

June 4, 1942
10:20 a.m.

WAR BONDS

Present: Mr. Bell
Mr. Graves
Mr. Gamble
Mr. Buffington
Mrs. Klotz

H.M.JR: Good morning, gentlemen. On our procedure for tomorrow - I was thinking about that, and I thought I ought to see our State War Bond administrators first alone--

MR. GRAVES: That would be good.

H.M.JR: ... and tell them what I expect them to do; and then after I have seen them we will have a joint meeting, but to bring all these people in at the same time is not so good.

What do you think?

MR. GRAVES: I think that is right.

H.M.JR: Well, how long do you think it will take me to tell them, as a junior partner, what I would like?

MR. GRAVES: Well, it depends - if you want to tell them, it won't take long; but if you want to get their individual reactions to some of these things, as I think you ought to, you should take an hour.

H.M.JR: That is what I was thinking.

MR. GRAVES: I would let these fellows talk if I were you.

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H.M.JR: I will give them an hour, and then who will come in at eleven?

MR. BELL: Five presidents.

H.M.JR: I will just put down Federal Reserve.

MR. BELL: And I only asked the presidents to come, not their executive managers.

H.M.JR: You asked them, and not the executive--

MR. BELL: Not the executive managers.

H.M.JR: You decided not to?

MR. BELL: Well, I took it that this was not a Victory Fund Committee matter, that this was a matter between you and the presidents of the Federal Reserve Banks as your fiscal agents. You were going to ask them to do a job; and if they want to use their executive managers, I think they are at liberty to after they get your instructions, but I understood it was not a Victory Fund Committee proposition.

H.M.JR: That is right.

MR. BELL: So I think they ought to be left out, and Mr. Eccles will be here, too.

H.M.JR: At eleven?

MR. BELL: Yes. Well, I said at ten, that was the time set.

H.M.JR: I am changing it.

MR. BUFFINGTON: That is just as well, to let those people know in general what was going to be discussed.

H.M.JR: You want them to meet in your office at ten and then come here at eleven so you can prepare them?

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MR. BELL: Just any way you say. I can wire them and say, "Your appointment has been changed to eleven." I think some are going to have a little difficulty. Hap Young will have a little trouble getting here at ten o'clock, I suppose.

H.M.JR: Who is going to prepare these fellows - they are going to come in to these meetings cold.

MR. BUFFINGTON: I thought either I should have a meeting or you (Bell).

H.M.JR: I think, Dan, if you don't mind, I would leave it the way it is and let them meet in your office at ten with Eccles and with Buffington and thrash this thing out in your office at ten. You can say, "Wait a minute, I will have Mr. Morgenthau step in and he can settle this thing now," and then before you come in I could step into your room a minute if you needed me.

MR. BELL: I don't know of anything to settle.

H.M.JR: Well, the point is, look, I have had - this thing has taken an enormous amount of time, and it is very important, but I think you will find there will be things to settle. Let's leave it at ten o'clock in your room.

MR. BELL: All right.

H.M.JR: You never know, after all, they may have some problem and we could work between the two rooms. You may say, "Wait a minute, let's have Morgenthau come in here and put this thing up to him."

MR. BELL: It wouldn't look bad, would it, having an administrators' meeting here and a presidents' in there?

H.M.JR: No.

MR. BUFFINGTON: I do make this one suggestion, if finally those executive managers under the Federal

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presidents are going to be involved, I don't know why they shouldn't have tomorrow the final thinking on this thing in order that they can go ahead if it is decided that the presidents of the Federal Reserve Banks are going to use them in working with these State administrators. That is just a suggestion. Dan has just said that it is not a Victory Fund Committee, that the presidents of the Federal Reserve Banks could use their executive managers if they chose to. They are going to choose to, I believe, and therefore I wonder if it wouldn't be better to have a complete understanding between the State administrators and the executive managers.

H.M.JR: And have them on hand, too?

MR. BUFFINGTON: That is the way I always thought of it, but I don't want to make that suggestion if it is confusing.

H.M.JR: This is just for that purpose, so the thing will go smoothly, because Harold and I - we leave tomorrow night, and we expect you boys to do a good job while we are gone or else Harold and I won't sleep well.

MR. GRAVES: I may have to postpone my getting away because of this hearing which may not occur tomorrow. I will have to stay until that time.

H.M.JR: Graves is the most difficult man to handle.

MR. GRAVES: It "ain't" my fault.

H.M.JR: Yes, I know. Graves has more excuses for why he doesn't want to go away on a holiday, but I don't know anybody else who has difficulty.

MRS. KLOTZ: I have heard that before.

MR. GRAVES: I just heard this morning that they may have to let this hearing go over until Monday, and, of course, we can't control that. We have to be there when they set their hearings.

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H.M.JR: Well now, Buffington has raised the point. What do you think about having these people around?

MR. GRAVES: I would say no. If I understand you, you are going to work this out with the presidents of the Federal Reserve Banks as your fiscal agents, and the Victory Fund Committees as such are not in this picture.

H.M.JR: That is right.

MR. GRAVES: And I think that to have these executive managers here would create at the beginning a wrong impression--

MR. BUFFINGTON: O.K., I subscribe to that.

MR. GRAVES: ... of what your program is.

H.M.JR: That follows the theory we are going to make it tough at first. What I am going to say - and I am going to tell these big War Bond fellows that I would say, "Now, look, gentlemen, I am responsible, as chairman for the State of Ohio," or the State of New York, or Massachusetts, "and I have to sell my share of F and G Bonds, and I can get through the Federal Reserve a lot of good salesmen who are crazy to do something, want to do something, and are experienced." I would say, "God bless you, boys, go and do it, and ask the president of the Federal Reserve Bank to handle it, and leave it to him to get those people." That is the way I would do it, and then give them my talk about "We want the best man in each county, with no label." Now, if these fellows are as good as one George Buffington thinks they are, then they are going to turn out to be the same people who are on the Victory Fund Committee.

MR. BUFFINGTON: Well, Mr. Secretary, I would like to qualify that, that in my opinion I don't think they will be as effective as individuals as they will be as members of this organization, working under these District managers.

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H.M.JR: No, you missed the point. I said that if they are as good as you say they are, and if these State fellows follow my advice that they get the best men in each State, then they are going to pick your men.

MR. BUFFINGTON: Sure.

H.M.JR: But I think to have them here sort of forces the issue.

MR. BUFFINGTON: Then, by all means don't.

H.M.JR: If I say they are downstairs waiting to be asked, I think it kind of forces it; but if, on the other hand, we follow the procedure that I am very tough to begin with, then sweeten up as we go along, I think it is going to end that they are going to use your boys. Don't you think so.

MR. GRAVES: No.

H.M.JR: You don't think so?

MR. GRAVES: No, not beyond what we urge our people to do. Now, our people will go along, and they will do whatever you suggest by the way of working this thing out, except, as I have said repeatedly, I don't think our people will take kindly to this arrangement. That is, it is not a thing that they will do voluntarily. Take, for instance, the State of Washington; under this set-up we would be asking our people in Washington to go to San Francisco to get the cooperation of the Federal Reserve Bank. Now, that is just trying to make water go up hill as far as our organization is concerned.

H.M.JR: How about Oregon?

MR. GRAVES: Same thing in Oregon. Our people there will have to go to a stranger, the president of the Federal Reserve Bank at San Francisco and ask him to take the responsibility for sales in Washington and for sales in

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Oregon. Take the two parts of California; we operate, as you know, in two divisions in California. Our southern California people have got to go to San Francisco and ask the Federal Reserve Bank people.

H.M.JR: That might be so, but the chances are in New York it will work out.

MR. GRAVES: As I say, in areas it will work.

H.M.JR: That is all I have been saying right along. I think in New York where Perry Hall has been working for Dick Patterson the chances are he will continue to work, but it will stop this duplication, and that is what they are complaining about.

MR. BUFFINGTON: To clear that point with Harold, that is not the way I visualize the thing working out in California. The chairman of the committee in San Francisco has a regional chairman in Seattle, one in Portland, one in Los Angeles, one in Salt Lake City, he would instruct that man in that local area to work with the State administrator so there wouldn't be any--

MR. GRAVES: Well, that is possible.

H.M.JR: Look, George, that kind of conversation could take place in Bell's office from ten to eleven tomorrow. Let me get these State administrators, and let me listen to them for one hour, ten to eleven, in my office, then I get them into a frame of mind - hope I get them in a frame of mind the way I want them. You two fellows (Graves and Gamble) be here. Then if I get any troubles, I can walk into Bell's office and say, "Look, the situation is shaping up this way." If you have got something in there, you can say, "It is shaping up this way." But certainly by noon tomorrow the thing is going to be settled.

I think, young fellow, (Graves) as the junior partner, I make this suggestion; if you are going to have three hundred and fifty million dollars of F and G, you had better let your State administrators know that.

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MR. GRAVES: We will.

H.M.JR: You had better let them know between now and sunset tomorrow.

MR. GRAVES: They are meeting in my office at nine.

H.M.JR: What are they doing from seven on, meeting with Ted Gamble? (Laughter)

MR. GRAVES: Some will get here at eight or nine in the morning.

H.M.JR: Are you satisfied?

MR. BELL: With the arrangement, yes. I don't think it is a good setup, but I am happy about it, as a junior member of this organization. I think it is still going to be confused. I don't want to throw cold water on it at all, because I agree with you that there has been too much discussion about it, but frankly, I think it is going to be confusing. I am sorry to throw that cold--

H.M.JR: Well, time will tell.

MR. BELL: That is right, we just have to experiment during the month of June. That is the only way.

H.M.JR: But it is too important a decision, I mean, to go and turn the entire thing over, lock, stock, and barrel to the Victory Fund Committee and gamble on that thing until they have demonstrated what they can do, or to the Federal Reserve.

Well, let's try it papa's way, and everybody put their shoulder to it. What I am going to do is, I am going to ask the president of the Federal Reserve to call for volunteers among security salesmen all over the United States to assist us to make our quota on F and G's. See? The State administrators will ask these fellows to do it, and then they will be corralled under the president

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of the Federal Reserve to go out and do this thing wherever they are asked. Right?

MR. GRAVES: Yes.

H.M.JR: That is, if the State administrators want it that way, but I am not going to force it.

MR. GRAVES: Well, that is why I think it is advisable for you to talk with these fellows and encourage them to talk with you, because they are all going to - they will have plenty of curiosity about this thing.

H.M.JR: O.K.

June 4, 1942
11:05 a.m.

INFLATION

Present:

Mr. Haas
Mr. Kuhn
Mr. Stewart
Mr. Currie
Mr. Ruml
Dr. Likert
Mr. Hackman
Mrs. Klotz

H.M.JR: Well, gentlemen, I have been following a kind of a hunch, which may or may not lead anywhere, but at least it is an important one if it leads anywhere, that is, what are the people doing with their money.

I asked Mr. Ruml if he would see whether he could work out some way through either his own stores, or other stores he could find, so that I could know on Wednesday what happened the week before, and I have been asking Dr. Likert, who is now working for Mr. MacLeish's organization, whether he could do the same thing.

I spoke to Mr. MacLeish last week, and he said we could have anything if we would only write him a note and ask him for it. But the whole point, if we are going to be of any use - we can't get anything out of the Department of Labor that is fast stuff, that is, so I could know in the middle of the week what had happened before.

Now, Mr. Roosevelt is very much interested in this thing and gave me some suggestions immediately, which I passed on to Mr. Ruml. He said he wanted to know which were the items - he said, "Take ten items, which are they buying more of and which are they buying less of. Just because the retail stores are doing less business doesn't mean - that in itself isn't significant." That is what he says. He says, "I am not going to advertise because if I was so bold as to come out in the press

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to say that it doesn't necessarily mean that the seventeen billion dollars is going to be the pressure, I would have everybody jump on me, and maybe correctly."

So I think, for my edification, if Mr. Ruml could start in first and tell me what he found out last week and what he thinks we should do, I would appreciate it.

MR. RUMI: Well, Mr. Secretary, I will give you what we have. What we did was to examine some statistical material. In addition to that, we carried on some interviews with people to get some first-hand information as to what people were actually thinking about.

We were able to interview twenty-four people. That doesn't sound like very many, but it is a very time-consuming and difficult performance, difficult because you are under suspicion to a certain extent, time-consuming because there is no use simply getting people to fill out a questionnaire. Anybody can do that, and when you get all through you don't know whether you have got anything typical or not. All you have got is some material that if you have got a good intuition maybe it will lead you to the right inference, and if you have got bad intuition may lead you wrong. I am terribly afraid of the technique, because - and this is just a general qualification disclaimer - the more vivid something is the more likely you are to remember it, but that is no proof that it is accurate, and it is a terribly tricky thing.

Now, on the statistical side this is what we are able to say, and again, Mr. Secretary, this is only Macy's, it is only New York; it might be the kind of thing we might be able to organize a reporting service to get for you. I think myself it ought to be through some public agency and not through a department store or through a trade association, if you can find a public agency to do it, because there are too many things at stake in this thing to have it monkeyed with. I know that I wouldn't trust anyone but Macy's to get the information for me. I don't think you ought to trust Macy's. (Laughter)

Well, here you are.

H.M.JR: That is wonderful, isn't it?

MR. RUMEL: Well now, on the statistics: (Reading)
"1. There has been little evidence as to date of the release of powerful buying pressure, except for scare buying spurts in lines such as Silk Hosiery, Underwear, radios, Refrigerators and other major electric appliances, sheets, Woolen Yard goods, Coats, Suits and Blankets. Mostly, these occurred previous to the past four months.

"There has been a substantial drop in Dollar volume during the last two weeks (three, if this week ends as it started). Explanations are varied and difficult to establish. The institution of ceilings may have taken some of the incentive out of buying now rather than later. Newspaper Publicity on other phases of the Government's attack on inflation is also cited as an explanation."

In other words, we find nothing that represents a general buying impulse, and, I may say, contrary to all expectations. The reasoning was that as soon as the price ceilings were on then the public would buy with confidence; exactly the opposite happened, the bottom dropped out of it.

H.M.JR: That to me is most interesting.

MR. RUMEL: It is very interesting to explain now that the ceilings are on people don't have to anticipate and therefore why should they buy, but we couldn't figure it out three days before it happened. After it happened, it is all very clear. (Laughter)

H.M.JR: I don't know whether you mean to be funny, but it is amusing.

MR. RUMEL: Both funny and tragic - when you have an expert bunch of statisticians who can tell you after it happened why it happened.

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H.M.JR: One of the reasons I asked Lauch to come in here is because last fall Lauch was the only person out of thirty people in this room, who were supposed to know, who said, "It doesn't necessarily mean that we are going to have inflation this spring." Is that right?

MR. CURRIE: Yes.

H.M.JR: Go ahead.

MR. RUMI: "Physical volume, as measured by transactions (and on investigation this appears to be warranted)--" I put that in parenthesis because I wanted to explain to the technicians that we were very careful to see whether we could incur physical volume from transactions. There are some reasons to think you might not be able to, but we think it is a fair inference.

"Physical volume, as measured by transactions (and on investigation this appears to be warranted) is substantially below last year in most lines. Exceptions are Men's Suits and Coats, Women's Underwear, Toys, Radios, Refrigerators and other electrical appliances, Pianos, Jewelry, Sportswear (Men's, Women's and Children's).

"There has been some shift in purchasing from lower to higher price lines in these types of merchandise where this can be quickly studied, such as Women's Dresses, Slips and Shoes. On the whole, the customers seem to have continued to buy the same quality at the new higher price, but in smaller quantity. There are some exceptions such as Silverware where plated ware is being replaced by the lower price ranges of Sterling, which is still more expensive." That is one of the interesting merchandise phenomena.

"Customer traffic is in general not very much different from last year (some days higher, some lower). But consistently we have been getting fewer transactions per customer during the last few months.

"Cash Time (Instalment) sales have been lagging behind total Store sales, all of this year and part of last."

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Well now, that is all we can say from the statistical material, Mr. Secretary. There is probably much more in the statistics but nothing that we felt we could say was sufficient, certainly, to report it to you.

Now, on the interviews, the interviews are extremely interesting and I am going to leave them here for anyone to read that has the time. They are extraordinarily well done, I think.

H.M.JR: Could you give us a couple, Mr. Ruml?

MR. RUMML: Yes, suppose I do.

H.M.JR: Just to give us the flavor.

MR. RUMML: Now, let me give you the flavor. I am going to take this - it will take a minute--

H.M.JR: I have got from now until twelve o'clock.

MR. RUMML: Because there is no short-cut clinical material.

H.M.JR: I have got from now until noon.

MR. RUMML: Let me give you a Defense worker. Here is a man forty-five years of age working at the Aluminum Company. We actually went to the plant to get some of these.

"Through overtime and regular wages his salary is now nominally about \$60 to \$65 per week. He expressed some surprise to me that a salary which he once considered munificent still is not sufficient to give him everything he wanted. For one thing, his actual salary is much smaller. Several deductions take away parts of it before he ever sees it: His union agreed by vote that all members should put 10% of their salary in war bonds. The company deducts this and when the sum collected is sufficient, gives him the bond. There is a hospitalization and insurance plan for which the company deducts. Unemploy-

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ment insurance and old age pension deductions are made regularly. Union dues are checked off. Incidental contributions to the Red Cross and other charities further deplete his salary. His actual present income is more of the order of \$46 to \$50, than \$60 to \$65. This is still more money than he ever had before.

"With this amount of money coming in regularly, he has done the following things:" The first thing he did was start paying off the loans; he pays something off each week.

Now, it is very characteristic in all the cases where men are working on war work at higher salaries that this pattern of paying off loans to friends, which probably won't go on forever, but it is one of the persistent things in these cases--

"He moved into an apartment, 'So that the wife and kids can have a decent place to live in for a change.' This costs twice as much as the room did. He thinks he is overpaying, but expects that of course everything goes up in war time. (He would like to see the government fix rents at levels of two years ago. His theory is that, if the owners could make a profit out of those rents, why should they make more of a profit in war time at the expense of people with low incomes.) He also bought some furniture to fill up the new apartment.

"He bought an old jalopy so he could get to and from work. He said he could not afford to buy a new one.

"He bought the oldest kid a nice bicycle which he had always wanted. He said he never minds spending money on the kids.

"He bought his wife a new coat and some new dresses and shoes and a new hat and a carpet sweeper. He reminded me that she had been without these things for a long time. He also bought himself a new suit which he wishes he would get a chance to wear, but he can't because he works so much overtime. He thinks there is no sense in buying himself

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any more clothes till after the war, but he loves to surprise his wife with gifts of clothes. Just yesterday he bought her a new pocketbook which cost him \$4. He said it was probably the most expensive pocketbook she ever had. But he admitted he had been extravagant, and anyway she bawled him out.

"He pays more for food, and he wishes the government would put 'a good stiff ceiling' on food prices. He gives his wife the money each week for food. He says that it seems to him every day he has to give her more than the day before.

"He intends to send his wife and kids away to the seashore this summer with a friend. He has saved a little money for that, and knows where they can get a cheap bungalow.

"He wishes he could put a little money away, but there never seems to be anything left over. He has had to do all the things mentioned above, slowly, because food, rent, and deductions take away about 75% of his income. He would love to save because he doesn't feel secure. He does not know how long the job will last, and he is afraid that as soon as the war is over he will be out of work again. He thinks he will need some ready cash at that time, and so he is trying to save it up. He thinks he will need it before his bonds mature, and would not like to cash them in ahead of time. But he is afraid that if times are bad right after the war, he may have to."

Isn't this the fellow, Hackman, who said he wished the Government would fix up some way so he could save money and be sure he could get it when he needed it?

MR. HACKMAN: Yes, I think that comes afterwards.

MR. RUMEL: Which is rather interesting and certainly is something that some test check ought to be made on because this fellow was under the apprehension he could not get anything for his bonds until they matured and feels very insecure for that reason.

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"when asked about the effect of a reduction in income, he said, 'You must be talking about compulsory savings. I've read a lot about that in the papers lately.' He said he certainly hopes the Government does not do that yet, because he certainly could not save, and would have to go very easy what with paying taxes, etc. He is afraid if that happens he may even have to cut down on the amount of defense bonds he is buying. He said, 'Please tell the Government about guys like me and then they won't do things like that. I think they misunderstand the situation.' He was not resentful ...just hoping they would not misunderstand. He wanted me to 'suggest to the Government' that at least the compulsory savings should be in some sort of bonds that you could cash in right after the war but still get some interest on them, because he was sure that was when the money would come in handy."

The deference that is shown is extraordinary.

H.M.JR: My speech last night was certainly in tune with that interview. I don't know whether you heard it or read it. It certainly dovetailed with that.

MR. RUMEL: Now, there are a couple of others, but you see, this is the most dangerous material in the world, Mr. Secretary, because you can confirm almost anything you want to out of it. But it does give you a lot of insight, no doubt about it. There is universal comment with respect to the cost of food, and everybody is buying some bonds.

I want to read you one case here that I think is priceless, just to show that you don't know what kind of a world you live in. Here is a woman interviewed at Macy's, past forty--

H.M.JR: Interviewed Macy's?

MR. RUMEL: This woman was interviewed in Macy's. You see we interviewed in Macy's, in Bamberger's out of Parkchester, and around some defense plants, just to get an indication of the stuff we might get.

"Woman, past 40, single, lives alone, interviewed at Macy's. Income is about \$1300. Is a dressmaker. Does not feel pinched in present situation. Living pattern simple. Any extra money used to go into travel and amusements, (Movies, etc.). Now any surplus goes into bonds. She had savings in the bank and still has. She has no debts and gives as much as she can to War Relief Societies. She doesn't feel that this year is worse than any other."

I mean, there is just that great under-current of - thirteen hundred, just think of it.

Well, here is a postal clerk - here is a young woman, Waitress, interviewed at R.H. Macy and Company. Has part-time job. Works from November to May every year. She, her husband, and two children live in Astoria. She earns about \$20 a week including tips. Has gotten no raise, and salary this year is lower than last. Tips are much smaller since she now has more woman patrons who don't tip as well as men. Her husband is also a waiter. He earns about \$35 a week. Their basic salaries without tips are respectively \$5 and \$12. He expects a \$1 weekly raise next week. Last year he averaged \$45 a week, but this year there are fewer parties, except for parties of soldiers who don't tip as well. He has no intention of changing his job. He feels he knows what he has but doesn't know what he might get."

Here is a woman from Arlington, Virginia who was interviewed in Macy's. "Husband owns small defense plant in Baltimore. Feels she has more money to spend but spends less. Puts a great deal into Defense Bonds. Doesn't buy much because she feels she shouldn't with conditions as they are, and for no other reason. Has cut down on clothing, and is more careful of food (Uses leftovers, etc.). Hasn't felt price increases much except on food. Is trying to cut down on gas use. All money saved is going back into the business for the necessary expansion to meet government contracts. (Family income in region of \$6000 to \$7000.)"

That is another different kind.

R.M.JR: That is a different category.

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MR. RUML: That is the sort of material that can be had, Mr. Secretary.

Now, I think that it requires great care in collecting. As I said, I think it ought to be done by a public agency. I think it ought to be done under the leadership of someone who has the rare combination of being able to get samplings out of material of this kind that are significant and at the same time is able to have an intuition with respect to some one little thing that may suggest a line of investigation that would be very important. It is a very difficult job.

As far as getting cooperation from the stores is concerned, I think that would not be difficult. I think that the stores would appreciate an opportunity to cooperate that way because the information - even the gossip they get out of it is extremely illuminating from the standpoint of their own operation; that is, they have something to get out of it as well as something to give.

MR. STEWART: May I ask exactly how you conducted the interviews?

MR. RUML: Hackman, will you describe the technique? We had a rather remarkable woman in charge of it.

MR. HACKMAN: We didn't want to construct any rigid kind of a questionnaire. We start out just talking to people, getting them to talk to find out the kind of program we would follow if we wanted to make this a mass project, or if anybody else did. The point was to get the woman talking. It is a fact that women when approached in the right way, sitting in the park up near our Parkchester store, or wheeling the baby, and having the interviewer sit down on the bench with her, or standing at a counter in the store - women will talk and talk and tell almost everything.

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I am always afraid to start out because I always have the feeling that I am prying into people's affairs, but everybody proves me wrong. They love to tell you. We have got a few cases here where they just about got up on the soap box and told the Government what it ought to do.

H.M.JR: Instead of finding it difficult, it is easy?

MR. HACKMAN: Yes, but that creates some of the danger that Mr. Rumel has been talking about.

H.M.JR: Do you want to ask something else?

MR. STEWART: That is all.

H.M.JR: What I would like to do is this. Dr. Likert, would you do this for these people, tell them, if you don't mind, about yourself, who you are, what you have done, and what your organization is and what you do. Would you mind? I mean, what have you been doing, how did you get this way, what have you been doing the last five years, who have you got working for you. Do you mind? I don't know, but I don't think anybody in the room knows.

DR. LIKERT: Well, I started off several years ago getting a doctor's degree in psychology, measuring attitudes, and I found out that your traditional type of attitude scale has some pretty serious limitations, implicit in the statements that you (Rumel) are making.

H.M.JR: What university?

DR. LIKERT: Columbia. It didn't give you the dynamics of attitudes. It gave you a fixed measure of a static picture of the important things in people's behavior but didn't enable you to predict what the course of events would be. I felt the important thing was to get this dynamics picture, what is behind

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behavior, what is behind these attitudes, and what are the factors that are shaping attitudes and pushing behavior in one direction or another direction.

So I shifted over to teaching and research in the College of Engineering at N.Y.U., trying to get a measure of attitudes and at the same time trying to get indications of the experience behind the attitudes; what caused it; where did it come from; how did it emerge; what factors were pushing it in one direction or the other. We found that we could get a substantial amount of data of that kind that could be systematically grouped and organized, even though we left the discussion fairly open for this other material that you didn't anticipate to flow in.

Almost always when you start out on an investigation you find that there are things in people's experience that we, because of our limited experience, overlook. We just haven't anticipated the possibility of that, and consequently it is exceedingly important in this kind of research to have an interview situation such that the new experience people are having is the kind of experience you didn't anticipate getting into your interview.

Then I went to the Life Insurance Sales Research Bureau at Hartford. It is an organization with a membership of one hundred and twenty life insurance companies here in the United States and Canada. I was in charge of their research, and I applied this basic procedure to the study of life insurance agencies, studying principally - well, the objective of the study was to study the whole process of management, what constitutes good management, what makes successful agencies in contrast with unsuccessful agencies. We contrasted a group of ten of the best life insurance agencies with ten of the mediocre agencies, and there again got some very surprising material that hadn't been anticipated would come into our interviews. The interviews were from ten to

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twenty hours with each general agent or manager, scattered over a three-week period, one interview running from an hour and a half to three hours. We had a general set of objectives that each interviewer had clearly in mind. We had fairly general questions which were used to get the person started talking. Our big objective was to get him to describe his experiences, to get him talking about what he was doing, why, what help he wanted, and so on.

Then the BAE, M. L. Wilson, and Secretary Wallace became interested in finding out how farmers were reacting to the various programs of the Department. They set up a Division of Program Surveys and asked me to come down here about two and a half years ago, which I did, and I have been doing this substantially same type of work here. We try to set up a control on the sampling process itself so we know who it is we interview. I think we have got some pretty satisfactory controls on that.

Now, both for rural and urban areas we do it on this basis. In urban areas, larger areas, we have a preliminary enumeration on a random basis in the community and then take maybe every twentieth or thirtieth name or family, depending on the size of sample we want. In that way it gives us a chance to control our sample. We can tell if we want more defense workers, for instance, and as we do that we know something about the characteristics of the family. That enumeration has an additional advantage where you have important shifts of population, as you have in Detroit. The interview itself runs - I think the longest interviews we have used are about an hour and a half; as a rule they are thirty-five minutes, forty minutes, up to about an hour and a quarter.

You were emphasizing that people do like to talk about themselves if you give them half a chance and open up the conversation; and the second thing they like to do is that they like to talk about the things that they are most worried about.

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One of the things we frequently find is that the statement of the Washington administrator is quite different from the statement of the problem at the grass roots level, and you have got to talk at the level of the grass roots description of the problem, not in terms of the administrator's concept of the problem. Our interview forms are aimed at that. We do a lot of preliminary work to find out what the problem is from the grass roots standpoint, how to get people to talk about it.

We try to get, generally, a pretty clear statement - I mean, a pretty clear picture of the cause and factors in their experience, and if the person hasn't voluntarily covered each of the different facts in the problem situation, we will sometimes ask a question about that particular factor.

I can illustrate the whole thing pretty well in terms of the problem of the increasing dairy production. We did a couple of studies last fall. The big area in dairy production is the North Central region, the Wisconsin area, that is, and surrounding States. It was important for the Department to get a rapid increase in production, and they had started certain steps in that direction.

The first thing we found when we interviewed a certain group of farmers - we wanted to find out whether he was increasing production, and, if so, what it cost. In order to get control on that we asked questions about credit, whether their credit was a problem, whether barn space was a problem, whether equipment was a problem, whether the form of market or outlet was a problem, and the price situation. Actually you talked to the farmer and asked him whether he was increasing, how things were going, whether he was increasing production at all. He would begin to tell you; he would say, "Well, price is very good." Price was the thing they were watching particularly. The Department of Agriculture had used

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price for quite some period of time as a major control, so farmers are now watching price quite closely.

This is illustrative of the importance of giving an opportunity for material to come through in the interview that you originally didn't anticipate. We thought we had covered every possible variable in the interview and had a follow-up question, and the farmer himself would voluntarily uncover the one important factor. It came through in thirty percent of the interviews. The question was this, that farmers spontaneously mentioned the fear of the post-war collapse, post-emergency collapse, at that time, and many of them were holding back from expanding production for fear of being caught. One farmer had sold every single cow he had except one, got a good price, paid off every nickel on the farm; he had his farm and didn't care.

H.M.JR: That is what Mr. Ruml said, that you have got to have the intelligence to look for the unexpected.

DR. LIKERT: The thing that happened was it showed up that farmers were holding back from increasing production, not because of a shortage of credit but because of the fear of credit. They were afraid of increasing their indebtedness, and consequently the thing that happened was they weren't expanding production and the thing that has happened is that they are paying off indebtedness right now.

That is just an illustration of the kind of thing we have been trying to do.

H.M.JR: Would you mind, before we get into the other - let's go around the room.

MR. KUHN: Could I supplement that just by a sentence or two. Dr. Likert is now recognized in the Government, I think, as the leading practitioner of interviewing technique as opposed to the rigid, direct-question technique. OFF, the Office of Facts and

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Figures, in which he is working, has a division which measures American opinion by all the various methods; and he handles it by the interviewing method, and then they also have Roper and Gallup and other sources. Is that correct?

DR. LIKERT: That is substantially so.

H.M.JR: Lauch Currie, do you want to ask something?

MR. CURRIE: No.

H.M.JR: Mr. Ruml?

MR. RUMML: I don't think so, Mr. Secretary.

DR. LIKERT: I omitted the whole process of analysis. It is a major heading. I think we have some fairly satisfactory procedures worked out on that.

MR. RUMML: My only point is as the thing gets wooden it is dead because the forecast of what is going to happen comes in that little cloud no larger than a man's head, that somebody is going to see. If he sees it, you are forewarned; if he doesn't, all you have got is statistics.

H.M.JR: Now, could you go from this step and tell us what date you have been able to get it for me so far, and how far you are along?

DR. LIKERT: There are two problems. One is this whole problem of inflation of prices and the way people are spending. The second thing is War Savings Bonds. Now, the War Savings Bonds, we will skip that.

H.M.JR: I don't think - this group is the price inflation - I mean, if they are interested and if we have time, but it is the price inflation they are interested in. They are all sold on the volunteer plan for War Savings so we needn't take the time.
(Laughter)

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DR. LIKERT: I am not surprised but what you found - I am sorry we didn't take a shot at predicting what price control would do because the thing that people were doing - we found that a very substantial portion of the people are admitting that they were stocking up, primarily in terms of fear of price. In so far as there becomes a fear of ultimate shortage and not being able to get it, you are going to have another run on buying; and at the present time, with the exception of a few commodities, I don't believe that there is too much fear of a shortage.

MR. RUMEL: I would disagree with you flatly on that. I would say that all the brief periods of scare buying were shortage-induced, not price-induced. Wouldn't you agree?

MR. HACKMAN: Woolens, silks, refrigerators, electrical appliances, and all the rest of it - they are of very short duration, two or three weeks, then over. The coat business is crazy right now. People haven't been buying spring coats; it is coats for next winter, and it is a matter of wool, not price.

DR. LIKERT: We have had two kinds of reasons coming through. One is on price, and the other was on this business of shortage. There has been more of a shift towards shortage than fear of price as time goes on. I think that is likely to increase. It is a rather interesting thing psychologically in terms of the way twenty-five percent of the people approve of hoarding. They don't call it hoarding; they call it stocking up, and that is approved. If you put it in terms of hoarding, then it is overwhelmingly disapproved.

It is pretty generally recognized that people are earning more money this year than last. Somewhat less than half of those interviewed stated that their own income has risen, but about four-fifths believe that others are making more money this year than last. That

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is, there is a more widespread feeling that, "The other fellow is making more money" than that, "I am making more money."

MR. STEWART: Of those interviewed, how many are getting more?

DR. LIKERT: A little less than half. Farmers were more inclined to feel - fifty-five percent of farmers stated that they recognized that they had an increase in income. Farmers are also more optimistic about further price increases or further increases in income.

There is a fair amount of criticism of defense workers, that is, the increase in income that defense workers have obtained and its effect upon prices. They feel that because the defense workers have money to spend for commodities that what has happened is that the merchant recognizes that they have more money and wants to get it, and therefore he arbitrarily raises the price on commodities. That has been the reason for this price increase.

You don't believe that, I judge?

MR. RUMI: I would doubt very much - I think there is so much competition among retail stores that if anybody gets out of line the mail order house knocks it down.

DR. LIKERT: That is the way people feel.

MR. STEWART: There is particularly a widespread feeling in the defense towns.

MR. RUMI: Of course we don't know anything about that.

MR. STEWART: They feel an increase in wages makes corresponding increase in prices.

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MR. RUMML: It may be in the defense towns; the retail competition is so poorly organized and so recent that they get away with murder. As a matter of fact, I heard that down at Newport News the retail situation is very bad from that point of view, simply because there was no competition.

DR. LIKERT: I was merely pointing out that this effect, as people view it, of increasing purchasing power upon prices - it isn't that increase in purchasing power has a certain effect upon the amount of goods available, and therefore tends in time to break the increase in prices. It is the feeling that if there is more money in town, more money available so far as defense workers are concerned, the merchants increase the prices correspondingly and the merchant gets it. They think of it in terms of profiteering and that type of activity rather than in terms of economic phenomena.

Suprisingly, though, this interviewing is based on interviews made in the three weeks following the Presidential broadcast on price control, and so on, and we picked up very little thinking on the part of people with respect to what the long-time effect of price control is going to be. They were all for it, very much in favor of it, but as affecting their thinking a year ahead they are still worried about increases in the cost of living. That is one of the things they are very much worried about, particularly in food, clothing, and rent. The major fear is food.

Insofar as we were able to get anything about what they were going to do with this increase in money they were making, people themselves are always going to be very virtuous. There is a kind of a question - if you ask what the other fellow is going to do you get a reflection of what they are likely to do. Six out of ten people stated that people are going to spend the money, and they are going to spend it - I think your defense worker illustration was an excellent case in terms of the kind of material - they are going to pick up many of the things they have wanted for some period of time.

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They are going to do things they formerly wanted to do but couldn't because of depression years, or whatever it may be. They are paying off indebtedness; they are buying the things they want to buy for their wives, are living the way they want to live, what they felt was their standard all the time.

MR. RUMML: Walter, don't you think that it might be possible to make some estimate of person-to-person debt through broad sampling and questionnaires? That would be an extremely interesting figure, to know how much aggregate personal debt there is of that pocket-to-pocket variety hanging over the country. It really must be tremendous, the way you pick it up in casual interviews.

MR. STEWART: As between relatives?

MR. RUMML: Noninstitutional debt.

MR. CURRIE: It would be interesting to have a little cross section of professional people, lawyers, dentists, and doctors, and see what they are doing with their increased payments.

H.M.JR: Are you making notes of these suggestions?

DR. LIKERT: I will.

MR. RUMML: I will bet you could come within twenty percent of the right figure.

H.M.JR: Could you do what they are suggesting? Do you think it would be possible?

DR. LIKERT: I think that it would be on the basis of that plan of continuous research operation on this type of thing, using both types of approach to it. I mean, this factual information you could get on a straight representative cross-section type of approach, I think.

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MR. RUMM: I think you ought to be able to build a sample you could project over the country and come within twenty percent of the aggregate.

MR. STEWART: Isn't the danger there, as you suggested before, that the thing will become a statistic rather than a useful administrative device? In the earlier work of Dr. Likert he had a perfectly definite assignment, how to get more dairy products out of Wisconsin. Now, as clinical material you have got to know what sort of thing you are aiming at. I should think the question would have to be built around some purpose; then you let the person talk, but otherwise it is all such interesting material about human action that your problem is how to bring it to use, which is extremely difficult. In the savings sample I see the inflation thing. I don't see this in enough detail to see what type of information you would find most useful.

H.M.JR: The original thing that I asked for - you check me if I am not correct, Dr. Likert - what I want to know is, using the seventeen billion dollar figure that everybody is talking about - it may be seventeen, or whatever it is, the gap - the amount of the money in the people's pockets they can't get goods for, I want to know what they are going to do with it. That is what I want to know. That is the concrete thing. Walter, can you--

MR. STEWART: I would like to break it down some.

H.M.JR: Will you, for me?

MR. STEWART: I don't know how. I would like to think about some form of breaking it down. That is a little like what Dr. Likert says. That is your problem as an administrator; that is the way you conceive the problem. But to break it down for the interviewer, what questions to ask which will shed light on the problem, that is another stage of analysis you are confronted with. Dr. Likert may have done it.

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H.M.JR: I don't know. But to go back, give them something concrete. - Well, it isn't an administrative problem. I realize that as an administrator sitting here I can't find out. I can listen to everybody in Washington who has an opinion. They all think they know, and they feel very emphatic about it. I never saw people feel so emphatic about anything in my life. There isn't anybody that I have met that has been in the field and talked to anybody, but they have all got the answers.

MR. STEWART: I am sure you are right.

H.M.JR: I went all over the country trying to find out who could do this job for me, and I learned we had somebody right here in Washington. But the problem, I mean, just to give - I mean, it isn't my problem, it is Nelson's problem; it is Henderson's problem; it is Mr. Roosevelt's problem; it is everybody's. What is going to happen to the extra money that we pull out and pay for munitions which immediately becomes sterilized or blown up or destroyed, but the money that we pay for them stays in the workers' pockets, and what are they going to do with it?

MR. CURRIE: Aren't we particularly interested, Mr. Secretary, in whether or not after the rationing of durable consumer goods the additional money will spill over into soft goods and foodstuffs, nondurable, which in turn would give rise to shortages, which in turn would lead to necessity for rationing a great variety of goods. We would like to know whether people are going to increase greatly their consumption of the remaining consumable goods which are not now rationed, and from that point of view we want to make a distinction between the debt repayments and payments of dentists, the vacations, more rent, things which are person-to-person transfers, to the actual impact on foodstuffs and clothing and furniture and things which are unrationed.

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MR. RUMML: I think you are absolutely right. That is why I raised the point, because when this person-to-person thing runs out, just as when the installment thing runs out, then you can look for a new phenomenon to take place pretty soon.

DR. LIKERT: There are certain forces that I think tie in with what is likely to happen. One of the things that is happening is that people are thinking of their standard of living, not what they have had but what they had at the best time in the past, and are thinking that now is the time they are going to come back to that standard of living.

MR. RUMML: There is another thing that ought to be studied if it hasn't been. You mentioned this money that the Government is putting out for war purposes. To examine it, right at the first impact, in terms of what is - I don't know the word for it - the marginal dollar on top of your ordinary dollar, at Macy's the dollar volume we are getting on top of what we need to stay in business. We kill seventeen cents out of every dollar at the counter, which doesn't go any further. That is quite a different thing. It is just as if there was a sales tax of seventeen cents.

H.M.JR: What happens?

MR. RUMML: You set aside a reserve for depreciation out of it; you set aside reserve for next year's excess profits taxes, the profits that are not paid out in dividends, other reserves that are put away against some rainy day.

MR. CURRIE: In other words, an unusually large proportion of Government expenditures now do not go through to wage earners; they get short-circuited as special reserves, depreciation, and so forth.

MR. RUMML: But it is very important to take the marginal dollar, not the average dollar, because this

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purchasing power you are talking about is the marginal purchasing power created by the Government. I am convinced that a tremendous proportion of that is sterilized at the first impact it hits the company that gets it.

H.M.JR: Wait a minute, you are talking about something else again, if I understand you. You are talking about a company, and I am talking about the individual's salary, the wage earner, which are two different things. The seventeen cents that you sterilize doesn't affect the employees of Macy's.

MR. RUM: It means there is seventeen cents less purchasing power.

MR. STEWART: One of those men went from sixty-five down to forty-six; your first defense worker was getting sixty-five dollars but net forty-six.

H.M.JR: But that was for an entirely different reason.

MR. RUM: In principle it is the same, but the point that is--

H.M.JR: I don't see it.

MR. CURRIE: This was just an amendment on your statement you introduced by saying all the money the Government is spending for munitions is just gone. Not all of that money is going into this type of thing we are concerned with.

H.M.JR: From the standpoint of the corporation.

MR. CURRIE: From the standpoint of the Government dealing with these three billion dollars, which are not a net addition to expendable cash income. That is all B. is saying.

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H.M.JR: Haven't we figured that when we arrived at the seventeen?

MR. HAAS: That is taken into account.

H.M.JR: I still don't think he is right. I mean, I don't think he is right, and I am so bold as to say so.

MR. STEWART: He is right about the expenditures; he may not be right about the gap.

H.M.JR: George, is he right or wrong? Have you taken that into account as far as the corporations go?

MR. HAAS: That is taken into account before you arrive at the seventeen. The seventeen is over and above.

MR. HUML: All right, that is fine.

H.M.JR: That is what I wanted to be sure. That has been taken into account?

MR. HAAS: The best we can estimate.

DR. LIKERT: There is one other question I would like to ask in this regard. Is the seventeen billion based upon a decrease in the standard of living - I mean, does it make the assumption it is between the amount of consumer goods available and the purchasing power available?

MR. HAAS: That is right.

DR. LIKERT: And consumer goods represent a lowering of consumer goods, or of shifting kinds, certainly?

MR. CURRIE: Some lower.

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MR. HAAS: It may be a different combination of consumer goods expressed in value terms. When you finally get down to the gap there are different ways of figuring. One way is that you have so many dollars' worth of consumer goods, and maybe a different combination, and over and against that you have purchasing power in the hands of the people who are attempting to spend it, or may attempt to spend it, available for expenditures on these consumer goods.

MR. CURRIE: Mr. Secretary, I have to leave for my next appointment.

H.M.JR: What I am going to ask is - I hope to not be here next week, so I would like, if you people are interested, that we meet again two weeks from today.

MR. CURRIE: Yes, I would like to. There is one little bit of additional evidence I would like to throw on this thing. Have you seen the study of the SEC on savings in the first quarter of this year?

H.M.JR: I take it George has. I read it in the paper.

MR. CURRIE: That was discouraging. It said there was a decrease in savings. But I spoke to my assistant just before I left the office, and he says that there are two rather important adjustments that were not made there. There was a sizable decline in income available the first quarter and a sizeable increase in tax payments; between the two of them they amount to nearly two billion dollars. So it may affect the interpretation of the SEC's findings very greatly. I want to check further into that.

H.M.JR: I was going to speak to SEC. I wish you would, George, over my name. I think it is unfortunate they get these things out without ever letting us see them. Mr. Jones is not going to do it any more. I

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spoke to him about these monthly bulletins of the Department of Commerce. We are going to get a chance to see them first.

You might ask the SEC before they get out another statement - I spend all my time arguing and trying to explain other agencies' reports that I never see until I read about them in the press.

MR. KUHN: The SEC report was very damaging to us on the War Bonds because it indicated the campaign had been a complete failure in achieving its purpose.

H.M.JR: If you can follow up on that, would you let George know?

MR. CURRIE: Yes.

(Mr. Currie left the conference.)

H.M.JR: I just want to ask one thing. Can you make use of either the Macy organization or any other department store in helping us?

DR. LIKERT: Yes, I think it would be very useful. I would like very much to see a copy of your interviews.

MR. RUMML: I will leave them here.

DR. LIKERT: The second thing that would be very helpful is a relation of the kind of psychological, if you want to call it that, with the phenomenal you have in terms of the purchases themselves. One of the things that might very profitably be done would be to work a group of interviewers in the New York area so that we are covering the exact area that your purchases tend to reflect.

MR. RUMML: I think if you want that sort of thing it ought to be done on a Nation-wide scale and ought to be very carefully built up.

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I would suggest that perhaps if you are available this afternoon that Mr. Hackman might introduce you to Dr. Craig of the American Retailers.

DR. LIKERT: I know him.

MR. RUML: He is a very competent technician, and he would be able to correlate with your stuff any statistical material with respect to behavior observed in the store.

DR. LIKERT: How much slack is there in the material that he has?

MR. RUML: You can get it telegraphically at your expense.

Another thing worth remembering in that connection is that the stores like to report to the Federal Reserve Banks of their district. They have been doing it for years and have great confidence in them. You might be able to use Goldenweiser in that connection.

H.M.JR: Do you know who started that? I did, and after I got it going then we turned it over to the Federal Reserve. Did you know that? Is that right, George?

MR. HAAS: They had it for a long interval.

MR. RUML: Mr. Secretary, I was your agent in doing that.

H.M.JR: I remember.

MR. RUML: My point is that we found out at that time--

H.M.JR: Well, I mean, at that time they liked to work with the Federal Reserve - so do I, believe it or not. (Laughter)

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MR. RUMI: They did not like to work with the Department of Commerce. That is what I am trying to say negatively.

H.M.JR: Well, anyway, we can get anything Goldenweiser has got. George can get it; you can get it.

Could I ask this before we break up. Since talking with Mr. MacLeish is there anything that I should write him about? He said if I wanted anything to write him personally, if you needed any more help to do anything more for us, money, people, or anything else.

DR. LIKERT: I think there may be. I would like to work out a plan on that and check back with you or Dr. Haas on it so you may follow up on it.

H.M.JR: Whatever you want me to do - can you get whatever you want to me between now and noon tomorrow?

DR. LIKERT: Yes, I can.

H.M.JR: By noon tomorrow. MacLeish said to just tell him what I wanted and he would pass it down and see that I got it.

If between now and noon tomorrow - I don't know how many of the fifty people you have are doing this - if you need any money or anything, MacLeish said if I would write him he would give it to Kane and Kane to you. He didn't call me. I called him up because the more I sit here the more anxious I am to know what the people in the field are thinking about.

I think the people that are here today, if they wouldn't mind meeting again in two weeks by that time you might have more questions that I think may be very helpful to you.

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DR. LIKERT: I would like to get the help of you on a redefinition on this problem in terms of getting back to the grass roots.

H.M.JR: Walter, have you got time right now to - do you want to go somewhere and sit down?

MR. STEWART: I am quite prepared to.

MR. RUMI: I have to go back to New York, but Mr. Hackman can stay.

H.M.JR: Have you got anything for me in writing on War Bonds that you are going to leave for me?

DR. LIKERT: I brought it over for you, and there are some more copies on the way.

H.M.JR: The last one I had was Baltimore.

DR. LIKERT: This is on nine other cities in addition to Baltimore.

H.M.JR: I would love to have it.

DR. LIKERT: Based on five hundred interviews.

MR. KUHN: Do they tell approximately the same story?

DR. LIKERT: Yes, with some modifications. It certainly shows one thing. It shows that where you have a systematic plan intelligently introduced, with the cooperation of management, you get far better results than you get any other way, particularly the type of plan you people have introduced; but if management has introduced the plan in a halfhearted or perfunctory way, or kind of just sent the notice out through the plant without effective cooperation, you get correspondingly less satisfactory results.

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There is one case in there that describes the plant where I think you have about ten percent cooperation in terms of total salaries going into the War Bonds, and there it was exceedingly intelligently introduced, very wide-spread cooperation.

Another factor that is important is this, that insofar as you have management-labor conflicts in plants your cooperation tends to go down.

H.M.JR: Now, the fact that these people are here, and I have given one hour's worth of time to inflation, or lack of inflation, doesn't mean I am not interested in the War Bonds thing. I am hoping that will be a continuous testing of War Bonds; I want that to continue because we never know when somebody here in Washington does something which may upset the whole thing. That is what I want you to catch - I mean, I may be right or wrong, but sitting here I think that a lot of the statements that people make in Washington the people in the field don't pay any attention to. I may be wrong. I mean, I think we get awfully excited because SEC comes out and says that the savings are off and then Lauch Currie finds they only made a mistake of two billion dollars - I think that has happened so often that I don't think the wage earner gives a hoot. That is just a swivel-chair opinion, but you see what I mean.

But I very much want you, please, to run a continuous testing on our War Bonds so that if something does go wrong we can jump in and correct the thing in time, if it is correctible. And again I say, if it is a question of money or a question that Mr. Macleish won't give you time enough, if you will ask me - he told me I can have anything I want within the terms of human endurance.

DR. LIKERT: We will have that ready for you tomorrow.

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H.M.JR: Don't you think this is right?

MR. RUMML: That is exactly what I had in mind, this or something--

H.M.JR: Isn't this the thing?

MR. RUMML: Sounds fine. If there are any spot jobs we can do for you, we are always at your disposal.

H.M.JR: I personally want to read that. (Report on case studies handed to the Secretary by Mr. Rumml.)

June 4, 1942
12:12 p.m.

HMJr: Hello.

Operator: Operator.

HMJr: They say Doughton's calling me.

Operator: Right.

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

Robert
Doughton: Hello, Henry.

HMJr: Yes, Bob.

D: This is Bob Doughton here. How are you feeling?

HMJr: Oh, pretty good.

D: Well, it's my very unpleasant duty to report to you the motion adopted this morning by our committee.....

HMJr: Yeah.

D:which I'll read.

HMJr: Yeah.

D: "That the Chairman be instructed to request the presence of Secretary Morgenthau before the committee at a time and place convenient to all, for a conference on the tax bill.....

HMJr: Yeah.

D:and for a discussion of radio statements made by the Secretary with reference to the committee and its work on June the third.....

HMJr: Yeah.

- 2 -

D:adopted by a viva voce vote."

HMJr: Yeah.

D: It's not unanimous. I didn't vote for it myself, but I - it's very painful to me, the situation, so I'm just reporting that to you. If it's your purpose or pleasure to respond to the motion, why you could let me know when you thought it would be convenient for you to come down.

HMJr: Oh, sure. I'll come. I don't - I'll be glad to come.

D: When would that suit you best?

HMJr: Well, I just find out that Paul isn't in town.

D: How's that?

HMJr: Randolph Paul is not in Washington.

D: Yeah, we knew that. Tarleau is acting for him down here.

HMJr: And I certainly can't come up there unless he comes, because I don't know what's happened from minute to minute. Hello.

D: Yeah.

HMJr: So I've got a call in for him now.

D: Some of the committee said they'd have to be away tomorrow and would like to be here if it would be convenient for you to come here this afternoon - if it would be.....

HMJr: Well, I can't - I mean, I don't think I should go up there without Paul, because they're going to ask me questions which I'll be unable to answer, because he's been representing me.

D: Well, my idea was - I don't know what could be in the mind of the committee - they're just going to ask you questions about your speech last night.

- 2 -

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D: Yeah.

HMJr: So I've got a call in for him now.

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HMJr: Well, I can't - I mean, I don't think I should go up there without Paul, because they're going to ask me questions which I'll be unable to answer, because he's been representing me.

D: Well, my idea was - I don't know what could be in the mind of the committee - they're just going to ask you questions about your speech last night.

- 3 -

HMJr: Yeah. Well.....

D: I understood you said that - somebody's reported down here - we hadn't heard that when they passed the motion - that at the press conference this morning you were asked if it was your purpose to take a crack at Congress, and you said it was.

HMJr: No, no, no, no.

D: That's what they told down here. One of the newspaper men told that, I don't know.

HMJr: Well, that isn't true.

D: Yes.

HMJr: That isn't true.

D: I - it's the most unfortunate - unpleasant thing to me that could possibly happen.....

HMJr: Uh huh.

D:and I want you to know so far as I'm concerned there's going to be no personal feeling. I think it's most unfortunate that there should be any friction or any leaks back and forth between - and it's certainly not on my part - to the press or the country, criticizing you or your staff or anything they do; and it's - I feel that it's making for - not for the best cooperation, the situation like it is.

HMJr: Well, I'll be very glad to come up there tomorrow morning; but I cannot come up there without Paul, because I don't know what's going on in the committee.

D: Well, you surely knew what was going on as the basis of that statement, and that's all that they, I suppose, they want to discuss the basis for that statement. I suppose you knew that. What was the basis for that statement - that radio speech about our committee and Congress, last night.

- 4 -

HMJr: Yeah. Well, I mean wouldn't it be all right to appear there in the morning?

D: Oh, I should - it said a time - the committee - the motion says, "At a time and place convenient to all."

HMJr: Well, I'm ready to be there at nine o'clock tomorrow morning.

D: At nine o'clock?

HMJr: Yeah.

D: Well, I can have the committee - we usually meet at ten-thirty - I think it would be better for us to meet at nine.....

HMJr: I'll be very.....

D:and get that out of the way.

HMJr: I'll be very glad to be there at nine tomorrow morning.

D: It wouldn't be convenient today?

HMJr: I'm sorry, because.....

D: Well, I understand. I just thought maybe - it don't make any difference with me.

HMJr: If you order me up there, I'll.....

D: Oh, I wouldn't order you, Mr. Secretary, anywhere. (Laughs) I'm just reading that motion. I'm not - we can't bring you up here at all - no disposition to you - we're just giving you the motion.

HMJr: But if you say, "Come up at one o'clock," I'll be there; but I'd like to get Paul. I.....

D: Well, anyway, that wouldn't be in conformity with the motion.

HMJr: Well, if it's in conformity with the motion and

- 5 -

full courtesy to the committee, I'd like to come at nine o'clock tomorrow morning.

D: Well, let me call them back and see if nine would suit them. That's a little unusual hour for us, but I'll call you back.

HMJr: Well, I can come any time tomorrow morning that suits you.

D: Well, all right. Thank you. And I'll let you know in a little bit.

HMJr: Let's leave it that way. Any time tomorrow morning.

D: All right. I'll call you back. Thank you.

June 4, 1942
12:59 p.m.

Operator: Go ahead.

HMJr: Hello.

Miss
Doughton: Good morning, Mr. Secretary.

HMJr: Who is this, please?

D: Miss Doughton.

HMJr: Oh, Miss Doughton, would you tell this to your father, please?

D: I'd be glad to.

HMJr: That I sincerely hope that when I appear before them tomorrow, it will be a public meeting.

D: Uh huh.

HMJr: I - whatever it is, I'm not going to appear before a closed meeting. I mean, any criticism that they have of me, I want it out in the public.

D: Uh huh.

HMJr: So I'd like the press there, and the public, if they want to come.

D: Uh huh. I shall be glad to.

HMJr: And I'm sure that he'll be glad to concur.

D: Uh huh.

HMJr: But I don't want any closed meeting, and I'm sure he doesn't want any star chamber procedure.

D: All right, sir.

HMJr: Thank you.

D: I shall be glad to tell him, Mr. Morgenthau.
Thank you.

Summary of the Secretary's Telephone
Conversation with Congressman Doughton

1:50 p.m.

June 4, 1942

The Secretary opened with Congressman Doughton by saying that he had asked Congressman Doughton's daughter to have the pending hearing made public. The Secretary explained that he felt the hearing should be made public in order that he might be given a chance to defend himself properly. He said to the Chairman that if the full Committee wanted him to come up for the purpose of castigating him he wanted a chance to properly defend himself. The Secretary said he does not desire an executive session, because his lips would be sealed, and he would be placed in an embarrassing situation, since some of the Republicans could disclose the bad features of the hearing.

The Secretary offered to come up alone to appear before Congressman Doughton and any two Democrats, plus any two Republicans, that the Congressman might choose to hear him. He told the Congressman he would be quite content to do this at any time that this small

- 2 -

committee wanted to see him. He said that he could come up any time this afternoon. (At this point the Secretary explained why he would not be able to see this Committee on some night of next week stating he wanted to spend a few days with his son, Bob.)

The conversation was closed by the Secretary repeating to the Congressman several times that knowing Doughton was his friend he would be happy to do whatever Congressman Doughton decided.

June 4, 1942
2:20 p.m.

TAXES

Present: Mr. Gaston
Mr. Kuhn
Mr. Blough
Mr. Bell
Mrs. Klotz

H.M.JR: The point is that Doughton didn't want a public meeting. Doughton phoned me about quarter of two. He didn't want a public meeting, and he wasn't going to castigate me and he wasn't going to let anybody else do it. But the Committee couldn't sit tomorrow, so he said he wanted to do it Monday. I said I couldn't be here Monday.

What they want to do is just get together, and cooperate. They didn't want to have a public meeting, so I said, "Bob, let me make a suggestion." I said, "Why don't you get two Democrats and two Republicans and yourself, and I will come up there alone and sit down - if you really want cooperation I will sit down, but I am not going to appear before a whole committee and then let some Republican go out and tell the unfavorable side of the story." He says, "I will have a stenographer there, and if you want to give out the minutes you can give them out."

So then I thought I would appeal to the old boy's sentimentality. I said, "Bob, you are my friend. I put myself in your hands; whatever you decide I will do." So he said, "Will you come up at four-thirty?" I said, "You tell me what to do and I will come up." He said he would get together the committee and let me know.

Here are some of the things I need, Roy. You see, what I want to do is this, Roy. Let me think

- 2 -

out loud. I want my Cleveland speech because if I want to say, "What aren't you satisfied with?" I want to say - I want you to mark the passages in there.

Those gentlemen - let's take oil well depletion, if Disney gets tough with me I will say, "Let's take a look; let's call a spade a spade. It just plain smells to hell, that you people won't make these people, after they have written off an oil well a hundred percent, pay their just and fair tax." See?

Then I want - these are things that I can remember, and I want the passages marked. "Let's take a look at State and municipal bonds. Why should people sit there with a million dollars' worth of bonds and not pay a cent toward this war? I think it is outrageous." See?

Now, I don't know those other loophole things which I haven't got.

MR. GASTON: Community property estates.

MR. BLOUGH: That is taken care of.

H.M.JR: Anyway, in my Cleveland speech it is the easiest to say why. I haven't got time to prepare - my mind is too tired, but if I read my Cleveland speech I can say, "Roy, give me what I said on community property." I am going to say, "This is nothing new, gentlemen. I said this in Cleveland" on such and such a date.

MR. BLOUGH: Your March 3 speech said it, too.

H.M.JR: But have those things, what I said, ready. Now then, where are they behind on the two billion dollars, you see--

MR. BLOUGH: We will have a list of all recommendations and what they have done to date.

H.M.JR: You sit next to me. "Well, where are we behind, George?" I am going on the theory of being very

- 3 -

oily, smooth, if they want to be; but if they get dirty I am going to get good and dirty, because I think I have got the people with me.

What I want to say is this, following what I said last night I want to show - I mean, the tables have all been published. Let's take - I don't want a man with two children - is that the best type of married man?

MR. BLOUGH: More typical.

H.M.JR: Let's take the married man with two children; what will he pay under the Treasury plan after I recommended that they lower the exemptions, you see, and what is it now as far as the Committee goes - just to have that.

MR. BLOUGH: We will have that.

H.M.JR: I mean, the difference between the Treasury plan and the Committee's. Is that a good point or not? "What I am trying to get is I came up here in good faith in order to get a balanced program on the bill and made these recommendations about taxing everybody from the top to the bottom and, by God, all you have got is taken from the little fellow."

MR. BLOUGH: They have done it on the little fellow; up to ten thousand they are behind.

H.M.JR: I want to show where they are behind, you see - I mean, where do they begin to slip, begin to show where we are losing this revenue; then the same thing on the corporations, where are they behind.

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

H.M.JR: Paul says I ought to take Tarleau.

MR. BLOUGH: I think that is right, if they get to asking about when was this done, and so on.

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H.M.JR: What is this particular thing that I criticized?

MR. GASTON: The boys asked you if when you said "too little and too late" you were referring to your statement of Tuesday that the Committee was two billion dollars below your recommendations on amount of revenue for which they had provided so far, and you said, "Yes, that is right."

H.M.JR: Well, it is.

MR. GASTON: And it is all right, and that merely means that you are sticking to the Administration's recommendations. We have recommended a certain amount of revenue. You said last night you think we ought to have that amount of revenue, and you are still sticking to that position.

MR. KUHN: Then toward the end they asked you again about Congress, and you said, "If politics is going to rear its ugly head in here let's not discuss it."

Herbert, did you talk to the Secretary about the things we were discussing in your office before lunch?

MR. GASTON: Well, he has talked to Roy.

MR. BLOUGH: We never did get to that point.

MR. KUHN: We had some ideas.

MR. GASTON: There are a couple of things here on this statement of Boehne's. It says, "Boehne called attention to the budget act provision that revenue requests shall not be made by administrative officers without the request of the House or Senate." Of course that is pure nonsense. You weren't making any revenue request. You were making a speech to the country in which you defended the Administration's recommendation on taxes; but it just indicates that Boehne is one of the--

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MR. BLOUGH: Boehne, as a matter of fact, didn't indicate in his speech that he was hostile. He read the paragraph from the Secretary's statement, which really helped to clarify the situation. He has been anti-Treasury in some respects, but he made no speech against the Treasury.

MR. GASTON: I think they are trying to put you in the position - even Bob Doughton's conversation over the phone indicates that the Ways and Means Committee has the sole responsibility in regard to revenue measures. Well, of course that isn't true. You have a responsibility, and you have a particularly heavy responsibility. Now, when you are going out to sell four or five billions of securities a month, you have to give some assurance to the people of the United States that the revenue end of the picture will be reasonably adequate to support a Government debt of these dimensions.

(Mr. Bell entered the conference.)

H.M.JR: What I am going to say is, "Now look, gentlemen, this is my job." I asked Bell to do it, to paint them the picture, beginning with July 1, of what I had to do. "When I said the very least, it is the very least, and when you see these figures you will see how much I have got to borrow, and I am worried. When the President, through me, asks for eight billion seven it is the berries, and if you don't mind my saying it I think instead of trying to cut it down two billion, how can you make it ten billion."

MR. BLOUGH: I think you can very well say that your talk last night, far from hampering the work of the Committee, helps the work of the Committee because the Committee constantly says it wants to impose all the taxes that the country can stand; and certainly if your talk has any effect at all in that direction it will help the country stand more taxes and therefore will help the Committee and not in any way hurt it.

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MR. GASTON: You are asking the country at large to accept sacrifices just as pointedly and forcibly as you can. You are coming to the aid of the Committee and asking, especially, the low-income taxpayers to accept sacrifices, to accept heavy taxation as a necessity.

MR. KUHN: Mr. Secretary, there was another point that came up. We thought it quite important that you should not be led into a discussion or wrangle as to who was responsible for this delay in the present tax bill, the Treasury or the Ways and Means Committee. That is not the point at issue.

MR. BLOUGH: It isn't delayed, to begin with. I would not call it delayed.

MR. KUHN: They might say, "You people at the Treasury are to blame." That wasn't what you were discussing. If the Ways and Means Committee had passed an inadequate tax bill in one month, it still would be too little and too late because they would be late in grappling with the problem you have outlined there. You are calling for speed in meeting the realities of a big situation.

H.M.JR: Let me see this thing. (Paper handed to the Secretary by Mr. Bell.) I haven't seen this. Is that after the increase?

MR. BELL: Yes, that is, after you take out the seven billion, see, it leaves forty-nine billion.

H.M.JR: I mean, the additional seven--

MR. BELL: Yes, additional seven.

H.M.JR: Even though we are asking for eight seven?

MR. BELL: You are asking for a program of eight seven, which will produce seven billion in the fiscal year 1943.

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H.M.JR: Is that right, Roy?

MR. BLOUGH: I would stick to that if I were you, Mr. Secretary, because seven is all you are going to be able to get out of it.

H.M.JR: I have been saying eight seven.

MR. BLOUGH: The fiscal '43 item will hardly be over seven.

MR. BELL: You have got to raise fifty-three billion dollars in new money.

H.M.JR: Four and a half billion a month, and we are arguing about two - I mean, it makes the thing ludicrous.

MR. GASTON: It makes it ludicrous to think that you can be silent about the whole financial picture when you are facing a situation like that.

H.M.JR: Have my speech with you and my minutes and my Cleveland speech; accumulate everything.

MR. BLOUGH: You are not criticizing the Committee. You are coming out for the President's program; if that be criticism, let the chips fall.

MR. GASTON: There is nothing new. You are sticking by the President's recommendation and all that you have said in the past.

MR. BELL: I don't see how they can pass a resolution on that paragraph.

MR. BLOUGH: You didn't see them last night. They were arguing among themselves. It was like a cat and dog fight, worse than I have ever seen them - heat and nerves and general debility. (Laughter)

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(Discussion off the record)

MR. BLOUGH: That is another thing you want to be prepared to tell them, that it is the absolute truth that nobody in the Treasury had anything to do in instigating the "PM" articles, unless you have.

H.M.JR: I am the only person that can say that truthfully in the Treasury.

MR. BLOUGH: That they haven't been instigated here - I can say it truthfully.

H.M.JR: If you can, then it is you and I.

MR. BLOUGH: I think everybody else can, too.

H.M.JR: No.

MR. BLOUGH: Then I am misinformed. I didn't think anybody this year had been pressing that at all.

H.M.JR: O.K., but I haven't, and as far as I know nobody in this room has.

MR. BLOUGH: Paul told me he hadn't; Clevenger told me he hadn't.

H.M.JR: Well, I can say I didn't ask anybody to talk with "PM" or hint.

MRS. KLOTZ: You are being very subtle.

MR. BLOUGH: Can't you say that so far as you know nobody in the Treasury has?

H.M.JR: No, because, unfortunately, somebody told me that he had.

MR. GASTON: That man has come around just as other newspapermen and asked for information.

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H.M.JR: I mean, there is no use. Paul told me he has been seeing "PM."

MR. BLOUGH: Everybody has been seeing everybody. There is a difference between that and asking them and urging them to write stories.

H.M.JR: Well, all right. This is white and that is black; I am not going to get in between the two. I am simply going to say I haven't seen "PM" or talked to them, nor have I asked anybody to see "PM", because I don't know anything about "PM". Now, what Paul told them I don't know, or what he instigated or whether he has just been giving them facts.

MR. KUHN: He does with all the newspapermen.

H.M.JR: O.K.

According to the revised estimates of the Bureau of the Budget published the latter part of April, the receipts for the fiscal year 1943 under existing laws will amount to \$16,918,000,000, and the total expenditures for this period will amount to \$73,141,000,000, of which \$67,000,000,000 will represent expenditures for account of our military activities. This will leave a deficit to be financed by the Treasury, through increased taxation and borrowing, of \$56,223,000,000. These estimates contemplated that Congress would enact a tax program which will provide additional revenue in the fiscal year 1943 of \$7,000,000,000, leaving a net deficit of \$49,223,000,000. In addition, the Treasury will have to finance the requirements of governmental corporations in the amount of \$4,368,000,000, making total funds to be raised during this period through the sale of public debt obligations to the American people of \$53,591,000,000. This is an average of about 4-1/2 billion dollars every month. These figures are exclusive of the refunding operations aggregating approximately 2 billion dollars to be carried out during this period.

DWB:nle:ce (2) 6-4-42

June 4, 1942
2:26 p.m.

Robert
Doughton: Secretary Henry?

HMJr: Secretary Henry is right.

D: All right.

HMJr: Chairman Bob.

D: Yeah. I was talking to two or three of our boys confidentially, and there's just one little change that I hope will agree - you'll agree to about our meeting.....

HMJr: Yeah.

D:and that is for you to come down this afternoon at four-thirty to my office.

HMJr: Yeah.

D: Thirteen fifteen.

HMJr: Yes.

D: Just come down. If you want to bring anybody, it's all right.

HMJr: Well, I'd just like to bring Roy Blough. Is that all right?

D: That'll be all right. Anybody you want to bring.

HMJr: Yeah.

D: And we're not going to discuss things that'll be anyways unpleasant anyway. If you want to bring him, why I have no objection to your bringing anybody you want to.

HMJr: Well, I'd just like to bring.....

D: Well, now, here's one more suggestion I'm going to make, and that is this.

HMJr: Yes.

- 2 -

D: In the place of making it two on - two Democrats and two Republicans, let's make three Democrats and three Republicans besides myself.

HMJr: Fine.

D: I'll be a neutral man for this reason.

HMJr: Yeah.

D: Disney is the third ranking Democrat, and he made that motion.

HMJr: Yeah.

D: And I thought maybe he ought to be present. He's perfectly agreeable to it. I've told him of your suggestion and our conversation.

HMJr: Yeah.

D: And so we'll just - if that's agreeable, we'll just have three-three.

HMJr: Now, Bob, I told you you were my friend, and whatever you said goes.

D: Well, now, then, I'm doing my best to do what's best for all parties.

HMJr: Right.

D: And so you come down to my office - it's thirteen fifteen, my private office, my own, individual office, thirteen fifteen up on third floor of the new House Office Building, at four-thirty.

HMJr: Thirteen fifteen, at four-thirty.

D: At four-thirty.

HMJr: And I'll be there, and I'll only bring Roy Blough.

D: That'll be all right.

HMJr: And just let me tell you this.

D: Yeah.

- 3 -

HMJr: If you read my speech, there's absolutely nothing in there except praise for the committee. I talked about the hard-working committee.

D: Uh huh.

HMJr: There's nothing - now, I can't help what unfriendly newspapers do to my speech; but I want you to know that there was no intent there.

D: Now, the newspaper men ran down here this morning, some of them, and told the boys and they claimed they had a copy of your remarks, that they asked if you intended for it to - criticism or a lick at the committee, and you said you did.

HMJr: Well, I'll bring up - I'll bring up the minutes of my meeting.

D: Well, what we're going to do is, if we're making mistakes - any of us - that's hurting the work of the committee, we don't want to do it.

HMJr: Yeah.

D: What we want to do is discuss this matter in a way to be helpful and keep the relations from being strained and keep them harmonious so that we can cooperate together and do the Great - perform the great responsibility we're under, you know.

HMJr: Listen, Bob, you and I have fought and bled to death when we were at peace with the world.....

D: Yeah.

HMJr:and we got along all right.

D: Yes.

HMJr: Now, when we're surrounded by enemies that want to kill us, I think we certainly can get along.

D: Well, we can't let it do it, you know.

- 4 -

HMJr: You bet your life.

D: Well, I'll not be responsible. We'll work this out all right.

HMJr: Well, I'm so glad that you've taken this recommendation of yours to meet at your office.

D: Yeah, all right.

HMJr: Thank you.

D: I thank you.

June 4, 1942
2:30 p.m.

Randolph
Paul:

Hello.

HMJr:

You will run out of town without telling teacher.

P:

Well, I'm sorry. I.....

HMJr:

You're a nice fellow.

P:

Well, I'm sorry. I didn't determine to go, or wasn't until I - about ten o'clock last night when I spoke to the Chairman about it, but I saw B. Ruml last night, and he was down here, and they wanted somebody up here to preside.

HMJr:

Yeah.

P:

One of the C. Directors. I didn't get away last week, as a matter of fact.....

HMJr:

Well.....

P:

.....and I thought it was about time I got to one meeting.

HMJr:

Well, I've got to go up and face the music alone at four-thirty.

P:

Can't you put it off until tomorrow?

HMJr:

No, they refused to.

P:

What?

HMJr:

Yeah.

P:

I'm awfully sorry.

HMJr:

Yeah, so am I. I - that Federal Reserve, you better get a leave of a sabbatical year from them, because.....

P:

Well, I've had a sabbatical leave. I haven't been up there. I haven't been up there for.....

HMJr:

Well, you better get another one.

- 2 -

P:three or four months.

HMJr: Well, you better get another one. Get another one, because these things always pop when the tax bill's on. I mean.....

P: That's right.

HMJr: I'm serious about that. I really - you'd better make some arrangements with them, because here I am.

P: I thought we had a perfectly clear field, because.....

HMJr: Well, you can't - when the tax thing is over, then you can go up and hoe your garden or your flowers and so forth and so on.

P: Oh, that - I don't even expect to get - well, anyway, what about this thing?

HMJr: Well, I'm going up and do the best I can, and I'm going to take Roy with me.

P: Well, you'd better take Tommie with you.

HMJr: No, no. I just - they didn't want me to bring anybody.

P: Is this before the committee or.....

HMJr: No, I've got them - I insisted on a public hearing with the press, and they said, "Oh, no, they wouldn't do that," so now it's going to be a committee of seven. They wouldn't have a public hearing.

P: Then it's not public?

HMJr: No. No. I mean, it's just Doughton and three Democrats and three Republicans.

P: Well, now, have you determined on a policy?

HMJr: Yeah, if they go after me, I'm going to give them hell.

- 3 -

P: Well, I think that's the only thing to do.

HMJr: Yeah.

P: On the theory that their action can't bind you, you're going on in the Senate and you're going - and you didn't - as a matter of fact, that wasn't very critical. It was just a general statement of your policy.

HMJr: Well, I'm not going to take anything, because my conscience is clear and theirs isn't.

P: Well, the fact that they're so sensitive indicates that.

HMJr: But I'm awfully sorry you're not here, because they'll tell me - well, you delayed this, and delayed that, and I won't know what the devil to say.

P: Well, Roy knows the answers to all that.

HMJr: Well, I hope so. But, honestly, Randolph, I really think that this Fed thing - I know it's on your conscience, but you can't be in two places at the same time.

P: Well, yeah. Of course, what - I'm terribly disappointed not to be there. It almost breaks my heart not to be in on this thing.

HMJr: Well, this is an accumulation, you see, of bad blood, and I'm going to have to face it.

P: Of course, they were feeling in a very ugly mood last night.

HMJr: I know, and I've got to take it today.

P: Well, I wish I were there to take it with you. I wish there were some way you could put it off until tomorrow morning.

HMJr: No. The people won't be here, and they said

- 4 -

that - I said I'd like to do it at nine o'clock tomorrow morning, and they said, "No, the committee won't have it. They want it this afternoon."

P: Well.....

HMJr: Well, anyway, I'll go up.....

P: You certainly have my apologies for not being there to take it with you.

HMJr: Yeah.

P: You don't have to worry about Roy not knowing everything about it.

HMJr: Yeah.

P: But the only point is, I hate to - I'm not worried about that, and I think we have to take a firm policy.

HMJr: Yeah.

P: The only thing I hate is missing the party.....

HMJr: Yeah. Well, I'll do the best.....

P:and the fact that you have to do it alone.

HMJr: But you see, there'll be so many things. They'll say - I understand they're going to talk about - well, if there's any delay, it's the Treasury, you see, and that sort of thing. Well, then they get into a discussion about whether it was you or Stam, and all the rest of it; and I won't know how to answer that stuff.

P: Well, you can say there that we went to work, we ironed out a lot of difficulties, we constantly reported to the Chairman, we reported to him a number of times.

HMJr: Yeah. I told him that you were out of town, and the Chairman knew that.

P: Yeah.

- 5 -

HMJr: And I said, "I can't come up there without Paul, because I haven't been there. I don't know what happens minute for minute." He said, "Well, that doesn't make any difference. We want to see you."

P: Yeah. Well, on that delay thing, the essential facts are this.

HMJr: Well, look, I think - I tell you what - does what's his name know them? Because there's no use filling me full of it.

P: Yeah, well you might tell Blough, if you're not taking Tarleau up, to be sure that he has a conversation with Tarleau, because.....

HMJr: What? Do you think I ought to take Tarleau?

P: I think you should, yes.

HMJr: All right, I'll take Tarleau.

P: Because I think his - his strategical - his ideas will be of value to you.

HMJr: I'll take Tarleau.

P: Well, he knows all the facts. Then you don't need to worry at all.

HMJr: Okay, I'll take Tarleau.

P: All right.

HMJr: Okay.

P: I'd like to call you later and hear - what time will you be back? About six, won't you?

HMJr: God knows.

P: Well, I may put in a call. I'd be interested to know what happened.

HMJr: All right.

P: Okay.

HMJr: Good-bye.

June 4, 1942
2:54 p.m.

HMJr: Hello.

S: Just a moment. He hung up. He'll be right on.

HMJr: Hello.

Secretary
Knox: Hello.

HMJr: Frank.

K: Yes, Henry.

HMJr: May I say thank you very much for getting me
the two Navy men to go along.

K: (Laughs) Well, I'm glad I was able to do it,
Henry.

HMJr: That was very kind of you with all the worries
that you had yesterday.

K: Well, thank you for calling up.

HMJr: I just wanted to say thank you.

K: Just like you.

HMJr: Thank you.

K: Good-bye.

June 4, 1942
3:15 p.m.

HMJr: What kind of luck did you have?

Edward H.
Foley: Well, we had a pretty good talk with him. I think - I took Bernie with me.

HMJr: I see.

F: And we went over there in the Cabinet room and talked with him until they.....

HMJr: Are you alone now?

F: Yes, I am.

HMJr: Go ahead.

F: Until they called him for his lunch about ten minutes after one.

HMJr: Yeah.

F: He started out by saying that he wanted to get certain things clarified.

HMJr: Yeah.

F: First of all, he talked with Byrnes and he talked with Smith, and they both told him that the thing had been settled and what we were trying to do was to re-argue the Order of March 11, and that that was a closed book and they didn't think he ought to open it up again.

HMJr: Yeah.

F: And he said he had a talk with Crowley and Crowley didn't want the thing opened up, and Crowley said that if we wanted to give up the memorandum that he'd given to us, re delegating back to us the powers that the President had given to him, why that would be all right with him, and then we could operate only under our Executive Order in so far as freezing is concerned.

HMJr: Yeah.

- 2 -

F: And I told him that that wasn't enough, and that what we wanted was not to re-argue the March 11 Order, but we wanted to clarify it so that our authority would come directly from the President and Crowley's authority would come directly from the President, and the functions that each of us were to perform would be defined.

HMJr: Yeah.

F: And then he wanted to know why the original Executive Order 8389 setting up freezing control was inadequate at this time.

HMJr: Yeah.

F: And I think we convinced him that because of the amendment of 5(b) in December, after we got into the war, it was necessary to broaden even for freezing control the powers that were given to us in 8389; and I left with him two versions of Executive Orders for him to look at. Now, he's going to ask you tonight what you understood the President wanted him to do, and I told him that I wasn't present, but I understood that you wanted to accomplish two things; first, you wanted to make it clear that your authority came directly from the President and you were not acting as agent for Mr. Crowley.

HMJr: Yeah.

F: He said that was patent.

HMJr: That was what?

F: That was patent. That was - he didn't think anybody could argue about that.

HMJr: That was what?

F: Patent.

HMJr: Patent?

F: Patent - well, that means obvious.

HMJr: Yes.

- 3 -

F: Perfectly clear.

HMJr: Don't use such high-falootin' words. I'm just a farm boy.

F: (Laughs) The other thing I told him.....

HMJr: He said that was obvious.

F: That was obvious, that's right. But that could be accomplished, you see, merely by Leo taking back that memorandum, which I told him wasn't enough, and I told him I thought you also have brought up with the President not a re-argument of the March 11 Order, but a clarification of our powers so that we could deal adequately with the things that we were carrying on at the present time.

HMJr: Uh huh.

F: And he said he was going to ask you directly about that, because you made a point with him of having your authority flow direct from the President.

HMJr: Yeah.

F: And he didn't understand until after he talked with Pehle and me later in the day that we were asking for additional authority other than the authority we had under 8389.

HMJr: Yeah.

F: So I.....

HMJr: Well, I don't know these various orders, but can you function under 8389?

F: No, we can't do what we're doing now under 8389, because the basic statute was enlarged in December after we got into the war, and we need those enlarged powers, which are not given to us under 8389, but which we get from Crowley under that redelegation or memorandum.

- 4 -

HMJr: But it's interesting that now Byrnes says this order of Harold Smith's is all right.

F: Yeah.

HMJr: What?

F: Yes. Well, I mean, Harold Smith and Byrnes he said both told him flatly that they thought that we were merely trying to re-argue the battle that we'd lost, and that they didn't think the thing should be opened up.

HMJr: Well, the President said to open it up.

F: Well, that's what Rosenman is going to ask you.

HMJr: What?

F: That's what Judge Rosenman is going to ask you, and whether you were asking the President merely to open it up for the purposes of getting - solely for the purpose of getting your authority directly from the President and not through Crowley, or to get additional powers over and above what we had in the original Executive Order setting up freezing control, which we have to have in order to do what we're doing in the freezing field.

HMJr: Well, this is what I'm going to tell him, that whatever authority I need in order to carry on our work, I want it to flow from the President to me.

F: That's right. The whole thing should be re-examined at this time, and put on a permanent basis.

HMJr: That's right.

F: And we're not trying to re-create anything, but what we are doing is trying to clarify the situation, so that we have adequate power from the President to do what the President wants us to do.

- 5 -

HMJr: Well, isn't it also true that the way the power goes to Crowley, that Crowley could order us to turn over the gold?

F: Sure.

HMJr: What?

F: Yes, sir.

HMJr: Well, I don't want that.

F: That's right.

HMJr: I mean, couldn't he just take all the gold away from us?

F: Yes, if he wanted to vest it, he certainly could.

HMJr: Yeah.

F: He could just send over and say that he wanted to vest it, and we'd have to turn it over to him.

HMJr: And I think that's wrong.

F: I think it's wrong, too.

HMJr: Do you think he's made up his mind as a Judge?

F: Well, I don't think he's made up his mind. He's no push-over, Mr. Secretary, as they say. It's not - and I think that he'd like not to have to go all the way into it, but I do think that it was very, very good that we had this talk with him this morning, because he has been talking with all these other fellows who don't know the technical aspects of the thing and are talking to him on the political phases of it.

HMJr: Well, you - I still say you be on hand in case I need you.

F: Well, I'll be around.

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HMJr: Okay.

F: All right, Mr. Secretary.

June 4, 1942
3:47 p.m.

HMJr: Hello.

Operator: Mr. Olin Dows.

HMJr: Hello. Olin Dows?

Olin Dows: Yes, Mr. Secretary.

HMJr: How are you?

D: Fine. How are you, sir?

HMJr: Very well. Olin.....

D: Yeah.

HMJr:I've had since Monday, painting in the Treasury for me personally, Jamison.

D: Elinor told me about it. It's a swell idea.

HMJr: And he's doing where the soldiers live, and then I want him to do something outside the Treasury.

D: Yeah.

HMJr: And he didn't want to charge me anything, which I said was ridiculous.

D: Yeah.

HMJr: And I said, would it be agreeable to him to let you fix the price.

D: Yeah.

HMJr: And he said, "Fine."

D: Yeah.

HMJr: Would you be willing to do that?

D: Well, surely. Elinor said that you'd suggested a hundred dollars per week, and.....

- 2 -

HMJr: Well, no, I didn't.....

D: Or was it.....

HMJr: No, because he was getting - no, I didn't.
No, I said my father gave me a present of a
hundred dollars.

D: (Laughs) Oh, I see.

HMJr: No. What happened - have you spoken to Jamieson?

D: No, not a thing. I haven't heard a word from
him.

HMJr: The reason that that wasn't - he said that he
was getting three hundred a month.....

D: Yes.

HMJr:from wherever he worked before, and that
was much too much.

D: Yeah.

HMJr: So I wouldn't offer him a hundred a week, which
would be four hundred a month.

D: Four hundred a month.

HMJr: You see?

D: How many water colors has he done?

HMJr: I haven't talked to him, because he's doing
sketches.....

D: Yeah.

HMJr:and he said he was going to do them at
home.

D: Yeah.

HMJr: And I don't know whether he's through. I haven't
been able to - he only works in the morning, and

- 3 -

I haven't been able to see him.

D: Yeah. Well, if he's done a good job and he does more than six sketches.....

HMJr: Yes.

D:I would give him a hundred.

HMJr: You would?

D: Oh, yes. I mean, whether it's a week - because it'll be more than a week that he'll put in on it.

HMJr: Well.....

D: He gets - thirty is the minimum price the Government has paid on a water color, and all the artists feel that's very little.

HMJr: I see.

D: And if he's.....

HMJr: Well, I was thinking of something, the arrangement we had for him when he came up there for a month. I didn't know.....

D: Well, they got three hundred dollars per month. They got ten dollars a day, and Jamieson did a great deal of work for that.

HMJr: Yeah, but not when he was with us before. Would ten dollars a day be right?

D: Ten dollars a day is all right, yes.

HMJr: What?

D: That's perfectly all right as a Government rate. That's what - they got - the eight OEM artists got ten dollars a day and their travel.

HMJr: Well, I'd be glad to pay ten dollars a day.

D: Yeah.

- 4 -

HMJr: What?

D: Well, that's all right. I think it depends how much he does for you and how much he does besides.....

HMJr: Well, why don't you talk to him, because after you've talked to him, you may decide it's not fair.

D: Yeah.

HMJr: He ought to get more.

D: If I see what he's done.....

HMJr: Yeah.

D:if he's done anything over six.....

HMJr: Yes.

D:and they're good water colors for him.....

HMJr: Yes.

D:I think he ought to get more than ten a day.

HMJr: Well, I'd be glad - I'm not going to - I'll do what you say.

D: Yeah.

HMJr: So you might talk to him, and.....

D: I'll talk to him and see what he's done.....

HMJr:let me know.

D:and it'll be between seventy and a hundred.

HMJr: And let me know tomorrow morning, if you could, or is that too fast?

D: I'll do my best. I'm going away.

HMJr: Oh. Tonight?

- 5 -

D: Tomorrow morning, but I'll try and get in touch with him tonight and try and see them this evening.

HMJr: Right. If that isn't asking too much.

D: Not a bit. I'll do my best, and I'll leave word.

HMJr: Thank you.

D: With Mrs. Klotz?

HMJr: If you don't mind.

D: Fine, sir.

HMJr: Thank you.

D: Grand. It's a good thing to.....

MEMORANDUM FOR THE SECRETARY'S FILES

June 4, 1942

Conference in Mr. White's Office
June 4, 1942
3:15 p.m.

Present: Mr. Magnusson - Financial Counsellor,
Swedish Legation
Mr. White
Mr. Ullmann

Mr. Magnusson called and requested that the Treasury refrain from requiring the sale of the Swedish silver held in New York. He stated that Sweden needs the silver for coinage purposes, can get a boat to ship it now, and might not be able to ship it in the future.

Mr. White replied that the Treasury's requirement (that the silver be sold) is based partially on Sweden's inability to ship the metal, because of Export Control's embargo against silver shipments.

Mr. Magnusson stated that, in the face of inability to export, the Swedish Government would prefer to hold the silver in New York vaults — since it might be impossible to obtain silver in the future. Mr. White expressed his feeling that after the war emergency ended, there would be no difficulty in obtaining silver — and there could be no advantage in leaving the silver unused in vaults while we are in war and need silver. He hoped that Sweden would understand our need for the silver, and would voluntarily sell it.

Mr. Magnusson did not know what position his government would take, since he had received no reply to his cable on the subject, sent on June 3. However, he felt we should not make a strong demand on a friendly and independent country, with 500,000 troops prepared to fight Germany.

Mr. White replied that this last matter was outside his jurisdiction; that the Treasury action was in no way directed against the Swedish Government. On the contrary, the Treasury attitude is entirely one of policy based on the following factors:

1. The Swedes cannot export the silver in the face of the absence of an export license.
2. Rather than let the silver remain idle in the vaults, it is imperative that it be used in our war effort — especially in view of our domestic shortage and pressure for silver from the war agencies.

Mr. Magnusson asked that any Treasury action be delayed for a week, by which time he expected a reply from his government, in addition to a State Department reply to the Swedish Minister. Mr. White agreed to the week's delay.



OFFICE OF
CHIEF COORDINATOR

TREASURY DEPARTMENT
TREASURY ENFORCEMENT AGENCIES
WASHINGTON

June 4, 1942.

TO: Secretary Morgenthau
FROM: Elmer Irey 2

The trial of the twenty-two officers of the Alcohol Tax Unit who were indicted in New York on January 29 last on charges of having accepted bribes in the performance of their official duties has been concluded.

During the course of the trial a number of permittees testified concerning the payments of bribes of from \$25 to \$600 to the various inspectors and investigators for favorable inspection reports which would permit them to withdraw tax-free alcohol and divert it for beverage purposes. In addition to the testimony of the permittees, three of the inspectors confessed their parts in the conspiracy and testified for the Government.

Four of the employees, one of whom was a supervisory officer, pleaded guilty. Separate trials were granted to three others of the defendants, but it is understood that they will plead guilty. The other fifteen defendants went to trial and on June 2 the jury returned a verdict of guilty as to nine; the other six were acquitted. This was not unexpected, as the cases against these six were not strong.

The two principal offenders were former Chief Inspector Rudolph Andolschek and James D. Meenan, the assigning officer, whose participation in the conspiracy made it possible for the defendants to extort monies from the various permittee violators over the past several years. The participation of these two supervisory officials more readily permitted the organized corruption among the personnel of the Alcohol Tax Unit at New York.

It is expected that sentence in these cases will be passed in the next two weeks.



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- 2 -

Special Agent in Charge Palmer and his assistants are now engaged in conducting interviews with the responsible officials and the defendants and making inquiries which were not permissible until the conclusion of this trial. In addition, they are examining fully into the affairs of each of the fifteen field districts of the Alcohol Tax Unit and are giving consideration to suggestions which we have in mind for certain organizational changes which we feel will result in improved efficiency and economy in the conduct of the organization.

Further reports will be submitted as developments of importance occur.

A handwritten signature, possibly "J. H.", is written in ink below the text.

June 4, 1942.

MEMORANDUM

TO: Secretary Morgenthau

FROM: Mr. Gaston

We are preparing to detail 12 additional investigators in New York to port security work at the request of the Coast Guard. They will work under the direction of J. J. Flynn, former Supervising Customs Agent in Boston, who has been detailed as the New York Coordinator and works under the direct orders of the district Coast Guard officer. He now has 5 Treasury investigators on the same work. Admiral Stanley Parker is to replace Captain Dempwolf as district Coast Guard officer there.

Waesche tells me that the reaction of the Navy High Command to the investigation by O.N.I. and F.B.I. has been just the opposite of what we feared. From Secretary Knox down, they resent what they regard as an attempt to interfere with line functions by the two investigative agencies. Knox has made an appointment for Waesche to see Biddle to explain what is actually being done in New York.

WJG

June 4, 1942.

MEMORANDUM

TO: Secretary Morgenthau

FROM: Mr. Gaston

The Executive Order of May 30 gives to War, Agriculture, R.F.C. and Treasury authority to import, free of duty, war materials purchased abroad, an authority which, up to May 30, the date of the order, was possessed only by the Secretary of the Navy. It will affect substantially our statistical record of collections, but since these collections were from other Government departments, there is no net effect on revenue and expenditures and some unnecessary book-keeping will be eliminated. On the record the War Department's expenditures, particularly, would be reduced and customs revenues will suffer in a corresponding amount.

The authority was extended to the agencies which have been making or may be expected to make purchases of war materials abroad, and the Treasury was included because of the Procurement Division.

R.F.C. has made large purchases abroad, principally of metals, including copper, manganese, zinc and lead. These generally have been admitted free of duty on certificate from the Secretary of the Navy that the R.F.C. acted as his agent. Hereafter the R.F.C. will not need any Navy letter for this purchase. The War Department has imported some metals and also a great variety of manufactured products from Canada, including some bombs, shells, acids and miscellaneous war supplies.

Agriculture, through Commodity Credit Corporation, is expected to import considerable quantities of food supplies and other agricultural products.

- 2 -

The R.F.C. has imported some 250,000,000 pounds of Australian wool, which is being held as reserve stock and nearly all of it is stored in bond. The free entry privilege could now be used to release any or all of this wool without payment of duty. Five shiploads of the wool were recently entered free of duty on the basis of a letter from the Secretary of the Navy certifying that it constituted a purchase of war materials abroad on his authority.

We understand that farm groups are disturbed over the prospect that the R.F.C. and Agriculture may make use of the free entry privilege in such a way as to hold down prices of farm products. It is possible that the R.F.C. may claim free entry only on that portion of the wool which is to be used to supply military needs, or they might claim free entry on wool to be released for commercial use but take the duty into consideration in fixing the price to manufacturers.

A question also arises as to lend-lease imports which are beginning to arrive. The view of our lawyers is that these imports are not "purchases" but will be subject to duty. A bill pending in Congress would eliminate the word "purchases" and admit them free of duty.

MEG

The Journal of Commerce

JUN - 2 1942

Text of Roosevelt Order Expanding Duty Free List

(Bureau of The Journal of Commerce)

WASHINGTON, June 1.—Text of President Roosevelt's order expanding the program for importation of duty-free imports, originally limited only to the Navy, to include the Army, Department of Agriculture, Treasury and Reconstruction Finance Corporation, follows:

By virtue of authority vested in me by the Constitution and laws of the United States, and particularly by Title I of the First War Powers Act, 1941, approved December 18, 1941 (Public Law 354, 77th Congress), as President of the United States and Commander in Chief of the Army and Navy of the United States, it is hereby ordered as follows:

"1. The Secretary of War, the Secretary of Navy, Secretary of Treasury, Secretary of Agriculture, and Reconstruction Finance Corporation are each authorized to exercise the functions, powers and duties heretofore vested in the Secretary of Navy by that provision of an act approved June 30, 1914 (38 Stat. 299; 34 U. S. C. 568), which reads as follows:

"Provided, that hereafter the Secretary of Navy is hereby authorized to make emergency purchases of war material abroad: and provided further, that when such purchases are made abroad, this material shall be admitted free of duty."

"2. The Commissioner of Customs, with the approval of the Secretary of Treasury, shall issue regulations governing the entry and admission free of duty of articles to which an officer or the agency designated in section 1 of this order shall make a certificate to him in the following form:

The procurement of this material constituted an emergency purchase of war material abroad and it is accordingly requested that such material be admitted free of duty pursuant to the act of June 30, 1914 (24 U. S. C. 568) and executive order No. 9177."

3. The authority herein conferred, including the authority to execute the certificate set forth in Section 2 of this order, may be exercised by the Secretary of War, Secretary of Navy, Secretary of Treasury

and Secretary of Agriculture, and the board of directors of the Reconstruction Finance Corporation, respectively, or in their discretion and by their direction, respectively, may be exercised also by and through any officer or officers or other civilian officials of their respective departments and agency designated by them for those purposes, or, in the case of the Secretary of Agriculture, by and through such corporations in the Department of Agriculture as are under the direction and supervision of the Secretary of Agriculture and in the case of Reconstruction Finance Corporation, by and through one or more of its subsidiary corporations. The Secretary of War, Secretary of Navy, Secretary of Agriculture, and the board of directors of the Reconstruction Finance Corporation may authorize such officer or officers or civilian officials of their respective departments or agency or such corporation or corporations subsidiary to the Reconstruction Finance Corporation or under the direction and supervision of the Secretary of Agriculture to make further delegations of such powers and authority within their respective departments and agency, and within such corporation or corporations.

4. This order shall become effective as of the date hereof, shall continue in force and effect until the termination of title I of the First War Powers Act, 1941, and shall authorize or ratify any emergency purchase of war materials abroad heretofore or hereafter made by or for the account of any of the said departments, the said agency, or such corporations, and any such war material so purchased may be entered, or withdrawn from warehouse, for consumption free of duty during the effective period of this order.

5. Any provision of any executive order, and any provision, rule, or regulation of any officer, department, board, commission, bureau, agency or instrumentality of the Government of the United States conflicting with this order are superseded to the extent of such conflict.

FRANKLIN D. ROOSEVELT
The White House.

May 30, 1942.

MEMORANDUM

June 4, 1942.

TO: Secretary Morgenthau
FROM: Mr. Sullivan

JLS

I attach herewith report on progress of the investigation of corporations having extensive war contracts. If you approve, I would like to submit similar reports every two weeks.

I would very much
like to have a report
every 2 weeks.
M. J.

Status of Special Cases

May 30, 1942.

The following statistical data and information is submitted to show the progress made in the investigation of 1941 cases of taxpayers with war contracts.

	Cumulative to May 30, 1942, incl.	
Corporation cases sent to field for investigations	500	
Partnership returns sent to field	39	
Individual returns sent to field	<u>14</u>	
Total cases sent to field divisions	553	82%
Cases which will go to the field within the next few days	49	8%
Cases awaiting the filing of returns prior to authorizing field investigations	<u>70</u>	<u>10%</u>
Total cases for immediate investigation	672	100%

Analysis of Work in the Field to Date

	<u>Cases</u>	<u>Deficiency</u>
<u>Field Action Completed:</u>		
No unusual features:	11	None
No adjustments made	23	\$ 423,138.00
Adjustments made		
Unusual Features (Exhibit A)	1	*58,623.00
Total	35	\$ 481,761.00
<u>Copies of Revenue Agents' Reports</u>		
<u>Received in Washington:</u>		
No adjustments recommended	10	None
Adjustments recommended	51	**\$7,697,940.00
Total	61	\$7,697,940.00
<u>In process of investigation with</u>		
<u>completion date of R.A.R. estimated</u>	231	
67% within 30 days		
13% between 30 and 60 days		
20% over 60 days		
<u>In process of investigation but com-</u>		
<u>pletion date of R.A.R. not yet</u>		
<u>estimated</u>	226	
Total	553	

* Adjustment of unusual issue agreed to.

** The copies of revenue agents' reports state agreements to deficiencies were received in three cases, totaling \$125,153.32 (I. T.), and partial agreement to deficiency in one case of \$49,563.72 (I. T.).

Exhibit A

Separate memorandum on each case listed previously forwarded to Mr. J. L. Sullivan.

	<u>Deficiency</u>
(1) Lansdowne Steel and Iron Co.	\$58,623.00

Present Status of Review of Copies
of
Revenue Agents' Reports

	<u>Cases</u>	<u>Deficiency</u>
Review completed - No unusual features found	33	\$2,891,618.00
Review completed - Unusual features (Exhibit B)	6	3,679,417.00
Reviews in Process:		
Potential unusual cases	4	468,226.00
Reviews in initial stage	<u>18</u>	<u>658,679.00</u>
Total	61	\$7,697,940.00

Exhibit B

Separate memorandum on each case listed previously forwarded to Mr. J. L. Sullivan.

	<u>Deficiency</u>
(1) Cannon Manufacturing Corp.	\$1,217,800.00
(2) Switlik Parachute and Equipment Co.	57,538.00
(3) Uebelhoer Brothers, Inc.	32,366.00
(4) Camden Forge Co.	450,541.00
(5) Jack and Heintz, Inc.	929,746.00
(6) Link Aviation Devices, Inc.	991,426.00

JUN 4 1942

My dear Mr. President:

In accordance with your request of May 29, 1942, I am enclosing a suggested reply, for your signature, to the attached letter from Mr. A. V. Robertson.

Faithfully,

(Signed) H. Morgenthau, Jr.

The President,

The White House.

Enclosures

N. M. C.

S. S. Agent,
Copies to Thompson

Dear Mr. Robertson:

Thank you for your letter of May 27, 1942, with which you enclosed a memorandum describing an interesting plan designed to attain a threefold objective, namely, to raise revenue for financing the war, to prevent inflation, and to aid post-war recovery.

As I understand it, you suggest a special levy of 10 percent on taxable income, both individual and corporate, against which a new series of bonds would be issued. Such bonds would be non-negotiable and non-interest bearing until after the war, at which time they would become negotiable, and would begin to bear interest at the rate of 1 percent per annum for the first 5 years, 2 percent per annum for the next 5 years, and 3 percent per annum thereafter until the bonds were retired.

Your plan apparently represents one form of compulsory savings, as compared with the present system of voluntary savings. As you know, there has been a good deal of discussion of the desirability and of possible methods of compulsory savings, and we are glad to have the benefit of concrete suggestions such as yours. In order that the plan may receive further study, in connection with the various objectives which you envisage, I am referring your letter to the Treasury Department.

I appreciate very much your patriotic interest, and the trouble you have taken in sending this plan to me.

Sincerely,

Mr. A. W. Robertson, Chairman,
Westinghouse Electric & Manufacturing Co.,
40 Wall Street,
New York, N. Y.

312

THE WHITE HOUSE
WASHINGTON

36576

May 29, 1942.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

Kans

This is an interesting
idea. Please prepare reply
for my signature.

F. D. R.

WESTINGHOUSE
ELECTRIC & MANUFACTURING COMPANY



40 WALL STREET
NEW YORK, N. Y.
May 27, 1942

The Honorable Franklin D. Roosevelt
President
United States of America
Washington, D. C.

My dear Mr. President:

This brief memorandum to prevent inflation which is a simplification of several ideas is sent to you in the hope that you may find it useful at this time.

From articles I have seen in the public print, I assume this memorandum is very close to others you are considering, but I thought this one might add something of value.

Respectfully yours,

A. W. Robertson
A. W. Robertson
Chairman

WESTINGHOUSE—THE NAME THAT MEANS EVERYTHING IN ELECTRICITY

TO PREVENT INFLATION

In order to insure a prosperous after-the-war peace, companies and individuals must have money. Nothing could be worse than poverty-stricken individuals and businesses. But that will be the condition of every one and every business if too much income is taken now by taxation. The fear of inflation prompts excessive taxes.

There is a way to avoid the catastrophe. There is a way to make our dollars do double duty. They can be made to furnish funds for the government now for war needs and prevent inflation and later provide the necessary funds to insure prosperity when victory and peace come.

To accomplish this greatly-to-be-desired objective, we need only to buy interest-free temporarily non-negotiable government bonds now with a part of our income. The money paid for these bonds could be used for all purposes the same as tax money. If interest began to accrue after the war is over at the rate of 1% for the first five years, 2% for the next five years, and 3% for each year thereafter until the bonds were paid and the bonds become negotiable concurrently with the accrual of interest, the owners of such bonds could sell them or borrow on them to live on or to embark on new business ventures, either of which objective would be highly desirable after peace is attained.

In order to start the plan the taxpayer, either individual or corporate, should be directed to invest 10% of his taxable income in such bonds (an issue of bonds with special

provisions should be authorized for this purpose). After the plan became better understood further extensions and additions could be made.

To repeat: This plan would enable the same dollars to help the government win the war now, and after the war enable the taxpayers to support themselves or assist recovery by investing their money in new enterprises.

For example, Taxpayer, John Root has an estimated taxable income of \$3,000 annually. At present he pays taxes to the Government on the \$3,000 taxable income. Under the plan, to use round figures, he would pay to the Government taxes on \$2,700 per year and buy a bond with the remaining \$300. This would continue as long as the war lasts. If the war is over in three years, the Government would have an amount represented by three times the annual tax on \$2,700 plus the \$900, the purchase price of the bonds; and under this plan John Root would have \$900 after the war to buy the necessities and luxuries that have been denied him during the war. The spending of this \$900 by the millions of taxpayers who had received bonds during this period would do more to stimulate business after the war than any other known method. It would serve as the perfect pump primer of the reconstruction period.

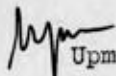
A corporation would use its savings in these bonds to finance deferred maintenance and pay expenses incident to a return to peace time activities.

A. W. Robertson
May 26, 1942.

June 4, 1942

For the Secretary

For your information, if you are still interested in the loan situation of the independent oil producers in the Southwest.


Upm

TREASURY DEPARTMENT

Office of
Comptroller of the Currency

Eleventh Federal Reserve District
Dallas, Texas

June 2, 1942

Comptroller of the Currency
Washington, D. C.

Attention: Mr. C. B. Upham

Sir:

Since our telephone conversation a few days ago relative to oil producing loans in this district, I have discussed the matter with Mr. Chas. Roeser of Fort Worth, and other interested parties. Mr. Roeser is a large independent oil producer, is a past President of the American Petroleum Institute, is a director and Chairman of the Board of the Continental National Bank of Fort Worth, Texas. Mr. Roeser states his reason for contacting Mr. Jesse Jones and Speaker Rayburn recently relative to the possibility of obtaining assistance for the independent oil producers, was due to expressed fears on the part of several independent producers, who have loans from banks, that the banks and bank examiners might become alarmed and unduly press the borrowers for payment on account of restricted production. Mr. Roeser further states he knows of no case where any such action has been taken, is threatened or contemplated; that his conference with Mr. Jones and Congressman Rayburn was a matter of precaution.

I have also had opportunity to again discuss the question with some of the bankers in Dallas, Fort Worth, San Antonio, and Houston, Texas, and Shreveport, Louisiana, and in no case have I found where any undue pressure is being brought to bear or where any unreasonable requirements have been or are being made due to reduced payments on loans occasioned by restricted oil production. Banks carrying this class of paper fully realize the necessity of going along for any reasonable time, until a satisfactory production program can be worked out, provided the loan is considered good otherwise.

Again I wish to assure you that no National Bank examiner in this district has taken an unreasonable attitude relative to any oil producing loan on account of reduction in payments due to curtailment of production when the loan is otherwise considered good.

Page #2

Comptroller

6-2-42

A great many oil production loans are good. Some are not good when made. Some good when made later become hazardous and unsatisfactory. The hazard is often increased for numerous reasons; such as poor management, reduction of gas pressure, salt water, antiquated and insufficient equipment, etc. In my judgment, where a loan is considered good with a full or near full production program, it is not subject to criticism at this time solely on account of enforced reduction in amount of amortized payments due to restricted production. On the other hand, we should not lose sight of the fact that some of these loans are not good for reasons other than curtailment in production, and under such conditions such loans should be classified as circumstances warrant. This question has been fully discussed with Mr. Roeser and other interested parties, and they are fully in accord with the thoughts herein expressed and they have no criticism of the Comptroller's office or of your examiners.

You will be advised promptly of any additional developments in connection with the problem.

Very truly yours,

(Signed) W. A. Sandlin

W. A. Sandlin
Chief National Bank Examiner

WAS:nm

SEVENTY-SEVENTH CONGRESS

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DEX. V. LONG, JR., CLERK
MARION T. MCCABE, ASST. CLERK

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES
WASHINGTON, D. C.

June 4, 1942.

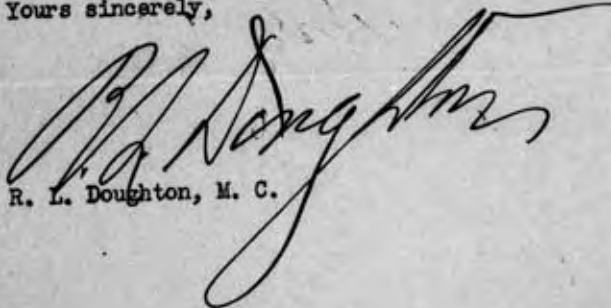
Dear Henry:

I appreciate very much your letter of June 3rd giving a summary of the financing by the Treasury Department and sale of bonds for the month of May.

This is a splendid showing and is a confirmation of your outstanding ability to handle our fiscal and financial problems.

Thanking you for your courtesy in sending me this information, I am, with my kind personal regards,

Yours sincerely,


R. L. Doughton, M. C.

The Honorable
Henry Morgenthau,
Secretary of the Treasury.

ALBEN W. BARKLEY
KENTUCKY

United States Senate

CONFERENCE OF THE MAJORITY

June 4, 1942

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

Dear Henry:

Let me thank you for yours of June 2nd.
concerning the sale of War Bonds during the month
of May for which I congratulate you.

Cordially yours,

Alben W. Barkley

AWB:KK



THE SECRETARY OF STATE
WASHINGTON

June 4, 1942

Dear Henry:

Thank you very much for your letter of June third,
enclosing a summary of the Treasury financing for May,
which I am very glad to have.

With best wishes,

Sincerely yours,

A large, elegant handwritten signature in cursive script, reading "Cordell Hull". The signature is written in dark ink and is the central focus of the letter's closing.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

EXECUTIVE OFFICE OF THE PRESIDENT
NATIONAL RESOURCES PLANNING BOARD
WASHINGTON, D. C.

June 4, 1942.

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

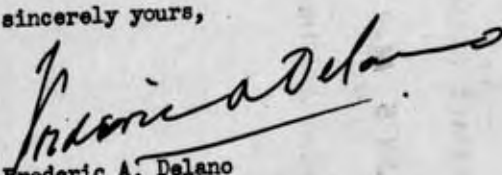
My dear Mr. Secretary:

I have noted with interest your confidential record of sales of United States Savings Bonds in May as compared with April, and congratulate you on the success you have achieved.

I have also before me your statement of your financing operations during May distinguished as to operations which produced cash, and those which involved only refunding.

Thanking you for this information, I am

Very sincerely yours,


Frederic A. Delano
Chairman

WALTER F. GEORGE, GA., CHAIRMAN
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 JOHN A. DANAHY, CONN.
 ROBERT A. TAFT, OHIO

United States Senate

COMMITTEE ON FINANCE

June 4, 1942

Dear Henry:

I thank you for your note of the 3rd giving me a summary of the Treasury's financing for the month of May. Also your note of the 2nd enclosing report of the sales of War Bonds during the month of May.

I congratulate you on the success of the programs.

Sincerely yours,

Walter F. George

Hon. Henry Morgenthau, Jr.

Secretary of the Treasury

Washington, D. C.

RECEIVED

JUN 10 1942

SECRETARY OF THE TREASURY

Congress of the United States
House of Representatives
Washington, D. C.
June 4, 1942.

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

Dear Mr. Morgenthau:

I want to acknowledge and to thank you for
your letter of recent date.

I am delighted to know that the War Savings
Bond drive is going so well.

With expressions of my regards.

Sincerely yours,


Arthur D. Healey

ADE:k

*File to War
Bonds for
May.*

June 4, 1942

Dear Steve:

I have followed your suggestion and have written a letter to Marvin McIntyre, a copy of which I am enclosing herewith.

I would appreciate your help in arranging for the President to give these people an audience.

Yours sincerely,

(Agd) Henry.

Hon. Stephen Early,

Secretary to The President.

Sent by Rimmors
6/6
1130 am.

June 4, 1942.

Dear Marvin:

I understand that during the absence of "Pa" Watson you are back at your old job of handling appointments for the President.

The Treasury has invited a number of heroes to come to this country to help us in our effort to sell War Bonds. They are arriving in New York on June 8th. You will find attached to this letter a copy of their schedule and names. They plan to be here on the 13th and 14th. With them will also be several Army and Navy heroes. It would be most helpful in our War Bond efforts if the President would receive these men on either the 13th or 14th. I hope that you will be able to arrange it for me.

Yours sincerely,

(Age) Henry.

Col. Marvin H. McIntyre,
Secretary to The President.

Sent by Remmons
6/6
1130 am

The following British officers and men are coming for our tour.

Squadron Leader John S. Nettleton, V.C.
Sergeant Huntly, D.F.M., wireless operator and air gunner.
Both these men took part in the raid on the Diesel engine factory at Augsburg.

Pilot officer Taylor, D.F.C.
Flight Sergeant Riddell, D.F.M., wireless operator and air gunner.
These men took part in the raids on Lubeck and Rostock.

Wing Commander Loudon, D.F.C.
Flight Lieutenant McColpin, D.F.C.
These men are fighter pilots.

Lieutenant Boyd of the Royal Naval Volunteer Reserve.
Chief Engine Room Artificer Howard.
These men fought in the big Commando raid on St. Nazaire.

Lieutenant Hall of the Lancashire Fusiliers.
Sergeant Herbert of the Commando forces.
These men fought in the Commando raid on Vaagso, Norway.

The following Americans have already been assigned to accompany them on the tour.

Lieutenant Commander Harold P. Smith, of the U. S. Destroyer Stewart.

Ensign Donald F. Mason, U.S.N. (who sent the message to his commanding officer, "Saw sub, sank same.")

First Lieutenant Elliott Vandevanter, Jr., D.F.C., a bomber pilot who served in the Philippines.

Lieutenant William M. Carrithers, a navigator who has fought in the Southwest Pacific area.

TENTATIVE ITINERARY

June 8th	New York
9th	(Lay-off)
10th	Boston
11th	Philadelphia
12th	Baltimore
13th	(Lay-off)
14th	Washington
15th	Pittsburgh
16th	Cleveland
17th	Detroit
18th	Milwaukee
19th	(Lay-off)
20th	Chicago
21st	Minneapolis
22nd	Denver
23rd	Salt Lake City
24th	(Lay-off)
25th	Seattle
26th	Portland
27th	San Francisco
28th	(Lay-off)
29th	Los Angeles
30th	(travel)
July 1st	San Antonio
2nd	Dallas
3rd	New Orleans
4th	St. Louis



CITY OF NEW YORK
OFFICE OF THE MAYOR

~~JUN 9 1942~~

June 4, 1942.

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

Dear Henry:

The enclosed speaks for itself.

Please understand and tell your people
not to make requests which I cannot grant.

Sincerely,

A handwritten signature in dark ink, appearing to be "John F. Hendon".

Mayor

r
enc.

COPY

330

TREASURY DEPARTMENT
DEFENSE SAVINGS STAFF

June 1, 1942

JUN 9 1942

The Honorable F. H. La Guardia
City Hall
New York, N. Y.

Dear Mr. Mayor:

The U. S. Treasury Department War Bond Pledge Campaign is contemplating the dropping of leaflets by airplanes over the five boroughs of New York during the afternoon of June 14 between the hours of one and four o'clock. The leaflets will be designed to encourage the signing of pledges for the purchase of War Bonds and will further explain how the pledge should be signed and what is going to be accomplished thereby.

The writer realizes that there are restrictions on the dropping of anything from airplanes, but believes that in connection with such a worthy cause permission could be secured to execute this plan.

For your information we are also contacting the First Interceptor Command and the Civil Aeronautics Administration for their approval. May we have your approval to go ahead with the contemplated program.

Since this office is working with the Treasury Department War Bond Pledge Campaign on a part-time volunteer basis, would you please address any communications to my own office, Transcontinental and Western Air, Inc., 80 East 42d Street, New York City. Murray Hill 2-6500.

Respectfully yours,

(signed)

Robert Robinson
Publicity
War Bond Pledge Campaign

June 10, 1942

Dear Mayor LaGuardia:

Secretary Morgenthau is away from Washington for a few days, but without waiting for his return I have sent to Col. Patterson of the New York War Savings Staff a copy of your letter of June 4th and its enclosures.

You understand, of course, that the request you received came from the New York organization and not from the Treasury in Washington. All the same, we are sorry that such a request ever came to you.

Incidentally, the Secretary heard all about the wonderful job you did for us in connection with the war heroes on Monday, and I know he will write you of his deep appreciation as soon as he gets back to the office.

Sincerely,

Ferdinand Kuhn, Jr.,
Assistant to the Secretary.

Hon. F. H. LaGuardia,
Mayor of New York,
City Hall,
New York City.

FK:cgk

(see Patterson letter 4/10)

June 10, 1942

Dear Dick:

Mayor LaGuardia is annoyed about a request that came to him from Mr. Robinson of your Publicity Department, and has written to Secretary Morgenthau to complain of it.

The Secretary is out of town this week, but in his absence I thought I would send you the Mayor's letter and its enclosures.

Perhaps you would be able to assure the Mayor that we didn't realize we were asking him to violate the law and we do not knowingly make requests which he cannot grant.

Sincerely,

Ferdinand Kuhn, Jr.,
Assistant to the Secretary

Col. Richard C. Patterson, Jr.,
War Savings Staff,
1270 Sixth Avenue,
New York, N. Y.

FK/ogk



**TREASURY DEPARTMENT
DEFENSE SAVINGS STAFF
NEW YORK**

HEADQUARTERS—1270 SIXTH AVENUE, NEW YORK, N. Y.—CIRCLE 6-3100

ALBANY
STATE BANK BUILDING

BUFFALO
MARINE TRUST BUILDING

ROCHESTER
LINCOLN ALLIANCE BUILDING

June 15, 1942

NEW YORK STATE COMMITTEE

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MR. LYTLE HULL
VICE-CHAIRMAN
CIVIL FORD
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ASSOCIATE STATE ADMINISTRATOR

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AMUEL W. REYBURN

ROBERT G. ROUSE

MRS. ROSE SCHNEIDERMAN

JUSTAVE STREBEL

Mr. Ferdinand Kuhn, Jr.,
Assistant to the Secretary,
Treasury Department,
Washington, D. C.

Dear Ferdie:

This will acknowledge your June 10th letter enclosing a copy of a note to Secretary Morgenthau signed by the Mayor in which the Mayor enclosed a letter from Mr. Robert Robinson, a member of the Publicity Department of the War Bond Pledge Campaign.

I do not think the Mayor even tried to help Mr. Robinson. In response to his letter the Mayor wrote:

"I have your letter of June 1, 1942.

I regret exceedingly that permission cannot be given to drop leaflets from airplanes. There are a great many reasons for it. Needless to say, we will do everything humanly possible to aid the Treasury Department, but this request is something I cannot grant. In fact, I have no authority to permit violation of the Law."

We went over the Mayor's head, and the Army is doing it anyway tomorrow, Tuesday, from 12 noon to 2 P.M. The C.A.A. and the Interceptor Command have granted waivers and the airplanes will drop leaflets over the five boroughs tomorrow at the time mentioned above.

I am sorry you were troubled by Fiorelle. He must have missed his breakfast that morning.

Sincerely yours,

Rich.

Richard C. Patterson, Jr.



334 ✓

TREASURY DEPARTMENT

WASHINGTON

CHARGE TREASURY DEPARTMENT, APPROPRIATION FOR

War Savings - Expenses of Loans

(The appropriation from which payable must be stated on above line)

U. S. GOVERNMENT PRINTING OFFICE

2-14117

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

June 4, 1942

Hon. Fiorello H. LaGuardia,
Mayor of New York,
City Hall
New York, New York.

CONFIRMING MY LETTER OF MAY 29th I AM HAPPY TO TELL YOU THAT A GROUP OF AMERICAN AND BRITISH WAR HEROES WILL ARRIVE AT LAGUARDIA FIELD ~~AT 10:00 AM~~ MONDAY MORNING JUNE 8th. WE ARE COUNTING ON YOU TO CARRY OUT THE PLANS ALREADY OUTLINED. THANKS FOR ALL YOU ARE DOING.

Henry Morgenthau, Jr.
Secretary of the Treasury.

FM/cgk

FORM NO. 14A

PREPARED BY

103

TELEGRAM

FINANCIAL BUSINESS-GOVERNMENT RATES

335
TREASURY DEPARTMENT

WASHINGTON

CHARGE TREASURY DEPARTMENT, APPROPRIATION FOR

War Savings - Expenses of Loans

(The appropriation from which payable must be stated on above line)

June 4, 1942

Mr. Finello H. Laguardia,
Mayor of New York,
City Hall
New York, New York.

RE YOUR LETTER OF MAY 29TH I AM HAPPY TO TELL YOU THAT A GROUP OF
AMERICAN AND BRITISH WAR BONDERS WILL ARRIVE AT LAGUARDIA FIELD AT 10:30
MORNING JUNE 5TH. WE ARE COUNTING ON YOU TO CARRY OUT THE PLANS
OUTLINED. THANKS FOR ALL YOU ARE DOING.

Henry Morgenthau, Jr.
Secretary of the Treasury.

STANDARD FORM NO. 14A
APPROVED BY THE PRESIDENT
MARCH 10, 1925

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

334 ✓

TREASURY DEPARTMENT

WASHINGTON

CHARGE TREASURY DEPARTMENT, APPROPRIATION FOR

War Savings - Expenses of Loans

(The appropriation from which payable must be stated on above line)

U. S. GOVERNMENT PRINTING OFFICE

2-14117

June 4, 1942

Hon. Fiorello H. LaGuardia,
Mayor of New York,
City Hall
New York, New York.

CONFIRMING MY LETTER OF MAY 29th I AM HAPPY TO TELL YOU THAT A GROUP OF AMERICAN AND BRITISH WAR HEROES WILL ARRIVE AT LAGUARDIA FIELD ~~AT 10:00 AM~~ MONDAY MORNING JUNE 8th. WE ARE COUNTING ON YOU TO CARRY OUT THE PLANS ALREADY OUTLINED. THANKS FOR ALL YOU ARE DOING.

Henry Morgenthau, Jr.
Secretary of the Treasury.

FM/cgk

STANDARD FORM NO. 14-A
PROVED BY THE PRESIDENT
MARCH 10, 1925

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

Hon. Fiorelle H. LaGuardia,
Mayor of New York,
City Hall
New York, New York.

CONFIRMING MY LETTER OF MAY 29th I AM HAPPY TO TELL YOU THAT A GROUP OF AMERICAN AND BRITISH WAR HEROES WILL ARRIVE AT LAGUARDIA FIELD AT 10:30 MONDAY MORNING JUNE 8th. WE ARE COUNTING ON YOU TO CARRY OUT THE PLANS ALREADY OUTLINED. THANKS FOR ALL YOU ARE DOING.

Henry Morgenthau, Jr.
Secretary of the Treasury.

FK/cgk

335

TREASURY DEPARTMENT

WASHINGTON

CHARGE TREASURY DEPARTMENT, APPROPRIATION FOR

War Savings - Expenses of Loans

(The appropriation from which payable must be stated on above line)

U. S. GOVERNMENT PRINTING OFFICE

2-14117

June 4, 1942

June 4, 1942

Dear Governor Bricker:

I appreciate very much your invitation to come to Cincinnati to speak in the latter part of June.

It would be a great pleasure for me to come, but I have just written to Mr. Trounstein, our War Bond Chairman for Ohio, that it will be impossible for me to make the trip at this time.

Sincerely,

(Signed) H. Morgenthau, Jr.

Hon. John W. Bricker,
Governor of Ohio,
Columbus, Ohio.

FK/cgk

H. M. C.
Copies to Thompson

337

MAY 27 1942



JOHN W. BRICKER
GOVERNOR

STATE OF OHIO
OFFICE OF THE GOVERNOR
COLUMBUS

May
Twenty-second
1942

My dear Mr. Secretary:

The War Savings Staff for Ohio has invited you to come to Cincinnati for a dinner meeting on any one of the following suggested dates--June twenty-fourth, twenty-fifth, or twenty-sixth. I am happy to join them in urging you to accept this invitation.

The people of Ohio have been cooperating in a splendid manner in the promotion of sale of war bonds and stamps. It would be an added inducement to have a personal message from you on this occasion.

We will be pleased to extend to you every courtesy during your trip through Ohio.

Yours sincerely,

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

June 4, 1942

Dear Phil:

After thinking carefully about your kind invitation, I have come to the reluctant decision that I shall not be able to come to Cincinnati or to accept any formal speaking engagements for the next few months. The work here at the Treasury has grown to such proportions, especially in the field of War Bonds, that it leaves me with very little extra energy to go travelling.

As you know, it would have been a real pleasure to me to meet your War Savings people and to thank them personally for the wonderful work they are doing. Your invitation was a most tempting one in every way, and I should like you to know how much I appreciate it.

Sincerely,

(signed) Henry.

Mr. Philip J. Trounstein,
State Chairman, War Savings Staff,
Union Commerce Building,
Cleveland, Ohio.

FK/cgk

H. M. C.

Copies to Thompson

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 21, 1942

TO Secretary Morgenthau
FROM Ferdinand Kuhn, Jr.

2

Mr. Graves and I feel that you should accept Mr. Trownstine's invitation to speak at a dinner in Cincinnati on the 24th, 25th, or 26th of June, if you could possibly make it. I have checked, as you requested, and found that you do not usually go to the Adirondacks until late in July.

Mr. Trownstine has only one request to make in connection with this dinner speech: that you meet the Cincinnati War Savings leaders at a reception preceding the dinner. This would involve meeting not over 100 people. The reception might be fixed at some other time if you prefer, but Mr. Trownstine attaches great importance to your meeting these folks.

If you would like to visit a couple of industrial plants during the day, he suggests the Cincinnati Milling Machine Company, a huge machine tool plant which recently got the Navy E award, and the Wright Company's new motor plant.

One other question that he would like answered: Would you like to stay at the Netherland-Plaza Hotel there or at Mr. Trownstine's home in the suburbs? He says that his home would be at your disposal for the day or overnight, to use in any way you wish.

F. K.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 4, 1942.


TO Secretary Morgenthau
FROM Harold Graves

In reply to your memorandum of June 1 re. the complaint from Albert Cullon reported in Mrs. Forbush's mail report of May 29, concerning alleged non-cooperation by the Bank of America at San Francisco in the sale of War Bonds, I am attaching a memorandum submitted by Mr. Powel to Mr. Sloan on this subject, with Mr. Sloan's comment attached.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 4, 1942.

TO Secretary Morgenthau
FROM Harold Graves 

In reply to your memorandum of June 1 re. the complaint from Albert Cullon reported in Mrs. Forbush's mail report of May 29, concerning alleged non-cooperation by the Bank of America at San Francisco in the sale of War Bonds, I am attaching a memorandum submitted by Mr. Powel to Mr. Sloan on this subject, with Mr. Sloan's comment attached.

O

ROUTING SLIP

Mr. Adams	Mr. Kuhn
Mr. Barrett	Mr. Mahan
Mr. Bray	Mr. McCarty
Mr. Broughton	Mr. McDonald
Mr. Callahan	Mr. Olney
Mr. Cox	Mr. Poland
Mr. Duffus	Mr. Powell
Mrs. Edwards	Mrs. Ready
Mrs. Evans	Mrs. Russell
Miss Finucane	Mr. Schram
Miss Furr	Mr. Sloan
<u>Mr. Graves</u>	Mr. Sparks
Mr. Gilchrist	Mrs. Turner
Mr. Houghteling	Mr. Arthur Wilson
Mrs. Jones
Mr. Kilby

Mr. Powell tells me that
 L. E. Townsend says he will
 check thoroughly but service
 is more than adequate and
 he is unable to understand
 such a complaint.

WJ
 6/4/42



TREASURY DEPARTMENT

342

WASHINGTON

~~XXXXXXXXXXXX~~
War Savings Staff

June 4, 1942

TO: Mrs. Ready

FROM: Mr. Powell

Following conversation with the Bank of America this afternoon, they will call at once on Mr. Albert Cullen, 1317 Octavia Street, and see that he is completely satisfied.

At their main office, where he called, they have set aside much space to sell Stamps as well as Bonds to defense workers and others. Crowds of people are said to be buying them. The Bank of America has just completed the sale of \$100,000,000 worth of Bonds, and is pushing sales aggressively through newspaper and outdoor advertising all over California.

HP

FOR DEFENSE



MR. GRAVES' OFFICE TO


June 8, 1942. 343

MISS CHAUNCEY:

This is a further report from the Bank of America on the complaint of Albert Cullon, reported by Mrs. Forbush in her mail report of May 29, and on which the Secretary requested a report from Mr. Graves by his memorandum of June 1.

Mr. Graves wants Mr..D. W. Bell to see this telegram also, please.

M. F. Finucane.



CLASS OF SERVICE

This is a full-rate Telegram or Cablegram unless its deferred character is indicated by a suitable symbol above or preceding the address.

WESTERN UNION 344

A. N. WILLIAMS
PRESIDENTNEWCOMB CARLTON
CHAIRMAN OF THE BOARDJ. C. WILLEVER
FIRST VICE-PRESIDENT

SYMBOLS

DL = Day Letter
NT = Overnight Telegram
LC = Deferred Cable
NLT = Cable Night Letter
Ship Radiogram

The filing time shown in the date line on telegrams and day letters is STANDARD TIME at point of origin. Time of arrival is STANDARD TIME at point of destination.

FA162 TWB PAID 3=WUX SANFRANCISCO CALIF A 509P

1942 JUN 4 PM 8 50

HARFORD POWEL, TREASURY DEPT=

WAR SAVINGS STAFF WASHDC=

ALBERT CALLON BEING CONTACTED NOW STOP SALES AT POWELL AND MARKET STREETS RUN FROM TWENTY TO FORTY THOUSAND DOLLARS A DAY MOSTLY TWENTY FIVE AND FIFTY DOLLAR BONDS STOP ACTUAL CLERK HIRE FOR HANDLING BONDS IN THIS BRANCH APPROXIMATELY FIFTEEN HUNDRED DOLLARS A MONTH STOP THIS IS THE ONLY BANK IN SANFRANCISCO WHERE BONDS AND STAMPS ARE AVAILABLE FROM NINE AM TO TEN PM DAILY INCLUDING SATURDAY STOP SPECIAL BOOTH FOR FOUR OR FIVE BOND SALESMEN TO STIMULATE SALES STOP TOTAL SALES THROUGH THIS BRANCH TO DATE OVER 2-1/4 MILLION DOLLARS IN BONDS AND STAMPS STOP NATURALLY CRITICISM VERY DISTURBING AND WE FEEL ENTIRELY UNJUSTIFIED AS WE HAVE THROWN EVERY EFFORT INTO ADVERTISING AND SELLING BONDS STOP REST ASSURED THAT INTENSE INTEREST AND BEST EFFORTS WILL CONTINUE=

BANK OF AMERICA NT & SA L E TOWNSEND.

THROWN EVERY EFFORT
REST ASSURED THAT
EFFORTS WILL CONTINUE=

2-1/4.

THE COMPANY WILL APPRECIATE SUGGESTIONS FROM ITS PATRONS CONCERNING ITS SERVICE

May 21, 1942

COPY

Northern Pump Company,
Minneapolis, Minn.

Gentlemen:

The Secretary has asked me to acknowledge your telegram of May 5, answering his of May 2, regarding the payroll allotment plan for the purchase of War Savings Bonds.

The Secretary is very much disturbed by the interpretation which you have placed upon his request. Nothing was farther from his mind than that it should be construed either as placing your Company under the slightest coercion on the part of the Government, or as suggesting that the Company should undertake to bring pressure to bear upon its employees. The Department addressed you in the hope merely that an educational program conducted by the management in cooperation with the workers would increase the voluntary participation of your employees in the War Bond program. Our intention was that the effort would be cooperative and friendly, and not coercive, and we regret exceedingly that any other construction was placed upon our communications.

The action of your Company in offering wage increases to employees subscribing 10 per cent of their pay for the purchase of bonds, while in one sense to be commended, is of itself inflationary in effect, and if followed by industry generally would wholly defeat the objects of the War Bond program. Our judgment here is that if you feel that the standards of participation suggested by the Department would be unfair to your employees or would disrupt the satisfactory employee relationships which obviously must exist

Northern Pump Co.--2

in your plant, or would interfere with production, the whole matter should be dropped. I need not add that should this be your decision, you will find no disposition on the part of the Treasury to criticize it.

Should any representative of your Company have occasion in the near future to be in Washington, I would consider it a favor if he would call upon me.

Sincerely,

(Signed) Harold N. Graves

Harold N. Graves
Assistant to the Secretary.

HNG/mff

cc to Mr. Reynolds



TREASURY DEPARTMENT
WASHINGTON

June 4, 1942

MEMORANDUM FOR THE SECRETARY:

I hand you herewith a memorandum from Mr. Houghteling describing the progress of the Field promotion program as it is being developed in collaboration with the A. F. of L.

~~GRAVES.~~



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 4, 1942

TO The Secretary of the Treasury

FROM Mr. Houghteling

MEMORANDUM ON ORGANIZATION AND WORK OF THE TEN PER CENT
PAY ROLL SAVINGS CAMPAIGN OF THE AMERICAN FEDERATION OF LABOR

After a series of meetings in Washington terminating May 15, conducted by Frank Fenton, Organization Director of the American Federation of Labor, and myself and attended by four Labor deputies of the War Savings Staff and four regional representatives of the American Federation of Labor, organization work in the field was started promptly.

To explain the geographic division of the country for this work, I insert here a map cut from the letterhead of the Southern office of the American Federation of Labor.

Joint War Bond Campaign of the
UNITED STATES TREASURY—AMERICAN FEDERATION OF LABOR

JOHN HENRY MORGENTHAU, JR., Secretary of the Treasury

Frank P. Fenton,
Director of Organization,
American Federation of Labor

James I. Houghteling, Director,
National Organization Division,
Treasury's War Savings Staff



REGION NO. 1 -- NORTH ATLANTIC STATES.

An office for Gilbert E. Hyatt of the War Savings Staff and John J. Murphy, regional representative for the North Atlantic States, was made available by the American Federation of Labor in connection with its own offices at 11 Beacon Street, Boston. Office supplies and Treasury pamphlets have been sent to this office and a Government stenographer made available by the State Administrator for Massachusetts. There are 41 organizers in this territory, directly under orders from Mr. Fenton, and all of these have been made available for Gilbert Hyatt and John Murphy. Of the 1,877 organizers employed by national unions of the A. F. of L. and also available for this work, many hundreds are located in this region. It is necessary first of all to get these organizers together and to explain to them our program.

The State of Massachusetts has already been divided into five territories, each one in charge of three outstanding A. F. of L. leaders. These men have met with Mr. Murphy and are already at work in their districts approaching local labor unions about more complete participation in the 10% Pay Roll Savings Drive. State Administrator Doherty is fully cooperating in this program.

The State of Connecticut is being similarly organized.

In Maine the program will be started at the State Federation Convention on June 11 at which the War Savings Program will be made a principal topic of discussion. Many A. F. of L. organizers from all over New England will be present at this convention.

In New York State, President Lyons of the State Federation of Labor is already a member of the State Committee, and he and members of the State Administrator's office are lining up the A. F. of L. organizers in the State to work among the local unions.

In Pennsylvania, the State Administrator and the President of the State Federation of Labor are mobilizing A. F. of L. organizers and sending them out among the local unions.

REGION NO. 2 -- THE SOUTH.

James F. Barrett of the War Savings Staff and George L. Googe, regional representative of the A. F. of L., have established an office at Atlanta. There are 34 A. F. of L. organizers in this territory, as well as a considerable number made available by national unions.

- 3 -

These men are being sent out among the local unions through the cooperation of the Presidents of State Federations of Labor. All local unions in thirteen States are being listed and studied in connection with the Pay Roll Savings Plan.

By personal contacts of James F. Barrett, the work among the local unions has already been started in the States of Virginia, North Carolina, South Carolina, Florida, Georgia, Tennessee, Kentucky and Alabama; and by correspondence in all of the States. The work in Mississippi and Louisiana will be started this coming week, and that in Arkansas and Oklahoma between June 15 and June 21. This is the time of State conventions and Messrs. Barrett and Googe are attending all such conventions and holding meetings with the A.F. of L. organizers who attend them in great numbers. The War Bond program has been, or is being, made a special order of business at conventions in North Carolina, Tennessee, South Carolina, Georgia, Virginia, Kentucky and Alabama.

On June 22 all of the organizers in Texas will meet at the convention in Fort Worth, and this will initiate our campaign in Texas.

REGION NO. 3 -- THE MIDDLE WEST.

Immediately after our conferences in Washington, Messrs. Fenton, O'Reilly and Dowell went to St. Louis, Missouri, where they had a large meeting of organizers and A.F. of L. representatives, and presented the plan to them. There are fifty-five A.F. of L. organizers in Region No. 3, as well as a large number employed through national unions of the A.F. of L. The organizers who met in St. Louis were sent out to work among the local unions on the ten per cent Pay Roll Savings Drive.

Messrs. Dowell and O'Reilly then went to Chicago where they have opened an office in space provided by the American Federation of Labor. In Chicago, the State Federation and the Chicago Federation have been enlisted wholeheartedly in our program. Messrs. Dowell and O'Reilly have also worked with the Chicago Building Trades Council, one of the most important in the nation, about a suitable savings plan for building labor. They also had a War Bond session at the Fiftieth Annual Convention of the Upholsterers' National Union. Arrangements are under way for regional meetings of organizers to mobilize them for work among the local unions in all parts of this Region. Mr. Dowell reports that he has already had over thirty interviews with individual organizers or groups of organizers to instruct them about the A.F. of L. participation in the ten per cent Pay Roll Savings Drive and that these men are now at work among the local unions.

- 4 -

REGION NO. 4 -- THE FAR WEST.

The work in this district is in charge of a new member of the War Savings Staff, Charles F. West, Jr. In order to instruct him about the problems involved and enable him to answer every kind of likely question, I kept him in Washington until May 29. He has therefore just arrived in his district and I have not had time for a report from him.

Our representatives are securing the publication of a large volume of information about the A.F. of L. War Savings Program in the Labor papers of their several regions. Radio station W C F L in Chicago is allotting time for frequent announcements of our program.

James L. Whigley

UNITED STATES SAVINGS BONDS - TOTAL

Comparison of June sales to date with sales during the
same number of business days in April and May 1942

(At issue price in thousands of dollars)

Date	: June daily sales	:	Cumulative sales by business days					
	:	June	:	May	:	April	:	June as percent of May
June 1942								
1	\$29,539		\$29,539		\$19,981		\$24,980	147.8%
2	15,903		45,442		39,430		45,933	115.2
3	21,604		67,046		72,048		64,147	93.1

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

June 4, 1942.

Source: All figures are deposits with the Treasurer of the United States on
account of proceeds of sales of United States savings bonds.
Note: Figures have been rounded to nearest thousand and will not necessarily
add to totals.

CONFIDENTIAL

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UNITED STATES SAVINGS BONDS - SERIES E

Comparison of June sales to date with sales during the
same number of business days in April and May 1942

(At issue price in thousands of dollars)

Date	June	Cumulative sales by business days				June as percent of May
	daily	June	May	April	June as	
	sales				percent of May	
June 1942						
1	\$19,834	\$ 19,834	\$ 12,679	\$ 12,993	156.4%	
2	8,008	27,841	24,263	24,256	114.7	
3	12,970	40,811	46,532	35,050	87.7	

June 4, 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 - SERIES F AND G COMBINED

Comparison of June sales to date with sales during the
same number of business days in April and May 1942

(At issue price in thousands of dollars)

Date	June daily sales	Cumulative sales by business days				June as percent of May
		June	May	April		
June 1942						
1	\$ 9,705	\$ 9,705	\$ 7,302	\$ 11,987		132.9%
2	7,895	17,601	15,168	21,677		116.0
3	8,634	26,235	25,516	29,097		102.8

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

June 4, 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.

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Sales of United States Savings Bonds
From June 1 through June 3, 1942
Compared with Sales Quota for Same Period
(At issue price in millions of dollars)

CONFIDENTIAL

Date	Series E				Series F and G				Total			
	Actual Sales		Quota,	Sales	Actual Sales		Quota,	Sales	Actual Sales		Quota,	Sales
	June 1	June 1	June 1	to Date	June 1	June 1	June 1	to Date	June 1	June 1	June 1	to Date
	Daily	to	to	as % of	Daily	to	to	as % of	Daily	to	to	as % of
	Date	Date	Date	Quota	Date	Date*	Date*	Quota	Date	Date	Date	Quota
1	\$ 19.8	\$ 19.8	\$ 21.7	91.2%	\$ 9.7	\$ 9.7	\$ 12.1	80.2%	\$ 29.5	\$ 29.5	\$ 33.8	87.3%
2	8.0	27.8	32.0	86.9	7.9	17.6	19.7	89.3	15.9	45.4	51.7	87.8
3	13.0	20.8	46.4	87.9	8.6	26.2	31.9	82.1	21.6	67.0	78.3	85.6
4			63.6				42.4				106.0	
5			79.6				51.0				130.6	
6			93.7				57.6				151.3	
8			120.0				69.6				189.6	
9			132.4				77.3				209.7	
10			149.6				89.5				239.1	
11			170.0				100.0				270.0	
12			189.0				108.6				297.6	
13			205.6				115.1				320.7	
15			236.5				127.2				363.7	
16			251.1				134.8				385.9	
17			271.3				147.1				418.4	
18			295.2				157.6				452.8	
19			317.4				166.2				483.6	
20			336.9				172.7				509.6	
22			373.0				184.8				557.8	
23			390.0				192.4				582.4	
24			413.5				204.6				618.1	
25			441.1				215.2				656.3	
26			466.8				223.7				690.5	
27			489.2				230.3				719.5	
29			530.6				242.4				773.0	
30			550.0				250.0				800.0	

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

June 4, 1942.

Source: Actual sales 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 and will not necessarily add to totals.

* Takes into account daily trend within the week, but does not take into account the trend by weeks during the month.

O
C
P
Y

June 4, 1942

Mr. Livesey

Mr. White

The Treasury requests that the following cable be sent to Cuba to be discussed with the Minister of Finance;

In view of the Finance Minister's recent preoccupation over possible repercussions of United States currency controls on the dollar exchange rate in Cuba and his desire for information and suggestions on the problem of currency control, you are requested to discuss with him the following.

This Government is desirous of preventing any dislocation in the United States dollar-Cuban peso exchange rate contrary to the best interests of the Cuba economy. At the same time, it desires to prevent the misuse of dollar currency in other parts of the world. To carry out these objectives we suggest that:

Cuba should prohibit the import or export of United States currency except direct (emphasize "direct") currency movements through authorized banking channels between the United States and Cuba and with the further exception that persons going to or leaving Cuba may be permitted to carry a maximum of \$250. It is suggested that the amount of \$250 be established administratively since it may be advisable to reduce this amount in the future.

This Government appreciates the fact that there may be special economic relationships which would be disturbed by the inflexible application of the above controls and therefore recognizes that it may be necessary to establish a licensing system to take care of a few exceptional relationships between Cuba and other points in the Caribbean area which will require larger currency movements. It is hoped that the Cuban Government will inform the Embassy of any licenses issued under this arrangement. We shall also keep the Embassy informed of exceptional movements between United States and Cuba.

HG:rel - 6/4/42

Copy:lc:6/5/42

June 5, 1942

MEMORANDUM

TO: Mr. Leap

FROM: Mr. Glasser

This Department has approved the following cable to be sent to Mr. Friedman from me:

"Pursuant to your travel authorization, travel expenses of you and your family to Ecuador will be paid by the Treasury Department. Accordingly, your family may travel to Ecuador under this authorization."

June 4, 1942

Mr. Livesey

Mr. White

The Treasury requests that the following cable be sent to Haiti to be discussed with the Minister of Finance:

At the request of the Cuban Government for suggestions as to handling the problem created by the restrictions on U.S. currency imports into the United States, the following cable was sent to our Embassy in Cuba:

"Cuba should prohibit the import or export of United States currency except direct (emphasize "direct") currency movements through authorized banking channels between the United States and Cuba and with the further exception that persons going to or leaving Cuba may be permitted to carry a maximum of \$250. It is suggested that the amount of \$250 be established administratively since it may be advisable to reduce this amount in the future.

"This Government appreciates the fact that there may be special economic relationships which would be disturbed by the inflexible application of the above controls and therefore recognizes that it may be necessary to establish a licensing system to take care of a few exceptional relationships between Cuba and other points in the Caribbean area which will require larger currency movements. It is hoped that the Cuban Government will inform the Embassy of any licenses issued under this arrangement. We shall also keep the Embassy informed of exceptional movements between United States and Cuba."

The application of these controls to Haiti probably should include the free passage of currency between the Dominican Republic as well as the United States and Haiti.

Please discuss with the appropriate officials in Haiti whatever suggestions they may have on the best means of attaining similar objectives in Haiti.

Dominican Republic

Same as above except for the fourth paragraph, which should read as follows:

The application of these controls to the Dominican Republic probably should include the free passage of currency between Haiti as well as the United States and the Dominican Republic.

Guatemala, Honduras, Costa Rica, Nicaragua, and El Salvador

Same as Haiti except for the fourth paragraph, which should contain the name of the four other countries of the five listed in addition to the United States for free passage of United States currency.

June 4, 1942

Mr. Livesey

Mr. White

The Treasury requests that the following cable be sent to Panama to be discussed with the Minister of Finance:

At the request of the Cuban Government for suggestions as to handling the problem created by the restrictions on U.S. currency imports into the United States, the following cable was sent to our Embassy in Cuba:

"Cuba should prohibit the import or export of United States currency except direct (emphasize "direct") currency movements through authorized banking channels between the United States and Cuba and with the further exception that persons going to or leaving Cuba may be permitted to carry a maximum of \$250. It is suggested that the amount of \$250 be established administratively since it may be advisable to reduce this amount in the future.

"This Government appreciates the fact that there may be special economic relationships which would be disturbed by the inflexible application of the above controls and therefore recognizes that it may be necessary to establish a licensing system to take care of a few exceptional relationships between Cuba and other points in the Caribbean area which will require larger currency movements. It is hoped that the Cuban Government will inform the Embassy of any licenses issued under this arrangement. We shall also keep the Embassy informed of exceptional movements between United States and Cuba."

Please discuss with the appropriate officials in Panama whatever suggestions they may have on the best means of attaining similar objectives in Panama.

HG:rel-6/4/42

TREASURY DEPARTMENT

360

INTER OFFICE COMMUNICATION

DATE June 4, 1942.

TO Secretary Morgenthau

FROM Mr. Kamarck

Subject: Of Possible Interest: Mr. Bullitt

72
(According to the newspapers, Mr. Bullitt is being considered for the position of head of the combined government information services. As an indication of Mr. Bullitt's qualifications for this job, you might be interested in the analysis he made of the European situation on November 21, 1938, in a conversation with the Polish Ambassador in Washington. This conversation was reported by Count Potocki to his Foreign Office. Events have since proved that Mr. Bullitt was wrong on the British, wrong on the French army, and wrong on the Russian army.)

"Then Bullitt spoke about the complete lack of preparation for war in Britain and about the impossibility of converting English industry to a mass war production basis, particularly in the airplane industry. He expressed himself with unusual enthusiasm about the French Army and confirmed the fact, nonetheless, that French aviation is out-moded. According to what military experts told Bullitt during the fall crisis of 1938, the war would last at least six years and would, in their opinion, end in the complete destruction of Europe and with Communism reigning in all states. Undoubtedly at the conclusion, the benefits would be taken by Russia.

"He spoke of Russia with contempt. He said the last purge, particularly the removal of Bluecher, has resulted in a complete disorientation of the Red Army which is not capable of any active war exertions. In general, according to him, Russia is at present the sick man of Europe. He compared it with the pre-war Ottoman State."

(Source: Selection of documents from the Polish Foreign Office, published by the Germans in "The German White Paper," 1940.)

Treasury Department 361
Division of Monetary Research

Date June 4 19 42

To: Miss Chauncey

From: Mr. White

Please call to the Secretary's
attention today or tomorrow.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

362

DATE June 4, 1942

TO Secretary Morgenthau

FROM Mr. White

Subject: Proposed British loan to China and Stabilization Board.

1. You will be interested to know with respect to the proposed British loan to China, that Fox has been informed by Dr. Kung that the British have raised so many difficulties that the Generalissimo has advised him to suspend negotiations.
2. The Board needs about £4 million to meet existing sterling obligations but has sterling assets of only about £2 million. Moreover, Fox expects future sterling obligations to amount to about £75 thousand per week.
3. In view of the suspension of negotiations with the British, it might be helpful to give assurance to the Board that we are prepared to see it use its dollar funds for the purchase of sterling, particularly since the Chinese Government is bound to reply to Dr. Soong that it would like to see the dollar assets of the Board used for such purposes.

NMC

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

Chungking

Dated June 3, 1942

Rec'd 11:34 a.m.

Secretary of State,

Washington.

654, June 3, 2 p.m.

FOR THE SECRETARY OF THE TREASURY FROM FOX.

TF (*)

One. After reviewing situation with respect to November 1 agreement and discussing it with Cassels alternate of Hall-Patch who is sick and other Board members I am fully convinced it must be adhered to; no other matter was more carefully examined by Board which even took it up with Cochran Niemeyer and (*) before consummation of agreement. There is only one problem, namely, the shortage of sterling.

In this connection K. K. Kwok manager of Central Bank informs me that for some time Central Bank has been meeting its sterling requirements by selling United States dollars for sterling.

Two. Shortage of sterling can be met either by drawing on the Board's unused United States dollar resources or by British making available to Board sterling

-2- #654. June 3, 2 p.m., from Chungking

sterling from forthcoming British loan or by combination of both. With respect to British loan Cassels informs me that British are tying strings and that negotiations still in early stage while according to Dr. Kung British have raised so many difficulties that Generalissimo has advised him to suspend negotiations.

Three. Detailed examination of Central Bank application reveals only one item Board can legitimately refuse to meet, namely, sterling and United States dollar expenditures on Chinese Government account from August 21 to October 31 1941. Subtracting this item Board's total net obligation under November 1 agreement for the period up to April 30 1942 is approximately \$4,214,000 and sterling 4,341,000. To meet sterling obligation the Board has about sterling 2,000,000 in sterling fund 1941 and a quarter of a million sterling in recently transferred fund 1939.

Four. According to the Central Bank Chinese Government foreign exchange requirements in future can be expected to average roughly sterling 75000 and United States dollars 60,000 per week or the equivalent of United States dollars one and one half million per month.

Against this

-3- #654, June 3, 2 p.m., from Chungking

Against this Board is due to receive some sterling from conversion of Indian rupees brought in by refugees ~~and~~ and can count on maintenance of remittances from Western Hemisphere. Thus all in all Board their liability under November 1 agreement for period from May 1 to the end of 1942 should not exceed the equivalent of United States dollars 12 million of which probably (*).

Five. Unless something can be done in Washington to induce British to make more sterling available to Board, I recommend that sterling deficiency of over 2 million for period up to April 30 1942 and such sterling requirements of Chinese Government as accrue during remainder of 1942 be met from Board's United States dollar resources if necessary. Should appreciate your approval before Board formally discusses question. Naturally shall try to arrive at settlement of sterling problem which will require minimum of United States dollars.

GAUSS

CSB

(*) omissions

COPY NO. 13BRITISH MOST SECRET
U.S. SECRET

4 June, 1942.

OPTEL No. 187

LIBYA. During 1st June heavy attacks from North and North-East overran our positions between the gaps made by the enemy in our minefields, involving the probable loss of the 150 Infantry Brigade. These positions have been occupied by the enemy and strengthened by the addition of numerous anti-tank guns. Our troops have been operating Westward of the enemy against his supply line.

2nd. June. A very severe sandstorm interfered with operations until late in the day. During the evening the enemy attacked ELUET-ET-TAMAD (ten miles south-west of ACROMA) with about fifty tanks but was later driven out with loss of 14 tanks. Early on third June strong attacks on BIR HAKEIM were resumed by German tanks and Italian tanks and Infantry but without success.

BRITISH MOST SECRET
U.S. SECRET

OPTAL No. 188

Information received up to 7 A.M., 4th June, 1942.

1. COMBINED OPERATIONS

A small raid was carried out early on the 4th in BOULOGNE - LE TOUQUET area. The Military raiding forces consisted of 250 special service troops. If time permitted and beach defences were found weak, it was intended to destroy an R.D.F. Station at ST. CECILE. Information so far available indicated destruction of R.D.F. station was not achieved. Re-embarkation of special service troops is being covered by our fighters, an escort for the force was provided by Royal Navy.

2. NAVAL

Light Cruiser KOLN has arrived at KIEL.

29th May. Russian Destroyer escorting convoy to north RUSSIA claimed four enemy aircraft by barrage fire at range of 1200/1600 yards using a new type of shell, part H.E. and part shrapnel. A large Rumanian M.V. reported sunk in BLACK SEA and a small German M.V. in the Sound. EMPIRE STARLIGHT (6850) previously damaged was bombed and sunk off HUFMANSK. A small British Steamer sank off ST. LUCIA.

3. AIR OPERATIONS

WESTERN FRONT. 2nd/3rd. 190 tons of incendiaries and 90 tons of H.E. were dropped on ESSEN and district by 144 aircraft which included 43 R.C.A.F. (two missing) 10 R.A.A.F. and 16 New Zealand. Several large fires and many smaller ones were observed distributed over a wide area. 36 Squadrons of Fighters operated over Northern FRANCE. 3 enemy aircraft (including an Italian bomber) destroyed, three probably destroyed and two damaged. Four Spitfires missing.

3rd/4th. Aircraft despatched: BREMEN 171, Aerodromes 9, DIEPPE 4, Seabasing 7, Leaflets 5. 12 bombers missing. Early reports state BREMEN attacked in good weather by majority of aircraft detailed. About 75 enemy raiders plotted over BREMEN. Main concentration over POOLE where considerable damage was caused mainly by fire. Few casualties. Five enemy aircraft destroyed and three damaged. Mostly over bases in FRANCE.

LIBYA. 2nd and 3rd. Operations limited by sandstorm but enemy landing grounds were bombed and attacks carried out on M.T. LIPIYRIARD area. Two enemy aircraft destroyed, three probably destroyed and five damaged. Five of our aircraft missing. Nine fighter pilots missing during past six days are now safe.

MALTA. 27 reinforcement Spitfires arrived on 3rd.

SARDINIA. Five Wellingtons attacked CAGLIARI.

4. INTELLIGENCE

Estimated GNEISENAU will be out of action six/twelve months. The failure of German supplies to meet in full Italian orders for Glycerine is jeopardising the maintenance of Italian output of explosives.

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OPTCL No. 195

Following is supplementary resume of operational events covering period 28 May to 4 June.

1. NAVAL

In the recent convoy to RUSSIA only 1 ship was sunk by U-boat and several U-boats were damaged by counter attacks though none was definitely proved destroyed. Perpetual daylight in the Arctic helps counter attacks and puts a strain on submarine crews, these factors and maintenance difficulties in North NORWAY may reduce enemy U-boat activities in this area.

Light Naval forces were engaged in protecting the seaward flank of our army in LIBYA and on 28th a motor launch engaged 2 E-boats and when reinforced drove them off. A possible attempt to refuel enemy tanks from the sea was frustrated. Shipping losses were less than of late. During the week ending 3rd 1,049 ships were convoyed of which 3 were lost including 7 in the Russian Convoy.

Imports into the United Kingdom in convoy for week ending 30th May were 534,000 tons including 112,000 tons of oil. It is reported that 1 German and 2 other ships arrived at BORDEAUX from the FAR EAST during April.

2. MILITARY

RUSSIA. It is believed that the Russian salient was straightened out by the German attacks south of KHARKOV. Although Russian losses here must have been heavy they were less than the Germans claimed, moreover some of the troops surrounded may still be resisting. At present the whole front is quieter than for some weeks. The greatest weight of the German offensive may be expected between KURSK and TAGANROG with perhaps a subsidiary attack at LENINGRAD.

LIBYA. The fluctuations of the battle which started on 27th May have been regularly reported in the daily telegrams, the situation is constantly changing and no reliable summing up or forecast can be given yet. Both sides have lost heavily in tanks but our recovery and repair services have been doing excellent work. We have also moved up armoured reserves and should now have tank numerical superiority.

BURMA. About 4-5,000 Japanese have reached HOMALIN in Northwest BURMA. In ASSAM at least 1 Chinese Division has managed to join up with our forces. Roads and bridges on the ASSAM Frontier have been damaged by heavy rains, the Japanese advance into YUNNAN continues slowly. Their plan is probably to consolidate as far east as the SALWEEN.

FAR EAST. Indications of Japanese intentions towards RUSSIA are scarce and indefinite but the slackening of the Japanese activities in the South-west PACIFIC area is worthy of note, as well as the recently reported addition of 1 division to their army in MANCHUKUO.

3. AIR OPERATIONS

WESTERN FRONT. With a spell of excellent weather over the BRITISH ISLES our air activity both by day and night increased considerably. A total of 196 squadrons of Spitfires were employed as escort to day bombers and on fighter sweeps. 14 enemy aircraft were destroyed, enemy fighters in most cases being reluctant to fight. Our night bombing was on the heaviest scale since the war started, the period included the 2 outstanding attacks on COLOGNE and the ESSEN area. Considerable smoke and haze is a common feature of the ESSEN area and makes detailed identification difficult. In spite of clear light nights facilitating interception by enemy night fighters our casualties in these night bombing operations are not unduly heavy working out at about 1%. Coastal Command aircraft made 2 good attacks on convoys, it is estimated that about 40,000 tons of enemy shipping was sunk or seriously damaged by our aircraft during the week. In addition to the heavy night bombing programme 120 sea mines were laid. Close and constant support for our ground forces in the Libyan battle was provided by the R.A.F. by means of attacks on enemy troops, M.T., supply columns and armoured vehicles. On more than 1 occasion dive bombing attacks on our troops were broken up by our fighters with heavy enemy loss or at least rendered harmless by timely interception. The part played by our aircraft in the battle has been highly praised by C. in C., Middle East.

Regraded Unclassified

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MALTA. Although fighter sweeps by Me 109's were made daily over the Island the formations never exceeded 25 and the bomber attacks remained light.

RUSSIA. There was a noticeable increase in German air activity against SEVASTOPOL.

4. EXTRACTS FROM PHOTOGRAPHIC AND INTELLIGENCE REPORTS ON RESULTS OF AIR ATTACKS ON ENEMY TERRITORY IN EUROPE.

STUTTGART. 5th/6th May. The Hirth Motoren Fabrik was damaged and it is believed that output would be affected for 1 month.

COLOGNE. Photographs of variable quality were taken on 1st June after the attack 30th/31st May. Only a general impression can be formed from them but serious damage appears in almost every part of the city covered and many fires were still burning. The Administration Buildings of the German Railways are reported to have been rendered completely useless and it is said that the destruction of records caused a very serious dislocation of traffic. Comprehensive description and assessment of damage revealed, accompanied by reproductions of some of the photographs, have since been published.

GENNEILLERS. May 29th. Photographs 30th show GNOME ET LE RHONE AERO ENGINE WORKS: 2 large buildings partly destroyed by direct hits. Extensive roof damage from blast. THOMSON-HOUSTON: Medium building partially collapsed, also roof damage, a large building in the centre of the works has had at least 1 direct hit. GOODRICH TYRE WORKS: Large area of extensive building entirely demolished and rest of building severely damaged. Large building in centre of works destroyed, other buildings show severe blast damage. Power Station. Boiler house severely damaged and 1 chimney collapsed. Severe blast damage to generating station.

5. OPERATIONAL AIRCRAFT BATTLE CASUALTIES

Metropolitan Area

British. In the air: Bombers 110; Fighters 36; Coastal 13; Army co-operation 1; Total 160.

Enemy

	<u>Destroyed</u>	<u>Probably Destroyed</u>	<u>Damaged</u>
Bombers	26	7	21
Fighters	20	6	25
Miscellaneous	2	1	1
Total	48	14	47

MIDDLE EAST (Including MALTA)

British. In the air: Bombers 8; Fighters 59; Total 67. 3 crews and 13 pilots are reported safe.

<u>Enemy</u>	<u>Destroyed</u>	<u>Probably Destroyed</u>	<u>Damaged</u>
Bombers	16	3	22
Fighters	19	9	24
Miscellaneous	1	Nil	Nil
Total	36	12	46

FAR EAST

British and Allied. In the air: Bombers 1; Fighters 8; Total 9.

<u>Enemy</u>	<u>Destroyed</u>	<u>Probably Destroyed</u>	<u>Damaged</u>
Bombers	1	Nil	Nil
Fighters	6	6	3
Total	7	6	3

NOTE: No account is taken of enemy aircraft destroyed on the ground in any theater or of British Naval Aircraft casualties.

6. HOME SECURITY

Estimated casualties for week ending 6 A.M., 1941: Killed 48, seriously wounded, 65.

Regraded Unclassified

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



June 4, 1942

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

Dear Henry:

The attached is a digest of the British
Political Warfare secret strategical guidance
issued June 2.

Sincerely,

WJ
William J. Donovan

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COORDINATOR OF INFORMATION

Eastern front:

- a. There is prolonged bitter localized fighting in Murmansk but the German assertions that several Russian divisions were destroyed is unconfirmed.
- b. There are bitter localized engagements south-east of Lake Ilmen without situational changes on the Lenin-grad front.
- c. No changes on central front except for German operation behind their own lines against the Russian detachments.
- d. No change on Kalinin front.
- e. Fighting in Ukraine is decreasing. The German counter offensive against the southern side of the Russian salient south of Kharkov toward Izyum was held after penetration near Kzyum. The Russians in the west were threatened with isolation by the German wedge, and withdrew. This withdrawal southeastwards along the Donets River from Zmiyev. The German claim of annihilation of three Russian armies is a gross exaggeration. The Russians admit 70,000 casualties. This is probably an understatement.
- f. Russian losses on the Kerch peninsula claimed in the German communique are much exaggerated.

Libya situation there is covered by Churchill's statement to Parliament. A spirit of modest restraint is recommended.

Guidance:

The left flank of the Russian front is Malta and Libya which protect the Caucasus, Russia's southern supply routes, Persian oil, Iraq, and Turkey. Axis aims at destruction of Allied forces in the Middle East and

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occupation of the entire area. On the Russian front, Timoshenko's attack has forced the Germans to divert troops from the spring offensive. However, Kharkov is not considered as a major German spring offensive. It is unlikely that the latter will start before mid-June.

Propaganda policy:

Let current events tell their own story. We have taken offensive and hold initiative.

Emphasize:

- a. Exhaustion of the Axis in food, manpower.
- b. Libyan campaign.
- c. Heydrich and reprisals.
- d. Statements of General Marshall and General Arnold.
- e. Mexican war.
- f. Anti-Nazi attitude of Latin America.

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NUMBER 34

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COORDINATOR OF INFORMATION

THE WAR THIS WEEK

May 28-June 4, 1942



Printed for the Board of Analysts

Copy No. 6

Secretary of the Treasury

MAY 28-JUNE 4, 1942

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Coordinator of Information

THE WAR THIS WEEK

The British this week loosed air attacks on Cologne and Essen which, in weight of projectiles dropped and in time concentration, were unique in the history of bombing operations. The full significance of these attacks and their implications for the future course of the war cannot yet be measured.

In the Far East the Japanese have initiated a drive along the Canton-Hankow railroad and may soon embark on complementary operations southward through Changsha. Meanwhile they have moved forward in Chekiang and Kiangsi provinces, in the east, as well as on the Burma-Yunnan front, in the west. Despite the superficially ambitious character of these operations, military observers warn that the Japanese are not so deeply committed in China that they would be embarrassed in launching a heavy blow in some other theater. In this connection it may be noted that the monsoon in India—now imminent—will render military operations more difficult in that area, and that air reconnaissance reveals no naval concentrations of importance in Melanesia.

On the Libyan front the British have blunted Rommel's drive, although the precise situation there still remains somewhat obscure. The struggle about Kharkov has also come to rest with the advantage apparently going to the Germans.

The British Air Offensive

The British bombing of Cologne and Essen was conducted on a scale and by methods so different from previous bombing operations that past experience offers little guidance in the measurement of its significance. Some 1500 tons of bombs were dropped in the Cologne area, as opposed to some 200 tons dropped in Coventry in the raid of November 14/15, 1940. The weight of bombs dropped on Essen in the initial raid was roughly 1200 tons, with the high explosive-incendiary proportion similar to that of the raid on Cologne. Perhaps equally significant was the proportion of incendiaries to high explosives employed by the British. Incendiaries accounted for about two-thirds of the weight of bombs employed in the attack on Cologne. The Germans normally employ high explosives and incendiaries in the proportion of about five to one by weight.

Finally, the British bombers are reported to have been above Cologne for 90 minutes: the raid on Coventry lasted almost 11 hours. Thus, in weight of attack, in the proportion of incendiaries, and in concentration in time the British raids are unique.

The British have clearly shaped their air offensive according to the hard lessons of their own experience. They found fire damage about equal in destructive effect to high explosives, despite the proportion of five to one employed by the Germans. And, further, it was discovered that a heavy concentration of attack by the Germans was capable of temporarily overwhelming the ground defense and fire-fighting forces. After a point, it would appear, the effectiveness of air attack increases at a rate more than arithmetically proportional to the tonnage dropped. Concentration in weight and in time, calculated to overwhelm the ground forces and to maximize the primary and secondary effectiveness of the incendiaries, seems to be the basis of the present British offensive.

Effectiveness of Cologne and Essen Raids

The effectiveness of air raids, in terms of particular factories and installations destroyed, can never be fully gauged, even by means of direct intelligence and aerial photography. In this connection it is to be emphasized that damage to public services has consistently proved more difficult and time-taking to repair than direct bomb or fire damage. Thus the only measurement possible at this juncture must be a rough approximation, in terms of the over-all significance of the areas bombed.

The industrial population of Cologne represents 1.89 percent of the total industrial force of greater Germany; that of Essen represents 2.35 percent of that force (1939 census). Somewhat more than 4 percent of the total industrial working force has, then, been subjected to the British blitz. Production in these two cities may well have been reduced virtually to zero on the day after the main assault. The recovery rate for Britain was between 2 percent and 3 percent of total output per day. That rate cannot, however, be applied to the case of Cologne and Essen, since the scale of British operations was so different from that of Germany against England. On the whole the German recovery rate is likely to be less than 2 percent per day, not only because of the scale of the attacks, but because, in general, extensive fire damage results in a slower rate of recovery than damage induced primarily by high explosives.

New Front in China

The Japanese have begun their long anticipated operations along the Canton-Hankow railroad, advancing northward from the vicinity of Canton in Kwangtung province, against Chinese forces commanded by General Yu Han-mou. If the new operation is the beginning of a serious attempt to capture the Chinese-held portions of this strategic rail line,

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a complementary drive southward through Changsha is to be expected. The movement recently of some 200 Japanese planes northward from Java and Malaya toward bases in China, apparently around Hankow as well as in Chekiang province, may indicate that such a drive is now in prospect.

In Chekiang, after occupying Kihwa, the Japanese have driven westward along the Hangchow-Nanchang railroad past Lung-yu. Fighting south of Nanchang in Kiangsi province, reported by the Chinese, may indicate a supporting drive along the railroad from the west, freeing this line also from Chinese interference.

Intermittent fighting continues on the Yunnan-Burma front, near Tengyueh and Lungling, west of the Salween River. With Thai troops participating, the Japanese claim to have captured Kengtung, capital of the Shan states, on May 26, and Mong Yawng, second largest city, on May 30.

Limited Offensive

With the establishment of the new front in Kwangtung, Chinese communiqués now report serious fighting in at least six of China's twenty-four provinces. Despite the geographic scope of these operations, however, observers here are by no means convinced that the Japanese are engaged in an all-out attempt to end Chinese resistance. Although Japanese operations are clearly designed to enhance the difficulties of Chungking, these observers believe the Japanese are too much interested in the Russian situation to commit themselves wholly on the Chinese front. They will undertake only such operations in China as can be carried out without jeopardizing their freedom of action along the Siberian frontier, according to our observers. It is clear that at the present time Japanese commitments in China are not such as to prevent their embarking on early and large scale operations in Siberia.

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Chinese Pleas for Help

Chungking nevertheless is feeling the pressure, as was evidenced this week by the continued pleas for aid. Chiang Kai-shek, speaking on the United States Army Hour, May 31, declared that morale was not sufficient without equipment, and asked for American supplies. General Chu Shih-ming, Chinese military attaché in Washington, seconded his leader's plea, stating that China constituted for the United States "a military opportunity which, if not grasped quickly, may not exist much longer."

These pleas, however, are not to be taken as the unanimous feeling among Chinese, according to some sources at Chungking. A native business man and landholder there, who believes his opinion is shared by many others, has urged that the United Nations should concentrate on defeating Germany first and not heed the exhortations of Chinese politicians to such an extent as to jeopardize Russian chances.

Growing Harmony in the Free Korean Movement

The Korean Volunteer Corps in China, military arm of the radical faction of the Free Korean movement, has joined forces with the conservative Korean Provisional Government Army, according to announcements from Chungking. Representatives of both rival factions in this country have confirmed the news, and some progress in achieving unity appears to have been made—at least for the moment.

The complicated background of rivalry between these two factions—both of which have received the support of Generalissimo Chiang Kai-shek—dates almost from the beginning of the Free Korean movement in 1919. Kim Kyusik, leftist patriot and leader of the direct-actionist Volunteer Corps (he was in the United States in 1933) broke away from the moderate Provisional Government group in Shanghai in 1924. Financial support for both factions was

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given by the Generalissimo in 1937, but their rivalry continued and penetrated the calmer and more conservative Korean nationalist groups in the United States, where it has threatened to disrupt any efforts toward united action.

Recent reliable estimates place the number of Koreans now fighting against the Japanese in China, or in training to fight, at 35,000, and this number is said to be increasing rapidly. In addition, 40,000 Koreans are said to be serving in various units of the Soviet Far Eastern Army.

Mass Civil Disobedience in India?

The possibility of a new campaign of mass civil disobedience in India in the next few months is now being mentioned by experienced observers at Bombay. The "open letter" addressed by the Maharaja of Indore to President Roosevelt late last week, appealing for his intervention in the complex Anglo-Indian impasse, may possibly be attributed to fears of such demonstrations.

Mahatma Gandhi meanwhile has adopted for the benefit of the press an enigmatic attitude. Replying to questions concerning the plan he is reported to be maturing for the launching of a "new movement", he has assured reporters that many plans are floating in his head. "But just now I merely allow them to float . . .". He hinted that something "very big" is in the offing if the Congress Party and the people are with him. For the present, however, he is continuing his talks with Pandit Nehru.

Meantime the Axis has apparently been hard at work preparing a fifth column for India. Mussolini and Hitler, amid a great press build-up, have formally received Subhash Chandra Bose as chief of the Indian nationalist movement. And the Tropical Institute at Hamburg, according to reports from Bern, for several months past has been training a good

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many English-speaking young Nazis for "special work" in India.

Australian Stalemate for Japan?

After repeated warnings in the past of the Japanese menace to Australia, Prime Minister John Curtin has now reversed his position. He challenges the Japanese to invade. "The enemy has found his most southerly adventure beyond his capacity to execute," he is reported to have told fellow Australians.

For the present, Allied fliers appear certainly to have the upper hand, vigorously prosecuting the attack on Japanese island bases extending around Australia from Timor through the Solomons. Nor have there been any recent reports of important Japanese naval forces in this area.

Attack on Alaska

Japanese naval and air forces however have not been idle. They have made an air attack on Dutch Harbor in the Aleutian Islands. For obvious reasons, information on this latest enemy venture must await further developments.

Rommel's Attack Backfires

The Axis drive in Cyrenaica has backfired. It was apparently directed at the defeat of British armored forces and the capture of El Gazala, El Adem, and Tobruk itself. As the first phase closes, General Rommel has failed in his objectives, but he appears successfully to have staved off disaster by consolidating his position at the gap that connects his forces east and west of the main British defenses, stretching from El Gazala to Bir Hacheim. Although the Germans gained by surprise and effective tank operations, the British were

prepared for an offensive, and halted the German drive near Acroma, a point about 15 miles southwest of Tobruk. Here the battle was fought, ranging over a wide area. While the Royal Navy repulsed a sea-borne attack, British armored forces slowly drove Rommel westward. The battle came to focus about the two gaps which the Germans had blasted through the mine fields of the main British defenses to the west in order to bring up reinforcements and supplies. Effective concentration of RAF strength on these vital points, however, prevented Axis reinforcement. Pounded by Allied tanks, artillery and air power, and lacking gasoline and water, Rommel began to withdraw his forces through the corridors to the west, trying to escape a British trap.

Rommel has succeeded in withdrawing many of his tanks and transport vehicles for regrouping with reinforcements to the west, and has consolidated his hold on the connecting gap. Although clearly on the defensive now, he may be able to reorganize his forces and supplies for further action. Losses on both sides have been heavy. The British at present are concentrating on Axis forces east of the gap, and harassing Axis supply lines from the air and on land, as seen in the thrust to Rotunda Segnali.

Finis at Kharkov

The Battle of Kharkov is apparently at an end—with no significant net gains for the Russians, and with the initiative once again on the side of the Germans. In the Izyum-Barvenkova salient the Nazis have surrounded and disarmed the Soviet advance troops (which the Swedish General Staff now regards as having consisted of only one army instead of three, as the Germans originally claimed). Elsewhere the front is quiet. The present line apparently follows the valley of the Donets between Kharkov and Izyum.

Military men on both sides continue to speculate on the

exact purpose of Timoshenko's ill-starred attack. The German press, while insisting that his operations around Kharkov failed to disorganize Nazi concentrations, still regards Timoshenko as the most capable of Soviet Commanders. Its announcement that the loss of Kharkov would not endanger German plans now appears as just another ruse in the war of nerves—since the city never seems to have been in any real danger. Nor has there been any confirmation of the Soviet claim that the attack on Kharkov succeeded in breaking up a planned German drive toward Rostov.

Pekkala's Resignation in Retrospect

The landing of four additional German divisions in Finland throws considerable light on the resignation of the pro-Ally Minister of Finance Pekkala, which was reported last week. It may safely be assumed that Pekkala, who has opposed the Government's policy of collaboration with Germany and war to the bitter end with Russia, knew of the impending arrival of these substantial reinforcements and that this development convinced him that there was no longer hope of bringing the cabinet around to his point of view. With the Government committed more completely than ever to the war with Russia, there was no alternative for a man of his views but withdrawal. It is probable that the difficulties of financing the war effort, for which Pekkala was largely responsible, also influenced his decision.

Pekkala's resignation, the strengthening of the German forces in Finland, the increasingly anti-American tone of the Finnish press, and the growing losses of Allied shipping in far northern waters strongly suggest that a crisis in the relations of the United States and Finland may be approaching. So far the American efforts to persuade Finland to conclude a separate peace have been a complete failure. These efforts have not been aided by the publication of such articles in American

journals as that appearing in the current issue of *Colliers* in which not only East Karelia, but also the entire Kola peninsula are assigned to a post-war "United States of Finno-Scandia."

Available evidence strongly indicates that only conspicuous United Nations victories will convince the Finns that the policy of their government is leading to disaster, and thus perhaps induce Finland to withdraw from the war. The closer these victories are to Finland, the greater will be their effect.

Nazi Fears in the Far North

The transfer of the 163rd German division from the Svir to the Arctic front and the dispatch of the four divisions mentioned above to this same area provide a measure of the importance with which the Germans regard the Arctic front. It is possible that these reinforcements are being sent because the Germans fear that the United Nations may be planning an offensive action in the extreme north in order to neutralize the German bases from which planes and submarines are operating against Allied convoys en route to north Russian ports. Since Archangel is now open and can be used to a considerable extent in place of Murmansk, military circles in Helsinki apparently regard as improbable a German offensive against Murmansk and the Murman railway. On the other hand, in view of the increasing amounts of war matériel being shipped to Russia's northern ports, it would appear likely that the Germans will step up their efforts to intercept these supplies through attacks by air, submarine and surface vessel. With increasingly short nights in the north, greater losses are to be expected unless it is possible to neutralize German bases by large-scale air attacks based on the Murmansk region, or in some other way to counter these increasingly severe German attacks.

Attack on Murmansk?

With these considerations in mind, other military observers incline to the opinion that the Nazi reinforcements in northern Finland may be preparing an attack on Murmansk. Its capture would give the Germans a submarine base much nearer to the White Sea than Kirkenes, and permit them to launch devastating attacks against Allied convoys bound for Archangel. Its conquest would also close to Allied ships the second-largest north Russian port—the only port in this region that was open throughout the recent very severe winter. Despatches from Helsinki continue to suggest, however, that the Finnish army will not take part in any offensive operations this summer—an impression confirmed by the current Finnish policy of large-scale discharges from military service.

Meantime, London has announced that a large convoy of United Nations merchant ships has fought its way through to a north Russian port after a five-day battle against German submarines and airplanes. The Admiralty further stated that the total of 18 ships out of the convoy reported by the Germans as sunk represented an exaggeration of more than 175 percent. Following this cue, the American press has estimated Allied losses as about six vessels. The same day, however, the Admiralty announced the loss of the light cruiser *Trinidad* last month while homeward bound from Murmansk.

Report From Inside Germany

Further evidence that the morale of the Germans has not yet reached the breaking point, or anything approaching it, has just come from Polish sources, whose opportunities for observation lend more than average credibility to their report. They find no serious deterioration in recent months in the

situation inside Germany. The "blind faith" in Hitler is still notable. Losses on the Eastern Front, which affect large numbers of families, are offset by elation over the Army's achievements. In German eyes the struggle in Russia still appears successful. Only a severe setback on this front, it is stated, is likely to bring a crisis in morale.

In some Berlin circles rumors of changes in the Government have been making the rounds, these sources say; but even should serious changes occur, German resistance to the bitter end must be reckoned with. The report adds that German communists, who spoke out bluntly, were nevertheless suffering obviously from a split psychosis. While they would welcome the downfall of the present regime, in the last analysis they would also like to see Germany win the war. The communists are very active, maintaining an underground press and working with special solicitousness among the soldiers, where they claim to be influential. But they should be regarded as "National" rather than as "International Communists," the report notes.

Germany in the European Rations Picture

Comparative data on food rationing, which has now spread to every country in Europe, reveal significantly the relatively favorable position of Germany. April reductions in that country have had their counterpart in other countries of the continent, so that the German position, by comparison, does not appear to have deteriorated appreciably since the end of 1941. The bread ration in Bohemia-Moravia, for example, has been reduced to the German level, and the Hungarian bread ration, formerly above Germany's, is now below it. A few countries, notably Denmark, allot larger quantities of some foods than do the Germans. If the dietary as a whole is considered, however, the German position still appears to be most favorable.

Basic data on current legal food rations in 25 countries or regions of Europe have been assembled by the Economics Division of the Coordinator's office in a tabular form, showing grams per week of specified foods legally available for the various classes of consumers—light workers, heavy workers, old people, children, and so on. These tables reveal that German rationing embraces more foods and affords a better-balanced diet than does that of other Axis-dominated countries. Moreover, it is known that the German system functions well, thus guaranteeing the availability of the legal rations. This is not true in less thoroughly organized systems.

The rationing problem in the United Kingdom has been approached on a basis differing from that of other countries, and general comparisons are consequently difficult. The normal consumer there, however, is thought to be somewhat better off than the same class of consumers in Germany. On the other hand, better provision appears to have been made in Germany for the special categories of workers, who in turn constitute a larger proportion of the total population. In Russia bread and meat rations are both higher than those in Germany—but there are reports that for foods rationed in Russia (bread alone excepted) only about half the "legal" ration is actually available for distribution.

Laval and the Nazis—Uneasy Bedfellows

Laval and the Nazis are getting on no better, mainly because Laval wishes to give Germany only economic concessions, according to a report from Vichy. The same source indicates that upon coming to power Laval implicitly agreed to let Germany have 350,000 French textile and metallurgical workers, whereupon the Nazis went ahead and enrolled a similar number of German factory hands in the Army. Now

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Laval is faced with the difficult task of fulfilling his hasty promise, with the result that the Vichy Government is busy with a great propaganda campaign to enlist the required number of skilled men. At the same time he is reported to have rejected a proposal advocating a "vigorous defense of Morocco" and an effort to regain the territories under Free French control. This rejection appears to be based quite simply on his feeling that French military resources are inadequate for such an undertaking.

Franco-Italian Relations Continue to Fester

As for Italian claims on France, a high French Foreign Office official has stated that no formal demands have been made. However, the rumors regarding Italian designs on Nice, Corsica, and Tunisia continue, and it is reported that southeastern France is in a state of uneasiness. Although Italy's demands are at present only a press campaign, highly placed observers in Italy think Mussolini may get in too deep to withdraw, and may even now feel that he is on his own and awaits no real help from the Nazis or Laval.

Vichy, however, appears to discount the Italian clamor. The French Foreign Office, it is reported, considers such an attack could only be made with Nazi approval, and that such approval is not likely because of German fears that the French fleet and Morocco might then go over to the Allies. A high French officer, just back from Vichy, was told that the Germans were not behind Italian demands. He also reported that, while the French would avoid provoking the Italians, they will resist any attack. From Ankara it is reported that Von Papen said Hitler is just egging Mussolini on so that the Nazis can later step in as Vichy's protector, and perhaps themselves get concessions in Tunis to protect Rommel's rear. The renewal of Spanish annexionist demands regarding French Morocco is believed to be a similar form of Nazi pressure.

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Mussolini's demands appear to have caused a flurry in Morocco where a poll of white members of the army, navy, and civilian service in that area gave a return of 90 percent who are favorable to immediate American intervention in this dependency. In France proper the public was said to have been highly pleased with the great bombardments of Germany.

Continuing Axis Propaganda in the Near East

Axis propaganda in the Near and Middle East continues to exploit the anti-British feeling in the area and is arousing fear of the United States by linking us with the Zionist cause. The Axis radio is reported to be assisted by an elaborate 5th column organization under Von Papen that covers each Arab country.

One of the main themes of the Axis campaign is that President Roosevelt is working to create a Jewish state at the expense of the Arabs. The hostility to this plan is such that one competent observer declares that the creation of a Jewish army would quite probably precipitate a conflagration among the Arabs of Syria, Trans-Jordan, Iraq, Arabia, and possibly in other Moslem lands. Throughout all of these areas German agents are organized as never before, carefully cultivating pro-German opinion and personnel.

Another factor of which the Germans are making good use is the chronic disorders of the Kurdish tribes in northern Iraq, northwest Iran, and eastern Turkey. Here tribes that for 4000 years have lived in the mountains as unruly herdsmen and brigands have secured arms and threaten the surrounding country, as well as the lend-lease supply routes. The Axis charges that the U. S. S. R. encourages these disorders as a prelude to annexation. The Turks are extremely anxious to have Anglo-Russian occupation forces restore order lest the revolts spread to eastern Turkey where the largest number of Kurds is located.

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The Turkish government has announced the conclusion of an agreement whereby the Nazis, who are anxious to match Allied aid to Turkey, will provide the latter with 100 million marks worth of guns, tanks, planes, etc. A commission has left Ankara to discuss this arrangement with the Reich. The Turks fear the Nazis will insist on German "technicians" accompanying the matériel, but it is reported that Ankara plans to refuse this demand.

Castillo Muzzles the Press

In Argentina, Acting President Castillo issued a decree on May 29 prohibiting the press from printing Congressional discussion of foreign affairs or the state of siege. The decree effectively muzzles one of the last means left to public opinion to express the prevalent criticism of Castillo's policies, and reflects the executive's fear of strong opposition which was certain to ring through the halls of the Chamber of Deputies. The prediction of certain observers that Castillo would find some pretext to dissolve the Congress (*The War This Week*, April 23-30, p. 17) may well be on the road to fulfillment, although this particular method of silencing the opposition had not been generally foreseen.

Latest reports indicate that Radical Party deputies have already expressed vigorous opposition to the new decree, probably bringing the dissolution of Congress a step nearer. Some observers believe that Castillo may feel himself forced to dissolve Congress if it insists on the continuation of its present policies. Such a dissolution would presumably mean the destruction of the parliamentary form of government in Argentina.

Economic Distress in Latin America

From Latin America generally come reports of economic distress and serious food shortages, either present or impending. There is a meat shortage in Peru, a flour shortage in

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Ecuador, a serious shortage of rice and wheat flour in Venezuela, and critical food shortages are reported from the West Indies. Puerto Rico is among the islands where a lack of the basic food staples, normally imported, may cause famine and disorder.

Rioting in Nassau recently brought the Duke of Windsor hurriedly back to his post. The situation there is aggravated by the dependence of the inhabitants on outside income. More than 67,000 people are grouped on some 20 islands—spots of land which are low, flat, and sandy, covered only with a scrub of pine and palm. Income from shipments of tomatoes and from a thriving tourist business provided the chief support of the predominantly Negro population. The plight of the people of the Bahamas and resulting social disorder are believed to be only a preview of what may be expected in many other localities where a commercial economy dependent on oversea connections is being strangled by the war.

In Chile communists are said to be leading the striking laborers on the railroad which connects Tocopilla with the nitrate and copper mines in the interior. This is probably only a struggle for better pay or better working conditions, but the Chileans are watching the situation with concern.

Anti-Democratic Forces in Cuba.

Anti-democratic groups in Cuba are striving to prevent the government from restricting adequately the operations of Axis and pro-Axis elements in that country, according to a current study by the Latin American Section of the Coordinator's office,—and this despite the democratic sentiments of most Cubans and the whole-hearted cooperation of President Batista with the United Nations. Cuba has long been the center of Axis propaganda and activities in the Caribbean area. And the arrest and internment of Prince Camilo Ruspoli Caraciolo last April revealed Cuba to be the head-

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quarters of one of the largest and most efficient spy rings in all Latin America.

The pro-Axis groups include conservative business and social leaders, influential journalists, congressmen and officials. The Spanish Falange, with headquarters in the Spanish legation, is the largest and most dangerous. Its members are chiefly from the large Spanish colony, which is overwhelmingly pro-Axis in sentiment. They are active in espionage, sabotage, and in cultural propaganda against the United States. There are several related totalitarian organizations, including the *Unión Nacional Ucraniana Cultural* (*National Ukrainian Cultural Union*) and the *White Russian Legión Nacional Revolucionaria Sindicalista* (*National Revolutionary Sindicalist Legion*), some of whose leaders have recently received prison sentences for espionage and conspiracy.

These various organizations have intimate connections with high Cuban officials and Army officers. Falangistas in particular have worked their way into influential posts in every branch of the government. Men reputed to be Falangistas include a minister of state, the President's secretary, and a high police official. Some of these and also a number of congressmen have used their influence to obtain the release of enemy agents. Probably fewer than a hundred aliens are now interned in the concentration camp on the Isle of Pines. It remains to be seen whether Batista's recent decree forbidding further immigration from Germany and the Axis occupied countries will be effective, and whether other war efforts of the executive will successfully overcome the strong anti-democratic forces in Cuba.

The wavering character of current Cuban policy is indicated by two acts of a diverse nature. On the one hand, Congress has just voted to sever relations with Vichy and with Spain, with Batista's approval practically assured. On the other, Congress has rejected Batista's recommendation for recognition of the Soviet Union.

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APPENDIX I

THE RUSSIAN PETROLEUM POSITION

If the Russian armies this summer are obliged to retreat behind the Volga River, the Soviet Union will find its petroleum position gravely threatened, according to a report prepared by the Economics Division of the Coordinator's Office. The report further states, however, that the territorial losses which Russia had suffered by the end of 1941 did not deprive the nation of any very extensive petroleum resources. On the contrary, these losses actually reduced Russia's non-military consumption. On the other hand, the loss to the Germans of the area between the present front and the Volga would undermine the whole Soviet oil position, as the accompanying map reveals. Here the Nazis are apparently far more interested in depriving the Russians of the oil of the Caucasus than they are in acquiring it themselves (*The War This Week*, May 21-28, pp. 19-20).

The map presents in diagrammatic form the data on which the above conclusions are based. In 1940, the total petroleum production of Russia (exclusive of Polish areas annexed in 1939) was 32.8 million metric tons, distributed as follows—the Caucasus (28.3 million tons), the Ural-Volga region (3.4 million tons), the Asian regions (.7 million tons), and the northern half of the island of Sakhalin (.4 million tons). Refining facilities, both crude and cracking, existed in the same areas—supplemented by refineries in the Ukraine and in the district about Moscow. Furthermore, consumption estimates suggest that even before the outbreak of war with Germany, there was a serious shortage of gasoline for military uses and probably little fuel available for accumulating stocks—unless the Soviet authorities had already curtailed non-military consumption.

Four Hypothetical Lines

As an indication of the extent to which Russia would be self-sufficient in petroleum products, should western areas of increasing size be lost to the Germans, the map further presents four hypothetical battle lines—each establishing a front farther to the east and thus reducing the size of free Russia. These lines represent, of course, no specific military predictions; they are simply assumptions, to aid in visualizing the petroleum question as a whole.

The first line presumes stabilization of the front as of last winter—roughly on the line Taganrog—Kharkov—Bryansk—Leningrad. The loss of the territory west of this line (Zone I on the map) did not materially affect the Russian petroleum position. Rather it relieved the Soviets of a consumption burden, which it in turn imposed in large part upon the conqueror. In 1940, the present occupied areas (excluding former Polish territory) produced a negligible amount of petroleum, their straight-run refining capacity was nil, their cracking capacity was only 788,000 metric tons a year, while their nonmilitary consumption probably amounted to more than 6 million metric tons.

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The second or "Volga" line presumes the loss to the Germans of everything west of the line Astrakhan—Stalingrad—Saratov—Gorki—Vologda—Archangel. If the Nazis pushed the Russians back this far, the Soviet petroleum position would be very serious. On the basis of 1940 figures, the free district east of the Volga Line (Zones 3-5) would have a production of only about 4.6 million metric tons (annual refining capacity: 3.4 million tons straight run, 2.8 million tons cracking) to supply an estimated non-military consumption of 7.7 million metric tons.

A retreat behind the third or "Intermediate" line (Gurev—Uralsk—Buzuluk—Ishevsk and thence north along the Asian border) would aggravate Russia's petroleum shortage. With estimated non-military consumption down to 5.3 million metric tons, the production of the area still under Soviet control (Zones 4 and 5) would be about 4.4 million tons (refining capacity: 3.2 million tons straight run, .7 million tons cracking). Finally, the loss of all European territory—i. e., a withdrawal to the fourth or "Ural" line—would place Russia in a completely untenable petroleum position.

Remedial Measures

The foregoing estimates of consumption obviously do not include any allowance for exports, stocks, or military uses. As for exports and stocks, it would be impracticable to divide them accurately between the "free" and occupied zones. Military consumption, while naturally falling entirely in the free zone, would scarcely remain at the same or at any predictable level behind successive lines of withdrawal. The inclusion of these factors would reveal still more clearly the critical gaps between consumption and production in the areas presumed to be held by Soviet forces.

There is, moreover, apparently no satisfactory solution for Russia's petroleum shortage in the Soviet Union itself. Most of the proposed expedients offer few grounds for optimism. The Soviets have doubtless already severely limited non-military consumption of petroleum; such measures, however, would probably prove insufficient, should Russia suffer further territorial losses. More extensive and more efficient operation may have increased crude oil production since 1940, and may still further increase it. But this would be a fruitless expedient, if refining capacity did not increase equally. The Russians might evacuate refining facilities to the east. This would be a slow process, however, and it is unlikely that the Soviets would be able to effect any large-scale transfer under war conditions.

The importation of refining equipment and of refined petroleum products from the United States is a final possible solution. Already the Soviets are receiving some shipments of motor fuel and refining equipment from this country. Yet the existing strain on Allied shipping and transport difficulties in Russia itself would probably prevent American aid from becoming a decisive factor in relieving Russia's petroleum shortage.

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APPENDIX II

THE SIGNIFICANCE OF GERMAN MANPOWER LOSSES

Intelligence reports and general economic analyses of the German position agree that a shortage of manpower has helped set an upper limit to both armament production and military action. In this respect the German position has deteriorated in the course of the past year, due to heavy manpower losses on the Russian Front. Permanent losses, from June 22, 1941, to April 1, 1942, are estimated by the Coordinator of Information at approximately 1,400,000.

The military significance of these losses may be summarized as follows:

1. Since the offensive against Russia, which Germany maintained for the first six months of the war, required a spearhead of young, vigorous and aggressive troops, and since it was mainly from the classes which came of military age in Germany after the reintroduction of universal training in 1933 that these troops must have been drawn, it appears probable that as many as a million of the permanent losses fell in the age group 21-32 years.

2. If account is taken of a slight net accretion, the total number of Germans aged 21-32 fit for military service may thus have fallen from 5,300,000 to 4,400,000, in the period June 1941 to April 1942: a loss of about 20 percent. It should be noted that the total number of Germans in this age group is lower than normal due to the decreased birth rate of 1914-18.

3. Since virtually all fit men in the 21-32 age group had been absorbed into the armed forces by June 1941, these losses have been replaceable only by older men, from 33 to 47. Although it is believed that in June 1941, 30 percent of the older men were in military service, they served for the most part in auxiliary military formations or in the ground personnel of the air force. It is estimated that only some 1,500,000 men of this age group were in divisional formations, representing about 20 percent of German divisional strength. Due to the replacement of younger by older men this proportion is now believed to have risen to about 35 percent.

4. It is probable that panzer, motorized, and mountain divisions have been brought back to full strength either from new young classes, or by the transfer of men in the 21-32 age group; but German losses have reduced the number of first-line infantry divisions by about 30.

The economic significance of these losses may be summarized as follows:

1. The large call-ups of the first half of 1941 accentuated an already tight manpower situation in German industry. Replacements took the form of women, foreign workers, prisoners of war, pensioners, and other inferior workers. As a result, civilian production was further reduced, in an effort to maintain military output.

2. As noted above, losses on the Eastern Front have necessitated the calling up of more than one million additional men from the 33-47 age group. Despite the strenuous efforts which have been made to substitute foreign and prison

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labor, these call-ups have probably caused a further decline in total output. To the extent that civilian production could be reduced, this has undoubtedly been done; but the production of certain military items may have been affected, as well, although there is, as yet, no evidence of such declines.

3. It is believed that further substantial losses in the German army will result either in a reduction of the over-all size of the German military establishment, or, if that establishment is maintained by call-ups, a decline in German military production. No important margin of transferable labor is believed to remain in German civilian industries.

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APPENDIX III

DRAZHA MIKHAILOVICH: THE POLITICAL FACTOR

The American press has recounted in detail the exploits of General Draxha Mikhailovich, guerrilla ruler of a quarter of Yugoslavia's former territory, against whom the Axis is now reported to be sending 24 divisions. Somewhat less is known of his political tendencies, on which a confidential report checked against Yugoslav sources gives some significant details.

The pre-1939 political views of the General are something of a mystery. He may have been a member either of the royalist White Hand or of its opponent the democratic Black Hand. Certainly he was an advocate of a mechanized army, and was suspicious at an early date of the political loyalty of some elements among the Slovenes and Croats.

Mikhailovich and the Socialists

Since the organization of his Freedom Army and his appointment as Yugoslav commander-in-chief and minister of war, Mikhailovich's political orientation has become somewhat clearer. One observer, reporting that the General is in communication with Stalin, believes that he has established a leftist, socialistic regime—perhaps anti-monarchical but not anti-clerical. Other observers suggest that Mikhailovich's socialist leanings are more apparent than real. His policy of seizing and rationing the scanty supply of manufactured goods in the territory under his control, they point out, is simply a natural war expedient; the peasants would not understand it if he failed to do so. Furthermore, the Yugoslav Trotskites apparently oppose him, while a Communist government and army in Montenegro exist independently of Mikhailovich's own forces. Reports suggest that the Yugoslav Government-in-Exile has been doing everything possible to reconcile Mikhailovich and the Communists.

Pro-Russian Tendencies

If Mikhailovich is not pro-Communist, he is almost certainly pro-Russian. This latter sentiment is of long standing in Serbia, and has practically nothing to do with Communism, about which the Serb peasant has only the vaguest notions. With Russia fighting the same enemy as the Yugoslavs, a resurgence of the old pro-Russian feeling was inevitable, and it has doubtless added strength to the resistance of Mikhailovich's guerrilla army.

Furthermore, Mikhailovich—like most patriotic Serbs—is apparently strongly opposed to the considerable White Russian refugee element in Yugoslavia (although one of them, Mahin, is collaborating with him). These emigrés have long been militantly anti-Soviet, and before 1939 looked to Hitler to overthrow the present Russian regime. At the same time they have often shown feelings of dislike for the Serbs, who in turn resented the favor they enjoyed with the late King Alexander. Before the war these refugees entered the Yugoslav army, civil service, police, and teaching profession; now the Germans are apparently training them to be future administrators of Nazi-occupied Russia.

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Internal Program

On internal questions, Mikhailovich's general orientation is liberal-democratic—at least to judge by the character of his chief lieutenants. On Bishop Nikolai we have little precise information. But of Dragisha Vasich and Dule Dmitriyevich, we know that before 1939 they were members of the Srpski Club, a group of radical intellectuals, who advocated a greater democratization of Yugoslavia's government. Of this club Slobodan Yovanovich, now premier of the Yugoslav Government-in-Exile, was also a member.

A final element in Mikhailovich's political ideology is that he agrees with the new Yugoslav government in representing the "Yugoslav" idea rather than the "Great Serb" aspirations of Dusan Simovich, Yugoslavia's "strong man" of April, 1941. This conflict of ideas between the two generals is apparently one reason why the more democratic element in the Yugoslav government insisted that King Peter remove Simovich as minister of war. Furthermore, Mikhailovich evidently follows a rule that no former Yugoslav general can be an officer in his army. These generals he considers failures and followers of a wrong philosophy. In short, Mikhailovich and the government at London are apparently trying to sweep out as many as possible of those elements that led their country to defeat last year, and to create a more democratic Yugoslavia of the future.

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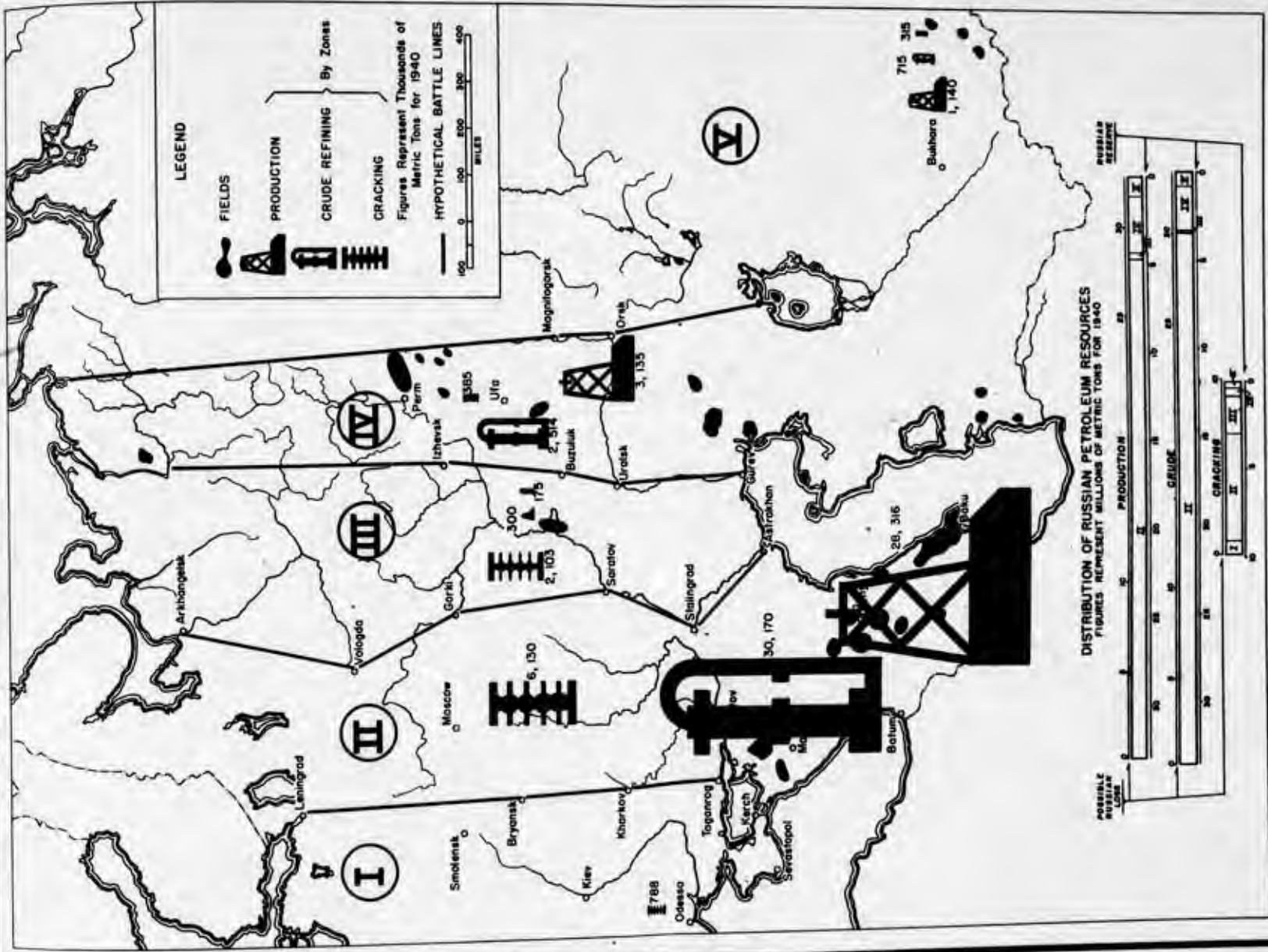
APPENDIX IV

JAPAN'S NEW AMBASSADOR TO RUSSIA

Confidential reports that the Japanese may be interesting themselves in the possibilities of arranging a peace between Russia and Germany have aroused interest in the background and career of Sato Naotaka, recently appointed Japanese Ambassador to Russia. Sato was born in the Ryukyu Islands in 1882; was adopted into his wife's family, which had a diplomatic tradition; entered the foreign service and served successively in St. Petersburg, Harbin, Paris and Warsaw. In 1930 he became Ambassador to Belgium and from 1933-1937 was Japanese Ambassador to France. He represented Japan at Geneva for several months during the Manchurian dispute.

In 1937 when Sato returned from France to Japan, he was appointed Foreign Minister in the then newly formed Hayaashi Cabinet. He had been in Japan less than three years during thirty-one years of diplomatic service. The Army was skeptical as to whether he was sufficiently vigorous to carry out what they considered proper policies, and the ultra-patriotic parties opposed his handling of the Chinese situation, particularly his announcement that negotiations with China must be conducted as between equals. Sato was favorably regarded by Westerners who considered his regime to be "liberal" and "international." Japanese pressure on China, however, was carried on without relaxation, and about a month after the resignation of the Hayashi Cabinet war broke out between the two countries.

Sato is one of the ablest and one of the smoothest of Japan's professional diplomats. He poses as an exponent of Japanese internationalism, and he prefers diplomatic finesse to harsh demands and bellicose statements. He apparently has no pet ideas, and is said to be willing to promote almost any course of action. He is well fitted for a post where his role would be to keep relations smooth, but in the past his mild reasonableness has often been the precursor of drastic developments in Japanese policy.



June 4, 1942

TO: THE SECRETARY
FROM: MR. KAMARCK

SUBJECT: NAVAL STATION IN THE PACIFIC

1. The Japanese planes which attacked Dutch harbor yesterday probably came from a Japanese task force of two aircraft carriers and several cruisers. (This is the force, which I reported to you last week, was moving north from Japan.

"We have three or four cruisers in these waters, a seaplane tender and the aircraft carrier Saratoga (now back in service after the Coral Sea Battle damages) is moving towards the Aleutians.

2. The main Japanese striking force is now somewhere in the vicinity of Midway Island. This force is composed of five aircraft carriers, six seaplane tenders, four battleships, and ten cruisers. (In the modern type of naval warfare, this force represents a tremendous concentration of strength.)

We have four aircraft carriers in the Hawaiian waters. The three battleships out of action are still in Pearl Harbor. Our main fleet is believed to be somewhere off our Pacific Coast.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 4, 1942

TO Secretary Morgenthau

FROM Mr. Kamarck

Subject: Summary of Military Reports.

Italy

The failure of Germany to supply in full the Italian requirements for glycerine is jeopardizing the maintenance of Italian output of explosives.

[U.K. Operations Report, June 4, 1942.]

Malta

Reinforcements of 27 Spitfires arrived on Wednesday. (Air attacks on the island, recently, have dwindled off to insignificant proportions. The German Air Force, defeated over Britain and over Moscow, has now added Malta as a third setback to its record.)

[U.K. Operations Report, June 4, 1942.]

German Navy

The British estimate that the German battle cruiser Gneisenau will be out of action for six to twelve months more. (The Gneisenau is in the Polish port of Gdynia and has one turret removed and two turrets under repair. British air attacks on the Gneisenau have already kept this ship out of operation since March, 1941.)

[U.K. Operations Report, June 4, 1942.]

New Russian Weapon

A Russian destroyer engaged in escorting a convoy to North Russia claims to have shot down four German bombers on May 29. The destroyer fired an anti-aircraft barrage, using a new type of shell, part high explosive and part shrapnel. (A high explosive shell, of course, is a projectile where the damage is done by the fragmentation of the shell-case; shrapnel, where the damage is done by pellets in the shrapnel-case which are sprayed out on exploding.)

[U.K. Operations Report, June 4, 1942.]

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 4, 1942

TO Secretary Morgenthau
FROM Mr. Kassarok

Subject: Summary of Military ReportsAttack on Essen

The Monday night attack on the Essen area was made by 726 planes dropping 795 tons of incendiaries and 440 tons of high explosives; the total tonnage dropped was 1235 tons. Accurate identification of the target was difficult owing to ground haze and clouds, but many intensive fires were reported.

On the following day, Tuesday, three Mosquitoes bombed Essen.

On Tuesday night, 195 bombers were sent to bomb Essen again.

[U.K. Operations Report, June 3, 1942.]

German Inactivity in Invasion Ports

Intelligence reports confirm the fact that there is no German activity in preparation for an invasion of England in the immediate future. Some long-term projects are still being continued, however, such as the construction of extensions to Boulogne harbor and the construction of invasion craft. These vessels in the meantime are being used for other purposes, such as supplementing the anti-aircraft defenses in the channel ports and elsewhere.

[U.K. Operations Report, June 3, 1942.]

German Navy

The British Navy estimates that the Germans now have about 130 submarines available for operations and possibly will have a maximum of 200 by August. (The present figure represents a decrease of 100 from the January 1 estimate. It is roughly equivalent to the high point reached in the last war, April, 1917, when Germany had 134 submarines in operation.)

[U.K. Operations Report, May 21-28, 1942.]