

MEMORANDUM

To: Secretary Morgenthau

From: Mr. Paul

June 24, 1942

Attached is a copy of the Robertson motion on the post-war credit, with changes roughly indicated. Later in the day I will send you a copy of the finally enacted motion.

Attachment

REP

Mr. Robertson offered the following motions:

PROPOSAL FOR POST-WAR CREDIT

In the interest of efficient production during the war, of facilitating the transition from a war to a peace time economy, and of contributing to the maintenance of a high level of economic activity in the post-war period, it is recommended that part of the excess-profits taxes paid under the Revenue Act of 1942 or subsequent legislation during the war period be returned to the taxpayers after the end of the war.

In this connection, I move that:

1. The amount returned be 14 percent of the adjusted excess-profits net income - the base upon which the excess profits tax is computed. (Giving effect to the proposed refund, therefore, the net excess profits tax rate will be 80 percent).

2. The refund be effected by the redemption of bonds issued to the taxpayer.

3. The bonds be issued within three months after the payment of the related tax, or the final quarterly installment thereof, for any taxable year.

4. The bonds mature, subject to prior call, as follows: one-third at the end of the ^{second} first calendar year following the cessation of hostilities; one-third at the end of the ~~first~~ ^{third} ~~second~~ calendar year of the ~~second~~ ^{fourth} such year; and one-third at the end of the ~~third~~ ^{fourth} such year, and in the same order for any ~~longer~~ longer period.

5. The bonds shall be callable, upon three months' notice, at any time prior to maturity date.

6. The maturity date of all the bonds be advertised within 30 days after the cessation of hostilities, and in such way that the maturity date

of any bond shall be readily ascertainable.

7. The bonds be issued under the provisions of the Second Liberty Bond Act.

8. The bonds be non-negotiable and non-interest bearing.

9. The bonds be assignable *after cessation of hostilities*.

10. The amount of bonds issuable to any taxpayer in consideration of the tax paid for any taxable year be adjusted for any overage or shortage in the aggregate amount issued to such taxpayer for the prior year or years, any overage finally remaining to be adjusted by cancellation or, at the election of the taxpayer, by purchase at face value.

11. No amount be included in gross income for any year by reason of the receipt of bonds or of amounts paid for their redemption.

12. No amount be available, by reason of the issue of bonds or their redemption, for any of the following purposes:

- (1) The payment of dividends in cash or stock.
- (2) The payment of bonuses or salary increases to executive.
- (3) The increase of cash reserves unless employed in the business.
- (4) The purchase of securities.

6/22/42

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6/22/42

UNIVERSAL TRADING CORPORATION

ARCHIE LOCHHEAD
PRESIDENT

630 FIFTH AVENUE
NEW YORK, N. Y.

June 24th, 1942

My dear Mr. Secretary:

In view of the very brief cable messages received in this country announcing Mr. Manuel Fox's death, we dispatched a cable to Mr. K. P. Chen for further information on behalf of Mrs. Fox.

The contents of the attached copy of the cable reply from Mr. Chen has been transmitted to Mrs. Fox, and I thought it might also be of interest to you.

Sincerely yours,



Archie Lochhead.

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

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Archie Lochhead.

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

C
O
P
Y

Received: June 23, 1942

COPY OF CABLEGRAM TO: MR. BANG HOW, NEW YORK

FROM: MR. K. P. CHEN, CHUNGKING

MANUEL DIED PEACEFULLY DURING SLEEP. COMPETENT PHYSICIAN DIAGNOSED ACUTE HEART FAILURE AS SOLE CAUSE OF DEATH. PHYSICIAN BELIEVED TIME OF DEATH TO BE 4:50 A.M. AND SAID THAT THE ATTACK WAS SO SUDDEN AND ACUTE THAT MANUEL PERHAPS DIED WHILE SLEEPING WITHOUT HAVING AWAKENED BY THE SICKNESS. HE HAD BEEN FEELING TIRED SINCE RETURNING TO CHINA BUT PHYSICIAN HE CONSULTED COULD FIND NO VISIBLE AILMENT. HAD BEEN RESTING IN COUNTRY RESIDENCE SINCE JUNE 16 APPARENTLY HEALTHY AND HAPPY WHILE HAD DINNER WITH CLOSE FRIENDS JUNE 20. RETIRED AT 11 P.M. WITHOUT ANY SIGN OF ILLNESS. DEATH TOTALLY UNEXPECTED AND TERRIFIC SHOCK TO EVERYBODY. BURIED JUNE 22 AT INTERNATIONAL COMMUNITY CEMETERY, CHUNGKING. ALREADY SENT MESSAGE OF CONDOLENCES TO MRS. FOX CARE TREASURY. PLEASE CONVEY TO MRS. FOX PERSONALLY MY PROFOUNDTEST REGRETS FOR THE DEATH OF A WORTHY COLLEAGUE AND DEAR FRIEND.

RECEIVED
JUN 23 1942
11 28
A1 11 MA 25 JUL 1942
RECEIVED
JUN 23 1942

appointment
tentative 330 253
June 15.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

Cancelled
appt.

DATE June 24, 1942.

TO Secretary Morgenthau
FROM Mr. White
Subject: Cuban Gold Purchase Contract.

1. You will recall that when the Cuban Finance Minister was here in March you approved our plan to sell gold on 120-day credit to Cuba provided the unpaid amount sold did not exceed \$5 million at any one time. The contract would expire June 30, 1943, subject to earlier termination at any time.

The purpose of this contract is to enable the Cuban Government to issue peso currency against 100% gold cover in order to purchase dollars during a period of balance of payments surplus such as Cuba is at present experiencing. The dollars thus purchased would at once be used to pay for the gold.

Cuba's use of this device grew out of the recommendations which our Technical Mission made last November.

2. The Cuban Finance Minister has now informed us that the contract, which will be signed on Cuba's behalf by the Cuban Ambassador, is satisfactory to his Government. The Legal Division has examined the documents forwarded by the Finance Minister and has informed me that they are in order. The Cuban Ambassador is ready to sign the contract at your convenience.

3. When would you like to sign the contract? The Inter-American Conference on Foreign Funds Control opens next Tuesday and it might be helpful if the contract could be signed before then.

TO:

Miss Chauncey 254

His continued.
as of today.

6/24/42

From: LIEUT. STEPHENS

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 24, 1942

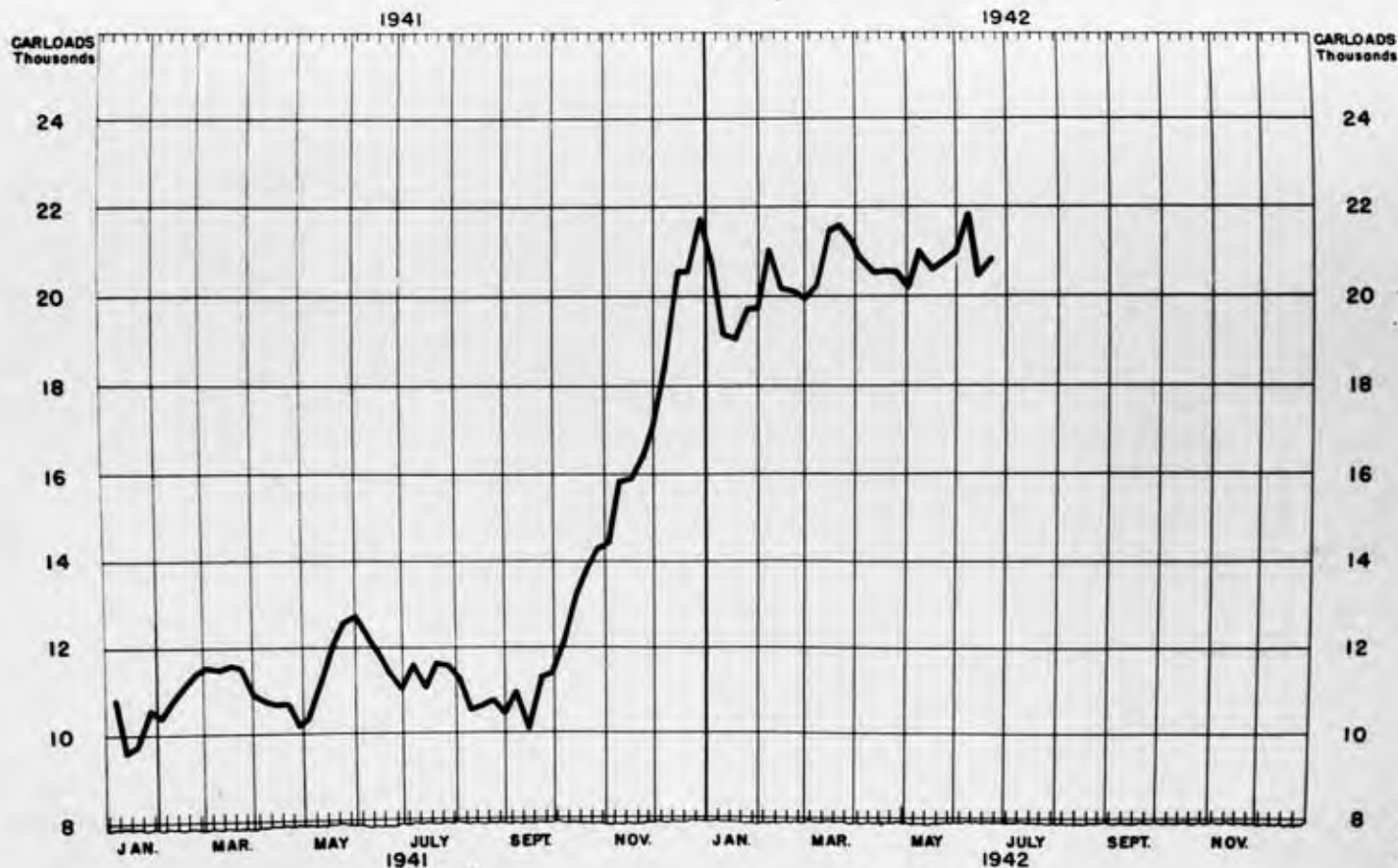
TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Export Freight Situation

The amount of lighterage freight in storage and on hand for unloading in New York harbor continues to hold within the range of the past 6 months, increasing by 434 cars last week to a total of 20,882 cars. (See Chart 1.) In comparison with 14,033 carloads in rail storage facilities at the end of the week, there was additional storage space available for 5,758 cars.

Exports from New York last week were reduced by 318 cars to an estimated total of 7,163 cars. (See Chart 2, upper section.)

Receipts of export freight at New York increased by 1,338 cars last week to 7,554 cars, largely recovering the decline of the previous week. Sharp gains were shown in receipts for export at 9 other North Atlantic ports and at 6 Pacific ports. The former increased by 43 percent (1,207 cars) to a total of 4,005 cars. The Pacific Coast receipts rose 52 percent (1,461 cars) to a total of 4,264 cars, a new high for the 16-month period covered by our figures. (See Chart 2, lower section.)

LIGHTERAGE FREIGHT IN STORAGE AND ON HAND FOR UNLOADING IN NEW YORK HARBOR*



* Largely export freight, but about 10% represents freight for local and coastal shipment. Figures exclude grain.

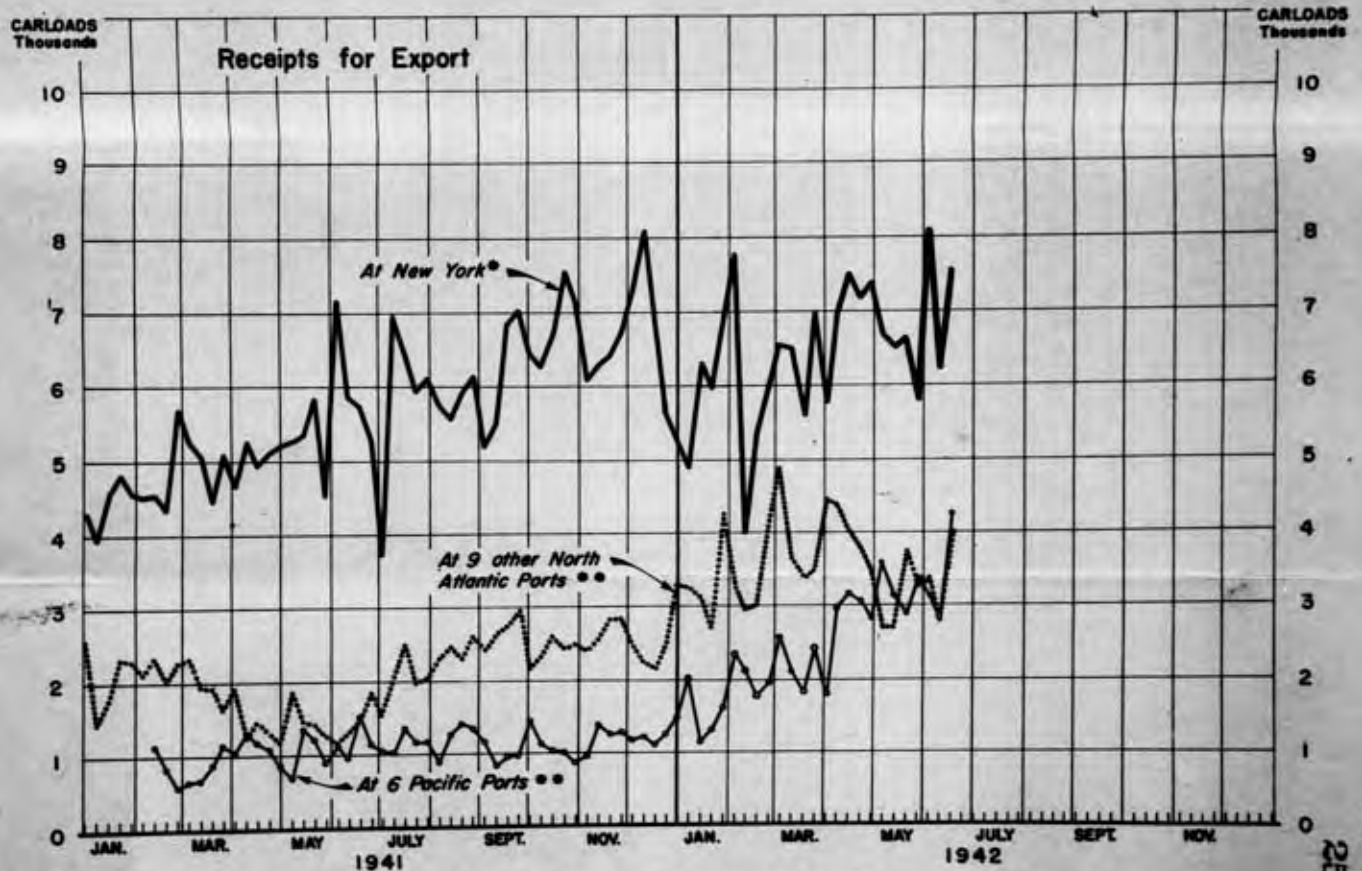
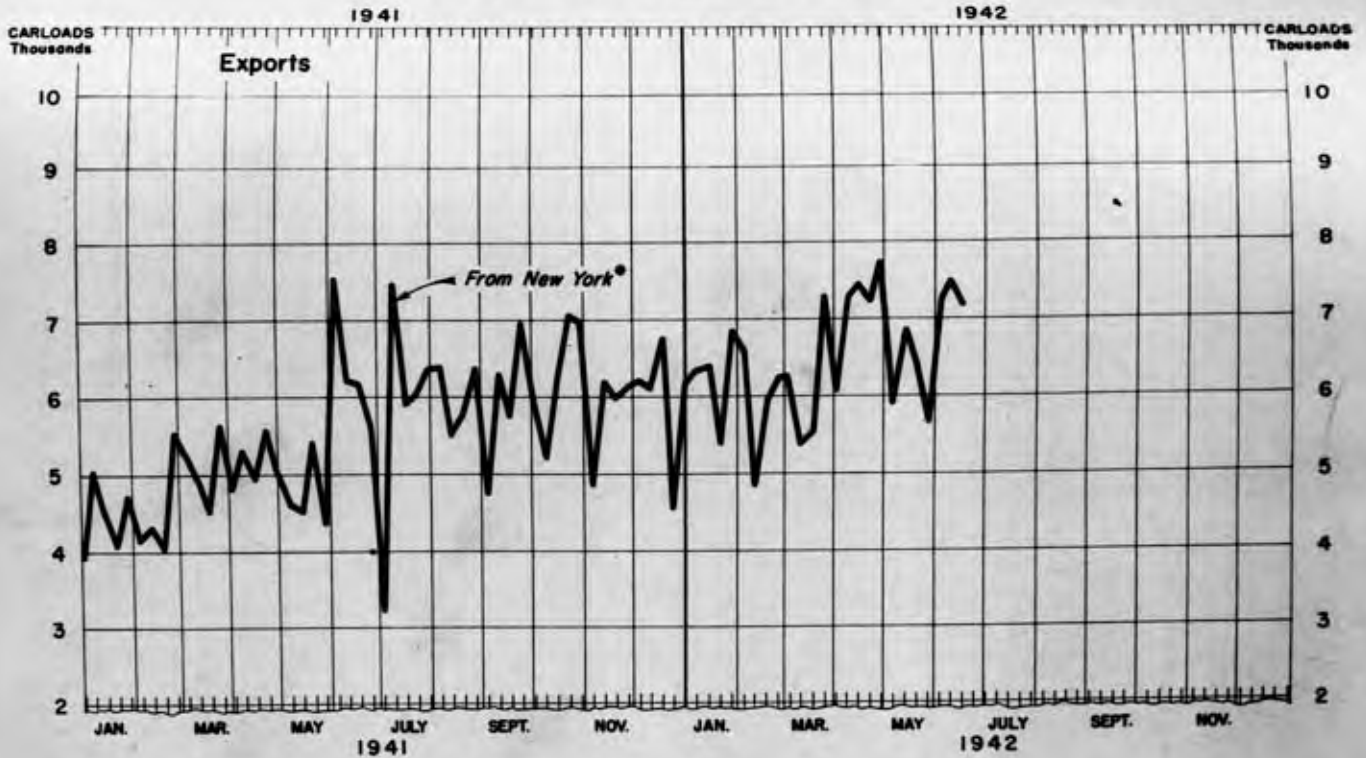
Office of the Secretary of the Treasury
Division of Research and Statistics

C-303-D

Chart 1
256

Regraded Unclassified

EXPORT FREIGHT MOVEMENT



* As estimated from data of general managers' association of New York.
 ** Association of American Railroads.

NMC

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

La Paz

Dated June 24, 1942

Rec'd 12:23 a.m., 25th.

Secretary of State,
Washington.

469, June 24, 6 p.m.

Department's circular telegram of ^{June 23}~~July 24~~,
regarding United States currency.

As reported in Embassy's telegram 425 of June 13, 1 p.m., Bolivian Government has instituted no control measures in accordance with Department's suggestions. Banks have not been informed officially and as precautionary measure are refusing to buy United States currency or even accept it for transmittal to the United States. There consequently is no legitimate market. Embassy understands some dollars are being bought in Black Market at 20% discount but has no information concerning volume of such trade; amount is undoubtedly small. No large blocks of United States currency are seeking markets.

Charge Treasury.

BOAL

RR

PMW

C

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P

Y

PLAIN

Ottawa

Dated June 24, 1942

Rec'd 3:50 p.m.

Secretary of State,

Washington.

97, twenty-fourth.

1942-43 budget announced June 23 contemplates total outlay of \$3,900,000,000 with total revenue after allowing for the proposed taxes amounting to \$2,050,000,000 representing increase in revenue of \$378,000,000 part of which is attributable to the new and increased taxes. \$1,850,000,000 must be obtained through borrowing. The figures of outlay include United Kingdom spending in Canada which is considered the same for budget purposes as Canadian war expenditure.

The defense tax will be combined with the income tax and will be collected at the source as will also a large percentage of the graduated tax. The total tax payable has been approximately doubled in the middle brackets slightly increased in the lower brackets and in the higher brackets. A portion of the tax will be refundable after the war with interest at 2 percent.

For low incomes the refundable portion is greater than the increase in total tax collected. For incomes in the lower middle brackets the increase in taxes is approximately equal to the amount of the refundable portion and for other incomes the relative importance of the refundable portion becomes progressively less. Income tax increases not including refundable portions are expected to yield an additional \$115,000,000 for a full year. The refundable provision is estimated to yield \$125,000,000 for a full year with 20 percent refundable after the war.

Excess profits tax has been increased from 75 to 100 percent. Revenue from this source for a full year is estimated at \$58,000,000.

Whereas the compulsory savings aspect of the new proposals is an important innovation there still remains almost \$2,000,000,000 that must be borrowed. The test of the new budget will be in the extensive campaigns that must be conducted in an effort to obtain voluntary savings from individuals, thus drawing off more funds from income and avoiding expansion of bank credit.

-2-

New or increased taxes have been selectively imposed on such items as alcoholic beverages cigarettes and tobacco candy soft-drinks transportation night clubs telephone service furs and other luxury items. Revenue from these items is estimated at \$28,000,000 for a full year.

For the year 1941-42 aggregate expenditures amounted to \$1,895,000,000 as compared to \$1,250,000,000 in 1940-41. Total revenues amounted to \$1,481,000,000 or 78 percent of expenditures. Including financing of United Kingdom expenditures of \$1,050,000,000 approximately 50 percent of expenditures were obtained from revenues. \$1,834,000,000 was borrowed from the public in the two victory loans \$85,000,000 from the sale of war savings certificates and stamps with a negligible increase in borrowing from the Bank of Canada or the chartered banks. Despite increased taxation and compulsory savings approximately the same amount will have to be borrowed during 1942-43 fiscal year.

A detailed analysis of the budget will be forwarded shortly.

MOFFAT

CSB

Copy: emk: 6.25.42

261

Treasury Department
Division of Monetary Research

Date 7/1.....19

To: Miss Chauncey

From: H. D. White

Please call to the Secretary's
attention.

[Handwritten signature]

Treasury Department
Division of Monetary Research

Date June 29, 1942 19

To: Secretary Morgenthau

From: Mr. White

Germany - Securities Control

Fuller information on the German securities ordinance of June 15 indicates that the ordinance was misrepresented by the American press and is of no great importance. The ordinance does not involve any reversal of the previous sympathetic attitude of the German government toward corporate profits. It does not imply any change in the control over German industry.

The ordinance is directed toward preventing any large diversion of funds into the security markets and any substantial rise in security prices--to the extent that these might become a public scandal. All that it requires is that any individual who has made a net investment of over 100,000 marks (\$40,000) in securities since the outbreak of war, must (a) offer the excess over 100,000 marks for sale to the Reichsbank at the price of Dec. 31, 1941 before offering them to anybody else and (b) must sell this excess of purchases to the Reichsbank, at the Reichsbank's initiative.

This ordinance has no effect on anybody who has not made net purchases of more than \$40,000 of securities since the outbreak of war. Should the Reichsbank choose to abstain from exercising the initiative permitted by this ordinance, the ordinance might not even have any effect in the cases where more than \$40,000 worth of securities have been purchased.

Amer. Embassy, London, No. 3524, June 24, 1942

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, London, England.

DATED: June 24, 1942, 10 p.m.

NUMBER: 3524

This telegram which refers to the Department's telegram no. 2681 of June 19, transmits the following message from Mr. Lauren Casaday for the Secretary of the Treasury.

Specialists on German affairs in the British Treasury and Ministry of Economic Warfare state that the report concerning the transfer to the Reichbank of all bonds and stocks listed on the exchange in Berlin as given in the first paragraph of the above-mentioned telegram is not precisely correct.

The German general price control program has involved a rather long series of laws and decrees, of which the new measure is the latest, designed to control stock exchange prices and speculation. The prices of second hand goods (which have assumed greater importance as the war has continued), real estate and securities have proved the most difficult items to control.

Although the Treasury is probably conversant with earlier measures taken to control share prices, a brief recapitulation will help place the ordinance in question in its

-2-

in its proper setting, as viewed by Treasury and Ministry of Economic Warfare officials.

A. There was first promulgated at the beginning of the war and even earlier a series of decrees setting limits in terms of percentages of capitalization on declared dividends. Next a limit was set, lower than the percentage of capitalization that might be declared as dividends, above which any distribution of dividends to stockholders was subject to the payment of a prohibitive tax.

Although these measures were apparently designed to increase governmental control, they were followed, as is characteristic of Nazi purpose and method, by a measure offering a legitimate loophole. The restrictive effect of the earlier decrees could be overcome largely or wholly by increasing, under broadly defined circumstances, the share capitalization of the companies involved by issuing new shares. These new shares could be issued only to existing stockholders. This was expected to result in a sharp price declines per share and in lower dividend rates, although with the same total of cash distribution.

This

-3-

This attempt to permit the usual "per share" dividend declarations and distribution, while reducing "per share" prices and dividend rates, reportedly failed in its purpose. Stock prices fell slightly but only temporarily and soon showed a tendency to rise.

B. In preparation for the registration and eventual "call-up" of securities more direct measures were adopted. The Reich Minister of Economics, under a decree issued on December 4, 1941 by the Ministerial Council for Reich Defense was given the power to investigate share holdings purchased after September 1, 1939. To carry out the purpose of this decree the Minister of Economics was empowered to require the compulsory registration of such securities with such agencies as he might designate. He was also authorized to regulate the sale of such registered securities and the investment of the proceeds. The decree, which was in the nature of an enabling act, also contained various minor supplementary powers, and its operation was extended to include all the "incorporated eastern territories".

C. On January 2, 1942 the first executive regulation was issued under the decree. This regulation was a preliminary outline of the conditions under which shares

acquired

- 4 -

acquired since September 1, 1939 were to be registered. It provided:

(1) That anyone holding on the designated registration day shares purchased or otherwise acquired since September 1, 1939 would have to report the nominal value of all such shares to the Reichsbank.

(2) Shares which, since September 15, 1941, had been transferred to any relatives, employees, subsidiary companies, et cetera, and which were subject to the registration order had to be registered in the name of the prior owner. (Apparently transfers had been made with evasive intent on the news of the impending restrictions.)

(3) An amount expressed in reichsmarks on a "current value" or exchange quotation basis as of a given date was to be fixed at a later time. Only net purchases since September 1, 1939 in excess of this amount were liable to registration.

(4) Unlisted shares and securities traded on Netherlands Bourses could be brought under the registration requirement at the discretion of the Reich Minister of Economics.

D. The registration date was set for March 15, 1942 by a regulation of March 1, 1942. An amount of 100,000

reichsmarks

- 5 -

was fixed as the limit of exemption above which net purchases since September 1, 1939 were to be determined. This amount was to be calculated on the basis of the official quotation on December 31, 1941 or on the basis of the last quoted price before that date.

E. The controls outlined above were extended and more precisely defined by the ordinance of June 1942 referred to in the Department's telegram no. 2831. The following paraphrase includes such information concerning the regulations as is available and is from a resumé published in the NEWS DIGEST dated June 16, 1942 of the British Ministry of Information. The DIGEST article in turn was secured from the REICHSGESETZBLATT, part I, no. 62, January 12, 1942 in which was published the text of the ordinance. The Ministry of Economic Warfare has provided such tentative comment and explanation as is presented below: The ordinance provides:

(1) If and when the Minister of Economics so orders, securities registered since March 15, 1942 must be sold to the Reichsbank at a price equal to the quotation ruling on December 31, 1941. (Only such securities as are demanded by the Minister of Economics need be sold. Only those securities which represent an excess of purchase over sales of an

- 6 -

of an amount exceeding 100,000 Reichsmarks since September 1, 1939 are subject to call. What basis will be used for determining the particular issues to be demanded out of the owner's total holdings has not been clarified.)

(2) Registration is compulsory for all new purchases made after March 15, 1942 if the result of such purchases is to bring up to 100,000 Reichsmarks the total of purchases since September 1, 1939. (Apparently, if purchases reach 100,000 Reichsmarks during the war, registration is compulsory, although it is made clear that the regulations regarding enforced sale include only securities representing net purchases.)

(3) The Minister of Economics at his discretion may (at any time reduce the figure of 100,000 Reichsmarks now used as the basis of determining whether one's holdings are subject to registration or to calling up.

(4) Owners of registered securities may sell any of their securities only if the securities to be sold (are first offered in writing to the Reichsbank and the Reichsbank refuses the offer.

(5) The Reichsbank will pay for any securities actually called up with interest bearing Reich Treasury bonds of current issue which will be placed in blocked accounts.

The

- 7 -

The Minister of Economic Warfare interprets the purposes of the foregoing regulations as follows.

The first is to prevent any undue rise in stock market prices or at least the appearance of such a rise. Because of the real or fancied role which the stock market played in the great inflation following the last war, the German public has become most sensitive to fluctuations of the stock exchange and is especially fearful of marked rises. Next, it is believed that the fact that the state prevents, or at least rigidly controls, profiteering and speculation is to be demonstrated by the foregoing regulations to both the German public and to foreign countries.

The regulations are also to hold to demonstrate that the state controls or intends to control German industry. Third, security prices are to be kept within the general price control program by means of these regulations.

Probably only such restriction will be effected as appears necessary for propaganda purposes and to maintain a reasonably stable price level, although real restriction may be exercised.

While a reduction in share trading may be anticipated with a resultant check on price rises, the regulations

are not

- 8 -

are not expected to have effects of a sweeping character. These may be regarded as a threat, leaving doubt as to the wisdom of engaging in trading extensively enough to subject the trader to registration. No change in the government's control over German industry is contemplated by the regulations, it is emphatically stated. Only securities traded in since the beginning of the war, when their net purchases by any individual have amounted to more than 100,000 Reichsmarks are affected by the ordinance. Large, permanently held capital aggregations which are still largely intact are not necessarily affected. It is felt that a very considerable proportion of the total outstanding shares in Germany will be unaffected, although a large number of shareholders are subject to the regulations.

A permanent change in the ownership of the securities involved will of course occur whenever the power to call up registered securities is actually exercised.

It is not thought that there will be any sweeping change in the relationship between German security owners and the German Government.

The Economic Warfare Section of the Embassy collaborated in securing the information presented above. Further details will be forwarded at a later date in a despatch

- 9 -

from that Section.

WINANT

COPY

HEL

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

Montevideo

Dated June 24, 1942

Rec'd 1:09 p.m.

Secretary of State,

Washington.

529, June 24, noon.

Referring to the Department's circular telegram dated June 19, 11 p.m.

A decree published today although bearing date of June 18 confers upon Bank of the Republic the exclusive right to purchase, sell, import and export United States currency. Purchases and sales to persons proceeding to and from the United States may not exceed \$100 per person. The customs authorities are directed to insure compliance.

Present holders must declare within ten days the amount of United States currency and all pertinent information. The bank shall decline to negotiate as currency not desired within this period. After examining the declarations the bank may convert the United States currency into Uruguayan pesos. However the bank assures the Embassy that it proposes to receive such currency solely for transmission to the United States on a collection basis and that conversion into pesos will be made only if the Treasury Department approves.

The bank of the Republic states that regulations and forms will be issued shortly. Text of decree will be forwarded by airmail.

DAWSON

LMS

Copy:imc:6/25/42

BRITISH MOST SECRET
U.S. SECRET

OPT. I No. 215

Information received up to 7 A.M., 24th June, 1942.

1. MILITARY

LIBYA. 22nd. Enemy movement continued towards the frontier under observation of our mobile columns. Infantry reinforcements have arrived in the MATRUH Area where work on the position is proceeding. No news of yesterday's operations has been received.

SEVASTOPOL. On the 19th German forces were within half a kilometer of the north shore of the Northern Harbour. In the Southern sector a slight German advance had brought the enemy to within 9 kilometers of the centre of the town. On 21st German reserves were still arriving and the Russian garrison was nearing exhaustion.

2. AIR OPERATIONS

WESTERN FRONT. 22nd/23rd. EMDEN. 130 tons of H.E. and 262 tons of incendiaries were dropped by 195 aircraft. Weather was excellent with no cloud and only slight haze, identification greatly helped by flares. Fires, small at first, increased as attack developed and finally many large fires were seen in the Southern and Western parts of the town and in the docks area. 23rd. Bombers, with fighter escort bombed DUNKIRK docks where a 4,000 ton vessel was hit and MORLAIX aerodrome. 2 enemy fighters were shot down by Spitfires, two of which are missing. 23rd/24th. 52 aircraft were sent sea mining and 14 others to attack ST. NAZAIRE Harbour. 2 are missing and 2 crashed. 1 enemy aircraft was destroyed over this country and intruders shot down 2 others over HOLLAND.

MALTA. Between 1445/22 and 0530/23 about 50 aircraft attacked, 2 of which were destroyed.

LIBYA. 22nd. Bombers bombed an enemy landing ground and traffic on the TOBRUK Road near BARDIA.

MEDITERRANEAN. 22nd/23rd. Wellingtons scored hits on a large merchant vessel east of PALESTRO and on the 23rd 2 7,000 ton merchant vessels and a destroyer on a South Easterly course were attacked and hit by Beauforts off CAPS PARTIVENTO. We lost 2 Beauforts.

TOBRUK. The Harbour can be used by Cruisers, Destroyers and Submarines. There are 5 mooring buoys for Cruisers and 5 for Destroyers. The estimated capacity is 1,200 tons daily. Discharge is principally by lighters. During the past fortnight particular attention has been paid by German reconnaissance aircraft to the Deal-Dover and PORTSMOUTH-SOUTHAMPTON-ISLE OF WIGHT area.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 24, 1942

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

Convoys to Malta

Complete information is now available on the two attempts to get convoys through to Malta:

In the convoy from Gibraltar, two supply ships arrived at Malta. Four were sunk.

The convoy from Alexandria was forced to turn back. Out of the ten merchant ships concerned, two were sunk and two were damaged.

The total naval casualties of the operation were one cruiser and five destroyers sunk; four cruisers, two destroyers, and a minesweeper damaged. The Italians lost one 8-inch cruiser and one destroyer was severely damaged.

(Except against Italian opposition, the British would never have been able to keep Malta supplied in the past. If the Germans keep their forces in the Mediterranean, supplying Malta will remain too expensive an operation to carry out. If no second land front is opened in Europe, the fall of Malta will probably be inevitable).

(U.K. Operations Report, June 11 - 18, 1942)

Italian Navy

Photographic reconnaissance of Taranto on June 17 did not find any evidences of damage to the Italian battleships. (The reports that the battleships were damaged by U.S. Army airplanes and British Fleet Air Arm bombers appear, therefore, to have been inaccurate).

(U.K. Operations Report, June 11 - 18, 1942)

Japanese Air Strength

According to a study prepared in the Office of Strategic Services, Japanese first-line air strength and available combat reserves probably declined from 5,200 in December to 3,700 at the end of April.

The calculations are as follows:

First-line strength and combat reserves, December 1, 1941	5,200
Five months production to May 1 at 500 combat planes a month (a high estimate)	2,500
Officially reported combat losses to May 1	1,310
Non-combat losses based on a conserva- tive interpretation of European experience	<u>2,690</u>
Total losses to May 1	<u>4,000</u>
Net loss to May 1	<u>1,500</u>
First-line strength and combat reserves, May 1, 1942	3,700

(Office of Strategic Services, "The War This Week", June 11-18, 1942)

June 25, 1942
9:30 a.m.

GROUP MEETING

Present:

Mr. Sullivan
Mr. Buffington
Mr. Blough
Mr. Gamble
Mr. Graves
Mr. Thompson
Mr. Schwarz
Mr. Bell
Mr. White
Mr. Foley
Mr. Kuhn
Mr. Gaston
Mr. Odegard
Mrs. Klotz

H.M.JR: Where is Roy Blough?

MR. BLOUGH: Right here.

H.M.JR: I can't kid George Haas. He is sick,
poor fellow - his favorite tax, the joint returns.
What happened?

MR. BLOUGH: What happened to joint returns?

H.M.JR: Yes.

MR. BLOUGH: I don't know, unless Milton West
and Gearhart got in some awfully good licks.

H.M.JR: You don't know what happened?

MR. BLOUGH: I don't know what happened, frankly.
I understand the arguments they used were two-fold,

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first, "This is going to be beaten on the floor, anyway, and you don't want to have the prestige of the Ways and Means Committee slapped down." The second is, "Don't be hard on the boys; they have to go back and be renominated this summer, and all the fellows from Texas and California and these other community property States will have tough going if you knock out this community property business." I don't know to what extent those are true. Those are the stories I heard, but it was a last-minute thing and the Republicans were solidly against joint returns and enough Democrats went with them to swing it.

(Mr. Odegard entered the conference.)

H.M.JR: Well, you know it is real easy to be a liberal in Washington in the Treasury because you can go just as far to the left as you want to and know you are perfectly all right. You can recommend tax, future, past, and present - you may not get much backing from anybody, but you go out on the end of a limb and he is perfectly all right.

Those fellows just don't know there is a war on, do they?

MR. BLOUGH: No signs of it.

MR. GASTON: The democratic mouthpiece, you know, the New York Times, told them mildly yesterday--

H.M.JR: Did you say the great mouth?

MR. GASTON: The great democratic mouthpiece informed them yesterday that joint returns wouldn't do.

H.M.JR: The Tribune takes credit this morning for its editorial in its news column - that it was their editorial in the Tribune which killed joint returns.

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(Mrs. Klotz entered the conference.)

H.M.JR: Yesterday when Doughton and I walked in to see the President, Doughton says, "Well, what do you want? What did you send for me for?" and sort of looked at him. The President said, "I want to know whether you are going to get the tax bill", and so forth, so nothing new took place. This is strictly in the room here. After they talked ten or fifteen minutes the President, hoping they wouldn't lay the tax bill on his doorstep on the first of November - Doughton says, "Now, if you are not busy" - first the President said something, that he was sorry he kept us waiting an hour. Doughton says, "Oh, Mr. President, you are so busy, my waiting an hour a day is unimportant", so forth and so on.

So then he got through. "Now, Mr. President, if you have got a little time I would like to talk to you." The President looked at me. He says, "You know, Mr. President, you have got plans to build a dam at High Point, which is just outside and above my Congressional District, and all I am telling you is that, by God, if they pass this thing at High Point and don't build one in my district I just won't come back." So the President went like this to me (winked). He didn't say "by God", but that was his attitude. He says, "They just can't have it." He says, "I don't care if they have one at High Point - they say it is for power, but that doesn't interest me, but" he says, "we can give them power and water conservation" and so forth and so on "if they do it in my district."

So the President said, "Well, that is very interesting, Bob," he says, "I tell you what I will do, Bob." He says, "I have got the money; we will build one at High Point, build one in your district, and throw it all into one bill for the St. Lawrence." (Laughter) "We will make it one bill," he says, "we will put them all together."

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So I stayed behind a minute afterward, and the President said, "Wasn't I good, Henry?" I said, "Yes, you were wonderful, that idea of throwing High Point and the other in, throwing South Carolina in with the St. Lawrence, wonderful."

MR. BELL: He should have put in the Florida Canal, too.

H.M.JR: Doughton, it hit him on the chin when he brought up the St. Lawrence. He kind of went like that (indicating).

Well, so that is what the whole conference was about yesterday, nothing talked about - yes, Doughton did say to the President he thought the President would be interested in knowing that Speaker Rayburn had told Doughton he was doing a good job.

MR. BLOUGH: We sort of thought that Doughton was trying to get enough blessing there to take the heat off what you might want to say in the Senate.

H.M.JR: Now, what I did tell Doughton - I had to talk about something for an hour, and what I told him he seemed to be interested, so that you pass this on to Paul - that on this question of Harold Graves' plan to deduct five percent from your pay roll, beginning with January, that as long as they had agreed on that he wanted to make it voluntary so the person could file his own return if he wished to on the first of February and then pay monthly after that. Now, the reason I brought it up was he said, "What do you think, if a person didn't pay all of his tax on the 15th of March, from then on we charge him interest?" I said I thought that was adding injury to already a very stiff situation. I said I was opposed to charging any interest, but what did he think. I explained it to the old boy three times, that the man could, if he wanted to, file his return on the first of February, then pay it monthly, purely optional, you see. He

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says, "Or could he do it on the 15th of March and then do it monthly from then on?" I said I didn't - either way, make it optional, and I thought staggering it, it wouldn't hit the Bureau all on the 15th of March.

Do you see anything the matter with that, John?

MR. SULLIVAN: I want to go into it.

H.M.JR: Well, anyway, I suggested it. If you think we will have it, I might make the recommendation at the Senate, and the other thing, Roy, the thing that I am very much interested in, and Paul's answer doesn't satisfy me at all - that is that we give people who owe a thousand dollars or less some kind of tax credit to pay off that debt.

MR. BLOUGH: I am sorry that the answer didn't satisfy you because it is going to take a very great deal of money.

H.M.JR: How much will it take?

MR. BLOUGH: We don't have the figures on it, but most people owe money, most people--

MR. WHITE: There is something to be said on the other side of that.

H.M.JR: There always is.

MR. WHITE: Something that I believe overweighs the advantages.

H.M.JR: There always is when you are in the meeting. (Laughter)

MR. WHITE: I take that as a regular compliment, whether you meant it that way or not. (Laughter)

H.M.JR: You are welcome, Harry.

MR. WHITE: I think there has been a tendency to stress only the other side of that, and I think it ought to be considered carefully.

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H.M.JR: Well, I am frankly thinking of election, and I would like something that tastes good. Doughton said, "Now, Mr. President, don't worry about the tax bill, the people are satisfied with that. They don't mind their taxes; they are willing to pay them," but he said, "It is Donald Nelson and Leon Henderson, those are the boys that are making the trouble for us in election."

I said, "Well, give Donald Duck a little credit."

Herbert? Got any dams you want to build?

MR. GASTON: No, I can't think of any.

H.M.JR: Edward?

MR. FOLEY: We had a meeting with representatives of the State Department.

H.M.JR: You were through, Herbert?

MR. GASTON: Yes.

H.M.JR: Do you want to say something?

MR. GASTON: No.

MR. FOLEY: We had a meeting with representatives of the State Department on this Inter-American conference that is scheduled for next week, and John Pehle feels quite strongly that Knoke should be added.

H.M.JR: Excuse me. I hope that Harry told you that as part of that, for your being chairman, we expect some of that 1744 liquor. (Laughter)

MR. FOLEY: Yes, he told me. (Laughter)

MR. WHITE: We pried some money loose from the State Department.

H.M.JR: Did you do--

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MR. WHITE: I don't think enough to buy any 1744 liquor.

MR. FOLEY: The State Department says they have got money for lunch that Welles will give, and a dinner that the Treasury will give.

H.M.JR: Yes, but what about the liquor?

MR. FOLEY: Well, we will look into that. That is part of the quid pro quo.

H.M.JR: After all, you don't think you were made chairman without a reason. (Laughter)

MR. FOLEY: I know.

H.M.JR: Go ahead.

MR. FOLEY: Anyway, they think it would be very helpful in the administration of freezing control if Knoke was made advisor.

H.M.JR: Swell.

MR. FOLEY: And the State Department is willing to do it, and I wanted to clear it with you before - a letter apparently--

H.M.JR: The letter has gone, hasn't it, to Knoke?

MR. FOLEY: Yes, but the letter to the--

H.M.JR: But the letter to Knoke has gone.

MR. FOLEY: I think maybe it was a couple of phone calls from New York down here, rather than phoning the other way.

H.M.JR: What do you call it - I - what do you call it, confirm?

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MR. BELL: Confirm.

H.M.JR: Concur is the present.

MR. BELL: Confirm is better.

MR. FOLEY: Ratified, confirmed, and approved.

H.M.JR: Ratified - what else?

MR. FOLEY: That is all.

H.M.JR: O.K., Mr. Chairman.

Ted?

MR. GAMBLE: This is the first material on the July 17 day. (Paper entitled "American Heroes Day" handed to the Secretary.)

H.M.JR: This is the new stuff?

MR. GAMBLE: Yes, sir. The retailers have given a little help on it; we have added the United States Chamber of Commerce to give us a hand all over the United States on it, as well as the American Legion. We are taking the poll this week of the leading retail chairmen in all the States.

H.M.JR: Who is doing ads - who is going to do the ads?

MR. GAMBLE: The retailers themselves.

H.M.JR: That isn't the Advertising Council?

MR. GAMBLE: No, sir. They used some of the Advertising Council material as a basis for their own.

H.M.JR: Not original advertising?

MR. GAMBLE: The retailers prefer to do their own in the different cities.

H.M.JR: Did we print this, or they?

MR. GAMBLE: This was printed by one of the western newspaper union people, and it--

H.M.JR: I think that is grand.

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MR. GAMBLE: That is generally what is going on and by the end of this week we may be able to give a report on what is happening throughout the country, how many days we can expect to have, how many towns will be participating.

H.M.JR: What else? Did you get my note to your secretary?

MR. GAMBLE: Yes, sir, that will be here later in the day.

H.M.JR: She said you were ahead of me.

MR. GAMBLE: And I can't give you much of the details, but I can give you a report on the miners, and the manufacturer-labor meetings are progressing, and we will have a meeting with Mr. Skouras. I talked to him this morning.

H.M.JR: Will you bring in the Women's Division on that, the miners' meeting? After all, the miner's wife is a pretty important person.

MR. GAMBLE: I met with Mr. Welch yesterday, and he will also be tied in.

H.M.JR: Mr. Welch's status is so he won't be drifting?

MR. GAMBLE: No, as a matter of fact, I spent a couple of hours with him yesterday and told him about our decision so he can try to crystallize his own plans. He is now developing plans as to how he will fit into this whole program. I will have it in the next few days, and we can go over it with you.

H.M.JR: Let's fix it definitely.

MR. GAMBLE: I will see him today.

H.M.JR: A definite niche. I am sorry, John, you said you wanted to go.

MR. SULLIVAN: You remember there is the Processing Tax Board of Review matter, and we have an executive order drafted. We have an executive order drafted, and I thought I might show that to the Board of Tax Appeals before I talked with you. I hadn't dared to do it yet.

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H.M.JR: The Board of Tax Appeals - not making them a court?

MR. SULLIVAN: No, no, that isn't on that at all, sir. It is a question of taking away the functions of the Processing Tax Board of Review, and giving those functions to the Board of Tax Appeals.

H.M.JR: The day that gets public - would you mind doing it over the week end when I am up on the farm?

MR. SULLIVAN: Yes, I thought that probably the week end after the tax bill comes off the floor of the House would be about the right time to send this to the President.

H.M.JR: Did you hear why I turned down making the Board of Tax Appeals a court?

MR. SULLIVAN: No, I didn't know you had turned it down.

H.M.JR: Yes, I did. They told me that only lawyers could practice, that it was one of these closed-shop American Lawyers Guild businesses.

MR. SULLIVAN: Well, anybody as busy as you has to make a mistake once in a while. (Laughter)

H.M.JR: I thought it was only going to be lawyers that practice, and I am against the closed shop, so on that ground I--

MR. SULLIVAN: They get into a lot of trouble over there, Mr. Secretary, by people not knowing the rules of evidence, trying cases, bringing them before the Board.

MR. WHITE: Just think how much more trouble they would be getting into by not knowing any economics. (Laughter)

MR. BELL: Not knowing accounting. (Laughter)

MR. FOLEY: They have hundreds of lawyers practicing before them now.

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H.M. JR: Yes, but if this thing went through that John is lobbying, you couldn't get in to practice unless you were a lawyer.

MR. BLOUGH: May I get a nickel's worth in at this point?

H.M. JR: I hope it is worth a dime.

MR. BLOUGH: The Committee voted yesterday to change the name of the Board of Tax Appeals to Court, but to continue accountants, as continuing the right of accountants to practice before it.

H.M. JR: John doesn't like that.

MR. BLOUGH: I don't like it changed to Court for other very much more fundamental reasons.

H.M. JR: Didn't they put in evidence the Attorney General's letter?

MR. BLOUGH: Yes, that was read to them. It was out of respect to Mr. Wesley Disney, whose brother is on the Board of Tax Appeals. Several people who said they were against it did not vote against it because they didn't want to do anything that Wesley Disney didn't want. They said it wouldn't go through anyway - nice gesture.

H.M. JR: What else, John?

MR. SULLIVAN: There is a man named Harwood out in Louisville who has been writing to you and the President and the Commissioner for ten or twelve years about investigating some people in the liquor business who, he says, made a great deal of money. We sent all kinds of investigators out there, even sent Secret Service fellows out there when he had said he had no confidence in our revenue men. He has written another letter to the President, and the Commissioner thinks we should disregard it. If we answer it, it will start him all over again.

H.M. JR: O.K.

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MR. SULLIVAN: There is a meeting of the American Council on Education here next Monday on this Form 990, the information return. They wrote to Randolph and asked him and Mr. Surrey to attend the meeting, and Randolph asked me if I would go over. I think ~~that~~ probably both Randolph and I should attend.

H.M.JR: O. K.

MR. SULLIVAN: It is on Monday.

I have Monsignor Ready's letter. Both the Commissioner and I feel that there are two things in those regulations that well can be reviewed, the matter which Monsignor Ready speaks of and also educational institutions. We don't know how we are coming out on the educational institutions.

H.M.JR: Can you write a letter for me to sign to Monsignor Ready?

MR. SULLIVAN: Yes, I think I can, if you are willing to state that we are willing to reexamine the problem.

H.M.JR: I will do whatever you and the Commissioner recommend.

MR. SULLIVAN: All right, sir.

The other matter is a letter from Nelson Rockefeller who wants a letter from you to him clarifying the advertising situation for tax purposes because he is trying to encourage advertisers to maintain their South American advertising.

H.M.JR: Well, Nelson put up a phony to me on that a month or two ago, on the theory, as I remember it - it was a couple of months ago - we ought to allow the advertising down there and not in any way penalize the people because it really would help propaganda in South America.

MR. SULLIVAN: I explained to him that any kind of advertising that was done down there, having as its

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purpose continuing the markets for American business after the war is over and they are able to make the goods and ship them down, would be allowable. Purely propaganda advertising would not be.

H.M.JR: You handle it. There is no reason for me to write him. You are in charge. You write him.

MR. SULLIVAN: All right, I will. The Commissioner wanted me to give you a memorandum he wrote you on that withholding tax. There are questions all over; he wanted it on record.

H.M.JR: What else, John?

MR. SULLIVAN: That is all I have. If you will excuse me, I will go.

H.M.JR: I am still waiting for two things from you. These various non-taxable institutions were to have their returns in on the fifteenth of May, weren't they?

MR. SULLIVAN: Yes, they were, and of the thirty thousand - thirty-five thousand we expected to be filed last Tuesday, there were thirteen hundred here in Washington. You see, the collectors' offices have not yet gotten through tabulating the income tax returns that were filed on March 15, and we have got to wait a bit on that until those others get in. They have orders and they are working on those returns which were on that list of ninety that the Department of Justice sent over.

H.M.JR: Look out or else Morris Ernst will get you.

MR. SULLIVAN: Well, I am not disturbed by that threat.

MR. WHITE: John, it seems to me that, going back to the decision before that, just the opposite ought to be true. You are permitting him to allow deductions for business purposes and not for propaganda, is that what you said?

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MR. SULLIVAN: That is right.

MR. WHITE: To me the very opposite seems to be justified on Government grounds.

MR. SULLIVAN: You mean as a business expense, Harry?

MR. WHITE: Well, I don't understand why you would allow - why you would allow the deduction of advertising on the grounds that they keep their business in the future and at a time like this not permit them to spend money when it is for the public well-being, which propaganda, if it is propaganda, and desirable propaganda, would be doing. It seems to me that is what you want to encourage and discourage the other.

MR. SULLIVAN: Well, the law says that advertising, reasonable and ordinary business expenses, are deductible.

MR. WHITE: Reasonable and ordinary?

MR. SULLIVAN: That is right.

MR. WHITE: Couldn't propaganda fall under "reasonable"?

MR. SULLIVAN: No, I don't think it could.

MR. WHITE: Well, you are interpreting reasonable, then, not in accord with the times, because what is reasonable at some times is unreasonable at others.

MR. SULLIVAN: Harry, a corporation is in business to make money and promote the sale of its own products, and not to promote international relationships.

MR. WHITE: Yes.

MR. SULLIVAN: I will be glad to talk that over with you when I get back from the Hill.

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H.M.JR: One little thing, could you get your liquor people to give me a little informal ruling? For instance, in a State which says that you can only sell liquor by the bottle, could the USO - I have South Carolina in mind - set up a place, not on Government property - I mean a place and have a bar, and so forth and so on, in, say, Charleston?

MR. SULLIVAN: Yes, it could get licensed as a club and I think the clubs in South Carolina - in most States the clubs are allowed to do that.

H.M.JR: Could you, for instance, give it to me?

MR. SULLIVAN: By each State?

H.M.JR: Yes, I would like to take it up with Chester Barnard. I mean, where the USO could run its own bar and sell liquor on non - I mean, not on a Government reservation - outside - rather than a milk bar or something. Would you give it to me? I would like it tomorrow because I would like to write a letter to him and bring it to his attention because this thing - the sailors have got to buy a whole bottle of liquor to get a drink or buy poisonous liquor. In Charleston they can't buy any liquor after sundown, so they have got to go to these joints and the boys are being sent to the hospital with poison.

MR. SULLIVAN: All right, I will be glad to.

H.M.JR: Ted?

MR. GAMBLE: I just have one other thing, that is, Mr. Madden's report will be here during the morning.

H.M.JR: Will you be sure that I get it?

MR. GAMBLE: Yes, sir.

MR. BELL: Ted, why don't you tell the Secretary about that New Jersey situation with respect to charges for redemption of Savings Bonds.

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MR. GAMBLE: The Clearing House Association - Mr. Bell called it to my attention - the Newark Clearing House Association recommended all the banks be placed in charge for the redemption of bonds, and Mr. Sparks went up there and visited with Mr. Corbin and Mr. Green of the Newark Clearing House Association, and subsequently Mr. Stonier of the American Bankers Association, and they have sent out a bulletin to the American Bankers Association urging the banks throughout the country not to make any charge, and if they have to make any charge not to go beyond the fifteen cents for registration and three cents for postage.

H.M.JR: Mentioning Stonier reminds me of an idea which I had which I have been wanting to tell you. I was very much impressed with that little series of tickets worked out by the Manufacturers' Trust.

MR. GAMBLE: Victory Fund.

H.M.JR: Yes, and I wondered if you could get Stonier to take that and circularize the members of the American Bankers.

MR. GAMBLE: Yes, they will be very glad to do it. Mr. Madden tells me other banks are asking for the same thing.

H.M.JR: Could you clear that some time today?

MR. GAMBLE: Yes.

H.M.JR: And give me a report on what they do?

MR. GAMBLE: Yes, sir.

H.M.JR: Particularly if they know that it has brought in so many new accounts.

Anything else?

MR. GAMBLE: That is all.

MR. BUFFINGTON: There is a memorandum. (Paper handed to the Secretary.)

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H.M.JR: I don't do anything--

MR. BUFFINGTON: I just wanted you to see it.

H.M.JR: There won't be any trouble now with Harold Graves' people on this, on these salaries for the Victory Fund, Harold?

MR. GRAVES: I don't know about it.

H.M.JR: Well, in Chicago they are going to pay Francis Patton seventy-five hundred; Richmond, seventy-five hundred; San Francisco, seventy-five hundred - to the man who is the head of the Victory Fund Committee.

MR. GRAVES: You mean the executive officers?

H.M.JR: Yes. It has got Bell's initials on it, but I am just raising it - for the purpose of these meetings--

MR. BELL: What do you pay, Harold, to the State administrators?

MR. GRAVES: State administrators, we have three that receive eight thousand, New York, Pennsylvania, and Illinois, and another group that gets sixty-five hundred and some fifty-six, according to the State.

H.M.JR: O.K.

What else?

MR. BUFFINGTON: That is all.

MR. KUHN: I have nothing.

H.M.JR: Ferdie, would you, this morning, and let me know during the day, please take a look at what stuff is going out over the radio, in view of the change in the war news and the temperament of the people this week as compared to last week. I wish you would take a look at what is going out of the shop over there.

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MR. KUHN: I do take a look at it all the time except that what I have got on my desk now won't go out until the middle of next month.

H.M.JR: Yes, but that doesn't answer me, Ferdie, I mean, there might be a lot of stuff on the desks of these radio chains which are entirely out of tune and if necessary they should be killed, so you had better - if that is the case, you had better look at what has been going on the last two weeks.

MR. KUHN: I will do that.

H.M.JR: I mean, there might be a lot of stuff just completely out of tune. Will you?

MR. KUHN: Yes, sir.

H.M.JR: Look at what has gone out the last couple of weeks.

MR. BLOUGH: In case you haven't been informed, the Committee is planning to meet again on July 7 to read the bill, and to report it on the fifteenth, which means that it probably won't get out of the House until about the end of July.

H.M.JR: Peter?

MR. ODEGARD: I have asked Professor Wilson of Harvard down here today. I don't know whether you want to see him.

H.M.JR: Yes, I would.

MR. ODEGARD: In connection with this--

H.M.JR: Yes, I would, that is - I don't want to see him if he turns you down flat.

MR. ODEGARD: I will call Fitzgerald.

H.M.JR: Yes, I would like to see him. Both you and Harold and Gamble, on any important changes such as

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that in the setup I would like to be consulted.

Anything else?

MR. ODEGARD: Here is an idea that I talked over with Ferdie the other day. I have had from several places suggestions that the war hero enterprise might be reversed, that is to say, that the English are in as much need. He says - these people tell me, one of them representing the Ministry of Information, that the British are in very great need of more information and more in the nature of promotion of American - understanding the American position.

H.M.JR: How would we do that, Peter?

MR. ODEGARD: There are many ways in which we might do it.

H.M.JR: We have no formal request?

MR. ODEGARD: No, no formal request has been made.

H.M.JR: I kind of hate to take the initiative on a thing like that.

MR. ODEGARD: The point was mentioned that in England at the present time the Russians - the terrific concern that the English people are paying to the Russians is mainly because of the fact they have no one else. They feel isolated. They feel that the Americans are scarcely in the war. They don't understand our position. They don't understand where we come into the picture.

H.M.JR: Who said this?

MR. ODEGARD: I got this from two places. I got it several months ago from a member of the British Ministry of Information who was here, and I got it the other day from the man who is head of the Central European Section of the Donovan organization.

MR. KUHN: I think it would be very easy to talk

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about this informally with friends here in town, see how they feel about it, not do anything until we get a formal request.

MR. WHITE: How does that help sell bonds in the United States? I don't say that that should be your motive, but I am wondering - it has to be appropriate for Treasury's activities. I can see your being convinced that somebody - whose job it is - I don't see how the Treasury steps out to build up morale in England appropriately.

MR. ODEGARD: I wasn't suggesting it necessarily as a Treasury activity except that the Treasury had taken the initiative in bringing the English heroes, which I believe has been one of the best things we have done.

MR. WHITE: That is right.

MR. ODEGARD: And it has been suggested that that process be reversed.

MR. KUHN: It would have to come from the Army and Navy, anyway, since they would supply the people.

MR. WHITE: That is all right. I thought it was a Treasury operation.

H.M.JR: Harriman is coming in at a quarter of twelve. I sort of hate to - I mean, I hate to push the thing.

MR. ODEGARD: I wouldn't push it.

H.M.JR: That is the way I feel. I mean the way to push it would be, if we wanted to, to send the film of our things over to the head of War Bonds in England who sent us his film and said they are crazy to have ideas. I take it that that has been done.

MR. KUHN: That is being done through the Ministry of Information in London.

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H.M.JR: Then if the man sees that who says he is hungry for ideas, he would say, "Well, now, if we do that for U.S.A., why can't they do it for us?" but I just kind of hate to--

MR. WHITE: Another possibility, you might send the British Treasury a memorandum on what success you have had with that - merely handing it to the British Treasury - in helping you sell your bonds, a suggestion to them.

H.M.JR: Well, I am a little cold on it. I mean, Lord Halifax can't even get excited about what the English have done in this country.

MR. KUHN: The British Consul in Chicago went up to Milwaukee especially to see this Milwaukee show and has written a report on it which I am trying to get. I would like to have you see what he tells us on it.

H.M.JR: I am not saying anybody shouldn't, but let's see what happened.

MR. KUHN: Mr. Secretary, you may be interested to know that that slowpoke town of Portland, Oregon, is closing down all the stores, I think, this morning, all the stores - tomorrow morning, all the stores in the town, during the celebration. (Laughter)

H.M.JR: I am amazed.

MR. KUHN: So was I.

MR. ODEGARD: You don't ordinarily expect that from that part of the country.

H.M.JR: No, no.

MR. ODEGARD: It shows that they are actually waking up out there.

H.M.JR: Is that story true that they ran out and got some shells to shell Portland in order to wake them up? (Laughter)

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MR. KUHN: It was a War Bond promotion.

H.M.JR: Chick?

MR. SCHWARZ: The Cleveland group, the mayor, and the president of the Federal Reserve are coming in this afternoon at three?

H.M.JR: And the Assistant Secretary of the Army for Air.

MR. SCHWARZ: I will send down a short memorandum with the background before that time.

H.M.JR: Right.

Incidentally - what is the man's name?

MR. KUHN: Lovett.

H.M.JR: He had some nice things to say about you last night.

MRS. KLOTZ: Strange.

MR. KUHN: Did you mention anything about these men that he provided for us?

H.M.JR: I said thank you to him.

MR. KUHN: He has been very nice.

H.M.JR: Even though he didn't break his ankle.

MR. KUHN: He has been very nice. I know - it was breaking his shoulder.

H.M.JR: I thanked him enthusiastically.

White?

MR. WHITE: A Brazil representative was in yesterday. The five-year agreement, under which they are able to

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buy gold or leave gold on collateral, is about to run out. They would like to have it extended another five years and have the amount raised to a hundred million dollars. We are preparing the papers since it involves no risk at all. I don't see what good it does them, but if they want it I presume it is all right with us.

H.M.JR: Yes, sir.

MR. WHITE: You have gone into the Canadian dollar position with reference to some new orders which have recently been given and some that are contemplated.

H.M.JR: I referred that to you.

MR. WHITE: It looks as though Canada is going to end with a good deal more money than might be regarded as reasonable. I thought you might, on your own initiative, like to call a meeting of the various persons who are involved, to possibly make some decision with respect to a continuation of the placing of those orders to be paid for with dollars. The initiative will not come from the Canadians. They are keeping very far away from us. They are getting along--

H.M.JR: You call a meeting for next week and I will attend it.

MR. WHITE: Army, Navy, Lend-Lease, and Currie.

H.M.JR: At that time why not call a meeting of that and ask Dean Acheson to make a report on Lend-Lease in Reverse. It is about three weeks since we met.

MR. WHITE: Well, then, will you want the same people?

H.M.JR: Sure.

MR. WHITE: British, and just add Canadian.

There is a Board of Economic Warfare meeting this morning at ten o'clock. I don't know whether you want to attend.

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H.M.JR: Nobody told me, so I can't. Do you want to go?

MR. WHITE: I don't think that is necessary. There is nothing there - they were discussing two things, according to the agenda. One is the proposal to construct ships wholly out of wood which they initiated last time and they are reporting on this time. They will carry small cargoes and apparently will be able to be built outside the United States under a new corporation that is being set up. I think Rockefeller is at the head of it, or at least his organization. A second is with regard to the food situation in South America, neither of which I think touches us.

H.M.JR: Anything else?

MR. WHITE: The Cuban agreement is going to be signed today. That is all.

H.M.JR: Harold?

MR. GRAVES: Nothing.

H.M.JR: Harold, now, does Miss Elliott know about this? (Indicating paper submitted by Mr. Gamble.)

MR. GAMBLE: I think not.

H.M.JR: Would you inform her? Women do a lot of buying, and so forth. Will you inform her?

MR. GAMBLE: Yes, sir.

H.M.JR: She paid your organization, Harold, I thought, a very nice compliment. She said that she has been so used to, in her former contacts in Washington when she was here - people would get her aside and say, "Now look, we have got to take care of this person. They are going to double cross this person; and that person will stab you in the back. Look out for this person." She said there hadn't been a thing like that. It is like

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a breath of fresh air. She says nobody has whispered to her about anything.

MR. GRAVES: Good.

MR. ODEGARD: Just a big happy family. (Laughter)

H.M.JR: She said she didn't know there was anything like that in Washington. She said, "I have been in two other organizations."

MRS. KLOTZ: Stabbed so many times.

H.M.JR: That is a nice compliment to you, Harold.

MR. GRAVES: I think so, too.

H.M.JR: Mr. Bell?

MR. BELL: Did you read Mills memorandum?

H.M.JR: I have got it right here in front of me. He wants to submit his resignation July 1 to get back home.

MR. BELL: No, I think you sent it to me.

H.M.JR: Well, you know, three strikes and out. I mean, if he really wants to go - have you talked to him?

MR. BELL: Yes, a little last night. I think he would stay if you would ask him, but this is the second or third time he has asked to be relieved. I don't think he has had much to do, and I think there has probably been a little misunderstanding because I thought he was going to work for Harold. I think it was understood that way.

MR. GRAVES: The Secretary made the suggestion that we should use him on the F and G, to specialize on F and G Bond sales, and I talked with Mr. Mills about that, and I think perhaps the thing got no further because of the arrangements that were made on the Victory Fund Committee thing. But I still would like very much to have Mr. Mills.

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H.M.JR: He is a good man.

MR. GRAVES: He is. We would like him.

H.M.JR: It is too bad to let that fellow slip through your fingers.

MR. GRAVES: I would be delighted to keep him and use him on this assignment.

H.M.JR: It is impossible for me to keep giving people assignments all the time.

MR. GRAVES: I think Dan and I can work that out with him.

MR. BELL: He was working on the agent thing, and also some on the financing, helping on that, but he isn't doing much on the agents now and we are sort of waiting for the other assignment. It didn't develop and I think he feels he isn't doing enough to justify staying here.

H.M.JR: Why don't you and Harold see him and have a talk with him. My impression is he is a good man.

MR. GRAVES: Mine too.

MR. BELL: I think he will do a good job there.

H.M.JR: Evidently he has slipped through between you two fellows.

MR. BELL: That is right. I just sort of forgot him because I thought he was going to work on the other side.

H.M.JR: Can I leave it--

MR. BELL: Yes, we will work it out.

I don't know whether you saw the story in the Post

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that Lowell Mellett's organization was turning down a Packard car that somebody offered to donate. They said we didn't have the authority to accept it and it would take legislation and that legislation is pending. The Post got hold of it and they ran a funny story on it.

MR. GASTON: The Office of Information told them that?

H.M.JR: We do accept cars?

MR. BELL: Yes. I called Lowell this morning and told him he had better straighten out the story, that it would become dirty if he didn't get on top of it.

H.M.JR: I only learned the other day - you know this fellow over at - Keezer, did you know that he was Lowell Mellett's son-in-law?

MR. GASTON: Yes.

H.M.JR: I didn't - because he has been so opposed to our volunteer bond drive, and that might account for why Lowell Mellett has been so unfriendly to us. I didn't know that.

MR. KUHN: It is the other way around, Mr. Secretary. Lowell Mellett's unfriendliness, I think, preceded Keezer's. It started way back, didn't it?

MR. ODEGARD: Yes.

MR. KUHN: Way back in the spring of '41.

H.M.JR: I see, but there is one influence - it is the other way around.

MR. ODEGARD: They both might.

MR. WHITE: Keezer is a pretty good economist. They might have arrived at it independently. (Laughter)

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I can't correct that. (Laughter)

MR. GASTON: There are two sides to that question.

MR. WHITE: A good side and a bad side.

H.M.JR: You see, the trouble is, Harry, you have been teaching these boys repartee and they are beginning to learn it, so you have to improve on yourself.

MR. WHITE: I have to get better - I will do some homework.

H.M.JR: They are beginning to get a couple of your curves.

MR. GASTON: It is just a matter of precedence. (Laughter)

MRS. KLOTZ: I think he sort of got that.

MR. WHITE: I didn't get it.

H.M.JR: Norman?

MR. THOMPSON: I wonder if Mr. Gaston cleared with you on the appointment of Professor Yntema as a member of the Committee on Practice. We have a vacancy and Mr. Gaston is recommending Mr. Yntema.

H.M.JR: Didn't old Herman Oliphant use him once?

MR. GASTON: Yes, he used him on several projects. One of those was the declaratory rulings, then he has since done a very voluminous work for Justice, the codification of all Federal regulations.

H.M.JR: What do you mean, another lawyer? You have got Sammy Klaus.

MR. GASTON: I would like to have him on the Committee on Practice. Ed has him now; that is one of the reasons I am short.

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MRS. KLOTZ: He will give him back to you, be careful. (Laughter)

H.M.JR: What do you want a lawyer for?

MR. GASTON: There is a Committee on Practice--

H.M.JR: Practice of what?

MR. GASTON: Before the Department. It used to be called the Committee on Enrollment and Disbarment. Hanna is the chairman. He is a full-time man. There were two other members. One was Carrington, the New York practicing lawyer, and the other is Cook, who is on the Northwestern Law School faculty. Actually in the last year Hanna has run it pretty much as a one-man show.

H.M.JR: Does that come under you?

MR. GASTON: Yes. Norman Thompson committed it to me some months ago.

H.M.JR: And you want Yntema?

MR. GASTON: Yes, on recommendation of the General Counsel's Office.

H.M.JR: He is a good man.

MR. GASTON: Hanna, himself, doesn't want it. He has put up all sorts of arguments against it and all of his arguments seem to me to work in reverse.

H.M.JR: I mean, have they disbarred anybody recently?

MR. GASTON: Only the perfunctory cases of people who have been committed, convicted, or disbarred. But they do hold meetings. Therefore, every time they get a group of contested cases the Board has to meet.

H.M.JR: Have they ever gone through the whole works,

- 30 -

started cleaning, challenging everybody who has got a license to practice?

MR. GASTON: They did that originally.

H.M.JR: The new man, why couldn't he--

MR. GASTON: I think it would be a good idea to review the whole, not only the personnel, but practices, and methods of the Board.

H.M.JR: Everybody that has a license, why not make him prove he is entitled to a license.

MR. GASTON: I think they could well recheck on the list.

H.M.JR: O.K. What else?

MR. THOMPSON: I should get out an order on July Fourth as to whether we are going to work or not.

H.M.JR: What do you recommend?

MR. THOMPSON: Well, I think the same practice we had for prior holidays should apply to the Fourth. The President has given us the same word through the Bureau of the Budget, that if it will further the war effort we may stay open. I think most of the departments are going to follow that.

MR. BELL: All stay open?

MR. THOMPSON: Stay open - most of them.

H.M.JR: Gosh, I don't know--

MR. BELL: I would be inclined to give one holiday in there. The Fourth is a pretty important one.

H.M.JR: The Fourth - it is a Saturday, too?

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MR. THOMPSON: May 30 was a Saturday, too.

MR. BELL: This is a more important day in the country, I think, and it is only a half a day. I would be inclined to close one day.

MR. THOMPSON: The President has left it up to the heads of the departments.

H.M.JR: Who wants to close on the Fourth of July?

It is unanimous.

MR. THOMPSON: After all, I think it would probably be a good thing to close. Employees are losing vacations, and one half a day won't--

H.M.JR: Oh, I think - I mean, when you see all the rest of the time and money that is wasted - I mean, those people are working hard. I think they are entitled to a half a day.

MR. GASTON: As far as any emergency is concerned, you can handle it through the switchboard - notify them who is available and they can be called.

H.M.JR: I mean, I get so disgusted with a lot of things which aren't going well, and I think when people are working hard they are entitled to a half a day.

MR. BELL: And they are working hard.

H.M.JR: I would close for the Fourth of July.

MRS. KLOTZ: It gives them a chance to go away for the week end.

H.M.JR: I don't think they should get an early start on Friday, or anything like that.

MR. THOMPSON: Oh, no.

H.M.JR: O.K. All right, thank you all.

TO: Inside Appointment 307
Request

Mr. Sullivan

Before you write a
letter based upon
this memo —

June 26, 1942

From: MR. FITZGERALD



TREASURY DEPARTMENT
WASHINGTON

OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

June 25, 1942.

Memorandum to the Secretary.

In accordance with Mr. Sullivan's request, you are informed that licenses may be issued under the laws of the following States authorizing the sale of liquor (distilled spirits) by the drink: Arizona, California, Colorado, Connecticut, Delaware, Florida, Illinois, Indiana, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Montana, Nebraska (in cities and villages voting for it), Nevada, New Hampshire, New Jersey, New Mexico, New York, North Dakota, Ohio, Pennsylvania, Rhode Island, South Dakota, Vermont, Wisconsin and Wyoming; also the District of Columbia.

Answering the specific question raised by Mr. Sullivan, it appears that the U.S.O. should be able to secure licenses to sell liquor (distilled spirits) by the drink in the States above enumerated.

If, however, the activities of the U.S.O. in any of these States are to be conducted on military reservations, attention is invited to Section 1350, Title 10, U.S. Code, which provides:

"The sale of or dealing in beer, wine or any intoxicating liquors by any person in any post exchange or canteen or Army transport or upon any premises used for military purposes by the United States, is prohibited. The Secretary of War is hereby directed to carry the provisions of this section into full force and effect."

The laws of the remainder of the States do not authorize the sale of liquor (distilled spirits) by the drink.

Lucy P. McPherson
Commissioner.



June 25, 1942.
12:16 p.m.

HMJr: Hello.

Harold
Graves: Yes, sir.

HMJr: Go ahead, Harold.

G: I found that Miss Dietrich has settled her case....

HMJr: Oh.

G:by stipulation; that she never made any effort to withhold any information or facts about the matter. It was wholly a technical question, one of community property, by the way, as to whether her husband and she could file separate returns.

HMJr: Oh.

G: And there is this about it. She has not yet paid the amount of this deficiency, which is \$160,000.

HMJr: Yes.

G: She is not making any effort to evade that, but she has funds tied up in England....

HMJr: Yes.

G:and she has the case pending before our Foreign Funds people - in which she's asking that that amount of money be unfrozen, so that she can apply it to pay this tax liability.

HMJr: I see.

G: That is still pending. Now the people that I talked to in the Bureau - there was Mr. Cann, Assistant to the Commissioner - told me that this woman has never had a bad record, never had a case against her before. The - the deficiency in this case involves no penalty, and he has expressed to me when I told him what the question was, this opinion that there's nothing in that record that would disqualify her from being used by us.

- 2 -

HMJr: I see. Well, let me just - while I'm in on it - you - why is Foreign Funds holding up the money which would flow to us?

G: That I - I don't know and I doubt if the Revenue people know. I think Mr. Foley has that matter in hand.

HMJr: I see.

G: At least, Mr. Cann so told me.

HMJr: Yeah. But I mean they've frozen the money which she has which she could use to pay a tax with?

G: Well, it's - it's a question of getting this money out of England.

HMJr: Oh.

G: Now whether that is technically a frozen funds transaction, I wouldn't know.

HMJr: I see.

G: But she has the funds there and has made application.

HMJr: But - but - what's the man's name in the Bureau?

G: Cann.

HMJr: You mean he says there's nothing in her record which....

G: Nothing.

HMJr:should make us avoid her.

G: That's right. He said she's not a bad taxpayer; she didn't - she didn't do anything to fight this case; that the question was wholly a technical one; and he knows of no reason why we should not use her....

HMJr: I see.

G:on this program.

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HMJr: Well, what do you recommend in view of that?

G: I recommend that we go ahead with it.

HMJr: All right. Fine. But in the future....

G: Those cases will all be cleared with me.

HMJr: They'll all be cleared with you.

G: Always.

HMJr: And from now on.

G: Yes, sir.

HMJr: And - well, that's that.

G: Yes, sir.

HMJr: But - I still - I don't know whether you're in agreement with me or not - I don't know how many bonds we'd sell using a woman like this, do you?

G: No, I don't know either.

HMJr: What?

G: That's - that's one of the things that we've gone - were discussing yesterday....

HMJr: Yeah.

G:and we're going to straighten this whole thing out. But this is all programmed. I find that she's appearing here Sunday, and that ends it, and I believe we should go right ahead with it.

HMJr: O.K., Harold.

G: Fine. Thank you.

HMJr: You're welcome. Goodbye.

June 25, 1942.
3:40 p.m.

Grace
Tully: Hello, Mr. Secretary?

HMJr: In person.

T: (Laughs) I hate to bother you in person about this, but I wondered if I could ask you if by any chance you have any vacancies opening for messengers over in your place for the summer?

HMJr: Well, are they....

T: I understand some of these youngsters around get jobs, and I have a nephew who is interested in doing a little work this summer.

HMJr: We have - we've got a big, wide, open space for him.

T: Do you think so?

HMJr: I know so.

T: Grand. He's about seventeen. He goes to St. John's, and he has another year to finish up but I - he thought and my sister thought it might be good for him to be busy this summer.

HMJr: Well, I mean - could he do something else, or is it that he....

T: Well, he has no - he has no training for anything else. I mean he's just in school still, in high school, you see. He finishes next year.

HMJr: Where is he now?

T: He's in Washington.

HMJr: Well, do you want to have him come in with a little note from you....

T: All right.

HMJr: Tomorrow morning about ten o'clock? I'd like to meet him myself.

- 2 -

T: Grand. Well, that's very nice, Mr. Secretary, but I don't want you to really bother....

HMJr: No, no.

T:but I wanted to ask you so that you could....

HMJr: Listen, Grace, I bother you a hundred times and this is a teeny little once.

T: Well, you - you never bother me, you know that. But I just thought if you could tell me if there was a chance that there might be an opening, then I'd send him over. Otherwise, I didn't want to really have you do anything about it.

HMJr: I don't know where the opening is, but he's - he's got a job here.

T: All right. Grand, Mr. Secretary, that's fine.

HMJr: Now what's his name?

T: Harold Sinton. S-i-n-t-o-n.

HMJr: Harold Sinton. That's the name of my pilot.

T: Really? Is it?

HMJr: S-i-n-t-o-n.

T: That's right.

HMJr: That's - he was co-pilot on the trip up with - to New Hackensack with Churchill.

T: Oh, really.

HMJr: They borrowed....

T: Oh yes, they said he was going to guide them in or something, wasn't he?

HMJr: Well, his name is Sinton. S-i-n-t-o-n.

T: Isn't that funny? Uh huh.

- 3 -

HMJr: So you have him over here at ten tomorrow,
and I'll - I'd like to meet him and I'll
take care of him.

T: All right. Grand, Mr. Secretary. That's
very kind. Thank you ever so much.

HMJr: Not at all.

T: I'll have him there.

HMJr: Don't thank me. It's a pleasure.

T: Grand. Thank you, sir. (Laughs) Goodbye.

HMJr: Goodbye.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE June 25, 1942.

TO Secretary Morgenthau
FROM Abbot L. Mills, Jr.

Subject: Issuing Agency Status of the Members of the Aircraft War Production Council, Inc.

The following telegram has been received from Mr. John C. Lee, Manager, Aircraft War Production Council:

"A. L. Mills, Jr.

Board of Directors of Aircraft War Production Council, which comprises the Consolidated, Douglas, Lockheed, North American, Northrop, Ryan Vega and Vultee Companies, today unanimously adopted a Resolution recommending that the Companies arrange to issue War Bonds subscribed by employees. Please inform the Secretary and Under-Secretary. Letter follows. Best wishes."

June 25, 1942.
4:00 p.m.

HMJr: Hello.

Abbott
Mills: Abbott Mills, sir.

HMJr: Hello, Mills. I just got your memo about the Aircraft War Production Council, and I'm simply delighted.

M: Well, isn't it good news! It certainly is.

HMJr: I think that that's a swell job you did.

M: Well, many thanks. If it'll just stay put.

HMJr: Mills....

M: Yes, sir.

HMJr: Normally I'm perfectly willing to take the blame when it's mine, but in this case it doesn't happen to be. I talked - have you talked with Bell and Graves today?

M: No, sir.

HMJr: Haven't you?

M: No.

HMJr: Well, each one thought the other one was keeping you busy. Hello....

M: Yeah.

HMJr:and I was amazed to find out that - that they hadn't and the thing slipped between them. Now I'd like you to talk with both Bell and Graves before you decide anything, you see?

M: All right, sir.

HMJr: And it really - they both felt badly about it. Each one thought that you - they - that you were working for the other one.

M: Uh huh.

- 2 -

HMJr: But they were to talk to you today. They haven't done it?

M: No. Well - they - it's early yet. (Laughs)

HMJr: What?

M: It's early yet.

HMJr: I don't hear you.

M: It's still early.

HMJr: But they haven't done it?

M: No, not - not yet, sir.

HMJr: Well, I'm sorry. They will.

M: All right, sir.

HMJr: Thank you.

M: You bet. Thank you.

June 25, 1942.
4:02 p.m.

HMJr: Harold.

Harold Graves: Yes, sir.

HMJr: Gosh, what can I do to make you see Mills and give him something to do?

G: See who?

HMJr: Mills. Abbott Mills.

G: Oh - I - you don't have to do anything more than you've done.

HMJr: Well, I - well, I can't get you to talk to him.

G: Well, I'd be delighted to talk to him.

HMJr: I just called him up to congratulate him. He got those eight aircraft companies as issuing agents.

G: Yes.

HMJr: Then I said to him, "I suppose you've seen Mr. Graves?" He said, "No, I haven't heard from him."

G: (Laughs) Well, I'll get at him right away.

HMJr: Well, it's hard enough to get good men without just letting them slip through your fingers, Harold.

G: Yes, sir. That's right.

HMJr: You did promise this morning at Staff you'd see him.

G: Yes, well, I promised that - that Dan and I would take care of him.

HMJr: But you haven't, either of you.

G: Yeah, well, I'll take care of him within fifteen minutes. How's that?

- 2 -

HMJr: Yeah, I don't like to keep checking up, Harold.

G: Yes, sir. I've - I've had a great many people on my neck today.

HMJr: Yeah, but take care - take care of the boss first, will you?

G: You bet I will. Yes, sir.

HMJr: I - I come first.

G: You're right. One hundred percent. I'll do it.

HMJr: Thank you.

G: You're welcome. Goodbye.

June 25, 1942.
4:09 p.m.

HMJr: Hello.

Operator: Miss Michener. Go ahead.

HMJr: Miss Michener?

Miss
Michener: Yes, Mr. Secretary.

HMJr: Would you and Daggit come in here at quarter
past four....

M: Quarter past four.

HMJr:and bring with you the chart that you
give me on every Monday which shows these
controlled and uncontrolled prices, particu-
larly the one with pork, you see?

M: Yes.

HMJr: Because that one, by golly, showed Monday that
the thing had gone up, and on that thing I
went out on the end of the limb and asked
Wickard why it'd gone up - the one I got on
Monday.

M: Yeah, last Monday.

HMJr: This Monday past.

M: Yes.

HMJr: Come in with Daggit on that....

M: Yes.

HMJr:because I don't understand why on that
chart - I think it's amongst the uncontrolled
....

M: Yes.

HMJr: And that shows it's gone up, but this whole
memorandum shows that it's been stable, and
that's what Mr. Wickard said. There's some-
thing wrong somewhere.

- 2 -

M: Yeah, I'll get that.

HMJr: Come in at quarter past with Daggit.

M: Yes.

HMJr: Please.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 25, 1942

TO Secretary Morgenthau
FROM Miss Michener *Michener*

Attached is a statement on the price situation for pork products, with particular reference to the effect of the price ceilings on hog prices, submitted in response to your request of June 24. The statement was prepared by Mr. Daggitt.

June 25, 1942

The price situation for pork productsPrice ceilings

Wholesale prices of pork products were put under ceilings somewhat earlier than the effective date of the General Maximum Price Regulation. By a temporary order announced March 10, effective March 23, ceilings were established on wholesale prices of most pork products at the levels prevailing during the 5-day period March 3 - 7. The permanent order now in effect is on substantially the same basis.

Lard had been placed under wholesale price ceilings on December 13, at the levels of November 26 (9.85 cents for prime steam lard at Chicago). The ceiling was later revised about 11 percent higher to 10.93 cents, effective January 2; again revised upward to 12.695 cents, effective February 4; and still later revised to 12.90 cents (the highest price charged in February) effective June 8.

Ceilings on retail prices of pork products were imposed under the General Maximum Price Regulation on May 18. There is no ceiling on wholesale prices of live hogs, because of specific prohibition in the Emergency Price Control Act of ceilings on primary farm products.

Price trends

The attached large chart compares (1) the Chicago composite wholesale value of hog products derived from 100 pounds of live hog, as computed by the Department of Agriculture, with (2) the Chicago wholesale price of live hogs as reported by the Bureau of Labor Statistics (the basic commodity quotation), and (3) the mid-month farm price of hogs.

It will be noted that the announcement on March 10 of the temporary price ceiling order was followed by some decline in the wholesale value of hog products. While the decline was later regained, the general effect of this and the later permanent order has been to level out the wholesale price quotations on pork products.

It would appear from this comparison that the price of live hogs did not respond to the price ceilings on pork products until about a month later. Since early April, however, hog prices have levelled out, and the farm price on May 15 was slightly lower than the price a month earlier. (The June 15 farm price will be available next week.)

Two points should be mentioned in connection with these recent price trends. First, the continued rise in hog prices during the month after ceilings were placed on pork products was due in part to wide margins existing when the ceilings were imposed. The rise in pork prices during February and early March apparently originated largely in expanded demand, both from consumers and from Government purchases, which lifted pork prices more sharply than live hog prices. As commented upon by the Bureau of Agricultural Economics "The spread between prices of live hogs and hog products was fairly wide during the first week of March, the base period for ceiling prices on pork products. This wide spread permitted hog prices to advance in recent weeks in response to the strong demand for hogs." (The Livestock Situation, April, 1942.)

A second point is that the stabilization of pork and hog prices during the past few months may have been facilitated by the seasonal spring increase in hog marketings, which usually reaches a peak in May or June. Hogs slaughtered under Federal inspection totalled 4,320,000 in May, as compared with 4,196,000 in April, and a low of 3,892,000 in February. This influence may have been offset, however, by increased lend-lease purchases.

Retail prices of principal pork products continued to rise in May, as shown by mid-month BLS data (before the May 18 effective date of retail price ceilings), despite the stabilization of wholesale prices. Retail quotations as of June 2, however, based on BLS sample data, indicate some decline from the May levels. Retail prices for pork chops, bacon, and ham are shown on the attached small chart.

(Data shown on large chart)

Prices of hogs and pork products
(Dollars per 100 pounds)

Week ended	Wholesale price of live hogs <u>1/</u>	Wholesale value of hog products <u>2/</u>	Average farm price of hogs, 15th of month
December 6, 1941	10.125	10.76	
December 13	11.175	11.58	10.32
December 20	10.025	12.10	
December 27	11.475	11.90	
January 3, 1942	11.375	12.02	
January 10	11.525	12.47	
January 17	11.475	12.43	10.69
January 24	11.625	12.28	
January 31	12.000	12.39	
February 7	12.525	13.03	
February 14	12.850	13.54	11.85
February 21	12.925	13.83	
February 28	13.100	14.18	
March 7	13.375	14.38	
March 14	13.425	14.40	12.52
March 21	13.500	14.03	
March 28	13.650	14.12	
April 4	13.850	14.39	
April 11	14.400	14.54	
April 18	14.150	14.58	13.48
April 25	14.375	14.66	
May 2	14.025	14.76	
May 9	14.000	14.62	
May 16	14.150	14.52	13.28
May 23	14.275	14.52	
May 30	14.400	14.60	
June 6	14.200	14.56	
June 13	14.175	14.53	
June 20	14.350	14.56	
June 24	14.425		

1/ Good to choice, 200-220 pounds, Chicago, Friday prices.
Bureau of Labor Statistics.

2/ Value of all edible products, fresh basis, in 100 lb. of live hog, computed from wholesale prices on carlot basis, Chicago. Department of Agriculture.

(Data shown on small chart)

Retail prices of selected pork products^{1/}
(Cents per pound)

Year and month	Pork chops	Bacon (sliced)	Hams (whole)
1941			
November	36.0	36.3	32.0
December	34.5	36.0	31.9
1942			
January	35.0	36.7	34.6
February	36.8	37.3	35.5
March	40.0	38.4	37.0
April	42.0	38.6	37.2
May	43.2	39.3	37.8
June 2 est.	41.7	39.1	37.7

^{1/} Mid-month prices. Bureau of Labor Statistics

RETAIL PRICES OF SELECTED PORK PRODUCTS

CENTS PER POUND

42

40

38

36

34

32

30

NOV.
1941

DEC.

JAN.
1942

FEB.

MAR.

APR.

MAY

JUNE

MID-MONTH PRICE, B.L.S.

PORK CHOPS

June 2 est.

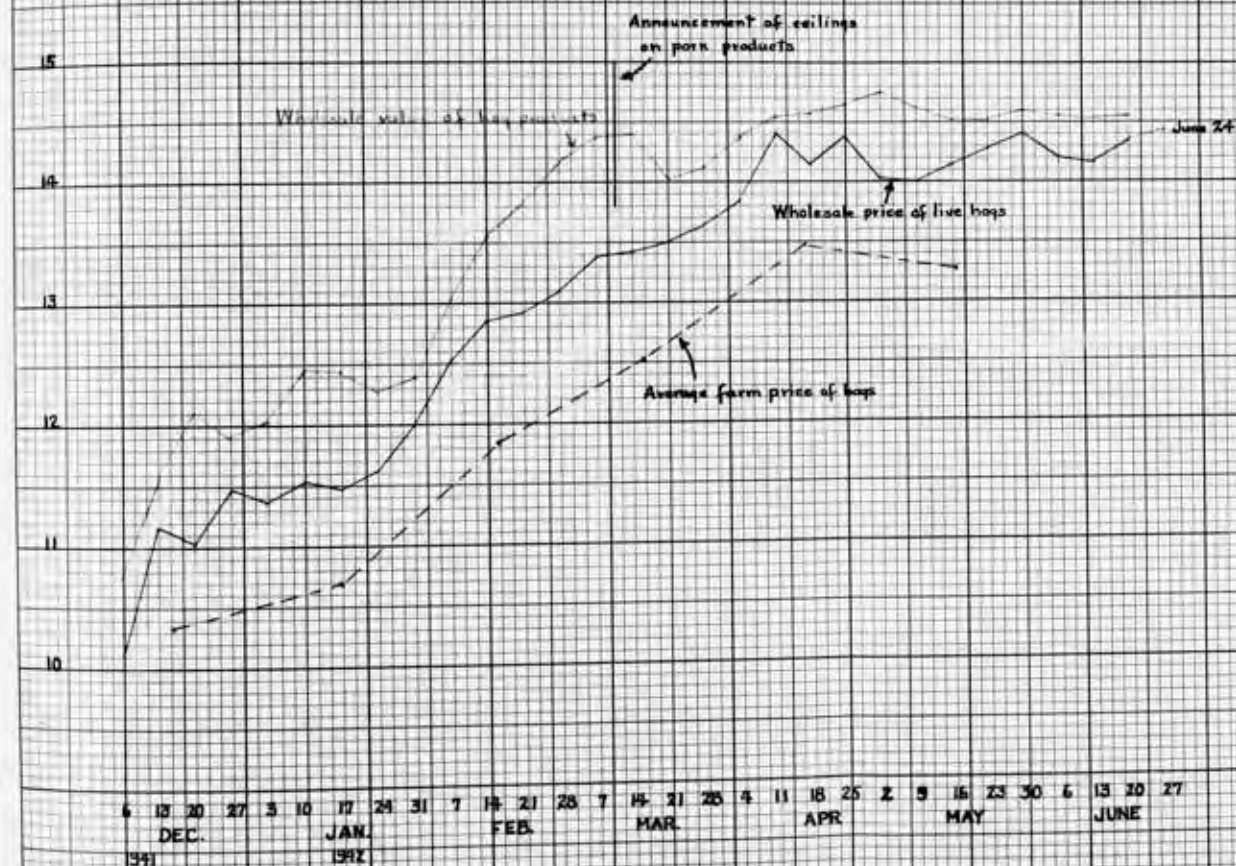
BACON

June 2 est.

HAM (WHOLE)

June 2 est.

PRICES OF HOGS AND PORK PRODUCTS

DOLLARS
PER 100 LBS.

June 25, 1942.
4:17 p.m.

HMJr: Hello.

Operator: Mrs. Lindheim.

HMJr: Thank you. Hello.

Mrs.
Lindheim: Hello.

HMJr: Mrs. Lindheim?

L: Hello, Mr. Morgenthau.

HMJr: How are you?

L: Fine. How are you?

HMJr: All right.

L: To what can I attribute this honor?

HMJr: Well, Mrs. Lindheim, do you remember when you came up to see us on the farm?

L: Yes.

HMJr: We talked about bringing some of those boys down in the fall to pick the apples.

L: Yes.

HMJr: And the question was whether we could house them or not.

L: Yes.

HMJr: Now we could house quite a few of them....

L: Yes.

HMJr:and I wondered whether the situation was such that - this - I think you call it the Vermont Plan....

L: Yes.

HMJr:whether these boys would be available around the first of September.

- 2 -

L: When we spoke - oh, first of September - when we spoke, I believe we mentioned girls.

HMJr: Was it girls?

L: Well, I - we might have boys, but it was about girls that we spoke....

HMJr: Well....

L:because at that time Mrs. Morgenthau was very interested in having them trained.

HMJr: Oh, well I've - I thought, well I - so much happens that I can't trust my memory. It was girls.

L: Yeah. (Laughs) But as a matter of fact, we have many, many more boys. We've been able to place very few girls. It's heartbreaking.

HMJr: Yes.

L: Because we had about three hundred - over three hundred really top girls, and we have only been able to place eighty.

HMJr: Yes.

L: This is very bad.

HMJr: Well, the thing is this - I'm going up to the farm this week-end....

L: Yes.

HMJr:and - of course, my farmer's kind of old-fashioned and he wants boys so they can get up on these thirty and forty-foot ladders, you see.

L: Yeah.

HMJr: The question is whether the girls can do it.

L: Would you want some boys now?

HMJr: Not right now, although I think right after the Fourth of July we could begin to use....

- 3 -

L: I'll tell you why, we're - we have a lot of youngsters that are not being able to be placed because the Vermont farmers have not come through with all the placements that we had expected....

HMJr: Yes.

L:and we're having to turn down some kids after we accepted them.

HMJr: How old would they be?

L: Well, they're all over sixteen, and they're good because we've only - we've really weeded out those that we thought in any way were not desirable.

HMJr: Well, Mrs. Lindheim....

L: Yes.

HMJr: To me - I mean, you see - the important thing is to have them in September.

L: Yes, sir.

HMJr: Now couldn't - what assurance would I have that these boys wouldn't leave me in the middle of September?

L: Well, I don't know. This is an entirely new problem that we'd have to look into. You see, when I spoke to your wife about it, the idea was to come about the middle of September when the work in Vermont was over....

HMJr: Oh.

L:and to stay as long as they were needed....

HMJr: Oh.

L:and now that I couldn't say because if when school opens, unless they'd be released there would be a problem there. With girls there may not be that problem if we get girls who are going to stay in longer and train.

HMJr: Well....

L: Couldn't we re-train your farmer?

HMJr: Pardon me?

L: Couldn't we re-train your farmer?

HMJr: Well, he may - we all may have to be re-trained.

L: I think so too. I think it's - I think you ought to be convincing enough to convey that.

HMJr: Well, it's this question, will these girls get dizzy up - when they get that - on these forty-foot ladders, you see?

L: Oh, no, no more than boys.

HMJr: Well, anyway, I'll tell you what we'll do. We now have two separate houses....

L: Yes.

HMJr:and we've got people who can cook for them....

L: Yes.

HMJr:and we're - we're in shape and I've got the biggest crop we've ever had, you see....

L: Yes.

HMJr:and right after the Fourth of July we do start with raspberries so we would have work.

L: How many boys - how many boys would you want after the Fourth of July?

HMJr: Well, I don't - I'd know better after Saturday when I come back here Monday.

L: Well, perhaps you could let me know then.

HMJr: Well, could you do this - could you look into it and then - and let me know. But the thing that I'd want - whoever I take on, I'd want some kind of a pledge from them....

- 5 -

L: Yes.

HMJr:that they'd stay through our MacIntosh harvest.

L: When is that?

HMJr: Well, it begins about the first week in September.

L: And ends when?

HMJr: It will run through till about the first of October.

L: It runs through the first of October. Well, supposing school opens before?

HMJr: Well, you know - under the New York State I think they can get - I think it's three weeks....

L: A release?

HMJr: Yes.

L: You haven't any idea even that - when you say you have two houses, now let me ask you this about the supervision of these youngsters....

HMJr: Now I'd - we'd have to have somebody. We'd have to....

L: You'd have to have somebody.

HMJr: Yes, definitely.

L: Well, maybe I could get somebody.

HMJr: Yeah, we need somebody that would come and supervise them and....

L: Yes.

HMJr:and I think it would be easier if we'd decide all boys or all girls because then it could be one supervisor.

- 6 -

L: It would have to be one or the other.

HMJr: Yeah.

L: Fine. And then the question is, well - about the pay and all that, we can discuss later.

HMJr: Well, if you could do this, I'm going to - you don't suppose that I could - you could get me off some kind of a letter tomorrow....

L: Yes.

HMJr:to Hopewell Junction....

L: Hopewell Junction.

HMJr:that you could mail me tomorrow?

L: Hopewell Junction.

HMJr: Hopewell Junction.

L: I'll try. I mean it isn't a question of time. I can do it in the time. It's only a question of policy. Now we'll have to - I'll have to get together with John Rothschild. Arthur Root isn't here....

HMJr: Oh.

L:and - but on the other hand, we have a very definite problem on our hands with boys that we've not been able to place....

HMJr: Why?

L:and I'm heartbroken about it. This may be a wonderful way out.

HMJr: Well, I suppose the maximum that we could take of boys and girls is - to give you some idea - would be twenty-five.

L: Twenty-five.

HMJr: That would be the maximum.

- 7 -

L: Well, that's something.

HMJr: Yes.

L: And I'll scout around then right away and also see about if there's any possibility of getting in line with a supervisor. A girl that I spoke to Mrs. Morgenthau about - if she would be free, Katherine Freeman, she would be excellent for that.

HMJr: She would.

L: She's really trained in agriculture, and she'd be very fine. I'll find out though.

HMJr: Well, if - if you could give me some kind of a line that you could mail tomorrow afternoon....

L: Yes.

HMJr:and then my county - assistant county agent is coming down Saturday....

L: I see.

HMJr:the man in charge of the fruit....

L: Yes.

HMJr:and they had some kind of a meeting Wednesday night to talk it over with the....

L: Yes.

HMJr:orchard people, and I'd know Saturday what the local situation is....

L: I see.

HMJr:and how much they want in southern Dutchess. Now in northern Dutchess they're running a very successful thing with Brooklyn College, with girls....

L: Yes, girls.

- 8 -

HMJr: Girls. And they're feeding them out of the cafeteria of the Central High School.

L: They're what?

HMJr: They're feeding them out of the cafeteria of the Central High School there....

L: How excellent.

HMJr:and they've worked that out, and it's been a great success.

L: Oh, that's wonderful. You know I'm going to have the opportunity of seeing all of these because I'm going around the country to investigate all of these....

HMJr: Well, let's....

L:projects, either for the Volunteer National or possibly the Government.

HMJr: Well, the one at Red Hook....

L: The what?

HMJr:at Red Hook, the girls up there - that's been a great success.

L: At Red Hook. Well, I must go and see that.

HMJr: Yes.

L: By the way, I was going to write to you and say that if when I'm touring the country I can be of any service, I'm a very good speaker.

HMJr: Good.

L: I mean to you.

HMJr: Fine.

L: So maybe I could hook up with it.

HMJr: Fine.

- 9 -

L: Anyway the - then I'll do my best right this minute, and I think I can do something.

HMJr: Thank you.

L: Okay, sir. I'll let you hear then - oh you - I'll hear from you on Monday and I'll let you know if possible by letter right away.

HMJr: Thank you.

L: Thanks.

HMJr: Goodbye.

June 25, 1942
4:35 p.m.

HMJr: Hello.

Operator: Mr. Henderson has gone to New York but he'll be back tomorrow morning.

HMJr: Oh. What's his General Counsel's name - Ginsberg. See if Ginsberg is there.

Operator: All right.

HMJr: And try Ginsberg first, and if Ginsberg isn't there, try Hamm.

Operator: All right.

June 25, 1942
4:37 p.m.

David
Ginsberg: Very well - well, not very well.

HMJr: Well, I'm sorry.

G: Have we done something wrong to the Treasury, too?

HMJr: No, no, no. No, you've.....

G: We've got our hands full now.

HMJr: I know you have. No, I'm calling up - (Laughs) - you boys must be sensitive over there.

G: (Laughs) We're getting so now.

HMJr: No, this is - I'm going in where angels only would fear to tread. I got into an argument with the Secretary of Agriculture on the price of pork.

G: On the price of pork.

HMJr: And other food, and then I pressed him very

- 2 -

hard, and I found - he finally admitted that there's practically no cooperation between what the Army and Navy buys and Agriculture. I mean, if something is getting out of hand or a ceiling is being pressed hard, you see; the Army and Navy might be buying pork chops or something or other, and pressing very hard on something where you people are having trouble, and I gather.....

G: You mean sort of out-bidding - bidding a little high in the market?

HMJr: Yes, or buying a great deal of one thing, you see.

G: That's right. That's it. And that means.....

HMJr: Hello.

G: Yes.

HMJr: And he didn't want to answer me, but I sort of pressed him and I found that since - that if you people are having trouble with - I'm using pork chops as an example - and you.....

G: That's your favorite.

HMJr: Hello.

G: That's - hello. Yes.

HMJr: Because it happens to be one of the things - that no one, I gather, would go to the Army and Navy and say, "Well, if you're - supposing you don't serve them pork chops seven days a week, you only serve it to them five days a week." Hello.

G: Yes.

HMJr: And if beef is a little weak, they might increase the purchases of beef and bring it up and ease off on something else. I gather that isn't being done.

- 3 -

G: That's exactly right. It is not being done.

HMJr: And therefore I was bringing it to you to Henderson with the idea that I - my reason, of course, is I'm interested that there should be as little pressure on the ceilings as possible.

G: That's right.

HMJr: And particularly on the foodstuffs.

G: That's right. That's where it's getting very bad now.

HMJr: And I had quite a time with Wickard, and finally I pressed him on this thing and he admitted that this situation is so. Now.....

G: Well, let's us try and work on the thing a little bit. I know that Wickard has been trying to do something along that line out in the country, you know, having - buy this or that because we've got a surplus and it's patriotic to eat chicken; and he's done some good with it that way.

HMJr: Well, that would help, but.....

G: I know, I know.

HMJr:I wasn't - I was thinking more of the pressure of the purchases of the Army and Navy irrespective of what the ceilings were.

G: That's right.

HMJr: And if they're not cooperating, I should think that - I don't know who does the buying, the Quartermaster General, or how it's done.....

G: That's right.

HMJr:but I'm bringing it to you; and if you can do something or cannot do something, if you would just tell me.....

G: Fine.

- 4 -

HMJr:I'd be very glad to be kept posted, because I am so interested in seeing these ceilings stay stable.

G: Fine. Well, thank you very much, Mr. Secretary, and I'll see that we get it up and get it into the works right away.

HMJr: Good. So - I'm calling as a friend.

G: Thank you. You're the first one in about a month now. Thanks so much.

HMJr: Well, don't forget the days when poor old Leon went away and he left me as your.....

G: That's right.

HMJr:Father Confessor.

G: I know. These are almost as bad as then.

HMJr: Well, I'm still here.

G: Well, thank you.

HMJr: And I'm still a friend.

G: Thanks so much, Mr. Secretary.

HMJr: Okay.

G: Good-bye.

Let in rule

June 25, 1942

HM Jr called McIntyre and told him Treas had no opening for Andrew Somers, and McIntyre suggested that HM Jr take it up with the President sometime when he sees him.

Conference of Mr. Bewley with Mr. White and Mr. Hicks in Mr. White's office June 25, 1942, 3:30 P. M.

Mr. Bewley asked first about the status of Britain's request for silver. He said that he had seen a statement in the paper that the Silver Committee had rejected the proposal. Mr. White said the suggestion had been presented to the Silver Committee, and that the members of the Committee had seemed to be interested. The following day, however, Mr. McCarren gave out the story that Mr. Bewley had seen. Mr. White said that the figure of Britain's monetary requirements of 2 1/2 million ounces per month had been given to the Committee in confidence, and that it was the Committee that had released the figure to the papers. Mr. White said the Treasury was continuing to work on the proposal and that it might be still possible to make some arrangement through the medium of the Lend-Lease Administration.

Mr. Bewley then referred to a statement he had seen in the paper that there was to be a meeting of central bankers of North and South America. He asked whether this meeting concerned the British in any way. Mr. White replied that the Rio Conference had agreed to hold a meeting on foreign funds control. The conference would be attended by the agency in each of the American governments that has control over foreign funds, Central Banks in some cases and treasuries in others. The American delegate would be Mr. Foley of the Treasury.

Mr. Bewley then read from a cable he had received from London on the negotiations with R.K.O. The cable said that R.K.O. was submitting its case to the Treasury through Allport. Allport was being told that the British Treasury must have a statement from the other companies concerned before the final decision could be reached. The cable implied that after such a letter had been received the British Treasury would be sympathetic to R.K.O.'s request. The cable also said that the British Treasury would like to know what the other companies say in their letter to the United States Treasury. Mr. White said that Mr. Patterson had asked for the letter, but that two of the companies concerned were reluctant to provide it, fearing that the letter might prejudice their own case. The industry is to have a meeting next week on the point. Mr. White said he told Patterson that he did not believe the other companies would prejudice their case by providing such a letter, since the grounds upon which the industry's case rests are different from that upon which R.K.O.'s rests. Mr. Bewley agreed. Mr. White promised to send Mr. Bewley a copy of the letter when it had been received.

Before leaving Mr. Bewley expressed his sorrow at the death of Mr. Fox.



THE UNDER SECRETARY OF THE TREASURY

WASHINGTON

June 25, 1942

TO THE SECRETARY:

You might be interested in the redemption of United States Savings Bonds by series from the beginning of the program in March, 1935. These figures are, of course, on a maturity value basis. You will note that the Series A-1935, which has been out now approximately seven years, has been redeemed to the extent of about 27.6%, or approximately 4% a year on the average. A rough estimate was made early in the program that approximately 50% of the issues would be redeemed by maturity. This, of course, was based on a normal program and not on war enthusiasm.

swB

FOR DEFENSE



UNITED STATES SAVINGS BONDS

(Maturity value)

Figures as of February 28, 1942

	Sales	Redemptions	Per cent
Series A-1935	\$ 272M	\$ 75M	27.6
Series B-1936	493	127	25.8
Series C-1937	626	140	22.4
Series C-1938	721	121	16.8
Series D-1939	1,149	132	11.5
Series D-1940	1,394	103	7.4
Series D-1941	611	21	3.4
Series E-1941	1,611	26	1.6
Series E-1942	906	<u>1/</u>	-
	\$7,783M	\$745M	9.6

1/ \$15,475 redeemed


WAR DEPARTMENT
WASHINGTON

June 25, 1942.

MEMORANDUM for Lieutenant I. J. Stephens,
Aide to the Secretary of the Treasury:

On Tuesday, June 23rd, the Secretary of the Treasury called me with regard to reports of high pressure salesmanship being used to sell War bonds and stamps to the enlisted men of the Army.

On checking, I find that the attached Confidential memorandum was dispatched to all units of the Army through the Adjutant General's Office on May 29th. I believe this will take care of the situation. If, however, the Secretary knows of any specific incident in which this policy is being violated, he will have you bring it to my attention informally, I will have an unofficial investigation made in order not to disclose the source of his information.


EUGENE L. HARRISON
Colonel, Cavalry

Aide to the Secretary of War.

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TREASURY DEPARTMENT
1942 JUN 26 AM 8 57
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WAR DEPARTMENT
The Adjutant General's Office
Washington

AG 168 Defense Bonds (5-25-42)MS-A-M

May 29, 1942.

SUBJECT: Voluntary Purchase of War Bonds and
Stamps to be Safeguarded in the Army
of the United States.

TO: The Commanding Generals,
Army Ground Forces; Army Air Forces;
Services of Supply; Eastern, Western,
and Alaska Defense Commands; Armies;
Puerto Rican, Panama Canal, and Hawaiian
Departments; Army Corps; Corps Areas;
The Commanding Officers,
All Posts, Camps, and Stations.

1. It has come to the attention of the War Department that the sale of war bonds and stamps has been placed on a competitive basis in several posts, camps and stations. Such a method of selling bonds and stamps is not approved by the War Department, and where now employed will be abandoned.

2. It is earnestly desired that all War Department installations lend enthusiastic and continuous support to the sales of war bonds and stamps, but that there be no use of high pressure salesmanship in the sale of bonds and stamps to military personnel.

3. The War Department is confident that the amount of war bonds and stamps which will be purchased by military personnel, through strictly voluntary subscriptions, will reflect great credit on the Army of the United States.

By order of the Secretary of War:

COPIES FURNISHED:

The Inspector General;
The Provost Marshal General;
The Chiefs of Supply Services;
The Divisions of the War Department
General Staff.

J. A. H. Lioy
Major General,
The Adjutant General.

RECEIVED
JUN 26 1942
TREASURY DEPARTMENT
57
ASST. ADJ. GEN.
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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 25, 1942

TO The Secretary
FROM Mr. Gamble

The information from Mr. Madden has not arrived as yet and may not get here before you go home. I talked with Mr. Madden again on the phone and he informed me that this information has already been mailed. I'll get it to you just as quickly as it comes in.

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✓

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE June 25, 1942

TO The Secretary
FROM Mr. Gamble

With reference to your request that we send the Victory Savings Club Kits to all of the banks in the country, please be advised that Rand McNally has agreed to supply us with a kit for each bank. The Manufacturers Trust Company will produce a broadside for us covering the details of the operation of the plan. These details will include reference to the number of new accounts which have been brought into the banks since the inception of the program. We have requested the American Bankers Association to distribute both of these items for us, together with their recommendations that banks take advantage of the idea. We expect to hear from them tomorrow.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 25, 1942

TO Secretary Morgenthau
FROM Ferdinand Kuhn, Jr.

I have looked carefully over our radio announcements scheduled for use between June 23 and July 5th. They are tough and hard hitting in all their references to the war, and there is not one line of bragging or bluffing. All the emphasis is on the hard war ahead and on the terrific effort that civilians will have to make on the home front. In addition, we are plugging hard along two lines: first, to get the people to cut down on their buying and to put their money into War Bonds instead; second, to spread the idea of our "10% Club", which is a way of popularizing and dramatizing the need for ten percent every pay day. I have the announcements for June 23 to July 5th in case you would like to see them.

You know, of course, that each of these announcements had been submitted to me and many had been sent back for rewriting before printing.

J. K.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 25, 1942

to Secretary's Files.
FROM Mr. Kuhn.

Regarding the last paragraph of the Secretary's telegram, a speech to sell bonds has been made at every meeting of the English War Heroes tour, and in some cases, as in Denver, direct selling has taken place among the audiences.

J.K.

352

WE 25 119 GR COLLEOT NT

TOWD BEACON NY MAY 30 42

1942 JUN 1 AM 9 05

HAROLD GRAVES**DELIVER MONDAY JUNE 1 OFFICE SECY TREASURY
(MR KUHN)

I AM DISAPPOINTED TO LEARN THAT MR HOFlich'S REPORT ON CANADA HAS NOT BEEN CIRCULATED GENERALLY AMONGST THE HEADS OF THE VARIOUS DIVISIONS OF YOUR STAFF I WANT TO DRAW YOUR PARTICULAR ATTENTION TO THE INTERVIEW WITH MR TURNBULL OF THE MONTREAL VICTORY LOAN CAMPAIGN WHO SAYS QUOTE HE POINTED OUT THAT THE GOAL OF ALL PUBLICITY IS TO CLOSE THE SALE AT THE TIME IN THE MINDS OF THE SPECTATORS THE ONE IMPORTANT QUESTION WITH RESPECT TO ALLPUBLICITY IS DOES IT SELL BONDS UNQUOTE

WITH THIS IN MIND I DEFINITELY WANT A SHORT SPEECH TO SELL BONDS AT EACH MEETING OF ENGLISH AVIATORS COPY OF THIS TELEGRAM TO PETER ODEGARD FERDINAND KUHN AND MRS KLOTZ

HENRY MORGENTHAU JR

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 25, 1942.

TO Secretary Morgenthau
FROM Mr. Schwarz *CS*

Cleveland's bomber fund was launched more than three months ago by the Cleveland News after a number of citizens wrote letters to the editor asking for it. The immediate response was so tremendous that the editors of the News decided to turn the program over to a Civic Committee so that the entire community could carry on the campaign as a Greater Cleveland community project.

The fund total yesterday noon was \$296,769.56, to which was being added the proceeds of a fund-closing boxing show staged in Cleveland Stadium Tuesday night.

Shortly after the bomber campaign opened the Cleveland public schools staged a patriotic program in every school in the city. Children on that day contributed without solicitation more than \$19,400 to the bomber fund. Suburban, parochial and other schools have brought the school total to more than \$25,000. Thousands of men and women working on war orders in Cleveland industrial plants have contributed a half or full day's pay to the fund, many through their unions, others through plant-wide programs. In all cases the programs were organized and carried on by the organization or plant. Individual contributions have ranged up to \$4,000. There were several for \$1,000 each. Union painters worked a day for the bomber and contributed \$22,640. Cleveland Graphite Bronze Company employees sent in more than \$10,000. Bedridden children in a city-operated tuberculosis cottage contributed \$10. Mayor Frank J. Lausche of Cleveland is General Chairman of the fund. Matthew J. Fleming, President of the Federal Reserve Bank of Cleveland, is treasurer.

-oOo-

June 25, 1942

To the Presidents of International Unions,
State Federations of Labor and City Central Bodies
of the American Federation of Labor:

On Washington's Birthday, 1942, the undersigned, in a joint radio broadcast, announced the One Billion Dollar War Bond pledge of the American Federation of Labor, which was recognized throughout the country as an outstanding feature of the United States Treasury's War Savings program and as the largest single pledge of its kind ever undertaken by a group of citizens.

In developing its campaign to make good this patriotic pledge, the American Federation of Labor has placed at the disposal of the Treasury Department all of its own organizer personnel and as many as possible of the organizers employed by its affiliated unions. Under the general direction of Frank P. Fenton, Director of Organization of the American Federation of Labor, and James L. Houghteling, Director of the National Organizations Division of the War Savings Staff, the country has been divided into four districts -- the North Atlantic States, the Southern States, the Middle Western States and the Far Western States -- and the responsibility for organizing each district has been assigned to a member of the War Savings Staff of the Treasury and a Regional representative of the American Federation of Labor.

In the North Atlantic States the War Savings Staff is represented by Gilbert E. Hyatt and the Federation by Regional Representative John J. Murphy; in the Southern States, James F. Barrett of the War Savings Staff and Regional Representative George L. Googe; in the Middle Western States, Elmer Dowell of the War Savings Staff and Regional Representative Harry E. O'Reilly; and in the Far Western States, Charles F. West, Jr.,

of the War Savings Staff and Regional Representative Daniel V. Flanagan. Messrs. Fenton, Murphy, Googe, O'Reilly and Flanagan have been sworn in as volunteer members of the Treasury Department staff. The men named above are in the midst of an intensive program of mobilizing all available organizers, representatives and local union officers affiliated with the American Federation of Labor. This is for the purpose of helping all A.F. of L. local unions to reach the twin objectives of the War Savings program of the Treasury: participation by at least 90% of all members, and allotments averaging at least 10% of all pay rolls.

We know that leaders of American Federation of Labor bodies are already deep in this great patriotic undertaking. Many A.F. of L. organizations are reporting that 100% of their members are buying War Bonds systematically and using at least 10% of their earnings for this purpose. This is one of the surest ways in which you can insure the future welfare of your members, combat the danger of ruinous inflation, and above all, help to win the war and protect the future of human freedom.

In addition to what you are already doing, we ask that you get into touch with the men named in the earlier part of this letter and that you lend them the services of your paid and volunteer organizers for this great program.

Very cordially yours,



Secretary of the Treasury

President, American Federation of Labor

FK/cgk



TREASURY DEPARTMENT

WASHINGTON

WAR SAVINGS STAFF

To the Presidents of International Unions,
State Federations of Labor and City Central Bodies
of the American Federation of Labor:

On Washington's Birthday, 1942, the undersigned, in a joint radio broadcast, announced the One Billion Dollar War Bond pledge of the American Federation of Labor, which was recognized throughout the country as an outstanding feature of the United States Treasury's War Savings Program and as the largest single pledge of its kind ever undertaken by a group of citizens.

In developing its campaign to make good this patriotic pledge, the American Federation of Labor has placed at the disposal of the Treasury Department all of its own organizer personnel and as many as possible of the organizers employed by its affiliated unions. Under the general direction of Frank P. Fenton, Director of Organization of the American Federation of Labor, and James L. Houghteling, Director of the National Organizations Division of the War Savings Staff, the country has been divided into four districts -- the North Atlantic States, the Southern States, the Middle Western States and the Far Western States -- and the responsibility for organizing each district has been assigned to a member of the War Savings Staff of the Treasury and a Regional Representative of the American Federation of Labor. In the North Atlantic States the War Savings Staff is represented by Gilbert E. Hyatt and the Federation by Regional Representative John J. Murphy; in the Southern States, James F. Barrett of the War Savings Staff and Regional Representative George L. Googe; in the Middle Western States, Elmer Dowell of the War Savings Staff and Regional Representative Harry E. O'Reilly; and in the Far Western States, Charles F. West, Jr. of the War Savings Staff and Regional Representative Daniel V. Flanagan. Messrs. Fenton, Murphy, Googe, O'Reilly and Flanagan have been sworn in as volunteer members of the Treasury Department staff. The men named above are in the midst of an intensive program of mobilizing all available organizers, representatives and local union officers affiliated with the American Federation of Labor. This is for the purpose of helping all A. F. of L. local unions to reach the twin objectives of the War Savings Program of the Treasury: participation by at least 90% of all members, and allotments averaging at least 10% of all pay rolls.

FOR DEFENSE



We know that leaders of American Federation of Labor bodies are already deep in this great patriotic undertaking. Many A. F. of L. organizations are reporting that 100% of their members are buying War Bonds systematically and using at least 10% of their earnings for this purpose. This is one of the surest ways in which you can insure the future welfare of your members, combat the danger of ruinous inflation, and above all, help to win the war and protect the future of ~~democratic freedom and justice~~ *human freedom*.

In addition to what you are already doing, we ask that you get into touch with the men named in the earlier part of this letter and that you ~~loan~~ *lend* them the services of your paid and volunteer organizers for this great program.

Very cordially yours,

Henry Morgenthau, Jr.
Secretary of the Treasury

William Green
President, American Federation of Labor

35
Mr. Kuhn

Mrs. McHugh wanted to know also
whether you have reported this to
the Secretary.

C.G.K.

Mr. Kuhn said
he told the Secy
about this.

CK

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 25, 1942

TO Mrs. McHugh
FROM Mr. Kuhn

The four newsreels were flown to England by the British Embassy. One went to the King and Queen, two for the Chief of the Air Staff, and one for the Ministry of Information. The British in Washington have cabled the Ministry of Information asking that the British War Savings authorities be invited to see the newsreel.

J.K.

June 24, 1942

Miss Keleher:

At the Group Meeting on Monday the Secretary asked Mr. Kuhn to let him know to whom the four reels of movies of the British War Heroes were distributed. These were the reels which were given to Lord Halifax.

Could you let me know whether Mr. Kuhn has reported to the Secretary on this?

Thanks.

Mrs. McHugh

June 22, 1942

FOLLOW-UP FOR THE SECRETARY:

Is the attached memo on the distribution of the copies of the movies of the War Heroes finished?

c
o
p
y

June 18, 1942

THE SECRETARY

TED R. GAMBLE

Four extra prints, making a total of five of the newsreel shots of the War Heroes, have just arrived in my office. I am turning them over to Mr. Kuhn for distribution to the proper people.

June 18,
1942.

Ted Gamble and Ferdinand Kuhn
Secretary Morgenthau

What happened to the copies of the movies of
the War heroes that I was to send to England, also the
letter I was to write to the King accompanying those news
reels?

CONFIDENTIAL
384

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	Cumulative sales by business days			
	daily sales	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
4	31,162	98,208	88,605	82,937	110.8
5	34,132	132,341	122,575	111,289	108.0
6	21,744	154,085	157,866	129,786	97.6
8	38,574	192,659	181,431	149,409	106.2
9	13,863	206,523	201,464	168,289	102.5
10	30,029	236,552	232,801	185,904	101.6
11	23,220	259,772	246,756	196,667	105.3
12	21,952	281,724	271,525	229,895	103.8
13	21,439	303,163	296,152	242,969	102.4
15	31,235	334,398	317,861	257,280	105.2
16	11,099	345,497	337,371	279,933	102.4
17	23,285	368,782	371,066	295,244	99.4
18	18,587	387,369	385,098	309,780	100.6
19	27,435	414,804	409,987	339,594	101.2
20	14,354	429,158	439,987	353,636	97.5
22	39,655	468,812	466,171	374,391	100.6
23	16,526	485,338	485,109	394,628	100.0
24	25,108	510,446	518,829	416,474	98.4

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

June 25, 1942.

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

UNITED STATES SAVINGS BONDS - 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			
	daily sales	June	May	April	June as 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
4	17,388	58,199	55,460	47,119	104.9
5	24,789	82,988	73,824	65,115	112.4
6	15,209	98,197	97,049	73,795	101.2
8	27,048	125,245	114,218	85,714	109.7
9	8,912	134,157	128,670	97,925	104.3
10	20,085	154,242	151,956	108,707	101.5
11	15,678	169,920	161,346	116,081	105.3
12	16,550	186,470	177,133	138,272	105.3
13	15,230	201,700	194,047	146,937	103.9
15	23,984	225,684	208,939	154,623	108.0
16	7,535	233,218	223,242	168,103	104.5
17	15,815	249,033	247,532	178,870	100.6
18	12,288	261,321	257,374	189,156	101.5
19	19,421	280,742	271,079	207,742	103.6
20	10,987	291,729	290,485	217,104	100.4
22	29,386	321,114	309,584	229,140	103.7
23	10,692	331,806	323,705	241,644	102.5
24	15,866	347,673	347,494	256,076	100.1

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

June 25, 1942.

Note: 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	:	Cumulative sales by business days			
	: daily	:	: June	: May	: April	: June as
	: sales	:				: percent of May
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
4	13,774		40,009	33,145	35,818	120.7
5	9,344		49,353	48,751	46,174	101.2
6	6,535		55,888	60,817	55,991	91.9
8	11,526		67,414	67,213	63,695	100.3
9	4,952		72,366	72,794	70,364	99.4
10	9,945		82,310	80,845	77,197	101.8
11	7,542		89,852	85,410	80,586	105.2
12	5,402		95,254	94,391	91,623	100.9
13	6,210		101,464	102,106	96,031	99.4
15	7,251		108,715	108,923	102,657	99.8
16	3,564		112,279	114,129	111,829	98.4
17	7,470		119,749	123,534	116,374	96.9
18	6,299		126,048	127,724	120,625	98.7
19	8,014		134,062	138,908	131,852	96.5
20	3,367		137,429	149,502	136,532	91.9
22	10,269		147,698	156,587	145,250	94.3
23	5,834		153,532	161,404	152,983	95.1
24	9,242		162,774	171,335	160,398	95.0

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

June 25, 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.

Sales of United States Savings Bonds
From June 1 through June 24, 1942
Compared with Sales Quota for Same Period
(At issue price in millions of dollars)

Date	Series E				Series F and G				Total			
	Actual Sales		Quota,	Sales	Actual Sales		Quota,	Sales	Actual Sales		Quota,	Sales
	June 1		June 1	to Date	June 1		June 1	to Date	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	\$ 14.0	69.3%	\$ 29.5	\$ 29.5	\$ 35.7	82.6%
2	8.0	27.8	32.0	86.9	7.9	17.6	23.0	76.5	15.9	45.4	55.0	82.5
3	13.0	40.8	46.4	87.9	8.6	26.2	37.9	69.1	21.6	67.0	84.3	79.5
4	17.4	58.2	63.6	91.5	13.8	40.0	51.0	78.4	31.2	98.2	114.6	85.7
5	24.8	83.0	79.6	104.3	9.3	49.4	61.7	80.1	34.1	132.3	141.3	93.6
6	15.2	98.2	93.7	104.8	6.5	55.9	69.4	80.5	21.7	154.1	163.1	94.5
8	27.0	125.2	120.0	104.3	11.5	67.4	82.2	82.0	38.6	192.7	202.2	95.3
9	8.9	134.2	132.4	101.4	5.0	72.4	89.2	81.2	13.9	206.5	221.6	93.2
10	20.1	154.2	149.6	103.1	9.9	82.3	99.6	82.6	30.0	236.6	249.2	94.9
11	15.7	169.9	170.0	99.9	7.5	89.9	108.4	82.9	23.2	259.8	278.4	93.3
12	16.5	186.5	189.0	98.7	5.4	95.3	115.4	82.6	22.0	281.7	304.4	92.5
13	15.2	201.7	205.6	98.1	6.2	101.5	120.8	84.0	21.4	303.2	326.4	92.9
15	24.0	225.7	236.5	95.4	7.3	108.7	130.9	83.0	31.2	334.4	367.4	91.0
16	7.5	233.2	251.1	92.9	3.6	112.3	137.3	81.8	11.1	345.5	388.4	89.0
17	15.8	249.0	271.3	91.8	7.5	119.7	147.8	81.0	23.3	368.8	419.1	88.0
18	12.3	261.3	295.2	88.5	6.3	126.0	157.0	80.3	18.6	387.4	452.2	85.7
19	19.4	280.7	317.4	88.4	8.0	134.1	164.6	81.5	27.4	414.8	482.0	86.1
20	11.0	291.7	336.9	86.6	3.4	137.4	170.6	80.5	14.4	429.2	507.5	84.6
22	29.4	321.1	373.0	86.1	10.3	147.7	181.9	81.2	39.7	468.8	554.9	84.5
23	10.7	331.8	390.0	85.1	5.8	153.5	189.2	81.1	16.5	485.3	579.2	83.8
24	15.9	347.7	413.5	84.1	9.2	162.8	201.3	80.9	25.1	510.4	614.8	83.0
25			441.1				212.0				653.1	
26			466.8				221.0				687.8	
27			489.2				228.0				717.2	
29			530.6				241.4				772.0	
30			550.0				250.0				800.0	

June 25, 1942.

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

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 both the daily trend during the week and the monthly trend during the month.



OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

6-25-42 ✓
368
TREASURY DEPARTMENT
WASHINGTON

MEMORANDUM for the Secretary:

Reference is made to the plan which has for its object the collection of a portion of the income tax at the source. A certain plan has been under discussion for some time and this Bureau has submitted comments in regard to its feasibility and has prepared an estimate of the administrative costs. The estimated cost is more than \$24,000,000 for the first full year. This Bureau has pointed out the many complexities involved in the plan and the difficulties that will be encountered should the plan be enacted into law.

It was observed in the morning paper of Saturday, June 20th, that Treasury representatives had, on Friday, June 19th, presented to the Ways and Means Committee of the House of Representatives a revision of the previous plan which for the first two years would be far more complex than anything heretofore discussed. This recommended change in the withholding plan came as a distinct surprise to the Bureau of Internal Revenue as the proposed revision had not been discussed with representatives of this office and we had not been given an opportunity to express an opinion concerning the feasibility of the plan. The purpose of the proposed revision is to prevent extreme hardships being imposed upon employees, stockholders and bondholders during the first year the withholding plan is in operation. The methods by which this objective would be accomplished, however, would impose hardships upon the employers and employees of the country, as well as the Bureau of Internal Revenue, which would be well-nigh insurmountable.

Briefly, the revised plan provides that during the year 1943, 10% shall be withheld from salaries and wages and from bond interest and dividends. The taxpayer would

- 2 -

be permitted to credit against his March 15, 1943, installment of 1942 taxes half of the amounts withheld at the source during January and February, 1943. Against his June 15 installment, half of the amounts withheld during March, April and May may be credited. Against his September 15 installment, half of the amounts withheld during June, July and August, 1943, may be credited. Likewise, half of the amounts withheld during September, October and November, 1943, may be credited against the taxpayer's December 15, 1943, installment. The remaining one-half of the amounts withheld during the months from January through November, 1943, plus all of the amount withheld during December, 1943, would be credited against the taxpayer's liability for 1943 payable in March, 1944.

The revised withholding plan contemplates that the employers or other withholding agents will give receipts to the individual income taxpayers involved covering the amounts withheld. The receipts with respect to credits to be taken in 1943 are presumed to accompany the tax return filed in March, 1943, and the tax bills which will be returned to the Collector in connection with the subsequent installment payments. Upon the basis of these receipts, the Collector would apparently be required to post credits in the accounts of the individuals. In order to protect the revenues of the Government, Collectors, at the present time, may take credit in their internal revenue accounts as the result of payments made by taxpayers only to the extent of the amounts disclosed on certificates of deposit issued by the Federal Reserve Banks or national bank depositories. If Collectors are authorized to give taxpayers credit on the basis of receipts issued by third parties, this would have the effect of materially weakening the accounting system which has been proved over many years. The duplicate postings imposed upon Collectors would add materially to the work. The amounts of all tax assessments are charged in the revenue accounts of the Collectors and those officials are responsible under their bonds to the United States of America for the charges made against them. In order to give Collectors credit for such unorthodox entries as would be necessary under the proposed plan, it would be necessary to arrange

- 3 -

with the General Accounting Office to accept schedules prepared on the basis of the receipts in lieu of certificates of deposit issued by depository banks. There are many other serious accounting problems as well as opportunities for dishonest practices both on the part of the taxpayers and Bureau employees.

It seems appropriate at this juncture to consider some of the difficulties that will be experienced by employers. It has been mentioned hereinbefore that the plan contemplates the individuals will submit with their returns or bills the receipts to evidence withholding applicable to 1942 tax liabilities disclosed on the returns filed in 1943. It should be mentioned at this point that when credit is taken for 50% of the amounts withheld in the 1943 return filed in 1944 additional receipts will be necessary. Thus, if an employer pays his employees on a weekly basis, it would be necessary for him to give them two receipts each pay day, or 104 receipts yearly. It would be necessary for the employees to preserve one-half of the receipts until the return is filed the following year and submit them therewith. This materially increases the heavy burden on employers over that imposed by the original withholding plan in that every employer must, under the proposed new plan, give two receipts each pay day, while under the original plan employers of eight or more were required to give receipts only once annually and employers of fewer than eight were required to give only one receipt each pay period.

In regard to the burden that would be placed upon employees, it may be stated that if a receipt is lost, destroyed or stolen, it would be incumbent upon the Collector to disallow the credit for the amount of the missing receipt when claimed by the taxpayer either in his return or in his quarterly bill. In the event 800 million receipts are issued in duplicate yearly, or 1,600,000,000 documents, it is anticipated there will be many receipts lost by the individual taxpayers and when the individuals find that they cannot receive the credit to which they are entitled, numerous complaints will be made against the Treasury Department. In

- 4 -

order to remedy these situations, it will be necessary to await the filing of the employers' information returns and exemption certificates at the end of the year or to make special investigations during the course of the year at the employers' places of business. If the employer, in the meantime, has discontinued business and left no records available (as so often happens) the employees will be placed in the position of having to make duplicate payments of that portion of their tax liability which cannot be supported by receipts.

It is possible there may be approximately three million employers affected. Many of these withholding agents are illiterate and difficulties will be experienced in impressing upon them the many intricacies of the plan. It may be said that an educational program will be ample to relieve this difficulty but it should be borne in mind that this particular plan is only in effect during a limited transitory period beginning January 1, 1943, and there will be little, if any, time for an educational program. It is likewise possible that as many as twenty million workers may be affected. Many of the workers are illiterate and it is predicted that it will be impossible to impress upon them the necessity for having two receipts covering each pay period. Many of them will not realize the importance of preserving the receipts for many months to come. Many will not understand why the 24 receipts received by them during the months of January, February and March, 1943, will be used in this fashion: Of the eight receipts received in January, four will be used in March, 1943, and four will be used in March, 1944. Of the eight receipts received in February, four will be used in March, 1943, and four in March, 1944. The complication will come in making the employees understand that of the eight receipts received in March, 1943, four will be used in June, 1943, and the remaining four in March, 1944. This same difficulty repeats itself each quarter during 1943.

As an evidence of the difficulty with which the tax-paying employee will be confronted, reference is made to the note on page 3 of the statement submitted by the Tax Advisor to the Secretary in which it is indicated that "a problem would arise for persons receiving income both

- 5 -

from sources subject to the withholding and from sources not subject to withholding." The solution given to this problem in the same paragraph is that "the taxpayer could be required to pay in cash in March, 1944, twice the difference between 5 percent of surtax net income and the credit for taxes actually withheld at source plus 1/4 of the balance of his tax liabilities." If this is to be a requirement of the law, it will seriously interfere with the objectives of the Treasury Department in its endeavor to provide a simplified tax return form.

The foregoing objections are respectfully submitted after a very hasty study of the proposed revised withholding plan. Time does not permit a more detailed study and recital of the many additional difficulties which would be encountered, not only from an accounting and administrative viewpoint but from the viewpoint of the difficulties with which the employers and employees of this country will be confronted.

This office views with grave apprehension the effect on the collection machinery if the proposed revised withholding plan is enacted into law.

This office fully appreciates the need of easing the impact of withholding in 1943 in which year returns must be filed under the higher rate structure. It is suggested as an alternative to the plan discussed that the rate of withholding for 1943 be at 5% instead of 10% since it appears that the result sought will be in that manner obtained without the serious difficulties that must otherwise be encountered.


Commissioner.

June 25, 1942

Dear Eleanor:

In reply to your letter of June 24th, notwithstanding the fact that the Committee has just knocked out joint returns, I would very much like to have Dorothy Kenyon and Rose Schneiderman meet with Mr. Randolph Paul. If they would let Mrs. Klots know what day they could come down, she will arrange the appointment.

Affectionately yours,

(Signed) Henry

Mrs. Franklin D. Roosevelt,
The White House.

*file n.m.c.
Via S. S. Agent 5:10 p.m.*

THE WHITE HOUSE
WASHINGTON

New York, N.Y.
June 24, 1942

Dear Henry:

The enclosed was left with me today by Dorothy Kenyon, a lawyer well known among women, and Rose Schneiderman, of the Women's Trade Union League.

They are primarily interested in the effect which the joint income tax will have on married people with small incomes. Miss Kenyon would like to come down and talk to the person in the Treasury who has had charge of the whole thing. If you can convince her, she will be able to help in convincing many women's organizations.

I must say that this list seems to indicate that people with low incomes suffer by entering into an obligatory joint income tax return. She feels there is nothing gained because they can file joint returns under the present law if they wish to do so.

Affectionately,



375

29 WASHINGTON SQUARE WEST
NEW YORK, NEW YORK

Dear Mrs. Klotz:

I forgot to enclose this in a letter which Mrs. Roosevelt wrote to Secretary Morgenthau. Mrs. Roosevelt wrote to the Secretary about Dorothy Kenyon, Rose Schneiderman and the joint income tax.

Please apologize to the Secretary for my inefficiency!

Very cordially yours,

Melina C. Thompson

Effect of Mandatory Joint Return on
1942 Income Tax of Married Persons
having incomes as noted, no dependents,
using the personal exemptions and rates
proposed by the Secretary of Treasury,
and without claiming any deductions.

	<u>H. Income</u>	<u>H. Tax</u>	<u>W. Income</u>	<u>W. Tax</u>	<u>2.14%</u> <u>Total</u>	<u>J.R. Income</u>	<u>J.R. Tax</u>	<u>St. Tax</u> <u>Inc.</u>
(1)	\$1,200.	\$99.	\$1,200.	\$99.	198	\$2,400.	\$219.	10.61
(2)	3,600.	685.	1,200.	99.	766	4,800.	833.	9.03
(3)	6,000.	1379.	1,800.	219.	1598	7,800.	1,769	7.90
(4)	4,000.	777.	2,500.	381.	1158	6,500.	1,348.	16.41
(5)	12,000.	3593.	1,300.	118.	3711	13,300.	3,891.	15.90
	5000		5000					2.3

Note: The percentage of penalty tax varies and may bear quite heavily on the wife. For example, in case (5) above the penalty tax on the Joint Return is only 4.9%; but the penalty tax on the wife is 15.9%, whereas, it is only 4.5% on the husband.

Effect of Mandatory Joint Return on
1942 Income Tax of Married Persons
having incomes as noted, no dependents,
using the personal exemptions and rates
proposed by the Secretary of Treasury,
and without claiming any deductions.

	<u>H. Income</u>	<u>H. Tax</u>	<u>W. Income</u>	<u>W. Tax</u>	<u>2 individuals</u> <u>Total</u>	<u>J.R. Income</u>	<u>J.R. Tax</u>	<u>Joint Tax</u> <u>Inc.</u>
(1)	\$1,200.	\$99.	\$1,200.	\$99.	198	\$2,400.	\$219.	10.61
(2)	3,600.	685.	1,200.	99.	784	4,800.	833.	9.03
(3)	6,000.	1379.	1,800.	219.	1598	7,800.	1,769	7.80
(4)	4,000.	777.	2,500.	381.	1158	6,500.	1,348.	16.41
(5)	12,000.	3593.	1,300.	118.	3711	13,300.	3,891.	15.90
	50000		50000					2.3

Note: The percentage of penalty tax varies and may bear quite heavily on the wife. For example, in case (5) above the penalty tax on the Joint Return is only 4.9%; but the penalty tax on the wife is 15.9%, whereas, it is only 4.5% on the husband.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 25, 1942

TO Secretary Morgenthau

FROM Mr. White

Subject: Excessive Department Store Inventories

I believe something ought to be done to force a gradual reduction in retail store inventories and thereby help relieve the upward pressure on prices. The Treasury Department is not, of course, the appropriate agency to carry out such a program but you might wish to have Mr. Haas study the matter further and then if warranted raise the question with Henderson, Nelson, and Eccles.

The value of department store inventories has grown enormously during the past year. On May 31, 1942, New York City department stores held inventories 86 percent larger than a year ago. For the country as a whole, department store inventories on April 30, 1942 were 57 percent higher than a year ago. While part of this increase in the value of department store inventories reflects higher prices, the greater part is simply an accumulation of larger physical stocks of goods.

The rapid growth of department store inventories began in June, 1941 and has been especially marked since January, 1942. The principal reasons for the accumulation of excessive inventories were the anticipation that prices would rise, that difficulties would be encountered in acquiring supplies, and that sales would continue to increase.

In the first four months of this year, department store sales were 22 percent above the level of the corresponding period of 1941. Recently, however, sales have begun to decline, and in May, 1942 department store sales in the New York district were 4 percent less than a year ago. This recent tendency for sales to decline has accentuated the excessive nature of the present large inventories.

The accumulation of excessive inventories unquestionably has contributed to the rise in prices. However, the gradual reduction of these inventories to their normal levels would do much to maintain the present price ceiling against the pressure of consumer expenditure.

The War Production Board is apparently planning to control inventories, but protest by retailers at each mention of the possibility has prevented action from being taken as yet.

Treasury Department
Division of Monetary Research

378

Date June 25, 1942 19

To: Secretary Morgenthau

From: Mr. White

According to present trends, Canada will end 1942 with \$350 to \$500 million of gold and U.S. dollars, as compared to roughly \$400 million at the outbreak of war.

Canada's international position is stronger today than it was in Sept. 1939. Since then Canada has sold about \$100 million of U.S. assets, but she has also repurchased \$475 million of Canadian securities from U.K. and has accumulated a \$630 million obligation against the British Government.

U.S. Government orders in Canada have roughly tripled since Jan. 1, 1942. Orders for munitions and supplies have risen from \$225 million on Jan. 1 to \$745 million on June 15, with a few large orders still pending. In addition, Metals Reserve Corporation has considerably expanded its purchase program for Canadian aluminum and has placed new contracts for three other metals.

The question arises whether these U.S. Government orders are utilizing otherwise excess capacity or whether they represent a diversion of Canadian production from U.K. and Canadian account to U.S. account.

The appended memorandum, prepared by Miss Kistler, gives the details of Canada's dollar position.

MR. WHITE
Branch 2058 - Room 214½

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 23, 1942

TO Mr. White
FROM Miss Kistler
Subject: Canada's U. S. Dollar Position

Since January 1, 1942, there have been three important developments affecting Canada's U. S. dollar position:

1. Official Canadian holdings of gold and U. S. dollars have increased by about \$70 million, January 1 - June 18, 1942, to reach a total of about \$250 million on the latter date. This rise is in sharp contrast to the drain of \$68 million forecast for this period by the Canadian Government last March.

2. The United States Government has placed \$520 million of additional orders for munitions and supplies in Canada through War Supplies, Limited, January 1 through June 15, 1942. This is twice the value of all contracts signed with War Supplies, Limited, through the close of 1941.

3. In addition, Metals Reserve Corporation has signed contracts for the delivery of zinc concentrates, mercury and cobalt, and has considerably expanded its purchasing program for Canadian aluminum.

As a consequence of these three developments, Canada's holdings of gold and U. S. dollars are expected to rise by at least another \$100 million, and possibly by as much as \$250 million, July through December 1942. If these estimates are accurate, the Canadian Government will end the year with a gold and U. S. dollar reserve of \$350 to \$500 million.

This favorable trend is expected to continue into 1943, in the absence of any unforeseen unfavorable developments and a sharp curtailment in Canadian gold production. If the trend does continue, the Canadian Government's holdings of gold and U. S. dollars will increase still further after the close of the current year.

1. Canada's holdings of gold and U. S. dollars.

During the first 5 1/2 months of 1942, funds held by the Federal Reserve Bank of New York for the account of Canada have increased over \$80 million — from \$25 million on January 1 to \$108 million on June 18.

If, as seems likely, the Canadian Government has sold no gold out of its reserves during the past six months and, if also, the decline in official Canadian balances held outside the Federal Reserve Bank of New York has

Division of Monetary
Research

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been no greater, May through June, than it was during the previous four months, then Canada has an official reserve of gold and U. S. dollars amounting to \$255 to \$260 million, as compared to \$188 million on January 1. (Official Canadian funds outside the New York Federal Reserve Bank fell \$9 million, January through April 1942.)

This \$70 million increase in the Canadian Government's U. S. dollar holdings is in sharp contrast to the Canadian-anticipated drain of \$68 million, January through June 1942. An itemized explanation of this divergence of \$140 million between the Canadian forecast and the actual change will have to wait a few weeks upon receipt of promised data from the Canadian Ministry of Finance. However, from the information at hand, we know that Canadian net imports of capital from the United States and Canadian exports of newly mined gold were both considerably higher than anticipated, while Canada's net U. S. dollar requirements for interest and dividend transfers as well as on merchandise account were lower than expected by the Canadian Government last March. On the other hand, so far as we can ascertain, United States Government payments to Canada on Hyde Park transactions, January 1 - June 18, 1942, have been about as forecast.

2. United States Government orders placed through War Supplies, Limited.

The placing of United States Government orders for munitions and supplies in Canada through War Supplies, Limited, has been greatly facilitated and accelerated since the establishment six months ago of the Joint War Production Committee. The value of contracts has risen rapidly to reach a total of \$745 million on June 15 — an increase of \$520 million since January 1 and of \$480 million since February 16, when the latest Canadian Government forecast submitted to the Treasury was made. The tremendous expansion in United States Government orders placed through War Supplies, Limited, January 1 through June 15, is shown below:

Value of U. S. Government Contracts with War Supplies, Limited

1942:	(Million—U.S.)
January 1.....	\$225
February 16.....	265
(This figure plus the ship deal of \$150 million served as the basis of the latest Canadian Government forecast)	
March 31.....	418
June 15.....	745

Division of Monetary
Research

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From various sources, it is known that the contracts signed by the United States Government since February 16 have increased the Canadian Government's expected U. S. dollar receipts for the period, July through December 1942, by at least \$75 to \$80 million above the figure used in drawing up their March forecast. This anticipated increase does not allow for the receipt of any payments from the United States Government during the remainder of 1942 on \$160 million of orders placed since March 31. In view of this fact, the Canadian Government's actual receipts of U. S. dollars on U. S. contracts with War Supplies, Limited, through December 1942 may exceed their forecast of last March by an even greater sum.

By the close of 1943 the bulk of United States Government contracts with War Supplies, Limited, will have expired and most of the payments thereon made to the Canadian Government.

In addition to the \$745 million of contracts signed by the United States Government through June 15, there are United States Government orders still pending which aggregate another \$300 million and a tank deal under discussion which may amount to as much as \$350 million. If these deals go through they will further swell Canada's U. S. dollar receipts during the next year and a half and in time, presumably be reflected in increased dollar holdings of the Canadian Government.

3. Materials contracts placed in Canada through Metals Reserve Corporation.

Metals Reserve Corporation has also considerably expanded its program for purchases of raw materials in Canada since the latest Canadian Government forecast was submitted to the Treasury. It has signed new contracts for zinc concentrates, mercury and cobalt, and has substantially expanded delivery schedules for Canadian aluminum. Deliveries under the latter are already running much higher than anticipated in February. We do not have a recent forecast of payments to be made by the United States on these contracts, but from January 1 through June 18, 1942, Canada received almost \$40 million of U. S. dollars from the Metals Reserve Corporation instead of only \$9 million as forecast in March by the Canadian Government. If this trend continues, Canada's U. S. dollar receipts on material contracts will be \$40 million to \$50 million higher, July through December 1942, than expected by the Canadian Government in March.

4. Canada's U. S. dollar prospects, exclusive of Hyde Park transactions.

The Canadian Government in March estimated that it would have a deficit of U. S. dollars, July through December 1942, aggregating \$11 million. If this forecast for the period is as wide of the mark as the companion estimates submitted for the first six months of the year, then

Division of Monetary
Research

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Canada's U. S. dollar balances at the end of 1942 will be still higher, and perhaps by as much as another \$100 to \$150 million.

5. Canada's U. S. dollar position after 1942.

The increase in United States Government orders in Canada during the past four months should be sufficient to offset the effects, during the next year or so, of any unfavorable developments which are likely to occur, including the loss of receipts from newly mined gold. Barring any catastrophic development, payments by the United States Government on orders placed in Canada should be sufficiently large to permit Canada to continue to add to its gold reserve for some time in the future.

The optimistic outlook for Canada's U. S. dollar position, coupled with the need to reach decisions soon on a few large contracts still under discussion, make it imperative for the Treasury to examine continuously and carefully Canada's U. S. dollar position. The promised quarterly revision of the Canadian forecast of Canada's U. S. dollar expenditures and receipts will be available to the Treasury in about a month. Mr. Plumptre has promised to inquire about our receiving a monthly report on Canada's actual gold and U. S. dollar holdings. It is necessary that the Treasury receive this information currently if we are to avoid a possibly embarrassing situation.

June 25, 1942

MEMORANDUM FOR THE SECRETARY

Canadian Tax Changes

Canada's Fourth Wartime Budget was presented to the Commons on June 23, 1942. This summary of the major proposals is based on information obtained by telephone and is subject to revision.

Proposed increases in the rates of the personal income tax, the corporation taxes, and the excises are estimated to yield \$378,000,000 in 1942-43. This will increase 1942-43 tax collections to \$2,050,000,000 or 52 percent of estimated expenditures.

Individual income tax

The graduated income tax rates, now ranging from 15 percent on the first \$1,000 of taxable income to 85 percent on amounts over \$500,000, have been increased to range from 30 percent on the first \$500 to 85 percent on amounts over \$100,000.

The flat rate National Defence Tax has been increased and incorporated into the regular income tax. The new rates are 7 percent, 8 percent, or 9 percent, depending on marital status and size of income of the taxpayer.

The 4 percent surtax on investment income is retained without change.

The combined maximum rate is 92 percent for married persons and 94 percent for single individuals without investment income. For those with investment income, the maximum rate is 96 percent for married persons and 98 percent for single persons. The maximum rates apply to portions of income in excess of \$100,000.

The personal exemptions have been reduced. For married persons without dependents, for example, the \$1,500 exemption is reduced to approximately \$1,150. The tax liability at selected income levels is shown in the accompanying table.

- 2 -

Compulsory savings for individuals

Part of the individual income tax is treated as compulsory savings. The maximum savings are \$800 for a single person, \$1,000 for a married person without dependents, and an additional \$100 for each dependent. (See attached table). The savings will be evidenced by non-negotiable 2 percent certificates, repayable during the first fiscal year commencing after the war.

Net life insurance premiums, repayments of principal on mortgages against owned homes, and contributions to pension or retirement funds are allowed as a deduction from compulsory savings.

Collection at source

A substantial portion of the income tax on wages and salaries will be collected at the source, beginning September 1, 1942. The corresponding taxes on income from other sources will be payable currently in quarterly instalments. The details of the plan have not been fully developed.

Excess profits tax rate

The excess profits tax rate has been increased from 75 percent to 100 percent. The minimum combined income tax and excess profits tax rate of 40 percent is retained.

Post-war credit for corporations

Twenty percent of the excess profits tax will be repaid to corporations over the first two fiscal years after the war, without restrictions on the use made of the money. The credits will be evidenced only by book account. No certificates will be issued and no interest will be paid.

Excise taxes

Important changes are proposed in indirect taxes including those on alcoholic beverages, tobacco products, soft drinks, and communications. A 30 percent manufacturers' excise tax is proposed on candy and chewing gum and a 25 percent retail sales tax on jewelry, china, clocks, and watches.

Personal income taxes payable under Canadian tax rates proposed June 23, 1942 and under rates and exemptions tentatively adopted by the Ways and Means Committee

(Includes both flat rate tax and graduated tax)

A. Single person

Taxable income	Present tax	Proposed tax - Canada 1/			U.S. tax under plan adopted by Ways & Means Committee
		Total	Tax portion	Savings portion	
\$ 700	\$ 35	\$ 40	\$ 20	\$ 20	\$ 32
1,000	87	172	92	80	84
2,000	340	601	441	160	258
5,000	1,332	2,128	1,728	400	875
50,000	28,392	35,703	34,903	800	25,316

B. Married - no children

\$ 1,500	\$ 75	\$ 217	\$ 109	\$ 108	\$ 45
2,000	175	431	231	200	132
3,000	400	884	584	300	306
5,000	1,000	1,878	1,378	500	708
50,000	26,965	34,553	33,553	1,000	24,840

C. Married - with two children

\$ 1,500	\$ 35	\$ 49	\$ 25	\$ 24	\$ -
2,000	60	215	107	108	-
3,000	215	668	334	334	162
5,000	735	1,662	1,062	600	540

1/ Everything over \$30,000 assumed to be investment income for purposes of these tables, subject to 4 percent special tax.

Roy Blough

June 25, 1942

MEMORANDUM FOR THE SECRETARY

Canadian Tax Changes

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- 2 -

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Important changes are proposed in indirect taxes including those on alcoholic beverages, tobacco products, soft drinks, and communications. A 30 percent manufacturers' excise tax is proposed on candy and chewing gum and a 25 percent retail sales tax on jewelry, china, clocks, and watches.

E-R:MA:eb
6/25/42



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(Includes both flat rate tax and graduated tax)

A. Single person

Taxable income	Present tax Canada ^{1/}	Proposed tax - Canada ^{1/}			U.S. tax under plan adopted by Ways & Means Committee
		Total	Tax portion	Savings portion	
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1,000	87	172	92	80	84
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2,000	80	215	107	108	-
3,000	215	668	334	334	162
5,000	735	1,662	1,062	600	540

^{1/} Everything over \$30,000 assumed to be investment income for purposes of these tables, subject to 4 percent special tax.

**FEDERAL RESERVE BANK
OF NEW YORK**

Fiscal Agent of the United States

June 25, 1942.

Sir:

Attention: Mr. F. Mitchell

We are pleased to enclose copy of our cable No. 20 of June 25, 1942, sent to the Central Bank of China in accordance with your telephone request, relative to the renewal of the arrangement set forth in our letter of July 14, 1937, as amended. A copy of their reply thereto is also enclosed.

Please advise us of your wishes regarding the request of the Central Bank of China for a further renewal of the arrangement.

Respectfully,

**(Sgt.) E. L. Sanford,
Manager, Foreign Department.**

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

Copy: ent; 6.26.42

COMMERCIAL CABLEGRAM

June 23, 1942

The Central Bank of China

Peking

No. 20

002 We wish to refer to arrangement to purchase yuan as fiscal agent of the United States set forth in our letter of July 14, 1937 as amended. As our obligation to purchase Yuan thereunder terminates June 30, 1942 please advise by cable if you wish further renewal which we shall be glad to submit to our Treasury.

702 Refer last sentence paragraph three our letter July 14, 1937. Instructions covering interest for period ended June 15, 1942 not received. Please advise.

FEDERAL RESERVE BANK OF NEW YORK

Copy: 10016/25/42

C O P Y**INCHING CABLEGRAM****Chungking, June 24, 1942****Federal Reserve Bank of New York****New York****#15**

**Debit Central Bank of China account Currency Reserve
Board and pay yourselves US \$70,783.63 being equivalent at
the rate of 29 1/8 and 29 1/2 of Chinese Yuan 185,176.27 and
55,552.85 respectively representing interest at 1 1/2% up to
June 15th 1942 on your account with The Central Bank of China,
Chungking, in the name of Federal Reserve Bank of New York
as fiscal agent of the United States. Details by mail.
Value June 15th 1942.**

Central Bank of China**Copy:cnk:6.26.42**

INFORMING CABLEGRAM

June 25, 1942

Shanghai, June 25, 1942

Federal Reserve Bank of New York

No. 16

Your No. 29

OUR We wish to extend 1937 agreement for further 6
months Please consult Treasury and advise

YUS Please refer to our cable No. 15.

The Central Bank of China.

Copy:ms:6/26/42

JUN 25 1942

Dear Mr. Barle:

Reference is made to your letter of May 18, 1942 (FD), regarding the proposed replacement of British coins in Liberia by American currency. I note that it is the view of the State Department that it would be highly desirable if some means could be devised for accomplishing the proposed change without involving the Government of Liberia in loss or serious expense, particularly in view of the fact that the Liberian Government has been extremely cooperative with this Government in all measures relating to the military program which United States is carrying out in Liberia.

This Department appreciates your Department's recognition of the desirability of avoiding any embarrassment to the British Government in effecting the proposed change in the Liberian currency system. Both departments are in general agreement that it is probably desirable to refrain from discussing with the British at this time the basis on which British silver coins which may accumulate in the Liberian Treasury or in the Bank of Monrovia may be converted either into sterling balances or into dollars.

The Treasury Department sees no objection to giving assurances to the Liberian Government that, as British silver coin accumulates in the Liberian Treasury or in the Bank of Monrovia in quantities beyond the financial capacity of that Government to hold, arrangements will be made from time to time to convert such accumulations of coins either into sterling balances, or into dollars at a rate of \$4 per pound sterling, in accordance with the needs of the Liberian Government and without cost to that Government. However, this Department considers it essential that the Liberian Government indicate the total amount of British coin to which these assurances will relate. Unless this is done we can envisage a situation - however unlikely its occurrence - in which,

- 2 -

should sterling depreciate further, our guarantee to purchase British coin from Liberia at the fixed rate of \$4 would tempt an inflow of such coin to Liberia from other parts of Africa for conversion into dollars at the fixed rate. In addition, it would seem desirable to be assured by the Liberian Government that neither the Liberian Treasury nor the Bank of Monrovia would profit at any time from the conversion of British coin into dollars.

As to the procedure to be followed in implementing the guarantee to the Liberian Government, we plan to have the Stabilization Fund from time to time purchase the accumulations of British coins in Liberia. There are several ways in which these coins can then be disposed of and it does not seem necessary to make detailed arrangements at this time.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable
Adolf A. Berle, Jr.,
Assistant Secretary of State.

*Photo file N.M.C.
Orig. file Thompson
cc- Dr. White*

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 27, 1942.

TO Secretary Morgenthau

FROM Mr. White *Wm*

Subject: Use of the Stabilization Fund to handle the Liberian Currency Problem.

1. Over a period of several months - most recently in Mr. Berle's letter to you of May 18 - the State Department has discussed with this Department the problem involved in substituting American for English silver coins in Liberia. This problem arises for two reasons:

(a) The Liberian Government is eager to discontinue the use of British coins and the State Department urges that, in view of Liberian cooperation with our Army, we endeavor to assist Liberia in this matter.

(b) The British are unable to supply the additional quantities of coin which are going to be necessary due to the use of Liberia as a base by our Army.

2. As American coin enters Liberian circulation in large quantities it is predicted by persons familiar with Liberian conditions that it will be preferred to British coin. It is therefore expected that British coin will accumulate in the Liberian Treasury or in the Bank of Monrovia.

The State Department wants to be able to assure the Liberian Government that arrangements will be made for the conversion of this accumulated British coin into either sterling balances or United States dollars as needed by Liberia, without cost to the Liberian Government.

3. In our opinion it is undesirable to approach the British at this time to arrange the conversion - it does not seem advisable to give the British the impression that we want to drive British coins from Liberia.

Therefore, we propose the following: (a) Authorize the State Department to give the above assurances to the Liberian Government. (b) Authorize the Stabilization Fund to acquire British coins from Liberia at a rate of \$4 per pound sterling.

The Stabilization Fund should subsequently have no difficulty in disposing of the British coins either (a) by making them available to the Army for use in North Ireland, etc., or (b) by making arrangements to sell them to the British. Inasmuch as the British have indicated that there is a shortage of coins in British territory it should not be difficult to arrange this latter.

- 2 -

The risk of loss to the Stabilization Fund in handling these conversions lies in the fact that, should sterling decline below \$4, the Fund would still be obligated to purchase the British coin from Liberia at the \$4 rate. This seems to me a rather remote risk but it is probably advisable to tell the State Department that we must know in advance the maximum amount of British coin which the Fund will be obligated to purchase. I do not think the amount should exceed the equivalent of \$1,000,000.

4. With the above in mind we have drafted the attached letter for your signature. The procedure outlined above seems to us an appropriate wartime use of the Exchange Stabilization Fund. It would not seem necessary for you to go before the Congressional committees on the matter.

*This involves a risk
of probably not more
than \$1M. It is high
diplomatic policy.
SWB
6/23*



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
FD

May 18, 1942

My dear Mr. Secretary:

Reference is made to Mr. Bell's letter of May 4, 1942 regarding the proposed replacement of British coins in Liberia by American currency and to the further conference on this matter between officers of the Departments of State and Treasury which was held on May 8, 1942.

The conference under reference was attended by Mr. Harry A. McBride who recently returned from Liberia after completing a special mission to that country as a personal representative of the President of the United States. Mr. McBride has discussed the proposed change in the monetary system of Liberia in detail with President Barclay of that country. President Barclay has expressed himself as extremely desirous of using United States currency for the circulating medium of Liberia, a project which the Liberian Government has favored for some years. At the same time President Barclay has expressed himself as being opposed to a solution of Liberia's currency difficulties which would involve any attempt to continue British coin in circulation in Liberia after substantial amounts of American coin have been introduced. The President of Liberia is convinced that the only satisfactory way in which the situation can be met is by a definite plan for the withdrawal of British currency from circulation. However, because of the extremely limited financial resources of Liberia he does not believe that his Government could afford to hold indefinitely the British coin displaced from circulation until some time in the future when it might prove feasible to convert such coin into dollars.

It is

DEFENSE The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.



It is the view of this Department that it would be highly desirable from the point of view of our international relations if some means could be devised for accomplishing the proposed change in the currency system of Liberia without involving the Government of that country in loss or what would be for Liberia serious expense. The Government of Liberia has been extremely cooperative with this Government in all measures relating to the military program which the United States is carrying out in that country. President Barclay has specifically requested the assistance of the United States in placing its currency system on a dollar basis as one of the relatively small favors being asked by Liberia in exchange for the material assistance and privileges now being accorded by Liberia to this Government.

It has occurred to this Department that the problem of converting the British coin in Liberia into dollars at relatively slight cost to the Liberian Government might be approached in either of the two following ways:

(a) This Government might ask the British Government to purchase the coin for dollars and might assure the British Government that any dollar expenditures incurred by that Government as the result of such a conversion would be taken into account when measures for maintaining British dollar balances at a satisfactory level are considered by this Government.

(b) Alternatively the Treasury Department through the Stabilization Fund or otherwise might purchase in Liberia for its own account the British coin displaced from circulation and return such coin to this country in American warships. The Treasury Department could then at some later date work out with the British Treasury the most convenient time and method of converting the coin into dollars.

With respect to the approach indicated in (a) above this Department has taken cognizance of the views expressed in the Treasury Department's letter of May 1, 1945, regarding the possibility of avoiding in any way embarrassing the British Government in effecting the proposed change in the Liberian currency system. While this Department is desirous of avoiding any embarrassment to the British Government in a matter of this kind it does not feel that a definite preference of the British for continuing British coin is

Standard Oil

circulation in Liberia, particularly in view of the inability of the British Government to supply Liberia with an adequate amount of such coin in existing circumstances, should be allowed to override the strongly expressed preference of the Liberian Government for American coin. In view of all the circumstances, however, this Department is inclined to believe that alternative (b) might be preferable both to the British Government and to the Liberian Government. It is this Department's understanding in this connection that should alternative (a) prove feasible from the point of view of the Treasury Department the conversion of the British coin into American currency could be effected at little or no cost to the Government of Liberia.

I would appreciate being advised as to the views of the Treasury Department on the foregoing suggestions.

Sincerely yours,



Adolf A. Berle, Jr.
Assistant Secretary

611.51/4316

TELEGRAM RECEIVED

LSH

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

Buenos Aires

Dated June 25, 1942

FROM

Rec'd 8:35 p.m.

Secretary of State,

Washington.

1246 June 25, 8 p.m.

Department's 909, June 19, 7 p.m.

The Central Bank is disposed to subject to blocking at once all imports of dollar currency except limited amounts brought by travelers from the United States; the exportation of United States and all other foreign currencies except by license; and the purchase and sale of dollar currency in Argentina currency by banks and exchange houses or by individuals. Prebisch, however, is now very reluctant to have the Central Bank act as the intermediary in shipments to the United States as he feels that the "prestige" of the bank would be prejudiced in cases in which releases were not made even though the bank made clear that it acted only in the capacity of an agent in the shipments.

The bank proposes that holders who wish to ship to the United States be told by us that they should make complete declarations under oath at the Embassy after which they could take the declarations to the Central Bank and obtain the export licenses. The bank stated that it would be glad to furnish the Embassy with all available pertinent information which could be transmitted to Washington. However the bank is not disposed to send to the United States itself even the holdings of banks and other institutions under its control without definite assurances that the Treasury Department would release the funds and it has been given to understand that while very sympathetic consideration would be given in these cases no definite assurances could be given. Apparently the bank prefers not to become involved in any shipments aside from granting export licenses more or less automatically upon the presentation of declarations sworn to at the Embassy because of possible criticism even though the bona fide funds involved would be facilitated thereby. Concerning the time limit for applying for export licenses the bank believes that this might be more appropriately handled by our

-2-

Government more especially as the Argentine export restrictions would apply to all foreign currencies.

In a conversation this morning when an officer of the Embassy referred to the new control of Uruguay it was pointed out that the Central Bank here does not allude to the commercial functions of the Bank of Uruguay and that this limitation would make it difficult to assume all of the control functions of the latter. As regards the turning over of all holdings the bank states that after consulting its legal advisors it considers that it does not have the power either to require this or to require a declaration of holdings and Prebisch fears that it would not be good policy and would probably not serve any materially useful purposes if holders were simply invited to declare their holdings.

ARMOUR

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YDEPARTMENT OF STATE
WASHINGTONIn reply refer to
FD 824,51/1197

June 25, 1942.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith a copy of despatch No. 42 with enclosures, dated June 8, 1942, from the American Embassy, La Paz, Bolivia, concerning press attacks on the proposed stabilization agreement between the United States and Bolivia.

Enclosure:

From Embassy, La Paz,
No. 42, June 8, 1942.

Copy:imc:6/26/42

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EMBASSY OF THE
UNITED STATES OF AMERICA

La Paz, Bolivia, June 8, 1942

No. 42

Subject: Press Attacks on Proposed Stabilization Agreement
between the United States and Bolivia.

CONFIDENTIAL (Enclosures not confidential)

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

Sir:

With reference to the proposed stabilization credit to be extended by the Treasury Department to the Bolivian Government and Banco Central, I have the honor to report that "Ultima Hora", normally quite pro-American in its news and editorial columns, came out on June 1, 1942, with a bitter and unsound attack on the United States on the ground that the form which the credit would take is not what was expected or "promised". A copy of the article which appeared under page-wide headlines on the

editorial

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editorial page, where the most important non-cable news is usually carried, is enclosed.

The article, with typical Bolivian logic, objects to the credit's being on the basis of collateral in the form of Bolivian currency, the inference being that it should be unsecured because of Bolivia's generosity in making the payment of \$1,750,000 in settlement of the Standard Oil case. With complete lack of even elementary economic knowledge, the article alleges that, if the credit takes the form indicated, it will be an "outrageous joke against good faith and confidence of Bolivia" because it will in no way add to Bolivia's foreign exchange reserves. Actually, of course, the simplest arithmetic would show that if, as is approximately the case, there are now the equivalent of \$31,000,000 circulating with \$15,000,000 in reserves the granting of a credit of \$2,000,000 would have the effect of raising the reserves to \$17,000,000 with the circulating medium increased to \$33,000,000 if a new emission of bank notes should prove necessary, i.e., that coverage would rise from 48% to at least 52% purely from the operation if extraneous factors were not brought into play by the Bolivian fiscal authorities.

The main argument in the article is that the Standard Oil payment constituted a "great drain" on the country's reserves of gold and foreign exchange and should be compensated for by the United States. It is even alleged that the Standard Oil payment was specifically based on the promise of such a loan, it being overlooked that Bolivia had signed an international document at the Rio de Janeiro Consultative Meeting by which it promised to make the Standard Oil payment without the slightest mention at the time of any stabilisation credit quid pro quo being loans up to \$15,500,000 to the proposed Bolivian Development Corporation. Actually, of course, the payment of \$1,750,000 from reserves of some \$15,500,000 could hardly be considered a "great drain" on these reserves and a "tremendous loss". Furthermore, the excess exchange which has been rolling in because of a favorable balance of trade has in the month and a half since the Standard Oil payment practically brought reserves back to where they were when it was made. In the month of May, reserves increased about \$1,100,000. This tendency will certainly continue as long as the War lasts. Bolivia is enjoying bonanza in exchange matters and a stabilisation credit is justifiable only on the grounds of political expediency, not real need.

The June 1 article in "Ultima Hora" bears all the earmarks of having been inspired by Mr. Joaquin ESPADA, the Minister of Finance, and his minion, Mr. Humberto QUENCA, the Manager of the Banco Central, who were opposed to the Standard Oil payment. Mr. Espada has done everything possible in a veiled and underhanded manner to discredit the Rio agreements signed by his rival, Dr. Eduardo ANZE MATIENZO, the Minister of Foreign Affairs, as a selling of Bolivia down the river to the United States without receiving in return as much as might have been secured. The Embassy's suspicion that the June 1 article was fostered by Mr. Espada has been confidentially confirmed by one of the editors of "Ultima Hora".

"Tierra".

- 3 -

"Tierra", another normally friendly newspaper, published a similar article on June 2, calling the proposed stabilization credit a "swindle". In addition to the fine Italian hand of Mr. Espada in these machinations, a part was undoubtedly played by the fact that the editors-in-chief of "Ultima Hora" and "Tierra" were advised some time ago by the Bolivian Foreign Office that they would be invited to the United States on a tour of journalists but have received no confirmation of this from United States sources and are consequently disappointed and somewhat piqued.

On June 2 in a conversation with me the Minister of Foreign Affairs brought up the subject of the June 1 "Ultima Hora" article and its unfortunate effect. He promised that he would take steps to remedy the bad effect which has been produced by having a rectification published. At the same time Mr. Allan DAWSON of the Embassy's staff approached the editor-in-chief of "Ultima Hora" through a friendly intermediary suggesting that the June 1 article was based on misconceptions, pointing out specifically that the proposed terms of the stabilization credit were similar to those in stabilization agreements with other countries such as Brazil and Peru and that the Treasury Department necessarily had to follow the provisions of legislation setting up the stabilization fund as well as a general policy applicable to others of the American Republics. The result of these various representations was the publication in "Ultima Hora" on June 2, 1942, of the article a translation of which is transmitted herewith as enclosure No. 2. This was published in the same place as the previous article and given equal prominence. It will be noted that, while the second article counteracts the first to a very appreciable extent, even it refers under inspiration from the Foreign Office to the "probability" that Bolivia will get special treatment in the economic and financial conditions. As has been pointed out before, any special conditions in Bolivia lie in the fact that it is relatively more prosperous than at the outbreak of the War in contrast to many of the American Republics but Bolivians naturally wish to believe the contrary.

In a conversation with President FENARANDA on June 3, 1942, he brought up the question of the proposed stabilization credit in the same sense as the Minister of Foreign Affairs. The latter in a subsequent conversation remarked that it was his own opinion that the credit could more satisfactorily be granted on the collateral of the Banco Central's \$3,000,000 of gold in New York than on the basis of purchase of bolivianos, since the latter would mean inflation. Such collateral would, of course, be much more secure than paper bolivianos. Whatever decision is finally reached on the matter, I trust that the Treasury Department will follow its intention of merely opening a line of credit for use if and when emergencies justifying such a course arise instead of actually making a loan without the need thereof being patent.

It is requested that a copy of this despatch and its enclosures be made available to Mr. Mervin L. BOHAN, Chief of the United States Economic Mission to Bolivia on his arrival in Washington.

Respectfully yours,
For the Ambassador

ALLAN DAWSON, First Secretary of Embassy

Enclosures: Two translations from "Ultima Hora"
851/891 AD/rj Original and 5 copies by courier,
824.51/1197 (COPY:MLE) Copy:inc:6/26/42

Regraded Unclassified

ENCLOSURE No. 1 to Despatch No. 42 of June 8, 1942, from
the American Embassy, La Paz, Bolivia.

Source: "Ultima Hora" of
June 1, 1942.

NEWSPAPER ARTICLE REGARDING PROPOSED STABILIZATION
ARRANGEMENT BETWEEN THE UNITED STATES AND BOLIVIA.

Partial Translation

There will be no Such Loan of Two Million Dollars
for Monetary Stability.

The Operation Would be Reduced to the Conversion of
Bolivian Currency for this Sum in Dollars, the Gold
and Foreign Exchange Reserves being Consequently
not Increased One Single Cent. If the Report is
Confirmed it Will be an Outrageous Joke Against
the Good Faith and Confidence of Bolivia, the Coun-
try Having been Deceived in order to Secure the
Delivery of the \$1,750,000 Paid to the Standard Oil.

Without any official documents having been issued, the formal and repeated offer of the United States to grant to Bolivia a LOAN of \$2,000,000 for monetary stability, i.e., a CREDIT FOR THIS SUM IN NORTH AMERICAN EXCHANGE has been expressed a hundred times in statements of the Foreign Minister, in statements of Ambassador Guachalla, in parliamentary debates, in authorized press statements, etc., which exchange would be LOANED to be repaid by the Banco Central in a reasonable period when the economic and financial conditions of the country have improved and its monetary system has been strengthened as a result of this cooperation which would be intended to inculcate greater confidence and security in our currency or for the utilization of this loan to confront future crises or emergencies which might endanger our economy.

At no time has there been any thought that the United States would give us facilities to convert our currency but, we insist, only of a LOAN, balancing thus in a measure the tremendous loss which the reserves of the Banco Central experienced with the payment of \$1,750,000 to the Standard Oil, a payment based principally on a desire for good economic and industrial relations of Bolivia with the United States.

Now, from information which has been sent to us by a compatriot in the United States, we learn that the operation has taken the form of an unusual modus operandi,

substantially

substantially different from what has been announced.

In effect, the United States would make the \$2,000,000 available to Bolivia BUT NOT AS A LOAN rather in exchange for its equivalent in Bolivian currency. In other words, it would not be a credit but a simple operation for the conversion of the boliviano which would not increase by a single cent the gold and foreign exchange reserves of our currency inasmuch as to BUY the \$2,000,000 it would be necessary to issue 90,000,000 bolivianos, the approximate equivalent of this foreign exchange, the entry of the latter into the vaults of the Banco Central being thus compensated by the super-emission destined to pay for it, the circulating medium composed of deposits and bank notes being consequently increased in equal proportion.

The backing for our currency would thus gain nothing by such a transaction, frustrating the possibility of compensating, by the announced and offered loan, the great drain on our gold reserves which the payment to the Standard Oil, BASED SPECIFICALLY ON THE PROMISE OF THIS LOAN, has represented. The fact is of such grave import that, if it is confirmed, it would mean an outrageous joke against the good faith and confidence of our country and would completely disprove the policy of economic cooperation and help which the United States says it has toward Bolivia.

Endeavoring to confirm the report, inasmuch as we have received only an unofficial version, we visited the Manager of the Banco Central this morning.

Don Humberto Cuenca told us that it was as yet impossible to say anything definite about the operation pending receipt of the text of the contract which is coming by mail but that he had received a letter from Ambassador Guachalla from a short and sketchy paragraph of which it may be presumed that the modus operandi of the operation would be in effect that stated by "Ultima Hora", i.e., not a loan of \$2,000,000 but a conversion process whereby the United States would deliver the \$2,000,000 against its equivalent in Bolivian currency. Mr. Cuenca added that he has so informed the Minister of Finance asking him to request cable clarification from Washington to dispel the justified and legitimate distrust which the question has aroused.

In a telephone conversation Don Joaquin Espada (the Minister of Finance) advised us that official but incomplete information tends to the conclusion that the version received by "Ultima Hora", i.e., that the loan has been blotted out, being reduced to a mere sale of dollars to our country, and that, in case this were so, "the operation would be inadvisable", but that

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any definite opinion would necessarily be subject to study of the contract and of the concrete stipulations contained in it about which nothing definite can be judged now since the document has not been received.

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ENCLOSURE No. 2 to Despatch No. 42 of June 8, 1942, from
the American Embassy, La Paz, Bolivia.

Source: "Ultima Hora" of
June 2, 1942.

THE SCOPE OF THE CREDIT OPERATION WITH THE UNITED
STATES FOR MONETARY STABILITY IS
CLARIFIED.

The Text of the Contract has been Received and is
now under Study. The Operation will be in Accord
with North American Banking Practice and is
Identical in its Procedure with those Already
Carried out by the United States with other
Countries of the Continent. There will be put
at the Disposition of the Banco Central a Fund of
Foreign Exchange Which will Enable it to Face any
Economic Emergency, Guaranteeing the Stability of our
Currency.

Knowing that the Government had yesterday received the text of the basic contract for the granting of the credit of \$2,000,000 which the United States will lend to our country for monetary stabilization in compliance with the fourth point of the Memorandum of August 1941 which defined the ends for which North American cooperation would be extended, we visited the Ministry of Foreign Affairs where we were informed as follows:

The text of the contract has been received and it is being studied and will be the object of careful study. From what is already known of it there is no basis for the presumption that the offer of a loan to guarantee the stability of our currency has been disavowed. It should be made clear that the negotiations which the Banco Central de Bolivia is carrying on through the intervention of the Government and official and diplomatic channels with the North American lenders to obtain a sum in dollars which will balance the drain on its reserves caused by the payment made to the Standard Oil are still in a tentative stage and consequently subject to observations, revisions and modifications; the Bank will have a margin of reserves adequate to permit it to face any future economic emergencies and above all to avoid the Black Market's being able to take advantage of the weakness of the Bank's reserves in foreign exchange to unbalance exchange and alter our monetary regime.

- 2 -

The operation, add our informants, is in accord with the banking practices of the United States and is identical in procedure with those already carried out by that nation with other Latin American countries to which loans for monetary stability have been made. Naturally, because of our special economic and financial conditions, Bolivia aspires to receive somewhat more liberal treatment which it is probable will be the case. The result will be to place at the disposal of our central banking entity a sum in foreign exchange which it will be able to use at any time to control the money market and to defend the stability of the boliviano, avoiding pernicious fluctuations in exchange rates. It will mean no increase in the circulation of currency, the transaction being an effective loan intended to back our currency with proper guarantees.

Finally our informants state that the policy of cooperation and closer relations with the United States is based on principles of loyalty and understanding and should be based on a feeling of mutual confidence. It is necessary to stress the fact that the satisfactory development of these countries is of as much interest to the Nation of the North as to ourselves and it will therefore not be niggardly in its help toward that end. The granting of credits for monetary stability is clearly provided for in the Memorandum of August 1941 and they will now be put into effect under conditions which we hope will be fully satisfactory. The country should have confidence that the present Government will always know how to defend the national interests efficiently.

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

Chungking

Dated June 25, 1942

Rec'd 8:10 p.m.

Secretary of State,
Washington.

755, June 25, 2 p.m.

FOR THE SECRETARY OF THE TREASURY FROM ADLER:

TF45. Weekly economic (Section One).

One. Retail prices Chungking May; general 4300 food 3940 (Farmers Bank January to June 1937 equals 100) or, respectively, 13 and 18% more than April. Most of increase occurred in first half of month.

Two. Sale of saving certificates to June 17 Chinese national currency dollars 62.5 million. Learn from unofficial source that sale of United States dollar backed bonds since May 1 not more than Chinese national currency dollars ten million.

Government now convinced that voluntary purchase of certificates and bonds will be insignificant and various plans to use "persuasion" being considered.

Three. Centr 1 Bank to be sole bank for issue from July 1.

Four.

-2- #755, June 25, 2 p.m., from Chungking

Four. Meeting of Chinese industrial cooperatives board of directors June 13 decided to apply for loan of Chinese national currency dollars 60 million from government and Chinese national currency dollars 40 million from banks to expand production.

(Section Two)

First national food administration conference ended June 6. Generalissimo in addressing conference stressed need for equity in collection of land tax and compulsory food purchases demanding that latter exceed former and that progressive principle be used in latter. Nevertheless, Ministry of Food plans to collect 43 million piculs (one picul equal 110 pounds) by land tax in kind in 1942-1943 - almost double last year - and 33 million piculs by compulsory purchases. Minister of Food announced application of progressive principle must await completion of land registration; compulsory purchases are to be made 30% in cash and 70% in United States dollar backed securities or rice certificates. Conference resolved that Ministry of Food should institute control of grain prices on regional and district basis.

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

Managua

Dated June 25, 1942

Rec'd 11:50 p.m.

Secretary of State,

Washington.

304, June 25, 7 p.m.

Reference Department's circular telegram of May 18, 4 p.m. and June 9, 9 p.m.

The need for and character of measures restricting the movement of dollar currency into and out of Nicaragua was discussed with the Minister of Finance June 24. The Nicaraguan Government is not only willing to cooperate in defeating the efforts of Axis countries to derive advantages from looted United States currency but has drafted and presented to the Chamber of Deputies a law designed to restrict and control the importation and exportation of United States currency. The draft legislation which is expected to be enacted during the week June 28-July 4 not only follows in general the standards and objectives contained in the Department's telegram but coordinates the new restrictions with the basic control measures in law number 77 of February 17th, 1942 which applies to those persons or firms whose names appear on the United States Proclaimed List. The principal features of the projected law are:

One The absolute prohibition of the importation and exportation of United States Currency from or to countries outside the continent.

Two The right to import and export currency of the American Republics is to be reserved exclusively for the National Bank of Nicaragua.

Three Nicaragua will restrict persons entering the country to \$200 currency and will hold excesses in the National Bank until investigated.

Four Travelers leaving Nicaragua will be limited to \$200 United States currency which can be taken only under permit from the National Bank.

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Five The Commission of Exchange will not authorize the sale of Exchange when its destination to Proclaimed List persons is suspected.

A despatch discussing the law in more detail will be sent airmail and notice of the final action on the legislation by the Chamber of Deputies will be reported promptly.

STEWART

EDA

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DEPARTMENT OF STATE

WASHINGTON

In reply refer to
FD

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses copies of telegram no. 289, dated June 25, 1942, from the American Legation, Asuncion, Paraguay, concerning United States currency movements in Paraguay.

Copies of telegram no. 238, referred to in no. 289, are also enclosed.

Enclosures:

1. From Legation, Asuncion,
no. 289, June 25, 1942.
2. From Legation, Asuncion,
no. 238, May 29, 1942.

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

Asuncion

Dated June 25, 1942

Rec'd 9:03 p.m. 26th

Secretary of State,

Washington.

289, June 25, 6 p.m.

Reference Department's circular June 22, 11 p.m.

The Bank of the Republic of Paraguay which is the only institution which can buy and sell exchange has established two buying rates for dollar notes and bills. As compared with buying rate of 317 for checks or drafts the rate for notes is 275 for bills in quantities of less than \$150 presented by an owner who in the judgement of the bank has acquired the funds legitimately. This rate applies to a restricted number of persons largely travelers from the United States who have dollars for the payment of expenses.

A second rate of 190 pesos to the dollar is paid for so-called doubtful dollars which will be accepted only after explanation of owners shipment and source of origin and in limit mentioned above. This rate directly fluctuates with open market rate in Buenos Aires for dollar bills. Bank

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will accept such bills only for deposit and will not (repeat not) make conversion payment until the bills have been forwarded to the Federal Reserve Bank and have been accepted and credited to the account of the Bank of the Republic.

Volume of trade very small probably not more than 1000 per week. Everything being done to present contraband entrance of dollar bills purchased in Buenos Aires.

The Bank of the Republic states that it would like to maintain a dollar currency reserve largely for sales to travelers going to the United States amounting to about \$15,000. When this balance is exceeded over supply will be sent to Federal Reserve Bank. Comment of Federal Reserve Bank on maintenance of this reserve by Bank of Paraguay will be appreciated.

Only comparatively large block of United States funds involved locally is that covered by Embassy's telegram dated May 29, 5 p.m. regarding sale tobacco and which funds the Treasury has agreed to accept from Bank of Paraguay. It is understood that the total amount involved is not 80,000 as originally reported but \$52,000. Bank of Paraguay plans to remit these funds by air in near future in several installments. Full details will be furnished Embassy which will in turn telegraph the Department for the information of the Federal Reserve Bank and authorities in Miami.

FROST

EMB

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EWN

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

Asuncion

Dated May 29, 1942

Rec'd. 12:47 a.m., 30th

Secretary of State,

Washington.

238, May 29, 5 p.m.

Reference Department's triple priority circular May 18, 4 p.m., regarding Treasury Department's control over importation into the United States of dollar currency and Department's circular May 27, 10 p.m. regarding regulations made effective by Brazilian Government this entire subject discussed with Paraguayan authorities and with officials of Bank of the Republic and full cooperation has been promised.

According to conditions Paraguayan decree law number 5017, dated February 10, 1941, Bank of the Republic of Paraguay is already the only institution in this country which can buy and sell foreign exchange and is likewise the sole importer and exporter of foreign currencies. The intent to the new regulations drawn up by Treasury Department that a central bank only be authorized to buy or sell American banknotes is therefore adequately covered by existing Paraguayan legislation. Furthermore, Paraguayan law under reference prohibits individuals or firms from holding foreign exchange or foreign currencies and all such must be delivered to the bank within 48 hours of realization.

I have been informally informed by the acting manager of the Bank of Paraguay that regulations comparable to those promulgated by Brazil will be made effective immediately with allowance for exchange law now in operation. The bank has requested clarification from the Treasury Department as regards a sale of Paraguayan tobacco made to the Spanish tobacco monopoly in Morocco in March for which payment in the amount of \$80,000 in currency has already been received. This is the first and only such transaction which will be permitted under these conditions. The bank before liquidating this dollar credit in Paraguayan pesos desires to know whether upon the basis of its investigations which indicates that this transaction was legitimate the Treasury Department will accept this currency from the Bank of Paraguay without prejudice. I understand that this sale was arranged during the month of March by and with the approval of the Bank of Paraguay but its consummation must, in view of recent developments, depend upon the disposition of the Treasury Department to accept

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the currency. I beg to recommend such acceptance will accordingly be appreciated if the Department can consult with Treasury officials and inform the Embassy definitely of their attitude at the earliest possible moment. The Embassy has the assurance of the Bank of Paraguay that no further transactions of this type are in the course of liquidation. It wishes on its own volition to go so far as to prohibit all commercial transactions in the future when in dollar currency is involved.

FROST

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COPY NO. 13BRITISH MOST SECRET
U.S. SECRETOPTEL No. 216

Information received up to 7 A.M., 25th June, 1942.

1. NAVAL

A naval minesweeper was sunk by aircraft off MURMANSK on 24th.

MEDITERRANEAN. One of H.M. submarines torpedoed and possibly sank a 7,000 ton ship off BENGAZI on 20th. Two Greek submarines reported sinking nine Caïques during recent patrol in the AEGEAN. Three schooners, two motor launches, two lighters, a tug and 21 other craft were lost at TORBUK, some of which may soon be used by the enemy. Submarine attacks - an 8,000 ton British vessel was sunk off MOZAMBIQUE on the 11th.

2. MILITARY

EGYPT. 23rd. There was no serious pressure on the SOLLUM defended locality though small parties of enemy were engaged along the front throughout the day, our mobile groups succeeded in keeping the enemy to the west of the frontier wire. Main enemy concentration and activity appeared to be in the area SIDI OMAR - Libyan SCHEFERZEN.

24th. In the morning the enemy was reported in some strength with tanks and a total of 3,000/4,000 M.T. in the areas southeast of SCHEFERZEN and east and south of HAMRA. The general trend of his movement was eastwards and some parties were reported moving northeast in the direction of SIDI BARHANI. Our mobile units continued to harass the enemy's flanks. Our forward troops have been withdrawn from the frontier position from which most of the stores have been successfully evacuated and effective demolitions, including water points, completed.

3. AIR OPERATIONS

WESTERN FRONT. 24th/25th. 21 aircraft were sent to attack ST. NAZAIRE locks and 10 to enemy aerodromes. All returned safely but one crashed. Weather at ST. NAZAIRE was good and the majority of aircraft attacked. About 50 enemy aircraft dropped bombs over widely scattered areas of the Midlands and Eastern Counties. 3 were destroyed and two damaged by Mosquitos and Beaufighters shot down two more.

LIBYA. Between the 22/23 and the evening of the 24th our aircraft bombed landing grounds at TMIMI and GAZALA and laid sea mines off TORBUK. On 23rd light bombers and fighter bombers attacked, with good results, enemy concentrations of M.T. in the SCHEFERZEN area and further south, fighter offensive patrols over the frontier area met no enemy aircraft. From all operations 2 of our aircraft are missing.

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4 enemy aircraft attacked our landing ground near SIDI BARRANI.

4. HOME SECURITY

24th/25th. NUNEATON. 11 persons were killed, the Canal Bank broken and about 100 houses damaged.

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 222

Following is supplementary resume of operational events covering the period 18th to 25th June.

1. NAVAL

Russian submarines are now operating in the BALTIC. Two Swedish ships have been sunk and a Danish ship torpedoed. Consequently the Swedes have reinstated coastal convoys. Projected German transport movements to the Finnish and Estonian Coast are reported delayed and all enemy shipping to GULF OF BOTHNIA and GULF OF FINLAND routed through Swedish territorial waters. Some units of the Russian Black Sea Fleet have been carrying out night bombardments of enemy positions round SEVASTOPOL. Reported Russian landing at YALTA not yet confirmed. Only one... (four missing groups) reached TRIPOLI during the week making the total tonnage arrived there during June 37,000 tons.

Submarine Warfare. Provisional figures for week ending 21st show a reduction in shipping losses. 21 ships totalling 78,000 tons were sunk by submarines. Temporary suspension of sailing from Western Gulf of Mexico ports and control of sailings from PANAMA doubtless largely accounts for this. There were fourteen attacks on U-boat and eight by surface craft. Two by each method are considered promising. 1,116 ships were convoyed of which 8 were lost from all causes. It is estimated that our aircraft sank or damaged about 40,000 tons of enemy shipping. Imports into the U.K. in convoy for the week ending 20th were 774,000 tons including 181,000 tons of oil. Total U.K. imports for May were 2,245,000 tons including 1,190,000 tons of food.

2. MILITARY

The possibilities of United Nations strategy during the next year depend not only on our own production but also with increasing directness on the future course of the Russo-German war for the forecasting of which there is little reliable evidence. The coming German offensive may succeed initially in driving the Russians back some distance, but how far it is impossible yet to estimate. It can only be said that the depth of the Russian defences suggests VORONEZH-SVOBODA-KAMENSK-River DONETS as a possible line on which it might be checked after the first impetus has been expended. The success of the German offensive will in turn perhaps prove to have been affected by the resistance offered during the past three weeks at SEVASTOPOL which has been more vigorous and successful than the Germans may have expected. The defenders have contained a force of some eight German Divisions and have not only inflicted such losses as to reduce materially the German troops subsequently available for their main attack, but also delayed its start by at least a valuable fortnight.

ASSAM and BURMA. There was no contact with the enemy. Small bodies have been reported on the CHINDWIN as far north as (2 groups missing) 3 miles north east of HOMALIN.

FAR EAST. No troop movements of particular significance were reported but the general slowing-down of Japanese activity in CENTRAL CHINA is consistent with reports that troops are to be withdrawn from that area to MANCHURIA.

3. AIR OPERATIONS

WESTERN FRONT. A Focke Wulf 190 landed intact on one of our aerodromes after a fight with Spitfires. Our night fighters shot down eight enemy bombers. Two squadrons of Typhoons operated for the first time in a fighter sweep. About nine hundred tons of bombs were dropped on EMDEN in the course of three attacks. 151 aircraft of bomber command laid 361 sea mines for the loss of one aircraft.

LIBYA. Our light bombers and fighter bombers continued intensive attacks on enemy armour, mechanical transport and ground forces in support of our own troops. At night a heavy bombing attack was made on BENGHAZI HARBOUR. Axis air activity was spasmodic. On some days few fighters were met and opposition was slight. On others, special efforts were put forward to support his ground attacks and on such occasions the number of enemy air sorties was considerable.

On 17th there was especially pronounced fighter activity which ceased after an effective surprise attack on his fighter base at GAZALA by bomb-carrying Kittyhawks.

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MEDITERRANEAN. Two enemy escorted convoys were successfully attacked by day by Beauforts with Beaufighters (2 groups missing), total of four merchant vessels, one destroyer and one escort vessel being hit. Two other large merchant vessels were hit, one being set on fire by Wellingtons at night.

4. EXTRACTS FROM PHOTOGRAPHIC AND INTELLIGENCE REPORTS ON RESULTS OF AIR ATTACKS ON ENEMY TERRITORY IN EUROPE.

COLOGNE. It (appears that the) authorities were quite unable to cope with the situation resulting from the R.A.F. big attack. Emergency feeding, first aid and evacuation measures broke down and some people had to walk over 30 miles to find lodging. S.A. and S.S. officials deserted the city under the pretext of seeking emergency accommodation for the homeless. The raids are said to have placed heavy burdens on the German war supply organisation and to have seriously deranged supplies of Ruhr coal and coke for industry.

EMDEN. Photographs 21st show damage by fire and blast to sheds and buildings in the docks area and to industrial premises in the town OSNABROCK. Photographs 20th show an area of about 9 acres devastated by fires which were still burning the day after the attack.

FRANCE. The R.A.F. locomotive hunt organised recently was very effective. On the Nord system which was already desperately short of locomotives, 50 have been put out of action.

SEA MINING. One of Germany's latest 1,200 ton minesweepers fitted with anti-magnetic mining gear was sunk by mine on May 11th.

5. OPERATIONAL AIRCRAFT BATTLE CASUALTIES

METROPOLITAN AREA. British in the air - Bombers 26, Fighters 15, Coastal 4, total 45. 1 fighter pilot is safe.

(Key: (1) Destroyed, (2) Probably destroyed, (3) Damaged.)

<u>Enemy</u>	(1)	(2)	(3)
Bombers	13	2	10
Fighters	<u>14</u>	<u>Nil</u>	<u>8</u>
TOTAL	27	2	18

MIDDLE EAST including MALTA

British in the air - Bombers 9, Fighters 24, Total 33. On the ground - Bombers 1, Fighters 2, Total 3. 1 crew and 5 pilots are safe.

<u>Enemy</u>	(1)	(2)	(3)
Bombers	8	1	4
Fighters	<u>11</u>	<u>1</u>	<u>12</u>
TOTAL	19	2	16

FAR EAST - British and Allied in the Air - Fighters 15. 4 pilots safe.

<u>Enemy</u>	(1)	(2)	(3)
Bombers	Nil	1	1
Fighters	<u>10</u>	<u>6</u>	<u>4</u>
TOTAL	10	7	5

NOTE: No account is taken of enemy aircraft destroyed on the ground in any theatres nor of British Naval aircraft casualties.

6. HOME SECURITY

Industrial damage - Pirelli Electric Cable Works EASTLEIGH 21st/22nd. Estimated civilian casualties for week ending 0600/24 - Killed 46, seriously wounded 42.

NOTE: Signal received corrupt.

Regraded Unclassified

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE June 25, 1942

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

Second Front

During the past two weeks, particular attention has been paid by German reconnaissance airplanes to the Dover and the Portsmouth-Southampton areas. (Probably preparations for invasion of Europe are going on in these areas).

(U.K. Operations Report, June 24, 1942)

Libya

The British are constructing a defense position in the Mersa Matruh area (the original British position from which Wavell started his campaign against Graziani in 1940).

(U.K. Operations Report, June 24, 1942)

Tobruk Harbor

The harbor of Tobruk can be used by cruisers, destroyers, and submarines. There are five mooring buoys for cruisers and five for destroyers. The estimated cargo capacity of the harbor is 1,200 tons daily. Unloading is principally by lighters.

(U.K. Operations Report, June 24, 1942)

R.A.F. Activity

(Although the Royal Air Force is now getting little publicity, the bombing campaign is still continuing. Recently, the R.A.F. concentrated on the port of Emden for three nights and dropped altogether more than 1,000 tons of bombs - or as much as was dropped in each of the

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spectacular attacks on Essen and Cologne).

The description of Sunday night's attack is as follows: Weather was excellent with no cloud and only slight haze. Identification was greatly helped by flares. The fires, small at first, increased as the attack developed and, finally, many large fires were seen in the southern and western parts of the town and in the docks area.

The detailed statistics of the raids follow:

<u>Night</u>	<u>Number of planes participating</u>	<u>Tons of bombs dropped</u>
June 19/20	194	(est.) 390
June 20/21	157	325
June 22/23	<u>195</u>	<u>392</u>
Totals	546	1,107

(It is to be noted that the average weight of bombs carried per bomber is now two tons, compared to one ton a year ago. Probably two-thirds of the tonnage dropped is composed of incendiary bombs. The Germans used the reverse proportion in their bombings of England. The British discovered that one ton of incendiary bombs did more damage than two tons of explosive bombs. The R.A.F. is now making use of this lesson in bombing Germany).

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NUMBER 37

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OFFICE OF STRATEGIC SERVICES

THE WAR THIS WEEK

June 18-25, 1942

Printed for the Board of Analysts

Copy No. 6

The Secretary of the Treasury

JUNE 18-25, 1942

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Office of Strategic Services

THE WAR THIS WEEK

With disconcerting suddenness Marshal Rommel's desert blitz this week developed new power, smashed the resistance of the British, captured Tobruk, and rolled on into Egypt. Some military observers expect an early and powerful Nazi drive into Egypt and are unwilling to predict where the Germans can be stopped. Simultaneously the enemy was drawing an iron ring about the critically important Russian naval base at Sevastopol, whose situation is considered grave.

Observers emphasize that Tobruk and Sevastopol would offer the Germans new advantages for a possible descent on the Near and Middle East, if they decide to turn in that direction. The recently reported German offensive in the Kharkov sector would be a logical element in such a campaign.

As the Nazis won fresh successes, Vichy moved nearer the collaborationist fold. While Pétain had recently associated himself completely with Laval, the latter has now declared publicly and in unvarnished words that he hopes for a German victory.

In the Far East the steady movement of Japanese forces into Manchuria continues to suggest an attack on Siberia, but observers disagree as to when it may come. The Japanese campaign in eastern China has slowed, but the danger of an early reduction of that area remains. Such a conquest might have far-reaching implications for the Chinese war effort, particularly if the Japanese undertook a serious economic blockade of China. Finally, a letter from Gandhi

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to the Generalissimo roundly states the present Congress position: let Britain give India freedom and India will welcome the United Nations as Allies.

Major British Reverse in Libya

The British have met in Libya a military disaster of such magnitude that it imperils Egypt, Alexandria, and the Canal, and perhaps endangers the whole Allied position in the Near East. The significant factor is less the fall of Tobruk than the very severe losses sustained by the Eighth Army in men and equipment. Some observers believe this defeat may seriously prolong the war. Its repercussions, coupled with German gains in southern Russia, must be watched not only on the military front, where an Axis drive through Egypt must be recognized as a distinct and imminent possibility, but also on the political front, where it will unquestionably affect all the watching, wavering countries from Spain to Turkey and Iran, as well as the position of the Churchill government at home.

The Military Defeat

The military disaster began with the terrifically heavy destruction of Allied armored equipment—especially in the days after June 13—in the “cauldron” area southwest of Tobruk. The British, who had earlier been forced to abandon their two outposts at Bir Hacheim and El Gazala, were now driven back on Tobruk. They were apparently still in retreat, without having had time to make full defensive preparations, when Tobruk was stormed by a concentration of Axis armored force supported by dive bombers and artillery attacking from three sides. The size of Rommel’s booty in prisoners and stores is not yet known, but the rapid British

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retreat from the whole forward area made total destruction impossible.

Rommel then lost little time in pressing on with strong armored forces to occupy the Bardia-Capuzzo line facing the Egyptian border. At latest report his advance forces are thrusting at Sidi Barrani in the north and also preparing an encircling attack to the south.

Decisive factors in the German victory were the perfected combat-team technique of German ground and air forces; the superiority of German over British tanks, particularly in fire power; the excellence of German tank recovery and maintenance service; the high quality and flexibility of Axis artillery, especially the 88-mm. anti-tank gun; the superior staff work and tactical genius of General Rommel, coupled with the hard and aggressive combat ability of his troops and officers; and the persistent British underestimation of enemy strength. The 88-mm. gun was apparently instrumental in giving Rommel the initiative. Reputedly provided with a special armor-piercing shell, and with control apparatus and rate of fire designed for fast moving targets, it was used with devastating effect both defensively and offensively to establish “tank proof” localities and batter Allied tanks.

Possible Axis Moves

It is not to be expected that Rommel will delay his main drive on Egypt long enough to allow the British to reorganize and reinforce their defenses. His plan is probably to combine a flanking sweep through the southern desert with a direct assault along the coastal strip aiming to break through around Solum and Sidi Barrani and strike directly toward Alexandria.

Rommel clearly received far greater reinforcements over the past several months and during the campaign than the

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Allies estimated. He is still believed to possess a powerful armored striking force that may number better than 300 tanks by the end of June, in addition to tanks salvaged from the British. There are indications that he has received air reinforcements, and, with a new deep-water port at Tobruk, he may be expected to get rapidly the critical supplies he needs.

In the coming campaign Rommel may possibly be aided by parachutists flown from Crete and landed behind the British defensive lines. It is believed that 8,000 would be a reasonable guess as to the number of parachutists in Crete, besides perhaps two divisions of infantry. And it is known that Germany has been stocking the whole Aegean area with aviation gasoline for some time. There is some possibility that these forces will be used for either a diverting or all-out attack on Cyprus and Syria; but the relative proximity of the Egyptian theater has caused many observers to look in this direction.

Opposing this possible Axis advance are geographical difficulties and lengthening supply lines, a strong British air force, and whatever elements of the Eighth Army were successfully withdrawn to the British defense lines, together with reinforcements which the British state have arrived and are to arrive. It may also be assumed that some forces can be transferred from the Ninth and Tenth Armies now in Syria, Iran and Iraq, though they are themselves credited with only limited strength.

British and Italian Naval Positions in the Mediterranean

The critical situation in Libya has directed attention once more to the current position of the British and Italian navies in the Mediterranean. Deputy Prime Minister Attlee has announced that in the recent convoy actions in the Medi-

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terranean, the British lost one light cruiser, four destroyers and two escort vessels, losses which he held were about equivalent to those of the enemy listed last week (*The War This Week*, June 11-18, p. 12). This underlines the weakness of the British Mediterranean position, where all ship movements can be observed by the enemy and subjected to some four days of continuous air and sea attack from bases that stretch from Sardinia to the Dodecanese. Moreover, the British have had to divide their reduced Mediterranean forces between Gibraltar and Alexandria to cover both ends of that Sea.

A new threat to Alexandria has appeared with Rommel's advance. Apart from any overland threats to Alexandria and the Canal, the Axis now controls Libyan airdromes that will make possible continuous fighter-supported bombings of the British naval base.

However, the losses and damage sustained by the Italian fleet, especially its heavier units, have been so severe that there is probably little danger of Italy's using her central position to inflict a decisive blow on either of the British forces. Of the six battleships with which Italy entered the war, it is believed that only one (of the old *Cavour* class) is now available for operations, with the other five undergoing more or less extensive repairs. The two battleships listed as under construction—the *Roma* and *Impero*—are reported nowhere near completion. Of the eight heavy cruisers with which Italy began the war, five and probably six have been sunk, and the other two are believed to be damaged. Of a total of sixteen light cruisers, four have been sunk, three are obsolete, and three are under repair.

In lighter ships, the Italian position is somewhat better. They are estimated to have 77 destroyers and torpedo boats (having lost 53 of an original 128) and to have 67 submarines (having lost about half of their original flotilla). The Italians

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also have at least 84 MAS boats (MTB's) in operation, and may have more.

A basic weakness of the Italian fleet is its lack of carrier strength, which means that it is in general limited to operations within the range of land-based planes.

Expected Repercussions Among the Mediterranean Peoples

The simultaneous Axis advances in Libya and southern Russia can be expected to cause general restiveness in the Near East, and a sharp decline in Britain's waning prestige, according to one close observer. Egypt's government may continue to stay out of actual war, but the Egyptian people have become alarmed, and the British may be obliged to undertake an embarrassingly large amount of police work to maintain order amidst a jittery population.

Rumblings and possible eruptions may follow all through the Arab world, long restive under British control and newly fearful of Zionism. If the Allied position progressively deteriorates, there may be trouble in Iraq and Iran, now dangerously poised in enforced adherence to the Allied cause. Turkey lies between the Axis drives. She realizes that she may be enveloped as Sweden is, but she wants to keep out of the war and do so with dignity. Concessions may have to be made, but Turkey will try not to gamble her independence, our observer feels.

Among the larger nations of the western Mediterranean the repercussions of Tobruk cannot yet be gauged, but the effect on Italian morale is said to be one of sheer exaltation, strengthening the pro-Axis elements in that country. A further extension of Axis success would undoubtedly influence the course of French and Spanish policy, perhaps along the lines indicated by press reports stating that Hitler has asked Vichy to turn over a million tons of French shipping now in the Mediterranean.

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The London Press and the Fall of Tobruk

In the London press there is no attempt to minimize the defeat suffered in the fall of Tobruk. Almost without exception it is admitted that the Germans not only had better equipment, but also that they were better led. As the *Daily Herald* puts it, "We have been outweaponed and outwitted." The general estimate of Rommel's performance is succinctly put in the *London Times*, "Consummate leadership."

In assigning the blame the London press is almost unanimous in charging it to bad management. This is equally true of radical papers like the *Daily Herald* and of ultra conservative organs like the *Daily Telegraph*. "Either there are dangerous weaknesses in our intelligence services or else those who are directing the military effort persist even to this day in underestimating the enemy" (*Daily Herald*). "Events declare that there has been something very wrong in the Middle East operations, and the cabinet must recognize the necessity to set it right without delay, however drastic and comprehensive the measures required" (*Daily Telegraph*). The *Evening News* is perhaps the most bitter in its reaction. "Parliament will fail in its duty if it does not probe this new inglorious failure to its source. . . . There are few people, very few, who delude themselves today that we are winning the war or that we have any apparent prospect of winning it in our present form."

Political Repercussions in London

As to the political consequences of the defeat in England, there is a unanimous demand by the London press for an immediate investigation with the disposition either expressed or implied to attach much of the blame to Churchill himself. The news indicates that Mr. Churchill has been notified that

his presence is urgently needed in London and that a group of M. P.'s led by Sir John Wardlaw-Milne (who has heretofore been rather outspoken in his criticism of the government) intends to propose a resolution in the House of Commons "admiring the conduct of British troops but disclaiming all confidence in the military direction of the war." A still later report, however, predicted that not more than 25 or 30 votes could be mustered in the House of Commons in support of a vote of lack of confidence. It is further indicated that Cripps and Eden, Churchill's only possible successors, are both standing loyally in support of him. Latest press reports indicate that Churchill intends to offer a full explanation to the House on his return and then demand a vote of confidence.

Zero Hour at Sevastopol

As the German communiqués each day have reported the capture of new defensive works—without explicit Soviet denial—it has become apparent that the naval fortress of Sevastopol is in dire peril. To the south of the city, however, the Nazis are probably still far from the harbor itself. The line of battle may run from Balaklava north along the Chernaya (or perhaps along the range of hills to the west of the Chernaya) to Inkermann, which is doubtless in German hands. In the sector south and west of Sevastopol, the Nazi troops are apparently attempting the capture of "a dominating height"—identified by one press report as Mt. Sapoun. The Russians for their part, according to reports from Bern, have landed marine detachments on the southern Crimean coast in the rear of the besieging forces.

North of the city, the Germans have announced the reduction of all the Soviet forts along the Severnaia Bight. Despite some doubt as to the exact whereabouts of the Stalin,

Gorki, and Molotov forts claimed by the Germans, the Soviet admission that a "wedge" had been driven into their lines gives an indication of the perilous situation in this sector. It seems likely that the attacking troops—identified by the Russians as at least five German and two Rumanian divisions—will soon be in control of the whole northern shore of Sevastopol harbor.

After Sevastopol What?

The imminent fall of Sevastopol, coupled with the capture of Tobruk, has occasioned renewed speculation on the possibilities of coordinated Axis offensives in the Near East and southern Russia. Specifically, the German successes in the Crimea have drawn attention once again to the possibilities of an all-out offensive from the Ukraine to the Caspian Sea. From Stockholm, for instance, comes the report (ostensibly from a Swedish general staff source) that Hitler has transferred his GHQ train to the vicinity of Kiev—with the implication that a big push in southern Russia is not far off.

Other commentators, in view of the fact that the Fuehrer has let June 22 pass without any dramatic announcement of a large scale offensive, point out that there may never be a general attack launched with press and radio fanfare. In the opinion of an American military observer, the Nazi seizure of the Kerch peninsula, the counter-attack around Kharkov, and the assault on Sevastopol may be preparatory actions which can merge imperceptibly into two wide-sweeping offensives—one from the Kharkov sector and one from the Kerch peninsula—directed toward the Volga. The German general staff, this observer points out, may have no cut-and-dried plan, but may simply be intending to take advantage of strategic opportunities as they arise—with the ultimate aim of denying the Grozny and Maikop oil fields to

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the Russian armies, of cutting the railway and pipe line which carry Baku oil north, of seizing the naval base of Novorossiisk and the oil pipe line terminus at Tuapsi, and of separating the Soviet forces guarding the Caucasus from the bulk of the Russian army.

The Political Front

In the face of the menace to Sevastopol President Kalinin has sounded an optimistic note and declared that the German army is no longer capable of a general attack along the whole front and can hope only for local successes. In soberer vein, Ambassador Litvinov has renewed his plea for a second front—bluntly pointing out that “when the initiative was in the hands of the Red Army, when the German troops were weakened and demoralized . . . this moment was allowed to slip”. Finally, in a long but singularly noncommittal address before the Supreme Soviet of the U. S. S. R., Foreign Minister Molotov has presented for ratification the Anglo-Soviet treaty and the lend-lease agreement with the United States.

Despatches from Kuibyshev suggest that the Russian press reception of the two agreements has been unprecedentedly warm—with emphasis on the yet untried war potential of the United States, and an implicit assumption that the Allies will establish a second front in 1942. Furthermore, Foreign Minister Molotov, according to a British observer, has been “a new man” since his return from London and Washington. Molotov’s trip has apparently opened his eyes to the friendly sentiments of his Allies and has done much to dispel the distrust of foreigners that diplomatic isolation and a lack of foreign travel have created in Soviet high places. Similarly, our observer asserts, the Red Army has inaugurated a new policy of keeping British military representatives in Russia informed on current operations.

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The Finns meanwhile are reported from Helsinki as inexpressibly relieved that the coincidence of Molotov’s visit to America and Hitler’s trip to Finland has not caused a crisis in Finnish relations with the United States. The Finns’ first reaction was one of dismay at the vague wording of Russia’s renunciation of territorial ambitions in her treaty with Britain. Yet on second thought many Finns appear grateful to the United States for what they regard as a last-minute intervention in their favor. As for Britain, however, the Finns still regard with suspicion a nation which they believe would be willing to sacrifice Finland to the strategic necessities of her Russian ally.

Murmansk Again

So far as military operations are concerned, the Finns—although deeply gratified by Hitler’s surprise visit and the tribute paid by him to Marshal Mannerheim and the Finnish army in general—continue to protest that they will take no offensive action this summer. According to a source ostensibly close to the Finnish general staff (and hence under the suspicion of being Nazi-inspired), the Germans themselves prefer that Finland should concentrate on maintaining her tottering economy this summer rather than that she should engage in exhausting military operations. Nor will the Nazi troops in northern Finland (in view of their inexperience in forest warfare) attempt an attack on the Murmansk railroad; they are simply standing guard against an Anglo-American invasion. In the opinion of many Germans, our observer concludes, the best way to cut the northern supply route to Russia would be by an attack from south of Leningrad straight east to Vologda—thereby interdicting the railway from Archangel to Moscow.

Laval Calls for a German Victory.

Following recent Nazi military successes, Laval has now expressed publicly his hope of German victory and has called on French skilled labor to volunteer for work in the Reich. In two recent speeches, in which he claimed to be speaking for Pétain as well, Laval is reported to have said that France was wrong to have made war, and wrong not to have organized a peace of understanding following the armistice. He held out to French labor the prospects of good working conditions, of helping the fight against Bolshevism, of freeing French prisoners. It appears that many strings are still attached to the latter hope, however, and if healthy prisoners are freed, it may only be for a short leave after which they will return to Germany as "free workers". If there is a real exchange, Germany will get men skilled in metallurgical trades, while sending back the sick and despondent and perhaps some agricultural labor. The return of farm labor would be in accord with the German policy of reducing the rest of Europe to agricultural dependencies of an industrialized Reich.

On top of these pro-German utterances, it is reported that Vichy has secured Nazi permission to recruit a division for the "protection" of France, to manufacture 100 tanks over an extended period, and to produce munitions for Dakar. Darlan is also said to have ordered the removal of arms to Senegal, to keep them out of pro-Ally French hands. From Martinique come reports of continued vacillation in the fulfillment of obligations contracted by the local and Vichy officials.

French and Spanish Moroccan Preparations

In French Morocco, where the Nazis are said to be directing defensive preparations, the press has taken a consistently

more pro-Axis line since the return of Laval. Next door in the Spanish zone there are indications of Spanish preparations for some possible future action against French Morocco, despite General Orgaz's repeated professions of wanting only peace and neutrality. There is said to be no reason to expect any rash step at once, but future plans may well be influenced by the war in Egypt, and by Suñer's current visit to Italy, during which he is seeing both Mussolini and the Pope. There is also a persistent but unconfirmed rumor indicating the existence of a German-Spanish accord by which Spain would be obliged to oppose to the limit an Allied attack on North Africa.

De Gaullist Suspicions

While Nazi influence is growing in Vichy and in Morocco, there are reports of continued bickerings and suspicions in the de Gaullist camp. Chagrined by his apparent isolation from the United Nations' solution of the problem of Madagascar and Martinique, General de Gaulle has warned his headquarters at Brazzaville of possible future moves by the Allies against parts of the French empire, and was reported to be only partially appeased by British assurances. Meanwhile, the gallant stand of Free French troops at Bir Hacheim has apparently forced Vichy to adopt a more lenient attitude towards Free French soldiers, while contrasting their courage with the "desertion of these Frenchmen by the British" and the "cowardly action" of the de Gaullist leaders.

Statistical Footnote to the British Air Offensive

After the month's impressive beginnings at Cologne and Essen, the British air offensive—an experiment of some moment in the affairs of the United Nations—has proceeded

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on a less spectacular plane. A statistical analysis by the Economics Division of the Office of Strategic Services yields some results of interest on the day-to-day bombings over a period of months, with some comparisons as well with the mass attacks.

For one thing, there is no reason to believe—as is popularly supposed—that the number of planes lost is proportionately less as the scale of operations increases. In night bomber operations for the period March 1 to June 7, the losses averaged about 4 percent, with considerable individual variations but with no indication that large scale attacks were any less costly in the percentage of casualties than small scale operations. The most important factors determining variations were weather, distance, and the opposition encountered. There was no correlation between the number of planes on a mission and their ability to locate the primary target. An average of about 72 percent of the planes despatched reached the target, and here again weather was undoubtedly the most important factor.

In the Cologne and Essen raids more than 1,000 aircraft were used each night, but for the period March 1 to May 24, the average was 147 per night of bomber activity. The ratio of high explosives to incendiary bombs dropped varied widely in different raids, although statistical analysis confirms previous reports that the Cologne-Essen raids were unusual in this respect. For the whole period, the ratio between incendiaries and high explosives was roughly 1 to 2. At Cologne the ratio was about 2 to 1, and at Essen, 1 to 1.

Continuing Preparations in Manchuria

Although the Far East has become—momentarily at least—a relatively quiet theater of the war, there is no lack of evidence of preparation for renewed action. Reports now

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indicate that the Japanese have despatched to Manchuria during the past month three divisions from Japan and two from North China. Of the numerous reserve units in Japan, six divisions are now ready for combat, but ten more will be fully trained by the beginning of August.

On the occasion of "informal wars" with the Russians during the past decade, the Japanese were so badly beaten that some observers believe that they will not dare to attack until they attain a numerical superiority of two to one. Although their superiority in numbers and in quality of units is already substantial, they are still far from reaching the above ratio. The weather is more favorable to military operations toward the end of the summer—a further incentive to postponement of the campaign, which military observers quite generally believe will begin some time this summer.

Some observers believe that Japan may want to have 2,000 operational planes available before precipitating war with Russia. The Japanese have made notable shifts of planes to Manchuria and Japan from the south in recent weeks. The Japanese have concentrated ground forces in Manchuria primarily opposite the Maritime Province (chiefly against Vladivostok) and secondarily in the region south of Khabarovsk. Forces on the northern and western frontiers of Manchuria are believed to be very light.

The Japanese in the Aleutians

The object of the Japanese in occupying the westernmost of the Aleutian Islands is not yet clear, but may be more far-reaching than merely to screen an attack on Siberia. Some observers believe that the Japanese may plan to occupy the Aleutians one after another in small hops with the help of land-based and carrier-based fighter planes. Finally, by occupying Dutch Harbor, they could seriously threaten Alaska

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and its communications. In this connection, it is reported that the Japanese are already preparing a field for land-based fighter planes on the island of Kiska. The distance from Kiska to Dutch Harbor is about 700 miles.

It has also been suggested that as a secondary motive in occupying the western Aleutians, the Japanese may seek to protect the vital Japanese fishing grounds off the eastern shore of the Kamchatka peninsula.

Checkmate in China

Japanese operations in China have declined notably in intensity, and the Chinese themselves are claiming the principal successes. The Japanese drives east from Nanchang and west from Chekiang have still to close the pincers on the 46-mile gap along the Chekiang-Kiangsi railway between Kuei-chi and Shang-jao. Chinese guerrillas are harassing Japanese communication lines both in Chekiang and Kiangsi.

Although the influential Chungking newspaper, *Ta Kung Pao*, has virtually conceded the loss of Chekiang and east Kiangsi, it has called on the army to hold firm on a new north-south line through Nanchang in Kiangsi, 300 miles from the coast. The loss of Chekiang alone may have very serious implications for the Chinese economy, since it is the source of much of the salt consumed in the interior provinces of Anhwei, Hunan, and Kiangsi itself (see Appendix II). Further incursions westward toward Hunan, according to *Ta Kung Pao*, would seriously endanger important sources of national defense minerals.

Skirmishes have continued in Hupeh, Honan, and Kwangtung, with no further news of important action either in Yunnan or at Pao-t'ou in Suiyuan. Monsoon rains in Yunnan are reported to have become torrential. At Chung-

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king, Dr. T. F. Tsiang, American educated minister without portfolio and former ambassador to Russia, said that there still is no indication of an "all-out knock-out blow against China."

Deadlock on Supplies Via Russia

Russian desires to avoid offending Japan are cited by the Chinese counsellor at Kuibyshev as one reason for a current deadlock in negotiations to supply the Chinese over routes from Russia. The Russians, according to this source, refuse to give China gasoline in exchange for tin until China fulfills earlier promises to send wolfram and tin to the Soviets. The Chinese maintain that the original agreement was made with sea transport in view, and now nothing can be done about shipment until gasoline and spare parts are received. The Russians nevertheless have indicated their desire to continue the discussions, it is said.

Chinese Leadership in Post-War Asia

Chinese self-confidence, which mounted discernibly with the fall of Singapore and has apparently increased with each new adversity of the colonial powers in the Far East, now is beginning to project itself into the future. Sun Fo, president of the Legislative Yuan, who frequently is allowed to express opinions which correspond with the general trend of Chinese thinking but are too delicate for more "official" statement, has declared that India, Burma, and Indochina will all be free when the war is over. Wu T'ieh-ch'eng, secretary-general of the Kuomintang, has expressed the same sentiments about Burma. Both statements, according to a highly placed American observer at Chungking, reflect the attitude of many Chinese leaders, now certain that their country will lead Asia after the war.

These indications of Chinese leadership to counter the imperialistic designs of Japan are neither new nor illogical in the light of Chinese history. Prior to the modern period there were under the Chinese Empire two chief patterns of relationship between Chinese and non-Chinese territories. The first, no different from other colonial imperialisms, consisted of direct political control and economic exploitation. Turkestan, some parts of Mongolia, and even those sections of China's western provinces which were inhabited by the various non-Chinese tribes-people, are instances. The second general relationship was that of suzerain and tributary. It consisted of the Chinese emperor's claim to suzerainty over lesser states on China's periphery, based largely on the position of China as the center of culture and acknowledged by the sending of tribute in connection with trade. Korea, Liu-ch'iu (Ryukyu), Annam, Siam, Burma, Laos, and Sulu were all in the official lists of tributaries of the Manchu dynasty.

Persistence of the "Imperialist" Tradition

These historical relationships have not been forgotten in modern China and have undoubtedly impeded China's entry into the western comity of equal states. Chinese maps of Asia—especially school textbook maps—often include brief explanations of the date when territory of some former colonial appendage was ceded to a foreign power or when some former tributary was "lost" by foreign occupation. The Chinese are politically as much aware of these historical relationships as they are of Manchuria or the treaty port "concessions". Ties between China and its former tributaries in fact have been strengthened in the nineteenth and twentieth centuries by Chinese emigration.

This does not mean that the Chinese necessarily think in terms of establishing direct political control over their neighbors, according to competent observers. Chinese territorial designs are largely disclaimed, unofficially as well as officially. The Chinese see themselves rather as the "natural" future leaders in Eastern Asia, by reason of their historic culture, size, population, and geographical position.

Gandhi Writes to Chiang Kai-shek

In a letter to Generalissimo Chiang Kai-shek, Mahatma Gandhi has given a clear-cut formulation of the policy which he has gradually been maturing ever since the breakdown of the Cripps mission. The Mahatma makes the following assertions: First, he has no intention of impeding the Chinese or Indian war effort, or of abetting Japanese aggression. Second, he will do all in his power to avoid an open conflict with the British Raj, but if, in the interests of Indian independence, such a struggle becomes absolutely unavoidable, he is ready to run any risks. Third, if his country first achieves independence, a Free India will then welcome the troops of Allied nations who may desire to use southern Asia as their base of operations.

In the opinion of Shen, the Chinese high commissioner to India, the letter is nothing but a "statement of appeasement." On the other hand, Gandhi himself implies that his words may be intended as a safety valve for pent-up Indian emotions. Other observers see in them a plea for aid directed at China and the United States, or an eleventh-hour warning to the British.

The last interpretation would appear to be the most logical. According to Pandit Nehru, the majority of the Congress leaders, including himself, agree with Gandhi in demanding immediate independence for India, and following on that

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(but only after independence has become a reality) an alliance with the United Nations and an all-out military and industrial effort.

With Congress local leaders already on the alert, advices from New Delhi suggest that a meeting of the Working Committee of the Congress is scheduled for July 4. This meeting may well decide on a series of general strikes to start about the middle of July. It is believed likely that these strikes will take the form of *hartals*, involving a general shutdown of business. In the past *hartals* have often been accompanied by serious disorders. The aim of the strikes, our observers conclude, will be to raise the prestige of the Congress at the expense of Rajagopalachariar and the moderates, and to mobilize the laboring populations of India behind Gandhi's unwavering demand for immediate independence.

The Threat of Civil Disobedience

A close observer of the Indian scene points out that a concerted campaign of civil disobedience at the present time would create general confusion—crippling the Imperial field armies and facilitating Japanese aggression. The campaign might aim at boycotting courts and government-aided schools—in fact all government services—and at picketing shops selling British-made goods. Congress leaders might call for a walkout of the employees of the Indian railways, telegraphs, posts, banks, industrial plants, and all other organizations giving support to the British war effort. Meanwhile the Japanese would be sure to intensify their propaganda and to send *agents provocateurs* to create dissension between Hindus and Moslems and to provoke violent action by Imperial troops against mass civil disobedience groups. Fifth columnists, such as the followers of the Boses and others probably associated with the Axis-sponsored India convention now

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being held in Bangkok, would no doubt try to take full advantage of the situation.

It is not certain that Gandhi will be able to induce the Congress to adopt a program of mass civil disobedience. But it is not impossible that the Mahatma, following his practice in more or less analogous circumstances in the past, might engage upon a "fast to death" to compel recalcitrant Congress members to his will. If the one fasting dies in such circumstances, Hindus believe that the guilt falls upon the person whose injustice led the injured person to undertake the fast. In the past, such a fast by Gandhi has always stirred India profoundly and has always been successful. It might very well be successful now.

APPENDIX I

OIL IN THE EASTERN HEMISPHERE

The great petroleum producing regions of the world lie in the Western Hemisphere. The fields of the Eastern Hemisphere produce less than a quarter of the world's annual supply, and almost all of this comes from Russia and Asia. There, too, production is concentrated in two principal areas—in the Caucasus-Iraq-Iran triangle and in the Netherlands Indies (see map).

PETROLEUM PRODUCTION IN 1941

	Million barrels	Percent of total
Western Hemisphere.....	1,762	78
United States.....	1,404	62
Venezuela.....	223	10
Other countries.....	135	6
Eastern Hemisphere.....	488	22
Soviet Union.....	242	11
Near and Middle East.....	111	5
Greater Japan.....	79	3.5
Greater Germany.....	54	2.5
India.....	2	
World total.....	2,250	100

Possible Conquests by Germany

In the oil picture, the Caucasus-Iraq-Iran triangle is the center of current strategic interest. The loss of Caucasian oil would drastically limit the Russian war effort. The loss of Iran and Iraq would deal a heavy blow to the war effort of the United Nations. Potent reasons, therefore, impel the Germans to a conquest of this area. What the Nazis will actually elect to do is of course a matter of speculation. But both Rommel's sweep to the borders of Egypt and the impending reduction of Sevastopol have improved the German position for a possible conquest of the oil of the Near and Middle East.

The journalists have fastened our attention on the other side of this picture: the German need for oil. It is true that the acquisition of the natural oil from those fields would lift a significant strain from the German economy, occasioned by the severe civilian rationing and by the present production of synthetic and substitute fuels. But a recent and careful analysis of the German oil position

reveals that Germany is already able to achieve a somewhat precarious balance between absolutely essential requirements and available supplies (*The War This Week*, May 21-28, p. 19-20).

Effect on the United Nations

German conquest of this area would deprive the Allies of virtually all of their remaining convenient and safe sources of oil for supplying the military theaters in Russia, the Indian Ocean and large parts of Africa. American production alone would be ample in quantity for all essential needs of the United Nations, but the supply routes are long and dangerous. Moreover, exclusive dependence on American oil would mean the diversion of tankers from other important duties, and the creation of new burdens for the convoy system.

Could Germany Exploit Her Conquest?

Germany's ability to realize in the near future on the Caucasian and Near Eastern fields, if captured, is open to question. Demolition could wreck the refineries and render the fields unusable for a considerable period, and the Russians are said to have made preparations for such demolition. The Germans could of course rehabilitate demolished wells, by redrilling if necessary, but such an operation would take time and entail considerable economic effort.

So far as refineries are concerned, Axis Europe has a sufficient capacity for its needs, provided its plants are spared by air raids. Germany has removed cracking equipment from plants in Occupied France to distant points in Germany and has excess refining capacity in Rumania awaiting Russian oil.

Transport would offer special difficulties. Unless the Axis could impress into service French tankers, it would not have sufficient tanker tonnage in the Mediterranean to ship Russian oil across the Black Sea and meet its essential commercial and military requirements in that theater. In Northern Europe, Germany has a large number of idle tankers. But since the last attempt in the summer of 1941, which ended disastrously, the Germans have ceased sending tankers through the Straits of Dover.

Importance of Iran

If the Axis were successful in pushing its conquests as far as Iran, it would deprive the United Nations of one of the richest known oil fields and one of the world's largest refineries at Abadan, with storage capacity for 800,000 metric tons. From this area comes excellent aviation gasoline, of great value to Allied forces in the Near and Middle East. This refinery alone could supply Allied needs in those areas, and, with adequate rolling stock on the Trans-Iranian railroad, might be of some use to Russia.

Although Iran dominates the Near and Middle East both in the recovery and refining of petroleum, civilian consumption is low and all the fields, except in Egypt, have a relatively large exportable surplus. The Iraq field serves Palestine, with a large refinery at Haifa, and also Syria. Most Arabian petroleum goes to Bahrain Island for refining.

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NEAR AND MIDDLE EAST PETROLEUM DATA FOR 1940

[In thousands of metric tons]

Country	Crude production	Refinery capacity (Jan. 1, 1941)		Civilian consumption	Surplus crude
		Crude	Cracking		
Iran.....	10,530	16,000	7,600	1,565	8,965
Iraq.....	3,440	195	0	435	-----
Palestine.....	0	1,950	975	231	-----
Syria.....	0	0	0	99	-----
Total.....	3,440	2,145	975	765	2,675
Bahrain Is.....	957	1,620	600	102	855
Saudi Arabia.....	722	0	0	47	675
Total.....	1,679	1,620	600	149	1,530
Egypt.....	823	823	197	817	6
Grand total.....	16,472	20,588	9,272	3,296	13,176

Note applicable to peace time: Turkey has no production or refineries, covers its limited requirements across the Black Sea from Russia. Syria receives half the Iraq production by pipe-line for reexport. Some crude from Saudi Arabia goes to Iran for refining. Transport to refineries not served by pipe-lines, i. e., by boat, are: Saudi Arabian crude from port at Ras Tannura to Bahrain Island or Iran, Egyptian crude about 200 miles on Red Sea to Suez, and reexport of crude from Syria.

Japan's Exploitation of Her Conquests

In the Far East, the Japanese have already occupied all important oil fields. These conquests provide Japan with productive capacity adequate to meet her requirements. Her estimated consumption in 1940 was 35 to 40 million barrels, whereas the potential productive capacity of controlled fields and synthetic plants is about 80 million.

Competent observers believe that Japan can rehabilitate enough of the captured wells to fill her needs before the exhaustion of her stocks (of unknown size). Anticipating demolition, she assembled drilling and repair equipment in Hainan before precipitating war. A high official of Dutch Shell believes that demolition was thorough in the Netherlands Indies fields of Tarakan, Balikpapan, Palembang, Brandan, and Tjepoe, which together account for about three-fourths of the petroleum. Other reports, however, indicate that the largest refinery, in the Palembang area, was not demolished. Moreover, the oil of Tarakan is of such quality that it can be used for fuel directly without refining.

Japan should experience no shipping difficulties for oil in the near future. Her economy is geared to the importation of large amounts of crude in a modern

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fleet of some 60 tankers, most of which are capable of making 10 knots. Such fast ships are difficult for submarines to stalk, and few of them have been destroyed. Furthermore, much oil from the captured fields can be used on the spot without being shipped to other theaters or to Japan for refining.

Unconquered Far Eastern Fields

A few small fields remain unconquered in the Far East. India has two, which are not sufficient to meet her own peacetime requirements. Australia has small refineries but no fields. China has a field in the northwest province of Kansu, which this year will produce only about 250,000 barrels of crude. To expand this field, China was importing 3000 tons of drilling and refining equipment through Burma, of which the Japanese captured more than a third. Finally, Siberia has a vulnerable field of poor grade in the Russian half of Sakhalin Island, which ships oil in barges up the Amur river principally to a small refinery at Khabarovsk, whose annual capacity of only about one and a half million barrels of crude is still sufficient to handle the entire Sakhalin output.

Introduction to the map

The map shows for the Near and Far East in 1941 the production of crude oil and refinery capacities for both straight run of crude oil and for cracking. With a crude of average grade, the straight run process recovers from 20 to 30 percent of gasoline, and by cracking the recovery can be increased to 40 or 50 percent.

Japan, not shown on the map, has a substantial daily refining capacity of between 65,000 and 80,000 barrels (about 25 to 30 million per year) although its largest refinery handles considerably less than ten thousand a day. Its annual production of crude oil, however, is only about three million barrels, supplemented by about a million barrels of synthetic fuel.

APPENDIX II

SALT AND SMUGGLING IN CHINA'S ECONOMY

An air-tight blockade of the Chinese coastal area which the Japanese are now attempting to conquer might break resistance and morale in the provinces of central China within three months, according to a memorandum of the Far Eastern Section of the Office of Strategic Services. Nothing in the history of Japanese occupation in China, however, would suggest that the Japanese military might now be willing to forego the illicit profits they gain by lax enforcement; and aside from graft, there are also the substantial physical difficulties involved in thoroughgoing administrative control. Officials at Tokyo nevertheless must certainly be aware of the immediate advantages of such a blockade. The Chekiang drive in any case is to be viewed not merely as a campaign to forestall the bombing of Japanese cities; it has also "economic-strategic" implications of very considerable importance.

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In the Chekiang region, salt is a factor of prime importance. Most of China's salt is produced by solar evaporation of sea water along the seaboard—wherever there are tidal flats. Chekiang is the chief source for the provinces of Anhwei, Kiangsi, and Hunan. The only inland sources are three brine-well areas in Szechwan, the salt mines in Yunnan, and salt lakes in Shansi, Shensi, and far to the west in Kansu. Production of Szechwan salt now costs about CNC \$100 a picul (about 110 pounds), compared with CNC \$15 for solar-evaporated salt (pre-war comparative costs were about CNC \$2.50 and CNC \$0.50, respectively). Szechwan produces only enough for western China. Overland transportation costs are prohibitive, due to the shortage of gasoline, oil, and spare parts. The Japanese control river transport to or from the upper Yangtze by holding Ichang (which thus becomes one of the most important strategic centers in China). If the Japanese should reduce both Chekiang and Kwangtung, and should strictly enforce the Yangtze blockade, Kiangsi and Hunan provinces would suffer a severe salt famine within two months.

Importance of Salt in the Chinese Economy

Few foreigners understand the basic and vital importance of salt in the Chinese economy. The welfare of the rural population depends in large part on the availability of salt at reasonable prices for use in curing pork, fish, and vegetables in season, and the manufacture of soybean and other universally used food sauces. The estimated annual requirements per capita are ten pounds, although since 1940 provinces far removed from sources have been rationed at six pounds per capita (small additional amounts have been secured by black-market purchases). In general, the poorer the population, the greater the demand. No province of China lacking its own sources of salt now has more than a 60 days' supply, and some have reserves for less than a month.

Both production and transportation of salt have been under government supervision for 2,500 years, with actual production and distribution largely controlled by private enterprise. The present emergency—through inflation—so reduced the purchasing power of merchants' capital that private resources were inadequate. With transportation also disorganized, the government proclaimed a state monopoly of salt on January 1, 1942. Even before this, however, the government was closely identified with, and held responsible for, the supply of salt to the people, in return for the collection of the salt tax. This has meant that not only public welfare but public confidence in the government have varied directly with the supply of salt. When salt was adulterated or scarce political unrest normally followed.

Smuggling in China

Only the continued venality of the Japanese military in China can ease the shortages of salt and other necessities. This means that China's "muck and truck" trade in smuggled goods has now assumed a vital role in her economy. The trade has indeed become increasingly important with each new extension of Japanese authority over Chinese territory and communications. Observers at Chungking estimate that manufactured consumers goods valued at roughly US

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\$120,000,000 were smuggled into Free China from or through Occupied China in 1940, and the figure was probably larger in 1941. This year, with Free China virtually isolated by land and sea from her Allies, with prices soaring and with all consumption goods (including salt) becoming critically scarce, friends of the Chinese—and Chungking as well—are hoping that illicit trade can be still further enlarged.

The chief imports in the "muck and truck" trade, as usually defined, are cotton yarns and piece goods, cotton knitted wear, dyes, pins, needles, and soap. But in the past that trade has included cars, trucks, tires, tools, gasoline and oils, and in the future it will doubtless include salt. Chungking authorities quite naturally have viewed these proceedings with mixed feelings, attempting not to halt the trade so much as to control it. Even now, when the illicit trade presumably will be almost wholly with the Japanese themselves, Chungking will probably make no serious effort to halt it, even though the official attitude calls for a boycott of Japan.

The Machinery of Smuggling

Smuggling is largely managed by graft. There are, for example, lively exchange centers at Wan-hsien and Pa-tung on the upper middle Yangtze river. Chinese hotels there have secret "travel agents" who for a fee undertake to pass travelers through the Japanese lines and deliver them safely at Hankow. Japanese-held Pao-t'ou in communist northwest China is another exchange center, where the wool, hides, and skins produced in Kansu and Shensi Provinces can reach the Japanese, in exchange for badly needed medical supplies, cotton yarn, and piece goods.

Profits are large, and with neither the provincial governments nor the central government at Chungking apparently able to limit prices, they will no doubt grow larger. Much will depend upon Japanese army morale. If, as the jibe runs, the Japanese military resented the Burma road primarily because they lost the "squeeze" on the traffic, their objectives in Chekiang and Kwangtung become more than plain. From Kwangtung's three foreign ports alone (British Hongkong, Portuguese Macao, and French Kwangchow) the 1941 monthly average of goods smuggled through the Japanese blockade is estimated to have been about 20,000 tons—more than twice the amount shipped over the Burma road. In one month imports of some 60,000 tons were reported. With its 800-mile coastline and three foreign ports, Kwangtung offered an ideal situation for smuggling foreign manufactures into China.

Advantages for Japan

Now, however, the Japanese have not only the incentive of graft, but they can dominate the trade themselves. Wolfram, formerly flown to Hongkong from Nan-haiung for export to the United States, may now be collected by puppet agents and delivered through the blockade to Japanese merchants at Canton or Hongkong. Kwangsi, Hunan, Kwangtung, and Kiangsi all have valuable mineral exports which may find their way to Japan—not altogether to the advantage of

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the Allies, but presumably necessary for the moment, if China is to avoid critical internal economic difficulties.

Were this not the case, or should the Japanese themselves suddenly decide to forego both graft and materials, the situation with regard at least to salt might not be long in coming to a crisis. Other "muck and truck" goods might be sacrificed, but Chungking itself underlined the strategic significance of salt, when in 1934-35 it instituted a salt blockade against the communist area in Kiangsi province. Resistance which had been maintained against military pressure for several years was brought to an end in the course of months.

APPENDIX III

DECLINE OF THE JAPANESE MERCHANT MARINE

In the Battle of the Sea Lanes the Japanese have lost well over 100,000 gross tons of merchant shipping a month (net average) since the outbreak of the war, according to a reliable current estimate. With the lull in operations in the southwest Pacific, the Japanese have about 1,065,000 gross tons available on June 1 for fresh operations. The present rate of losses, however, would consume that surplus in about one year and leave the Japanese in a distinctly taut position so far as a further large scale offensive in any distant area were concerned.

The Japanese lost about 850,000 tons up to June 1, compared with 510,000 as of March 1—an average of more than 140,000 tons per month for the whole period, 113,000 per month for the less active period since March 1. New construction yields an average of only about 25,000 tons a month.

Japan's total tonnage (ships of more than 1,000 tons gross) is 6,165,000 tons, of which 3,000,000 are used in the economic supply of Japan and her troops in China and Manchuria, 400,000 tons are absorbed in naval auxiliaries, 700,000 tons are under repair or otherwise laid up, and 100,000 tons are unusable types or devoted to domestic service, according to the same estimate. In addition, the supply of Japanese troops holding conquered areas in the southwest Pacific requires 900,000 tons of shipping.

An earlier estimate, in March, had forecast a Japanese surplus of 1,500,000 gross tons after completion of operations in the Indies. This estimate, however, was made on the basis of a generous analysis of Japanese ability to utilize shipping space, allowing them only 700,000 tons to supply conquered areas in the southwest Pacific. It now appears that 200,000 additional tons are needed for that purpose. War losses and normal marine casualties (roughly 878,000 tons) are no longer offset by estimated gains through new construction and ships captured at the outset of the war (about 675,000 tons), cutting the total available by another 200,000 tons. These changes, plus some others of less importance, reduced by nearly one-third the original estimate of surplus tonnage which should now be available to the Japanese.

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APPENDIX IV

THE VISIT OF KING GEORGE OF GREECE IN RETROSPECT

While America was hailing King George II as the symbol of Greek resistance, it appears that among his people at home there is widespread hostility to his return to the throne. According to one seasoned observer, the King is popularly associated with reactionary elements in Greece, and is considered to have deserted his people in their hour of supreme suffering.

Succeeding to the crown in 1922 as the eldest son of King Constantine, King George remained in Greece until a revolt in 1923 forced his abdication. He spent most of his exile in England. Following the political turmoil in Greece in the early thirties, there was considerable sentiment for a restoration and, after a coup d'état and referendum, which some suspect was "fixed," the King was recalled to the throne in 1935.

King George has never been a powerful monarch. On August 4, 1936, he allowed the dictator, John Metaxas, to assume control of the Government and he issued decrees dissolving Parliament and suspending constitutional guarantees. There is evidence that his tolerance of the dictatorship and his flight from Greece at the time of the German occupation have caused him to lose whatever popularity and affection he may have had among the people in Greece.

Since his flight from Greece and Crete in the spring of 1941, the King and his cabinet went from Egypt to South Africa, and finally established headquarters in London. The British supported his government-in-exile in spite of the fact that there was continued resentment in Greece against all connected with that regime. Gradually the unpopular Metaxas group has been purged and Professor Kanellopoulos, known as a rising liberal, exiled by Metaxas, has recently been appointed vice premier. This move, and a personal appearance of the King, were apparently successful in winning back the loyalty of the Greek armed forces being reconstituted in Egypt and Palestine.

The Greek language groups in America arranged to present a united front in presenting the King as a symbol of Greek sufferings, in the hope that he might be able to secure some tangible benefit for the homeland from all his conferences here. With only a few lapses the liberal, pro-Venizelos press and the pro-royalist factions have avoided political controversy. It should also be noted that Greco-Americans are more cordial to the King, probably because they have not had to live for six years under the system of government of which he was the nominal head.

It would be a mistake, however, our observer feels, to follow Pathé News in presenting the King as a beloved monarch who will return to his people after the war. The best evidence from Greece is that the King is not beloved by his people and that he will return to Greece to rule only if some foreign power carries through the restoration by force. This is what many Greeks in Greece fear, despite assurances from Premier Tsouderos that the sovereign people will be consulted. Unless he has secured real aid for his country, it is doubtful that the King has strengthened his position to any great extent by his visit here, and his adherence to the four freedoms is viewed with skepticism by those who know the record.

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APPENDIX V

SERBS AND CROATS HERE AND ABROAD

The visit of King Peter of Yugoslavia has come in the midst of an intensifying conflict among the racial elements which compose the Yugoslavian Kingdom and are represented also in the population of the United States. In the United States Serbs, Croats and Slovenes supply important numbers of workers in defense industry, and the ill feeling which has recently been engendered among them is feared to have had some adverse effect upon the war effort.

The difficulty began with recriminations which arose almost inevitably between Serbs and Croats after the swift military collapse of their common country. Croats were denounced by Serbs as traitors, and agonizing stories were spread of atrocities perpetrated by pro-Axis Croatian irregulars. The Serbian agitation, developing into a campaign for a Greater Serbia after the war instead of a federated Yugoslavia, came to a high point in the *Amerikanski Srbobran*, a newspaper published in Pittsburgh.

The Government of Yugoslavia is represented in the United States not only by its diplomatic envoy, Constantin Fotich, but by no less than six ministers of state, of whom three have considerable political importance. Two of these three are Croats and the third a Slovene. These three assert outspokenly their belief that the Serbian anti-Croat agitation stems from the Yugoslav legation in Washington and from the Yugoslav ministry of foreign affairs in London. The Foreign Minister, Ninichich, is said by them to represent all that was worst in the old Yugoslavia; they allege that Minister Fotich in Washington is his faithful servant; and do not hesitate to point out that Mr. Fotich is related by blood to the Serbian Quisling, Nedich, and also to the Croatian Quisling, Ante Pavelich. While the situation in Yugoslavia itself as between Nedich, Pavelich and Mihailovich becomes increasingly tragic and confused, the American scene is disturbed also, in the midst of the King's visit, by disintegration and antagonism among the Americans who have sprung from his multi-racial land.