that she was responsible for the Cliveden amusements set of Great Britain. Before she could do the same sort of thing in America, the F. B. I. overtook her. To save herself from deportation, Princess Stephanie gave certain information to U. S. Federal agents.

Immediately thereafter, Wiedemann, Hans Borchers, the Nazi Consul General, in New York and all of the Axis consular officials in the United States, were kicked out of America. It was discovered but not disclosed that Fritz Wiedemann, the engaging personality, was Max Igner's head man on the West Coast, charged directly with getting instructions and funds into Mexico and South America—and also with preparing the way for I. G. Farben shipments through Japan by way of Siberia to North and South America when war came. The German Republic and Nazi Germany were always load over heels in debt to the United States—both in public and private debts. The Germans as a nation, or as individuals, had no credit balance in the Americas. Yet as propagandist, no subversive organization in existence ever had the funds that the Nazis spent in North and South America. Where did this huge fund originate?

Intelligence men originally looked with amazement at the erratic Joe McWilliams, the pro-Nazi fanatic of the Yarkville section in New York City. They didn't believe that the deluded following he attracted could support him in the style in which he lived.

They wondered where other agitators got their funds for anti-democratic propaganda; and William Dudley Kelley, and Deathridge, and an odd dozen fanatics who always seemed to be well supplied with anti-democratic propaganda expenses.

In the third year of the World War, there was inkling. But there was still no proof. Patient investigators believed they had the answer. They got nowhere in the courts. I. G. Farben had been unbelievably circumspect and incredibly successful in establishing itself as an American enterprise operated by "American citizens."

In Berlin, at "Boero I. G., Berlin, NWY," Max Igner must have laughed long and loud at the wisp of the wisp the authorities of the western democracies were chasing. Business was business. In a democratic country there was no excuse for interfering with business unless criminal proof was forthcoming. Max Igner's diabolical cleverness made that impossible.

Likewise in Latin America—Max Igner's organization functioned perfectly. It was never seriously tagged with subversive action although Farben men were much more blatant in the Latin nations than they dared be in the United States.

As a consequence, Max Igner's intelligence service was able, after 1936, to coordinate the activities of the Japanese—many of whom had been encouraged by the Germans to migrate to Brazil, Bolivia and other Latin-American countries—the Italians and other sympathizers throughout the western world.

Igner's inspection trip through South America in 1936—and his many conferences with Farben agents from the United States and Central America—was a final looksee.

I. G. Farben was predominant commercially in Latin America. Its espionage and propaganda organization was functioning without hindrance. Funds flowed freely between North and South America for Igner's purposes. Vaster funds flowed from both continents to I. G. Chemis in Selkaland to finance Nazi preparations for World War II.

The Japanese understood their role in comic events and Igner's agents were safely anonymous in both North and South America. The Nazi wireless agency, the official D. N. B., the German Information Service, the German Tourist Bureau, all were hitting their stride.

Among them they gave free Nazi inspired press service to newspapers everywhere in Latin America and in some localities in North America. They furnished free copy for radio broadcasts and furnished free radio programs in some Latin American districts.

All of this was supplemented by the advertising on the radio and in newspapers paid for by I. G. Farben companies. Millions of dollars were spent advertising Bayer Aspirin, Cafiaaspirin, Fenaspirin, Tonico Bayer and a dozen others. The names were splashed on billboards, blazoned in newspapers, heralded thronically every day over radio programs. Truly I. G. Farben was a benefactor of mankind in the Western Hemisphere!

Few knew the relationship between I. G. Farben and these popular brands of pharmaceuticals in North and South America. Few knew for that

Color—outside of his business and financial circles—the existence of I. G. Farben, the largest corporation in the world, with hundreds of subsidiary corporate tentacles reaching out to destroy free enterprise and dislocate national economic stability.

However, many a newspaper and many a radio station below the Rio Grande was aware that there would be no advertising revenue forthcoming from this apparently bottomless propaganda fund unless the Nazi Trans-ocean Wireless Agency's free news, the "give-away" news dispatches of the Nazis news agencies and the free inspired Nazi releases from other sources were interspersed between the paid-for advertisements.

Max Igner planned carefully and he planned well. He attained a remarkable success. In 1939, in South America he told his Western Hemisphere agents to be ready for World War II in the spring of 1940. Max Igner didn't anticipate the impatience of Adolf Hitler. According to the German High Command,



THE LATE
DR. KARL BOSCH
AND SON

They visited America just a few years ago to further the German intrigues. Dr. Karl Bosch, Jr., was carefully groomed to succeed his father, the poison gas inventor.

World War II was to begin in the spring of 1940. It wasn't Max Igner's fault that Hitler started in September, 1939.

But, it didn't make any difference. Max Igner and Hermann Schmitz were ready in the Western Hemisphere. They were ready in 1936. They were even better prepared by September, 1939.

Ring up the curtain and on with World War II! Watch I. G. Farben hold on to their commercial dominance in the Western Hemisphere. Watch Max Igner's espionage service operate without hindrance.

Far into the third year of World War II, I. G. Farben's commercial supremacy continued to mount. The "State Within a State" was running a large part of the world. Certainly, it was everything in wartime Nazi Germany—except a soldier taking death on the field of battle.

I. G. Farben was all set to realize on the military victory of the German War Machine—or win the peace by another great offensive against democratic world markets.

THE PLUNDER BARONS REAP A HARVEST

CHAPTER III

WHETHER I. G. Farben agents have appeared in the guise of commercial traders, war and conquest have immediately followed.

Wherever the hordes of Hitler have carried their scourge of blood and tears, in the first three years of total war the vultures of I. G. Farben have followed—to glut themselves on the richest spoils of the battlefields.

I. G. Farben already controlled chemical production in Europe before World War II. But after the military invasions—the second phase of Farben procedure—Hermann Schmitz sought complete domination. I. G. Farben was to be the uncontested czar, sharing nothing with anyone, except for a price.

Farben agents and Farben Fifth Columnists were on hand to greet the incoming conquerors—ready to apply a uniform formula devised by Hermann Schmitz for taking over plants and properties of the vanquished foe.

First—The amalgamation of foreign industries with those of the Reich, coupled with financial penetration and control.

Second—The direction of orders and raw materials exclusively to industries taken over by Farben—thus depriving recalcitrant industrialists of all materials and orders.

Third—The conversion of seized industries to the use of synthetics and substitutes manufactured either in Germany or under Farben patents in other Nazi occupied countries.

These three Farben policies were the official policies of the Nazi government in all other economic respects. Their application explained the almost instantaneous conversion of enemy industry into units for the German war production after the conquest.

I. G. Farben is the largest manufacturer of many synthetics and substitutes and the sole manufacturer of the most important.

Farben's own man—Karl Krauch—is Hitler's right-hand man for chemical war production and Professor Beck—his right-hand man for metal war production. Thus through his monopoly of synthetics and the acquiescence of Krauch and Beck's automatic orders, I. G. Farben took what it wanted.

Hermann Goering's loot from the Rothschild palace in Austria in 1938, the plundering in Czechoslovakia, Poland, the Low Countries, and the pillage

of French treasures in Paris, were petty larceny in contrast to the industrial and economic plunder of I. G. Farben.

Always cautious, however, Hermann Schmitz and Max Hahn went through the appearance of legal proceedings in the acquisition of captured industries. The same old notorious inter-corporate processes of peace-time—magnified a hundredfold in war—were supposed to conceal the fact that Farben's acquisitions in occupied countries were bare-faced robbery.

Schmitz always considered the possibility of a German defeat before it was all over. Then, with Hitler was still top-dog, Schmitz sought to give a legalistic appearance to Farben's plundering on some instances was willing to take former enemies into the Farben organization—if they were enemies—to assure a friend in court, a dummy to take the "ownership" if Hitler was finally defeated.

Farben interests were strongly involved in Austria when Hitler marched in 1938. Farben, however, proceeded to monopolize its chosen fields completely immediately after the occupation.

Following the Hermann Schmitz formula, I. G. Farben changed the name of Anilin Chemik A. G.—the Farben unit in Austria—to Donau-Chemie A. G.

Pressed by Ministers Krauch and Beck, the Pulverfabrik-Skoda-Wetzlar A. G.—Austria's largest powder manufacturer—was turned over to I. G. Farben outright. It had been owned by the Austrian government.

Schmitz's next move was to seize Wagonwerk, Seydel & Co., Vienna, a private concern and a large manufacturer of heavy chemicals. This firm owned 50 percent of Sprengstoff-fabrik Rumau A. G.—and to Farben's own Austrian plant the largest manufacturer of high explosives in Austria. With this plant, I. G. Farben forced its way to the same commanding dominant position in Austria that it had long held in Germany.

Before Hitler decided the demarcation of Austria and marched into Czechoslovakia, I. G. Farben had stolen everything it wanted in Austria. The Austrian industry had been attached to the Farben-Nazi production machine.

Farben agents had also penetrated Czechoslovakia before the Nazi occupation. I. G. Farben already con-

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of the A. G. Dynamit Nobel, at Friedberg, the manufacturer of high explosives.

Immediately after the occupation A. G. Dynamit seized the holdings of the Societe Francaise des Pétroles de Tchécoslovaquie in the Apollon-les-Bains A. G. of Prague. The latter company had been the trading organization for the country in 1939 was the Deutsche Gasolin-Gesellschaft-Raffinerie A. G. of Pressburg.

This corporate move meant that I. G. Farben emerged with the ownership of oil wells in Goding and Linzberg—stolen from their legitimate Czech and French owners.

The acquisition of the most important oil fields in Czechoslovakia served to bolster the Deutsche Gasolin A. G. the Farben subsidiary that took over gasoline distribution after Standard Oil and Royal Dutch Shell had been cleared out.

To make a good thing better, the Deutsche Gasolin added Brnoer Zirkon A. G., the tank distributors for Czechoslovakia. Later Farben took over the Creditfinanzen, of Vienna, owners of large oil interests in Rumania. Thus, even before actual war, Farben-Nazi aggression had organized the beginning of what Hermann Schmitz hoped would become a rival of Standard Oil and Dutch Shell in the international market.

But Hermann Schmitz was still not satisfied. Czechoslovakia owns some of the most valuable radium mines in Europe. After the "Liberation" of Jihlava, in the Sudeten, Farben stole the radium mines.

The history of I. G. Farben's plundering in Europe continued in parallel the ravages of Hitler's war machine. Farben followed closely on the heels of the Nazi hordes into Poland where Hermann Schmitz had greedy eyes on the rich coal deposits of Upper Silesia.

I. G. Farben had tried for many years to obtain its own source of coal in Germany to make it independent of the German Coal Trust.

The destruction of Poland, therefore, became vitally important in I. G. Farben's scheme of things. Before the fleeing Poles were out of their own country, Farben grabbed the rich mines of the Fuerstengrube corporation at Katowice, thus firmly entrenching itself in Poland's key industries as well as guaranteeing an independent source of coal. Schmitz as usual gave a legalistic aspect to the robbery by going through the form of acquiring 51 percent of the Fuerstengrube's capital.

I. G. Farben then increased its own recorded capitalization by 100 million reichsmarks in readiness for Hitler's conquest of France where Hermann Schmitz expected to loot the richest prizes of all.

The big prize was Establishement Kuhlmann—the Dufranc of France. As early as 1921, I. G. Farben had moved Kuhlmann into a subordinate position in the oil and chemical markets of Europe by under-selling and competing in French markets.

However, there still remained strong French interests with considerable holdings in Kuhlmann whom Schmitz always regarded as a menace to Farben's dominance. Chief of these was the Banque de

France et de Pays Bas. Important, also, were three metal concerns with large holdings in Belgium and Spain; the Societe Miniere et Metallurgique de Pannaroya; the Compagnie Royale Asturienne des Mines; and the Mines et Fonderies de Zinc de la Vieille Montagne Anglaise.

Powerful and astute French financiers were concerned in these chemical and metal companies. I. G. Farben started his plundering in France by getting Kuhlmann's important subsidiary in Alsace—the Societe des Produits Chimiques et Matieres Colorantes de Mulhouse—as an outright gift from Nazi Minister Beck. Thereupon the French interests in Kuhlmann took alarm and sought to protect themselves through Vitay.

Their efforts were hopeless from the outset. Farben's man, the Economic Minister, issued the famous order of November 20, 1940, through the Nazi Military Governor of France, requiring the appointment of a "special German delegate to supervise all French factories and industries."

The "delegate" assigned to Kuhlmann was a member of I. G. Farben's Berlin headquarters. All books and records were thrown open to Farben thus acquainting Hermann Schmitz with the intimate details of Kuhlmann's internal organization and its financial condition.

It was quickly discovered that Kuhlmann depended to a large extent on bank capital for financing—unlike I. G. Farben which has its own independent Central Finance Administration. This dependence on bank capital was the Achilles heel in Kuhlmann.

Rene Duchemin, president of Kuhlmann, received an order shortly after the installation of the Farben "delegate," to appear before the Nazi commissar now in charge of the Banque de France et de Pays Bas. There Duchemin was told curtly that all loans and credits—the working capital of Kuhlmann—must be repaid instantly.

The bewildered Frenchman pleaded for time but I. G. Farben would not let Establishment Kuhlmann out of its grip. Duchemin finally declared he could see no way out so Kuhlmann could not possibly meet the German demands.

Thereupon, Duchemin was told with ironic politeness that there was a way out. In an entirely "legal" way, Kuhlmann and I. G. Farben would float a new issue of stock. Farben would, of course, acquire control of the new stock and "take care" of Kuhlmann's obligations to the German commissar of the Banque de France et de Pays Bas.

As a sort of insurance for the future, Kuhlmann was allowed to retain a slight majority stock ownership. This face-saving device was in line with Hermann Schmitz's policy of preparing for dummy ownership in event of a Nazi defeat. Practically, I. G. Farben had stolen one of France's largest industries from its legitimate owners.

Thus I. G. Farben took over the French production of dyes, heavy and fine chemicals, of fertilizers—an important commodity in Europe—particularly the French nitrate industry, the processing of glue and

relative and a key position in the French rayon industry, thereby controlling much of the French textile industry, which is dependent on rayon supplies.

In the postwar world, this dictatorship of I. G. Farben would have far-reaching repercussions. With French and other competitors eliminated from the export fields, Hermann Schmitz could then name his own terms. Inevitably Farben's monopoly would be followed by an increase in prices, a deterioration in quality, inadequate service, and all the other evils inherent in the world program proposed by Hermann Schmitz and his Nazi associate.

Between 1918 and 1939, France had become the chief financial agent of the Balkan countries. As a consequence, French interests had large holdings in Yugoslav industries. From the I. G. Farben headquarters in Paris, plans were made after the French collapse for taking over the Balkans. When the Nazi panzer divisions struck south from Rumania and west from Bulgaria early in 1941 I. G. Farben was ready.

Under pressure from Pierre Laval, the one-time heir to old Marshal Pétain as head of the Vichy government, French owners were forced to "sell" their Balkan holdings to I. G. Farben for worthless German war marks. At the last moment the venerable Marshal had a twinge of conscience and the success of the piracy was for a time in doubt. However, Laval paid off handsomely at that time for the fat legal fees he got from Farben during the decade preceding World War II. Laval ironed things out and Pétain was silenced.

In this manner I. G. Farben seized the important copper deposits of the Mines de Bor in Yugoslavia—one of the richest sources of copper in all Europe. The deal was handled in Belgrade by Franz Neuhäuser, ostensibly the head of the German Travel Bureau in Yugoslavia. Neuhäuser was for many years the Nazi Consul General at San Francisco. His role as head of the travel bureau in Yugoslavia was typical of the deception practiced by Farben agents in collaboration with the Nazis everywhere in the world.

The Bor Mines under Nazi pressure exported two-fifths of its copper production to Germany before the Nazi invasion. After the conquest—after Farben took over—two-thirds of Bor Mines' copper went to Germany. The other third was used by Farben in Yugoslavia to supply Farben controlled war industries for Hitler's war machine.

But the Bor Mines were only a beginning for Hermann Schmitz in the Balkans. In rapid succession, I. G. Farben "bought" the Moeter Lack-und-Farbenwerke, A. G., in Zagreb; the Fabrik Chemischer

Produkte in Brestnik; the Ludwig Marx and Co. factory in Domale; and the Reichhold, Frick, Boecking & G. in Belgrade. These plants gave Farben a monopoly in the chemical and synthetic fields throughout the Balkans because Rumania, Bulgaria and Greece were subordinated to the Balkan head quarters at Belgrade.

As a final gesture, the Farben owned Österreichische Dynamit A. G. of Vienna, "bought" the Deutsche Elektrizitäts A. G., of Jajce. This company owned huge electric and water power plants in Yugoslavia and manufactured calcium carbide, dimes and other heavy chemicals. It became one of I. G. Farben's most important subsidiaries in the Balkans.

There remained only one corner of Europe the Hitler had not invaded and that I. G. Farben had not looted. In this instance, neither force nor cunning was necessary. Because in Spain, the most powerful man in the government was a Farben agent—the Foreign Minister Ramon Serrano Suner whom Farben agents had saved from a Loyalist firing squad during the Civil War in 1935.

Only a few months after Serrano Suner's brother-in-law—Dictator Franco—had swept aside all vestiges of democracy in Spain, an agreement was reached in 1939 by which Spain's considerable production of nitrogen was turned over in its entirety to Farben for distribution. Thus, even before the war, France, Hermann Schmitz reached out forth, consolidate his position in that war devastated nation.

The Sociedad Iberica del Nitrogeno, of Madrid, was owned by Air-Liquide, of France. It exploited the French Claude patents for synthetic ammonia in Spain. Like the success that stole establishments Kuhlmann, Farben put pressure on Air-Liquide and took over that firm thus obtaining an unassailable monopoly of synthetic nitrogen in Spain.

The Union Española de Explosivos Soc. Anon. of Bilbao and Madrid, was the largest producer of natural nitrogen in Spain. It owned mines and factories in Albasete, Miranda, and Palencia, and was the largest potash deposits in Europe on the banks of the Rio de Cardener. Foreign Minister Serrano Suner arranged for I. G. Farben to "buy" this national strategic firm.

From a monster corporation in the chemical world, I. G. Farben had accompanied Adolf Hitler through a holocaust of blood and tears until it had become the largest corporation anywhere in the world. There now dominated oil, coal, electric power and other fields in addition to its pre-war European monopoly of chemicals and synthetics.

PLAN NO. 3 TURNS THE TRICK

American planes and quarters still rolled into Berlin—while Farben scoffed at the British blockade! But the notorious game of hide-and-seek was nearing its end.

CHAPTER XIV

MAX ILGNER and Hermann Schmitz were early in North and South America when Adolf Hitler opened the military phase of the German war plot in Poland on September 1, 1939. Max Ilgner's espionage agents were stationed strategically throughout the United States and Latin America. Hermann Schmitz's representatives were everywhere—Americans, firmly entrenched in business, financial and social circles in the Western Hemisphere.

The Farben-Nazi organization in South America was efficiently coordinated with the Farben fifth column in the United States.

But there was one hitch at the outset of the planned war. Ilgner and Schmitz planned on the coming of hostilities in the spring of 1940. Adolf Hitler's obstinately advanced the date to the fall of 1939—against the counsel of his Generals and in the face of the fall rains that were expected to turn the plains of Poland into a morass of mud. Hitler's luck stood by him. Poland in the fall of 1939 experienced its driest season in many years.

However, the change in the Nazi timetable caught I. G. Farben short in Latin-America. Schmitz had shipped huge quantities of heavy chemicals and pharmaceuticals to his three main headquarters in Latin-America. These were the Anilinas Alemanas, in Buenos Aires; the Alliance Commercial de Anilinas, in Rio de Janeiro; and the Compania General de Anilinas, in Mexico City.

The great stock piles were located strategically for distribution to Farben branches everywhere in Latin America. They were the war reserves to hold Farben markets in the Western Hemisphere during the war.

But Farben had been able to get only about a year's reserve into the Latin-American headquarters when the war broke. Several Nazi ships that carried Farben products to Latin-America were caught on the American side of the Atlantic by Hitler's invasion. It became apparent later why many more Nazi freighters were caught in Latin American waters by the British blockade than in the ports of Latin America. Because Hermann Schmitz had his own production plants in the United States. But he feared of "prestige," he was ambitious to assure an uninterrupted German supply in Latin America. The Nazi freighters were therefore concentrated on shipping to the Latin nations.

I. G. Farben did not want to risk losing its economic and political importance in Latin-America and thereby the key points of Nazi influence in the Southern Continent. And Hitler greatly aided Farben in this emergency by refraining from attacks during the "phony" period of the war between September, 1939, and the invasion of the Lowlands in May, 1940.

North and South Americans alike at that time shrugged their shoulders and dismissed the European war as an isolated conquest of Poland. The Germans were believed to have no intention of attacking anyone else. And the fumbblings and lassitude of the democracies seemed to indicate that they had no intention of attacking the Nazis.

Thus during the "phony" phase of the war, I. G. Farben was given ample time to get its Western Hemisphere organization into shape. Alfredo Moll—Farben's chief liaison agent in Latin-America—made several trips between Buenos Aires and New York to complete arrangements.

On his many trips he worked out supply sources with Dietrich A. Schmitz, Walter H. Dulseberg, Rudolph Ilgner, Wilhelm Vom Rath, and the other principal men in Farben's North American organization. Alfredo Moll planned to depend eventually on supplies from General Aniline and Film Corporation, Sterling Products and their many subsidiaries. He was assured that Farben in Latin America could depend on Farben in the United States.

During the first year of the war—even after the invasion of the Lowlands and France and the all-out Nazi measures in Great Britain—Alfredo Moll was not so much in need of supplies as he was in need of American dollar credits.

Because at this time, Latin-America was being supplied directly from Germany by the way of Siberia and Japan. These supplies were sent from Vladivostok to the firm of Morimoto B. Shalal in Kobe and thence to Farben in the Latin-American countries.

In the meantime, the Farben organization in the United States was getting its house in order to complement the second phase of the Farben defense in Latin-America and prepare for the third alternative—the spread of war to Russia and the United States.

Anticipating problems, Hugh S. Willmann, a native born American, took over the job of First Vice-President and Treasurer of General Aniline shortly

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after the outbreak of the war. Walter H. Duisberg, redoubt from that too conspicuous a post but stayed in the background as the manor of Dietrich A. Schmitz.

Duisberg had a much more important role to play. He became the principal signee of I. G. Farben patents in the Western Hemisphere. As a naturalized citizen, this son of Karl Duisberg, the old arch-plotter of Frankfort-on-the-Main, was chosen to implement the policies of his aggressive old father. Through this maneuver the American government was expected to be legally unable to confiscate Farben patents even during war because they were "owned" by a naturalized American, Duisberg—who was, of course, to return them to I. G. Farben after the war, whether the Nazis won or lost on the fields of battle.

But the transfer of patents required a physical contact between Farben in the United States and Farben in Germany. Hermann Schmitz insisted that everything be done according to the "law" of the democracies. Schmitz didn't want to risk his American gold mine through failure to comply with the laws that the democracies so meticulously observed.

It became necessary then to send a Farben man from America to Europe. President Roosevelt had restricted travel abroad in belligerent territories and passports were almost impossible for anyone except official or semi-official Americans with important assignments in Europe.

For that reason, neither a Duisberg, a Schmitz, an Ilgner, or a von Rath, seemed sufficient although they went to Europe on one or more occasions during the interval. Hugh J. Williamson, the native American vice-president and treasurer of General Aniline—77 per cent of which was owned by I. G. Farben of Germany—did much of the special envoy work.

Williamson visited Switzerland in the early spring of 1940. He enjoyed long and uninterrupted conferences with Hermann Schmitz, Max Ilgner, Felix Iselin and other big shots of the Farben-Nazi organization.

Williamson returned to the United States with confidential instructions for the wartime operation of the I. G. Farben organization in the Western Hemisphere. The American Farben official went back to Berlin and Frankfort in the fall of 1940 for further and final instructions.

After Williamson returned from his first trip, the Farben forces in the United States swung into action to help the South American Nazis in the operation of the second alternative plan for holding on to Farben markets and influence.

General Aniline undertook to supplement Farben's shipments of chemicals and dyes reaching South America from Germany by the way of Russia and Japan.

These shipments from the United States were handled by the General Dyestuff Corporation—the Farben subsidiary with a perpetual contract to market all General Aniline products in the United States.

General Dyestuff, capitalized at a few millions dollars, has handled hundreds of millions for I. G. Farben in the space of a few years.

It was owned solely by Ernest Halbach, its president, and W. H. Duisberg, both old and trusted Farben men and both naturalized Americans.

The Sterling Products corporation, through its main subsidiaries, American Bayer and Winthrop Chemical, provided additional Farben pharmaceutical supplies.

During the first two years of the war, Sterling Products shipped more than a half million dollars worth of pharmaceuticals and semi-manufactured materials to I. G. Farben agents in nearly every country in Latin-America.

In South America, these Sterling manufactured goods were finished and packed—marked "Made in Mexico," "Made in Brazil" and so forth—and in many instances marked "Made in Germany."

In addition to all this, during the first year of the war, Sterling Products transferred to I. G. Farben in Germany over \$1,300,000.

As a consequence Farben prestige in Latin-America grew instead of diminishing in wartime. There was little or no competition with the United States as there was in World War I. And Farben revenues rolled in steadily. Farben advertising was increased. The name of "Bayer"—synonymous with Germany—blared from the radios, splashed through newspapers, and was blazoned on posters and billboards.

Adolf Hitler's Nazi agents and fifth columnists never lacked for funds. The Farben paymasters of Max Ilgner were always at hand. They were amply supplied with funds. Little wonder that the people of Latin-America were impressed by the inviolability of Nazi Germany and the ineffectiveness of the British blockade.

When the Nazi freighter "Lech" succeeded in reaching Rio de Janeiro in the March of 1941, the Nazi inspired press and radio had a Roman holiday. Aboard the "Lech" were 121,395 kilos of highly valuable dyes and chemicals. I. G. Farben produced the inviolability of Adolf Hitler.

Farben agents smugly pointed out that Britain could not stop Farben deliveries in the Western Hemisphere. At Pan-American conferences, these agents repeated the boast. Farben men everywhere took orders and posted bonds guaranteeing deliveries within a few months—a cash pledge that the war would be over with the Nazis triumphant by that time.

However, the R. A. F. defense of Britain over the Farben-Nazi calculations. Britain still stood and deliveries had to be made.

Farben didn't lose a penny on its cash guarantees. Deliveries that couldn't be made over the usual routes were filled from the Farben plants and offices in the United States.

By this time, the western democracies, outraged by the mass slaughter of hapless civilians in Berlin and London, were becoming restive.

President Roosevelt's order freezing the funds of

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General Aniline in April 1940 would be frozen by surprise. He had neglected to transfer a time General Aniline stock held by the two Dutch holding companies to the I. G. Chemie in Switzerland, the other large stockholders of General Aniline owned by I. G. Farben of Nazi Germany.

The Presidential order made it impossible therefore to transfer profits through Holland to Farben in Germany. To all appearances, the President's action placed General Aniline under the supervision of the United States Treasury. However, the pipeline to Farben by way of Felix Iselin and the I. G. Chemie in Switzerland was still open.

Thus in February, 1941, almost a year after the freezing of Dutch funds in the United States, General Dyestuff—General Aniline's sales agent—established through the National City Bank of New York in a strictly "legal" manner a letter of credit amounting to 2,382,795.70 Swiss francs in the Credit Suisse, of Basel, Switzerland, in favor of I. G. Farben. This large sum was but one of many transfers of dollar credits to Germany.

The specific remittance cited above was in payment for Farben products made in Germany that had been shipped to Latin America by way of Russia and Japan or from Germany direct.

However, Department of Justice men were looking for Farben over by this time. There was a tremendous hush and outcry in the United States over Nazi fifth column activities in Latin-America. Public opinion was demanding action.

W. E. Weiss, a member of the board of General Aniline and chairman of the board of Sterling Products, and Earl L. McClintock, vice-president of Sterling, saw the handwriting on the wall.

In the early spring of 1941 Weiss and associates, realizing that American foreign and domestic policy would present them with increasing problems in cooperating with I. G. Farben, found means of re-assuring Herr von Schmitz (I. G. Farben's Number 1 commercial man and father-in-law at Number 2 Nazi spy Scholz in the U. S.) that, although their actions from this point might appear to be unfriendly, they would at all times continue to consult I. G. Farben's best interests in this hemisphere and would keep any harmful action to a minimum.

A few weeks later, on June 14th, President Roosevelt issued his famous order "blacklisting" Nazi and pro-Nazi firms in Latin-America. This was an apparent death blow for the I. G. Farben branches because only eight days later Hitler treacherously attacked his Russian partner and the Russo-Jap route from Germany to Latin America was closed.

The time had come to employ Farben's alternative plan No. 2—designed in event the war should end and the Farben-Nazis had to prepare for a long blockade in Europe.

After the attack on Russia, all Farben supplies in Latin America had to be obtained from the United States—but the United States "blacklist" forbade

the shipment of goods from North America to Nazi firms in Latin-America—the most notorious of which were I. G. Farben subsidiaries.

Plan No. 2 was designed to meet such a situation. The first step was to reorganize an inconspicuous little export firm known as Frawde and Sperry in New York City. It was virtually unknown in its report circles.

But General Dyestuff—the Farben sales agent—immediately transferred its export manager—Gerhard Neisser—to Frawde and Sperry. Neisser was a German, equipped with a Chilean passport.

Through this dummy firm, General Aniline shipped chemicals and dyestuffs to similar dummy companies set up in Latin America—firms like A. R. Cunha, Junlor, in Rio de Janeiro. From a dummy in the United States to dummy in Latin America, the shipments continued long after the "blacklist." Some of the products after arrival at the Farben distributing points were marked "Made in Germany" and sold to the public as such.

These dummy companies were often operated in Latin America for only one or two shipments from the United States. By the time American consuls caught up with them and traced their connection to Farben, they vanished and new dummies took their place. Hermann Schmitz and Max Ilgner must have had many a hearty laugh watching the democracies chase these illegal will-o'-the-wisps through the law and order of the Western Hemisphere.

Somewhat similarly, Sterling Products made good on Chairman Weiss' promise to Herr Von Schmitz in the following manner:

First—By rushing large supplies to the German Bayer agents throughout Latin-America during the first half of 1941 before the "blacklist," giving them stocks to last a long time.

Second—By taking over the marketing of the patent medicines—Aspirin, Tylenol-Bayer and so forth—and leaving the "ethical" products such as Salsvaran, Luminal, Alobrin, Plasmochin, etc., to Farben to maintain Farben prestige.

Third—By setting up new "American" companies to market these patent medicines.

By the fall of 1941, the Federal authorities of the United States had caught up sufficiently with the activities of W. E. Weiss and A. E. Dickold to obtain an indictment charging criminal conspiracy in connection with the notorious surrender of Latin-America to Sterling Products to I. G. Farben many years before.

Farben men were non-plused for a moment. Worried over impending events Sterling hired Thomas G. Corcoran, the former New Deal "brain-truster" and a powerful lawyer in Washington. On September 5, 1941—only three months before Pearl Harbor—Corcoran obtained a consent decree dissolving the iniquitous agreement with I. G. Farben by which Farben collected 75 per cent net from Latin-America to help finance Adolf Hitler.

SEQUEL TO THE APOCALYPSE

The Sterling Products defendants were fined the trifling sum of \$26,000 and Corcoran, himself, is said to have written a press release designed to prove that an American court had freed a "helpless" American corporation from the grasp of a bad Nazi octopus.

This served Hermann Schmitz in a highly satisfactory manner. It protected I. G. Farben's associate with only the insignificant loss of \$26,000 for the time when the war would be over and Farben should return to win the peace a second time.

Federal agents spent weary, tortuous months unravelling the involved corporate secrecy of I. G. Farben in the Western Hemisphere. They had sufficient proof to get an indictment and they were impatiently eager to get Farben men and their associates on the witness stand under oath in open court. They wanted a court order to subpoena Sterling Products' records and correspondence. There were many questions the Department of Justice wanted answered in the vital interests of American national defense.

The consternation in the Department of Justice when "Tommy the Cook" got a consent decree can, therefore, be imagined.

Even milder was the penalty imposed in the case of Rudolph Ilgner, brother of Max Ilgner of "Bueno I. G., Berlin, N.W.T." and a nephew of Hermann Schmitz, the generalissimo of I. G. Farben's worldwide Nazi empire.

Federal Bureau of Investigation agents finally obtained an indictment against Rudolph Ilgner early in 1941 in connection with an investigation into the identities of the interests controlling nitrogen and other vital chemicals used in the manufacture of high explosives and munitions in the U. S. A.

While the F. B. I. was still pursuing its investigation, Rudolph Ilgner ordered his employes in the sumptuous office on Fifth Avenue, in New York, to burn all records of the Chemycor firm—the Farben subsidiary that handled Farben patents and royalties in the United States.

In Federal Court, Ilgner brazenly pleaded guilty to ordering the destruction of the records. He was fined \$1,000. Hermann Schmitz and Max Ilgner would have paid a million to keep those records out of American sight—records of Nazi espionage and propaganda payments in America.

Thus on December 7, 1941, Farben key men in North and South America—all naturalized citizens and therefore none of them "Enemy Aliens"—occupied chief executive positions in the largest corporations in the hemisphere.

They had American passports, they could travel where they pleased, do what they wanted, and money where it suited them, and correspond with Germany, Italy or any Axis country via South America. They were apparently immune from investigation or prosecution of any serious consequences.

The Farben expeditionary force to the Americas had achieved an extraordinary success. While the

German headquarters plundered all of Europe, the Farben contingent laid the groundwork of the North and South America.

Farben was firmly entrenched in business, financial, social—and even governmental—circles. Then came Pearl Harbor on December 7, 1941, and an angry Uncle Sam began to arouse himself.



HERMANN SCHMITZ

Germany's most powerful industrial giant, head of the Farben colossus. Don't let his umbrella fool you. It doesn't stand for appeasement.

THE MASK COMES OFF

THE treacherous Japanese attack on Pearl Harbor on December 7, 1941, shocked the American nation into a sudden and dramatic realization that the United States was the really big prize sought by the Axis in its total war against the world.

From that day forward Uncle Sam rolled up his sleeves and prepared for all-out national defense. For the first time in many years of patient, tireless investigation, Federal agents were able to press their case against I. G. Farben in the United States.

Within a week after Pearl Harbor the Federal Grand Jury for the Southern District of New York handed down three indictments charging criminal conspiracy against Farben principals and Farben owned companies in America.

However, the Department of Justice had already scored a breach into the Farben lines when it brought Sterling Products into court in the fall of 1941, notwithstanding the consent decree's frustrative effects upon the efforts of federal authorities to get Farben men on the witness stand in open court.

But a part of the consent decree required the resignation of William Erhard Weiss as chairman of the board of Sterling. Weiss, a native American born in Canton, Ohio, in 1879, was also a director of General Aniline. Weiss dutifully dropped from the board but popped up again immediately as head of the executive finance committee of Sterling Products.

Two other prominent members of the General Aniline Board—Edsel Ford, of the Ford Motor Company, and Walter C. Teagle, chairman of the Board of Standard Oil—had resigned as directors in recent years. Teagle resigned in 1938 while Edsel Ford's resignation did not occur until 1941, by which time the full extent of the Farben-Nazi conspiracy was no longer something that could be camouflaged.

Standard Oil had, however, protected its synthetic interests long before. On the eve of the Nazi invasion of the Lowlands in the spring of 1940, Frank A. Howard, president of the Standard I. G. Company, concluded an agreement with I. G. Farben which their mutually owned synthetic oil patents were divided into two spheres—an American sphere and a Nazi area.

CHAPTER XV

You can't tell the players without a score card . . . but frantic efforts to "Americanize" the Farben holdings didn't fool F.D.R. Farben may be down—but not out.

The agreement provided for an exchange of markets. The Farben stock in Standard I. G. was taken over by Standard Oil and the company's name was changed to Standard Catalytic Company. Standard was to control synthetic oil markets in America, Britain and France. I. G. Farben was to have a monopoly in Nazi occupied countries. After the conquest of France that country was, of course, included in the Farben-Nazi monopoly.

Standard Oil had not only protected its synthetic oil rights in the Standard-Farben monopoly, it went even further and moved to protect a monopoly of synthetic rubber production in the United States.

Here again Frank A. Howard was revealed as president also of Jasco, Inc., subsidiary organized to acquire Farben's synthetic rubber patents in the United States.

Federal investigators had by mid-February pressed for action and a Federal Grand Jury in Newark, N. J., was undertaking an investigation into the relationship between Standard and Farben.

The general public, meanwhile, knew nothing about the hidden relationships because the press almost unanimously suppressed the few facts available. Even the open demand for a senatorial investigation of the Standard Oil—I. G. Farben relationship, voiced by the Union for Democratic Action, was ignored by press and radio. It drew scant notice in several cities.

Faint repercussions of the probe were heard in the United States Senate but there was no debate and apparently little interest. This congressional indifference was manifest in spite of the fact that Frank A. Howard was said to have made two trips to Europe during the early part of World War II to confer with I. G. Farben executives.

Congress sat Sphinx-like on its haunches, not daring to investigate the hidden Axis ramifications among U. S. Big Businessmen.

The further charge that Standard had either been double-crossed by Herman Schmitz or was itself deliberately withholding patents from Goodyear and Goodrich was also ignored on Capitol Hill in Washington.

Goodyear and Goodrich were thus stymied in their endeavor to provide a synthetic rubber industry for national defense purposes. Long after Pearl

Merlow, neither Goodrich nor Goodyear had obtained licenses to use the Farben patents held by Japan.

The Farben doublecross was involved in the East foot Hermann Schmitz had been up to the tricks practiced by old Karl Doering in World War I. Farben had a gentleman's agreement with Japan to exchange research results and scientific rubber patents. Farben did give Japan some information and did sell through some patents but Hermann Schmitz withheld some information—the so-called "know-how"—and once again America was tricked out of the legitimate part of a Farben monopolized process.

Did the American people rise up in wrath when automobile fires were denied them because of the rubber shortage after Japan's conquest of Malaya? They were sure at the Japs but not at I. G. Farben or Standard of New Jersey!

The general public had no way of knowing that the long arm of Nazi monopoly was still reaching into their homeland, frustrating the development of a United States synthetic rubber industry long after Pearl Harbor.

However, the American people relied on the pledge of Secretary of Commerce Jesse Jones that he would cover 400 million dollars and within eighteen months provide sufficient synthetic rubber for all war purposes and for essential civilian needs also. American scientists, lawyers, challenged the Commerce Secretary's promise. Authorities in the synthetic field asserted that it would be impossible to reach the production set by Secretary Jones within 18 months.

And as the Japs over-ran more and more of the East Indies, cutting off the last available natural rubber resources in the Far East—whence the United States normally got 98 per cent of its rubber—only a Federal Grand Jury investigation into an alleged violation of corporation laws was under way in Newark.

Hermann Schmitz was probably wondering (but not worrying) if his American affiliate would be fined in the Jesse inquiry, as in the Sterling Products inquiry, when the penalty amounted to the crippling sum of \$25,000.

Great Britain, Belgium and Holland confiscated Farben assets in those countries immediately after the outbreak of the war. Farben's influence in Britain was always limited although by no means negligible. The loss of exports to the Belgian and the Dutch colonial empire was of greater consequence.

But the main Farben prize was its domination of 25 per cent of the dye market in the United States and its monopoly in Latin-America. The investigation of General Aniline, Sterling Products and their many subsidiaries was therefore of great moment to Hermann Schmitz and Max Iger back in Berlin.

In the United States a great publicity campaign was launched by General Aniline agents to proclaim their independence of any Nazi influence. Any foreign ownership that existed was in Holland and Switzerland, and Switzerland, as everyone knew,

was the "oldest democracy in the world."

As a matter of fact 97 per cent of the 400,000 ton monster corporation doing a 40 million dollar business each year—half of which was in war business—was owned by I. G. Farben outright through its own Dutch holding companies and the I. G. Chemie of Switzerland. I. G. Chemie in turn was the property of Hermann Schmitz's nephew, Albert Ochsle, and Felix Jaelin, who until after Pearl Harbor, was a director of General Aniline.

As part of the Farben propaganda Agfa-Aniline, the film and photo-division of General Aniline, emerged with a handsome memorial booklet commemorating the centennial of the founding of the "great American concern."

In a pictorial history, Farben's Agfa-Aniline rolled a panorama of the patriotic Americanization of Agfa-Anasco from its organization by native Americans in 1942, through the Civil War, the Spanish-American War, the World War, and now its great contribution to the American effort in World War II.

What this history did not say was that the Anthony & Scovill Co. (Anasco) truly the oldest American photographic company, was forced to its end by I. G. Farben's ruthless competition in the American field. When Anasco was sufficiently impoverished I. G. Farben swallowed it at its leisure and in its own terms and changed the name to Agfa-An.

However, this publicity encountered no scrutiny in many quarters—including the House—and Hermann Schmitz and Max Iger were told by their American associates that no effective measures were urgent if I. G. Farben American monopolies were to be saved.

D. A. Schmitz—Hermann's brother—once proposed that I. G. Farben's stock ownership in General Aniline be sold to that "real American concern—General Dyestuff, the sales agent for General Aniline in the Western Hemisphere. General Dyestuff was still owned by those stereotyped Americanized Americans—W. H. Duisberg, old Karl and Ernest Halbach, a veteran Farben executive.

But the now aroused United States Treasury Department refused to grant a license for the "Americanization" of Farben's United States holding as a consequence, in the latter part of 1941, a "schism" developed in the General Aniline organization.

It was suddenly revealed there were two factions. One led by Dietrich A. Schmitz and his supporter, Ernst Schwarz, the able head of Agfa-Anasco, was supposed to be too friendly to Nazi Germany. The other led by Hugh Williamson, an American lawyer, who visited Europe twice in 1941 to arrange for Farben's war time operations, seemed itself to be 100 per cent American.

The farcical nature of this apparent fight between Nazis and "Americans" on the General Aniline Board was exposed when Williamson and 29 other apparently forced D. A. Schmitz out of office as president.

and Williamson's "American" supporters were based in Switzerland and one of the largest stockholders in I. G. Farben of Nazi Germany, Hans Altkamp, Rudolph Hutz, Karl Milde, and other nationalistic "Americans" who had served their entire business lives as principal men for Hermann Schmitz and Max Iger of I. G. Farben.

The Hermann Schmitz sought to continue the deception that General Aniline and its many subsidiaries were real American firms and bitterly anti-Nazi in policy. The sham battle didn't work.

President Roosevelt intervened in October, 1941, and succeeded in naming his close personal friend, Judge John E. Mack, as president of General Aniline to replace Dietrich A. Schmitz. To further Americanize the Farben-Nazi organization, the President got another close personal friend, William C. Bullitt, appointed as chairman on the board to replace Wilhelm von Rath.

Then on December 12th, 1941, seventeen Treasury agents led by Joseph J. O'Connell, Jr., assistant general counsel of the Treasury, invaded the palatial offices at 230 Park Avenue and took over superstitious. Seventeen men to supervise the huge factories at Linden, N. J., Rensselaer, N. Y., and Johnson City, N. Y., and Binghamton, N. Y., had a large order on their heads.

Three days later the Federal indictments against 17 companies and Farben men were handed down in New York for alleged criminal practices which commenced in May, 1924! (For a list of individuals and corporations named in the indictments, see page 61).

The indictments found as follows:

1. Defendant I. G. Farben has not imported dyestuffs in the United States except through defendant General Dyestuff.
2. Defendant I. G. Farben has been prevented from importing into the United States dyestuffs in competition with dyestuffs manufactured by defendant General Aniline.
3. Defendants I. G. Farben, General Aniline, and General Dyestuff have directly, substantially, and unreasonably prevented and restrained free and reasonable competition in the importation and sale of dyestuffs in interstate and foreign trade and commerce.

4. Defendant I. G. Farben has not exported photographic materials to the United States and has not imported photographic developers to the United States, except through co-conspirator Agfa-Anasco until its merger and thereafter through defendant General Aniline.

5. Co-conspirator Agfa-Anasco until its merger and thereafter General Aniline have been prevented from manufacturing photographic developers in the United States; (2) from exporting photographic materials from the United States.

6. Defendant I. G. Farben, co-conspirator Agfa-Anasco until its merger and thereafter defendant General Aniline have directly, substantially and un-

reasonably prevented and restrained free and vigorous competition in the manufacture, distribution, and sale of photographic materials and developers in the United States and in interstate and foreign trade and commerce.

7. Kalle has not exported photoprinting materials to the United States except through defendant General Aniline or co-conspirators Oswald and Ozophone.

8. Defendant General Aniline and co-conspirators Oswald and Ozophone have not exported photoprinting materials from the United States, except as such exports were authorized by Kalle.

9. Defendant General Aniline and the co-conspirators have directly, substantially and unreasonably prevented and restrained free and vigorous competition in the manufacture, distribution, and sale of photoprinting materials in the United States and in interstate and foreign trade and commerce.

The defendants pleaded not guilty and were released on a nominal bail of \$1,000 each. The violation of the anti-trust laws in the United States was apparently of minor consequence.

Trial was set for April 6th, 1942, and Federal men were understood to be continuing their investigation. It was implied that additional indictments might be returned against either Farben principals.

However, if the United States seemed to be proceeding in a roundabout way against the I. G. Farben-Nazi organization, Latin-American nations were beginning to make observations as the fateful year of 1942 was well begun.

At the historic conference of American statesmen in Rio de Janeiro in January, 1941, representatives of the United States were warned frankly of the danger of I. G. Farben. The Latin-Americans pointed out that Farben was financed and directed from North American headquarters and that without United States co-operation, the countries south of the Rio Grande were handicapped.

Important and sensational information was turned over to the United States by Latin-America to the press on Washington the sinister power of I. G. Farben as the greatest single economic, financial, political and espionage organization threatening the Western Hemisphere.

It was revealed in Ecuador that the Farben firm of Brueckmann & Co., of Guayaquil, was headed by L. E. Brueckmann, the Nazi Consul and several Nazi consular employees were employees of Farben. Brueckmann was cited as the center of Nazi secret service in Ecuador. The manager of Brueckmann's, Herr Tetke, and the treasurer, Herr Ruperti, were the leading Nazis in Ecuador.

Brueckmann had a branch—the Sociedad Industrias Baco, at Manis, Ecuador, managed by Brueckmann's son-in-law, Joachim Arantia Gonzalez. It was the fountainhead of Nazi propaganda under the direction of a native of Ecuador, Emmanuel Peuta Cordova. Brueckmann himself was apparently immensely wealthy and socially prominent. His firm had a large reserve of pharmaceuticals supplied by La Quimica Bayer, of Argentina, and the American

ected ersatz materials and ersatz food for Germany's first world war and hastened World War II

Karl Busch (deceased), whose chemistry gave Germany the three most deadly poison gases ever invented

Fritz Haber (deceased), inventor of synthetic nitrogen, with which Germany triumphed over the allied blockade

Karl Busch, Jr., high official of I. G. Farben

Karl Duisberg, Jr., high official of I. G. Farben

Heinrich Gattineau, old Karl Duisberg's secretary

Field Marshal Hermann Goerring Nazi economic dictator and apostle of unlimited air warfare

Dr. Joseph Goebbels, instigator of race hatred as a weapon of total war

Heinrich Himmler, responsible for the Gestapo scourge visited upon Germany and her conquered neighbors alike.

But wait! These are not all. True, they are the ringleaders, but what about their accomplices? What about the native-born citizens of North and South America who are still doing their bidding? And the Laval, the Serrano Suners, the Farben lackeys in Japan?

Are they to go free, perchance, if Farben and its arch conspirators are destroyed, to seek some other conquistador in whose service to loot mankind?

Already the Federal Government has indicted several of the German ringleaders of I. G. Farben and certain of their American associates for conspiracy in restraint of trade and commerce in dyestuffs and heavy chemicals. The United States government, for reasons not evident, waited nearly 20 years to prosecute the I. G. Farben agents, representatives and associates.

Still more perplexing is the fact that World War II had been under way for more than two years before these indictments were filed. By that time, the Axis war chest had been filled to overflowing with money derived largely from the sale of German-controlled chemical and medical products throughout the United States and the western hemisphere!

Lest the American people forget, lest some giant monkey-wrench be thrown into the federal legal machinery, the names and identities of those indicted as defendants or named as co-conspirators in the aforementioned charge of conspiracy and restraint of trade, are here set forth:

General Dyestuff Corporation of New York City, exclusive sales agents in the United States for dyestuffs bought from I. G. Farben or dyestuffs sold by I. G. Farben in the United States. This company also acts as exclusive agent in the United States for all dyestuffs manufactured by General Aniline & Film Corporation. These dyestuffs aggregate approximately 25% of the dyestuffs sold in the United States.

General Aniline & Film Corporation of New York City, one of the largest manufacturers of dyestuffs in the United States, which makes about

one-fourth of the dyestuffs manufactured and sold in this country.

I. G. Farben Industrie, A. G., of Germany, monopolist of the German chemical and dye trust, with headquarters in Frankfurt-on-Main

Hermann Schmitz, of I. G. Farben, Berlin.

Dietrich A. Schmitz of Greenwich, Conn., brother of I. G. Farben's generalissimo, long a director of General Aniline and Film Corporation and its president until 1941. He also owned a majority interest in General Dyestuff Corp. until 1939.

E. K. Halbach of Short Hills, N. J., long a director and president of General Dyestuff and owner of its majority interests from 1935 to the present time.

Hans W. Aickelin of New York City, director and vice-president of General Aniline.

Ernst Schwarz, for many years director and president of Agfa-Ansco Corporation, later vice-president and director of General Aniline

F. William von Meister, New York City, vice-president of Oxalid Corporation until its absorption by General Aniline and, since then, manager of its Oxalid Products Division

William H. vom Rath of New York City, long secretary and director of General Aniline

Named as co-conspirators were:

Agfa-Ansco Corporation of New York, one of the country's largest makers of photographic supplies

Grasselli Chemical Company of Cleveland, Ohio

General Anilins Works, Inc., of New York

Farbenfabriken vorm. Friedr. Bayer & Co.

Rudolf Hutz of Englewood, N. J., vice-president of General Aniline, former German spy

Walter H. Duisberg, Englewood, N. J., former vice-president of General Aniline and son of Karl Duisberg, one of Germany's original conspirators.

Kalle & Company of Germany, Farben subsidiary

Oxalid Corporation of Delaware

Ozaphene Corporation of America

These indictments of corporations and individuals suggest the possibility that the evidence to be produced at the trial stage may touch upon wider aspects of the operations of the I. G. Farben affiliates in the hemisphere.

However, in very much the same kind of proceedings brought against General Aniline's well-known associate, Sterling Products, charging conspiracy and combination in restraint of trade, the case went to court as has been shown, because a court decree was arranged.

In that indictment, Sterling Products, through its subsidiaries and two of its principal officers, were named.

They were:

Winthrop Chemical Corporation of New York.
The Bayer Company, Inc.



"GOD BLESS AMERICA!"

When the head men were ordered to become naturalized citizens of the countries which they exploited by the enrichment of Germany. But Uncle Sam smelled a rat in the attempt to "Americanize" the Farben holdings after Adolf Hitler had plunged civilization into its most destructive war.

SEQUEL TO THE APOCALYPSE

Alba Pharmaceutical Company.

W. E. Weiss, native American, born in Canton, Ohio, chairman of the board, general manager and a director of Sterling Products, as well as an officer and director of most of its subsidiaries; also director of General Aniline & Film Corporation.

A. H. Diebold, his colleague.

By virtue of Attorney Thomas Corcoran's skillful negotiating, the government's case was brought to a compromise, and in the consent decree that terminated the litigation the following mild penalties were imposed:

A fine of \$5,000 each for Sterling Products, Winthrop Chemical and Alba Pharmaceutical.

A fine of \$1,000 each for Weiss and Diebold with a further stipulation that both of them were to resign their executive posts with Sterling Products. They did so, but in a matter of weeks appeared again in the Sterling set-up as members of the Finance Committee!

Two key executives of the General Aniline and Sterling Products groups were pivotal figures in the search for the whole truth. They were—

Hugh B. Williamson, vice-president and treasurer of General Aniline;

Earl I. McClintock, vice-president and directing head of Sterling Products.

When these men speak forth, or when the time comes for a full inquiry, the public should get the whole story.

Much also remained to be delved into about the relationship between the Farben interests and the Ford Motor Company. Ford's large factory in Cologne, Germany, was being operated by Farben soon after the outbreak of war and was turning out tank after tank. Did this imply a reciprocal agreement of some sort between the two industrial giants?

As for Standard Oil (Esso) of N. J., the Senate in late February, 1942, had commenced an investigation into the charges that Germany, through patents exclusively assigned to a Standard subsidiary, had held up the development of a synthetic rubber industry in the United States for years.

Goodyear and Goodrich, both of which sought the Farben patents from Standard Oil, were unable to get them. Moreover, it was revealed in the Senate that Farben had withheld the essential "know-how" even from Standard.

A fair and thorough trial is demanded for those American citizens employed in Farben-owned or affiliated companies who assisted, innocently or wittingly, the agents of I. G. Farben in establishing the vast network of chemical, medical and film monopolies, whose profits in the western hemisphere helped so substantially to finance the Axis conquests.

Already, the shadowy figures of the Farben consortium in the United States were cloaking themselves in the protective robes of naturalized American citizenship. The very laws that guarantee freedom and security to inhabitants of this democracy are being invoked by these dangerous men to frustrate the will of the American government.

Powerful figures of the chemical, medical and film

structures established by the Farben group in this country are moving about with complete impunity because, as naturalized American citizens, they have the same rights and guarantees as native-born citizens.

These powerful figures, many of them accused of loyalty to Nazi Germany, continue to direct our corporate activities in the United States and in the countries of Latin America. A few have been removed by action of the U. S. Treasury. But other Farben men, waving the American flag and vowing to separate the gigantic companies, piling up millions in profits, perchance to be conveyed secretly to the Axis via dummy corporations in neutral countries.

Skilful legal talent, cunning lobby work, very tricky and every stratagem of delay and subterfuge, is being employed by the Farben men in the United States to remain at the helms of the hydro-atomic monopolies in the Western Hemisphere.

Will the American associates and accomplices of the I. G. Farben hegemony wriggle out of the snare that slow-moving American sleuths are weaving around them?

Is there no sure, fool-proof way to uproot these hidden tentacles of the German I. G. Farben Octopus?

Will countless other millions of American money paid in the purchase of household chemicals, medicines and camera supplies be drained off through secret channels to feed and propel Hitler's juggernaut in its assault upon civilization?

IF SO, THE WAR AGAINST THE AXIS WILL BE FOUGHT IN VAIN. ANOTHER WAR WILL FOLLOW SWIFTLY UPON THIS STRUGGLE AND STILL ANOTHER, IN TERRIFYING, PARALLING SUCCESSION, ENRICHING THE OCTOPUS OF GERMAN INDUSTRY UNTIL BERLIN'S DREAM OF WORLD EMPIRE WILL BE FINALLY ACHIEVED.

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"It dated back to the day, six weeks ago, when the boss called a departmental conference. Just the night before I'd happened to pick up a new book that dealt with the very subject the boss had to discuss.

I was able to contribute some information that no one present—not even the boss himself—knew before. I can't afford good books very often . . . but, believe me, I'm going to do more reading from now on. Because I've got a reputation to maintain as 'the best-informed man in the office'."

Thousands of new opportunities are opening up EVERY DAY in these rapidly changing times. FOR THE MAN OR WOMAN WHO IS WELL-INFORMED. Skimming the newspapers isn't enough. People now need to round out their knowledge with up-to-the-minute books so that they will REALLY UNDERSTAND TODAY'S IMPORTANT NEWS.

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DATE April 1, 1942

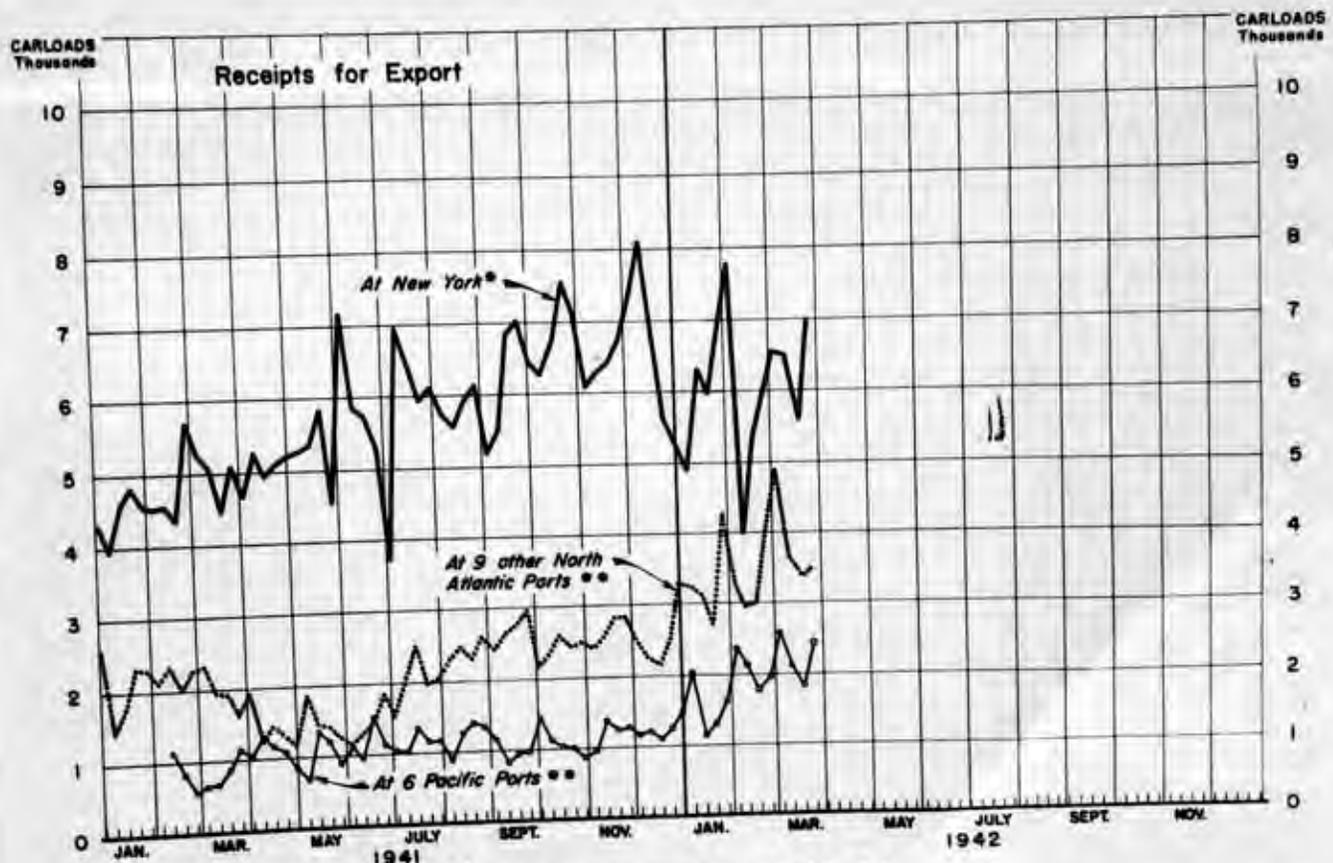
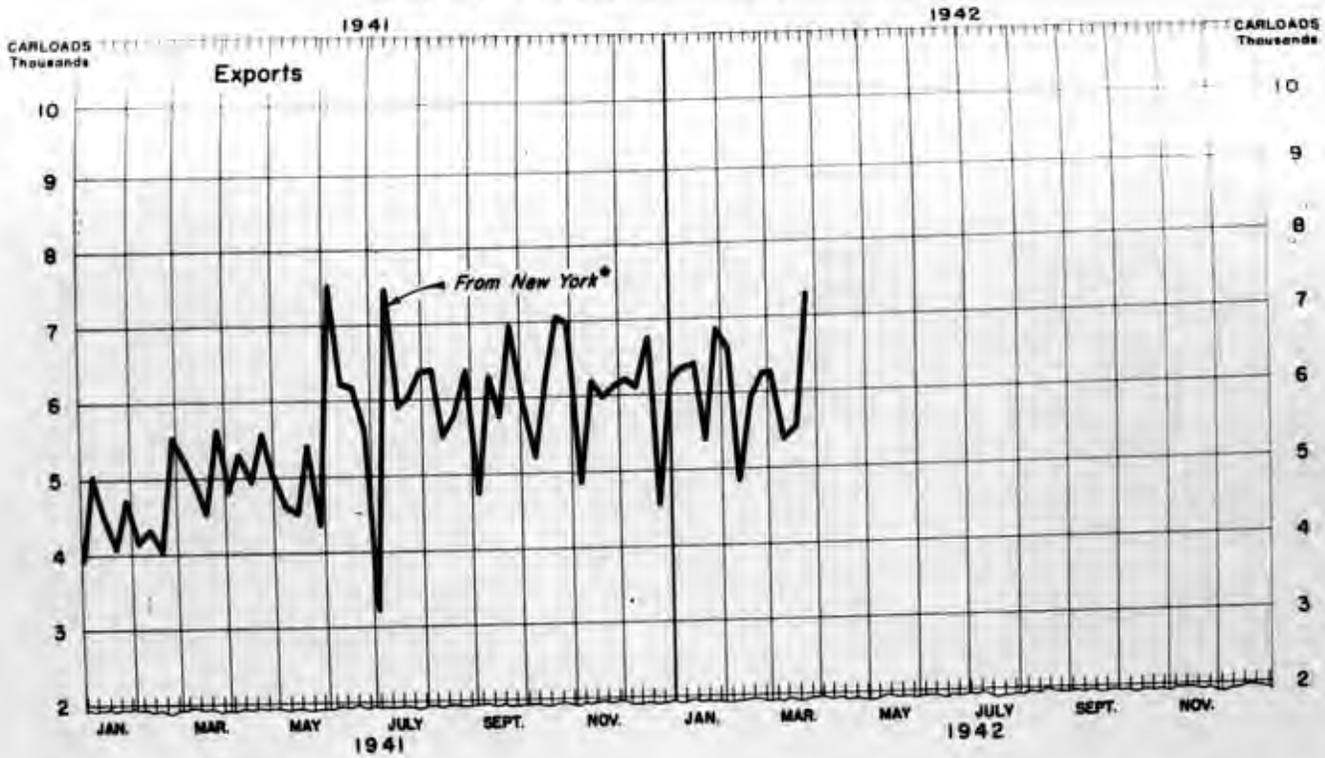
TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Export Freight Situation.

Lighterage freight in storage and on hand for unloading in New York harbor at the end of last week was reduced by 333 cars to a total of 21,214 cars. (See Chart 1.) The amount of additional storage space available increased during the week by 1,186 cars to 8,314 cars, apparently due in part to an enlargement of storage facilities.

Exports from New York showed the sharp increase of 1,744 cars to a total of 7,286 cars, almost reaching the peak figures of 1941. (See Chart 2, upper section.)

Receipts of freight for export at New York last week amounted to 6,986 cars, an increase of 1,401 cars over the previous week. (See Chart 2, lower section.) However, receipts for export at 9 other North Atlantic ports held relatively steady, increasing by only 152 cars to 3,499 cars. Receipts for export at 6 Pacific ports increased by 600 cars to a total of 2,421 cars, bringing the volume nearly in line with recent peak figures.

EXPORT FREIGHT MOVEMENT



* As estimated from data of general managers' association of New York.
 ** Association of American Railroads.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE April 1, 1942

TO Secretary Morgenthau
 FROM Mr. White
 Subject: Status of Stabilization and Gold Purchase Agreements.

1. Stabilization Agreements in Operation.

Country	Dated	Expires	Amount		Collateral
			Commitment	Outstanding	
Brazil	7/15/37	7/15/42	\$60,000,000	None	None gold
China	7/14/37	6/30/42	50,000,000	\$19,112,500	\$19,379,000 gold
China	4/1/41	6/30/42	50,000,000	None	None required

2. Stabilization Agreements Concluded
but not yet ratified

Argentina	1/1/41	6/30/41 ^{2/}	\$50,000,000	None	None required
Mexico ^{2/}	11/1/41	6/30/43	40,000,000	None	None required
Chad ^{2/}	3/1/42	6/30/43	5,000,000	None	None required

3. Gold Purchase Agreements

Country	Dated	Delivery by	Commitment to buy	Gold still undelivered	Advance still outstanding
Russia	10/10/41	4/8/42	\$31,605,000	\$11,866,000	\$ 9,803,000 ^{2/}
Russia	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 \$60,000,000 in gold, of which \$29,465,000 has been sold.

Argentines informed agreement can be revived on ratification.

Mex. Congress has ratified but documents not yet received here.

Original advance was \$30,000,000. About \$11,250,000 in Russian Gold is now en route to the United States, according to cable received from American Consul, Moscow.

C
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DEPARTMENT OF STATE

126

Washington

In reply refer to FF
740.00112A European War, 1939/9285

April 1, 1942

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits a copy of an air-mail despatch no. 4436, dated March 16, 1942, from the American Embassy at Buenos Aires, concerning certain transactions authorized by the Central Bank of the Argentine Republic falling outside of the Franco-Argentine payments agreement.

Enclosure:

Copy of an Air-Mail
Despatch No. 4436,
from Buenos Aires.

eh:copy
4-1-42

C
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Buenos Aires, Argentina, March 16, 1942

127

No. 4436

Subject: FRANCO-ARGENTINE PAYMENTS AGREEMENT: TRANSACTIONS AUTHORIZED
BY THE CENTRAL BANK OF THE ARGENTINE REPUBLIC OUTSIDE OF THE
PAYMENTS AGREEMENT

STRICTLY CONFIDENTIAL

The Honorable

The Secretary of State,
Washington.

Sir:

With reference to the Embassy's despatch no. 4116 of February 10, last, reporting a conversation with Dr. Raul Prebisch, General Manager of the Central Bank, in which the latter stated that the negotiations for the renewal of the Franco-Argentine payments agreement had been indefinitely postponed, I have the honor to report that on March 13 the British Embassy learned through a confidential source that the Central Bank had authorized a transfer to France by the Banco Hipotecario Franco-Argentino of one million French francs representing dividends and other financial remittances. The pesos paid for these francs would be placed in a blocked account. The rate of exchange in the transaction was fixed, as in the payments agreement, at the official rate of 9.65 pesos per 100 francs, which represents a great overvaluation of the franc.

Subsequently, it has been learned that a similar authorization for remitting funds to France was recently granted to the large French-owned brewery here, the Quilmes Cerveceria Argentina, although it appears unlikely that this will be availed of.

These authorizations (and presumably there are other instances of which this Embassy and the British Embassy are not aware) represent in a certain degree

an extension of the French payments agreement, although the pesos are to be blocked. The British Embassy, which had received assurances that after the recent accumulation of francs had been exhausted, no further transfers of francs aside from family remittances would be made, feels very strongly on the subject and it promptly made strong representations at the Central Bank.

The Banco Hipotecario Franco-Argentino, as has been previously reported to the Department, gave a written undertaking to the British Embassy some months ago whereby, among other things, it agreed not to make remittances to France outside of the payments agreement unless the British Embassy expressly consented to the transaction. As a result, the bank's position in the present transaction is a particularly delicate one, because if it abides by its agreement with the British Embassy, which is reluctant to give its consent to the operation, and accordingly declines to make a remittance which the Central Bank has definitely authorized, its management here may be severely disciplined, if not entirely removed, by the bank's head office in France (which presumably is not aware of the secret arrangement with the British Embassy). The bank, acting upon standing instructions from France, had requested the authorization of the Central Bank to make this remittance as it had done in the past, but knowing that the balance in the French-franc fund of the payments agreement was exhausted, it assumed that the authorization would not be granted. Indeed, the Central Bank at first gave notice that it could not take favorable action on the application, later reversing its decision, perhaps as the result of pressure by the French Embassy.

Respectfully yours,

NORMAN ARMOUR

A true copy of the
signed original.

Copy to Embassy at Vichy

File No. 851/631

JWG:dnb

eh:copy

4-1-42

COPY
THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

April 4, 1942.

SECRET

Dear Mr. Bell,

I have been informed by my Government that ten tons of gold bullion from the U.S.S.R. for the United States Government are expected to arrive at Halifax about the middle of April. I understand that the Canadian Naval authorities are being asked to arrange for the Bank of Canada to take temporary custody of the bullion. -

I have been instructed to inform you of the above in order that you may make whatever arrangements may be necessary to collect the bullion from Halifax in due course.

Yours sincerely,

/s/ F. Phillips

Mr. D. W. Bell,

Under Secretary,

United States Treasury,

Washington, D.C.

Copy:vw:4-2-42

No. 345.

Chungking, April 1, 1942

Subject: Chinese Reaction to Sino-American Loan Agreement.

Air mail

The Honorable

The Secretary of State,

Washington, D. C.

Sir:

I have the honor to transmit, for the information of the Department, certain material indicating the Chinese reaction to the recently concluded agreement for the loan of \$500,000,000 to China.

As indicative of official Chinese publicity, there are enclosed:

- 1/ Text of statement made by Dr. H.H. Kung, the Minister of Finance, to representatives of the Chinese and foreign press on March 24;
- 2/ Report, released by the official CENTRAL NEWS AGENCY, of remarks made by Dr. Kung at a press conference on March 24, regarding the uses to which the funds derived from the loan will be put.

In addition to these statements by the Minister of Finance, the press has given considerable space to regular news reports of the loan and has quoted the various telegrams exchanged between the concerned officials of the two Governments after the signing of the Agreement.

Editorial comment on the loan agreement has been made by almost all local newspapers, which without exception expressed China's gratitude for the loan and praise for the spirit in which it was made. Most of this comment, however, has been rather vague in discussing the uses to which the funds should be put and the following two articles have been selected, not only because they are the views of influential papers, but because they appear the most reasoned and interesting:

- 3/ Translation of editorial appearing in the HSIN HUA JIH PAO (Communist) of March 24, 1942;

Translation of editorial appearing in the TA KUNG PAO
(Independent) of March 27, 1942.

Both articles express the fear that the additional credit made available by the intended domestic bond issued based on the loan may, unless more careful restrictions are imposed, have an inflationary effect opposite to that sought. In this they reflect a prevalent lack of confidence in the government's fiscal policy. But from this point the viewpoints of the two papers diverge. The TA KUNG PAO, consistent with its long advocated policy which it calls "deflation", lays the main emphasis on the monetary side of the problem, pointing out the dangers involved in considering the loan, and that from Great Britain, as a "reserve" for the Chinese currency, which although already greatly over-expanded hardly equals their face amount. In addition this paper believes that subscription to the proposed bonds by the well-to-do will have to be put on a compulsory basis, that the problem of hoarding should be attacked by the forced sale of hoarded stocks in exchange for bonds, and that use of the loan for stimulation of production must be most carefully controlled in order to avoid further inflationary effects. The HSIN HUA JIH PAO, on the other hand, believes that the question must be approached on a broader basis and that every possible means must be found to attack inflation and eliminate hoarding by increasing domestic production. It inferentially criticizes the sale of bonds redeemable in foreign currency as permitting the flight abroad of capital which would better be used in developing this domestic production. It is interesting to note that this paper, Communist in support, is the only one to insist that China should repay the loan.

Respectfully yours,

C. E. Gauss

Enclosures:

1 to 4 as stated

Original and two copies to the Department by air
Three copies to the Department by pouch

861

JSS/mcl

True Copy of
signed Original.

Enclosure no. 1 to despatch no. 345 dated April 1, 1942 from American Embassy at Chungking.

(C O P Y)

H. H. KUNG ISSUES STATEMENT ON ANGLO-AMERICAN LOANS

Chungking, March 24 (Central): Dr. H. H. Kung, Minister of Finance, today issued the following statement on the recent American and British loans to China:

"I am glad that I have the opportunity of meeting you this afternoon and making a statement concerning the American and British loans to China. These loans are a concrete manifestation in the financial sphere of the close bonds of friendship between these three great democratic powers. The generous terms of the Sino-American agreement just signed show clearly the spirit of close collaboration and mutual aid that exists, and prove the determination of the anti-Axis powers to act promptly and effectively to ensure the success of the common cause.

"China's resistance of nearly five years has played a vital part in weakening and exhausting the enemy. But the ravages of war waged by the ruthless aggressor against the Chinese people have inevitably increased the strain on the Chinese economic and financial structure. It became essential to consolidate and strengthen our economic and financial base if we were to make the maximum contribution to the concerted war effort.

"As soon as the Generalissimo and I made this situation clear to the respective Governments, they entered into immediate consultation on how best to remedy it. The loans are the product of these consultations. In carrying out the negotiations, the Ministry of Finance has constantly had the wise guidance of Generalissimo Chiang Kai-shek as President of the Executive Yuan.

"The speed and unanimity with which the American loan was adopted are a tribute both to the sympathetic and generous understanding of China's needs and the realization of China's importance in allied grand strategy prevailing in American Government circles and among the American people as a whole. On behalf of the Chinese Government and people I wish to express my gratitude to the American Government and people not only for the economic assistance they are proffering to China but also for their demonstration of their faith in China's ability to fulfill its part in the sacred union of all free peoples against tyranny. I wish particularly to thank President Roosevelt, Secretary Morgenthau and the other members of the Cabinet and the Congressional leaders who have shown such great interest in help to China. I very much appreciate the attitude and spirit of cooperation shown by the American authorities in the negotiations with our Foreign Minister, Dr. T. V. Soong. We are gratified by Dr. Soong's effective conduct of the negotiations.

"I would like to stress the unprecedented nature of the loan which in itself reflects and emphasizes the kind of cooperation a war of freedom invokes. It is our firm intention to make the best possible use of this financial assistance. Recently there has been considerable discussion of this question in our press. The Government, of course, welcomes advice and suggestions based on a thorough understanding of our problems and difficulties. As interest is widespread, I am taking this opportunity to outline the situation, so that the nature of our economic problems may be better understood.

"The primary objective of the loan is to strengthen our war economy and not to facilitate the restoration of peace economy, as the proponents of the re-establishment of a free foreign exchange market would appear to imagine. Such a measure would make no contribution to our war effort and would benefit only the speculators.

"This loan gives us a much needed opportunity for exercising economic initiative. The expansion of our military effort is bound to entail greater expenditures. Thus our budgetary deficits will tend to become larger in spite of the increase in revenue resulting from the imposition of new taxes and the increase in the rate of old taxes. These deficits can be met only by borrowing. Now, the more this borrowing is backed by sound financial reserves and the more it is drawn from genuine savings the easier it will be for us to check price increases and to reduce the dangers of inflation.

"Therefore we intend to use the new loan, in the first place, to provide a solid reserve for our note issue. This measure will directly strengthen confidence in fapi throughout China.

"In the second place, we shall utilize it as backing for new internal bond issues on a foreign currency basis which by providing an attractive saving medium will tend to stimulate the volume of saving and absorb fapi from the circulation and at the same time encourage the liquidation of hoards of goods. The expansion of genuine as opposed to fictitious savings has a double advantage. It transfers to the Government command over goods which would otherwise be exercised by private people, thereby directly keeping down the private demand for goods at the very time when the Government demand for goods is expanding. And it enables the Government to finance its expenditures with less dependence on further expansion of the note issue.

"A nation-wide patriotic campaign for sale of the new issues will soon begin. The Government confidently expects large and wide-spread response from the public. If any hoarders of goods do not see the advantage of shifting funds from speculations into the new bonds, suitable means will be found to induce them to do so.

-3-

"Furthermore, we desire to expand production of goods essential to the successful conduct of the war. We must rapidly increase production to strengthen the army and the rear, improve and extend our means of communication with the outside world, and make ourselves more independent of foreign sources of supply.

"The fight against inflation is many-sided and must be conducted on many fronts. Our fundamental problem is neither purely monetary nor purely a problem of goods. It is both. To be successful in achieving the economic initiative we must tackle both aspects simultaneously. We must consolidate our monetary structure by strengthening our reserves, for reserves are as necessary in the economic as in the military sphere. We must keep to a minimum the potential inflationary effects of deficit financing by drawing on real savings. Finally, we must increase both the production of goods and the even flow of goods once they are produced onto the market.

"The checking of price increases and the re-inforcement of our currency and financial system are indispensable economic pre-requisites for victory. These objectives we can attain by the wise utilization of the loan. We do not regard the loan as an opportunity to administer a temporary palliative or an injection the effects of which will soon wear off, but as an opportunity to invigorate our economy in such a way as to enable it to meet all the demands the war is making and will make on it."

Enclosure no. 2 to despatch no. 345 dated April 1, 1942 from American Embassy at Chungking.

(COPY)

DR. KUNG ANNOUNCES "ALLIED VICTORY LOAN" IN
U. S. DOLLARS

Chungking, March 24 (Central): Dr. H.H. Kung, Vice-President of the Executive Yuan and concurrently Minister of Finance, announced officially today at a press conference that China will issue a US\$100,000,000 "Allied Victory Loan" backed by the new \$500,000,000 American loan. These American dollar bonds can be bought with Chinese dollars at the rate of NC\$100 to US\$6, and can either be exchanged at maturity for an American dollar draft on New York or sold at the prevailing rate for American dollars.

Dr. Kung also officially confirmed reports that the Chinese Government will issue savings certificates in United States dollars, which will be purchasable with Chinese dollars at the rate of NC\$100 for US\$5, the lower rate being due to the fact that these certificates will be redeemable within short periods of one, two and three years. A total of US\$100,000,000 in these savings certificates will be issued.

Dr. Kung, who had not fully recovered from his recent illness, made himself available to foreign and Chinese pressmen this afternoon. He explained that the savings certificates and "Allied Victory Bonds" would give Chinese industrialists and businessmen an opportunity to purchase United States dollars against the day when communications between China and the United States will be restored to the extent that American machinery and goods can be bought and delivered. He added that it would also be an opportunity for those industrialists whose factories and production plants have been destroyed by bombings, to accumulate U.S. dollars with which to start afresh when conditions are stabilized sufficiently to enable them to procure the necessary American machinery and equipment.

Asked how the new US\$500,000,000 American loan would affect the commodity price situation in China, Dr. Kung explained that the issue was a complicated one, but that the US\$500,000,000 brought China's total currency reserves to more than 100 per cent, which should renew the people's confidence in the Chinese dollar and thus remove the people's temptation to keep their holdings in goods rather than currency, thereby naturally resulting in a drop in commodity prices. Once the people decide to keep fapi, they will start unloading hoarded goods, thereby alleviating the artificially-maintained shortage and bringing down prices.

The Finance Minister also pointed out that the U.S.-dollar savings certificates and "Allied Victory Loan," totalling US\$200,000,000 would absorb approximately four billion Chinese dollars or roughly one out of every four dollars in circulation, thus removing from circulation the large sums of idle and floating capital now being used for speculative

and hoarding operations. This would be another way in which the new American loan would help stabilize commodity prices. He added that the government's many regulations and activities against hoarders are beginning to tighten up, and that positive measures would be taken to induce those with idle floating capital to transfer their holdings from hoarded goods to the new bond or savings certificates issues.

Dr. Kung revealed that a bond exchange would be established in Chungking in the near future, which will allow holders of the new U.S.-dollar bonds and savings certificates to sell these holdings or obtain loans using these as collateral, thus giving the new issues greater versatility and value.

Asked whether or not the applications of the American loan would find parallel in the uses to which the British loan would be put, Dr. Kung replied that detailed arrangements regarding the 50,000,000-pound sterling loan had not yet been agreed upon, but that the arrangements in this regard would probably follow generally the lines of the American loan. He pointed out that no strings were attached to the American loan, although the Chinese Government would probably consult the American Government in matters requiring technical assistance for applying the loan most effectively.

Enclosure no. 3 to despatch no. 345 dated April 1, 1942 from American Embassy at Chungking.

Translation of Editorial Appearing in HSIN HUA
JIE PAO, Chungking, March 24, 1942.

THE PURPOSES AND SIGNIFICANCE OF THE SINO-AMERICAN AGREEMENT.

The Sino-American Loan Agreement concluded at Washington on March 21, is significant for the strengthening of the anti-Fascist Front, the economic power of China's armed resistance, and the relations between the two countries.

The purposes of the loan are summarized in the Agreement under seven points which may be grouped under four main classifications: (1) Strengthening the currency system, checking inflation & preventing hoarding; (2) Promoting and assisting the development of productive and communication enterprises; (3) Improving the livelihood of the people; and (4) Strengthening China's national defense in ways additional to those provided for by the Lend Lease Act. All of these are vital for China.

The present rapid rise of prices in China is chiefly due to hoarding made possible by use of _____*, bank and commercial capital, although the steady expansion of note issue must also be taken into account. To prevent further price inflation it is absolutely necessary that hoarding be punished, and that steps be taken to have fepi returned to the Treasury and its total issue reduced. This is why the Loan Agreement repeatedly refers to the strengthening of the currency and banking system, the checking of inflation and the prevention of hoarding. But the strengthening of the currency does not mean the issuance of new notes or the flotation, without prior mobilization** of the people, of domestic loans which can make possible the old practise of exchanging the bonds at banks for legal tender and then permitting the banks, on the basis of their bond holdings, to issue more currency. Such action will only make it impossible to attain the goal of checking inflation.

The promotion of productive enterprises is even more important. Inadequate production is the main cause of hoarding. If the market could be supplied with sufficient goods, hoarding would not be feared. Near-sighted people care only for quick profits. They believe that production in the rear has reached its maximum and cannot be increased. Now their attention is being concentrated on the chance to make large profits by the old means of purchasing foreign stocks and bonds with American currency. This may not be harmful, but it will certainly not help China's war-time

*Two characters deleted by censor: from context it may be assumed that they are the characters for "Government".

**Presumably meaning: "effective control". Trans.

economy if it means a slighting of efforts to increase domestic production. A part of this capital must therefore be allotted for the development of small industry, cooperatives and farm production. The increase of industrial and farm production will considerably alleviate the present difficulties, for it will, first, improve the livelihood of the people and, second, lay the ground for a counterattack by strengthening the national defence. From this it is obvious that the use of the loan is not merely a question of contracting currency issue, and should be considered on a broader basis as a financial and economic problem of assisting the whole anti-Fascist war effort.

The wording of the Agreement is in the spirit of true equality. The Second Article makes no reference to security or other serious obligations. This is unprecedented in the history of Sino-American financial and diplomatic relations. After the victory, when China will have won her complete emancipation, we predict that financial relations between China and America will be on this same equal footing. Indeed, only such a basis should be acceptable to China.

Some think it unwise to neglect financial terms in making such a loan. It is our opinion that, even though China and America are engaged in a common struggle, and even though this loan is to be used in this struggle, still the Chinese people, as a matter of national pride, should after the victory repay all loans which have helped us to win our freedom.

The Sino-American Loan has further improved the intimate relations between these two great nations; and has strengthened China's financial and economic strength for the struggle. We hope that the purposes and spirit of this Agreement will be thoroughly effectuated, and that it will be made to bear fruit by concrete measures to remedy the present financial difficulties.

Enclosure no. 4 to despatch no. 345 dated April 1, 1942 from American Embassy at Chungking.

Translation of Editorial Appearing in the TA KUNG PAO,
Chungking, March 27, 1942

THE BRITISH AND AMERICAN LOANS AND THEIR USES

The Sino-American Loan Agreement was signed on March 21 and its history, and the plans of the Chinese Government for the use of the funds, explained by the Finance Minister at a press conference on the 24th.

We are most gratified by the spirit of mutual help implicit in the words of the Agreement. There is no security, no time limit, no interest, and no conditions attached: all these are to be decided after the end of the war. Such liberality can only be between two countries which share happiness and misfortune together like fast friends. With such a precedent, we are confident that the spirit and terms of the Sino-British Loan Agreement cannot be different. For the success of these negotiations, we give credit to the governmental authorities concerned, and at the same time express our deep gratitude to our Allies for their kind and sincere help.

As to the uses of the loan, the Agreement mentions seven general purposes for which it is intended: (..Quotas..) Dr. Kung describes four objectives which the Chinese Government has in mind: (1) The increase of the currency reserve to strengthen the position of the fapi; (2) The issuance of domestic bonds with foreign exchange backing to increase savings and contract the circulation of currency; (3) The increase of production of materials important for carrying on the war; and (4) The improvement of international communication facilities. And the Generalissimo, in his telegram to President Roosevelt, gives further light on its general uses.

Of these three documents, the statement of Dr. Kung is certainly the most concrete. Of the four uses which he has described, the second is soon to be put into effect, namely, the issuance of "Allied Victory Bonds" supported by US\$100,000,000 and Treasury Thrift and Savings Notes supported by another US\$100,000,000. These should be an effective means for reducing inflation and checking the issuance of more fapi, for if both kinds of bonds can be completely sold it will involve the return to the Government of more than CN\$3,600,000,000. Since the plan has been decided upon, the early issuance of the bonds can be expected.

According to Dr. Kung, the Government, expecting that bonds with such excellent security can be sold without difficulty, is leaving their purchase on voluntary basis. But this seems questionable. The general public, while patriotic, does not have a sufficient of extra cash on hand; and the well-to-do, on the other hand, usually use their capital for hoarding and speculation rather than the purchase of government bonds because they can in that way make more profit. This is a practical fact. There should therefore be a general campaign to stimulate the patriotism of the common

people to induce them to purchase bonds, and appeal to the rich businessmen, for the sake of the nation's welfare, to invest in bonds rather than other means of profiteering. At the same time it will be necessary for the Government to adopt some forcible means to make the rich subscribe to bonds. For instance, the Government can take over goods declared to be unlawfully hoarded and pay for them with these bonds. Such a plan will bring effective results in our campaign for deflation and the stabilization of commodity prices.

In discussing the use of the loan, it is most important to consider the problem of currency reserves and the increase of investment.

The Loan Agreement specifically provides that it is to be used for "preventing inflation" and "reducing the dangers of inflation". But if the loan is to be used for currency reserve which will make possible the issuance of more fapi, it will certainly have the effect of further acceleration of inflation. The two loans (British and American) total CN\$13,000,000,000. To this may be added our present reserve, make a total theoretical reserve of \$20,000,000,000. Our present issuance is still below this amount so it may be argued that a further increase of currency, at least up to this point at which backing would be 100 per cent, would do no harm. But the problem is not so simple. Currency is nothing but tokens for production and consumption. If there are not enough goods, and if foreign exchange, due to war-time restrictions, cannot be exchanged for more goods, we will still have inflation no matter what the reserve for the currency. We must guard therefore against the fallacious idea that no harm will be done by the issuance of more fapi. We call this point particularly to the attention of the Government's financial authorities.

As to increasing production, there is not much to be said. This increase is absolutely essential. But again - if this investment is so uncontrolled as to cause credit expansion, it will have harmful results. We have commented repeatedly on this problem in the past and here add only a few points:

- (1) The number of factories is not as important as the quantity of production. When loans are given to help productive enterprises, care must be taken that careful investigation of the true facts with regard to existing enterprises is made.
- (2) Investment must be limited to the enterprises which can improve their technique and reduce their cost of production, and to those whose products can be controlled at a price not higher than that fixed by the government.
- (3) The market must not be flooded with capital so as to upset the relationship between the costs of materials and labor.

Lee/JSS/mcl

Wk

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

Kunming via
Chungking and NR
Dated April 1, 1942

Rec'd 8:42 p.m., 3rd

Secretary of State,

Washington.

April 1, 4 p.m.

Official figures just received show 13,700 tons of cargo as arriving at Kunming over the Burma highway during the short month of February which represents a slight decrease in the daily average of traffic within recent months.

PERKINS

HTM

Copy:bj:4-6-42

TELEGRAM SENT

LH

April 1, 1942

This telegram must be
paraphrased before being
communicated to anyone
other than a Governmental
agency. (BR) 1 a.m.

MEMBRASSY

CHUNGKING (CHINA) via N.R.

243

For Adler from Fox.

QUOTE The documents mentioned in no. 210,
March 24, 7 p.m. forwarded to you by diplomatic
pouch. END QUOTE.

WELLES
ACTING
(FL)

FD:FL:BMcB

Department of State

ENCLOSURE

Letter drafted 7-28-42

Secretary of the Treasury

DEPARTMENT OF STATE
WASHINGTON



In reply refer to
D 859.51/23

April 1, 1942

My dear Mr. Secretary:

Further reference is made to my letter of March 11, 1942 transmitting a copy of telegram no. 140 from Reykjavik concerning two documents authorizing the Icelandic Minister to Washington to sign a stabilization agreement. I am attaching hereto a copy of despatch no. 70 from Reykjavik together with the originals of the two documents under reference which were deposited with the American Legation in that city.

Sincerely yours,

For the Secretary of State:


Adolf A. Berle, Jr.
Assistant Secretary

Enclosure:

Despatch no. 70
with enclosures.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.



No. 70

Reykjavik, March 6, 1942

subject: Full Powers to Sign Stabilization Fund Loan Agreement.

THE HONORABLE
THE SECRETARY OF STATE,
WASHINGTON.

SIR:

In its telegram No. 140 of March 5, 6 P. M., the Legation reported that new documents, empowering the Icelandic Minister in Washington to sign a Stabilization Fund Loan Agreement, for \$2,000,000, on behalf of the Icelandic Government and the National Bank of Iceland, had been deposited with it by the Icelandic Minister of Finance, Mr. Jakob Moller. The texts of these documents were set forth in the telegram, which also contained the statement that the original documents would be forwarded

to

-2-

to the Department by the next pouch. These documents
are transmitted herewith.

Respectfully yours,

Maynard B. Barnes

Chargé d'Affaires ad interim

List of enclosures:

1. Document from Minister
of Finance, March 4.
2. Document from National
Bank of Iceland, March 4.

In quintuplicate.

831

MBA/ra

A true copy of
the signed origi-

Regraded Unclassified

With reference to an Act number 130 of December 18th 1941 Paragraph 1, authorizing the Government to guarantee a working loan for the National Bank of Iceland, I the undersigned Jakob Möller, Iceland's Minister of Finance, acting on behalf of the Treasury, do confer upon the Icelandic Minister in Washington, Mr. Thor Thors, full and unrestricted power of attorney to sign a declaration binding the Icelandic Treasury as guarantor of full and due repayment of principal of and payment of interest on a loan not exceeding \$ 2000.000 - two million dollars - which the National Bank of Iceland proposes borrowing from the Stabilization Fund, Washington, D.C., U.S.A.

Reykjavik, this 4th. day of March 1942

Jakob Möller.

LANDSBANKI ÍSLANDS

THE NATIONAL BANK OF ICELAND

ADDR. "NATIONALBANK"

CODES:

BENTLEY'S
LE CODEVERBES
A.S.C. 25 & 26 SA
JERRY'S STANDARD
LEAF'S FIVE LETTER
13 INTERNATIONAL BANKING
14 2nd & 3rd Ed.

REYKJAVÍK (ICELAND)

This is to certify that Landsbanki Íslands, Reykjavík, hereby gives the Iceland Minister in Washington, Mr. Thor Thors, a full and unlimited power to sign a Stabilization Fund's Agreement with the Secretary of the Treasury of the United States of America, amounting to maximum equivalent of U.S. Dollars 2,000,000.00 - Two Million U.S. Dollars -. Whatever Minister Thors may do in connection with this matter is equally valid as if we had done it ourselves.

Done in Reykjavík the 4th day of March 1942.

LANDSBANKI ÍSLANDS
NATIONAL BANK OF ICELAND

Guðalmundur A. Pétursson

INCOMING CABLEGRAM

Date: April 1, 1942

From: Bern

Federal Reserve Bank of New York

New York

#6.

In order to proportionate better our holdings of gold and devisen we beg you to earmark for our special earmarked gold account with you approximately \$10,000,000 fine gold debiting equivalent to the account of our Zurich office value today Stop Please cable details both parties.

(Sgd.) Banque Nationale Suisse

(Received by telephone from Federal Reserve Bank of New York, N. Y.
11:35 a.m., April 1, 1942)

J. P. MORGAN & COMPANY

23 Wall Street
New York, New York

April 1, 1942

Federal Reserve Bank of New York,
33 Liberty Street,
New York City.

Dear Sirs:

Attention: D. J. Liddy, Esquire

With reference to our conversation of yesterday, we enclose herewith a copy of a letter signed by A. G. Cicognani, Archbishop of Laodicea, Apostolic Delegate, together with a copy of cable received from the Amministrazione Speciale della Santa Sede, Vatican City. In this connection we respectfully request that you arrange for the purchase of gold bars for value of \$700,000 on behalf of our client and thereafter hold such gold in your institution for the gold account of the Amministrazione Speciale della Santa Sede, Spato Della Citta Del Vaticano.

We shall thank you to advise us when this transaction has been completed and bill us for the cost of the gold, plus charges.

Your kind attention to this matter will be appreciated.

Yours very truly,

J. P. Morgan & Company, Inc.

/s/ Sidney Lanier,
Treasurer.

(Received by telephone from Federal Reserve Bank of New York, N.Y.
1:00 p.m. April 1, 1942)

vw

APOSTOLIC DELEGATION
United States of America

3339 Massachusetts Avenue,
Washington, D. C.

March 30, 1942

No. 12/39

Mr. Henry C. Alexander, Vice President,
J. P. Morgan & Company, Inc.,
23 Wall Street,
New York City.

Dear Mr. Alexander:

His Eminence, Cardinal Maglione, Secretary of State, has requested me to communicate the following instructions to J. P. Morgan & Company on behalf of the Amministrazione Speciale della Santa Sede.

1. After obtaining necessary authorization, J. P. Morgan & Company should purchase gold bars for value of \$700,000 (Seven hundred thousand dollars) on behalf of the Amministrazione Speciale della Santa Sede, charging the same to the dollar account of the Amministrazione Speciale in your bank. It is added that if necessary this Apostolic Delegation should assist in obtaining the commission for the foregoing purchase.
2. The gold purchased should be placed in the gold account of the Amministrazione Speciale della Santa Sede at the Federal Reserve Bank of New York.
3. The communications of J. P. Morgan & Company or of the Federal Reserve Bank regarding this matter should be transmitted to the Amministrazione Speciale della Santa Sede by means of the Apostolic Delegation and the Secretariate of State in the Vatican.

I understand that the Amministrazione Speciale della Santa Sede has sent a radiogram to your Company regarding this amount, without having indicated the object of the transaction, which is explained in the present letter.

I shall be grateful for your cooperation in the matter, and ask you to inform me when the transaction has been completed so that I can inform the Holy See of the purchase and deposit.

With sentiments of esteem, and every good wish, I remain,

Sincerely yours in Christ,

(signed) A. G. CIOGNANI
Archbishop of Laodicea
Apostolic Delegate

(Received by telephone from Federal Reserve Bank of New York, N.Y. 1:00 p.m.
vw April 1, 1942)

C A B L E

Date: March 27, 1942

From: Amministrazione Speciale
della Santa Sede, Vatican
City.

J. P. Morgan & Co., Inc.

No. 363.

Kindly follow instructions which you will receive from
Apostolic Delegate, Washington, D. C., on our behalf for use about
\$700,000 to our debit with you.

Amministrazione Speciale della Santa Sede

Received by telephone from the Federal Reserve Bank of New York,
April 1, 1942, 2:15 p.m.

dmc

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE April 1, 1942

TO Secretary Morgenthau
 FROM Mr. Dietrich

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£58,000
Purchased from commercial concerns	£17,000

Open market sterling held at 4.03-3/4, with no reported transactions.

The discount on the Canadian dollar widened further to 13-1/4%, as compared with 13% at the beginning of the week and last month's low of 13-3/8% reached on March 17.

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

Argentine peso (free)	.2370
Brazilian milreis (free)	.0516
Colombian peso	.5775
Mexican peso	.2064
Uruguayan peso (free)	.5295
Venezuelan bolivar	.2815
Cuban peso	1/8% premium

We sold the following amounts of gold, which were earmarked for the principals named:

\$9,975,000	to the Swiss National Bank
4,987,000	to the Central Bank of Turkey
<u>696,000</u>	to the Vatican State, Special Administration of Holy See

\$15,658,000 Total

In order to replenish the Stabilization Fund's gold balance, we purchased \$15,650,000 from the General Fund through the New York Assay Office.

No new gold engagements were reported.

-2-

A price of 23-7/16d was fixed in London for both spot and forward silver, equivalent to 42.56¢. This compares with the quotation of 23-1/2d that has prevailed for many weeks.

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

We made no purchases of silver today.

During the month of March we made no purchases of silver. This makes the fourth consecutive month in which no silver has been offered to us.



CONFIDENTIAL

BRITISH MOST SECRET

(U.S. SECRET)

DATA No. 107

Information received up to 7 A.M., 1 April, 1942.

1. NAVAL

TIRPITZ, SCHEER and PRINZ EUGEN were sighted in their usual berths at TRONDHJEM yesterday. HIPPER was under way in the FJORD. A destroyer, built at DURHAMTON for Turkish Government has arrived at ALEXANDRETTA and the Turkish flag was hoisted yesterday. Two ships (totalling 12,000 tons) from the convoy to RUSSIA are now known to have been sunk. Ten ships out of nineteen of this convoy which was scattered by heavy weather en route had arrived at HERMANEK by 31st. On the 17th a medium sized British vessel was sunk by U-boat off LIBERIA and a British vessel carrying boom defence gear was torpedoed 400 miles south of FREETOWN on the 18th. A small British ship and one of H.M. trawlers in a northbound coastal convoy was sunk by mines off the East Coast early this morning.

2. MILITARY

CHINA. TOUNGGOO Front: On the 30th the Chinese had recaptured the aerodrome and surrounded the enemy at NANGYUN.

FROME Front: During 29th two British Battalions supported by one Regiment of a British Armoured Brigade captured PAUNDE, but, after fighting all day, failed to dislodge the enemy from PADIGON where they were established in strength. In the meantime a mixed Japanese and Burman force crossed the River from the West and occupied SHWEDAUNG. In heavy fighting in this area an Indian Frontier Force Regiment inflicted 200-300 casualties and captured seventy Burmans. During 30th the enemy were reinforced and established blocks across the main road. We attacked from the North and South to clear SHWEDAUNG and get our Mobile Force North from PAUNDE through to FROME. The result is not yet known. Entire local population in the FROME Area is giving active assistance to the enemy who has complete control of the air and constantly attacks all road and river movement.

RUSSIA. Russian attacks in the area west of YUKHNOV have made some progress.

3. AIR OPERATIONS

WESTERN FRONT. 30th/1st. Thirty-four Halifax aircraft were despatched on a special operation but owing to weather conditions the target was not located. Six are missing.

31st/1st. Four aircraft were sent to ESSEN. All returned safely.

MALTA. On 30th/31st and 31st a total of 38 aircraft attacked the Island causing some civilian casualties and damage.

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Thursday, April 2, 1942.
4/1/42

Press Service
No. 30-93

Secretary Morgenthau today announced the plan to be followed by the Treasury in its public offering of Treasury certificates of indebtedness. The issue is to take the form of a single offering of about \$1,500,000,000, instead of the two issues contemplated last month.

The Secretary explained that the new issue is designed to meet a demand on the part of corporations, banks, and other investors for a type of security carrying maturities somewhat longer than Treasury bills. Because corporations have indicated a desire to invest current accumulations of business funds in this type of security, the Secretary is contacting them directly to inform them of the approaching offering. The text of his communication follows:

"The Treasury Department expects to make a public offering of about \$1,500,000,000 of Treasury certificates of indebtedness on Monday, April 6, 1942. The certificates will be offered at par and will bear interest at the rate of 1/2%, payable by coupon. The maturity will be about six months.

"Many corporations have indicated the desire to invest current accumulations of business funds in this type of security. I am calling this issue to your attention since it occurs to me that your corporation may wish to subscribe for some of these securities.

"If you will telegraph me not later than Friday evening, April 3, 1942, indicating your interest, I shall be glad to have sent to you before the offering date, complete details of the terms of this issue and see that you are advised about subsequent offerings of Government securities. As the new offering may be open only one day, prompt action is necessary if you wish to participate. Subscriptions for amounts up to and including \$25,000 will be allotted in full."

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In introducing the new issue the Treasury will also have the benefit of the facilities of the investment industry. Representatives of the Investment Bankers Association of America, the National Association of Securities Dealers, and the Association of Stock Exchange Firms have volunteered to have their members assist in familiarizing investors with the offering.

Secretary Morgenthau pointed out the obvious difficulty of directly notifying the numerous investors who it is expected will wish to subscribe and expressed the hope that press announcements together with the individual efforts of members of the investment industry will give sufficiently widespread publicity to the issue.

In the opinion of security experts the issuance of Treasury certificates of indebtedness will be welcomed by investors who have not previously been able to employ advantageously their idle funds in United States Government securities. The belief is also expressed that Treasury certificates of indebtedness will furnish the open market for United States Government securities a desirable means through which banks can adjust their day-to-day reserve positions.

Treasury certificates of indebtedness are not a new type of obligation. They were last issued in 1934.

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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, April 3, 1942.
4/2/42

Press Service
No. 30-95

Subscriptions for the Treasury certificates of indebtedness to be offered for cash next Monday will be entertained from the various classes of subscribers on the same basis as those entered for the last two cash offerings of Treasury bonds. That basis was set forth in a Treasury press release dated December 3, 1941, and it will be contained in the formal offering circular. Attention is called to the other provisions of the December 3 statement, which also will be applicable to this offering.

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April 2, 1942
9:41 a.m.

HMJr: Hello.

Operator: Mr. Bell.

Daniel
Bell: Good morning.

HMJr: Good morning. On sleeping on it, I've decided I'm not going to change the rules and regulations on this next financing.

B: All right.

HMJr: Do you mind telling that to the Fed?

B: No, sir, not at all. And we'll get out a press statement. I think that ought to go out either today or tomorrow morning.

HMJr: Saying what?

B: Saying we will not - that we'll use the old bases.

HMJr: That makes you happy, doesn't it?

B: Yes, I think that's better.

HMJr: I don't want to do it.

B: All right.

HMJr: All right. Thanks.

April 2, 1942.

Conference in Mr. White's Office
April 2, 1942
10:15 A.M.

Present: Mr. White
Sir Frederick Phillips

Sir Frederick called at his own request. He said he was going to take up with Mr. Jones the question of taking over all their facilities. Sir Frederick thought maybe he could make a trade with Mr. Jones and simplify the problem by getting Mr. Jones to make them a lump sum bid and turn over all the properties for that amount and thereby save separate transactions for each of the items. Mr. White said he didn't see any harm in trying.

Sir Frederick also wanted to know whether it might be possible to Lend-Lease possibly 20 or 25 million ounces of silver (he was not sure of the amount) to be used for coinage purposes in England. He said they had been getting silver from India but there was none now available. Mr. White expressed doubts whether it could be done in Lend-Lease because the silver in the open market was going to industrial uses. Mr. White stated he was not sure what arrangements could be made, but something might be worked out to loan silver for the duration of the emergency. Mr. White asked Sir Frederick whether he wished to make the request formally and Sir Frederick said he first wanted to find out from his Government how much silver they wanted.

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EXECUTIVE OFFICE OF THE PRESIDENT
BUREAU OF THE BUDGET
WASHINGTON, D. C.

April 2, 1942

To: The Secretary of the Treasury

As per our discussion yesterday.

H. D. S.

Copies Furnished To:

Mr. D. Bell
Mr. Paul
Mr. Blough
Mr. Tarleau
Mr. Sullivan
Mr. Graves
Dr. White
Dr. Haas (2)
Mr. Kuhn
Mr. Odegard
Mr. Gaston

CONFIDENTIAL

A WAR PROGRAM TO PREVENT INFLATION

BUREAU OF THE BUDGET
March 26, 1942
Revised

A WAR PROGRAM TO PREVENT INFLATION
INTRODUCTORY STATEMENT

The President announced in his Budget Message that "an integrated program . . . will enable us to finance the war effort without danger of inflation. This is a difficult task. But it must be done and it can be done."

The time for such an integrated program is here. Inflationary prices are not only a threat but a reality. The inflationary price rise is about to develop into the inflationary spiral.

In line with the successful development of the war production program, war expenditures increase rapidly. The \$62 billion expenditure estimate for fiscal year 1943, which was received with skepticism when announced ten weeks ago, appears now to be an underestimate. Such a sudden great increase in government expenditures must have a tremendous impact on the economy.

These large expenditures become income of wage earners, farmers, and businessmen. Incomes, especially in the lower brackets, rose during the last year as never before in this or any other country. This development is bound to accelerate. During the past eighteen months, while the war program was being launched, it was still possible to increase the supply of civilian goods at the same time. Now we have reached the stage in which conversion makes necessary the curtailment of many industries. In other lines, expansion has reached its definite limits.

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By the end of this year it is expected that between 15 and 20 million workers will produce war material and munitions. They will receive wages and will spend but they will not add to the supply of civilian goods. The discrepancy between the generation of incomes on a gigantic scale, and the curtailment in goods creates the problem which we have to face.

The initial development of such a discrepancy has already caused an increase in the cost of living of 12 percent during the last eighteen months. This increase in the cost of living in turn has induced wage demands and rises in wage rates. The increases in wage rates in turn have added to the inflationary pressure.

At this time there is pending before the War Labor Board a demand by steel workers for an increase in pay which if allowed will be the "go" sign for many other industries. General Motors workers have already announced demands for a substantial pay increase when their contract expires on April 28, 1942.

The agricultural bloc in the meantime is trying to assure the farmers still further increases in prices and parity payments.

A tax bill providing stiff levies on profits and incomes is pending before Congress. Interested groups exert all possible pressure for emasculating the tax program. They may be successful.

Everyone admits that full conversion of the country to war makes sacrifices imperative, but each group tries to shift the sacrifices to others.

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The administration is trying to deal with the situation by a variety of unrelated measures. Each measure encounters a combination of interests which is able to impede or defeat the specific program. The administration thus is pushed into the defensive. Such a condition may undermine public morale and seriously impair the war effort.

Bold and concerted action is required. Inflation cannot be stopped as long as wage increases, as well as rising government expenditures, create additional purchasing power. Wage increases cannot be stopped as long as prices rise. The price rise cannot be stopped unless part of the rapidly increasing purchasing power is absorbed by fiscal measures. Fiscal measures cannot be effective as long as businessmen, wage earners, and farmers can make up for taxes by increasing their incomes. Only simultaneous action on all fronts can stop the inflationary spiral. Such action must impose sacrifices, but the whole program will be greeted with enthusiasm and relief if it is made convincingly clear that all interests are restricted at the same time and with the greatest possible fairness in distribution of the war burden.

Such a program must contain only measures absolutely necessary for the objective. No one should have reason to say that the administration is using the emergency to put over extraneous legislation under shotgun pressure.

An integrated anti-inflationary program presented in the

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most dramatic way will allay class bickerings and will avert the most inequitable of situations for the war effort and the postwar period, i. e., inflationary price rises. Such a program will electrify the country; eliminate pettifogging; fortify the war spirit; give the offensive to the administration; and show to the American people that on this home-front the sickening slogan will not again apply "too little and too late."

A WAR PROGRAM TO PREVENT INFLATION

(Tentative Outline)

INTRODUCTION

1. There is urgent need for immediate comprehensive action to stop inflation. The need is evidenced by extensive and impending price and wage developments, together with the rapid increase in war expenditures, probably in excess of budget estimates.
2. Inflationary pressure is growing. Its prospective magnitude is measured by the extent to which there will be an increase in consumers' demand - i.e., in the purchasing power that consumers will seek to spend - over the available supply of consumers' goods measured at present prices. The amount of inflationary pressure, if revenue recommendations of the Budget Message are enacted but no other action is taken, may be about \$20-25 billion (estimate to be verified). Even assuming early wage and price freezing, the inflationary pressure will be about \$10-15 billion for the fiscal year 1943.
3. The inflationary spiral can be curbed only by a comprehensive and integrated program attacking all inflationary factors at the same time. All the practicable methods of meeting the problem are interdependent. No one step will suffice; each is necessary to insure success for the others.
4. The program presented here is intended to lapse after the end of the war. The major steps in this program are enumerated below in four main categories - Prices, Wages and Salaries, Fiscal Measures, and Other Controls.

A. PRICES - RETAIL, WHOLESALE AND PRODUCERS'

1. Freeze price ceilings generally at market as of April 5.
(Certain agricultural commodities which cannot be frozen under current legislation at less than 110 percent of parity are covered below.)
2. Make provision for subsequent alignment of retail, wholesale and producer prices, principally by holding retail prices rigid and squeezing down distributors' and producers' prices, but partly by adjustment of retail prices in special cases.
3. Provide for stimulating production through subsidies where production would otherwise be inadequate.
4. Repeal at once the present statutory restriction against freezing the price of agricultural commodities below 110 percent of parity.

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5. Immediately thereafter place price ceilings ^{at market} on remaining agricultural commodities as permitted in 4. except at the farm.
6. With respect to prices at the farms:
 - a. Place ceilings at market on commodities with prices above parity.
 - b. For farm prices now below parity proceed as follows:
For basic commodities place ceilings at parity as of April 15, and
For nonbasic commodities place ceilings at parity only if prices reach parity.
7. Price ceilings should be accompanied by price supporting devices as follows:
 - For wheat, permit price support or subsidy in war bonds up to parity for domestic human consumption and 50 percent of parity for remainder of crop.
 - For cotton and tobacco, permit price support up to parity for domestic consumption and lend-lease, and 50 percent of parity for remainder of crop.
 - For corn, permit price support up to 85 percent of parity and remove acreage restrictions.
8. Remove the restriction, now in H.R. 6709, on sale of government-held stocks of farm products at less than parity.
9. Legislative authorization for freezing all rents should be obtained. (Measures designed to freeze low-rent residential rents in important areas are in preparation by C.P.A.)

B. WAGES AND SALARIES

1. Freeze all basic wage and salary rates as of April 5, excepting rates below 40 cents an hour.
 - a. Under 40 cents an hour, encourage adjustments needed for health and efficiency, but avoid taking the position that all wage rates below 40 cents should necessarily move up to 40 cents.
 - b. Permit individuals to continue to qualify for higher wage and salary rates through promotion or transfer to higher rated jobs.

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- d. In exceptional cases, through administrative control, permit upward adjustment of basic wage and salary rates above 40 cents an hour in war industries when necessary to obtain or retain an adequate supply of labor.
7. Hours of work and overtime:
- Retain the 40-hour week provisions of present law but declare by proclamation that 48 hours shall be the normal work week in war industries. The work week for industry in general should be increased as rapidly as possible to a 48-hour basis.
 - In all cases in which payment of time and one-half above 40 hours is made, provide that the extra amount above straight time shall be paid only in war bonds of a special series which cannot be redeemed until after the war.
3. Encourage 3- or 4-shift operation; approve payment of appropriate differentials for night work when necessary to secure labor for 24-hour operation.
4. Declare that existing arrangements for collective bargaining between employers and employees should be maintained for the duration of the war. (7)

C. FISCAL MEASURES

- Support the pending \$7 billion tax proposals of the Treasury. In particular the profit taxes as proposed are an essential part of a comprehensive anti-inflationary program. Request stiffening of excess profits tax in lieu of profit limitation.
- Add to the present tax bill fiscal measures designed to reach mass purchasing power.

Alternative A: Increase the personal income tax yield by about \$2 billion per annum above the pending Treasury proposal, and accelerate collections through the following provisions:

 - Reduce exemptions to \$1,000 for married and \$500 for single persons; and the deduction for a dependent to \$250. (Under present law these are \$1,500, \$750, and \$400.)
 - Tax the first \$500 of net taxable income at 12 percent; the next \$500 at 16 percent; then follow the rates proposed by Treasury.
 - Require withholding of the tax by employers and others, starting July 1, at the rate of 12 percent.

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- d. Substitute compulsory borrowing on a sliding scale for tax payments in lower income groups. For example, give war bonds equal to 80 percent of income tax liability to each taxpayer with less than \$1,000 net taxable income; for taxpayers with higher incomes, let the bonds equal a declining percentage of the tax liability; for incomes of \$10,000 (?) or more, no bonds would be given.

Make the bonds payable over a ten-year period after end of war. Provide machinery for immediate redemption of war bonds in case of hardship.

Alternative B: Leave Treasury income tax proposal unchanged. Institute a separate Universal Saving system for all individuals with incomes above \$500 (single), \$1,000 (families). Withhold 5 percent of whole income, less a credit of \$15 for each member of family; give war bonds for amounts withheld. (Adjust for borderline incomes).

3. Introduce a retail sales tax with exemption of certain life necessities, such as milk, bread, and medicines, at a rate of 2 percent beginning July 1, 1942, of 5 percent January 1, 1943.
4. Recommend early legislative consideration of the proposed \$2 billion Social Security Program.

D. OTHER CONTROLS

1. Rationing.
2. Direct control of:
 - a. Inventory accumulation.
 - b. Construction of business plant and equipment.
 - c. Residential housing.
3. Credit
 - a. Limit instalment controls to non-rationed goods.
4. Further measures for facilitating production.

April 2, 1942
10:50 am

INFLATION

Present: Mr. White
Mr. Gaston
Mr. Sullivan
Mr. Odegard
Mr. Bell
Mr. Paul
Mr. Graves
Mr. Kuhn
Mr. Haas

H.M.JR: Well, what I want to say is even more confidential than ordinary, and it musn't be discussed except with the people in the room - I have sent for Gaston, but I want to keep it confined to people in the room here. I went to see the President, and on his own initiative he brought up the question of the memorandum which he said Harold Graves - Harold Smith had given him to take up for the week-end, and he was so pleased to know that the Treasury had approved it and initialed it. I said, "Mr. President, I don't understand." "Oh, yes," he said, "The Treasury has approved it, and initialed it.. So, I said, "Well, Mr. President, somebody has told you an untruth, because not only haven't we initialed it, we haven't even seen it," and I said - which brings up the point, I said, "I don't know why Harold Smith feels the way he does toward Bell and me, but he has been very small about everything." "Oh, no, no," said the President. "There is nothing wrong." But that doesn't bother me because we had him for lunch yesterday, and he is coming back Friday, and he is coming back Friday, and we have got enough enemies outside without having any inside.

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He said, "Hasn't Dan seen it? Some Treasury person approved it." I said, "Not only that, but I haven't been able to get hold of him." So he seemed very much surprised, and so I said, "One thing that I want to know is - he said, "One thing I want to know is, "Did Harold talk to you about all overtime being in Defense Bonds?" I said, "No, he did not." "So Harold Smith says it is unconstitutional," the President said. I said, "I don't know whether it is unconstitutional or not, Mr President, but what it does is, it kills our volunteer plan. We now have ninety-seven percent of all corporations employing over five thousand people," and I said, "We are getting along fine." He said, "Henry, I want to tell you your radio program is the best." He said, "I enjoy it. More people talk about that than anything else. It is wonderful." So he said, "And your whole plan is fine." I said, "Now, look, Mr. President. You take a third of a man's pay and force it into Defense Bonds, and he isn't going to invest any more, is he?" He said, "No, I hadn't thought of that." So he said, "Well, couldn't you give him his overtime pay in one envelope, and his regular pay in another, and then have him, as he goes by a window - sort of kind of entice him into buying a bond?" I said, "Well, I don't know, but we will see about it." But, I said, "Just now we have never had a quota, as you know, and we are thinking of putting in a quota for these people and have a yardstick, give them a yardstick, and then we are thinking of doing it for the whole country, but up to now we haven't, and we have told Congress we wanted until the first of July." He said, "That is fair. I don't want to interfere. That is one of the finest things we are doing. I don't want to interfere with that."

He said, "Can't you do something - I said, "Well, we can think about it, but we are just nicely getting underway." He said, "I know it is one of the finest, best things we are doing, and your radio program is wonderful."

(Mr. Odegard entered the conference.)

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H.M.JR: Come over closer, Peter, I can't see you there. I am just telling them about what the President said, and I cautioned everybody. The Director of the Budget had left the President under the impression that we had approved the whole plan.

(Mr. Gaston entered the conference.)

H.M.JR: Sit down, Herbert I went over to the President this morning on this thing that Harold Smith gave him a memorandum on inflation, and to my amazement the President was told by Harold Smith that we approved the whole thing and initialed it and everything else.

MR. GASTON: I am sure I didn't.

MR. BELL: Did Roy initial any memoranda, Randolph?

MR. PAUL: I don't think so. Roy and I have never seen any memorandum. We have never had any conversations with Mr. Smith on this.

MR. BELL: I thought maybe it was the technicians, Mr. Secretary.

H.M.JR: Well, I don't know. The President said, "Look, Henry, when you start a sculpture, you start. It is just so far that you can see it is a man and not a horse, and that is as far as it has gotten." He said, "I would like to have something Friday night." Well, I think he very, very definitely is sold on the volunteer plan for Defense Savings Bonds. He likes it, and doesn't want to change it. So, when I said, "Now, Mr. President, I only know of Harold Smith. What about the labor thing?" So, he said, "Well, I don't know." I said, "Well, do you know that the only people that - the authority that labor is satisfied with is Leiserson and Mills?" He said, "My God, that is terrible." So, I said, "That is your authority, and I think Altmeyer, I am not sure." I said, "Do you know that the great expert on this whole thing is a German by the name of Colm who is for a sales

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tax, and Hansen, who has always been an inflationist and now has turned the other way," and I said, "Gilbert, who last fall got me so scared I went up to ask for a fifteen percent withholding tax. He said there would be no inflation, and now again he is scared." So, I said, "You can't rely on him very much." I said, "He doesn't stay put long enough. There are three or four people who are feeding this stuff to Smith." So, I said, "My worry is, I don't want you to stick your neck out on this thing." So, he said, "Well, it is just in the rough stages, and we have got two weeks." First it was Friday night, and now it was two weeks.

I said, "What are you going to do about taxes?" And while I was there, McIntyre asked, "Should the President see Doughton Saturday." There had been round-about word. I said, "No, don't see Doughton. All Doughton wants to tell you is, 'Why don't you cut out non-defense expenditures?'" What? What? Well, he went into that a little bit. He said, "I am not going to see Doughton. It is time enough when you know you are going to do something about the tax bill." So, he says, "I told Harold Smith I wasn't for a sales tax first, last, and always, and I wish he would get that through his head." (Laughter.)

MR. GASTON: He didn't tell him that loud enough before this budget message was sent up.

MR. PAUL: He told us, Mr. Secretary, you remember, that he would back us against a sales tax, which he has got to do.

H.M.JR: So, I said, "Mr. President, I again want to say that you - that I am terribly worried because Harold Smith is not passing on the information to me that you are telling me. He is giving me misinformation, and I am terribly worried about it. There is something wrong." He said, "Don't worry, Henry, there is lots of time. We have got time to work on it and everything else." I said, "Harold Smith has been giving you misinformation. I am terribly glad that you brought this matter up." So, he said, "I told Harold Smith." I said,

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I - he said, "I don't want a sales tax. If there are certain things, excise taxes, which you want to increase, all right, but I don't - I got the impression - I don't think we can do anything." He said, "In this tax bill." He said, "I don't see how we can do anything in this tax bill." He said, "It is difficult -" he said, "Walter George says I can't get a bill until July." He said, "How can I get this thing - they want five million dollars more taxes on this." He said, "I told him I wouldn't listen to him." That is the impression he gave me. He said, "I won't listen to him." I have just come from him. I had forty-five minutes. I said, "Now, Mr. President -" I said, "Just remember there are about three people involved who are giving this information." I said, "Now let's take the income - let's take the income and saving habits of the United States family. There is nobody in the United States who can tell you what they are in '42. Everybody else is making a guess. They have promised them to me the first of May, and anybody that tells you that he knows what a family of seven hundred fifty dollars income or less is spending isn't telling you the truth, because they don't know," and I said, "The best we can get is May 1, and anything else is just pure fabrication." He said, "That is right."

"I said, "It is just pure fabrication." So, he said, "Well, I want to do something." I said, "What you want to do is, I take it, combat inflation," and he said, "Yes," and I said, "Well, so do I," but I said, "I don't want you to stick your neck out on this." Well, everything - I had at least the time - every one of these things at least three times in the course of the conversation - at least three times. I mean, the labor thing, Gilbert and Hansen, about three times, three times about that Smith didn't give me the information, and - I mean, it isn't just once. I had about three times. So, Mr. Roosevelt is a very smart gentleman. Nobody would ever take him for anything else. So, there is no doubt in his mind that Smith doesn't know this thing. I got the distinct impression that he doesn't want to upset our volunteer plan. Now, mind you, I don't say - this is

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all the impression - I got the impression that he might want to increase excise taxes, but certainly not the sales tax. I don't think he wants to touch the thing on this present tax bill, that is the impression I got.

MR. PAUL: Well, that is very fortunate if he doesn't.

MR. BELL: Smith said that.

H.M.JR: Did he?

MR. WHITE: His boys didn't.

H.M.JR: Now, it all gets back to what I said earlier when I first came back, it gets down to a question of have the Treasury people - I have surrounded myself with enough brains and - to present the President a good plan, not knock down somebody else's and give him something, but to give him a good plan, and that is what it gets down to. But I have the advantage of being able to get to see him when I want to, but I am not satisfied. He wants to do something. I think he should do something. I can't tell him as of this minute, you see, and I am going to call up Harold Smith now and ask him where that thing is. Tell him the President was very much surprised, and I hadn't seen it.

MR. PAUL: I know, I got a letter this morning that he was sending it to you this morning. No, not the memorandum. I had better get that letter, hadn't I?

H.M.JR: All right.

MR. PAUL: I will be right back.

(Mr. Paul left the conference.)

H.M.JR: But, as I say, it takes the intelligence and brains of everybody to give them a good plan. We

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can't just knock it down. Now, one thing that I would like, Kuhn and Odegard - I just haven't got the time. If you would take a pencil, will you please. Really, it is Graves, but I don't want - supposing I pin it on you, Ferdie, and then you can talk it over. The President wants in every - and I promised him - he likes this thing done. I mean, he hates to have to - three times he had to ask for Army parades. He wants in every town in the United States of twenty-five hundred or under at the steps of the post office every Saturday some time between four and five when the people congregate - a sort of a minute-man speech, largely on Defense Bonds, but also mentioning everything else to them, not to go more than twenty minutes, and he would like us to work it out with Jim Landis.

MR. KUHN: All right.

H.M.JR: In cooperation - and I mentioned MacLeish too, but I just haven't got time to fool with it, but I would like to do it; and if possible--

MR. GRAVES: You said under twenty-five hundred?

H.M.JR: Twenty-five hundred or under, at the steps of every post office, and then he said, in the course of these series, always get over the local boys are in the Army and Navy, particularly if somebody has done something, but something about Defense Bonds and a little short speech, something - twenty-five hundred or under, see, and - but let's start in New York State. He is going up again shortly to Hyde Park; and if we could start in the Hudson Valley and get the thing going within the next two weeks, it would be very pleasing to him and to me, see. It isn't a question of arguing. The President wants it, see, and I think it is a damn good idea.

MR. KUHN: Well, we have a list all ready of some twelve thousand local minute-men who have done radio jobs of that kind.

H.M.JR: Well, I am not bothering Harold, because Harold has got all he can attend to right now with this

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thing, and so forth and so on - but you contact MacLeish and Landis, you see. Will you do it and tell him this is what the President wants, and he wants it damn quick.

MR. KUHN: Right.

(Mr. Paul entered the conference.)

H.M.JR: But built around Defense Bonds, but using other things of current information. I think it is a very good idea. What do you think?

MR. PAUL: Shall I read this letter to you?

H.M.JR: Please.

MR. PAUL: "I think Mr. Smith will send to the Secretary this morning a tentative outline of the program under discussion. You may be interested in seeing an appendix with a discussion of the fiscal parts of the program. This appendix represents only an attempt to clarify our own thoughts. It may be of interest to you in formulating your recommendations to the fiscal part of the program."

H.M.JR: Who is that from?

MR. PAUL: This is from Colm and then there is a long line of drool here about taxation.

MR. BELL: That isn't just an outline you have got there. That looks like a book.

MR. PAUL: It is not distinguished for its brevity and preciseness. Now, of course, that isn't the thing that we initialed. That is a new development, apparently.

H.M.JR: What did you initial?

MR. PAUL: I mean, the thing we are supposed to have initialed which we didn't.

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H.M.JR: The thing you are supposed to have initialed was a memorandum that the President took to Hyde Park, furnished to him by Smith.

MR. PAUL: Well, he is not sending that over. He doesn't say that. He is sending over something more recent.

H.M.JR: Well, there is the story. Now, there is Cabinet this afternoon, unfortunately. Being Good Friday tomorrow, we have suddenly all gone very religious.

MR. WHITE: Smith told Currie day before yesterday that the Treasury people approved of the sales tax. Currie asked me, and said, "What is the matter with you fellows, have you gone nuts?"

MR. PAUL: I saw Smith last night--

H.M.JR: There is a lot of lying going on.

MR. WHITE: After what I said at the meeting Thursday in which I said we are strongly opposed to it, there is no doubt about it, it is deliberate--

H.M.JR: It is deliberate falsehood.

MR. PAUL: I saw Currie last night, Mr. Morgenthau. We can find out what Smith's crowd has been saying to them - he told me a lot about it, and it was much along this line that we have heard, and Currie told me he very violently disagreed with them.

H.M.JR: Who disagreed with them?

MR. PAUL: Currie said he told them that he was more or less behind the - he was really more behind the Treasury program, and that he thought it was better politically, too.

H.M.JR: Well now look, I have got only so many hours in the day. When is somebody going to have something that I can put my teeth into before nine fifteen tomorrow morning?

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MR. PAUL: Sure, we will have something.

H.M.JR: When?

MR. PAUL: Well, we have a lunch - we have something now which is - I have it in my pocket, and it is being rewritten. You can put your teeth in that. But we have a lunch at twelve thirty with all this crowd coming over here. Now, when do you want to put your teeth in something?

H.M.JR: Well, I was going to do Defense Bonds and quotas this evening, but this takes priority, wouldn't you say so?

MR. GRAVES: Yes.

MR. GASTON: Yes.

H.M.JR: Because this cuts - I am free at eight thirty tonight. I will be good for an hour and a half.

MR. PAUL: You mean at your house?

H.M.JR: At the house. I will be good for an hour and a half.

MR. GASTON: Presumably we will have the whole Smith plan before then.

H.M.JR: Well, as soon as Chauncey knows, I will find out.

MR. GASTON: There are two things involved. Of course, there is the - the question of a specific program right now, but behind that is the question of who is running fiscal policy.

H.M.JR: Well, Herbert, don't let that worry you. It doesn't worry me, see.

MR. GASTON: Well, I think it is a terrible tendency, and it is getting things in an awful mess, and will get

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them into a worse mess.

MR. WHITE: Well, I think that second question has been answered. Now, the only question that remains--

H.M.JR: Let me just say this to Herbert. I haven't had a chance to philosophy with him. This is the way I feel. If the President of the United States feels there are five departments involved, which there are, and he wants to have his Director of the Budget get the five of them together, I think that is all right, see. That is all that seems to be in the President's mind. Now, but the Smith people have taken the ball and run with it. Now, they have given the President some misinformation, some terrifically bad advice, and it gets down to again, you only can run the fiscal policy if you have got the intelligence and integrity to do it. Now, either the Treasury has it, or it hasn't got it, and here is a demonstration - we have been through this thing a dozen times, and I have told the boys, the Baruchs, and the Kennedys, and the Arthur Krocks, and the Jimmy Roosevelts, and a dozen other people have tried to undermine me before. It isn't anything new.

MR. GASTON: No, this is again critical--

H.M.JR: This is nothing new.

MR. PAUL: But if we end up with a program, so far as taxation is concerned, with which the Treasury is not in sympathy, we are certainly not a very good instrument to put through that policy on the Hill.

MR. WHITE: I don't think there is any danger of that. It seems to me all the President is interested in, I gather, is to have what appears to be an extensive program that will give him the assurance that you are meeting the problem of inflation. That is exactly what you want to do.

H.M.JR: That is right.

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MR. WHITE: Therefore, the thing to do is to reexamine the program in the light of the changed situation, and come forth with a positive program that you can get behind.

H.M.JR: That is right. That boils the whole thing down. Now, we could talk about it here for hours. In other words, if the program today doesn't do the job, then it is up to the Treasury to give forth on it, that is right.

MR. WHITE: The Treasury ought to be able to feel implicitly and fight for the program, which it has, and it would do that only if it felt it met the situation.

MR. PAUL: Well, if you had read this thing--

MR. WHITE: Well, I wouldn't--

H.M.JR: Don't bother with it. There is Mr. Colm and Mr. Smith, and Mr. Jones, and Mr. Brown, and a dozen other people. Who the hell is this fellow Colm? Why the hell should we get so scared about him? The President said, "I have just begun to build a statue. It is going to be a man and not a horse. It has got that far." Now, give me something by Friday night. I mean, he is being very reasonable. I mean, I wouldn't worry or take the time to try to break down Colm or Gilbert or anything else. Let's give him one of our own.

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MR. WHITE: That is right.

H.M.JR: And then let them break ours down. If the President doesn't want - I told the President this. I said, "Look, Mr. President, let's talk politics a minute. We are going to need some good issues next November and I don't know of a better one than the sales tax, and the Republicans are all going to be for a sales tax, and let the Democratic Party be against taxing the poor man's table." I said, "You are not going to have many issues, but there is a good one and let's stick to it." I said, "There is a good issue, a good party issue for next fall and let's stick to it."

MR. WHITE: I am sorry. I think. I think you are doing a little less than justice to Hansen and Gilbert, because it is the other man.

H.M.JR: I pulled my punches on Hansen and Gilbert.

MR. KUHN: Didn't Hansen have an article recently saying what is the use of buying Defense Bonds, the Government isn't going to repay them anyway?

MR. GASTON: No, no, he had nothing like that. You should--

MR. ODEGARDE: Hansen is very good.

MR. WHITE: Hansen is very good.

MR. GASTON: ...read his article in Harpers. It is a very sound article.

H.M.JR: Well, one day it is Hansen, then Jerome Frank, and then Ben Cohen and then somebody else. I have been all through this thing. It is always somebody who has got some bright ideas and who hasn't got the responsibility and who is out to needle the Treasury.

MR. WHITE: Those three you mentioned are usually on the right side and you are not mentioning several others who are more influential and who are not. However, I just want to--

H.M.JR: Well, anyway, I am talking about who has been needling me. I mean, I have been able to withstand it. I have been able to live with it, and I think - and I am not worrying about my job, but I do want to do a good job for the President. I am worrying about what he is going to do. I think the gates are wide open.

MR. PAUL: I think it is a wonderful opportunity to come out for two things that are against the low income brackets, the sales tax and the - the whole program, this whole thought of Budget involves changes in our policy and only changes in our policy which bear down on the low income group, the sales tax and the reduction of the exemptions.

H.M.JR: Well, nobody could have done any more with Mr. Roosevelt than I did this morning, and I say that statement, and I certainly put up all the red signals for him and Mr. Roosevelt - his whole life, this whole Administration, has been opposed to attacking the little fellow. I think we have got to make this thing a little bit dramatic and show the people.

MR. WHITE: I think the picture looks entirely different than it did last night. It seems to me there will be no trouble from now on.

H.M.JR: I do think he would have rushed me a little bit if I hadn't brought one thing up after another, but he says two weeks, but he wants something in writing tomorrow night, which we can have. Well, should we leave it, then? Should we leave it then until tonight?

MR. PAUL: I think we ought to have Roy Blough there.

H.M.JR: That is all right.

MR. BELL: Is it at this meeting, Mr. Secretary, that you are going directly to the President with a program or are we going to try to get a unit of Budget and --

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H.M.JR: I would like to have something that I could say, "Here is a program of the Treasury." and I would like to have Lauch Currie there tonight too, and while he and I often don't agree, he has got a very good mind.

MR. PAUL: He is all with us on this. ~~---~~

H.M.JR: I didn't even know. I would like to have Lauch there. Let's have Lauch there because he is smart.

MR. PAUL: I will get in touch with him.

MR. BELL: He will be here tomorrow.

H.M.JR: He is another branch of the White House and if he is with us, so much the better. He certainly is with us and is opposite Harold Smith on anything.

MR. PAUL: That is right.

H.M.JR: So let's have him there if he is free. No, what I want is a program and I can say, "All right, gentlemen, here is the Treasury program." Instead of starting - "Here is our program. The President has asked me. What do you think about it"? Put our program up in front instead of our trying to tear their program down.

MR. PAUL: O.K. We will have it.

H.M.JR: And simply say, "Gentlemen, here is our program, what the hell is the matter with that? This is our program."

MR. PAUL: Supposing we draft something and could we meet in my room about three thirty? We will have something concrete on paper.

MR. WHITE: I think the more time you can give it, Mr. Secretary, from now on, because there are a lot of things to thrash through, so even if it is only half ready tonight, I think it is worth meeting on it.

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H.M.JR: Oh, yes.

MR. WHITE: Or a fourth ready.

H.M.JR: And I will go you another one. I think if somebody could find out where Eccles stands, and if he is with us. If you could find out where Eccles stands.

MR. PAUL: Well, it takes quite a while.

H.M.JR: Why not ask Lauch Currie to find out where Eccles stands.

MR. WHITE: Yes. Yesterday it was reported to me that he was in favor of a sales tax, but it may be misinformation.

H.M.JR: Why don't you have Lauch find out.

MR. WHITE: And anyway even if he stands in a certain place, he is open to conviction.

H.M.JR: Well, I don't want to do it tonight. (Laughter)

MR. BELL: Not in an hour and a half.

MR. WHITE: Well, you couldn't very well have Eccles there tonight without having some people from the Budget Bureau, Mr. Secretary.

H.M.JR: Having who?

MR. WHITE: I doubt whether you could have people from the Federal Reserve Board without having people from the Budget Bureau.

H.M.JR: Well, I can have Lauch Currie, though.

MR. WHITE: Yes, but I thought you had in mind getting Eccles.

H.M.JR: No. Would you have Lauch tonight?

MR. WHITE: Yes, I think he would - he was a little bit reluctant, but I don't know whether he would be about--

MR. PAUL: Well, he will come out.

H.M.JR: Reluctant about coming?

MR. WHITE: To another meeting.

MR. PAUL: I asked him over yesterday.

H.M.JR: Well, let it go until tomorrow morning.

MR. PAUL: I would like to have him there.

H.M.JR: All right.

MR. BELL: He will be glad to come tomorrow morning.

MR. PAUL: He is coming to the lunch this noon and he will come tonight. I will put it up to him.

H.M.JR: All right.

April 2, 1942
11:36 a.m.

HMJr: Hello.

Operator: Sproul.

HMJr: Hello.

Allen
Sproul: Hello, Mr. Secretary.

HMJr: How are you?

S: Fine.

HMJr: What's the reaction in New York?

S: Well, I think the reaction is that it will be a big success.

HMJr: Good. Good.

S: I think it's expected to go very well.

HMJr: Uh huh. We're already getting a flock of telegrams back.

S: People - corporations saying they'd be interested?

HMJr: Oh, yes.

S: Yeah.

HMJr: And they - here's - they just gave me one from Guy Vaughn. I haven't read that yet. Just came in - but they're all friendly. Hello.

S: Yes, I should think they would be.

HMJr: And they say that they're coming in, a lot of them, and people that I never heard of, but a lot of - I think it's all right. What does it look like to you, six or seven months?

S: Well, I think you could make it at least November 1. That would be six and a half months. I think your upper limit in light

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of your statement is seven months, and I think you could do that; but my own assertion - my own feeling is that November 1 would be a good date for it.

HMJr: I see. Well, we can clear that, what, Saturday morning?

S: Well, I don't see why you shouldn't clear it tomorrow.

HMJr: Well, aren't you all closed tomorrow?

S: No, we're all here tomorrow. It's just the Stock Exchange that's closed tomorrow.

HMJr: I see.

S: The rest of us are not so religious as the Stock Exchange.

HMJr: (Laughs) I see. Well, we're not either.

S: (Laughs)

HMJr: Well, you think it would save time if we made up our minds tomorrow?

S: I should say so.

HMJr: Well, I'll talk it over with Bell.

S: All right. And I think we ought to have war loan on this.

HMJr: Let me ask Bell.
(Talks aside) Are you going to have war loan?
(Back on phone) Bell says yes.

S: Yeah.

HMJr: Yeah.

S: Now, is there anything we can do - I noticed this

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publicity about the Investment Bankers and the security dealers are going to help on this - is there anything that we can do in respect to them to facilitate that program.

HMJr: I don't think so. You see, they have their own representative down here, Mr. Bryce.

S: Yes.

HMJr: And he's been very busy, and - but I'll tell him. He's here now with me, he and Buffington, and I'll tell him what you say and if they have any ideas - I think what it might be good is when they go downstairs to talk to you and tell you what they have been doing.

S: I think it would be, too.

HMJr: Well, I'll tell them when they go downstairs to give you a call.....

S: Fine.

HMJr:and let you know what they've been doing.....

S: Fine.

HMJr:so that you have that.

S: All right.

HMJr: Then maybe you can - if you don't think we've got complete coverage, why you tell them.

S: Well, the way that we might work with them, or that the thing might be fitted together.

HMJr: Righto.

S: All right.

HMJr: When they go down, they'll call you.

S: Yeah.

HMJr: Okay.

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S: All right.

HMJr: Thank you.

S: Thank you.

April 2, 1942
11:50 a.m.

HMJr: Hello.

Operator: I have Professor Heinicke, and he'll be here at lunch at one o'clock.

HMJr: Oh. Thank you very much.

Operator: Right.

HMJr: Now, what about Dwight Davis?

Operator: He's left his office. He'll be back.

HMJr: Hello.

Operator: Mr. Davis is out until late this afternoon.

HMJr: Well, they said to call him back.

Operator: Well, he was there, but he's not there now.

HMJr: Well, leave word I called back.

Operator: Right.

HMJr: No calls for a few minutes.

Operator: All right.

April 2, 1942
12:11 p.m.

HMJr: Hello.

Operator: All right.

HMJr: Hello.

Secretary
Stimson: Hello, Henry.

HMJr: Hello. How are you?

S: That letter of March 20 of yours has been found. It was routed down at once to Defense Aid, and it involved, they said, some complicated questions and they've been at it ever since. Now, I think the answer is going to be favorable.

HMJr: Good.

S: It hasn't got to me yet, but I've waited all this morning thinking it would be here this morning after my turn on them, but they won't be able to finish it probably until tomorrow.

HMJr: Well, if I get it tomorrow, that'll be fine.

S: All right.

HMJr: That will be your good deed on Good Friday.

S: (Laughs) All right.

HMJr: (Laughs) All right.

S: Well, I've done a special on Thursday.

HMJr: (Laughs)

S: All right.

HMJr: Thank you.

April 2, 1942
12:18 p.m.

Daniel
Bell:

.....and Senator Brown has called me, and before I get him back I wanted to clear this with you. You remember that Detroit situation I talked to you about before you went away?

HMJr: Yeah.

B: That - you ought to go over that sometime pretty soon and I was wondering if you wanted to set a definite time, Monday or Tuesday.

HMJr: Well, ask me about it again tomorrow, will you?

B: Well, he's calling me, see, and he wants to know if you've had a chance to look at it.

HMJr: Oh, you mean with him?

B: Yeah - well, he wants to know - he's anxious to settle the thing up.

HMJr: Well, what do you mean - he - you want an appointment with me?

B: No, no. He's calling me, and I know that's what he wants - to know if we've had a chance to look at the Detroit.

HMJr: Well, why not tell him three o'clock Monday - Tuesday.

B: All I want to tell him is that you have set a time next week to go over it definitely.

HMJr: Right.

B: If I can do that, why that will satisfy him, I'm sure.

HMJr: Okay.

B: Three o'clock Tuesday?

HMJr: Yeah.

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B: Fine.
HMJr: Right.
B: Thank you.

April 2, 1942
12:20 p.m.

Operator: Hello.

HMJr: Paul.

Operator: Mr. Paul?

HMJr: Then after that, Graves.

Operator: Right. Mr. Paul.

HMJr: Yes, Randolph.

Randolph
Paul:

I thought I'd better tell you, just after I came from your office a letter came in from Jones, and I'm - it's about four lines. Weldon Jones is the Assistant Director in charge of the Fiscal Division of Smith's office.

HMJr: Yeah.

P: And it reads as follows - I didn't want you to get your wires crossed.

"I know that Mr. Smith intended to send to the Secretary a copy of the tentative outline of the program under discussion. Mr. Smith is not in his office this morning, and transmission of a copy to the Secretary may be delayed."

HMJr: It's come. I've got it.

P: "I am therefore sending you a copy informally."

HMJr: Well, they sent me one.

P: Oh, they did?

HMJr: Yeah.

P: Well, I didn't know that and I wanted you to know it was in here, and I'm having it photostated.

HMJr: Well, I'm doing the same thing, so you'd better not double up. Miss Chauncey's having twenty

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copies made.

P: Well, we'll check with her and see that yours
is the same and we'll countermand one of the
sets.

HMJr: Will you do that?

P: Yes, sir.

HMJr: Thank you.

April 2, 1942
12:22 p.m.

Operator: Operator.

HMJr: Graves.

Harold
Graves: Hello.

HMJr: Graves.

G: Yes, sir.

HMJr: What about this man.....

G: Bernhard?

HMJr: Yeah.

G: Well, he, as you know, was scheduled to come in at three-thirty. Do you mean you'd like me to tell you now what I had on my mind?

HMJr: Yes. You've got to talk awful fast, Harold.

G: Yes. Well, there are two things I think we should say to him this afternoon. One is that except for the stars that are being furnished by the Hollywood Victory Committee, the contribution made to us by the Motion Picture Industry have been perfectly lousy.

HMJr: Yeah.

G: The second thing I think we should say is that Mr. Duffus is in charge of our Motion Picture Division, and that we look to him for whatever is done in motion pictures, and that these people should contact Mr. Duffus.

HMJr: Yeah.

G: Bernhard is coming in on this stamp thing that you yourself suggested some weeks ago.

HMJr: Yeah.

G: Putting stamps on sale at motion picture theatres.

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HMJr: Yeah.

G: And I think that it would be helpful if you'd talk pretty sharp to him.

HMJr: Now he just represents Hollywood?

G: He is a member of this Motion Picture Committee, the one that Dietz has been connected with, you know.

HMJr: Yeah.

G: And they call it the War Activities Committee of the Motion Picture Industry.

HMJr: Yeah.

G: He's chairman of the Theatre's Division of that committee.

HMJr: Well, what was the fellow that Frank Walker sent over?

G: That fellow's name was Freeman.

HMJr: What was he doing?

G: Well, Freeman is on this Victory Committee out in Hollywood.

HMJr: Well, isn't this the same thing?

G: It's a part of the same thing.

HMJr: I see. Well, now, when are you going to bring him in?

G: Three-thirty.

HMJr: Well, I'm at Cabinet. You'd better make it four-thirty.

G: Four-thirty. All right. I'll tell Stephens.

HMJr: Four-thirty.

G: Yes.

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HMJr: Will you do that?
G: Yes, I will.
HMJr: Now, while I've got you.....

April 2, 1942
8:30 p.m.

INFLATION
Present:

Mr. Paul
Mr. Blough
Mr. Haas
Mr. Bell
Mr. Gaston
Mr. Sullivan
Mr. White
Mr. Graves
Mr. Currie

H.M.JR: Well, let's go, somebody.

MR. PAUL: Well, just to have something - I will say rotten before you say it - we got up a little counter program here, the second paragraph of which is to be re-written by Harry White. He doesn't approve. We have got much more than this in explanation of each of these points, but it is not included here.

H.M.JR: The term, "Freeze price ceilings," I don't understand that. I can understand freeze prices at current levels but--

MR. PAUL: That is the same thing.

MR. BLOUGH: That is adopted from the Budget memo.

MR. WHITE: It means you can go down but not up.

H.M.JR: Oh. Well, that is a good point.

MR. WHITE: That is why they say "ceiling" instead of "freezing prices".

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H.M.JR: That is a good point.

MR. PAUL: The most critical point is number five.

H.M.JR: I would like to ask a few questions, if I might have the privilege of not being interrupted, of George. George, I read the memorandum very quickly on the Canadian thing. It talked about the twelve different - I think they have twelve different industries or something. Now, I will see that you are not interrupted. You did that memorandum and had it checked by Agriculture and OPA. Could you just outline for me what the Canadians did on December 1? I am sure everybody else knows it in the room and understands it fully, but I don't.

MR. HAAS: I guess we are all on an equal plane then. We are all equal. They froze prices and services. I can read these classes out of the book here. It includes wages. But they have some cost of living focuses that make some adjustment in wages and they also make an adjustment in prices. In other words, they froze all the retail prices and there are certain instances where freezing the present retail prices might mean that the wholesale price is out of line and it would make an impossible situation, so they make adjustments on the wholesale price of commodities entering into the retail price of particular goods. But the rest of their program, of course is - they call it here the five point blitz. The Canadian effort has been aptly described as the five point blitz against inflation. The points are, 1, curtailment of public spending power by taxation and public borrowing; 2, industrial priorities and rationing, ceiling on wages and salaries, subsidies to supplement agricultural income and maintenance of supply while holding down retail or consumer prices; 3, the price ceiling. That is the point I mentioned. Those are the three points of their program. They not only have fixed prices of commodities, but they also have fixed prices of services. They have even got undertakers's fees and all that sort of thing frozen.

H.M.JR: Well now, at Cabinet today the President

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again referred to this chart of mine and he got mixed up. He called it "Cost of Living," and Miss Perkins said, "Well, it couldn't have been 'Cost of Living,' it must have been the BLS figures," which it was. He went on to say that not withstanding all the talk of newspapers about Bernie Baruch, when you saw this thing you realized how little Mr. Baruch did during the war. I have never heard him say that before. Then he went on to say, the thing that bothered him was prices were going up, he figured, about one and a half percent now. At the rate they were going and with the spending we had in prospect it looked as though they would go up three percent a month. What he would like to be able to say is that he would like to hold them down so they wouldn't go up more than half a percent a month. If they did that he thought they could stay within reason. Then to my amazement Frank Knox spoke up and said, "Well, if you can control the cost of living then you don't have to worry about labor." which surprised me very much. But I thought I could throw this in, Jim Landis, pressing the President, brought these things out as to what he wanted. You see, they also brought out that Henderson had in mind on the fifteenth of April issuing a freezing order and they all said that Henderson mustn't do anything until the President got out a statement and also he told Agriculture to fight off anything.

It seems that they are now trying to freeze wheat at a dollar thirty, and corn at a dollar ten or something like that. But I thought this was interesting, showing what the President had in mind, to keep it down within the limits of a half a percent a month.

MR. WHITE: It is very sensible.

MR. SULLIVAN: I guess we would all settle for that.

MR. GASTON: Yes.

H.M. JR.: Now, one thing in reading that I would like

to say. I think there should be a paragraph and Harold Graves ought to write this. I think we ought to have a paragraph, George, again based on that study you gave to me. I know everybody worked on it. Showing how much money there is available from various sources, you see. There is so much that you can borrow from the banks and so much from this group and so much from that group. I have never shown that to the President. I think if we had a paragraph and said "during the next fiscal year, 1942 - " What is it, thirty-five?

MR. PAUL: Thirty-five on the present budget. That is eleven billion up in the new figures.

H.M.JR: Well, let's call it thirty-five. Of the thirty-five the Treasury proposes to borrow "X" million dollars in this way, and "X" million dollars in this way, and "X" million dollars in that way. In other words, put the thing down, and give a program of how we expect to raise the money. Then let the President see it, which he has never seen before, and let the President say, "Well, Henry, I think that is too much from this source or too little from that source." Now, and in the thing Graves and I are willing to say that beginning with the month of July we propose to borrow at the rate of a billion dollars a month from Savings Bonds.

MR. SULLIVAN: Voluntary savings?

H.M.JR: Voluntary savings, a billion dollars a month.

MR. HAAS: You mean Savings Bonds.

H.M.JR: Savings Bonds, a billion dollars a month. What I would like to have, which is missing here, is - well, as much space as you need on a fiscal borrowing program.

MR. PAUL: Well, bear in mind this is very rough. We are not very proud of this.

H.M.JR: Well, it isn't a question of being proud.

I mean, this part I know, see. I haven't got the figures.

MR. SULLIVAN: I think that is very important, because all the outsiders there today, Mr. Secretary, considered that voluntary purchasing of Defense Bonds was all done.

H.M.JR: Well, neither the President nor Hopkins does.

MR. WHITE: Wait a minute, not all done, but inadequate.

H.M.JR: Well, I don't care what the figure is. George has the figures. He can do the thing. He may not have it at nine-fifteen, but he can have it in pencil for me. We have divided this thing into various categories. And you put down - beginning with the first of July we will put down as a minimum twelve billion dollars borrowing through Defense Savings Bonds. "War Savings Bonds" we will call them from now on. Then we had all those figures--

MR. HAAS: Yes, we had all that.

MR. PAUL: but how much out of income and how much out of savings, do you know that?

MR. HAAS: The whole business is out of current--

MR. SULLIVAN: I think we ought to have that paragraph in there because of the attitude of these other people.

MR. HAAS: Mr. Secretary, if we do anything on this rationing, even the scheme which Harry was discussing, or a more extensive rationing, those estimates of how much would be saved and how much would be sharply increased and you would have a much easier time with your Savings Bonds. You could sell more than twelve.

H.M.JR: Then I will make it easier for you.

(Mr. Bell entered the conference.)

H.M.JR: We are right on a subject now on which I need your help, Bell, badly. You and I have the advantage that we haven't been exposed to these other experts.

MR. BELL: I was exposed today for lunch.

H.M.JR: I didn't know that. Then you are ruled out, but you can help me on this and this is what I need. You and George work on it. I want a page that will simply say this, that the Treasury proposes - I am not worrying about what they think. I want to put down a positive statement. The Treasury proposes to borrow so much money in fiscal '43. How much?

MR. BELL: Thirty-nine billion.

H.M.JR: Thirty-nine billion dollars. And, answering George, going on the assumption that between now and the first of July we will have total rationing--

MR. HAAS: Oh, then that changes the whole business. It will look much better. I mean, the figures I would give you would be much improved over what you have.

H.M.JR: Let me run through this and then you fellows can shoot at me. On the assumption and on the recommendation, if you wish, that we have total rationing, then we can borrow so much from war Savings bonds, so much from businesses and so much from the banks, the various categories.

MR. HAAS: The insurance companies and all.

H.M.JR: "And this, Mr. President, is my program." Not to these various people, but to the President of the United States on the assumption that you have total rationing. Now, I am ready to be shot at.

MR. HAAS: There are two kinds of totals.

H.M.JR: Well, I am ready to be shot at.

MR. PAUL: Well, I would like to have Harry bring out the distinction between the two types of rationing and the importance of the general rationing idea, because that is the one thing we haven't really worked out. The rest of this is pretty clear in our minds. Whether it is practical and feasible we are not quite sure, but we think it is, and Harry, why don't you - I think that is a distinction the Secretary ought to have in mind.

MR. WHITE: Well, I think that that is the critical consideration, because if that is set aside as being impractical, then--

MR. PAUL: Let's start at the beginning with a description of the two types. I don't know whether you have ever talked that over with the Secretary.

MR. WHITE: Well, the type of rationing that is usually referred to and the kind that will go into effect in the United States for the first time with sugar and which it is contemplated will be extended, as I understand, on some score of commodities very quickly, woolen goods, sugar, leather goods and so forth - I haven't seen the list, but I have heard some rumors of it - is the usual kind of rationing in which you need a ticket to get sugar. You need a ticket to get clothing, and so on. That is the kind of rationing which is taking place in England, Germany, Italy, Russia, and elsewhere, and it is the kind that is the first resort. The minute a thing gets short you ration it, and then you keep adding and adding commodities until you reach the extreme such as in Italy and Germany where there are several hundred or more separate rationing devices. That is the rationing of specific commodities which is going forward by Henderson's group. They will start with sugar and then go on. There is a different type of rationing which hasn't been tried anywhere. It has been talked about for some time and for want of a better

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name you refer to it as "rationing of expenditures," and that --

MR. GASTON: "Rationing of total expenditures," really.

MR. WHITE: Total expenditures, yes. What that means is that there is a pattern of expenditure limits set for each income group, and no man can spend more than the amount which is allocated to his income group on all goods which are included in the rationed goods and in this proposal, because of the administrative simplicity, the only things which are excluded--

H.M.JR: Administrative what?

MR. WHITE: In order to achieve less administrative difficulties because even at best it is a very difficult administrative job, but in order to reduce the difficulty, there are certain things which are excluded, not everything you would like, but some of the more important of them. Those are as follows: Housing. A man can spend as much as he wants on housing, rents, etc; health--

MR. SULLIVAN: And a little more.

MR. WHITE: More than he wants. Medical and dental services.

MR. BELL: You are just talking about consumers.

MR. WHITE: Yes.

H.M.JR: How are you going to do this?

MR. WHITE: Well, that is the problem we are facing.

MR. PAUL: The central idea is very simple. Everybody has a book with some tickets in it. When you go to buy a suit you give not only, let's say, \$50, but you give \$50 worth of these tickets out of the book.

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MR. HAAS: It is like the stamp plan Agriculture has. It is pretty slick.

MR. BLOUGH: If you have an income of five thousand dollars--

H.M.JR: Where did you get it?

MR. WHITE: The originator of the idea is a Pole by the name of Kolesky. He is a British economist.

H.W.JR: It doesn't come out of Moscow, does it?

MR. WHITE: I don't know where he got it.

MR. BELL: Next door. (Laughter)

MR. WHITE: His idea was to have everybody spend exactly the same amount, etc. We began working on it a month ago.

MR. SULLIVAN: We believe that that will have to apply here in regard to the necessities of life. Don't you, Herbert?

MR. GASTON: I thought there might be great difficulty in trying to fix differing levels of expenditure for different income groups, to say to one man that because he makes twenty thousand dollars a year, he can spend twelve thousand, to a man who makes two thousand dollars a year that he can only spend eighteen hundred a year. In other words, you set a limit of expenditure of things a man can buy, gauged by income. Of course he just doesn't have the money to buy - the two thousand dollar man doesn't have the money to buy the twelve thousand, but still there is an element of discrimination. He has got more money to buy something else, and this other man can buy twelve thousand dollars worth of goods, and he has to stop at eighteen hundred, an element of class distinction, and I wondered whether it wasn't possible simply to include in that over-all Budget a definite list of commodities that are included rather than to try to make it all inclusive except for certain exceptions. Then another thing I

had in mind was this, that as to a matter of a suit of clothes, for instance, that you might well allow an arbitrary amount which would be for a relatively cheap suit of clothes, and that the tickets for a suit of clothes would go just as well for a hundred and seventy-five dollar suit of clothes as for a twenty-five dollar suit because it is the wool that you are interested in conserving.

MR. WHITE: That is what they do in England and the result is that you can't buy cheap clothes because there is a limit on the amount of clothes and the tailors--

MR. GASTON: Hold it for the expensive stuff.

MR. WHITE: Make only expensive stuff and the poor man can't buy cheap clothes. There are a lot of ramifications and modifications.

H.M.JR: This is new. Why can't you do this. In the first place we have got a deadline of nine-fifteen tomorrow morning and another deadline of tomorrow night, with the President wanting something. Why can't you do something like this? If I understand this plan, you give a man the right to spend "X" percent of his income. What can he do with the other?

MR. WHITE: Anything he wants. He can buy bonds, pay rents, send his children to college--

MR. HAAS: You are really making a market for Savings Bonds.

MR. WHITE: He can have any color car as long as it is black. You can do four or five things, you can save the money, hoard it or buy bonds. It wouldn't matter, it is off the market.

H.M.JR: But you can't spend it?

MR. WHITE: You can spend it for some things. You can spend it for housing, medical services, education

and recreation.

MR. BELL: To pay a debt off.

MR. WHITE: Yes, to pay your debts.

H.M.JR: But there is a two prong fork there. I mean, you both limit the things he can buy and you limit how much he can spend for those things.

MR. GASTON: For consumers goods.

MR. PAUL: That is right, and the by-product is very important and you put a man in funds so that he is very apt to buy bonds.

H.M.JR: Let me put it this way because we could sit here all evening arguing on just one point, you see, and you certainly won't get through with it. Why can't we, going back - I don't know when Dan came in the room, at what stage, why can't we go back because I am interested in two things; how are we going to borrow the money, and the tax program. Why couldn't we say this, that we feel that there has to be a rationing program and this rationing program could take one of two courses, you see. It could be the usual--

MR. HAAS: Commodity rationing?

MR. PAUL: Specific rationing.

H.M.JR: It could be the specific rationing or it could be this other plan known as the "Harry White plan", and a very brief description.

MR. WHITE: They both would go - the second plan would not avoid completely the first.

H.M.JR: But you could describe the two, you see, and say that these are things - of course we are making suggestions and we realize perfectly this is something

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which would have to be cleared with Mr. Henderson's organization, you see, but I mean you could describe the thing. Then you could go on and say that if a plan of this nature was put into effect, then we feel in the Treasury - and we can do - I mean, you don't know how much would be saved one way or the other, but then we could say, "Under this plan the thirty-nine billion dollars that we have to borrow we propose to borrow from the following sources," and then go ahead and give our list. Do you see, Dan? After all, it is your job and mine, isn't it?

Mr. BELL: I don't know whether that will add up to thirty-nine will it, George?

MR. HAAS: Well, I would have to make a whole new set of estimates.

H.M.JR: Well, you have got between now and nine-fifteen tomorrow morning. (Laughter)

MR. HAAS: Couldn't you, Mr. Secretary, tomorrow use that table you have got as illustrative and say it has to be revised?

H.M.JR: Yes, but I need something for the President tomorrow--

MR. HAAS: Oh, we can have it. We will do something tomorrow night, but by nine-fifteen--

H.M.JR: Wait a minute. But who the hell can tell? After all, they keep revising it. We can say, "This is a rough estimate and we will have something more for you, Mr. President, by Monday, but you can take the thirty-nine and where your gap is, you would fill that in by taking it from the banks."

MR. HAAS: We say that is present habit patterns it is based on. It could be left that way and if it is over-all rationing, the thing - it would tremendously increase the amount of savings you would get.

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H.M.JR: Then you could have three columns, the present plan you would borrow this way. Then by classifications, and then you could have column two, if you had the orthodox rationing plan, you would borrow this way. And if you had the orthodox plus Harry White's plan, you would borrow in the third column.

MR. WHITE: That is right. In other words, if you have a rationing plan you shift from borrowing from the banks to borrowing from individuals.

MR. HAAS: Sure, that is right.

H.M.JR: You would have three columns, but you would raise bonds here and the insurance companies, you would have your - your classification would be here and then column one, two, three according to plan one, two and three.

MR. HAAS: Yes, sir. It would be very rough estimates but they would be good enough.

H.M.JR: Who is going to--

MR. HAAS: Who is going to check them?

H.M.JR: Who is going to check them between Friday night and Monday morning? I mean, you get - as I understand it, the classifications are, banks, insurance companies, Savings Bonds, taxes and so forth and so on. Is that right?

MR. HAAS: That is right.

H.M.JR: Then you have column one under the present conditions.

MR. HAAS: And we have got the securities listed.

H.M.JR: And column two, the ordinary conception of rationing, and column three, the new conception; and Monday night we could send the President a different thing. But

that would give us - I don't want to go into this thing with no plan as though I didn't know what I was doing.

MR. PAUL: Yes, that is right.

MR. WHITE: There is only one difficulty there which must be mentioned, I think, Mr. Secretary.

H.M.JR: Only one?

MR. WHITE: Well, there is one big one. That is that the Budget Bureau men, and there will be a number of others, will say that this general rationing plan which you are setting up as a possible alternative, they don't feel is administratively feasible.

H.M.JR: Well, now look, Harry, this is what is going to happen. We will argue our heads off, see, and then I will say, "Well now Harold, I am terribly sorry, we haven't been able to get anywhere today and the President has asked me for my plan so I am going to send him over what I have as of tonight, and I will be very glad to meet with you again on Monday and in the meantime we will reconsider what you have said and so forth, and we will meet again. We will keep sending the President memoranda until he tells us to stop or until we can get him to agree."

MR. WHITE: That is all right, as of tonight.

MR. PAUL: Then I want to point out another thing that is very important to face in this situation, and that is whether you are going to pass the tax bill as proposed or whether you are going to complicate it, because you are in a hysterical panic with a lot of additional plans for contributory saving, additional taxes, reduction of exemptions, or God alone knows what. Because those fellows are going to press for that. They think that we can't wait. Isn't that right, Dan?

MR. WHITE: I think it would be a mistake to open

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up that tax bill.

MR. BELL: Well, no one wants to open it up. I didn't get it.

MR. GASTON: You are addressing this situation. These people have proposed a program which they consider based on a promise that there is a terrific inflation confronting us. They are proposing something that they claim to be a program to combat inflation. Now, if we start our address to the President with the statement, "Yes, that is true," that there is a great inflation confronting us as was outlined by Randolph in this brief statement here, then we have got to say something about what we propose to meet that situation. Now, we have in this debt financing thing, which I think is a side issue, so far as this subject we are addressing is concerned, we have the one thing of a tighter rationing plan, a specific commodity rationing plan plus over-all limitation on expenditure, but is that all that we want to propose?

MR. WHITE: No, I don't think it is.

MR. PAUL: we haven't time for more.

MR. GASTON: I don't think so.

MR. WHITE: I don't think so for this reason. I think we have got to be prepared to meet the criticism which may prevail in the end, that this is not administratively feasible and, therefore, you have to say that if it be found that this over-all rationing is not feasible, then the alternative, the less desirable alternative, is forced saving and some increase in taxes.

MR. PAUL: That is right, Harry, but I think we have to meet the issue in an even bolder way, that if the rationing plan doesn't work, anything else will not get better results than to put this tax bill through as is.

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MR. WHITE: Oh, I think that is true anyhow.

MR. PAUL: Let's meet that head-on, because that is the correct analysis of it, and that was reinforced by something Gilbert admitted today in connection with regulations "W," that we have got a big cushion there--

MR. HAAS: Work on this consumer credit, cut that drastically, you see, now.

MR. GASTON: Yes, that is right. That is the essential part of it.

MR. PAUL: Yes, but it was the importance of that part. I didn't realize it until he brought it out today. Gilbert admitted, didn't he, John--

MR. SULLIVAN: Everything he said was predicated on that assumption, that that would be done.

MR. PAUL: Yes, but he admitted that we did not need to mix up this tax bill.

MR. HAAS: Yes, that is right, and he would - the only thing--

MR. GASTON: They talk about they are for the Treasury program, and then they add features of it that are a complete reorganization of the whole tax scheme. They start with a statement of the extreme urgency of the inflation peril facing us, and their next statement is in effect that to meet this situation we have got to announce some drastic new plan for withdrawing consumer spending power, that the mere effect of announcing a grandiose program is going to, itself, help meet the inflation peril. That, I don't believe. I think it is a terrible fallacy. I think it is going to - I think it is most likely to result--

MR. SULLIVAN: Go the other way.

MR. GASTON: In a tremendous buying pressure. I think it is likely to contribute to it.

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MR. BELL: They have had plenty of experience on that, because they announce every month that they are going to ration something thirty days hence.

MR. WHITE: If they freeze their prices at once, then I think the discussion of a general rationing, and this is one of the serious difficulties, the discussion of general rationing is going to increase buying, you see. That is why the thing can't be discussed indefinitely. That is why you have really got to make up your mind and put it in effect administratively within a couple of months if possible, but you can readily see that if there is much discussion about limiting a man's ability to buy what he wants there is nothing that will encourage him more to run out and try to buy what he wants.

MR. BELL: Can they do these things under the present law?

MR. PAUL: We just had a conference on that.

MR. WHITE: The lawyers say they can't.

MR. PAUL: I have got this second war powers bill which apparently gives that authority.

MR. SULLIVAN: I would question that one, though.

MR. BELL: They didn't leave anything out of that bill, apparently.

MR. PAUL: Here is the paragraph, if you want to hear it. "Whenever the President is satisfied that the fulfillment of requirements for the defense of the United States will result in a shortage of any material or any facilities for defense or for private account or for support, the President may allocate such facilities or materials in such manner on such conditions and to such extent as he shall deem necessary, or appropriate in the public interest and to promote the national defense."

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MR. GRAVES: That is adequate for specific rationing of particular commodities, but it is not adequate for general rationing.

MR. WHITE: After all, we have got a legal staff, and they are pretty smart guys, and they say it is legal.

MR. GRAVES: Not near as smart as the odds and ends of lawyers you have got right here.

MR. GASTON: I beg your pardon.

MR. WHITE: I beg your pardon, Harold.

MR. GASTON: I thought they were all economists.
(Laughter)

MR. GRAVES: That is plain by the very words used there. You don't have to refer that one to any legal department.

MR. GASTON: I am inclined to agree with you, Harold.

MR. PAUL: I thought Cairns gave the opinion that that was--

MR. SULLIVAN: He did at first, and then when we talked with him a while, he wasn't so sure.

MR. PAUL: I missed that.

MR. WHITE: Well, I thought he ended up by saying--

MR. BLOUGH: Gilbert made one significant statement. He said if they succeeded in getting six commodities underway in a comprehensive rationing scheme by the first of July, they would be doing very good indeed.

(The Secretary entered the conference.)

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H.M.JR: Well now, could I just get in a minute here? I asked Harold - Harold and I, so that you people know, we are proposing next Tuesday or Wednesday that a letter will be in the hands of forty thousand manufacturers of this country--

MR. GRAVES: Employers of all kinds.

H.M.JR: After having first cleared with the unions. We expect them to assist us to deduct on a volunteer basis, but we hit them over the head if they don't, ten percent of the gross wages, and then by April--

MR. GRAVES: Ten percent of gross payroll.

H.M.JR: And then by April 13 we expect to announce a quota for every county in the United States which will be so much for May, and so much for June, and will reach a billion dollars a month by July. Now, I asked Harold to find this, and I think if we could get this, this would be very helpful, because this - I know the President has this in mind, and Smith told us so. If you took all of the overtime in wages and put it in Defense Bonds, what would it amount to? Harold doesn't think it would amount as much as ten percent.

MR. GRAVES: Of the gross pay roll.

MR. SULLIVAN: Of the entire country.

MR. GRAVES: That is right. I passed that on to Mr. Tickton tonight.

H.M.JR: If I said to the President - "Now look - " I did today, and he listened. I said, "Congress is willing to wait until the first of July and Taft is willing to wait until the first of July, and I am asking you to wait to see how near we can come to getting that," and I think it is a very important argument. I think in this presentation to the President, Harold, we ought to have something about this plan which we are putting into effect next

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week and the week after so we could let him know, you see.

MR. GRAVES: Yes.

H.M.JR: I think that should be in the statement which goes to him tomorrow night, which you ought to prepare for me.

MR. WHITE: Is that going to be voluntary, that a worker can decide whether or not his overtime pay is to go for bonds?

H.M.JR: No, we are not saying anything about it. What we are simply saying is this, we are saying to the labor unions and employers of - forty thousand or four hundred thousand?

MR. GRAVES: We have a list of forty-four thousand companies who have adopted pay-roll savings plans.

H.M.JR: Well, we are simply saying, "With your cooperation we hope that you will bring about a deduction of ten percent of the wages of everybody who works in your company." We have never given them a quota before, you see. Some will have this much and some will have that much. Then besides that, we are giving a quota to every county in the United States, which will be an over-all, see, and the quota by counties would be so stepped up in May, June, and July that by July we will reach a billion a month. We think we have a fairly good chance of reaching that by July.

MR. GASTON: What do we have now, about six hundred?

MR. GRAVES: Five fifty-seven, I think.

MR. GASTON: About six hundred thousand. That means withdrawing an additional four hundred thousand--

H.M.JR: Million.

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MR. GASTON: Four hundred million, which is around five billion a year. So far as it affects this inflation problem, it means the withdrawal of an additional close to five billion dollars a year.

MR. HAAS: Of just the right kind of money you need.

MR. GASTON: Yes.

MR. BELL: It didn't impress those fellows very much today, though.

MR. PAUL: The importance of that and all the rest of it is, and the part you have to deal with with them, the thing that they drive at and drive at and drive at is the fact that we must muddle up this tax bill, and I keep driving at the answer that we have got to have that out with them.

H.M.JR: Now, may I go on the next thing?

MR. PAUL: Pardon me.

H.M.JR: It is all right. Gaston and I were fortunate we weren't at the lunch. Were you, Harold?

MR. GRAVES: No.

H.M.R: Now on the tax thing, this is the thing which I would say. I don't know how - you see, all of these things - the President doesn't listen to you half the time because he has got so much, and I don't blame him. I would put into the thing and highlight the fact that we asked for permissive--

(Mr. Currie entered the conference.)

H.M.JR: You are just in time. Nothing is settled. Put in the thing that the thing we are asking for, the permissive thing, is one to ten percent.

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MR. GASTON: Withdrawal?

H.M.JR: Withholding.

MR. GASTON: Withholding tax.

H.M.JR: How much would the ten percent amount to?

MR. BELL: That is already in your tax bill.

H.M.JR: I know, but I don't think the President is conscious of it.

MR. PAUL: Roy, how much does it amount to?

H.M.JR: If you went to the ten.

MR. BLOUGH: Let me see. I believe it amounted to a couple of billion dollars on a full year basis.

H.M.JR: Let me just go over this quickly for you, Lauch. This is what I am asking them to give me, to give you - to just take a second. They mentioned it again at Cabinet today, and the President said that he was looking for something that he wants to do in three weeks. This morning it was two weeks. He says he is bothered that the cost of living is going up about one and a half percent a month, and he is afraid it will go to three. He would like to have it not exceed a half percent a month. Now, were you at that luncheon today?

MR. CURRIE: No, I am sorry.

H.M.JR: You, evidently, needn't be sorry. Your head will be clearer. What I am suggesting to our boys to put up for our plan, because the President has asked me to give him something tomorrow night, and I am not going to get any agreement outside of possibly the people in the room here - you have seen the chart

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which is prepared of how we think under present conditions - where we can borrow and from what sources. Have you seen that?

MR. CURRIE: No.

H.M.JR: Well, we have it.

MR. BELL: You saw that gap.

MR. HAAS: You saw the gap one, but not that particular one.

H.M.JR: Well, we have got that thing. It is so much from the insurance companies and so much from banks and so much from savings and so forth, and so on. I am suggesting that we have these various categories, and then we have column one, showing how much we will raise from each of these sources, and at the end of column it will total thirty-nine billion dollars under existing conditions. Column two will be how we would raise the money if they put into effect the rationing thing that Henderson is talking about. That will be column two. Column three would show how we could raise the money if we put in something like what White is talking about where a fellow is only permitted - you know--

MR. BELL: He knows the Kolesky plan.

H.M.JR: Now, that would give the President something he has never seen before, that the Treasury knows at least has to borrow thirty-nine billion dollars, and that we have here three different suggestions, and you can look at these things. "Now, if you don't think the total amount of taxes is enough, Mr. President, add as much as you want there. If you think we are getting too much from the banks or too little - but here is the table on one sheet, Mr. President, that you can see, and this is our program to raise the thirty-nine billion." In this will be a footnote with a little introduction telling

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him what we propose to do. Next week we are getting out a letter to the heads of forty-four thousand companies who have the pay-roll deduction plan, the volunteer plan, giving them for the first time a quota, which is ten percent of the gross salaries paid. We think we can possibly approach that. And the following week we will announce a quota for the country, by counties, so much for May, so much for June, reaching a billion dollars a month in July.

MR. CURRIE: You are offering this as an alternative to the Smith plan?

H.M.JR: I am thinking - I am not going to let myself be befogged. I mean, call it an alternative if you want. I think the Treasury should have a plan.

MR. CURRIE: I wanted to report to you that I think the sales tax has been dropped from the other plan.

H.M.JR: Well, I am just giving you all the background and treating you as a member of the Treasury family. Both the President - I don't know how much Harry told - was quite shocked to think that I had not been told by Smith that he was absolutely opposed to the sales tax. I had three-quarters of an hour this afternoon with Hopkins, and Hopkins had heard nothing about it up until this afternoon, and is not going to be rushed off his feet. Neither the President nor Hopkins are going to be rushed off their feet on freezing wages, so all I am saying to you, I am just saying something because the President now has told me both this morning and this afternoon he wants something tomorrow night. That is the best I can give him unless somebody says something. I mean, after all - then the President sees - how much would it be in taxes in fiscal '43?

MR. PAUL: Twenty-seven.

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H.M.JR: Twenty-seven billion dollars.

MR. BELL: With the new tax program.

MR. PAUL: That is low.

H.M.JR: Just one second. Here you would have on the table before you a sheet for the President with two possible alternatives. Now, you take a look at it and take it home and study it Saturday and Sunday, and he will come back and say, "Wait a minute, Morgenthau, I think you are a little low on taxes and a little high on the banks. Make an adjustment." And you have the thing before you, and that is the fiscal plan, and that is what the President is entitled to. Now, if the President says "Twenty-seven billion is too little, Henry, I think it should be twenty-nine or I think it should be thirty," all right, that is his privilege, but then at least he sees the categories we are going to get, and the other thing, he is very much sold on our volunteer plan. So is Hopkins. So that is as far as I have gotten tonight, and in as much as he insists on something I know I can't sell it to the Smith gang tomorrow, but at least I will have something that the President evidently wants to study Saturday and Sunday, and we will meet again Monday, and he can say to me - I will say now, "What do you like? what don't you like?" and the thing can be adjusted within those categories. Now, what do you think, coming fresh to this thing?

MR. CURRIE: I think it is swell, grand.

H.M.JR: And I mean--

MR. CURRIE: Good.

H.M.JR: Isn't that the way?

MR. CURRIE: Yes.

H.M.JR: You may say, "Well, wait a minute, I think - " he might say, "I think you could go a little heavier in

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this or you are too heavy in that," and that gets it away from any personalities or anything else.

MR. PAUL: I would like to make a footnote to what you said.

H.M.JR: Just one second. I want to get his fresh viewpoint on this.

MR. CURRIE: I think that is an awfully intelligent way of going at it, Mr. Secretary, because I was a bit disturbed when they came to me the other day hitting in so many directions without any idea of what your goal was and objective and what the magnitude of the job was you had to do. I made those objections to them.

H.M.JR: But on this basis--

MR. CURRIE: On this basis it gives you something possible to deal with.

H.M.JR:..of shifting within the thirty-nine billion.

MR. CURRIE: That is right.

H.M.JR: The problem is to get thirty-nine billion, from my standpoint.

MR. PAUL: That is the borrowing program.

MR. GASTON: That is the fiscal program.

H.M.JR: But, I say that is my problem.

MR. WHITE: It is not the inflation problem.

MR. GASTON: But you are addressing yourself to the state of mind of the President that he wants measures to combat inflation. Now, I think--

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MR. BELL: That is all right, your rationing would be in there.

MR. GASTON: Bearing on that plan, all that you have in your program is the suggestion that you will very considerably increase by some five billions a year, that is, the Defense Savings program. That is a genuine item toward combating inflation. I think we have to say whether or not we consider that sufficient. We are proposing - we are discussing something in addition to that which is a limitation on over-all expenditure by individuals.

MR. GRAVES: Well, that is included in the Secretary's table.

MR. GASTON: That would have to take--

MR. GRAVES: He has his three column table.

MR. CURRIE: That would mean more taxes.

MR. GASTON: We have to say whether or not we think that is sufficient to meet the inflation problem. How serious do we think the inflation is? Is the peril much more serious than it has been? Do we need something drastic to meet it? Do we think that those two things, stepping up Defense Savings plus--

MR. GRAVES: Rationing.

MR. GASTON: Plus an expenditure rationing program are adequate to meet it. And I think if we believe that, then we should say that, and I also think we should discuss sales taxes and wage freezing, to which I think we are all very strongly opposed.

MR. PAUL: I agree with you, Herbert. I think we have got to face that issue of whether the things that we do to get thirty-nine on the borrowing, and the things that we do to get twenty-seven in the taxes--

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MR. HAAS: Well, it is a moving thing. You can't decide and say that is enough. If it isn't enough, you put some more on.

MR. GASTON: Is it enough for the President?

H.M.JR: Wait a minute, Herbert, what we are saying, we have got three tables there, three columns. You have got column one as it is today. Column two following the plan of Henderson, what he seems to have in mind as far as rationing is concerned. Column three is what I call the White suggestion. Now, I am open to column four, five, and six, but each one of those things that you do affects how much money we can borrow.

MR. CURRIE: Are you going to take any positive recommendation on whether you should have more of this and that and the other thing, more taxes or more borrowing, etc?

H.M.JR: A fellow has got to be practical, and I got the impression from the President, I think he agreed with me this morning, that he isn't going to ask for any more taxes than he has in the present tax bill. That is the impression he left with me.

MR. PAUL: That is very important.

H.M.JR: Well, that is the impression. He did, on the other hand, say that if we could get some more through excise taxes - he did sort of leave that thing open, you see, but I got the definite feeling when I left there that this was about all we could swallow at this time, and I got nothing from him--

MR. PAUL: That, I want to emphasize the importance of, Mr. Morgenthau, because they are going to go after us, and they are going to go after the President on the point that the time factor is important.

MR. CURRIE: They want five billion more.

H.M.JR: Well, five billion more through the savings. We can pick up five billion there.

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MR. GASTON: I think your financing table is good, but I think the financing table is the footnote. The discussion of a program to meet the inflation situation is the main substance of what you have, whether you propose anything new or not, whether the situation is such that you must propose a drastic new program, and what is that program that you propose, and I think the table of financing is incidental to that.

H.M.JR: Well, I don't - well, the table of financing depends upon - I mean, how much we can get through War Savings Bonds depends upon what kind of rationing you have and how much the people are permitted to spend. I mean, certainly as it is today they can spend almost as much today as they could three months ago.

MR. CURRIE: This group, Mr. Secretary, is going to take the position that the savings campaign has been pretty much a flop as far as collecting money from the wage earners and others are concerned, that the bulk of the subscriptions have been on the part of the wealthy people, so you have had no net gain as far as inflation is concerned.

MR. BELL: The money is coming out of savings instead of current earnings?

MR. CURRIE: Yes.

H.M.JR: Well, they are wrong.

MR. WHITE: Well, not wholly wrong, because the proportion of bonds that come in amounts of less than a hundred is - I don't know exactly, I think it is around forty percent.

MR. GRAVES: Well, I think that through February the sales, "E" Bond, in denominations of a hundred and less were about nine hundred million.

MR. WHITE: For January and February?

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MR. GRAVES: No, from May through February, slightly less than half of the total of the "E" Bond sales are in the low denominations.

MR. WHITE: And then a portion of those belong in the upper group so--

MR. GRAVES: Don't say that, Harry, because there is a proportion of the higher denominations, also, that represents savings of current income.

MR. GASTON: What are your retail sales?

MR. WHITE: Your new plan will tap that source if it works.

H.M.JR: If it is successful, it is good for--

MR. PAUL: But they are going to insist on the fact that we can't wait, we can't wait until July or August.

H.M.JR: Now look, let's just go back over history a minute. As I told the President this morning, September, October, Gilbert was rip snorting that inflation was just on us, and he sold it to Henderson, and I rushed up on the Hill and asked for a fifteen percent withholding tax, and the only person in the whole group of thirty who didn't agree with him was Currie.

MR. PAUL: And Randolph Paul.

H.M.JR: Well, I don't remember your record. If you say so, all right; but I don't remember it. I do remember Currie saying it. Well anyway, then we go up and get turned down. Then Henderson takes the position we are going to have deflation through January, February, and March, through the conversion. Is that right, so far? Now, he comes along and they are all excited again. Well, they can't be always right and always wrong. I mean, there is a happy medium. I have been consistent--

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MR. CURRIE: The answer they make to that, Mr. Secretary, is that the program has been stepped up greatly since we talked with them in the fall.

H.M.JR: Well, there is something to worry about, and I am worried like hell, but just because we are worried--

MR. WHITE: It is not a matter of days.

H.M.JR: The thing that bothers me is this, Lauch, the President said in three weeks and in that three weeks we can give him something and certainly we can say in the room we don't want the President at this time - I won't say his influence with Congress is at the lowest ebb, but it isn't what it used to be. That is a fair statement, isn't it?

MR. CURRIE: That is right.

H.M.JR: And whatever he does now, he ought to be able to propose something which will be successful as far as Congress is concerned. So you can't just say inflation is here. I got excited and went up and did everything humanly possible to get a fifteen percent withholding tax. I couldn't even get a hearing. Now, I don't want the President, and I am sure you don't, to send something up there which is licked before it starts. Now, these people who seem to have very little legislative experience or political sense - and as I told the President, here is another thing, talking straight politics. The Republicans seem to be lined up a hundred percent for a sales tax. We should be against it to give us a good issue next fall, and God knows we need an issue next fall, don't we?

MR. CURRIE: That is right.

H.M.JR: If we don't have any victories in the military field, we certainly need a couple of political issues, don't we, and I don't know of a better one than the sales tax.

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MR. PAUL: And from the standpoint of political issues, while I have been the other way on certain occasions, the opposition to reducing exemptions is a good political thing. I have been on the other side of that, but I am bound to say that that is a good political thing.

MR. CURRIE: The time may come when you will have to concede that to buy off the sales tax.

MR. SULLIVAN: I don't think you will buy off sales tax with that, Lauch.

MR. CURRIE: Maybe not. The point I made with these people yesterday is that for us to propose a sales tax at this time wouldn't mean a net gain. It would mean a loss of other revenue. They would just take it from the income tax.

MR. SULLIVAN: That is right. We tried to tell them that this noon, Lauch, and we didn't make any impression on them.

MR. CURRIE: I talked to Eccles late this afternoon, and he says he has persuaded them that it is politically inexpedient.

MR. BELL: This afternoon?

MR. CURRIE: This afternoon. Hansen told me he was with them, and I checked and he said he was against it.

H.M.JR: Eccles has been in consultation with them?

MR. CURRIE: Yes, since lunch.

MR. GASTON: Where is he on wage freezing, Lauch, do you know?

MR. CURRIE: Marriner?

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MR. GASTON: Yes.

MR. CURRIE: He wants wage freezing.

MR. GASTON: Does he want to freeze all incomes, from top to bottom?

MR. WHITE: Labor is one of his blind spots.

MR. CURRIE: I can run over his program, if you are interested. He wants to lower the exemptions to five hundred and a thousand. He wants wage and price freezing over forty cents an hour. He wants his normal tax raised no higher on corporate taxes - normal corporate taxes raised no higher than forty percent, but he wants to lower the average earnings basis to sixty percent and six percent invested capital. He wants to go up from seventy-five to a hundred percent on excess profits, but have that difference between seventy-five and a hundred as forced savings to be returned after the war some time, and he wants the five percent universal saving above these exemptions. That is his program.

MR. GASTON: Universal saving means compulsory saving.

MR. CURRIE: That is Hansen's name for forced saving.

MR. PAUL: Lauch, I want one of those things too, but it just can't be gotten. I want the reduction of the income credit, too, that he mentions there.

H.M. JR: What do you want?

MR. PAUL: I want - we fought for a month and a half for one of those points.

MR. GASTON: Average earnings?

MR. PAUL: Reduction of the income credit. He said sixty percent. We fought for seventy five.

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H.M.JR: Well, those are refinements which - I mean, we in the Treasury - I mean, I have Paul representing me on the Hill, and I can't live with it every day. So far, the President seems to be satisfied with what we are doing. I mean, everybody - let me just ask you without getting into refinements. Do you feel from your study of the thing at this time that the twenty-seven billion dollars that we expect to get from taxes is enough or not enough?

MR. CURRIE: That depends a bit, Mr. Secretary, on the degree of rationing and price control. It is hard for me to answer that without knowing exactly what we are going to do on that.

H.M.JR: All right. Well then, let me--

MR. CURRIE: If you have enough of those others, it is enough.

H.M.JR: Then you and I are very close together because - let me say the way I feel, and you tell me quite frankly the way you feel. I feel that we have got to come to some kind of rationing. In the first place, I think it is the fair way; that is, there are so many tons or so many yards or whatever the commodity is, that you say to every human being, irrespective of income you can have so much of that. And then, if you do that - I mean, starting at the mill, whatever the commodity is, you start at the mill and say so much goes to the war effort and so much goes to civilians; and you divide up the yard or tonnage or pounds per family in America, and that is what you can have.

MR. CURRIE: I think you will have to come to that.

H.M.JR: And I brought it up three weeks ago in Cabinet, and not a single person in Cabinet would agree with me. They sat all over me. I brought up the question. I sent the President a memorandum on what the Canadians had done and what had happened since December 1,

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and how their prices had dropped and ours had gone up. So if you were with me on some form, I don't know how it is - but beginning with the factory door, you say so much goes to the war effort and so much to the civilians, and then divide it up on a family basis, something on that order, which we haven't done, and I think that the Henderson crowd have been very, very slow in getting underway. Now, if you do something like that, then it seems to me that in the first place we could get a great deal more money by borrowing it. I have told Congress that I would like to have until the first of July to try to do it on the volunteer basis, because I laid so much stress, and the President is with me on this, that the man who sits at home with his family and has to make up his mind with his family that he wants to set so much aside voluntarily; and when he crosses that bridge, that is a great effort, and it is a great accomplishment toward the moral effort of the country.

Now, as long as we can get him to do it voluntarily and get the results, it is a wonderful thing. Now, I am simply asking him to let me have it until the first of July; and if we can't do it, I will admit I am wrong.

MR. CURRIE: What you are proposing is a two way thing, it is voluntary on the one hand, but we shut off enough avenues of spending on the other - it is almost compulsory.

MR. BELL: Well, it is voluntary investment. It isn't a voluntary saving, because he hasn't got any place to save his money.

H.M.JR: But to ask us to get the volunteer savings and to have free spending, so to speak, it makes our job very much more difficult. Now, to go up - to be just political and go up on the Hill in the temper that Mr. Doughton is in and attempt to get one penny above the

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over-all of the nine billion dollars, it is just out of the question.

MR. PAUL: Well, there is one thing, of course, we could do. We could get behind the Social Security more.

MR. CURRIE: It seems to me that is very important.

H.M.JR: You are right. I am not arguing about that.

MR. CURRIE: That needs more support than anything else in the program.

H.M.JR: I am perfectly willing to do that. Now let me come back to you. If you say you are not prepared to answer, that is all right, but where do you and I differ, where am I wrong from your standpoint?

MR. CURRIE: I don't think you are wrong.

H.M.JR: Well, where would you, without getting into these very technical questions of the tax bill, where do you think I should change my position?

MR. CURRIE: I think the point may come, Mr. Secretary, where you might have to be gracefully beaten. I think this pressure for sales tax is so strong that that may be the only way in which you can buy it off.

H.M.JR: Let's say you are right on that. I think it was wrong, and I think it is wrong now, but unfortunately we can't get before the first of May any 1942 figures as to the spending and saving habits of the American family. They are not available. What are the latest ones, George?

MR. HAAS: There are some estimates for 1941.

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H.M.JR: No, but I mean actual.

MR. HAAS: Oh, actual? I guess it is '36. The Resources Committee had that figure.

H.M.JR: Now ~~we~~ are pressing for that.

MR. HAAS: That is mostly estimates.

H.M.JR: I would like to see those figures; and when I see what the buying and savings habits are, then I will know, but there is nothing, and everything goes back to that '36 figure. But that again - look, that isn't going to - again, there is an awful lot of politics in the thing, and again the morale of the country. My position is this. Just as long as there is a billion dollars worth of loopholes, I will fight to the last ditch against lowering the taxes on a seven hundred fifty dollar fellow who already is paying a hundred and thirty-nine dollars worth of taxes out of the seven hundred fifty, and just as long as these selfish so-and-so's will stand there and refuse to give on a billion dollars of loopholes, then I am going to fight for the seven-hundred-fifty-dollar fellow.

MR. CURRIE: That is right, that is the correct policy, and I am not proposing that you should propose reducing the exemptions. I say you may have to yield to that to avoid something else

H.M.JR: But in your presentation to the President tomorrow night, do you think we should tell him this is preliminary?

MR. CURRIE: I agree thoroughly with it, because I don't think you can stop these runs on commodities by cutting down the purchasing power of the people. They will use their savings and other things. These various runs as the rumors of shortages get around, they are not coming out of current income.

MR. BELL: They are not rumors, they are announcements.

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MR. CURRIE: They keep throwing it at this, and then at that.

MR. PAUL: Listen to - I don't want to have you forget to listen to Swing tomorrow night or Sunday night. He is going to blast against the sales tax. We are giving him a lot of dope in the morning.

H.M.JR: Then where we stand tonight, as I get it, we think there should be some very over-all rationing of consumers' goods, and that that could be done very rapidly. Now, there is nothing in the world - let's say that we get the present tax bill through by the first of July. There is - and you have rationing at once. There is nothing to keep the President right after election from asking for something else.

MR. CURRIE: You include with rationing, price freezing too?

H.M.JR: Oh yes, but not on wages.

MR. CURRIE: Yes.

H.M.JR: I was amazed at Cabinet to hear Frank Knox say that if you freeze prices you don't have to worry about labor. I was amazed to hear him say that.

MR. GASTON: It is just exactly what I was talking about this afternoon.

MR. WHITE: I think it is well to remember that what they claim to be the great urgency springs from something that you can - that can easily be disposed of. There may be an urgency in terms of months, that you are going into this second half of the year, but the urgency that they are talking about that sets a date of a week, two weeks, three weeks, is the labor matter, not the general rise in wages, because that is what they said.

MR. CURRIE: Little steel.

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MR. WHITE: Little steel cases and--

H.M.JR: Harry, I am glad to hear you say this, because I think beneath this all there is something kind of sinister.

MR. WHITE: They admitted that, and I pushed them on that, and that is what they said, why they want a decision on this before the little steel decision.

MR. PAUL: The reason they are for a sales tax is because the sales tax is going to be passed, so it should be an Administration sales tax.

MR. CURRIE: That is right.

H.M.JR: I am willing to say this publicly or privately, that to control the cost of living within reasonable bounds, I am willing to trust labor as to what they do, because they have behaved so much better than business that there is just no comparison.

MR. CURRIE: That is right.

MR. WHITE: And there already are arbitrators on wages on small and the War Labor Board on the large.

MR. GASTON: All they would get out of their wage freezing would be bad morale. I was saying this afternoon, when they make the adjustments necessary, they have shot it so full of holes that they haven't got anything better than we have now with a price control over wages plus the War Labor Board and wage mediation. They haven't got anything that can't be handled through those labor adjustment methods except a terribly bad morale, a slap in the face at labor. That is all they have got out of it.

MR. WHITE: I liked your other statement too, when you said, "If you freeze labor, why freeze the income of a wage earner when you don't freeze the income of the professional man, the bond-holder, the business man, or

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any other element in society, just the wage earner?"

MR. GASTON: You talk about treating labor as a commodity which we have howled about for many years. That would be treating labor as a commodity, if you say that day-laborer's wages, a mechanic's wages, are to be frozen along with prices, but you don't touch professional income, you don't touch profits, you don't - in other words, if you are going to ration income of the worker, then to be honest and consistent and equitable, you have got to go all down the line and ration everybody's income.

MR. PAUL: They admit that, Herbert, about corporate profits.

MR. WHITE: Only above a certain amount.

MR. GASTON: Yes, a little nick at one end and then the blanket at the other.

H.M.JR: Couldn't some of us face the band tomorrow at nine fifteen and then some of us be outside writing and drafting for the President.

MR. PAUL: I think that is an excellent idea. I would suggest that you divide this up and have definite people assigned to the various parts, and then put it together in the afternoon.

H.M.JR: Because, you see, I hope to leave by four o'clock tomorrow afternoon

MR. WHITE: Is that nine-fifteen in the morning, did you say?

H.M.JR: Yes.

MR. GASTON: What is the band tomorrow?

H.M.JR: Harold Smith and his piece.

MR. PAUL: Harold is coming over and they asked me how many to bring and I said bring as many as they wanted, we didn't care.

H.M.JR: Can't we divide this up so someone will be drafting for me?

MR. GASTON: It has got to be.

MR. HAAS: At four o'clock, Mr. Secretary?

H.M.JR: Nine-fifteen. I want to leave at four.

MR. WHITE: You mean this has got to be done tomorrow morning at nine-fifteen?

MR. PAUL: I would suggest that we have two or three people. You have already assigned one part to Harold Graves. If we could spare Roy in the conference--

H.M.JR: I think we should spare Roy.

MR. BLOUGH: Then we could have Roy and Tommy do that tax part.

H.M.JR: And I would like Herbert to sit in with these people. Would you be willing to do that on the drafting, Herbert?

MR. GASTON: Oh, yes, sure.

MR. PAUL: Harry White can do the labor part.

MR. WHITE: Yes there isn't anything - you are not

going to mention labor, are you?

MR. PAUL: How about the rationing?

MR. WHITE: I will have a paragraph. You can include it or not.

H.M.JR: I think you had better be there tomorrow, but I want Herbert to get in this philosophy about labor. He has got this thing pretty well.

MR. BELL: George, you have got somebody that can be working on the tables.

MR. HAAS: Oh sure, I will start that tonight.

H.M.JR: but won't you be there to explain it? Can you (Bell) explain the table the way it is?

MR. BELL: You mean the gap?

H.M.JR: Yes.

MR. BELL: Do you want to go into that?

MR. HAAS: He wants the sources of funds, on the habit pattern.

H.M.JR: Can you take that?

MR. BELL: George or I can take it, either one. Lindow and Murphy can work on the other end of it while he is there, but I can explain that table.

H.M.JR: I will tell you what we will do. Do you want to get the flavor of this first, Herbert, or would you rather do it without getting a bad flavor?

MR. GASTON: Oh, I think I know their flavor. What they said this noon--(Laughter) I didn't describe the flavor, Lauch. It is the same stuff that I read.

H.M.JR: Then I think, Herbert, if you could give us this kind of philosophy on this thing, why we don't want to do it for the President, and then if Blough could get in on this thing and Harold, you could do the Defense Bond thing.

MR. GRAVES: Yes.

H.M.JR: Lauch, do you want to work with these boys or do you want to be in at the meeting?

MR. CURRIE: I would rather duck the meeting if I could, Mr. Secretary, but if you would like to have me there, I am perfectly prepared to be there. Is it your idea that we try to reach any agreement tomorrow morning or just listen to them?

H.M.JR: Well, I thought I would take the positive position and present our plan. Why don't you be there in the beginning and then if it gets - you see we are getting nowhere, you could sort of just slip out and go down to Herbert Gaston's room or Roy Blough's and see how they are getting along.

MR. CURRIE: Fine.

H.M.JR: But you be there when - I mean, the weight of your opinion, what you stand for, you see, and then after it gets boring and you see they are not getting anywhere you could slip out. What I am hoping is - T. V. Soong is coming in at two-thirty. He asked to see me. So I would say by a quarter of three.

MR. GASTON: You want a document?

H.M.JR: Well, by a quarter of three I want a document. What do you think, Dan, of the outline on that?

MR. BELL: That is all right. That morning conference shouldn't really last very long, should it?

MR. PAUL: Do you want me to come to the conference?

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H.M.JR: Very much, yes. Well, I can't give an answer tonight or tomorrow night to the President, whether the plan that we are talking about here will or will not combat inflation, but I can say to him in fairly strong language that - and this I feel very, very strongly - that if we - that if he will give us more or less complete rationing, then I will promise to give him twelve billion dollars worth of Defense Bonds. Right, Harold?

MR. GRAVES: Yes.

H.M.JR: And that that certainly - and with a twenty-seven billion dollar tax bill and two billion dollars worth of Social Security, which I am willing to get behind forcefully--

MR. WHITE: Well, have that in.

H.M.JR: Yes. Get behind the Social Security thing forcefully. I would say that that ought to hold the fort until after election.

MR. WHITE: That is right.

MR. CURRIE: That is right.

MR. BELL: If you have complete rationing I should think you could do more than twelve billion dollars.

MR. HAAS: I think we might boost that a little, Mr. Secretary.

H.M.JR: Look at Harold. (Laughter)

George, put the screws on him.

MR. HAAS: Yes, it has to be higher than that.

MR. WHITE: Anybody could get twelve billion with rationing.

H.M.JR: George, put a figure in and we will show

it to him after it has gone over to the President.

MR. BELL: Show it to him after the week end. Give him a good week end.

MR. WHITE: They will say it takes eighteen months to put a plan of complete rationing in. I don't agree with them, but that is what they will say.

H.M.JR: What I would say is get some new rationists.

MR. BLOUGH: They say it will take from one to two hundred thousand people to police it.

H.M.JR: Well, look, just to show you for instance on that basis, I don't know how many people Jim Landis has registered that want to do a job, but he has got a tremendous number. We have in Pennsylvania where we are trying out a voluntary pledge campaign, we have got a hundred and twenty thousand people volunteering to go to work in one state to sign up the people on the pledge campaign. Jim Landis could give them a million people who would volunteer.

MR. PAUL: We need all of them to administer the sales tax.

H.M.JR: Just let me philosophy, and be a little bit old-manish and go back to 1932. There was a fellow that came here from Montana. Wilson?

MR. GASTON: Yes, M.L.Wilson.

H.M.JR: What gave M.L. Wilson his fame and sold him to Henry Wallace was the fact that in one county in the state of Montana they had a voluntary crop adjustment plan, and if you didn't live up to it they posted in the post office what you did or didn't do, and each neighbor watched each other and the thing worked beautifully, and that was what put M.L. Wilson

on the map.

MR. HAAS: That is the way the Canadians do this thing.

H.M.JR: And they did the thing entirely on a voluntary basis. That was in '32. Do any of you remember?

MR. CURRIE: No, I don't remember.

H.M.JR: You were all children then. But they did it by each fellow watching the other and the thing worked beautifully. Do you remember it, Herbert?

MR. GASTON: Yes.

H.M.JR: The thing can be done if you don't have a lot of false starts like Harold Ickes and get everybody all worked up over gasoline and then you have enough gas and then Harold has to go out and sink the tankers in order to make good. (facetiously)

MR. WHITE: I will watch Harold.

H.M.JR: And now Harry White tells me we are going to have enough sugar, but they get everybody excited with sugar. I am not afraid of the people in the country not doing the voluntary police work.

MR. WHITE: You might well need twenty-five thousand.

MR. HAAS: It would be worth it even if you do.

MR. WHITE: I say after all your alternatives to this - they are going in for rationing anyhow, Mr. Secretary, and they will have to go from commodity to commodity.

H.M.JR: Harry, when I was here in '33 and '34 we had bootlegging and I made the statement, "If I can't lick bootlegging I will go home." They just never had gone after

the big fellows and it was a question of watching and so forth and so on, and we did control bootlegging and we did stop it, and we got so far we even helped the Canadian Government on the thing. It can be done. Mr. Hoover couldn't do it because he went after the hillbillies and let the big racketeers go. We went after the racketeers and let the hillbillies go, but it can be done.

MR. WHITE: And the alternatives are bad. I mean, we are dealing with bad alternatives in any case.

H.M. JR.: You can lick bootlegging and you can do the rationing. The only thing I agreed with Harold Smith was, he said, "The trouble with Henderson's office, there is nobody that is an operator over there."

MR. WHITE: Harold Smith should speak. He has got operators? (Laughter)

H.M. JR.: I hear reports that Harry White got a little excited at one or two of these meetings.

MR. GASTON: I think one mistake these fellows make is that they don't try to use the existing machinery of the Government. I don't know whether you--

MR. PAUL: They don't know anything about it, Herbert.

MR. WHITE: I agree with that.

MR. GASTON: As an example, there is this sugar control thing. They are proposing to build up an enormous policing machine on sugar rationing. They borrowed Bennett, the superintendent of prisons, to organize an investigative and police force.

Now, I know that, Mr. Secretary, you have been opposed to our going out into fields that don't belong to us, but we have had sugar - the alcohol tax unit has been policing sugar for the last eight years,

and they know all about the sugar industry. That alcohol tax unit could take that sugar thing and handle the field end of it practically without any additional help or with very little.

MR. WHITE: Well, I think it is generally true of the war effort that they have not used--

MR. GASTON: Everybody wants to build a new big machine to handle every project he has got. Am I right, Harold?

MR. GRAVES: That is right.

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Prepared by Paul and Treas group
discussion at Secretary's house the
evening of April 2.

April 2, 1942

A WAR PROGRAM TO PREVENT INFLATION

Summary of Program

Indicate clearly that in the absence of bold measures all along the line, rapid inflationary price rises are bound to occur. This conclusion is emphasized by an \$11 billion increase in estimated budget expenditures for fiscal 1943. The situation requires a broad scale comprehensive program.

1. Freeze price ceilings at current levels with provisions for necessary subsequent alignments. Indicate clearly that price ceilings cannot be successfully policed over an extended period unless purchasing power is greatly curtailed.

2. Do not freeze wages. It is not necessary if prices are frozen. If any statement of labor policy is necessary, the maximum statement should be (a) that wage levels, except wages under 40 cents an hour, should not be raised during the war, (b) that equalizing adjustments may be made among wages in various industries, plants and regions, and (c) that if, despite the price freezing, the cost of basic necessities of life should rise beyond the current level, higher wages might be granted to meet this increase.

3. Pass the tax bill now before Congress quickly in its present form.

4. Indicate clearly that additional fiscal measures beyond the present tax bill will be necessary because of the excess of consumer purchasing power over available goods. Recommend that as soon as the present tax bill is out of the way Congress take up the problem of greatly reducing such purchasing power through a program of general rationing or of compulsory saving reaching all but the very lowest income groups. It should be mentioned that the magnitude of such saving would appear to be a minimum of \$5 billion a year at the beginning.

- 2 -

5. Indicate clearly that if rationing of purchasing power is feasible, compulsory saving will not be necessary. Rationing may thus enormously simplify the problem, including the elimination of the necessity of immediate action complicating the pending tax bill. Rationing may be possible without legislative action under the Second War Powers Bill.

6. A variety of other controls should also be put into operation or strengthened, including controls of instalment credit, bank credit, inventory accumulation, business capital expansion, and residential building.

Secretary Morgenthau - 2

purchased five \$25 bonds, total sales would amount to only \$4.5 billions.

4. The 40 companies shown in Table II each employed 20,000 or more persons in February. Forty percent of the persons employed in these companies were participating in payroll savings plans and the average amount deducted from their pay in February was \$9.31 or 5.2 percent. This figure is somewhat higher than the average obtaining in the 10,000 companies taken together, and is accounted for in part by the better-than-average performance of such companies as the Texas Company (64 percent of the employees participating at \$16.68 each); Chrysler Corporation (78 percent at \$11.23); Youngstown Sheet and Tube Company (75 percent at \$11.13); and General Electric Company (84 percent at \$10.93).

5. The figures appearing in the foregoing paragraphs cover only those companies that actually made reports directly to the Treasury on the operation of their plans in February. They exclude a large number of companies that have not as yet reported sales data for that month to us. It is our opinion, however, that the coverage of the tables is wide enough to permit the data to be entirely representative of the nation-wide operation of the payroll savings plan during February.

Attachments

Summary of the Operation of Payroll Savings Plans in February 1942
 (As reported to the Treasury by 10,000 companies participating in
 the plan in that month)

Size of company	Number of companies reporting	Aggregate number of employees exposed	Aggregate number of employees participating in payroll savings plans	Percentage of employees participating	Aggregate payroll of employees exposed	Aggregate amount of deductions from pay	Percentage of aggregate pay deducted	Approximate aggregate payroll of employees participating	Percentage of aggregate pay of participating employees deducted	Average deduction for employees participating in February
Under 100 employees	3,611	165,944	116,742	70.4	\$ 23,045,099	\$ 827,416	3.6	\$ 16,223,750	5.1	\$ 7.09
100 - 499 employees	4,317	1,002,026	559,137	55.8	134,876,328	3,724,817	2.8	75,260,991	4.9	6.66
500 - 999 employees	1,070	748,212	382,629	51.1	104,537,333	2,584,304	2.5	53,418,577	4.8	6.75
1,000 - 4,999 employees	823	1,607,390	786,438	48.9	255,560,660	5,572,557	2.2	124,969,163	4.5	7.09
5,000 - 9,999 employees	99	681,868	296,516	43.5	115,334,126	2,531,614	2.2	50,170,345	5.0	6.54
10,000 -19,999 employees	40	565,347	212,574	37.6	96,410,529	1,540,321	1.6	36,250,359	4.3	7.25
20,000 and over	40	2,045,326	812,847	39.7	369,797,947	7,565,474	2.0	146,809,785	5.2	9.31
Total - All companies	<u>10,000</u>	<u>6,817,111</u>	<u>3,166,879</u>	<u>46.5</u>	<u>\$1,099,562,022</u>	<u>\$24,346,963</u>	<u>2.2</u>	<u>\$511,296,140</u>	<u>4.8</u>	<u>\$ 7.69</u>

March 31, 1942

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

Operation of Payroll Savings Plans in Companies Reporting 20,000 or More
Employees for February 1942

Companies are Ranked in Order of Average Deductions in February for Employees Participating

Name of Company	Number of employees : February 28	Percent of employees participating : in February	Average wage : of employees participating : in February	Average deduction : for employees participating : in February
Texas Company.....	25,000	64	\$ 188	\$ 16.68
General Motors Corp.....	220,234	30	205	13.26
Bethlehem Steel Corp. & Subsidiaries.....	194,545	24	194	13.11
The Sperry Corp. & Subsidiaries.....	25,787	48	197	12.64
Cassaway & Ohio Lines.....	27,693	7	159	11.96
Boeing Aircraft Co.....	32,750	39	189	11.88
Chrysler Corp.....	46,960	78	236	11.83
Youngstown Sheet & Tube Co.....	26,587	75	165	11.13
The Atchafalaya, Topeka & Santa Fe Railway System	48,133	12	178	11.05
General Electric Co.....	127,050	84	203	10.93
E. I. du Pont de Nemours & Co.....	62,410	34	195	10.75
Aviation News Shipbuilding & Dry Dock Co.....	23,963	56	189	10.50
Illinois Bell Telephone Co.....	29,132	27	155	10.12
United Aircraft Corp.....	35,900	62	243	10.05
Wheeling Steel Corp.....	20,490	61	156	9.25
Union Pacific Railroad.....	49,000	66	174	8.66
Jones & Laughlin Steel Corp. & Subsidiaries..	33,600	83	166	8.64
Great Northern Railway.....	21,238	14	181	8.51
The Kroger Grocery & Baking Co.....	20,000	18	133	8.32
Louisville & Nashville Railroad.....	31,400	22	145	8.08
New York Shipbuilding Corp.....	20,451	39	228	8.02
Illinois Central System.....	35,724	6	157	7.94
Baltimore & Ohio.....	54,732	15	167	7.90
Westinghouse Electric & Manufacturing Co.....	77,570	49	196	7.64
United States Steel Corp.....	297,957	45	164	7.23
New York Telephone Co.....	39,471	70	205	7.23
Rock Island Lines.....	21,000	13	171	7.16
Colorado, Milwaukee, St. Paul & Pacific.....	30,755	17	174	7.09
Southern Railway System.....	42,127	9	164	7.08
Chicago & Northwestern Line.....	25,900	13	183	6.76
American Woolen Co.....	27,883	33	121	6.47
Warfolk & Western Railway.....	21,271	8	171	6.29
Pacific Service Corp. of New Jersey & Subsidiaries.....	20,386	48	173	5.28
Safeway Stores.....	27,363	35	131	5.23
New England Telephone & Telegraph Co.....	20,455	31	155	4.70
Consolidated Edison Co. of New York.....	32,554	59	179	4.68
Missouri Pacific Lines.....	32,000	14	190	4.64
Great Atlantic and Pacific Tea Co.....	61,083	49	133	3.87
International Shoe Co.....	32,242	31	109	3.73
New York, New Haven & Hartford Railroad Co...	23,530	12	184	3.22
Total.....	2,046,326	40	\$ 181	\$ 9.31

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Estimated employee participation	45%
Average monthly deduction per employee	\$7.69
Average percentage of pay per employee	4.8%

Analysis of Exposure to Payroll Savings Plans
March 21, 1942

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	Number exposed to payroll savings plans	Total number in the country (estimated)	Percent of total exposed
Part A - Summary by Number of Organizations Exposed			
Business organizations	-		
(1) Firms with 5,000 employees or more.....	461	497	93
(2) Firms with 500 to 4,999 employees.....	5,120	6,963	74
(3) Firms with 100 to 499 employees.....	<u>13,143</u>	<u>26,818</u>	<u>49</u>
(4) Subtotal.....	18,724	34,278	55
(5) Firms with less than 100 employees.....	<u>29,205</u>	*	*
(6) Total business organizations....	47,929	*	*
Governmental organizations.....	*	*	*
Grand total.....	<u>47,929</u>	<u>*</u>	<u>*</u>

Part B - Summary by Number of Employees Exposed			
Business organizations			
(1) Firms with 5,000 employees or more.....	8,102,794	8,369,745	97
(2) Firms with 500 to 4,999 employees.....	6,904,221	*	*
(3) Firms with 100 to 499 employees.....	<u>2,871,392</u>	*	*
(4) Subtotal.....	17,878,407	*	*
(5) Firms with less than 100 employees.....	<u>727,764</u>	*	*
(6) Total business organizations....	18,606,171	30,400,000 1/	61
Governmental organizations			
(1) Federal Government.....	397,981	1,700,000 1/	23
(2) State and local governments.....	<u>952,284</u>	<u>2,700,000</u>	<u>35</u>
(3) Total governmental organizations.....	<u>1,350,265</u>	<u>4,400,000</u>	<u>31</u>
Grand total.....	<u>19,956,436</u>	<u>34,800,000 1/</u>	<u>57</u>

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

April 2, 1942

Includes 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.

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
March 23	312	300	26,728	-
24	129	300	26,899	750
25	186	300	27,013	-
26	211	300	27,102	-
27	181	300	27,221	-
28	132	none-closed	27,089	600
29	none-closed	none-closed	27,089	-
30	357	-	26,732	-
31	118	-	26,614	-
April 1	231	-	26,383	557

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

April 2, 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.

CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 2, 1942

TO Secretary Morgenthau

FROM Mr. Hass

Subject: Current Developments in the High-grade Security Markets; Comparison of Yields of High-grade Bonds during World Wars I and II

SUMMARY

- (1) Since March 19, prices of Treasury notes have declined slightly, while prices of Treasury bonds have advanced from about $1/8$ to $1/3$ of a point (Chart I).
- (2) New York City banks increased their holdings of United States securities by \$220 millions during February (Chart II). This is the first substantial increase in many months. The Guaranty Trust Company increased its holdings of United States securities during February by \$129 millions, somewhat relaxing its preference for short-term maturities.
- (3) The movement of interest rates so far during World War II has not been greatly different from that during World War I (Chart III). From this point on in World War I, interest rates advanced sharply. It is hoped and expected that the vigorous use of monetary and other controls will prevent a repetition of this movement in World War II.
- (4) Municipal bonds have advanced sharply during the past two weeks (Chart IV). While corporate and Government securities have advanced also, they have not advanced as much as municipal bonds.

Secretary Morgenthau - 2

I. United States Government Securities

Trading in the Government security market during the past two weeks was dull and price changes during the period were slight. Little interest prevailed on either side of the market.

During the past two weeks, Treasury notes have declined $\frac{2}{32}$. Treasury bonds fluctuated within a considerably wider range. On March 24, long-term partially tax-exempt bond prices reached the highest level since December 8, but have slipped since that time (Chart I).

Since March 19, the average yield of taxable Treasury bonds, moving inversely to prices, has decreased 2 basis points, while that of partially tax-exempt bonds has decreased 3 basis points.

The following table shows price changes by maturity classes since March 19 for taxable and tax-exempt notes and bonds:

	Average price change March 19-April 1		
	Tax- exempt issues	Taxable issues	All issues

(Decimals are thirty-seconds)

Notes

1 to 3 years	- .02	- .02	- .02
3 to 5 years	$\frac{1}{2}$	- .02	- .02

Bonds

5 to 15 years to call	+ .06	+ .05	+ .06
15 years and over to call	+ .09	+ .10	+ .09

$\frac{1}{2}$ No issues outstanding.

Secretary Morgenthau - 3

II. Changes in Bank Holdings of United States Securities; Portfolio Changes of the Guaranty Trust Company of New York

Chart II shows the changes in holdings of United States securities by all commercial banks and by those inside and outside New York City. As we have often noted previously, New York City banks have bought very few United States securities since last spring. During the seven months from June 30, 1941, to January 31, 1942, New York City banks, in fact, decreased their holdings of United States securities by \$9 millions. This contrasts with an increase of \$2,012 millions for banks outside of New York City during the same period.

During the month of February, the latest period for which complete data are available, there was some reversal of this tendency. During that month, New York City banks increased their holdings of United States securities by \$220 millions. Banks outside of New York City absorbed \$457 millions of United States securities in the same month.

It is interesting to note that \$129 millions, or more than half of the increase in Government security holdings of all New York City banks during the month of February, occurred at the Guaranty Trust Company. During the previous seven months, this bank had decreased its holdings of United States securities by \$272 millions.

The increase in security holdings at the Guaranty Trust Company did not consist of the new 2-1/4's of 1952-55 sold during February. On February 28, the Guaranty Trust Company held only \$299,000 of the new issue. Guaranty did relax its preference for short maturities somewhat, however. On February 28, it held \$81 millions of securities due or first callable in the years 1947 and 1948, as contrasted with only \$13 millions of such securities on January 31, 1942.

III. Comparison of Yields of High-grade Bonds During World Wars I and II

Chart III shows the comparisons of yields of high-grade bonds in World Wars I and II. The yields shown for World

Secretary Morgenthau - 4

War II are those of partially tax-exempt Treasury bonds, while those used in World War I are high-grade railroad bonds. This is necessary because the debt of the United States prior to 1917 was very small and was held principally by national banks to secure their circulation, so that no significant quotations of United States securities are available for the earlier period. The quotations of high-grade railroad bonds, however, are sufficiently indicative of changes in interest rates during the earlier period, although they exaggerate somewhat the absolute difference in such rates.

The yield of United States securities is now (March 1942) 6 percent lower than just before the outbreak of war. At the same period in World War I (March 1917), yields of high-grade railroad bonds were 3 percent higher. There has thus been relatively little difference to date in the trends for the corresponding periods in the two conflicts.

It is to be hoped and expected that from now on, the trends will be very different. During the year from March 1917 to March 1918, the yield of high-grade railroad bonds advanced by 16 percent (from 4.50 percent to 5.23 percent). The present greater knowledge of and willingness to utilize fiscal, monetary, and direct controls should make it possible to avoid such a rise in World War II.

IV. Other Domestic High-grade Securities

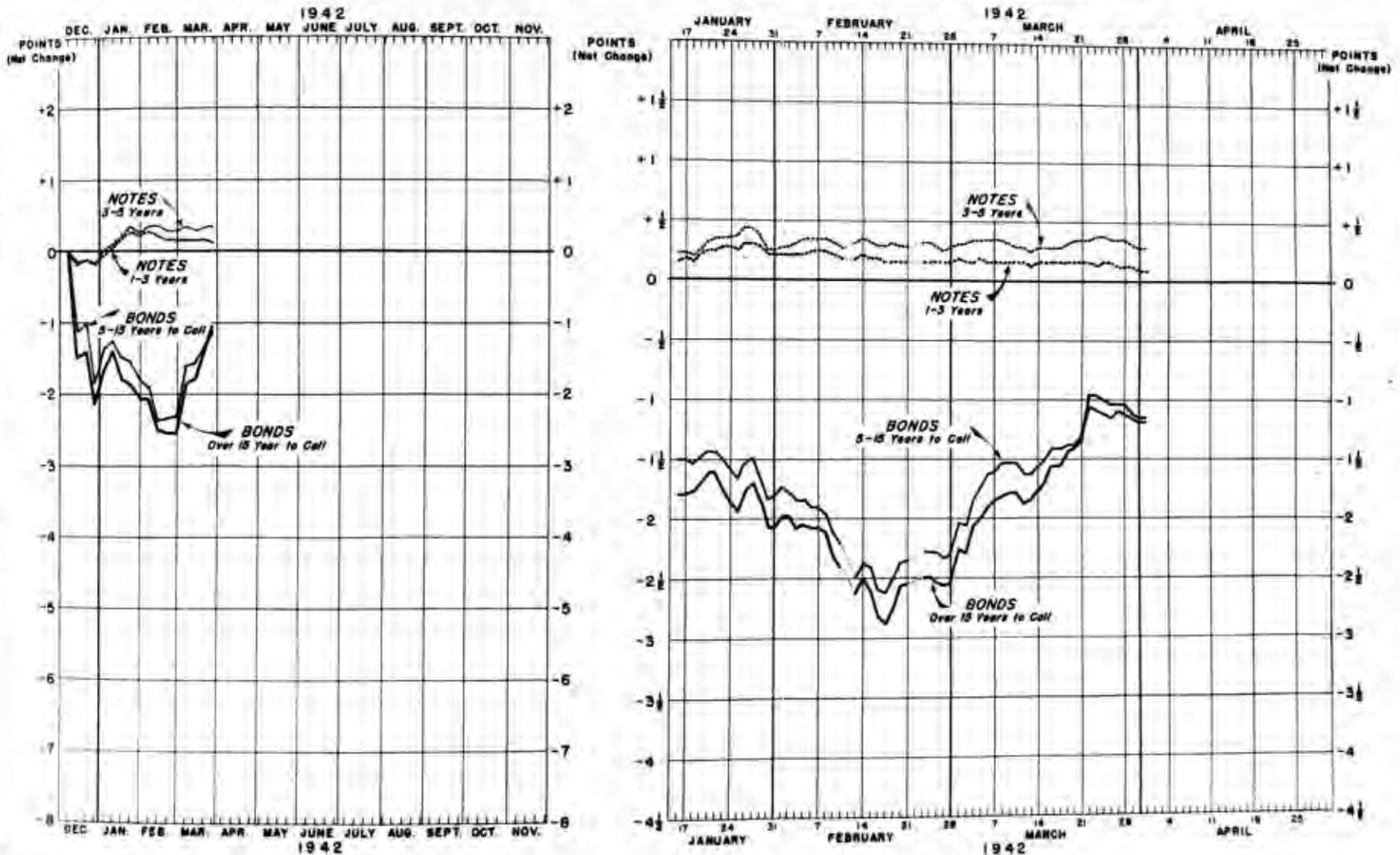
Municipal bond prices rose sharply during the last two weeks. The Dow-Jones average yield of 20 municipal bonds declined 10 basis points from 2.57 to 2.47 percent during the two weeks ending March 28 (Chart IV). During the same period the Treasury average of high-grade corporate bond yields declined (prices rose) by only 2 basis points, and the yields of taxable Treasury bonds declined (prices rose) by only 3 basis points.

The volume of new bonds publicly offered on the New York market declined sharply during the last half of March. The total for the two weeks ending March 27 was \$12.3 millions as compared with \$53.6 millions of new offerings during the two weeks ending March 13. Nevertheless the volume of new offerings was higher in March than in February, amounting to \$65.9 millions during the 4 weeks ending March 27 as compared with \$46.4 millions during the 4 weeks ending February 27.

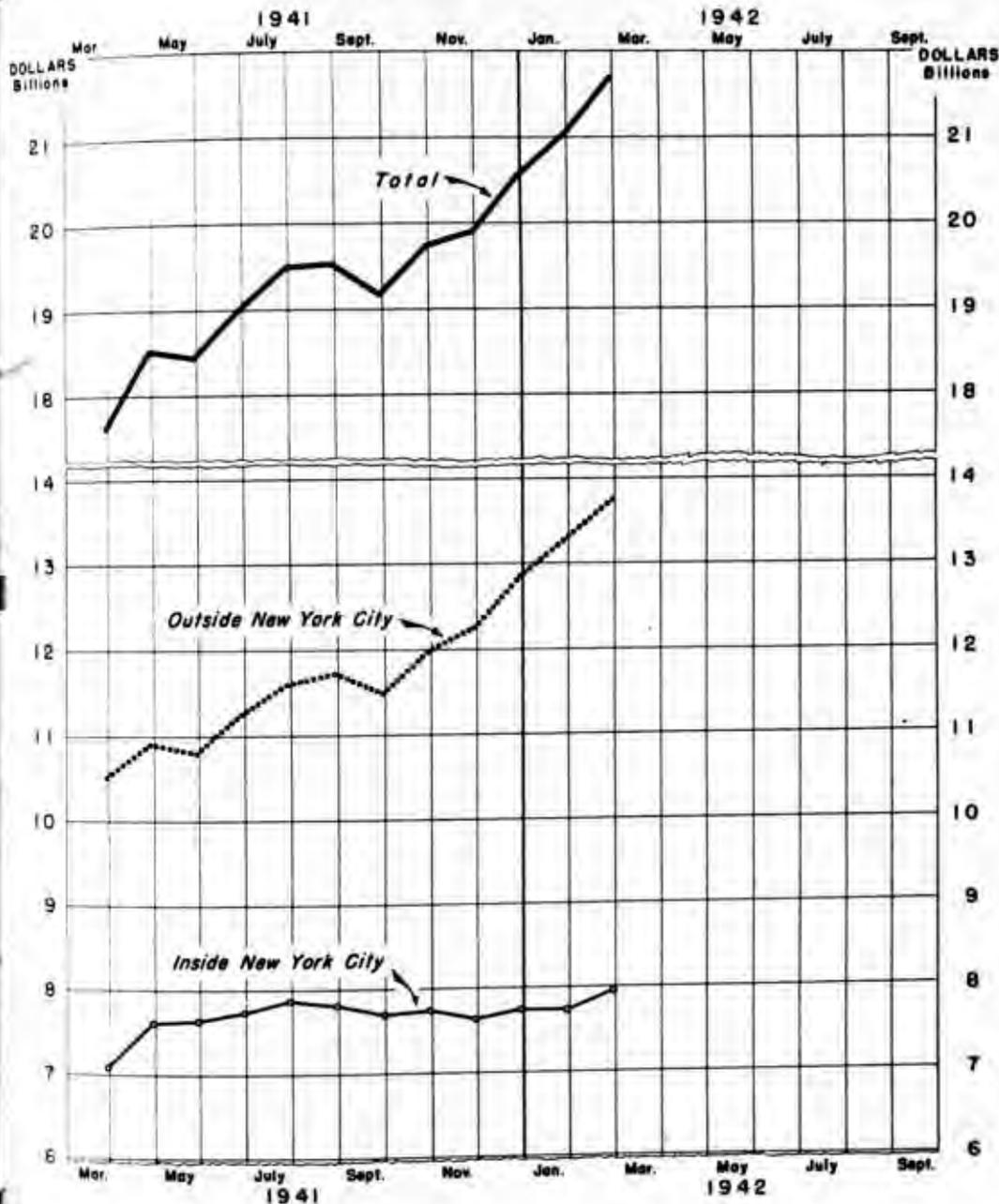
Attachments

CHANGES IN THE PRICES OF U.S. SECURITIES

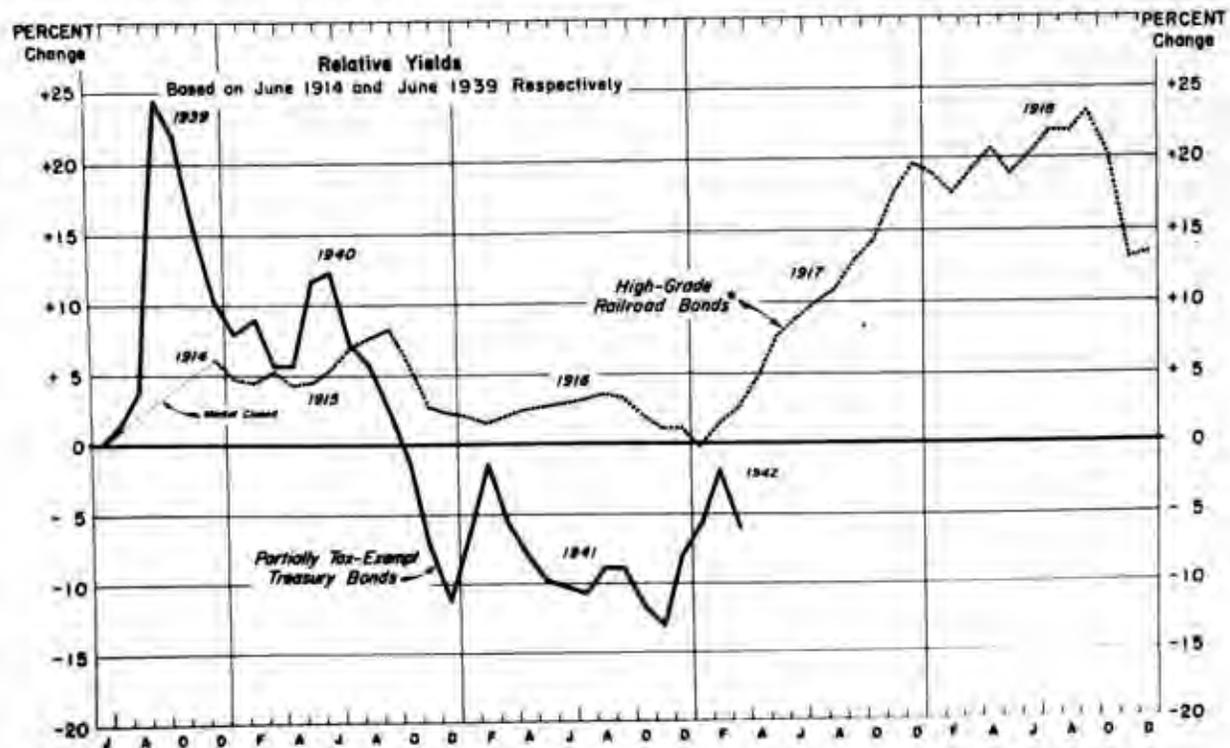
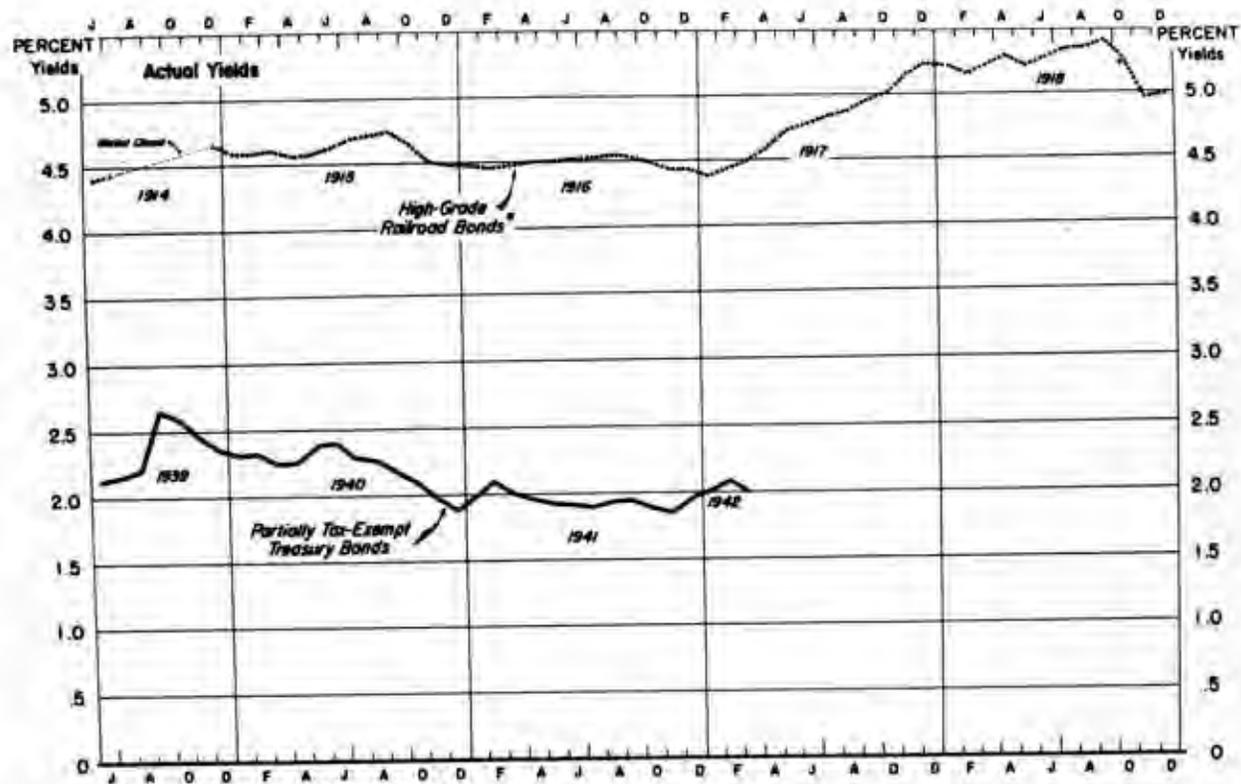
Points Plotted Represent the Difference from December 6, 1941 Price of Each Maturity Class



HOLDINGS OF MARKETABLE U.S. SECURITIES BY COMMERCIAL BANKS



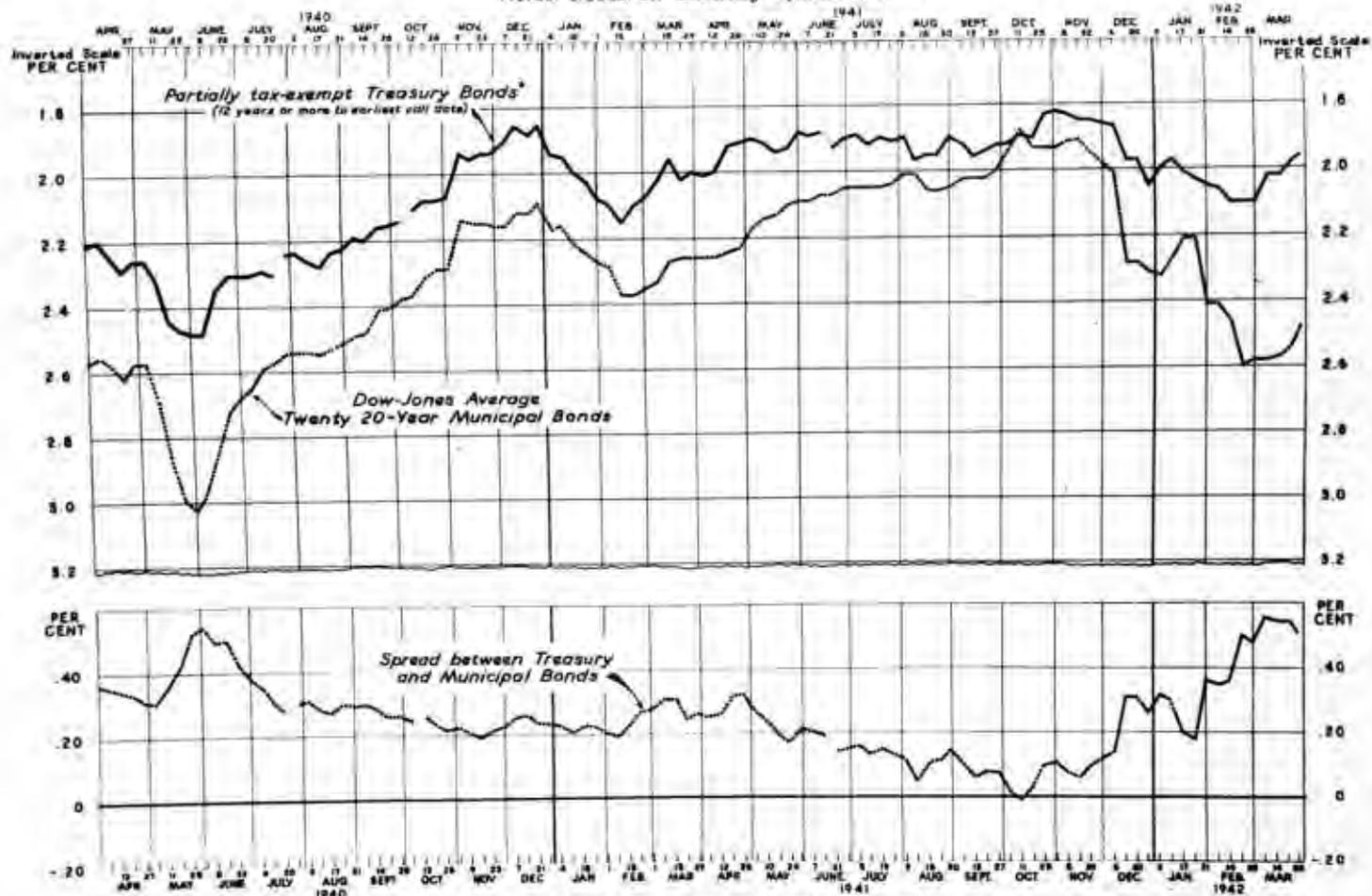
COMPARISON OF YIELDS OF HIGH-GRADE BONDS, WORLD WARS I AND II



*National Bureau of Economic Research

AVERAGE YIELDS OF LONG-TERM TREASURY AND MUNICIPAL BONDS

Yields Based on Saturday Quotations



*Break in line indicates change in composition of Long Term Treasury average

4/3/42

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Photostat to Mr. Sullivan today in accordance with Mrs. Klotz's instructions.

MEMORANDUM

April 2, 1942.

TO: The Secretary JLS

FROM: Messrs. Gaston, Thompson, and Sullivan.

April 1st, Messrs. Gaston, Thompson, Helvering and Sullivan met to discuss the future duties of Elmer Irey.

Messrs. Gaston, Thompson and Sullivan recommended that Mr. Irey be transferred to the Treasury Department as Chief Coordinator of Treasury law enforcement agencies. Commissioner Helvering approved this recommendation.

It was tentatively agreed, subject to conversations between Commissioner Helvering and Mr. Irey and Mr. Woolf, that Mr. Woolf (now Mr. Irey's assistant) be appointed Acting Chief of the Intelligence Unit and that his work in this capacity be carefully observed for a period of from three to six months to determine whether or not he could qualify as Mr. Irey's successor as Chief of this Unit.

This morning Commissioner Helvering phoned that he had held the conversations and wished to proceed to appoint Woolf Acting Chief of this Unit. Unless you object we shall proceed to do this at once.

OK, hmh



TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON

OFFICE OF THE DIRECTOR

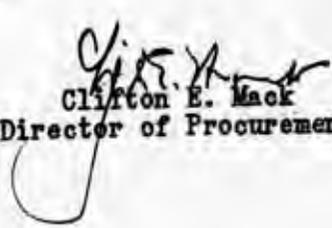
April 2, 1942

MEMORANDUM TO THE SECRETARY:

John Loeb informed me this afternoon he had a telephone call from the office of Assistant Secretary of War Lovett (Air Service), advising that his application for a commission, filed some time before coming with us but suspended as a result of the physical examination, has been revived, and it was indicated that he might be called for service. He explained that the commission for which he is being considered has not been indicated.

Loeb asked me to let him have a letter of release today, and I can do so as we now have a man who is acting as his assistant who would be qualified to take over his duties.

This is for your information.


Clifton E. Mack
Director of Procurement



FEDERAL RESERVE BANK
OF NEW YORK

April 2, 1942.

CONFIDENTIAL

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

I am enclosing our compilation for the week ended March 25, 1942, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,

/s/ Robert G. Rouse

Robert G. Rouse,
Vice President.

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

Enclosure

Copy:vw:4-4-42

ANALYSIS OF BRITISH AND FRENCH ACCOUNTS

(In Millions of Dollars)

Week Ended March 25, 1942

SECRET

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT)							BANK OF CANADA							
	DEBITS			CREDITS				DEBITS			CREDITS				Net Incr. (+) or Decr. (-) in Balance
	Total Debits	Gov't Expenditures (a)	Other Debits	Total Credits	Proceeds of Sale of Gold	Securities (Official) (b)	Other Credits (c)	Total Debits	Gov't Expenditures (d)	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits		
First year of war (8/29/39-8/28/40)*	1,793.2	605.6	1,187.6	1,828.2	1,356.1	52.0	420.1	+ 35.0	866.3 (a)	416.6 (e)	449.7	1,095.3 (a)	900.2	195.1 (e)	
War period through December, 1940	2,792.3	1,425.6	1,356.7	2,793.1	2,109.5	108.0	575.6	+ 10.8	878.3	421.4	456.9	1,098.4	900.2	198.2	+ 220.1
Second year of war (8/29/40-8/27/41)**	2,203.0	1,792.2	410.8	2,189.8	1,193.7	274.0	722.1	- 13.2	38.9	4.8	34.1	8.8	-	8.8	- 30.1
1941															
Aug. 28 - Oct. 1	140.9	105.9	35.0	176.2	20.1	2.0	154.1	+ 35.3	0.3	-	0.3	0.5	-	0.5	+ 0.2
Oct. 2 - Oct. 29	309.0	77.3	31.7	150.9	0.8	-	150.1	+ 41.9	0.3	-	0.3	0.3	-	0.3	-
Oct. 30 - Dec. 3	156.1	111.6	44.5	134.6	-	1.0	133.6	- 21.5	16.1	-	16.1	0.4	-	0.4	- 15.7
Dec. 4 - Dec. 31	88.4	69.6	18.8	51.5	-	-	51.5	- 36.9	0.8	-	0.8	0.4	-	0.4	- 0.4
1942															
Jan. 1-Jan. 28	102.3	73.2	29.1	69.3	-	0.5	68.8	- 33.0	0.2	-	0.2	0.4	-	0.4	+ 0.2
Jan. 29-Feb. 25	87.2	63.8	23.4	57.2	-	1.0	56.2	- 30.0	-	-	-	0.3	-	0.3	+ 0.3
WEEK ENDED:															
March 4	39.3	23.7	15.6	59.2	-	-	59.2	+ 19.9	0.1	-	0.1	-	-	0.1	-
11	16.9	15.9	1.0	8.2	-	-	8.2	- 8.7	-	-	-	0.1	-	0.1	+ 0.1
18	24.3	19.3	5.0	26.3	-	-	26.3	+ 2.0	-	-	-	0.1	-	0.1	+ 0.1
25	21.1	14.2	6.9	18.8 (f)	-	-	18.0 (g)	- 2.3	-	-	-	0.1	-	0.1	+ 0.1

Average Weekly Expenditures Since Outbreak of War

France (through June 19, 1940) \$19.6 million

England (through June 19, 1940) 27.6 million

England (since June 19, 1940) 39.3 million

*For monthly breakdown see tabulations prior to April 23, 1941.

**For monthly breakdown see tabulations prior to October 8, 1941.

(See attached sheet for other footnotes)

Transfers from British Purchasing Commission to Bank of Canada for French Account

Week ended March 25

Cumulation from July 6, 1940

162.7

million

million

- (a) Includes payments for accounts of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply Timber Control, and Ministry of Shipping.
- (b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of our securities through December, 1940 amounted to \$334 million.
- (c) Includes about \$85 million received during October, 1939 from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts since October, 1939 apparently represent the acquisition of proceeds of exports from the sterling area and other currently accruing dollar receipts.
- (d) Includes payments for account of French Air Commission and French Purchasing Commission.
- (e) Adjusted to eliminate the effect of \$20 million paid out on June 26, 1940 and returned the following day.
- (f) Includes \$6.8 million received on March 25, but not finally credited until March 26.
- (g) Includes (1) \$2.3 million transferred from accounts of British authorized banks.
(2) \$5.4 million presumably representing proceeds of wool exports to U. S.

STATEMENTS OF CURRENT AND ACCUMULATED ACCOUNTS
(In Millions of Dollars)

Week Ended March 25, 1942

Strictly Confidential

PERIOD	DEBITS								CREDITS								Net Incr. (+) or Decr. (-) in Balance	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in Balance
	Total Debits	Transfers to Official British A/C		Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C			Other Credits	Total	Transfers to Official British A/C	Other	Total	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in Balance								
		Other Debits	Total			For Own A/C	For French A/C	Other																
First year of war (8/29/39-8/28/40)*	323.0	16.6	306.4	504.7	412.7	20.9	38.7	32.4	+189.7	11.2	3.9	27.3	36.1	30.0	6.1	+ 4.9								
War period through December, 1940	477.2	16.6	460.6	707.4	534.8	20.9	110.7	41.0	+230.2	57.9	14.5	43.4	62.4	30.3	12.3	+ 4.5								
Second year of war (8/29/40-8/27/41)**	460.4	-	460.4	462.0	246.2	3.4	123.9	88.5	+ 1.6	72.2	16.7	55.5	81.2	62.9	18.3	+ 9.0								
Aug. 28 - Oct. 1, 1941	23.1	-	23.1	22.2	21.2	-	-	31.0	+ 29.1	10.7	0.5	10.2	2.8	2.1	0.7	- 7.9								
Oct. 2 - Oct. 29, 1941	27.4	-	27.4	19.7	17.9	-	-	7.8	- 17.7	8.2	5.5	2.7	8.0	5.9	2.1	+ 0.2								
Oct. 30 - Dec. 3, 1941	52.8	0.1	52.7	32.5	19.3	-	-	13.2	- 20.3	10.3	6.9	3.4	11.6	9.0	2.6	+ 2.3								
Dec. 4 - Dec. 31, 1941	47.7	-	47.7	22.2	17.3	-	-	4.9	- 25.5	3.9	1.8	2.1	2.8	0.2	2.6	- 1.1								
1942																								
Jan. 1 - Jan. 28, 1942	39.5	-	39.5	33.0	27.0	-	-	6.0	- 6.5	4.5	-	4.5	10.8	-	10.8	+ 6.3								
Jan. 29 - Feb. 25, 1942	36.1	-	36.1	35.7	12.4	-	-	23.3	+ 1.6	8.4	5.3	3.1	1.6	-	1.6	- 6.8								
WEEK ENDED:																								
March 4	8.1	-	8.1	52.4	2.6	4.3	-	15.5	+ 14.3	2.1	-	2.1	0.4	-	0.4	- 1.7								
11	2.9	-	2.9	18.4	5.2	-	-	13.2	+ 15.5	2.0	-	2.0	0.1	-	0.1	- 1.9								
18	9.5	-	9.5	7.5	3.3	-	-	4.2	- 2.0	1.3	-	1.3	0.2	-	0.2	- 1.1								
25	11.9	-	11.9	8.3	0.2	3.4	-	4.7	- 3.6	0.1	-	0.1	0.5	-	0.5	+ 0.4								

Weekly Average of Total Debits Since Outbreak of War
through March 25, 1942 \$ 7.8 million

* For monthly breakdown see tabulations prior to April 23, 1941.
** For monthly breakdown see tabulations prior to October 8, 1941.

UNIVERSAL TRADING CORPORATION

ARCHIE LOCHHEAD
PRESIDENT630 FIFTH AVENUE
NEW YORK, N. Y.

April 2nd, 1942

My dear Mr. Secretary:

As requested, I have forwarded the message conveyed in your letter of April 1st, 1942, to Mr. K. P. Chen at Chungking, and can assure you that he will be greatly gratified to receive this expression of your friendly sentiments.

Sincerely yours,



Archie Lochhead.

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

APR 1 1942

My dear Mr. Lochhead:

Thank you for forwarding to me in your letter of March 24, 1942 the message from Mr. K. P. Chen. I shall be glad if you will convey to him for me the following message:

"Your kind message informing me that the Universal Trading Corporation has been authorized to hand over to the Export Import Bank the last instalment in payment of the Woodoil loan was conveyed to me by Mr. Lochhead. The promptness with which China has met her obligations under this loan not only bears witness to the good faith of your Government but is further evidence of why you personally are held in deep respect by members of the United States Government."

Sincerely yours,

(Signed) E. Worsathhoda SIV

Secretary of the Treasury.

Mr. Archie Lochhead,
Universal Trading Corporation,
630 Fifth Avenue,
New York, New York.

*n.m.c. file
copies to D.W. White's office*

ISB/ofs
3/31/42

[Signature]
FILE COPY

UNIVERSAL TRADING CORPORATION

ARCHIE LOCHHEAD
PRESIDENT630 FIFTH AVENUE
NEW YORK, N. Y.

March 24th, 1942

My dear Mr. Secretary:

We have just received a cable from Mr. K. P. Chen in Chungking, requesting that the following personal message be conveyed to you:

"I AM HAPPY TO INFORM YOU THAT THE UNIVERSAL TRADING CORPORATION HAS BEEN AUTHORIZED TO HAND OVER TO THE EXPORT IMPORT BANK THE LAST INSTALMENT IN REPAYMENT OF THE WOODOIL LOAN OF FEBRUARY EIGHTH 1939 STOP ALTHOUGH ACCORDING TO THE TERMS OF THE AGREEMENT REPAYMENT NEED NOT BE COMPLETED UNTIL JANUARY FIRST 1944 COMMA SUFFICIENT FUNDS HAVE ACCUMULATED TO ENABLE THE UNIVERSAL TO DISCHARGE ITS OBLIGATION NOW STOP I WISH TO TAKE ADVANTAGE OF THIS OPPORTUNITY TO THANK YOU FOR THE GREAT PLEASURE WHICH OUR ASSOCIATION HAS GIVEN ME AND TO TELL YOU THAT IT GIVES ME REAL SATISFACTION TO HAVE BEEN ABLE TO CARRY OUT OUR PROMISE TO YOU."

For your information, we have simultaneously received instructions from Chungking to call a meeting of our Board to authorize the payment of the outstanding balance amounting to \$3,500,000. The funds for this repayment are to come out of the accumulated proceeds of the sale of wood oil imported by us under the first loan of \$25,000,000 referred to above.

Yours sincerely,


Archie Lochhead.

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

100-277

OFFICE OF LEND-LEASE ADMINISTRATION
FIVE-FIFTEEN 22d STREET NW,
WASHINGTON, D. C.

E. R. Stebbins, Jr.
Administrator

April 2, 1942

My dear Mr. Secretary:

Attached is a copy of the Russian schedule which I promised to send you following our telephone conversation yesterday.

You asked me a number of questions concerning my advance knowledge of ships to be made available at Philadelphia, the responsibility of the Lend-Lease Administration in following railroad car shipments from the plants to the ports, and the progress of the new shipping set-up. Since our conversation I have carefully checked the various points in our discussion and am pleased to give you the answers more specifically and correctly than I did over the telephone as I did not then have all the information before me.

I. Advance Notice of Ships

For some time the Maritime Commission and later the War Shipping Administration have submitted estimates of the number of ships to be made available during a calendar month for Russian cargo. The actual number of ships available fell so far below estimates that everyone connected with the Russian program was completely baffled. In December the situation, as a result of Pearl Harbor, was chaotic because of the stoppage of all loading, the seizure by the Army of cargo already on ships, and the inward movement of freight becoming embroiled with that moving to ports. The congestion, uncertainties and lack of direction in all phases of shipping during the December crisis created a condition which required weeks before any order was established.

The ships available in January and February were about one-half of those promised by the War Shipping Administration, consequently, there was a complete loss of faith in future estimates of the War Shipping Administration and general discouragement on the part of the procurement agencies, the War Production Board, ourselves, and especially the Russians. During this time the port of Philadelphia was selected in preference to Boston for Russian shipments, and during the latter part of February and the first of March, to the surprise and astonishment of the Russians, the procurement agencies and ourselves, an extraordinary number of ships suddenly appeared in Philadelphia and there went out a frantic call for freight. In selecting the Philadelphia port, there was an apparent failure to realize the inadequacy of the rail facilities to handle the required volume of traffic. Furthermore, the railroads were given no advance information nor asked to prepare for the extra volume of freight.



The Honorable
The Secretary of the Treasury

Page 2
April 2, 1942

From these facts the following conclusions can be drawn:

1. The unreliability of previous estimates of ships upset all plans for the efficient and orderly movement of freight.
2. Lack of co-ordination between the various agencies connected with shipping prevented the development of a well conceived plan of operation.
3. The sudden appearance of a large number of ships, with prospects of greater numbers, following a period of unrealized estimates, created a temporary chaotic condition.

II. Responsibility of Lend-Lease in Expediting Rail Freight

In the early stages of the protocol agreement, when only a small part of the promised Russian shipments were available and those principally of a few individual items, the Lend-Lease Administration, in the absence of anyone else to assume the responsibility, acted as co-ordinator of traffic by means of a weekly conference with the Maritime Commission, the procurement agencies and the Russians. In early December, by agreement, the traffic control branch of the War Department was given supervision over the routing of cargo for Russian ships, but this control did not adequately serve, principally because of

1. The immediate complications ensuing after Pearl Harbor
2. The uncertain schedules set up by the Maritime Commission
3. The equally uncertain forecasts of available cargo.

Just prior to the development of congestion in Philadelphia, a daily committee was set up at General Dillon's suggestion, including the War Department, War Shipping Administration, the Russians and Lend-Lease, in an attempt to regulate the traffic flow to the port in conformity with the schedule of ships. The work of this group was nullified primarily because of the inadequacy of rail facilities at Philadelphia to take care of the large volume of freight. The Lend-Lease Administration does not think that car freight expediting or control of rail shipments is its responsibility. It belongs primarily to the procurement agencies acting in conjunction with the Traffic Control branch of the War Department. The procurement agencies have all the facts in regard to contracts, delivery dates, and receive

The Honorable
The Secretary of the Treasury

Page 3
April 2, 1942

notices of shipments. The Lend-Lease Administration does feel that it has a responsibility for compiling accurate forecasts of cargo in advance for the purpose of securing proper allocation of ship space. In assuming this responsibility it must, of course, assume the corresponding responsibility of seeing that the forecasts are corrected to the extent that production schedules are not maintained. On the other hand, it would be wrong for Lend-Lease Administration to create a large staff for the purpose of expediting or regulating traffic flow to the ports when competent existing traffic organizations can, under proper coordination, do the job. Such coordination is what is expected from the new shipping control plan.

III. Progress under the New Shipping Control Plan

A group consisting of representatives of the War Department, War Shipping Administration, Office of Defense Transportation, and British Ministry of War Transport has been established and is now working. Its first function is to secure adequate and accurate information as to the current situation and future traffic needs at each port. A system of accurate reports is being established by the committee this week. Secondly, the other procurement agencies have agreed to work under the administrative direction of Colonel Williamson, in charge of all War Department routing, in order to accomplish timing of arrival of different types of cargoes at the piers to enable proper ship-loading and proper dispatch. If accurate information is promptly available through the procurement agencies, as well as accurate forecasts of available ships, and the proper ports are selected for loading, this group has an excellent chance of normalizing the entire Russian shipping program. I understand that one of the difficulties they are encountering is a lack of current accurate information from the procurement agencies as to what is available for shipment on any given day against contracts. Without such accurate information the control of the machinery will not work.

We have a mammoth problem facing us at present in that twice as much ship tonnage is scheduled to load in the six weeks from March 15 to April 30 as was loaded in the six weeks from February 1 to March 15. Except for a few items such as military

The Honorable
The Secretary of the Treasury

Page 4
April 2, 1942

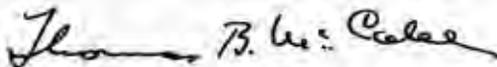
trucks, there is no surplus of Russian protocol cargo awaiting ship space and there is great need of speed on the part of the procurement agencies in rushing cargo to the ports, especially the heavy types like iron, steel and other metals.

It is very desirable to secure allocation of steel and other metals for Russian account in sufficient quantity to produce a bank against which the ships for Russia can draw, thus avoiding delays awaiting bottom cargo. This has been done for the British and such a program should be worked out for the Russians.

As a result of the conference in your office a few weeks ago, followed by the President's directive in giving Russian shipments the highest priority, there has been an accelerated effort in all directions in expediting production and deliveries. I feel that the presently constituted group have an excellent chance of success provided they are given the full support of the procurement agencies, the War Production Board, and ourselves.

As to the broader problem of transportation we discussed on the telephone, this is a subject I would like to explore with you more fully.

Sincerely yours,



Thomas B. McCabe
Acting Administrator

The Honorable
The Secretary of the Treasury

SECRET
281

SCHEDULE OF AVAILABILITY OF MATERIAL AND
SHIPPING FOR U.S.S.R. - AS OF FEBRUARY 28, 1942

Office of Lend-Lease Administration

SECRET

SCHEDULE OF AVAILABILITY OF MATERIAL

AND SHIPPING FOR U.S.S.R.

As of February 28, 1942

Tabular Statement of Availability and Shipments

Graphic Summary of Availability and Shipments

Statement of Russian Shipping

Shipments of Important Non-Protocol Items

OFFICE OF LEND-LEASE ADMINISTRATION

**SHIPMENTS AND AVAILABILITY OF MATERIAL
UNDER THE MOSCOW PROTOCOL**

	Actual Shipments to Feb. 28	Made Available to Feb. 28	Scheduled to be Available-Cumulative				Protocol Commitment
			March 31	April 30	May 31	June 30	
Planes - Bomber	168	241	418	530	642	754	900
Planes - Pursuit	272	316	420	520	620	720	900
Tanks - Medium	158	402	664	818	972	1,125	1,125
Tanks - Light	287	357	686	832	978	1,125	1,125
Anti-Aircraft Guns	4	4	4	4	4	4	152
Anti-Tank Guns	0	0	63	63	63	63	756
Scout Cars	1,496	2,198	3,198	4,198	5,000	5,000	5,000
Trucks ^{1/}	12,213	34,494	48,234	61,594	74,280	90,000	85,600
Field Telephones	14,672	14,672	31,672	66,572	99,372	108,000	108,000
Field Tel. Cable (miles) ^{2/}	146,000	167,174	231,174	Not yet scheduled.			562,500
Underwater Cable (km)	0	0	0	55	285	450	450
Submarine Cable (km)	0	0	175	423	729	929	900
Aluminum (tons) ^{3/}	2,100	7,500	9,450	11,980	14,510	17,360	18,000
Duraluminum (tons) ^{4/}	1,050	2,910	3,411	5,466	5,936	5,936	4,500
Nickel (tons)	791	1,200	1,400	1,400	1,400	1,400	1,200
Molybdenum (tons)	2,866	3,800	3,800	3,800	3,800	3,800	2,700
Rolled Brass (tons)	10,693	23,160	31,700	36,700	43,500	45,000	45,000
Zinc (tons)	2,759	4,875	6,750	6,750	6,750	6,750	6,750
Copper Products (tons)	1,288	1,680	2,005	2,355	2,755	2,995	2,700
Ferrosilicon (tons)	576	900	1,800	2,100	2,400	2,700	2,700
Ferrocrome (tons)	283	600	1,200	1,400	1,600	1,800	1,800
Armor Plate (tons)	0	0	4,000	7,400	9,000	9,000	9,000
Hard Alloys & Cutting Tools	\$37,000		Schedule not yet submitted.				900
High Speed Steel (tons)	8	280	580	900	1,150	1,400	900
Tool Steel (tons)	0	200	820	1,670	3,120	4,570	4,500
Calibrated Steel (tons)	0	2,000	4,000	14,000	24,000	34,000	0
Hot Rolled Steel (tons)	0	0	18,000	43,000	57,000	67,000	63,000
Steel Billets (tons) ^{5/}	102	2,000	10,000	34,000	54,000	72,000	72,000
C. R. Steel Strip (tons) ^{6/}	259	8,000	18,000	36,000	52,000	63,000	72,000
C. R. Steel Sheet (tons) ^{6/}	437	6,200	18,200	43,200	59,160	59,160	72,000

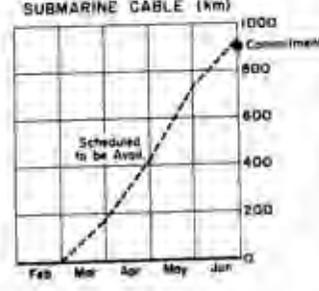
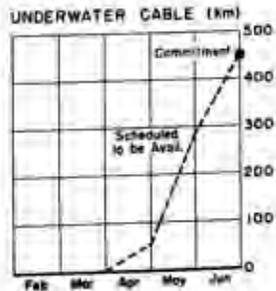
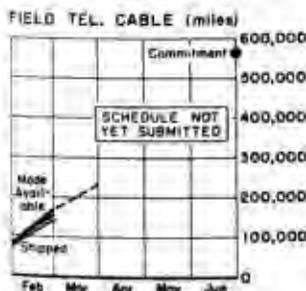
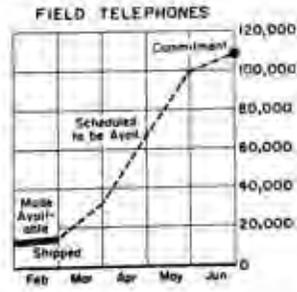
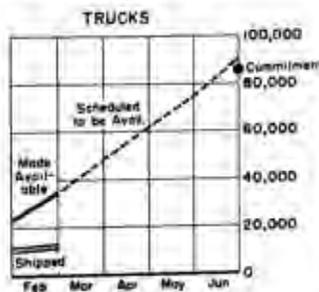
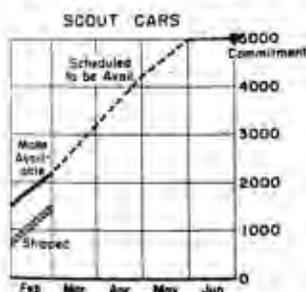
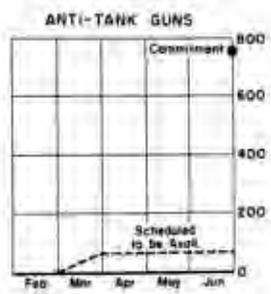
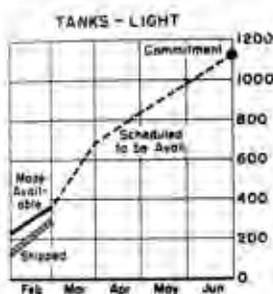
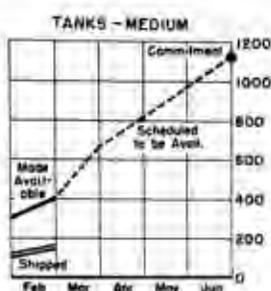
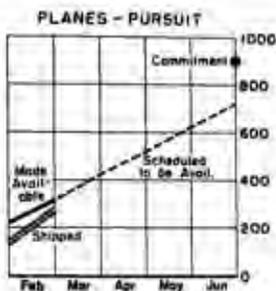
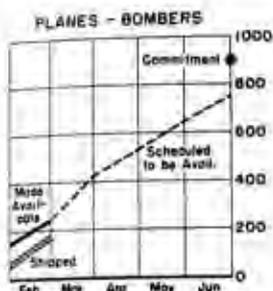
- ^{1/} Deliveries are dependent upon erection of assembly plants abroad and shipping facilities.
^{2/} Schedules for April, May, June are dependent upon Munitions Assignment Board.
^{3/} Deficiency results from diversion at request of U.S.S.R. of part of ingot commitment to fabricated products.
^{4/} Includes products diverted from aluminum commitment.
^{5/} This schedule will cause serious interference with Army shell steel program.
^{6/} Additional tonnage is not scheduled because of lack of requisitions from U.S.S.R.

SHIPMENTS AND AVAILABILITY OF MATERIAL
UNDER THE MOSCOW PROTOCOL

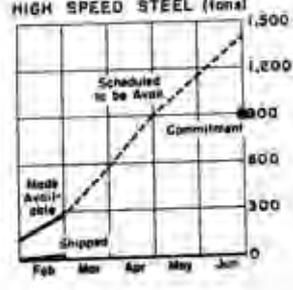
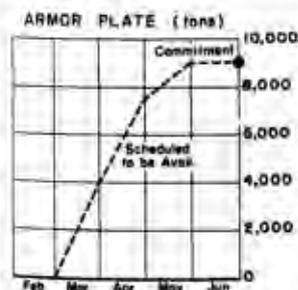
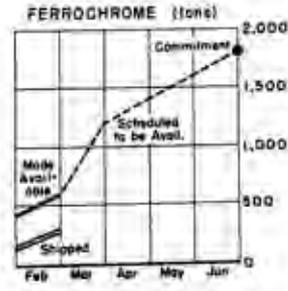
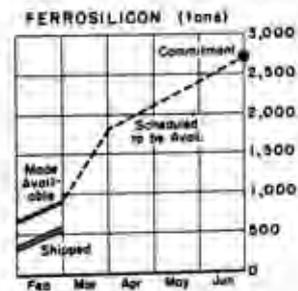
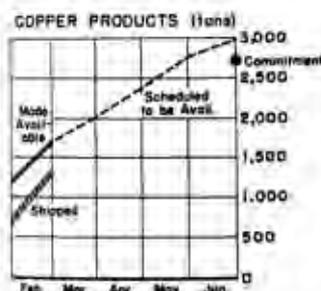
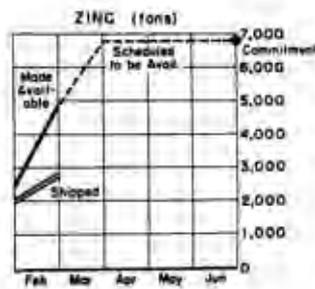
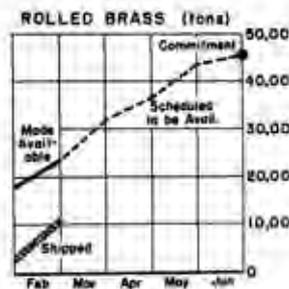
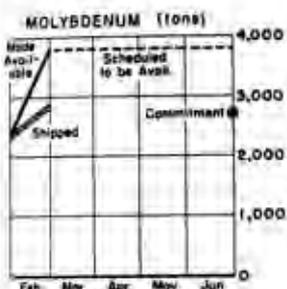
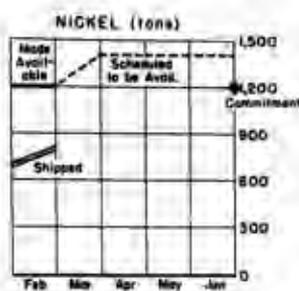
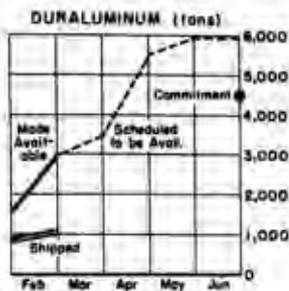
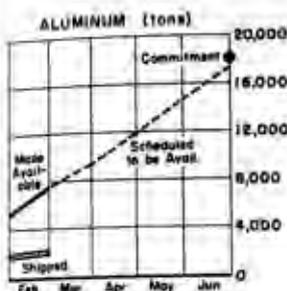
	Actual Shipments to Feb. 28	Made Available to Feb. 28	Scheduled to be Available-Cumulative				Protocol Commitment
			March 31	April 30	May 31	June 30	
Tinplate (tons)	3,436	20,000	24,000	28,000	32,000	36,000	36,000
Steel Wire (tons) 7/	0	500	7,500	22,500	37,500	45,500	63,000
Steel Wire Rope (tons)	0	0	0	2,500	6,500	10,800	10,800
Steel Alloy Tubes (tons)	0	0	0	900	1,800	1,800	1,800
Stainless Steel Wire (tons)	0	10	20	40	110	180	180
Sickel Chrome Wire (tons)	109	120	140	160	180	180	180
Barbed Wire (tons)	16,448	21,200	25,700	30,400	35,100	40,000	36,000
Toluol (tons)	4,316	6,320	8,320	11,547	14,774	18,000	18,000
T.N.T. (tons)	2,020	3,050	5,000	7,000	10,000	12,000	10,000
Phenol (tons)	955	1,963	2,783	3,533	4,283	5,033	4,900
Petroleum Products (tons)	107,000 109	140,000	160,000	180,000	200,000	220,000	180,000
Ethylene Glycol (tons)	221	775	960			1,080	1,080
Sodium Bromide (tons)	203	300	433	588	744	900	900
Phosphorus (tons)	434	1,146	1,300	1,300	1,300	1,300	900
Elbutyl Phthalate (tons)	31	250	1,250	1,800	2,050	2,200	2,200
Dimethylaniline (tons)	179	300	530	760	990	1,200	1,200
Diphenylamine (tons)	0	222	500	600	750	900	900
Colloxylin (tons)	475	732	1,780	2,234	2,688	2,741	2,700
Machine Tools			Schedule not yet submitted.				
Electric Furnaces			"	"	"	"	
Forging & Press Equip.			"	"	"	"	
Misc. Ind. Equipment			"	"	"	"	
Abrasives			"	"	"	"	
Graphite Electrodes (tons)	277	534	888	1,429	1,997	2,709	3,600
Sole Leather (tons) 8/	2,637	3,197	4,697	6,197	7,697	9,197	13,500
Army Boots (1,000 prs.)	559	664	1,000	1,200	1,400	1,600	1,600
Army Cloth (1,000 yds.)	715	1,192	1,192	1,192	1,192	1,192	1,000
Arming of U.S.S.R. Merchant Ships	2	7	9			13	13
Armament for 3 Ice-breakers	4	4	4	4	4	4	3
Packard Engines for Torpedo Boats	100	100	100	100	100	100	50

7/ Additional tonnage is not scheduled because of lack of requisitions from U.S.S.R.
8/ March-June schedules are minima.

AVAILABILITY OF MATERIAL UNDER MOSCOW PROTOCOL CUMULATIVE SINCE OCTOBER 1, 1941



AVAILABILITY OF MATERIAL UNDER MOSCOW PROTOCOL CUMULATIVE SINCE OCTOBER 1, 1941

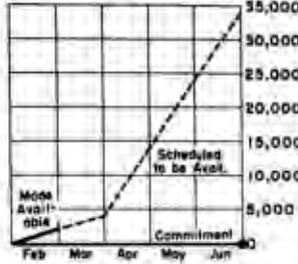


AVAILABILITY OF MATERIAL UNDER MOSCOW PROTOCOL CUMULATIVE SINCE OCTOBER 1, 1941

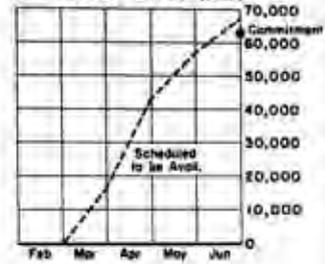
TOOL STEEL (tons)



CALIBRATED STEEL (tons)



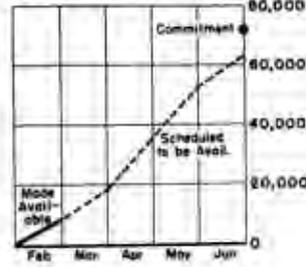
HOT ROLLED STEEL (tons)



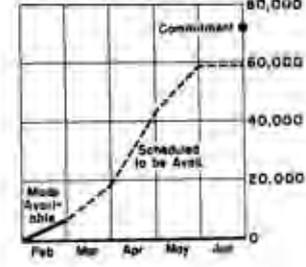
STEEL BILLETS (tons)



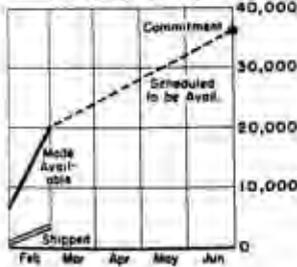
C. R. STEEL STRIP (tons)



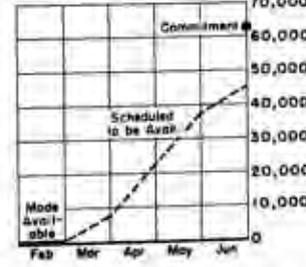
C. R. STEEL SHEET (tons)



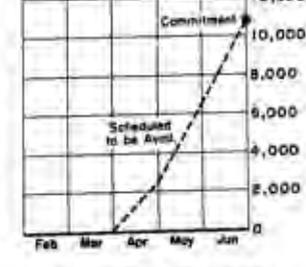
TINPLATE (tons)



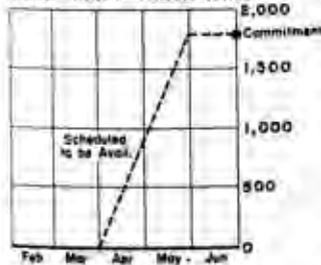
STEEL WIRE (tons)



STEEL WIRE ROPE (tons)



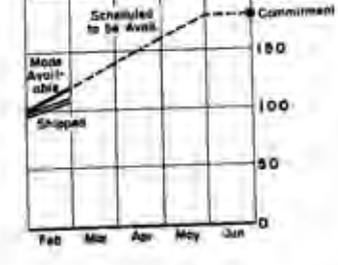
STEEL ALLOY TUBES (tons)



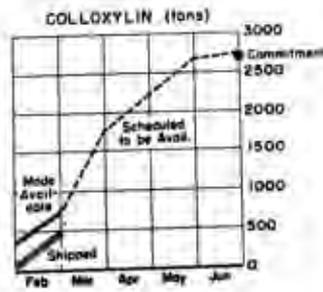
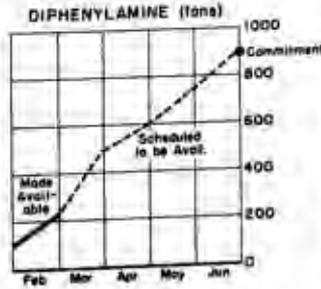
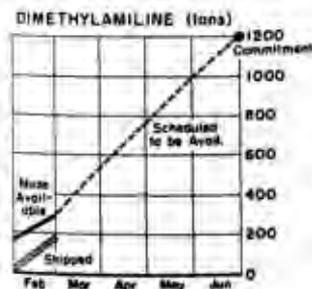
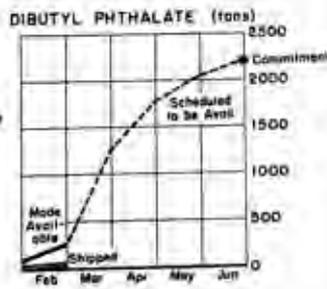
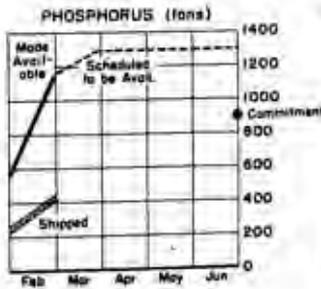
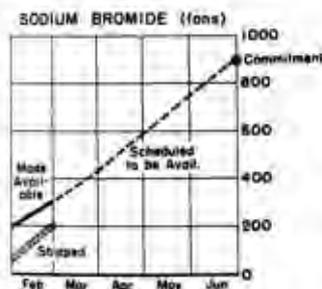
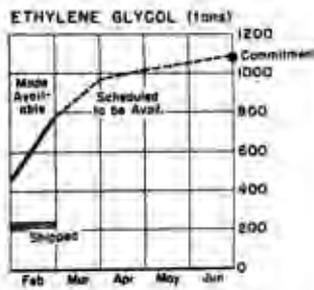
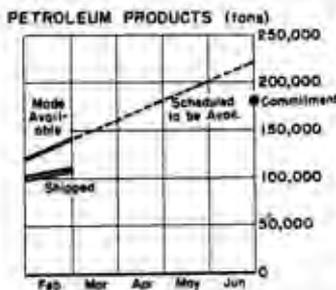
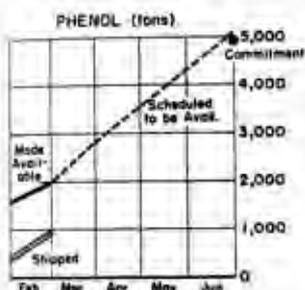
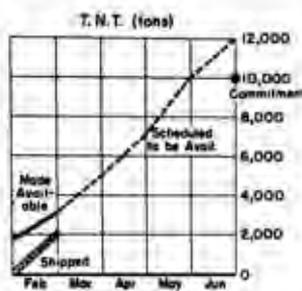
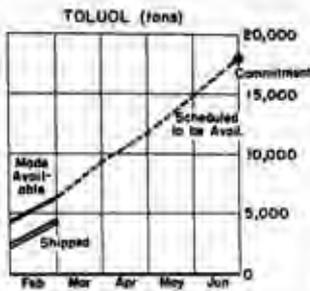
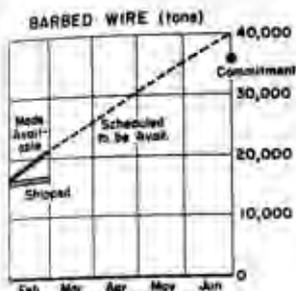
STAINLESS STEEL WIRE (tons)



NICKEL CHROME WIRE (tons)



AVAILABILITY OF MATERIAL UNDER MOSCOW PROTOCOL CUMULATIVE SINCE OCTOBER 1, 1941



AVAILABILITY OF MATERIAL UNDER MOSCOW PROTOCOL

CUMULATIVE SINCE OCTOBER 1, 1941

MACHINE TOOLS



ELECTRIC FURNACES



FORGING & PRESS EQUIP.



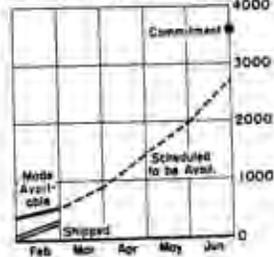
MISC. INDUSTRIAL EQUIP.



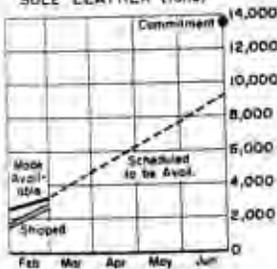
ABRASIVES (\$1000)



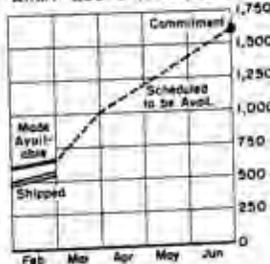
GRAPHITE ELECTRODES (tons)



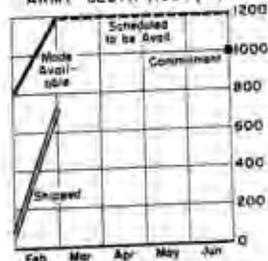
SOLE LEATHER (tons)



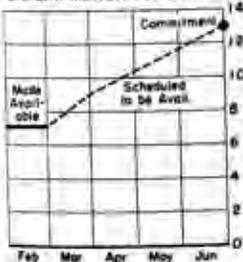
ARMY BOOTS (1000pairs)



ARMY CLOTH (1000 yds)



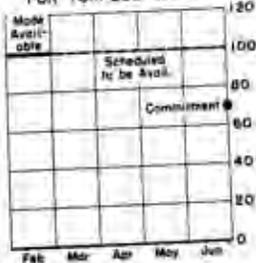
ARMING OF U.S.S. MERCHANT SHIPS



ARMAMENT FOR 3 ICE-BREAKERS



PACKARD ENGINES FOR TORPEDO BOATS



SECRET

STATEMENT OF RUSSIAN SHIPPING

Sailed		Arrived	En Route	Lost
Month	Number			
October	15	14		1
November	13	12		1
December	26	21	4	1
January	24	14	8	2
February	17		15	2
March (To Mar. 25*)	38		37	1

* On berth March 25 for March sailing—15

To date there has been a total of 133 sailings for Russia, of which 99 have been of American ships and 34 of Russian (21 from the West Coast and 13 from the East Coast).

In addition to the 133 sailings for Russia, there have been 19 ships carrying cargoes for other countries, which carried deck loads of bombers for Russia.

The 133 sailings were made by 131 ships, 2 ships having sailed twice.

Program of Ship Allocation			
March	April	May	June
56	56	56	56

The foregoing allocations are in addition to any Russian ships which may be available. The Russian ships transport primarily food from West Coast ports.

It is estimated that if these ships are made available the protocol schedules can be attained and that shipments of food and some other urgently needed non-protocol items can be continued.

Regraded Unclassified

SECRET

SHIPMENTS OF IMPORTANT NON-PROTOCOL ITEMS

July 1, 1941 - February 28, 1942

	Quantity.	Dollar Value
Wheat	24,816 tons	\$ 565,254
Wheat Flour	9,954 tons	534,053
Lard	968 tons	281,682
Tires	11,596 units	358,906
Railroad cars	-	500,552
Carbon black	2,799 tons	319,714
Methanol	606 tons	67,542
Formaldehyde	237 tons	29,131
Other Foodstuffs	-	1,118,760

WAR PRODUCTION BOARD

WASHINGTON, D. C.

April 2, 1942

W. L. BATT
DIRECTOR OF MATERIALS*photocopy
to Mrs. Frank
4/3/42
with instructions
to attend*Memorandum

To: The Secretary of the Treasury

From: W. L. Batt

Re: Attached memorandum from Mr. Donald Nelson

In connection with the attached memorandum from Mr. Nelson, I will appreciate it if you will designate a representative who will be able to give continuous assistance to us in connection with Russian supply problems insofar as your Department is concerned and who will have your full authority to take such actions as seen necessary.

I should like to have a preliminary meeting of the representatives of the various divisions designated for this purpose in my office at 5:00 Friday afternoon and will appreciate it if your representative can be designated in time for him to attend this meeting.

W. L. Batt

W. L. Batt

Attachment



WAR PRODUCTION BOARD

WASHINGTON, D. C.

April 1, 1942

OFFICE OF
DONALD M. NELSON
CHAIRMAN

To: All Division Directors
All Branch Chiefs
Army and Navy Munitions Board
All Procurement Agencies

I have received a letter from the President calling attention to the fact that shipments to Russia which were agreed upon in the Moscow Protocol are still far behind and that many of them are placed in preferential lists which fall behind other requirements.

The President has directed "that all materiel promised under the Protocol be released for shipment at the earliest possible date regardless of the effect of these shipments on any other part of our war program."

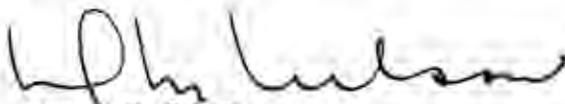
In order to assure compliance with the President's directive I am designating Mr. William L. Batt to coordinate the work of the War Production Board, and the other agencies concerned in assuring the fulfillment of the Russian Aid program.

In certain instances it will be necessary to readjust preference ratings already assigned and in some cases it may be necessary to alter existing priority directives. Also, where production is under allocation, rescheduling may be necessary. Mr. Batt has my full authority to bring about, through the appropriate persons, whatever readjustments may be necessary to effect fulfillment of our commitments to Russia on items other than finished munitions.

I will appreciate it if the Secretary of War, the Directors of the Production Division, the Materials Division and the Executive Director of the ANMB will each designate one person, and the Director of Industry Operations will designate one person for the Bureau of Industry Branches and one person for the Bureau of Priorities who will be available under the general supervision of Mr. Batt to assist in expediting within their respective organizations all matters pertaining to the non-munitions items of the Russian program.

The President's directive leaves no doubt as to the policy of the United States on this matter.

Because of its importance, I ask that all persons concerned with any part of the Russian program give it their special attention to see to it that the job is carried through as we have promised.



Donald M. Nelson

Steel and Iron Products Imported into Philadelphia

March 30 and 31, 1942

March 30			March 31		
Name of company	Item	Tonnage	Name of company	Item	Tonnage
American Brass Company	Cartridge brass	161	Scovill Manufacturing Co.	Cartridge brass	35
American Brass Company	Brass discs	111	American Brass Company	Brass wire	43
Scovill Manufacturing Co.	Cartridge brass	34	American Brass Company	Brass diec	34
American Brass Company	Brass strip	92	American Brass Company	Brass strip	93
			American Brass Company	Brass strip	133
Wallingford Steel Company	Strip steel	21	John Roebling's Sons	Steel cable	30
Allegheny Ludlum Steel Co.	Steel	24	Ford Motor Co.	Forgings	2
Bethlehem Steel Company	Steel	44	Allegheny Ludlum Steel Co.	Steel	61
Firth Sterling Corp.	Steel	17	Bethlehem Steel Co.	Steel	44
Sharon Steel Company	Steel	33	Blair Strip Steel	Steel	28
Superior Steel Company	Steel	60	Jones & Laughlin Steel Corp.	Steel	251
Union Drawn Steel Co.	Steel	12	Sharon Steel Company	Steel	88
U. S. Steel Export Co.	Steel	2,802	U. S. Steel Export Co.	Steel	177
Weirton Steel Company	Steel	519	Weirton Steel Company	Steel	280
Wyscokoff Drawn Steel Co.	Steel	80	Washington Tinsplate Co.	Tinsplate	36
Universal Cyclops Co.	Steel	45	Newport Rolling Mills	Sheets	84
Newport Rolling Mills	Sheets	42	U. S. Steel Export Co.	Steel strip	46
U. S. Steel Export Co.	Wire	19	Wheeling Steel Corp.	Sheets	448
Wheeling Steel Corp.	Wire	100	Brainerd Steel Co.	Steel strip	50
Thomas Steel Company	Steel strip	30	Otis Steel Company	Sheets	120
Republic Steel Co.	Tinsplate	280	Youngstown Sheet & Tube Co.	Steel plates	99
Republic Steel Co.	Shell stock	85	Republic Steel Co.	Tinsplate	270
Youngstown Sheet & Tube Co.	Steel plates	615	Republic Steel Co.	Cold sheets	242
Bethlehem Steel Company	Sheets	34	Republic Steel Co.	Shell steel	998
McLouth Steel Co.	Steel	132	Bethlehem Steel Co.	Sheets	197

(continued)

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

April 2, 1942

Source: Procurement Division, Treasury Department.

Regraded Unclassified

Bottom cargo for Russians sent from mills to Philadelphia

March 30 and 31, 1942

(continued)

March 30			March 31		
Name of company	Item	Tonnage	Name of company	Item	Tonnage
Great Lakes Steel	Steel	280	McLouth Steel Co.	Steel	296
Kelsetman Bros.	Barb wire	20	Great Lakes Steel	Steel	306
Colorado Fuel & Iron Co.	Rails	804	U. S. Steel Export Co.	Sheets	370
			Inland Steel Co.	Sheets	388
			Republic Steel Co.	Wire	243
			Colorado Fuel & Iron Co.	Rails	834
			Mid States Steel Co.	Wire	25
			National Lock Washer Co.	Washers	2
Total.....		<u>6,611</u>	Total.....		<u>6,353</u>

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

April 2, 1942

Source: Procurement Division, Treasury Department.

Bottom cargo for Russians sent from mills to Baltimore

March 30 and 31, 1942

March 30			March 31		
Name of company	Item	Tonnage	Name of company	Item	Tonnage
Chase Brass Copper Co.	Brass strip	22	U. S. Steel Export Co.	Wire	1
Jones & Laughlin Steel Corp.	Steel	350	Johnson Steel & Wire Co.	Wire	24
Sharon Steel Company	Steel	50	Rustless Iron & Steel Co.	Wire	13
Republic Steel Co.	Pipe	815	Jones & Laughlin Steel Corp.	Steel	112
Republic Steel Co.	Sheets	50	Sharon Steel Company	Steel	50
Keystone Steel & Wire Co.	Wire	163	Universal Cyclops Co.	Steel	25
			Weirton Steel Company	Steel	72
			Republic Steel Co.	Pipe	720
			Republic Steel Co.	Strip	50
			Republic Steel Co.	Sheet	561
			Great Lakes Steel Co.	Steel	177
			Keystone Steel & Wire Co.	Wire	33
			Wolverine Tube Company	Copper tubes	10
Total.....		<u>1,450</u>	Total.....		<u>1,848</u>

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

April 2, 1942

Source: Procurement Division, Treasury Department.

Regraded Unclassified

Bottom cargo for Russians sent from mills to New York

March 30 and 31, 1942

March 30			March 31		
Name of company	Item	Tonnage	Name of company	Item	Tonnage
U. S. Steel Export Company	Steel barb wire	75	U. S. Steel Export Company	Wire	117
Heppenstahl Company	Steel	55	Heppenstahl Company	Steel	46
Pittsburgh Steel Company	Steel wire	208	Jones & Laughlin Steel Corp.	Steel	77
Gold Metal Products Co.	Steel strip	42	U. S. Steel Export Company	Steel	374
U. S. Steel Export Company	Steel	25	Weirton Steel Company	Steel	117
Armco International Company	Steel sheets	140	U. S. Steel Export Company	Wire	233
Youngstown Sheet & Tube Co.	Steel sheets	400	Wheeling Steel Corporation	Tin plates	78
Otis Steel Company	Steel sheets	200	Otis Steel Company	Steel sheets	142
McLouth Steel Company	Steel	54	Gold Metal Products Co.	Steel strip	42
			Youngstown Sheet & Tube Co.	Steel sheets	456
			Armco International Company	Steel sheets	55
United Wire & Supply Company	Copper tube	33	Inland Steel Company	Steel	156
Total.....		<u>1,232</u>	Total.....		<u>1,893</u>

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

April 2, 1942

Source: Procurement Division, Treasury Department.

BRITISH EMBASSY,
WASHINGTON, D.C.
2nd April, 1942

Y.E. 1026/BA/120/42

SAFE HAND

Dear Mr. Dietrich,

I refer to our memorandum IN. 13/4/12/41 dated 13th January, 1942. I think you will be interested to hear that enquiries made in Buenos Aires now show that the total amount credited to the German Embassy was not 650,410 pesos but 755,000 and that this amount was made up as follows:

German Embassy expenses for October, November and December, 1941	Pesos 531,000
(It will be seen that this is below the monthly amount of 200,000 pesos which the Central Bank say has been fixed as a maximum that each of the Axis Embassies is allowed to draw.)	
Unkeep of Graf Spee sailors from October, 1941 through January, 1942	" <u>224,000</u>
Total "	<u>755,000</u>

This information was given by the Central Bank, which had first disclaimed all knowledge of the transaction but promised to investigate. In view of the fact that the total figure given by them is larger than that quoted in the memorandum referred to above, I imagine that the figures may be taken as being correct.

The opportunity was taken to make enquiries of the Central Bank also about some further information from a similar source to the effect that on 3rd February, 1942 the Banco Aleman Transatlantico, Buenos Aires advised the Reichsbank, Berlin that the latter's account had been credited with 1 million paper pesos. This was stated by the Central Bank to have been a transfer from the Reichsbank's account with the Banco de la Nacion to its account with the Banco Aleman Transatlantico. This, being an internal transaction, did not need a permit from the Central Bank, although the use to which the pesos may be put will be subject to the same restrictions as when the money was in the Banco de la Nacion. It may be pointed out, however, that there is a certain

- 2 -

benefit to the enemy in the transfer by reason of the improvement in the cash position of the Banco Aleman Transatlantico.

I am also sending copies of this letter to Mr. Hiss and Mr. Pehle.

Yours sincerely,

(Signed) R. V. Palin

Mr. Frank Dietrich,
U. S. Treasury Department,
Foreign Funds Control,
Washington, D.C.

COPY - dm = 4/3/42

C
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Y

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DEPARTMENT OF STATE

WASHINGTON

In reply refer to
Bu: 851 B.48/34

April 2, 1942

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith a copy of a despatch from the American Consul at Martinique, dated March 24, 1942, relating to shipments of French Guiana gold to the Bank of Brazil.

Enclosure:

Copy of despatch
from Martinique
of March 24, with
enclosure.

eh:copy
4-6-42

Martinique, F.W.I.,
March 24, 1942

In quadruplicate; all copies via Naval Patrol Plane March 25 to San Juan, thence Panair. One copy "For Division of Commercial Affairs".

Shipments of French Guiana Gold to the Bank of Brazil.

I have the honor to refer to the Department's telegram No. 47 of March 23 10 p.m., regarding the Treasury's reduction of the March exchange license for the French Antilles and Guiana, and to report that the French Financial Attache will supply the Treasury Department with information based on the attached table, as well as the following explanations:

Gold exports in 1941 totaling \$1,056,965.57 produce a monthly average of \$85,000, though falling progressively from \$95,000 in the first half to \$81,000 in the second owing to lack of gas-oil, mercury and labor. Exports in January amounted to \$83,139.91, while two sales were made in February: one of \$39,992.21 on February 14th and another on the 28th, the proceeds of which had not yet been reported on March 21st by the Bank of Brazil. The gold arrives in native form at Rio de Janeiro, where it must be melted and refined, so that the proceeds are known only after considerable delay and therefore can not be transferred to the French Government "C" Account in New York until after that delay.

As long as French Guiana's output of gold continues to be sold to the Bank of Brazil, as has been the case since the seizure by the British at Trinidad of the shipment mentioned in my despatch No. 168 of February 11, 1942, it is a simple matter for the American Embassy in Rio de Janeiro to check the figures given by the High Commissioner. This consideration, combined with ease of verification through Pan American Airways (the exclusive carrier), explains in part the High Commissioner's violent reaction (page 2, my despatch 194, March 24) to the Treasury Department's recent action, which he interpreted as reflecting a feeling on our part that he was trying to evade our control.

With reference to my telegram No. 68 of March 14 9 a.m., the High Commissioner has requested the Financial Attache to apply for an increase of the monthly license in order to produce a new figure of \$1,200,000, which I recommend be granted in so far as justified by increases in the cost of goods and freight since last September.

Respectfully yours,

M. E. Malige
American Consul

Enclosure:

Monthly Proceeds of Gold
Sold to Brazil.

A true copy of the
signed original. alg

Copy to Embassy, Rio de Janeiro.

350
MEM:alg

sh:copy 4-5-42

Fort-de-France, March 23, 1942.

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MONTHLY PROCEEDS OF GOLD SOLD TO BRAZIL.

	<u>Direct dollar proceeds</u>	<u>Dollar equivalent of milreis proceeds</u>	<u>Monthly total</u>
<u>1941</u>			
January and February..	\$ 53,218.99	\$123,807.43	\$ 177,026.42
March.....	41,975.06	42,234.84	84,209.90
April.....	23,157.74	69,472.34	92,630.08
May.....	13,294.46	101,367.39	114,661.85
June.....	11,110.03	90,263.20	101,373.93
July.....	-	58,322.79	58,322.79
August.....	-	134,035.89	134,035.89
September.....	5,485.88	66,712.93	72,198.81
October.....	-	78,936.61	78,936.61
November.....	-	85,742.42	85,742.42
December.....	-	57,826.87	57,826.87
Total 1941.....	<u>\$148,242.16</u>	<u>\$908,723.41</u>	<u>\$1,056,965.57</u>
<u>1942</u>			
January.....	-	\$ 83,139.91	\$ 83,139.91
(14th.....)	-	39,992.21	39,992.21
February	-	?	?
(28th.....)	-	?	?
Total.....	-	<u>\$123,132.12</u>	<u>\$123,132.12</u>

Notes: Second column of figures based on \$1,097.18 per kilogram of fine gold.

The January and February shipments are combined because all were melted and refined at one time.

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BRITISH EMBASSY,

WASHINGTON, D. C.

2nd April, 1942

W.T. 1034/BA/13/42

SAFE HAND

Dear Mr. Dietrich,

Banco Italiano-Lima
(Banco de Credito del Peru)

I am sending you a memorandum which we have received from our Legation in Lima regarding the Board of this bank as reconstituted, which may be of interest to you.

A copy of the memorandum is also being sent to Mr. Hiss at the Department of State.

Yours sincerely,

(Signed) R. V. Palin

Mr. Frank Dietrich,
U. S. Treasury Department,
Foreign Funds Control,
1610 Park Road,
Washington, D. C.

COPY - dm - 4/3/42

BANCO ITALIANO-LIMA

(Banco de Credito del Peru)

As we have already reported, the Banco Italiano of Peru is now the Banco de Credito del Peru and the Board of Directors is:

President :	Enrique Ayulo Pardo
Hon. President :	Juan Francisco Raffo
Vice-Presidents:	Andres Nosiglia
	Aurelio Diaz Ufano
	Carlos Ferreyros
	Manuel V. Gabaldoni
	Fraderick J. Milne
	Ernesto Nicolini
	Rollin Thorne
Managing Director:	Ernesto Magnani

Gino Salocchi, formerly President of the Board and its controlling influence until about two years ago when he went to Italy where he has since remained, has resigned. He is an Italian citizen.

The only Italians now on the Board are Juan Francisco Raffo and Andres Nosiglia, both of whom are very old men who take little interest in business matters, and Ernesto Magnani, the actual Managing Director. Magnani is an astute man of affairs who takes no part in international or local politics, and we have never been able to connect him with any Fascist or official Italian activities.

The following notes have been obtained from Mr. F. J. Milne, the British member of the Board.

The figures in brackets after each man's name give the year of his election to the Board of Directors.

Enrique Ayulo (1935) President. Nationality - Peruvian

A wealthy and influential man connected to well-known families in Lima. His wife (a cousin) was a Pardo whose uncle, Don Jose, has been twice President of the Republic. Mr. Ayulo has never taken an active part in politics. With the exception of the Bank, he devotes most of his time to his private investments, and he is a Director of various companies in which he and his family connections have an interest - amongst these is the sugar estate of Tuman, owned by the family. For the last two years, Mr. Ayulo has taken a very active interest in the Bank (of which he is a large shareholder), and spends a great part of his day there. He has been Acting President in the absence of the President (Sr. Salocchi) until he was elected to the post recently, Sr. Salocchi having resigned from the Board. His sympathies are pro-Ally.

- 2 -

Juan Francisco Raffo (1909) Hon. President. Nationality - Italian

Sr. Raffo - now well over 70 - came to this country as a young man. He is considered to be very wealthy, the foundation of his fortune being the Santa Catalina woollen mills. He owns considerable real estate in Lima. To my knowledge, he has no business connections with Italy and all his interests are in Peru. He was at one time President of the Board, but gave this up on account of age and failing health when the post of Honorary President was created for him in appreciation of his long connection with the Bank. The present Minister of Finance, Sr. David Dasso, is his son-in-law.

Andres Nosiglia (1909) Vice-President. Nationality - Italian

Settled in this country as a young man and he is now 86 years of age. He is considered moderately wealthy, his interests being in farming. He owns an extensive farm between Lima and Callao. I believe his visits to Italy have been far and few between. As far as I know, he has no interests in the latter country.

Aurelio Diaz Ufano (1924). Nationality - Spanish

Sr. Diaz Ufano has been in this country for many years. He was at one time connected with the flour milling industry, but now lives on his private income. I believe his sympathies to be pro-Ally.

Carlos Ferreyros (1937). Nationality - Peruvian

Senor Ferreyros is a young man very prominent in commercial circles. He succeeded his father as head of the Peruvian firm of Enrique Ferreyros & Co. He is very active and his firm and its offshoots (as Exportadora Peruana) do a large import and export business. He takes no part in politics. I have every reason to believe his sympathies are with the Allies. He is on close terms of friendship with Sr. Ayulo, who I believe has an interest, if not in Enrique Ferreyros & Co. itself, in the above offshoot.

Mannuel V. Gabaldoni (1921). Nationality - Peruvian

Italian descent two generations back. He is the owner of the principal lumber mill in Lima, P. L. Batchelor & Co. which was founded by an Englishman of that name (now deceased) who took Sr. Gabaldoni into partnership. Takes no part in Politics. He has always expressed himself as strongly anti-German and now Anti-Japanese.

- 3 -

Ernesto Magnani, Managing Director (1939). Nationality - Italian

Sr. Magnani was appointed Manager in 1924 and joined the Board some two years ago. He is capable and very hard-working. His interests are entirely centred in the affairs of the Bank. He is well thought of in business and Government circles. I do not think that his sympathies are with the Germans.

Frederick J. Milne (1911). Nationality - British

Born in Peru and has resided in this country since his schooldays in England. Chairman of Milne & Co. (British capital) founded in 1875, and Director of Cia. Petrolera Lobitos, Cia. Molinera Santa Rosa Ltda., and other local companies.

Ernesto Nicolini (1939). Nationality - Peruvian.

On his father's (Luis Nicolini) death, he succeeded him on the Board about two years ago. His father (Italian) lived in Peru most of his life and starting as a manufacturer of macaroni, later founded an important flour mill in Lima. Sr. Ernesto Nicolini has branched out in other directions, having acquired farms, textile mills and oil-crushing plants. As to his sympathies, I have heard him stoutly deny that he is of Italian nationality and I believe he is anti-German.

Rollin Thorne (1919). Nationality - Peruvian.

Of American Descent two or three generations back, I first knew him as an employee of Messrs. Duncan Fox & Co. Ltd., before starting up on his own, since when his interests have been mainly connected with agriculture. I believe his feelings to be pro-Ally.

British Legation,
Lima, Peru.
23rd March, 1942.

COPT - fd - 4/3/42

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE April 2, 1942

TO Secretary ^{W. M. W.}Worgerthau
 FROM ^{Mr. Dietrich}Mr. Dietrich

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£54,000
Purchased from commercial concerns	£41,000

Open market sterling held at 4.03-3/4, with no reported transactions.

The Canadian dollar, which has moved off during the past few days, recovered to close at 13% discount today. Yesterday's final quotation was 13-1/4%.

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

Argentine peso (free)	.2370
Brazilian milreis (free)	.0516
Colombian peso	.5775
Mexican peso	.2064
Uruguayan peso (free)	.5295
Venezuelan bolivar	.2815
Cuban peso	1/8% premium

In order to increase the Stabilization Fund's gold balance, we purchased \$1,150,000 in gold from the General Fund through the New York Assay Office.

No new gold engagements were reported.

In London, spot and forward silver remained at 23-7/16d, equivalent to 42.56¢.

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

We made no purchases of silver today.

Copy No. 13

BRITISH MOST SECRET

(U.S. SECRET)

OPTEL No. 108

Information received up to 7 A.M., 2 April, 1942.

1. NAVAL

10 Norwegian merchant ships, under British charter, which left GOTHENBURG on the evening of the 31st in an attempt to reach a British port, were intercepted by enemy surface craft and aircraft on the first. Two tankers were seriously damaged and probably sunk, two ships returned to GOTHENBURG, four turned back in Swedish territorial waters, one was reported aground north of GOTHENBURG and one scuttled to avoid capture. H.M. submarine URGE sank an eight inch Cruiser near BERGEBOLI on the morning of the first. During a heavy air-raid on MALTA yesterday two H.M. submarines were sunk and one damaged. One officer and 33 ratings are missing. Fourteen ships of the convoy to RUSSIA have now reached MIRMANSK. One 4,500 ton UNITED STATES ship was torpedoed on the 30th and two ships are still unaccounted for.

2. MILITARY

SURMA, FRONT FRONT: Our attacks on SHWEDAUNG on the 30th were successful, the road block was finally opened up after hard fighting, and those of our forces previously cut off reached FRONT. Our troops are now concentrated in the defended area of FRONT. On 29th/30th our river patrol flotilla lost two ships in an engagement on the West Bank of the IRRAWADDY.

TOUNGOO FRONT: Chinese reinforcements have joined up with the defenders of TOUNGOO, and a new line has been formed north of the town, with battalions forward on both flanks.

3. AIR OPERATIONS

WESTERN FRONT. First. 11 Bostons, with strong fighter escorts, attacked an armed merchant vessel at SCULOGNE but results were obscured by clouds. Enemy flew 120 Defensive Patrols but no fights resulted. One Boston was brought down into the sea by anti-aircraft fire and another crashed on return. First/Second. 183 aircraft despatched. HAYRE 57, Railway communications FRANKFURT area and North-West GERMANY 49, Matford Works POISSY 41, sea mining 15, oil refinery GERMANY 4. Intruders 12, leaflets PARIS and LILLE 5. A Hurricane destroyed one Junkers 88 and damaged another at HELVIN aerodrome. 15 Bombers are missing, most of them from North-West GERMANY.

Regarded Unclassified

- 2 -

LIBYA. 30th/31st. 20 Wellingtons bombed BENGHAZI Harbour. Small formations of enemy aircraft attacked our landing grounds. One Tomahawk was shot down.

MALTA. On 31st/1st. In addition to those reported yesterday, a total of 209 enemy aircraft concentrated their attacks on HAL FAR and GRAND HARBOUR. Naval units were hit, HAL FAR rendered unserviceable and much damage caused elsewhere. Six aircraft were destroyed on the ground and seven others damaged. Three enemy aircraft were shot down, three probably destroyed and three damaged.

BURMA. 31st. A total of 49 enemy aircraft attacked MACTE, also LASEIO aerodrome and railway station, without causing serious damage. Morale of labour unaffected, both railway station and aerodrome still in full operation.

BRITISH MOST SECRET

(U.S. SECRET)

OPTEL No. 115

Following is supplementary resume of operational events covering the period March 26th to April 2nd, 1942.

I. NAVAL

A Russian convoy was attacked by air, surface craft and U-boats. It is thought at least six. Most ships reached MURMANSK safely but two stragglers are still unaccounted for.

Two air attacks were made on MURMANSK in the second half of March. No ships were hit but there was some damage to port installations. Up to 11st March 137 ships had been convoyed to RUSSIA and only four lost.

U-boat activity has been considerable near CAPE MATYERAS and moderate south of FREETOWN and off LIBERIA. It is estimated that rather less than fifty are operating in the Atlantic.

Shipping losses were less than of late. Out of six ships attacked by U-boat five were in the Western Atlantic. During week ending first April 1134 ships were convoyed. Imports into Great Britain by ships in convoy during week ending 28th March amounted to 2,006,000 tons including 160,700 tons of oil.

No major changes in Japanese Naval dispositions. Their forces are reported to have occupied SANTA CRUZ and TUCOFIA ISLANDS (North of NEW GUINEA) and SAISI, south of BOUGAINVILLE.

2. MILITARY

RUSSIA. On the Russian Front, although the thaw has begun, it is freezing again in some places and heavy fighting is continuing. Both sides have been attempting to pinch out salients. The Germans have succeeded in holding their important advanced positions towards MOSCOW.

ITALY. Information recently received indicates that three new Infantry Divisions have been formed making a total of 76 Italian Divisions identified. In addition there are reports that a new Armoured Division is being formed near ROME. New Infantry Regiments for a further eight Divisions exist in embryonic form.

MALTA. There has been a revival of reports of an imminent German assault on MALTA. The recent intensive air bombardments may be a preliminary phase during which GERMANY may hope to wear down resistance of garrison sufficiently to justify assault on the Island. On balance, it is considered attempt at neutralization is more probable than assault.

CHANNEL ISLANDS. Large scale activity continues and the three main Islands must now be considered very strongly fortified, the anti-aircraft concentration being the largest known in any of the German occupied areas. There is however no evidence that this work is anything but defensive in character.

3. AIR OPERATIONS

WESTERN FRONT. The chief event was the heavy and very successful attack on LUXBURG in which the proportion of incendiary to high explosive bombs was the highest yet employed by the Royal Air Force. During the period bomber command dropped 523 tons of high explosive and nearly 58,000 (about 140 tons) incendiaries mainly over Northwest GERMANY. Coastal Command, in addition to shipping protection patrols and attacks on enemy shipping, laid 185 mines.

MALTA. Heavy air raids continued although the total number of enemy aircraft involved, i.e. 580 was considerably less than during the previous week. Enemy losses were 21 destroyed.

AUSTRALIA. DARWIN was attacked three times by day and also experienced its first night air raid. An increasing toll is being taken of Japanese aircraft attacking this area. R.A.A.F. and U.S. aircraft retaliated successfully on shipping and aerodromes at KUSABO and IAS.

4. EXTRACTS FROM PHOTOGRAPHIC AND INTELLIGENCE REPORTS ON RESULTS OF AIR ATTACKS ON ENEMY TERRITORY IN EUROPE

COLOGNE. The Nippes Railway workshop has received very heavy damage, one large building being completely destroyed. The Franz Clouth Rubber Works is almost certainly completely destroyed. There is also extensive damage in built up areas.

RAMBORN. The Thyssen Steel Works has been badly damaged in several places.

KIEL. Both the Germania and Deutsche Werke Shipyards show signs of being hit. A 13,800 ton liner is thought to be burnt out and resting on the bottom.

EMDEN. A letter dated 3rd March mentions that a new U-boat ready to leave was destroyed.

GENERAL. Renewed reports have recently been received describing the German public's dread of our heavy bombs.

LE TRAIT. Photographs taken during the attack on 29th March show at least twenty bursts in the shipyard.

5. OPERATIONAL AIRCRAFT BATTLE CASUALTIES

METROPOLITAN AREA

<u>British</u>		<u>Enemy</u>		
<u>In the Air</u>		<u>Destroyed</u>	<u>Prob. Destroyed</u>	<u>Damaged</u>
Bombers	56	4		2
Fighters	10	25	10	19
Conatal	9	1		
Total	75	30	10	21

2 pilots are safe

MIDDLE EAST
(Including MALTA)

<u>British</u>		<u>Enemy</u>		
<u>In the Air</u>		<u>Destroyed</u>	<u>Prob. Destroyed</u>	<u>Damaged</u>
Bombers	5	18	9	27
Fighters	2	5	5	6
Others	1			
Total	14	23	14	33

On the Ground

Bombers	4
Fighters	3
Total	7

Of the above totals 11 were destroyed and probably destroyed and 9 damaged by anti-aircraft fire.

FAR EAST

<u>British and Allied</u>		<u>Enemy</u>		
<u>In the Air</u>		<u>Destroyed</u>	<u>Prob. Destroyed</u>	<u>Damaged</u>
Fighters	8			
Total	8			
<u>On the ground</u>				
Bombers	2	5	4	2
Fighters	10	2	3	1
Misc.	3	4	1	
Total	15	11	8	3

1 pilot is safe

Of the above totals 6 were destroyed by anti-aircraft fire.

NOTE: No account is taken of enemy aircraft destroyed on the ground in any theatre or of British Naval aircraft casualties.

6. HOME SECURITY

No fatal casualties week ending 0600/1.

Regraded Unclassified



UNITED STATES GOVERNMENT
COORDINATOR OF INFORMATION
WASHINGTON, D. C.

April 2, 1942

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

Dear Henry:

Enclosed is the Weekly General
Directive of the British PWE.

Sincerely,

Bill
William J. Donovan

Attachment

SECRET

1. Policy. Make no mention of Plato.
2. Propaganda Policy. a. We are approaching

critical phase of the war when brunt land fighting widely to be done by Russia. In a military sense we will not be heroic figures as we were in 1940 and as the Russians are in 1942. We should exploit the extent of our assistance to Russia to the full as our military effort will be judged by it. Anything that we can do in the West, by RAF or other raids, should be tied in with the Eastern theater of the war, and thus give it a greater sense of purpose, rather than regard it as a secondary diversion. We cannot go further than this safely at present.

b. In the conducting of political warfare it is necessary:

First: That our military achievements be exploited in terms of actual fighting or other aspects of our war effort.

Second: That outlook of the British people should be exploited showing:

a. An increased understanding of the European problem and the part they must play in it.

b. A determination to build a new Europe on lines fair to all and capable of supplying the wants of all and not to return to the status quo before the war. We must represent ourselves politically as people not only vigorous and capable in war but able to look forward to the problems that will concern us and Europe in peace and commence to grapple with their solution.

c. We want to get the conviction into Europe that:

First: We are in the European war, heart and soul, and doing every possible thing to hurry the victory that Europe defiles.

Second: That we depend on Europe and Europe depends on us for their and our own future well-being; that the part we have to play in Europe is both desirable and necessary. If this thought can be instilled into the minds

SECRET

ELIMINATOR OF INFORMATION

-2-

of the audience, political hope and promise for the future that we can inspire will offset the absence of striking military achievements by us.

d. We should recall Hitler's record of consistent miscalculations during the week, before the German counter-offensive, by reporting his earlier announcements.

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NUMBER 25

SECRET

COORDINATOR OF INFORMATION

THE WAR THIS WEEK

March 26-April 2, 1942



Printed for the Board of Analysts

Copy No. 6

The Secretary of the Treasury

MARCH 26-APRIL 2, 1942

SECRET

Coordinator of Information

THE WAR THIS WEEK

As strictly military events receded somewhat into the background during the past week, India emerged to occupy the center of the international scene. Sir Stafford Cripps is seeking to harmonize that country's deep antagonisms in Britain's most recent compromise, but this plan is now seriously threatened by the resistance of Mahatma Gandhi and the All-India Congress.

In the Battle of Burma the Japanese are being stoutly resisted south of Prome and north of Toungoo, but their advance toward the critical areas of upper Burma has not been arrested. At the other extremity of the Japanese "line" (in New Guinea) torrential rains have impeded their activity, but recent Japanese air reconnaissance reveals their renewed interest in the islands of Melanesia even as far south as New Caledonia.

The continuing lull in the Mediterranean and a fresh analysis of the Axis position there now strongly inclines military observers to the view that no large scale offensive is to be anticipated in that region. The Axis, it is believed, has insufficient strength for concurrent offensives in the Mediterranean and in Russia, and will perforce elect the latter theater of operations. On the Eastern Front itself no important changes can be verified, but as Allied shipments to Russia increase in volume, the Germans have launched the "Battle of the Arctic" with heavy initial attacks on the critical Murmansk-Archangel supply route.

SECRET

Failure of Indian Conciliation?

While the counter-proposals of the Working Committee of the All-India Congress are not yet known, it is already apparent that Sir Stafford Cripps' plan is being seriously questioned by the most powerful political element in India. Earlier reports that Gandhi and Nehru were in disagreement may very likely be unfounded. In an article published in the *Hindustan Times*, Devadas Gandhi, son of the Mahatma, has indicated the probable basis of Congress reservations. Young Gandhi objects to the plan because it gives Britain complete control of India's war effort.

Despite Sir Stafford's earlier statement that he was in no position to negotiate, observers in New Delhi suggest that he has postponed his return to England and may very well refer the counter-proposals of the Congress party to London for further discussion. And the report of a coming meeting between Nehru and Wavell perhaps foreshadows a compromise on the crucial issue of control over Indian defense.

Character of the British Plan

Another possible objection to the British scheme is its major premise that India, far from being "one and indivisible," is potentially a group of autonomous states. The British proposals envisage (1) an Indian Union which would be a Dominion, (2) any number of other "Dominions" consisting of provinces not electing to adhere to the Union. Since a Dominion would apparently be subject to no higher authority and would have the right to secede from the Empire, and since each Dominion would be independent of every other, India would no longer necessarily remain a political unit under the British plan.

This implied division of India was the ground on which the Hindu Mahasabha rejected the plan. The Liberal Sapru

SECRET

group and the Azad Moslem Conference, also pledged to Indian unity, may very well take the same stand. On somewhat similar grounds, the warrior Sikhs of the Punjab, alleging that the British proposals put them at the mercy of the Moslem majority in that province, has likewise returned a negative answer. Paradoxically enough, even the Moslem League, long the advocate of Indian partition and the only major group whose program the British plan seems to satisfy, is apparently reconsidering its earlier attitude of acceptance.

As the outlook for India grew darker, some observers blamed India's leaders and found them lacking in political realism. Others, however, maintained that the British proposals had not gone far enough, that they did not satisfy the Congress demands for "full government now," and that by concessions to the Moslem League, they had alienated the party of Gandhi and Nehru. The latter is the only Indian group that other members of the United Nations—notably China and Russia—would be likely to welcome for the leadership of India's war effort. In any case, it was apparent that only Japan could profit by further doubts and delays in settling India's political future.

Retreat and Terrorism in Burma.

In Burma, where the Japanese have concentrated heavy air power and where they have recently landed a fresh division, the situation is becoming steadily more critical. The Chinese defenders of Toungoo, following fierce fighting in the town itself, have withdrawn their principal forces to the north where a Chinese communal state the main battle will be fought.

On the Irrawaddy front, advance British units have narrowly escaped encirclement south of Prome. Meantime Japanese naval units have arrived off the Andaman Islands.

SECRET

The Japanese also have landed in force at the port of Akyah in western Burma. And reports of native unrest and almost open revolt bring into focus the tremendous difficulties faced by the defenders of Burma.

These conditions, the reports state, are especially characteristic of the right bank of the Irrawaddy as far north as the Chin Hills. North of Pakokku, native snipers have been shooting from huts and trees at refugees passing by in autos. Even in the plains to the south of Mandalay, the government apparently fears the outbreak of terrorism in areas not effectively occupied by the Allied armies. In the mountainous regions to the north and east, however, the natives are not yet aroused and seem inclined to resist the intrigues of the Japanese invaders. Meanwhile, as the Japanese approach the border of India, authorities in Calcutta have urged civilians to evacuate that city as soon as possible.

Accelerated Action on the India-China Highway

As British and Chinese troops in Burma fought a gallant rear-guard action, Chinese authorities were reported to be marshalling their full resources to rush to completion China's new lifeline from India. The building of two one-way "jeep roads"—which light trucks going in one direction could use, even when the roads were only semi-finished—is the latest proposal. Such roads would make possible the inauguration of traffic before the beginning of the heavy rains late in May.

Meanwhile, on the principal new India-China road, Chinese and British are speeding construction from *both* ends of the northern Assam-Burma section (Ledo to Myitkyina), as well as on the section from Myitkyina via Tengchung to Lungling, in Yunnan province. Materials and equipment originally intended for the Burma-Yunnan railway or for the improvement of the Burma Road proper are being directed to this new emergency effort.

SECRET

In China itself, the government is apparently elaborating a program for organizing resistance in areas under Japanese control. Already a conference of the Formosan Revolutionary League at Chungking has requested that Formosa become a province of China. About Korea, whose revolutionary movement is not yet widespread or completely unified, the Chinese authorities appear to be more hesitant. Aside from a statement by Sun Fo, president of the Legislative Yuan (see *The War This Week*, March 19-26, p. 9), the government of China has issued no specific promises of Korean independence.

Lull in the Southwest Pacific

While air reconnaissance recently has revealed the presence of several cruisers and destroyers and about 15 transports and supply vessels at Rabaul, evidence of the increasing importance of this base for Japanese operations, there has been no notable increase in Japanese troop concentrations in the Rabaul-New Guinea-Solomon Islands area. At present it is estimated that in the whole region from Timor to the Japanese Mandates there are not more than three divisions—a negligible force where major operations are envisaged. The disposition of Japanese ground forces in the South Pacific has not in fact changed to any marked extent since the conquest of Java.

In the air, Japanese attacks on Port Moresby and Port Darwin continue, but Australian Air Minister Drakeford announces that American and Australian planes now have local air supremacy over New Guinea and New Britain.

Northeast New Guinea, which last fall and early winter suffered a record drought, now appears to have been visited by torrential rains. According to newspaper reports, the Markham Valley area has been flooded and the Japanese have been forced to withdraw toward Lae, where they had made one of their original landings.

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Floods in the area between Lae and Salamaua will prove an immediate obstacle to the Japanese, whose objective in this region apparently was the occupation and development of a number of commercial air fields already located there. From these bases it was believed that enlarged air operations against the continent and the Torres Strait would be attempted. The land in this area lies only a few hundred feet above sea level and is readily transformed into swamp by heavy rains.

Recapitulation on Java

A first-hand report on the situation in Java during the Japanese assault has now been received. The speed and scope of the attack caught the Dutch unawares, according to this account. The Dutch had anticipated a landing at Semarang, for example, but not the coordinate landings to the east and west.

The rapidity of the assault also prevented really adequate demolitions. In general, public utilities, telephones, power plants, railroads, and automobiles, as well as stocks of raw materials, fell intact to the Japanese. The American refinery and wells at Palembang in Sumatra were totally demolished, but destruction of the Shell refinery and wells was interrupted by a surprise parachute attack, and Dutch air forces were obliged to try later to finish the job by bombing.

Official Netherlands sources state, however, that oil installations on Java, as well as oil in storage, were completely destroyed. The naval base at Socrabaja also was wrecked and cannot be made suitable for the use of any warships, it is estimated, in less than two months. Actual rebuilding will require a much longer time.

Most British and American technicians escaped, but it proved impossible to effect the escape of many Dutch. Netherlands sources declare there were a thousand trained

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pilots in the Netherlands East Indies before the war, and about 500 planes. Between 400 and 450 pilots were killed and the planes almost all destroyed. Some pilots escaped, as did some naval vessels and their crews.

Japan Wins Representation at the Vatican

The most recent diplomatic success of the Japanese is witnessed in a press report that Ken Harada, Acting Ambassador to Vichy, has been appointed to serve concurrently as Special Minister to the Vatican "with a view to rendering still closer existing relations between Japan and the Holy See." This is the culmination of a diplomatic offensive going back as early as the first week in February when Japan informally requested permission to appoint an emissary to the Holy See, to the astonishment, it was said, of even the German Counselor of Embassy to the Vatican.

This appointment is undoubtedly intended primarily to facilitate Japanese relations with the predominantly Catholic population of the Philippines and to allay possible fears that the Japanese would interfere with freedom of worship in the islands. Japan may hope in time to secure the substitution of Italian, German, or Japanese personnel for the important American element among the clergy of the Philippines, introduced following our annexation of the islands. Official relations with the Holy See might also be helpful to Japan on a minor scale in connection with Catholic missions in China and other occupied territory and with the Catholic community in Japan which, while small, includes a few influential persons, notably Admiral Yamamoto, Commander of the Japanese fleet.

Ken Harada, now 50 years of age, comes from a prominent Protestant Christian family of Kyoto. His father was at one time president of Doshisha University, the leading pri-

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vate Christian school in Japan. After graduating from the law department at Tokyo Imperial University in 1918, Harada served in a minor official capacity at the Paris peace conference. Subsequently he spent many years in Geneva with the Japanese Office at the League of Nations. He was appointed Counselor of the Japanese Embassy in France in November 1939.

The Soviet Navy in the Far East

As the ice begins to break up in Russian harbors in the Far East, the Soviet navy attracts fresh attention as a factor in a possible Russo-Japanese War. It is well known that the Soviets have a very large fleet of submarines and torpedo boats in the Orient. This force might act as a substantial deterrent to a Japanese attack in this area.

The Soviet navy is based primarily on Vladivostok. The latter is, because of its proximity to Japanese-occupied Manchuria, the most vulnerable to attack of all Russian Far Eastern ports. With the help of icebreakers, Vladivostok can be used as a base the year round. Even if Vladivostok were lost, the Soviets possess bases further north at Sovetskaya Gavan and Nikolaevsk. Finally, they have a naval base at Petropavlovsk on Kamchatka. The last named is ice-free by early May, Nikolaevsk late in May and Sovetskaya Gavan like Vladivostok could be kept open by icebreakers. The last named may soon be connected by rail with the Trans-Siberian railroad and is to be the terminus of the new northern Trans-Siberian road which has been under active construction for some time.

Arctic Sea Battle

On the Russian front, interest has shifted from the continental battle ground—where action is already in considerable

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measure immobilized by the spring thaw—to the Soviet supply lines in the far north. First, a surprise air and naval attack by Russian forces behind the Nazi lines near Murmansk somewhat relieved the pressure on this vital seaport. To this the Germans replied with an attack on a convoy somewhere near the North Cape. Here the Nazis claim to have sunk two or possibly three merchant ships (one of 10,000 tons) and to have torpedoed a British cruiser—with the loss to themselves of one destroyer. The British admit—without specifying the time or place—the sinking of the light cruiser *Naiad*. But British and Soviet naval units, engaged for the first time in joint operations, have apparently saved the major part of the convoy, after damaging three submarines and a destroyer, besides the one whose loss the Germans have admitted.

The crucial importance of keeping open the shipping lanes to Murmansk is apparent in the fact that the value of lease-lend exports to Russia—a large proportion of which is aircraft—increased notably during the last week of January and has since risen sharply. Such shipments will play their part in Russian resistance to a probable Nazi offensive this spring. Perhaps symptomatic of preparations for such an offensive were the renewed bombing of Moscow by the Germans and a reported Nazi attack in the Kalinin area.

Typhus on the Eastern Front

There is increasing evidence that throughout eastern Europe the spread of typhus has now assumed at least mild epidemic proportions, although these reports should be accepted with some reserve, pending confirmation (see *The War This Week*, January 15-22, pp. 10-11). Although native populations appear to be hardest hit, the German invaders themselves have suffered and are known to have brought the infection back into Germany.

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In French North Africa and Spain also the number of cases is considerably above the usual endemic level. In the former area, 2,500 cases are now reported weekly.

Except for hospital attendants and others whose duties bring them regularly into contact with typhus victims, the German Army is unvaccinated. Reliable observers believe that the Germans do not possess sufficient anti-typhus vaccine to combat the disease through mass inoculation. The epidemic is expected to continue through April and, according to one source, will reach a seasonal peak in May.

German Air Strength for the Spring

Clues to probable German air strength for the expected spring offensive are given in a study just completed in the Economics Division of the Coordinator's office. At the beginning of the Russian campaign the Nazi production of planes of all types was about 2,200 a month. First line strength was 5,700, reserves increased the figure for operational types to 12,600 planes. The total number of planes in the German air force, including transports and trainers, was 23,300.

The estimated monthly production of aircraft in Germany increased steadily during 1941 from about 2,000 a month in January to 2,400 a month in December. Standardization of models and the importation of foreign labor contributed to this expansion. There is no evidence that bombing by the RAF has had any appreciable effect on production.

Despite this expansion, since June, 1941, however, first line air strength has not increased. Heavy losses in the Russian offensive—estimated by the British as 1,800 planes up to September 1—may have accounted for as many as 4,300 aircraft. Owing to unfavorable operating conditions, cas-

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ualties were inordinately high. As a result, the loss of many of their best trained pilots and crews has undoubtedly impaired German first line efficiency.

There is, however, some difference of opinion as to present first line German strength. The British place it at 4,200 planes (roughly 75 per cent of the June, 1941, high), with seriously depleted reserves. American sources believe that first line strength has remained unchanged, and that the Nazis have maintained reserves of 4,200-5,000 planes.

The Future Course of German Aircraft Production

Nevertheless there seems to be fairly general agreement that present German production is between 2,400 and 2,700 planes a month. But while the British believe that this figure represents a virtual maximum of production capacity, competent American opinion predicts an increased output—in view of German plant expansion now in progress. According to the latter, the continued importation of foreign skilled labor will permit the Germans to maintain the 1941 rate of expansion, culminating at the end of 1942 in a figure of 2,900 planes a month.

Such an expansion, however, will be possible only if the Nazis make no extensive changes in models, and if the British do not succeed in effectively bombing Axis aircraft factories. Moreover, greater production need not result in an enlargement of first line strength.

Increased combat losses consequent on a renewal of the offensive, a high rate of pilot casualties (necessitating a greater allotment of planes for training new pilots), or developments which would make existing types of aircraft obsolete—any or all of these factors might fully offset increased over-all production.

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The Axis and the Mediterranean

As winter turns to spring and the Axis forces in the Mediterranean still make no move, a reexamination of the strategic situation in that area has become essential. Highly placed Allied observers now tend to the conclusion that the Axis will seek only limited objectives in the Mediterranean this spring and summer. Russia, they believe, will be the main front, and the Axis probably has insufficient forces for a simultaneous attack there and in the Mediterranean.

Certain indications still point to offensive plans—the heavy bombing of Malta, the relative strength of the Italian navy, the concentration of forces in the Aegean area (even including invasion barges), the reinforcement of Rommel in Libya. But these considerations appear to be outweighed by grave difficulties which would be involved in alternative offensives in the Mediterranean.

First, in Libya, there is not much time to lose. In less than a month the summer heat begins. Thus far, despite reinforcement, Rommel apparently has insufficient armored forces to resume a full-scale offensive. And the monumental question of supply still looms as the crucial issue on the desert front.

Second, an attack on Syria must necessarily be preceded by the capture of Cyprus. This would be a much more difficult task than the conquest of Crete. From bases in Syria, British planes would be far better placed to defend Cyprus than would Axis aircraft to attack it from Rhodes, 300 miles away. The whole operation would probably take more than a month (the capture of Crete took 27 days), plus perhaps another month to overrun Syria. It would be only in the full heat of summer, then, that Axis forces would be in a position to advance overland toward Iraq.

Third, an attack through Asia Minor would be still more

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difficult. Owing to unfavorable weather, terrain, and communications, an Axis army might take four months to reach the Russian frontier south of the Caucasus, even with the cooperation of the Turks.

A fourth possibility—a limited offensive against Turkey to occupy the Thracian, Aegean, and Black Sea coasts—seems the only one that the strength of Axis forces at present renders probable. By opening the Straits to Italian warships, such an attack might aid the main offensive against Southern Russia. It is perhaps toward this that the Axis is directing its preparations in the Aegean area.

Détente in Turkey

Reports from diplomatic sources confirm the foregoing analysis. The Swedish General Staff apparently anticipates no Nazi move against Turkey and believes that the spring heat will gradually bring on a stalemate on the Libyan front. In the Aegean area, according to the Swedish observers, the Germans are simply aiming at mastery of the air so that they will be able to deny these waters to the British Mediterranean fleet. Even the 100-odd transport planes recently arrived in Crete are apparently to be used rather for the supply and reinforcement of Benghazi than for any aggressive moves.

As King Boris of Bulgaria, after his conference with Hitler in Berlin, adjourned his Parliament until fall, rumor had it that the Fuehrer was pressing for a Turko-Bulgarian pact—an indirect way of aligning Turkey with the Axis. In any event, reports from Ankara indicated that the present location of Bulgarian army units implied no particular threat to Turkey. A maximum of 250,000 men was distributed about as follows: one division in Greece, six in Serbia, seven in northern and western Bulgaria, and four near the Turkish frontier. And a careful air reconnaissance by Turkish

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planes found no evidence of aggressive concentrations in the Aegean islands or on the Bulgarian border.

Liquidation of Hungary?

The tension between Hungary and Rumania—while unabated—has not yet resulted in any major border clashes. A report from Bern gives a possible explanation of what Hitler may be seeking. In a couple of weeks, the report states, the Fuehrer will "help" Imredy—who, along with most of the officer corps, favors full military aid to Germany—to seize the Hungarian government. The result, however, will be the liquidation of the Magyar state and its transformation into a part of the German Reich with a status similar to that originally granted the Bohemian-Moravian Protectorate. Rumania, the report concludes, will recover northern Transylvania—that is, if she sends the required number of troops to the Eastern Front.

Fresh Threats of Vichy Collaboration

As Germany prepares for the much-heralded offensive in the east, so in the west she is taking precautions of a political nature in order to insure herself against possible French disturbances. Germany seeks a solution of the French problem which would meet the requirements of her security and supply. It is now believed that the Riom trial may be cut short. Prominent members of the Vichy government have been forbidden to travel between the two zones. And Pétain may have to bow to Nazi pressure and permit the creation of a collaborationist regime, in which Laval is endeavoring to find an important part. At the same time it is authoritatively reported that the Germans will pick their time and force the issue whenever they believe it expedient to do so.

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Cooperation between Spain and France in Morocco and Rio de Oro in matters pertaining to aviation, and specifically to the Iberia Company, have been the subject of recent negotiations. Refueling facilities would be offered to French planes traversing the Spanish territory of Rio de Oro to and from Dakar, and similar facilities offered to Spanish planes traversing Moroccan territory. Such a plan would aid civil transport and communication for the French, on the one hand, with Dakar, and the Spanish on the other, with the Canary Islands. There are also reliable reports that high Spanish authorities have shown interest in coming to a similar agreement for French Guineá.

A Critical Election in Colombia

Since Colombia occupies a highly strategic position, facing both the eastern and western approaches to the Panama Canal, the Colombian presidential election of May 3, which will determine whether or not Colombia is to have a democratically-disposed regime for the next four years, is of critical importance. Beneath the oratory about domestic questions in the current presidential campaign, the issue of foreign policy is basic, and is clearly drawn between the candidates.

Under the present incumbent, Eduardo Santos, Colombia supported the United States at the Rio Conference, severed diplomatic relations with the Axis, and deported Axis diplomats more promptly than any other South American government. Santos, a rather weak President, has nevertheless tolerated both Nazi and Falangist activities, and bequeathes to his successor a situation of great potential danger to the united defense of the hemisphere.

Both candidates for election, ex-President Alfonso López and Dr. Carlos Arango Vélez, are of the Liberal Party, domi-

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nant in Colombia since 1930. López, a left-wing Liberal, is the official candidate of that Party, and represents the pro-United States forces in Colombia. As President from 1934 to 1938, during a period of serious economic dislocation, he favored the redistribution of large landed estates, and permitted the organization of trade unions. His chief support now comes from the lower middle classes, the small landowners, and the Confederation of Colombian Workers (C. T. C.), which includes all the Colombian trade unions and represents more than 100,000 workers.

Arango Vélez, on the other hand, draws his support from totalitarian elements among the right-wing Liberals, and, even more important, he has the special endorsement and formal backing of the Conservative Party and its Nazi-minded leader, Laureano Gómez.

Nazi Activity Continues in Colombia

The election is projected against a sinister background of Nazi and Falangist activity. Despite the departure of the Axis diplomatic staff, the Nazi organization in Colombia appears intact. The present Nazi leader is K. A. von Wahlert, who is associated with the Pfaff Sewing Machine Company in Bogotá. He has recently succeeded Emil Pruefert, formerly *Landesgruppenleiter* of the Nazi Party for Colombia. Pruefert is still active in Barranquilla, and remains the propelling genius of the Party. Strong Nazi groups exist in Cali and Medellín, led respectively by Carl Stumpf, manager of the Banco Alemán Antioqueño, and by Walter Springer, alleged chief of the Nazi Party in Medellín. Another important Nazi leader is Gustavo Gebhardt of Barranquilla, who publishes the *Karibischer Beobachter*. The United States has been obliged to blacklist more Axis

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companies in Colombia than in any other Latin American country except Mexico.

Nazi activities are effectively supplemented by the work of the Spanish Falange, and the Spanish legation now organizes Nazi propaganda. The Falange holds public meetings in Colombia, and circulates the stock arguments of *Hispanidad*. The recent celebration of the four-hundredth anniversary of the discovery of the Amazon, in which President Santos participated, was a Falangist project. The Conservative newspaper, *El Siglo* (owned by Laureano Gómez), gave ten columns, February 14, to the text of a speech by José María Pemán, extolling *Hispanidad*, and following the usual Falangist line. There is evidence that many public officials are Falangists, and that Catholic schools and priests are disseminating Falangist material.

Although López at the moment seems to be the stronger candidate, his defeat of these Conservative and totalitarian forces is by no means certain. President Santos, who controls the official election machinery, appears, from his newspaper *El Tiempo*, to be leaning toward Arango Vélez. The dangerous possibility exists, furthermore, that Gómez, supported by the Conservative upper land-owning class and the Church, and subsidized by the Reich, may try a coup aiming to reinstate the conservatives in power after an interim of twelve years.

Toward the Control of Axis Activities in Brazil

Information broadcast from pro-Axis radio stations in Brazil has for some time constituted a serious menace to the movements of ships and planes in that region, particularly to the planes along the bomber ferry route to Africa. While the Condor and Lati airlines remained in operation, and while the embassies and consulates of the Axis remained open, radio

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communication with Berlin was difficult to control. After Brazil broke relations with the Axis, certain stations (four were definitely located in the vicinity of Rio de Janeiro and São Paulo) continued to send messages. Raids on these stations, between about March 19 and 23, have now apparently closed the principal ones and blocked this channel of Axis communication.

The campaign against hostile espionage in Brazil, meanwhile, continues. Plans for a Japanese occupation of strategic points around the key industrial city of São Paulo were uncovered recently, and surveillance of Axis minorities has been intensified.

The German minorities in southern Brazil are in a particularly unhappy position. Undoubtedly the majority of the people of German descent, whose ancestors came to Brazil many decades ago, are not actively involved in subversive activity, nor are they wholly inclined to accept Nazi ideology. Nazi agents, however, are able to bring severe pressure upon them. As a result, the older people, in particular, who have lived in Brazil for thirty or forty years, have suffered from a war of nerves. Lacking information on political questions, they have been shocked by Nazi propaganda warning them of the intention of the Brazilians to confiscate their property, and to drive them into concentration camps. It is reported that fatal heart attacks have increased, and that the increase in the suicide rate is alarming. The real Nazis and the even more dangerous Quislings, meanwhile, use lurid reports of secret military organizations among the minorities to camouflage their own purposes.

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APPENDIX

NATIVE STATES AND POLITICAL COMMUNALISM IN THE CRIPPS' PROPOSALS

The Cripps announcement has left somewhat vague the proposed constitutional position of the Indian States (Native States), ruled by the princes. Apparently these States would have the right to accede to the Union or to remain outside it—whether with Dominion status is as yet unclear. The announcement simply states that "whether or not an Indian State elects to adhere to the constitution, it will be necessary to negotiate a revision of its treaty arrangements as far as this may be required in the new situation." It is reported from New Delhi, moreover, that Sir Stafford in a press conference suggested that he would see representatives of the *people* of the States. Such a step would be a reversal of the previous British practice of dealing only with the princes themselves, and might imply a revision of treaties leading to more modern and liberal institutions in the States at large.

The new principle of regarding India as susceptible of political division is obviously a result of pressure from Mr. Jinnah's Moslem League. Such pressure represents a logical extension of the phenomenon of "political communalism." According to this principle, representation in legislative bodies has been based on constituencies delimited according to religious or other interests rather than determined on a purely geographical basis; that is to say, in the provincial assemblies there are reserved for the Moslem and other minorities a certain number of seats which are separate from those of the Hindu majority, the so-called "general constituency" (see accompanying map).

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First imposed in 1909 in the Councils established under the Morley-Minto reforms, "Communal representation" did not succeed in settling the differences between Hindus and Moslems. Rather it increased them, and since then, communal tension has been growing steadily worse. The result has been further communal concessions in the constitutions of 1919 and still more in the constitution of 1935.

The acceptance of a plan similar to the one Britain has offered might change India from a single political entity with merely internal conflicting groups, into a number of separate states. Neither geographic, strategic, nor economic factors would govern the change, but simply the social incompatibility of India's population. On the other hand, it is perfectly possible that the Moslem League, with its program of a partition of India, would not be able to prevent even one of the four provinces with Moslem majorities (Bengal, North-West Frontier Province, Punjab and Sind) from joining the proposed Union (see map, also *The War This Week*, February 26-March 5, p. 9; March 5-12, p. 10.)

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 2, 1942

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

British Analysis of the Military SituationA. Russia

There is heavy fighting all up and down the front, with the Russians attacking in many sectors. There is little positional change, but little respite for the Germans.

B. Turkey

There is no reason to suppose the Germans contemplate an attack on Turkey in the near future, as the disposition of German forces in the Balkans remains unchanged.

C. Bulgaria

There have been no military developments of importance, in spite of rumors that Bulgaria is about to partake actively in the war against Russia. The Bulgarian Army is still well below mobilization strength. It has five full-strength divisions on the Turkish frontier, but this is normal.

D. Northern France

The German fighter planes appear to be avoiding combat in the British day-light sweeps over Northern France. (The German air force is undoubtedly conserving most of its strength for the Russian front. The British now have air superiority over both their western fronts: Western Europe and Libya.

(U.K. Operations Report, March 19 - 26, 1942)

Atlantic

The main U-boat concentration is still off the American Atlantic Coast. Out of fourteen ships torpedoed in the week March 19-26, eleven were attacked in this area, and one in the Caribbean. There are only a few submarines northwest of the United Kingdom and two or three south of the bulge of Africa.

(U.K. Operations Report, March 19 - 26, 1942)

France

The French appear to have stopped sending supplies to Libya, after February 19. There are indications that a French convoy will be leaving Madagascar, carrying oil to Dakar and supplies to France about the middle of April. It will probably be escorted by an armed merchant cruiser. It is possible that the German ship, "Wartenfels", which has been loading leather, graphite and coffee at Madagascar, will join this convoy.

(U.K. Operations Reports March 19 - 26, March 31, 1942)

Vichy Analysis of the War

The official Vichy radio made the following analysis of the present stage of the war:

The fate of the world conflict "will hang on Russia's capacity for resistance". In turn, Russia's capacity for resistance will depend largely on U.S. and British tanks and planes. Germany, Japan and Italy are concentrating and will concentrate their efforts on choking off the Soviet Union. "In short, it is no exaggeration to say that the Germans and the Nipponese are doing everything in their power to prevent the supplying of Russia."

(Federal Communications Commission, April 1, 1942)

Burma

There are now six Chinese divisions on the Burma Front. (About 8,000 men each, or a total of 50,000 men. The British have two divisions, or 30,000 men. The Japanese have at least four divisions, with three more immediately available, or a total of around 125,000 men, compared to the Allied strength of approximately 80,000 men.)

(U.K. Operations Report, March 19-26, 1942)

Pacific

The British estimate that the Japanese still have twenty-nine divisions in the southwestern Pacific, or almost 600,000 men. It is believed that the Japanese in Siam have recently been reinforced by one division from the Canton area. It seems that the Japanese are building up an immediate reserve in Siam.

(U.K. Operations Report, March 19-26, 1942)

Japanese Military Psychology

(The following excerpt comes from a captured Japanese military handbook. The handbook was distributed to officers and men who were to participate in the landings on the Malayan Coast.)

"For us success is a foregone conclusion once the landing has been accomplished. The enemy's tanks and planes are a collection of rattle-traps. We know we will win, and the only problem is how to do it skillfully...The waging of war with the enemy's own gasoline and provisions, deep penetration into the midst of the enemy by a small number of courageous men who make the fullest possible use of darkness--all such activities produce a feeling of swallowing the enemy and are of the utmost importance."

(M.I.D. Information Bulletin, Number 10)