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War Savings Bonds

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Waymack, Mr. ("Des Moines Register")

See Financing, Government: War Savings Bonds

July 8, 1942
9:30 a.m.

GROUP

Present:

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

H.M.JR: On the theory, gentlemen, that if something doesn't go right - if you are under the impression it doesn't go right I would like to get it first hand. I was just talking with Tickton on war production, and he mentioned the fact that the thing of Madden's wasn't going because he didn't get the stamps.

Now, nobody has told me. I should be told that because I was of the impression when I was up there they were going to start last Friday with a group of people. Today is Wednesday, and no one has told me that they hadn't. Tickton was here on something else. I would like to get these things.

Under your peculiar setup, who is responsible?

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MR. GAMBLE: I am responsible for that, Mr. Secretary. They called day before yesterday, and Mr. Bell tried to get stamps for them through the Post Office Department and was unable to get them. It appears now that he has arranged with the Federal Reserve to get stamps for them. They wanted ten thousand dollars' worth of stamps.

They talked to us again last night, and they have talked to Mr. Bell's office this morning - the Federal Reserve has, about turning over the stamps.

H.M.JR: I was told weeks ago when you first talked about this thing that the stamp thing was O.K. Somebody said so right in this room, that they would get stamps.

MR. GAMBLE: I don't know about that.

H.M.JR: But have you got the stamps now?

MR. GAMBLE: I can't answer that.

MR. BELL: No, they haven't got them yet.

H.M.JR: Somebody - either you or somebody in this room said the stamp thing was O.K.

MR. BELL: I never heard of it until yesterday. I called the Post Office immediately to see if they could get stamps. They said they had taken it up with Mr. Walker a number of times, and Mr. Walker said he would not allow his postmasters to consign stamps because they got into so much difficulty in the last war. After the last war Congress wouldn't give them relief. They say they just can't take that responsibility.

Then they went to the Federal. Bob Rouse called me this morning and said he appreciated the

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position of the Treasury. He said, "Maybe we can consign them. I will discuss it with a couple of the directors today; if they see no objection we will take a chance on it."

H.M.JR: I will bet anybody in this room ten dollars to a dollar I was told that the stamp thing was in the clear.

MR. GRAVES: I suspect I am responsible for that. I don't recall, but I probably said that I saw no difficulty in the matter of getting stamps because we have very large operations in New York involving stamps. We have got stamp booths all over town, and that is being handled under--

MR. GAMBLE: Mrs. Gibbons.

MR. GRAVES: Mrs. Gibbons, and I cannot see myself where there should be any special difficulty about getting these stamps because it is just a part of a much larger operation which we are carrying on.

MR. BELL: Who is furnishing those stamps?

MR. GRAVES: I think some of the banks are furnishing those.

MR. GAMBLE: Mrs. Gibbons has a number of people that underwrite her whole operation. I mean, if they want to get the race-track group she gets race-track people to underwrite the stamps for that particular operation.

Madden called me, Mr. Secretary. That was the first I knew that they hadn't done this. It was my understanding they weren't going to start until Monday, however, not Friday.

H.M.JR: I heard it with my own ears - Friday.

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MR. GAMBLE: I think that was true that they had in mind starting twenty-five people on Friday, but when you told them you wanted not less than a thousand then they went out and reorganized this under the gentleman whose name you mentioned, the survey man you suggested. They brought him into the picture.

H.M.JR: Survey man?

MR. GAMBLE: You mentioned about some man who had just conducted some survey, a Mr. Sherman. You mentioned him to them.

H.M.JR: No, not in this connection. I said Sherman on direct mail.

MR. GAMBLE: That is correct.

H.M.JR: On direct mail.

MR. GAMBLE: And that he could help them frame the questions they wanted to make. They went out and got this man. They brought him into this picture and got a hundred people, according to Madden, to contact the thousand persons you wanted to contact.

H.M.JR: Sherman is the owner of the Book-of-the-Month Club.

MR. GAMBLE: They got him into this picture, and they contacted me on Monday about this stamp matter of getting ten thousand dollars' worth of stamps. We couldn't get the post office to give them to them, so I gathered from Mr. Madden's conversation on Monday evening - Monday afternoon, late, that they had settled the matter themselves. Then they called yesterday

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again, and I suggested, on Mr. Bell's recommendation, that they contact the Federal Reserve Bank, which they have done.

H.M.JR: Anyway, it is still up in the air?

MR. GAMBLE: I assume so, yes, sir.

MR. TICKTON: He has the hundred men.

H.M.JR: And they are waiting for the stamps?

MR. TICKTON: Yes, sir.

MR. BELL: So far as the Federal is concerned, I think it will be settled this morning.

H.M.JR: Well, will you let me know, Dan?

MR. BELL: Yes, sir.

(Mr. Tickton left the conference.)

H.M.JR: Ed?

MR. FOLEY: This inter-American conference is going very well, Mr. Secretary. I think it is going to be a success. Everybody was agreeably surprised at the attitude of the Argentines and the Chileans. There has been no concerted opposition developing to any of the projects of the program. I think all of the resolutions that we envisaged would be useful in implementing our controls in the South American Republic will be passed. I think the conference will be completed tomorrow.

H.M.JR: Good.

Now, have you got to go up on the Hill?

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MR. PAUL: I arranged not to go this morning. Tarleau will take care of it, and I will stay down for that ten forty-five conference.

H.M.JR: Well, I am giving you fellows a half an hour for the conference, and Sullivan and the Commissioner are going to present the mechanical difficulties, is that right?

MR. SULLIVAN: That is right.

H.M.JR: Of deduction at the source. Now, who besides Sullivan and the Commissioner?

MR. SULLIVAN: Roy Blough ought to be in on that.

H.M.JR: Graves, you know the Internal Revenue.

MR. BELL: I think I would like to be in on it.

H.M.JR: All right, let's keep it down to half an hour. What?

MR. PAUL: I don't know. I can't make any promises. I don't know what will be said. We will try.

H.M.JR: Well, it is a question of presenting the mechanics of the thing.

MR. PAUL: Yes, but it is an extremely important question.

H.M.JR: Did you want White in?

MR. PAUL: I think it might be a good idea to have him.

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

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MR. BLOUGH: May I bring a technical man along, Mr. Secretary?

H.M.JR: Sure.

MR. WHITE: I don't know whether I support John or you on that.

MR. PAUL: I have a pretty good line on your general approach to the thing.

H.M.JR: We want two stenotype operators here, so--

MR. SULLIVAN: That shows you how this problem rolls up, this extra business of machinery and equipment. (Laughter)

MR. BLOUGH: It is really a question of mind versus matter. It isn't just a question of matter. (Laughter)

MR. SULLIVAN: O.K., bring your minds along, boys. (Laughter)

MR. SULLIVAN: Robert Saltanstall, Personnel Director of the Arlington Mill, Lawrence, wired that he has about sixty-five hundred textile employees and has ninety percent pay-roll participation. He wired in they are having some sort of a show up there Monday noon. He wanted me to stay over to speak at that. I am not particularly anxious to do it.

H.M.JR: Unless they have ten percent I wouldn't stay.

MR. SULLIVAN: I think I am safe. I think I can come back.

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H.M.JR: Unless they have ten percent. And some time somebody is going to show me a flag and how they put the ten percent on.

(Mr. Gamble displayed flag.)

H.M.JR: Hurray!

MR. GAMBLE: That is the ten-percent emblem, the bull's eye in the center. But we are going to have to switch to a white flag. They can't get blue stock enough to supply the quantity we need.

MR. WHITE: Who are we shooting at? (Laughter)

H.M.JR: It will be a white flag?

MR. GAMBLE: Yes, sir, with the blue in it. This will be white (indicating).

H.M.JR: Blue minute man and then the red around?

MR. GAMBLE: That is correct.

H.M.JR: That has all been settled?

MR. GAMBLE: No. When you say, "Has it been settled", you mean as to whether we will have the white flag or not?

H.M.JR: No, the design.

MR. GAMBLE: The design, yes, sir.

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

MR. GAMBLE: The reason for the design, Mr. Secretary, is we had out hundreds of these flags that had the stars, the minute men and the stars surrounding it, and we had to get something that

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would not make obsolete all the flags that we had out. So we got a target to put over the center of the other flags.

H.M.JR: You are going to have to have new flags?

MR. GAMBLE: We are going to have a new flag.

H.M.JR: Can I make a suggestion for the various brain trusts to consider, to use the old flag and just have a big "Ten Percent" in the corner?

MR. GAMBLE: "Ten Percent" in the corner?

MR. ODEGARD: You could even put the bull's eye in the corner.

H.M.JR: And I would like to give another suggestion, if I may. I don't like that bull's eye. It looks as though your Minute Man was a target. Just possibly a streamer to fly above the other flag, with the words "Ten Percent" on it, or something - just a streamer coming to a point.

MR. GAMBLE: We would rather keep it on one flag if we can. These people buy these flags. We don't give them to them.

H.M.JR: Just put a "Ten Percent" in the corner.

MR. GAMBLE: All right.

H.M.JR: I don't like that, but I like the "Ten Percent." I like the "Ten Percent" button.

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So if you had the flag and could put the "Ten Percent" on, sew it on in the corner--

MR. GAMBLE: That can be done. It was one of the original suggestions.

H.M.JR: Would you mind reconsidering it?

MR. GAMBLE: I will show you a design on it because we have one with "Ten Percent" in the corner, if you would like to see it.

H.M.JR: Would you do that? What else?

MR. GAMBLE: Then I have a report from some ninety more cities. This is the original letter from the dry goods' people. I would like to have it back after you have had a chance to study it. (Paper handed to the Secretary.)

H.M.JR: I will give it to you right now. (Paper returned to Mr. Gamble.)

MR. GAMBLE: That is all I have.

MR. BUFFINGTON: I have nothing.

H.M.JR: Did you get a memo from me about that one bank in New York?

MR. BELL: Yes.

H.M.JR: Would you stay after this?

MR. BELL: Yes.

H.M.JR: I thought we could do it right after this.

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H.M.JR: You are all right?

MR. BUFFINGTON: Yes.

H.M.JR: Mr. Paul?

MR. PAUL: Nothing.

H.M.JR: Blough?

MR. BLOUGH: Nothing.

H.M.JR: Harry?

MR. WHITE: Did you want to have a meeting to discuss this English - a letter to the exchequer?

H.M.JR: Yes, but I am--

MR. WHITE: There is no hurry on it.

H.M.JR: I will tell you - after all, it will be pretty near the same group that is coming in on silver. You might do it after that silver meeting this afternoon.

MR. WHITE: All right, sir. I have here a memorandum from Mr. Foley with respect to the legality of issuing bonds for increases. Now, the request arose in a peculiar way; that is how I happened to have it. But I think I had just better pass this on to you since the question will come to you.

H.M.JR: It came up the White Way? (Laughter)

MR. WHITE: Which I gather is not the right way. (Laughter)

H.M.JR: You said the peculiar way. (Laughter)

MR. WHITE: We have a request from China which--

H.M.JR: You didn't get that. I thought that was very funny.

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MR. WHITE: I got it. I said, "That is probably not the right way."

H.M.JR: Don't you know what the Great White Way is?

MR. WHITE: It is the way to heaven. (Laughter)
At least, it is the pleasant way.

H.M.JR: Harry, having given me this, what do I do with it?

MR. WHITE: Well, I thought that that would come to you from Mr. Harper McNutt sooner or later.

H.M.JR: This is War Bonds?

MR. WHITE: This is the legality of issuing War Bonds for wage increases.

We have this request on China. You put it off last time. I don't think we can put it off more than another day or two.

H.M.JR: What request is it?

MR. WHITE: I merely raised it here. China wishes to repay the nineteen million dollar loan which she has outstanding with funds from the five hundred million.

H.M.JR: Let's do it at three-fifteen. We have got the same crowd. Do it at three-fifteen.

MR. WHITE: O.K. I don't know what your plans are with respect to this bill which Ed spoke to you about that had been agreed upon with Berle to raise a hundred million dollars. We had agreed to carry the ball from now on, and you wanted to go into the matter. That was a week ago. Will it be possible to take that up at three-fifteen? (Laughter)

MRS. KLOTZ: He is on to you now.

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H.M.JR: He always is - most of the time.

What else, Harry?

MR. WHITE: That is all I have.

H.M.JR: I may be out for a walk this afternoon.
(Laughter)

MR. WHITE: That is all.

MR. KUHN: The Elmer Davis office wanted to send their Treasury contact man over to meet you. I wondered--

H.M.JR: I heard about it.

MR. KUHN: I wondered if your "No" meant you didn't want to see him today, or at all?

H.M.JR: I am coming out from under two extremely difficult days, and I have got a tough schedule today. Whose payroll is he on?

MR. KUHN: He is on theirs, Office of War Information.

H.M.JR: Why won't tomorrow be just as good?

MR. KUHN: If that is all right. I would like you to see him for just a few minutes, if you can.

H.M.JR: Yes. I just didn't feel like doing it today. You can tell them outside, eleven o'clock.

MR. KUHN: Eleven o'clock tomorrow. I have those Advertising Council ads ready. Did you want to see them today?

H.M.JR: I don't think I could do any more today, Ferdie, but tell them outside you have got them. See?

MR. KUHN: All right. That is all I have.

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MR. ODEGARD: I have nothing.

H.M.JR: I am seeing you a little later.

MR. SCHWARZ: The writing of that story you mentioned last night was done by the White House correspondents because it was given out there.

H.M.JR: How was it?

MR. SCHWARZ: They did pretty well, those that handled it at all. I was able to do some missionary work last night which will appear the next few days.

H.M.JR: Good.

Haas?

MR. HAAS: Nothing.

H.M.JR: Are you sleepy?

MR. HAAS: I am awake now, I think.

H.M.JR: I woke him up this morning.

Harold?

MR. GRAVES: You asked me to remind you to call the Vice President about Mr. Waymack.

H.M.JR: Give it to me on a piece of paper, and who is he and what he is.

MR. GRAVES: That is all.

H.M.JR: I have something for you, too, afterwards. You stay behind a minute.

And, Harry, I want to see you about those people that you were going to invite.

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MRS. KLOTZ: I was going to invite them. It was decided I would invite them.

MR. WHITE: I have the names here.

H.M.JR: You stay behind.

MR. WHITE: I am waiting for the head of the protocol to see--

H.M.JR: I don't think we want to mix up all these conferences together. Who is to call on me this afternoon?

MR. WHITE: Bolivia.

H.M.JR: Personally, I think it is a mistake to mix them up.

MR. WHITE: If you don't mix them up it merely means you have to see them separately. Three of them are at the conference.

H.M.JR: The only person that is - I will do your Peteta. Why not let's ask this finance minister, minister of economics, for lunch Friday, and then just White and Bell. The chances are nine out of ten that they won't come. I mean, these other people - the Haitian finance minister has not called on me.

MR. WHITE: Well, he would. He is the smallest country and they are the ones--

H.M.JR: Take it from me, that much I know, that I can't mix up Bolivia and - I mean he is calling on me, Bolivia, today.

MRS. KLOTZ: You are doing that Thursday.

H.M.JR: How long will Haiti be here?

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MR. WHITE: The Haitian is the one minister of finance at the conference. I can arrange to have him come in - just a call.

H.M.JR: That is the thing, yes.

MR. WHITE: Why don't I just call?

H.M.JR: I will tell you what you do, Mrs. Klotz, invite these people.

MRS. KLOTZ: Now, if they can't come we will have to have--

H.M.JR: We will have to have them at twelve-thirty, Friday. Include Mr. Bell and Mr. White, just those two. Then if they can't come--

MRS. KLOTZ: You said you wanted to talk to him about it.

H.M.JR: I will have him some evening, him and his wife - Beteta.

MR. WHITE: Yes, I think that is what you had told them.

H.M.JR: Let's just try this. How far did I get? I want to ask you something else afterwards.

MR. GRAVES: Yes, sir, I will stay.

H.M.JR: Bell?

MR. BELL: Mr. Rouse thought that you might delay the increase in Treasury bills for one more week until the new issue is out and distributed and paid for, which is a good suggestion, I think. So that would make it the twenty-second instead of the fifteenth.

You asked for some figures last night - I don't know if that is what you want - giving you the three years. (Paper handed to the Secretary) I am breaking the last column down by months.

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H.M.JR: Does that include taxes, everything?

MR. BELL: That includes - under the present law it doesn't include the taxes.

H.M.JR: Wonderful. I gave the President a figure of twenty-three or twenty-four billion.

MR. BELL: That is right, twenty-three billion.

H.M.JR: That is just sheer accident.

MR. BELL: That is Budget estimate, but under the present program you aren't going to get that. You are only going to get twenty.

MR. BELL: If you want that last column I will break it down by months.

H.M.JR: I thought I might be way off. I told him that. I asked him not to use it. That is close enough.

He asked me a very interesting question. He said, "As far as I know, have either you or I ever said publicly that in order to have a prosperous country you must have a big debt?" I said, "No." He said, "Well, a lot of people seem to think so." And I said, "Well, I don't happen to belong to that school." Then he went on and expounded on it, but he wants to say something about after the war keeping up the taxes and keeping them high and not making the same mistake Mr. Mellon made, and he said either he or I would make a speech some day about it. So he said, "How much revenue was it?" What did I dictate?

MRS. KLOTZ: Twenty-four, I think.

H.M.JR: Twenty-four was a good guess. Am I right, Harry? I didn't want to use any name. Is Hansen the man he had in mind? Is it Hansen who said that you have to have a big debt?

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MR. WHITE: I should think if he would talk at all it would be in terms of a deficit, and I don't think Hansen would acquiesce in that statement. I think he would answer, "It all depends."

MR. SCHWARZ: Hansen wrote a magazine article for Harper's or Atlantic Monthly on that.

H.M.JR: On that?

MR. ODEGARD: Harper's. He argued the debt was not a dangerous thing as such.

MR. BELL: A big debt was not a detriment.

H.M.JR: The President read something somewhere--

MR. WHITE: Hansen would have said that because any good economist would say that, that a large debt is not a serious factor.

MR. BELL: Hansen must have given quite an interview at the Chicago University, didn't he, last week? There was quite an article in the paper.

H.M.JR: Anything else?

MR. BELL: That is all.

H.M.JR: Mr. Thompson?

MR. THOMPSON: Our appropriations for Foreign Funds Control is tied up with the Senate in the bill that carries funds for OPA, so the President has given this money to you today. You know that?

H.M.JR: I know that. It was very funny. Grace Tully had this thing. She said, "You know about this?" I said, "No." She said, "I have to get this from the President." I said, "Well, I don't know anything about it. Nobody has told me anything about it," which is true.

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MR. THOMPSON: It happened very quickly yesterday.

H.M.JR: So she bring^s it and puts it on the President's desk. "Don't high-pressure me when the Secretary is here, and try to do something just because he is here." He says, "You know how I feel about my private funds," so he turns to me and says, "What do you know about it?" I said, "I don't know a thing." I don't know a thing. So I said, "My pal and principal supporter in Washington, the Director of the Budget, though, I understand, has written a letter for it." That is what I told the President. And he looked and he says, "O.K., I will sign it."

But you know another rule I have around here, that when it is something for the White House I ought to know about it.

MR. THOMPSON: Well, it happened very quickly yesterday afternoon.

H.M.JR: Well, I was there--

MR. THOMPSON: We thought the bill would be through.

H.M.JR: ... at ten minutes of two and I still say, if it is something for the White House it is useful to tell the Secretary of the Treasury about it, because if he hadn't been in such a grand humor he might just as well have said, "Well, if the Secretary of the Treasury doesn't know, can't tell me, why should I sign it?"

MR. THOMPSON: The plan we had was for a resolution to get through.

H.M.JR: Listen, Norman, the best thing to say is, "I haven't got a leg to stand on."

MRS. KLOTZ: He inferred that.

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MR. THOMPSON: I think he had gone.

H.M.JR: No, you must have started this before, yesterday, didn't you?

MR. THOMPSON: We expected to get a resolution through.

H.M.JR: Yes, but when did you ask the Bureau of the Budget for it?

MR. BELL: The suggestion came from the Bureau of the Budget.

H.M.JR: When?

MR. THOMPSON: I don't know. I heard about it, I guess, about four o'clock yesterday.

H.M.JR: No, but Grace Tully had this thing when I was there in her office.

MR. THOMPSON: I think Lawton called you and suggested they might do this.

MR. BELL: What they were trying to do was work out a resolution on the Hill. Apparently they were going to run into difficulty. Lawton said, "We got under consideration" this and that.

H.M.JR: You got it. He was in a good humor.

MR. THOMPSON: You shall hear about the next one in time.

H.M.JR: So it was all right.

MR. SULLIVAN: I called Congressman Gearhart and told him we weren't considering moving from San Francisco; then he proposed putting up a branch office in Fresno. He wanted to know if we had given any consideration to

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that. I said, "No," that I would call him later. Then I talked to Berkshire this morning. He said, "No." I am going to call him and tell him we can't do it.

H.M.JR: He is nothing but a Republican, anyway, is he? (Laughter)

MR. SULLIVAN: He is on ways and Means. That is why the request came in this week.

MR. PAUL: He is no good to us now.

H.M.JR: He is a ways and Means Republican? (Laughter)

MR. PAUL: Don't do anything for him.

H.M.JR: How much is that worth, boys?

MR. PAUL: It is worth nothing.

H.M.JR: Is it worth building a special office down in Fresno?

MR. PAUL: I wouldn't even build him a much smaller building. (Laughter)

MR. THOMPSON: I had one other matter.

MR. BELL: Now you can tell your story.

H.M.JR: Now I can tell my story. Mr. Bell wants me to tell Judge Rosenman's story of yesterday. What is it that a man and a bird could do last year but a bird could only do this year? (Laughter) Do you all give up? Make a deposit on an automobile. Dan liked it. (Laughter)

MR. THOMPSON: We have the question of whether we shall take all of our rubber mats and turn them in.

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H.M.JR: For Gawd's sake!

MR. BELL: Say yes.

MR. THOMPSON: I think we should do it, although they tell us they can't do much with them. They may turn them over to the Navy to keep the boys from slipping on wet decks.

H.M.JR: Be careful, Harold Ickes will take them.

Who asked that question?

MR. THOMPSON: We are supposed to give instructions. We have these long rubber mats that we put at doors.

H.M.JR: Who asked?

MR. THOMPSON: We are supposed to turn in all our scrap rubber. I think we ought to turn these in.

MR. SCHWARZ: In his press conference yesterday the President said the material probably can be used to good advantage by the Army and Navy even if it is not for tires.

H.M.JR: All right, turn it in.

MR. WHITE: They can make mats out of those to put in the Army and Navy buildings. (Laughter)

July 8, 1942

Daniel Bell

Secretary Morgenthau

Please speak to me this morning about - I think it's the Guaranty Trust - the big bank which bought some of our bonds recently. I want to talk to you about what we should do about it on the present issue. I think it's the bank which Mr. Potter is the head of.

*Wmjr look up
with Bell after
9:30 meeting 7/6/42 -
See also phone
conversations with
Rouse.*

July 8, 1942.
10:18 a.m.

HMJr: Hello.

Operator: Mr. Rouse.

HMJr: Hello. Hello, Bob?

Robert Rouse: Good morning, sir.

HMJr: How are you?

R: Oh, I'm fine.

HMJr: Bell and I are sitting here together.

R: Right.

HMJr: How is the reception?

R: The reception, I think, is good.

HMJr: I see.

R: The - of course, we're getting some selling of the June two's and the September two's.

HMJr: Yeah.

R: And there's some volume, that is, in - in bonds, half million and a million....

HMJr: Yeah.

R:and they started out lower and we're just taking them. We're trying to quiet it down and make it clear that you're trying to sell bonds on balance, not exchange old bonds for new....

HMJr: Yeah.

R:and I think we'll get along all right.

HMJr: Now there's one thing - do you talk with Sproul during the day?

R: No, he's on - he's on a vacation, and I haven't wanted to bother him.

HMJr: Oh, do you know where he is?

R: Yes, I learned where he was last night. He's at Fire Island.

HMJr: Well, do they - do they have a telephone there?

R: I think we can get through to him, if necessary.

HMJr: What's he at - what's he - on a boat, is that what he's doing?

R: No, it's - it's - I don't really know. I was talking with Rounds last night, and he said he was down there, and there's not anything to do, as far as I know, except play tennis and lie on the beach.

HMJr: Yeah. Well, this is what I had in mind, and you - we may not have to bother him. You know Mr. Potter wrote this letter to me, or rather wrote it to Mr. Sproul. They've formed a committee of all these banks.

R: Yeah.

HMJr: Have you seen the letter....

R: Yes, I think I have.

HMJr:in which he said that they'll do anything that I want, either buy or sell governments, you see?

R: Uh huh.

HMJr: I mean, it was a fine letter, and he is the chairman of this committee.

R: Yeah.

HMJr: Now in view of the fact that he is the chairman of this committee - we'll say it's organized and it's - I mean - and - of this letter, I'd like to inquire what he proposes to do about this issue.

R: Yeah.

HMJr: See?

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R: As I told you yesterday, they weren't able to reach him when I....

HMJr: Well, now - would you hesitate to ask him yourself? Hello?

R: Yeah, I was just thinking about it. The - I would do it this way - first, I'd talk with Garner, with whom I talked yesterday, and who in turn talked with Conway, the chairman, and Preston, the president.

HMJr: Yeah.

R: And as I told you, Mr. Conway - while he's - Mr. Potter - while he's half retired as chairman of the executive committee, he's still the senior officer....

HMJr: Yeah.

R:and - the last word over there. I'd like to find out from Bob Garner first that they reached Mr. Potter and what his decision was.

HMJr: Well, my point is this, if he's chairman of this committee and their bank doesn't do anything, it doesn't look very good - after his letter.

R: Yeah.

HMJr: I didn't ask him for any letter. He wrote me the letter. Hello?

R: Well, I was just thinking as to whether it would be wise to - just ignore them, or to do something about it.

HMJr: Well, I slept on it, and I don't think, in view of the fact that he's chairman of this committee, that we can ignore him. If this was a twenty, twenty-five year bond, or something else, that would be something different, but he has written this thing, and he - get a look at the letter.

R: Well, I'll get it - get it out, and I'll talk with Garner....

HMJr: Yeah.

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R:and after I find that - what that situation is - I'll....

HMJr: Yeah. You can call me back.

R: I'll call you back.

HMJr: It may not be necessary to go any further.

R: Right.

HMJr: What?

R: Right. I'll call you back after I've done that.

HMJr: It may not be necessary to go beyond that.

R: Yeah.

HMJr: All right.

R: Fine.

HMJr: Thank you.

July 8, 1942.
10:24 a.m.

Operator: The Vice President is coming on.

HMJr: Thank you. Hello.

Vice President Wallace: Hello.

HMJr: Oh, Henry?

W: Yes, Henry.

HMJr: How are you?

W: Oh, fine.

HMJr: I'm calling you up to ask your advice about Mr. Waymack of the Des Moines Register....

W: Yeah, I know Bill very well.

HMJr:whether you think he would be a good man - we haven't talked to him - as sort of a director of information for our War Bonds.

W: Well, I don't - I think he's one of the best men in the country.

HMJr: You think he's one of the best in the country.

W: He's adaptable. I - frankly, I don't - I hope he doesn't take it, because I think they can - he can do more good where he is. (Laughs)

HMJr: (Laughs) Well, he's been down here, I understand, with the - advising to the Labor Board.

W: Yes, he - he's resigned from that because he felt that - it's more than he could handle.

HMJr: I see. But on this sort of thing....

W: Oh, I think he'd be swell for you.

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HMJr: You think he'd be swell.

W: He understands the country marvelously. He's a man of very long newspaper experience....

HMJr: Uh huh.

W:high public service record, and all that sort of thing.

HMJr: Well, then I think that we'll approach him on - based on what you say.

W: He's a fine person.

HMJr: Right.

W: (Laughs) All right, Henry.

HMJr: Thank you.

W: Good.

July 8, 1942
10:45 a.m.

HMJr: Hello.

Robert
Rouse: Hello. Well, I talked with Garner....

HMJr: Yeah.

R:and he says he had nothing more to say, and so he hadn't called me.

HMJr: Yeah.

R: He said the situation was a two-day - with a two-day subscription, that they had an executive committee meeting tomorrow, and probably no action would be taken until the officers put it up to their executive committee of the board....

HMJr: Yeah.

R:that he judged that their - they all felt more or less the same way over there, that they would prefer to stay within their five-year policy.

HMJr: Yeah. Well, that's damn nonsense.

R: Ah....

HMJr: I mean, you can't set a policy - one bank and all by itself, and have a war on.

R: Well, I - off the record with him - I said, "Well, we have a home front too."

HMJr: Yeah.

R: On the other hand, this - we - I don't think we've got to a point where we have to request anything of that sort.

HMJr: You said?

R: No, I didn't say that....

HMJr: Oh.

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R:but....

HMJr: You think that....

R:it seems that way to me that they're not vital to it; I think they're - they've got to change their ideas as all of us are changing our ideas about a lot of things.

HMJr: But you hesitate to do anything?

R: Yes, I - I talked it over with Les Rounds too - our First Vice President, and he - he feels the same way that I do, that it must go through, that the circumstances will force at least a token subscription which we would get - might be twenty-five million dollars. Whether....

HMJr: Well....

R:they'd do more or not, I don't know.

HMJr: Well, I'm not going to - certainly, I'm not going to force it, but when Sproul gets back and these people don't subscribe, well, then to have a man like that chairman of a committee is just a joke - I mean, if his bank isn't going to buy any bonds.

R: Yeah. Well, of course, they're - while they don't say anything about buying bonds in that letter, the whole inference is that they would.

HMJr: Yeah. Well, I'm not - I'm not going to force it with you, because I don't feel strongly enough about it, you see? But - and - if they don't do anything, then I'll wait, and when Sproul gets back I'll ask him to take it up on a personal basis with them.

R: Yeah. I think that would be the better way to do it. I think it would be a mistake to - for the Treasury to make the - make a request....

HMJr: Yeah. I don't want to make....

R:either directly or indirectly.

HMJr: Uh huh. Okay, I'll - I'll abide by your decision this time.

R: All right, sir.

HMJr: All right.

R: Thank you. I'll call you if there's any change....

HMJr: No, I....

R:or if I hear anything more.

HMJr: No, I - we'll - I'll - I'm willing to go by your decision this time.

R: Very well, sir.

HMJr: Thank you.

R: Thank you.

July 8, 1942
10:50 a.m.

TAXES

Present: Mr. Bell
Mr. Sullivan
Mr. Helvering
Mr. Atkeson
Mr. Cann
Mr. Self
Mr. Schoeneman
Mr. Paul
Mr. White
Mr. Haas
Mr. Graves
Mr. Blough
Mr. Friedman

H.M.JR: Well, the purpose of this meeting is that - I don't know whether I raised it, but somebody raised it - maybe I raised it - is that if we had pay-roll income--

MR. BELL: Withheld at the source.

H.M.JR: Withheld at the source, how would we handle the thing mechanically? What would it mean that a concern would have to do? Could a concern get the machinery to do it, because we, ourselves, have had such trouble in Internal Revenue getting the machinery? So I asked Mr. Sullivan to take it up with Mr. Helvering, to take it up with War Production Board, make a study of the thing, and if Mr. Helvering or Mr. Sullivan would--

MR. SULLIVAN: I think I might give a little of the background to these men who haven't been in this. This matter arose when the Secretary asked us how we and industry were planning on handling this matter.

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H.M.JR: Now, I am going to tell you I am going to stop at eleven-fifteen, so if we are not through you can adjourn into your office, but I am going to stop at eleven-fifteen.

MR. SULLIVAN: We asked Mr. Helvering to draw up a list of the new office machinery that the Bureau itself needed, and then that was cut in two because we were afraid we couldn't get that amount; and these figures that he prepared contemplate a day and night shift in the Bureau offices, which, of course, will require half as much business machinery as otherwise. That called for twenty-one hundred typewriters, three hundred adding machines, five hundred and twelve other sorting machines, check endorsers, bookkeeping machines, duplicating machines, and so forth. The Commissioner felt that with that amount of machinery and an additional thirteen thousand employees who would be willing to work on a night shift, he would be able to swing it.

We had had difficulty since last March trying to get for the Bureau two hundred and thirty-eight typewriters, and we talked with - the Secretary talked with Mr. Nelson, who sent Mr. Locke over, and we went over this situation of this additional machinery that we would need to handle the withholding tax.

The WPB fellow indicated very clearly that he thought that the Bureau could get this amount of machinery, provided - the typewriters, of course, would be second-hand - provided that industry itself could handle this type of operation.

So we had a further conference with four men from WPB who were experts on business machinery and office equipment, and their unanimous opinion was that industry could not handle the additional operations that would be necessary on a withholding tax without additional machinery, and they also felt that it would be impossible to supply them with the machinery that would be required. They stated that a single entry they thought could be

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handled, but the type of entries, plus an interim computation, was absolutely beyond the possibilities of the present business equipment that could be provided.

They made some suggestions about a set of tables which would enable the employer to refer to the table and then determine the amount of tax to be withheld. Dr. Atkeson did an awfully good job drawing up one table and that was based on a weekly pay-roll period. Of course there would have to be other tables to provide for a bi-weekly pay-roll period, a monthly and semi-monthly period, and so on and so forth.

The attitude of the Bureau is that this device would be good for the employers, but it would be impossible for the collectors to check back and see whether the proper amount had been withheld under this system, and the Bureau also feels that this technique will be most confusing to the small employer who hasn't a first-class bookkeeping division.

I think that generally states the problem, doesn't it?

MR. HELVERING: Yes.

MR. SULLIVAN: Incidentally, it has been pointed out to us that in New York City the mayor has put his thumbs down on a pay-roll deduction for War Bonds by the transit employees because the accounting machinery of the city hasn't room for one more space and hence they can't handle it from a bookkeeping point of view; and they also spoke about the problem that faced the employers at the time the Social Security went into operation.

I think that is sufficient background.

H.M.JR: Go ahead, Commissioner. You state your--

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MR. HELVERING: Well, I am exactly in the same position I was at the outset on this, that is, it is possible to administer the withholding tax if we can get the equipment. Now, to audit - to have the returns in shape so we can audit them in the collector's office, it is absolutely necessary that we have three columns on this return.

I put the question categorically to these men over there whether or not if we had to have three columns, which would give us a chance to audit the returns - if that was possible to secure, and they said that was absolutely out of the question.

If we take these tables and just use one column, they were of the opinion perhaps if some of the companies had machines that could add another column that they might be able to get the machines for the one additional column for industry.

Now, that precludes us in the collector's office, however, from auditing the returns unless our deputy collectors go back into each business and check the entire pay roll. If there is a mistake made or if a firm goes out of business, or things like that, we will have to audit the individual pay roll in order to find out whether or not the proper amount had been paid when there is a dispute by the taxpayer about the amount of money he claims withheld.

As I say, I am still of the same opinion, that this can be handled if the equipment could be secured.

H.M.JR: What did Locke say, talking for Nelson, about the equipment, not for the Bureau but for the industry?

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MR. HELVERING: He said that if we had to have computations on the machinery which would enable our collectors to audit the return - this wasn't Mr. Locke's statement, it was these four experts he sent over - that if we had to have that in order to make the audit, it was absolutely impossible to furnish that equipment on account of the number of people making this equipment that had been transferred and would be transferred not later than November to other manufacturers manufacturing other articles.

H.M.JR: Paul, do you want to say something?

MR. PAUL: Well, I think - of course, I don't want to try to discuss the technical aspects of it - I think that is a matter for Mr. Blough and Mr. Friedman, but I do want to say that this is just one of those things, I think, where we have to find a way. Collection at the source is so vital to our new war revenue system that in some way it is one of those things we have to do, and we will have to make up our minds to do it and find some way of doing it.

H.M.JR: Well, it isn't as easy as that. I mean, I read the papers, and I read Mr. Nelson's testimony on why he can't let them make rubber from grain alcohol because he wouldn't let them have the material. He wouldn't let them transport gasoline or oil across the country because they haven't got the materials, so just to say that, in the face of what Nelson's people seem to say - I mean, just to say, "Well, you have got to do it," in view of their record for the last six months, doesn't mean it is going to happen.

Now, I certainly, as Secretary of the Treasury, am not going to put myself in the position that Ickes is or whoever is responsible for synthetic rubber, then have every business concern in the United States, beginning with the first of January, on my neck - I under the law prosecuting and persecuting them to do the thing, and they in the position to say, "Well, you get us the office machinery, and we will do it."

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Now, the time - I have never been in that kind of a position, and the time to have the headache is now, and not after the first of January.

Where I differ with you is to say that you have just got to find the machinery, find the airplanes, find the boats, find the device to stop the submarines off our coast. I mean you can say - the President of the United States has said, "Well, you have got to lick the submarine menace off our coast." Well, he has said it, and each week they sink more ships, so I mean I believe in your spirit, and that is the kind of spirit I like to see around here, to say, "Well, you have got to find a way," but on the other hand, this is not within the Treasury control.

MR. PAUL: True, and on the technical end I didn't even know until this moment what the decision of the WPB was, so I am not prepared to say - I don't know. I think there are many ways of skinning this cat, possibly, and that is why I want to go over the technical aspects of it.

There may be ways that we haven't - remedies that we haven't yet exhausted, but I think we have to go at it with the spirit of having to do a very vital thing, or else if we have the wrong spirit we are licked on the thing whatever happens.

H.M.JR: Well, Randolph, I made a speech that there is no such word as impossible, and I agree as to your spirit. Now, maybe there is some way, but I have to take the brunt of this thing publicly because that is my job as head of the Department, and I don't want to find myself - I am repeating myself, but I want to emphasize it - I don't want to find myself on the first of January saying to every business in the United States, "This is something that you have got to do or I will put you in jail," and they will come back and say, "Very well, Mr. Morgenthau, we will do it if you give us the machinery."

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And we had the same kind of thing which I went through during the bootlegging days, an unenforceable law - you find yourself in an impossible position.

Therefore, that is the purpose of this meeting. I think that the meeting should continue - I don't know how much time - if Bell wants to sit in on it in his office, if not in Sullivan's office, and have him tell you in more detail what Mr. Nelson's four representatives told, and then let a man like Graves sit in, who has been all through Internal Revenue. Maybe somebody will think of some new way of doing this thing.

MR. PAUL: Well, I don't know. Of course, this detailed administrative problem--

H.M.JR: Excuse me - I don't know whether you want to sit in on it, Harold. That is your choice.

MR. GRAVES: Well, I think perhaps it would be a good thing for me to sit in.

H.M.JR: It is important and you know Internal Revenue inside out, but I don't see that I can contribute anything more than bringing you together. You are here, and I could devote the rest of the morning to discussing the thing from the standpoint: This is the problem; this is what we want to do; can we do it? But I would much rather let everybody have the headache.

MR. PAUL: I would like to have you hear Roy on the broad technical phases of the problem because he has given a great deal of thought to it.

MR. BLOUGH: I don't know that I can contribute anything. I know that it is being done elsewhere. It is being expanded and extended in Canada at this time on a much bigger scale and much more complicated scale than you propose here.

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It seems to me that the answer in part boils down to this, must we have "auditability" to the last penny, or will "auditability," the ability to check, be satisfactory if it is within two percent or five percent of the total amount of the tax. Granted, you can't audit this out to the last penny with less than the number of columns you have mentioned.

It may be that a way could be found to audit it out to a very small percentage of error without having all of the columns, and it seems to me we might approach this problem from the point of view of an administrable plan, a plan that can be worked out within the possibilities of the employer and the Bureau, how much will be lacking in the plan when you get through, and then having determined how much would be lacking in the plan when we get through, then it would be time enough to say, "Is that approach lacking? Is there too much left there to justify the use of this particular type of arrangement?" It seems to me that approach will possibly be the more feasible one.

MR. WHITE: I would like to supplement that, Mr. Secretary, with a similar thought from a different point of view. I am in great sympathy with what Randolph Paul said, and it seems to me that we ought to start with the assumption that the thing has got to be done. It has to be done for two reasons: First, because you have - you are going to have a very great expansion of the number of taxpayers, and many of the problems are similar. In the second place, it may be possible that you may want to go into compulsory savings, in which case the machinery would have to be established.

Therefore, it seems to me the objective would be that we have got to do this job, and how close can we come to the kind of job that we would like to do? We know that we can't come nearly as close as we all would like to. We know that we can't do nearly as good a job as we would be able to do after all the machinery is available and a good deal more help is available. We know we are not going to do even as good a job as we

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would stand for under normal times. We have to compromise.

The question then becomes, not shall we do it, but the question becomes how much of a compromise will we have to make. But we are going to end up with doing the job, though I think it should be clear, in justice to the men who are doing it, that it is recognized they can't do the kind of job they think is a good job. They are only going to try to do the best kind of job that is possible under the circumstances.

With that objective, I think that they can get it done and can improve it as time goes on and more machinery is available.

MR. SULLIVAN: There is one way everybody has agreed, if it is a flat tax on gross income it can be handled very easily.

Now, that doesn't provide the equity that we like, and it is a question of whether you have less equity or less "auditability," as Roy suggested.

And I think I should state for the record that the Commissioner and I are just as much in favor of a withholding tax as Randolph and Roy and yourself and everybody else, and I think it is essential to expand on an income-tax basis. I also think, however, if we try it and make a mess of it, we will never be able to put it over in the future when we have all the machinery we need.

H.M.JR: We will make everything else that the Government has done badly in the last six months look like peanuts.

MR. SULLIVAN: If it isn't done well, sir, this is going to be terrific.

H.M.JR: One suggestion I have - maybe you people know how they do it in Canada and where they get the

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machinery to do it. Maybe somebody has been up there and has made a study - knows how they do it. Has somebody been up there?

MR. BLOUGH: Yes, we have had a man up there looking into it. He isn't here this morning.

H.M.JR: Because when I found we couldn't get typewriters I asked Lend-Lease how they bought thirty-two hundred typewriters in the last six months for somebody but we couldn't get two hundred and fifty for the Bureau.

MR. SULLIVAN: They were new ones, too, the ones they got.

H.M.JR: Yes, they got new ones, but in the Bureau we couldn't.

Well, I think you people ought to continue this conversation. Then if you have got something, I would be glad - if you get anywhere by tomorrow, I would be glad to sit down and listen again.

MR. HELVERING: How many returns are filed?

MR. BLOUGH: Not nearly as many as there are here, but the personal exemptions are the same as they are here, substantially as they are going to be here.

H.M.JR: So, why don't you go into John's room and talk about it; and if you think you are going to want to see me tomorrow let me know this afternoon, because I think this is terribly important.

MR. PAUL: I think it is vital, and this is our chance. We have got to prove to Congress - if we pass this up, you don't know when we will get it through.

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H.M.JR: I am not arguing that. I am purely arguing as to whether the Commissioner can do it, and I am not going to let them get him on the spot.

July 8, 1942.
11:46 a.m.

HMJr: Hello.

Operator: Mr. Rouse.

HMJr: Hello.

Robert Rouse: Hello, sir.

HMJr: How is the issue going?

R: Well, it's - there's nothing new on it, but the volume of selling of the two's - outstanding two's - has died down.

HMJr: Good.

R: We dropped the quotations a little more rapidly than we planned because of the volume to see if it would dry it up....

HMJr: Yes.

R:and it did.

HMJr: How much did you have to buy?

R: We bought only about four - about four million so far....

HMJr: I thought that.

R:but we've had the boys out talking along the line that I mentioned earlier. It wasn't accomplishing your job for them to sell and....

HMJr: And then buy.

R:buy at the same time.

HMJr: No.

R: The longer market is up on the day, which has been helpful.

HMJr: Oh, really?

- 2 -

R: Yeah.

HMJr: How is the stock market?

R: Ah....

HMJr: Well, I can find....

R: It's rather irregular, but the trend seems to be a little better....

HMJr: Yes.

R:but not active.

HMJr: Well, that sometimes has a little influence.

R: Yeah. There's apparently nothing in the - nothing new in the news to have any effect.

HMJr: No.

R: But that was the - supposed to be the influence in the stock market at the start, but it's gotten a little better than it started.

HMJr: Okay.

R: Right, sir. Oh, one other thing.

HMJr: Please.

R: I was talking with George Harrison the other day....

HMJr: Yeah.

R:and he reiterated, I think a remark he had made to you and to me before, that - that if we ever wanted any subscriptions, he'd be very glad to function.

HMJr: Well, that's good to know. But I don't think we need it yet.

R: No, I don't think we're at that point.

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HMJr: No, I....

R: He's called - I have the word that he's called me and would like me to call him back....

HMJr: Good.

R:which I am about to do.

HMJr: Okay. Good.

R: I - feeling about that, I would assume that he would be asking relative to subscriptions....

HMJr: Right.

R:and I would think that he - he'd want to put in a - a modest subscription, in any event, rather than wait for the two and a half.

HMJr: Right. Okay.

R: Okay.

July 8, 1942
3:20 p.m.

7/11
3:35

SILVER

Present Mr. Bell
Mr. White
Mr. Foley
Mr. B. Bernstein
Mr. E. M. Bernstein

H.M.JR: Here is a letter from McCarran. Somebody set up a letter. There are about a thousand questions to answer: "How much silver is now in the currency systems of Great Britain, and British India, in and outside of the treasuries? What of the silver owned or controlled by these governments, respectively, is held as reserves?", so forth and so on - you and Harry. (Letter dated July 7, 1942, from Senator Pat McCarran handed to Mr. Foley.)

This is what I thought I would do. I have a list - I don't know where it is, but it is here somewhere - of these countries like England who want two and a half million ounces, and so forth and so on - if you will listen closely to me. I thought I would draft a letter something along these lines: "My dear Senator McCarran: I told you and your associate Senators who are interested in silver" - I was going to do it like that rather than say the silver committee - there is no such thing. There hasn't been one appointed. I mean if you look it up - I think I am right - there is no silver committee.

MR. FOLEY: It is a special committee to consult with the Secretary of the Treasury in regard to silver matters.

H.M.JR: Appointed by whom?

MR. FOLEY: Appointed by the Senate.

H.M.JR: Are you sure?

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MR. BELL: A Senate resolution, I think.

MR. FOLEY: It doesn't have the status of a big committee.

H.M.JR: I didn't even know it had that, but anyway we will call it by the right name.

I thought of saying something like this: "My dear Senator: I wish to advise you and your associates" - whatever they are called - "members of the Committee, that--

MR. FOLEY: There it is. (Mr. Foley indicated a paragraph in the Congressional Directory.)

H.M.JR: I didn't even know they had any status. ... "that we are proceeding with negotiations to lend to the British Treasury X ounces of silver without charge, an equal amount of ounces to be returned to us after the war is won."

Now, my thought was this. Instead of my going up, because, like the Agricultural bloc, if I defer too much to them they are going to get greedy, and they are getting greedy, and what they are trying to do is a squeeze play and they want to get this silver up to a dollar.

Now, you can see England - you can bring in as many countries as you want. You fellows have advised me different ways to do it. But the thought that I had, and you can work on the letter and then bring it back to me - I think just sit down and say, "Gentlemen, I wish to advise you I am proceeding with negotiations to lend so many ounces of silver. I am not asking your advice; I am just telling you." See?

"Now, I haven't concluded it but I am proceeding with negotiations."

Now, what do you people think of that, of those tactics?

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MR. WHITE: I think the tactics are good if you have the authority to lend. Do we have the authority to lend?

MR. FOLEY: Lease-Lend.

MR. WHITE: That is different. It isn't we that have the authority. The way I thought we agreed to work it out was it would be Lease-Lend that does everything. They get the silver. We have nothing to do with it because they are just redeeming the silver for silver dollars.

I spoke to Cox, asking whether tentatively they would be willing to consider that procedure, and he thought yes. I didn't ask for an official answer because I said I didn't know if we wanted it; but he said they would. But we wouldn't have anything to do with it.

MR. FOLEY: It would be our silver.

MR. WHITE: No. It would be the holder of the silver certificate who would redeem the silver.

MR. BELL: Redeem it at one dollar and twenty-nine.

MR. WHITE: That is right. In other words, Lease-Lend would have silver--

H.M.JR: Wait a minute.

MR. FOLEY: Where would they get the silver?

MR. WHITE: The same place that any silver holder would.

MR. FOLEY: From the Treasury.

MR. WHITE: Now wait a minute, it is a redemption and--

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MR. B. BERNSTEIN: We can gloss over that, Harry, by saying--

H.M.JR: Do you mind if I interrupt a minute? Let me just start with Mr. Bell. Let's go on the assumption that some agency of the United States Government has the legal authority to do it without asking for legislation. Let's assume that for a minute, and that you have so advised me that somebody can do this thing, and also let's assume that the English Government wants this silver for their coins, and Australia, particularly, and that we should do it. See?

Now, taking those two assumptions for the minute, the thought that I had in mind, and then the rest can be worked out and brought back, Dan, instead of going up and saying, which we have done now twice - going up and saying, "Please may I lend these people silver", and then they get in an argument, - I thought I would follow the tactics, "I am proceeding with negotiations along the following lines, and I wish to advise the silver committee."

Now then, that puts them in the position where they have got to say, "It is illegal" or "We don't like it" or "We don't approve of making silver available for subsidiary coins", and I want to put them in that spot.

Now, all I am asking is, do you think that is good tactics?

MR. BELL: Well, one, I think we ought to do everything we can to make silver available to these countries.

H.M.JR: O.K.

MR. BELL: I certainly think we ought to do that. I don't know how this committee has acted when you went up there. I understood they were

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very friendly the last time.

H.M.JR: Friendly but inching in on me, you see.

MR. WHITE: Friendly because you haven't opposed them.

H.M.JR: Friendly - it isn't a question of giving in - I haven't opposed them, that is correct.

MR. BELL: I think it might be, probably, good tactics just to say: "In order to keep you advised of what the Treasury is doing in connection with silver I want to let you know that we are taking steps to make arrangements for lend-leasing silver to the following countries" - something like that.

H.M.JR: Just as to the tactics?

MR. FOLEY: Yes, I agree.

MR. B. BERNSTEIN: I think that is right. I think we ought to check to see if you made any commitment at that last meeting to get an answer from them on that matter.

H.M.JR: Since then I have had a telephone call, which Miss Chauncey let you read, where I called them and said that we had to do something. Then he was coming down to talk to me about it; then he said, "I have got to go out on these hearings, listen to what the silver miners have to say about your depletion and your excess profits, so I can't discuss it until I come back."

So I am saying, "I am sorry, I can't wait." Not in so many words. "I can't wait until you come back" - I don't want to say that. I am simply saying, "I am proceeding." If he says anything, "After all, Senator, I am sorry. While you travel around the country I can't sit here and wait." You can see my conversation.

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MR. WHITE: Just one suggestion: I think you told them, if I am not mistaken, that you would let them know before you did anything. Therefore, I think rather than say that you are engaged in transactions - I think something like Dan said, that you are going to take steps - you are going to take the first steps. I think you told them that before you would do anything you would let them know.

H.M.JR: Do anything which way?

MR. WHITE: Well, what you said was before you make any change in your policy - I don't remember the exact words. You might construe this as not being any change, and yet they have the idea that before you will do anything you will let them know. So it might be a little better to tell them you are going to and then immediately do it, not wait for approval but notify them you are going to.

H.M.JR: Didn't I say that we are - what did I say?

MR. WHITE: You said that we are proceeding.

H.M.JR: I said - the words I said, "We are in the process of negotiation."

MR. WHITE: Well, you can say, to take what Dan said, "We are going to take steps."

MR. BELL: "We are taking steps to make preparation for--".

H.M.JR: Yes. I don't think that I can simply sit here with these countries, if I have got the legal authority, and not function as an executive, with authority that I have got - it is something different if we have got to go up to Congress and ask for legislation. Dan?

MR. BELL: You already have got the authority.

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H.M.JR: Now, let's discuss for the minute the authority. Nothing will be settled today. Everybody will have a chance to take another look at this thing.

MR. WHITE: Could you pin this on the letter you got from the State Department? You know you got a letter. I asked Berle, and he sent us a letter saying they are very eager to have these countries have it. We can somehow relate this action to that letter.

H.M.JR: What I am trying to do today is to get this off the ground, that is all, and then we will have a look at the letter.

Now, what is this business - what was the form you were going to use, the dollar twenty-nine and that--

MR. B. BERNSTEIN: The opinion doesn't necessarily go into the price. The opinion says that under the Lend-Lease Act there is authority. Now, it becomes a matter between the Treasury and the Lend-Lease people to see how they can work it out in the best way, perhaps taking care of the price figure. But from the point of view of trying to avoid the question of price, you deal in terms of ounces - they agree to give back the same number of ounces of silver.

H.M.JR: That is why I was surprised there was any pricing.

MR. B. BERNSTEIN: There may have to be a book-keeping matter between the Treasury and the Lend-Lease.

MR. BELL: It is in the Treasury, Mr. Secretary, as money, and there has to be an appropriation in order to get it out. In one sense, now, you have got an appropriation to Lend-Lease. Lend-Lease takes ten million dollars of an appropriation and gets silver certificates with it. It takes those silver certificates and brings them to you and demands silver

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in redemption of those certificates, which it has a right to. It then turns the silver over to Great Britain, but now that the bookkeeping is a dollar and twenty-nine an ounce on our books--

H.M.JR: Does it make any difference?

MR. BELL: Oh, yes, it makes a lot of difference. You have no way of charging off the difference at all. There has to be an appropriation if you get less than a dollar and twenty-nine.

H.M.JR: I mean the fact that it is a dollar and twenty-nine.

MR. BELL: I don't know.

MR. WHITE: It doesn't make any difference to us because the Treasury isn't in it at all. They ask for silver; they get it.

H.M.JR: I thought you were worried for fear that it was going to be a dollar and twenty-nine.

MR. BELL: Oh, no, rather--

MR. FOLEY: He would rather have that. He would be worried if it wasn't.

MR. WHITE: When the Lend-Lease gets the silver back from England after the war, then the Lend-Lease has one of many possibilities. They can either give you the silver without any cost--

MR. BELL: When they give us the silver we will give them back the silver certificates.

MR. WHITE: You can either buy the silver from them or get the silver for nothing, or you can buy the silver at any price you want; but I think the beauty of this kind of transaction is that, the

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Treasury has nothing to do with it. It is an appropriation by the Lend-Lease. They are willing to use some of their money because they say this seems appropriate.

H.M.JR: Now, there is one thing which one Senator brought up. I think it is a good point and we ought to try to protect it. He said, "If you lend this ounce for ounce, Mr. Morgenthau" - you look it up, you will see - "Can you make an arrangement that this will supersede any other arrangement so that they can't say, 'We will put this silver into a whole pot and we will settle this with guns and planes and everything else.'" You remember, he raised it.

MR. WHITE: Yes, and we could easily arrange that with the Lend-Lease people, that this arrangement will be a separate agreement. They will just loan this silver and get silver back and have nothing to do with the over-all Lend-Lease agreement; that is what he wanted.

H.M.JR: And I think that the only way we can satisfy him is to make this a separate agreement, and I think it should be separate.

Now, what I would like to do - just as I say, I am not moving too fast because nothing has to be agreed on. I am not going to send a letter to McCarran until you have proceeded far enough with Lend-Lease and with these countries to make sure that they want it.

MR. BELL: Certainly with Lend-Lease you want to be sure of your grounds.

H.M.JR: So make sure of the grounds with Lend-Lease, and then when you are perfectly sure and the letter is polished and everybody in this room except myself has seen it - when you are awfully satisfied - come back, but I think it ought to move fairly promptly. I am the only one around here that can drag my feet. (Laughter)

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MR. FOLEY: What do you mean? You should see Bernie and me. (Laughter)

MR. B. BERNSTEIN: When we try.

MR. FOLEY: I mean actually.

H.M.JR: Is that what you are doing?

MR. FOLEY: Getting a little weary.

MR. WHITE: There are some other silver matters in addition to that.

H.M.JR: I know. The reason I said it was because this fellow (Bell) has been riding me on his gold certificates. I got it right here and I keep looking at it. (Laughter)

MR. BELL: You know part of the answer in that memorandum is the answer in part to your memorandum you sent me today about getting hoarded money into savings bonds.

H.M.JR: Well, it is right here on top of my desk.

MR. BELL: It has been there for three weeks. (Laughter)

H.M.JR: It isn't dated so you can't prove it.

MR. BELL: That is right. I left it undated purposely for your protection.

I would like to ask a question in this connection from a little different angle. Mexico hasn't sold any silver really since they made the agreement. They must have piled up quite a lot of silver, haven't they? Isn't it possible that Defense Plant Corporation

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or some subsidiary of the RFC could buy, say, twenty-five million ounces?

(The Secretary held a telephone conversation with Mr. Ronald Ransom.)

H.M.JR: Will you tell me why in heaven's name this man is so interested in this thing? I am suspicious.

MR. BELL: What Paul suggested is just the opposite of what they are trying to do on this installment credit - cutting down debts. He has been worried about it. They are getting a lot of letters.

H.M.JR: He is so interested that I am suspicious.

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

MR. WHITE: What is happening is this. The local silver importers - we are not buying any from them, but importing about six million ounces a year, the United States is, because--

MR. BELL: Are we getting that?

MR. WHITE: It has been coming in. It is going into the New York market, but there isn't nearly enough supply to satisfy the silver producers. They can't pay more than thirty-five cents an ounce so they are going down to Mexico - they want to buy it in Mexico, and they are willing to pay any price for it. Now, they have offered fifty cents an ounce there, and three of the American silver companies are asking--

H.M.JR: You said "producers" - you mean manufacturers, don't you?

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MR. WHITE: The manufacturers here - the silver plate manufacturers are going down to Mexico trying to buy silver, and we got a cable from the embassy at Mexico wanting to know what our attitude is toward the American silver mining companies down there who wish to cooperate, whether they should sell their silver at fifty cents an ounce down there rather than at their choice. I presume either they will hold it waiting for a better price from some foreign countries or send it in here where they can only get thirty-six cents.

The OPA won't object to American manufacturers going to Mexico and paying more than the ceiling, and they want to have a permit system which will prevent any importer from importing silver if he is paid more than thirty-six cents.

H.M.JR: Will you please tell me something - I am just a farm boy - why did OPA have to put a ceiling on silver?

MR. WHITE: God knows. I have asked that question - because they put a ceiling on everything, and they said silver is included. That is the only reason.

H.M.JR: I mean why. They don't put any ceiling on hogs.

MR. WHITE: Well, they put it on metals.

H.M.JR: But they didn't put any on hogs.

MR. BELL: One hundred and ten of parity, fixed--

H.M.JR: There is no ceiling on hogs.

MR. BELL: Isn't that fixed by the statute?

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H.M.JR: No, there are eight commodities, as I understand it, eight which their lawyers said they couldn't put a ceiling on, and hogs is one of them.

MR. WHITE: Well, Mexico is probably illustrative of the fact they are sore: "For your own domestic manufacturers you have got a seventy-two cent price, and when we get a chance to get a little more you put a thirty-six-cent ceiling."

H.M.JR: Why--

MR. WHITE: They have done it. We wouldn't take a position on it so we really haven't got a gripe if we complain. They raised the question with us before they did it, and we wouldn't tell them no and we wouldn't tell them yes. We told them nothing.

H.M.JR: Well now, look, let's just be serious for a minute. The thing that I am worried about is that these men - this silver committee is trying to drive this price up, let's say, to a dollar - God knows where they are trying to drive it. We have got the situation where OPA says thirty-six cents, and then these American manufacturers go down to Mexico, you say, and buy it at fifty cents.

MR. WHITE: They are willing to pay fifty and are offering fifty.

H.M.JR: And we have not taken the position--

MR. WHITE: We have not taken the position with OPA. They have called us up--

H.M.JR: Why should we take the position with the OPA?

MR. WHITE: The reason why we had agreed not to take the position with the OPA to tell them right or wrong is we didn't want to get your wires crossed with the silver committee.

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H.M.JR: Wait a minute, when you say OPA - have we done anything about the American manufacturer who wants to go down and buy this stuff in Mexico?

MR. WHITE: Nothing has been done, but the OPA would like to do something, and this is what they would like to do. They would like to say to the American manufacturer, "You can buy your silver in Mexico and pay any price you want, but if you do we are not going to let you bring it in the United States. If you want to bring it in the United States you will have to pay no more than the ceiling price."

H.M.JR: What is going to happen to the American manufacturers?

MR. WHITE: The only silver that he will get - he will get much less silver, and they are going to allocate the silver among those priorities which they think are most important, which would mean there would be a lot of silver plate manufacturers and others who will not get silver. They will have to allocate it shortly among the producers.

Now, in addition to that, some of the silver plate manufacturers who feel that they must get silver willy-nilly are offering more than seventy-one cents for domestic silver.

H.M.JR: Well, following the usual thing, what they are doing in other things, what they should do in this case - they will go down and buy it at fifty cents and sell it to the American manufacturer at thirty-six. That makes just as much sense as they are doing in some of the other things.

MR. WHITE: That is what you (Bell) are suggesting.

H.M.JR: No, Bell would never suggest a thing like that.

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MR. WHITE: I thought he said to have Defense Plant Corporation buy silver.

MR. BELL: I didn't think Mexico was exporting silver, and I thought they were holding it for a higher price; and if they were, how about getting Defense Plant to go down and buy twenty-five million ounces and bring it into the United States and use it for these coinage purposes and any other purposes. I don't care what they sell it for. Defense Plant Corporation is not controlled by the law that controls the Secretary in selling silver.

MR. WHITE: No.

MR. BELL: If that were done, we wouldn't have our hands tied with this silver committee.

MR. WHITE: Neither Mexico nor Canada are going to continue to sell silver to the United States when they can get more for it. They will decrease their exports to the United States.

H.M.JR: Yes, but Dan, you know perfectly well that if Defense Plant Corporation did such a thing they would know it in two minutes.

MR. BELL: Supposing they did?

H.M.JR: And then the Silver Committee would have Jesse Jones up there and they would stop them.

But let me go at this thing another way. Why is it my business?

MR. WHITE: It isn't. I mean, the silver supply, the coinage, is. I think this business of coinage is, but the silver supply--

H.M.JR: Excuse me, don't go so fast. Silver coinage is treasury to treasury, seeing another

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treasury has silver. What? But the other thing - but anyhow, why couldn't the treasury of Great Britain go down to Mexico and get some of this silver, two and a half million ounces - why can't they get it right from Mexico or Canada? That is what I can't understand. Why do we have to do all of this rigmarole?

MR. WHITE: I asked them that question. One thing is that the silver that Mexico has has been tied up in contracts and hasn't been available. In the second place, so far as England is concerned, it is hoping to get this silver on Lend-Lease. They don't want to pay dollars for it. The Iranian Government - it was suggested they get it from them, and sooner or later they are going to get it. That is where it is going to go.

H.M.JR: But in the meantime the American manufacturer has to pay more than seventy-one cents for domestic silver in order to get that?

MR. WHITE: They are putting a ceiling on that of seventy-two cents, I think, just enough so that it will go to the manufacturers rather than to the Treasury. Maybe it is a cent more.

MR. B. BERNSTEIN: What kind of an impression is it going to make on the producer of silver in Mexico that we will allow the American to get seventy-two cents for his silver but tell the American manufacturers they can only pay thirty-six cents to someone in Mexico?

MR. WHITE: It has already made a very bad impression. They say, "The first time we have had an opportunity to get a good price you not only prevent us from getting it but you permit your domestic producers to get more when it is going into industry."

H.M.JR: Well look, Dan, it seems to me, on the theory these days that I try to keep my nose in my own back yard, if we take care of these various treasuries that want silver, foreign governments, isn't that about all that we should attempt?

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MR. BELL: That is all I am worried about, and I am really only worried about the ones that have a situation created by our own troops, such as Australia. You are going to have it in Ireland pretty soon. I am worried about those.

H.M.JR: Well then, why don't we proceed rapidly to prepare this letter, if Lend-Lease is willing to do it, and do it in this way?

MR. BELL: That is all right with me.

MR. WHITE: You have still got that five million ounces which you can sell, which you have been holding up for this.

H.M.JR: Why don't we do that?

MR. WHITE: There is the question of who is going to take the loss.

MR. B. BERNSTEIN: It is easy enough to sell it at forty-three cents now.

MR. BELL: Sell it for the price on the books now.

MR. B. BERNSTEIN: Forty-three.

MR. FOLEY: The average is forty-three.

H.M.JR: And they have agreed we can sell that?

MR. WHITE: I think you could get forty-three cents now.

MR. BELL: I don't think they would fuss about that, six or seven cents difference.

MR. WHITE: When we went to Jones it was a question as to who was going to absorb that eight-cent loss. If we can get forty-three cents now--

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H.M.JR: Let me get this. We have got five million ounces of silver which they agreed we could sell. Who would we sell that to?

MR. BELL: Australia ought to get the first lot because they need coinage very badly, and Great Britain.

MR. WHITE: A million to Iran; you could sell several million ounces for coinage, and you could sell the rest either to the market or you could sell it to Lend-Lease - let them lend-lease it.

MR. BELL: I wouldn't sell any of it except for places where it is actually needed, and that at the forty cents, and let whatever develops after that be through Lend-Lease, if necessary.

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

MR. BELL: Hold the five million just for those places where they actually need additional coinage, a shortage of which is caused by our own troops, like Australia.

H.M.JR: What would you charge them?

MR. BELL: I would charge them the book value, book cost, forty-three cents.

H.M.JR: Why must we always - why can't we make a little money?

MR. BELL: We are not making money. It is actually what it cost us.

H.M.JR: I say why can't we add on a little bit?

MR. BELL: You can, of course. As I recall, the last from Australia authorized the Federal Reserve to pay forty cents.

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MR. WHITE: Forty cents, but if you are going to lend-lease it you can charge Lend-Lease anything you want.

MR. BELL: This is the five million ounces I am talking about now.

MR. WHITE: I say you could use the silver for that purpose instead of having Lend-Lease get it by redeeming silver certificates. You can either utilize this silver for the coins--

H.M.JR: May I make a suggestion? In order to make the thing towards the other governments look consistent, my suggestion is that we sell the five million ounces to Lend-Lease at cost and then Lend-Lease it on an ounce-for-ounce basis - I mean, a consistent formula. When it exhausts it, the five million ounces, then they will draw on us for the rest by presenting silver certificates. But as far as the foreign governments are concerned, the whole procedure would be lend-lease, and then - in other words, we wouldn't one day be saying to Australia, "You get this at forty-three cents," and the next day we say to England, "You get it on an ounce-for-ounce basis." But the whole thing would be on an ounce-for-ounce basis. You would have one master agreement, ounce-for-ounce, but as far as Lend-Lease is concerned, the first five million they would buy from us at cost.

MR. WHITE: The only troubling thought about that that I see--

H.M.JR: Just one second - I mean just - Dan, I mean, we would have two different arrangements with Lend-Lease, but as between Lend-Lease and other countries they would all be the same.

MR. BELL: It would be on an ounce-for-ounce basis.

H.M.JR: They would all be the same, and that makes us look consistent with other governments.

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MR. BELL: That is all right with me.

H.M.JR: I mean - do you see what I mean?

MR. BELL: Yes.

MR. B. BERNSTEIN: I feel a little like the Scotchman, that if we are going to do it through Lend-Lease and charge the other countries on the ounce-for-ounce basis, which is perfectly sound, then let's save that five million ounces for an emergency. We can handle the whole thing--

H.M.JR: No, you are wrong, and I will tell you why, because they will keep coming back to me and saying, "Why do you ask for more authority when you haven't used up that five million ounces?" They have asked me that now a couple of times. What answer would there be?

MR. B. BERNSTEIN: There is a shortage in the domestic market.

MR. WHITE: A shortage of silver - we are vulnerable - supposing the people who claim there is a shortage here say, "You had five million ounces to sell, and what did you do? You sent it to foreign countries instead of supplying your own market." That is why you might want to sell five million in your own market.

H.M.JR: Would you sell the five, or, after all, how much do the artists and the arts - how much goes into the arts in this country, thirty-five million ounces?

MR. WHITE: A year - this year it is supposed to be a hundred and twenty million. They may use--

H.M.JR: No, I was thinking the arts - I didn't mean--

MR. BELL: About forty million.

MR. WHITE: No, this year they claim they can use - they have been using half of that, a little less than half of that.

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H.M.JR: I don't see why we are vulnerable. What good is five million ounces? You are not going to sell it to the International Silver Company.

MR. WHITE: You are going to sell it to the people who WPB say need it most. They are going to allocate it.

H.M.JR: Well, WPB has got an arrangement with Defense Plant Corporation. They can draw on us for--

MR. B. BERNSTEIN: Mr. Secretary, that is for non-consumption purposes there, apparently. This five million you could turn over to whom the WPB says needs it for consumption purposes in war production.

H.M.JR: Have they said they need it for consumption purposes?

MR. WHITE: They say they will need it. They need more than is available for war purposes.

H.M.JR: It is lying here. Nobody has called on us.

MR. WHITE: Well, they are--

H.M.JR: Well, again, that doesn't have to be settled now.

MR. BELL: I guess we probably would have to keep some out for this nickel.

MR. WHITE: This nickel is causing trouble now, Mr. Secretary. They can't get copper, and they have to revise all the estimates. They are thinking of using zinc for the nickel. They can't get copper for pennies, either. They are working now on the zinc penny, and they may have to revamp this notion of silver in the nickel because of the change.

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MR. BELL: If silver goes to seventy-two cents, it will be profitable to melt down the original nickel and get silver out of it and sell it.

H.M.JR: Well, will you gentlemen, because I have got a little something else to do, get this thing started? Now, you could tell Lend-Lease, "We may want to do it one or two ways, either sell you the five million ounces, or have you present silver certificates." So work both ways, and then you can look around and see whether we want to keep the silver, the five million, as Bernie said, as a nest egg.

And that is everything that Harry White has to bring up this afternoon. (Laughter)

MR. WHITE: The silver thing is not yet answered. I mean, what position would we want to take in answer to this cable about whether or not they can buy their silver down there or here? It seems to me it is not our affair.

H.M.JR: I thought we answered that. Let the State Department answer that. They always want to be in on everything, but the--

MR. WHITE: It is not a monetary problem.

H.M.JR: Let--

MR. WHITE: It is not a monetary problem; I will take it up with WPB or the State Department.

H.M.JR: Everything is lovely. Harry hasn't got another thing to do. (Laughter)

MR. WHITE: China owes us nineteen million dollars. She has as collateral against that, nineteen million dollars, plus a couple of hundred thousand dollars in gold. She is paying interest on that. She wants to close that account out, but she doesn't want to sell the gold to pay for it, for reasons which are not clear,

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and she doesn't offer reasons. But what she does want to do is pay for the nineteen million dollars which she owes us with part of the five hundred million dollars which we are supposed to have loaned her. In other words, she wants to use the first nineteen million now to pay back this loan and thereby release the gold which she will continue to ~~count~~ against the reserves.

H.M.JR: My answer is no - no. Listen, these Chinese--

MR. WHITE: She said there were no strings on the five hundred million.

H.M.JR: That is all right; there are no strings on the nineteen million, either. I got the nineteen million dollars in gold. I am going to hold on to it.

MR. BELL: Would they pay for it out of the two hundred million with the Reserve Bank in New York?

H.M.JR: No, no, this was a separate transaction, nineteen million. This nineteen million dollar gold is up on deposit.

MR. WHITE: The nineteen million are reserve against our nineteen million of yuan which you have.

H.M.JR: How old?

MR. WHITE: Nineteen thirty-seven.

H.M.JR: O.K., I will hang onto that gold.

MR. B. BERNSTEIN: It all depends on how you say it.

H.M.JR: You know my story, don't you? You know the story, don't you, about the mother who came in and she found the father ranting up and down? You have heard me tell this story. She says, "What is the

- 24 -

matter?" "Look at the letter that John, Jr. wrote me." You have heard me tell this story. "What is the matter?" "Why, here he writes me - he says, 'Daddy, please send me ten dollars through the next mail.' I say the impertinence; I just sent him ten dollars." She says, "You don't read it right, John, 'Please send me ten dollars in the next mail. What is the matter with that?' So you tell--

MR. WHITE: I am afraid you can't do that with "no." The "no" sounds just as bad, no matter how you say it.

H.M.JR: All right, get Summer Welles to write it. Let him say no, that we hang onto it. I am not going to be short-changed on the nineteen million dollars.

MR. WHITE: Let me come back at you because we all feel differently about that.

H.M.JR: Do you?

MR. BELL: Well, it is giving up an interest-bearing obligation for one that isn't going to bear interest. I can see their point.

H.M.JR: No, I am losing--

MR. BELL: Two hundred million dollars with the Federal, that is what we ought to do - take it out of the two hundred million dollars.

H.M.JR: That is part of the five hundred million. I have got nineteen million. This was in good faith. I can look Mr. Soong in the eye - it is a question of the Chinese honor.

MR. WHITE: I don't see how you can tie it up with--

MR. B. BERNSTEIN: I still think it is the way you said it.

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H.M.JR: How would you say it?

MR. B. BERNSTEIN: They owe you nineteen million dollars, and they have with you nineteen million dollars of collateral.

H.M.JR: Straight faced?

MR. B. BERNSTEIN: I will do it straight-faced, and they are going to pay you the nineteen million with the nineteen million of gold. They wipe off the obligation owed at that point; they don't have any gold; and don't owe you any nineteen million dollars. You have agreed to give them three hundred million; they call on you for twenty million in gold.

MR. WHITE: They want to buy twenty million.

MR. B. BERNSTEIN: Not buy it. Under financial aid give them twenty millions in gold.

MR. WHITE: They buy it.

MR. B. BERNSTEIN: Well, instead of paying them dollars, they say, "Give it to us in gold instead" - twenty million, that is all.

MR. BELL: It still ought to come out of the two hundred million from the Federal Reserve Banks. I still say--

MR. WHITE: I will come back again because I don't think we can tell them no because they have got us by the hip on this. They are asking us a very simple thing. They have got five hundred million dollars, and they want twenty - to buy twenty million dollar's worth of gold. They want to release this gold and use twenty million. Now, admittedly, there is something a little smart about it, no question about it.

H.M.JR: Maybe Bernie has got the answer - we do one transaction at a time. They have got nineteen

- 26 -

million dollars loaned against nineteen million dollars' worth of gold. Let's clean that up first. They pay off with the gold here, then if later on they want to buy some more gold that is their business.

MR. WHITE: I think we can work that out simultaneously.

H.M.JR: Not simultaneously - one thing at a time.

MR. BELL: But remember, out of the credit with the Federal Reserve Bank in New York, not out of the three hundred million.

B/B
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United States Senate
 COMMITTEE ON APPROPRIATIONS

July 7, 1942

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

My dear Secretary Morgenthau:

I would greatly appreciate it if you could see fit to give me the following information, as promptly as possible, in line with our discussions of recent date. If you will do me the courtesy of sending this information here to my office, I will be grateful.

Those items upon which I would like specific data may best be presented in the form of the following questions:

1. How much silver is now in the currency systems of Great Britain, and British India, in and outside of the treasuries?
2. What of the silver owned or controlled by these governments, respectively, is held as reserves?
3. What stocks of silver are held in Mexico, both for commercial and currency purposes?
4. What stocks of silver are held in Canada, both for commercial and currency purposes?
5. Does the government of Mexico have stocks of silver which are available for sale in commercial channels? If so, how much?
6. Does the government of Canada have stock of silver which are available for sale in commercial channels? If so, how much?
7. How much is there in the currency system of Mexico, in coinage and held against outstanding paper money, or otherwise held as a reserve?

July 8, 1942.
3:37 p.m.

HMJr: Hello.

Operator: Go ahead.

Ronald
Ransom: Hello.

HMJr: Yes, Ronald.

R: Randolph Paul has been most helpful and attentive to our request about the debt moratorium matter....

HMJr: Yeah.

R:and I just wondered if the suggested solution has been brought to your attention.

HMJr: Oh, yes, and I think it's - as far as I know - I think it's going to be given out to the press.

R: Fine. I see. Well, thanks very much.

HMJr: Well - I - it's in the hands now of - of Ferdinand Kuhn, Jr.

R: Yes.

HMJr: Because I couldn't understand it, so I thought I'd get an expert to take a look at it.

R: (Laughs) Well, listen, if you can't understand it, all of us better rewrite it. What are - what are you going to get the average fellow out in the country to understand?

HMJr: Yeah, well it - I - I couldn't understand it.

R: You couldn't. Well, I....

HMJr: So I told Kuhn to take a look at it, and if he could understand it, let it go to the press, but it didn't make sense to me.

- 2 -

R: Well, if you want to say it any other way, that's okay with us.

HMJr: Well, I gave it to him. He's a newspaper man, and I said if he could make sense about - of it - Bell approved it....

R: Yes.

HMJr:and, God - your interest in this - we ought to charge you something for this.

R: You ought to? All right. Is it - is it reimbursable expense?

HMJr: Lend-Lease.

R: Lend-Lease. All right, just send us over a bill.

HMJr: Okay.

R: And - can I - if sometime in the next day or so, if nothing happens on it, call Kuhn?

HMJr: No, I'll - I'll make it easy for you.

R: Yes.

HMJr: No, we don't work that way. It'll either be released tonight or not at all....

R: (Laughs) I see.

HMJr:for tomorrow morning's papers, and I'll tell him to notify you.

R: Thanks very much - appreciate it.

HMJr: I'll tell him to notify you.

R: Appreciate it.

HMJr: That's all right.

R: Fine.

July 8, 1942.
3:39 p.m.

HMJr: In regard to this debt business of Ronald Ransom....

Ferdinand Kuhn, Jr.: Yes.

HMJr:versus Paul. He just called me. He's all hot and bothered. As the President says, "He's got ants in his pants."

K: (Laughs) Who? Ronald Ransom?

HMJr: Yeah.

K: Yeah.

HMJr: And he wants to know whether it's going to be out in tomorrow morning's papers.

K: Yes, I gave it to Chic a few minutes ago, and we changed a few words, and....

HMJr: Well, call him back and tell him so, and you'll make him very happy.

K: All right.

HMJr: You'll be the white-haired boy for life.

K: (Laughs) I'll do it.

HMJr: Call him back and tell him. I told him I couldn't understand it - I'd sent it in to you.

K: (Laughs) All right. I - I think it was clear but didn't go far enough.

HMJr: All right.

K: All right.

HMJr: Goodbye.

K: Goodbye.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, July 8, 1942.

Press Service
No. 32-42

The following statement was made today by Secretary Morgenthau:

In his Message to Congress on April 27, 1942, the President said:

"To keep the cost of living from spiraling upward, we must discourage credit and instalment buying, and encourage the paying off of debts, mortgages, and other obligations; for this promotes savings, retards excessive buying and adds to the amount available to the creditors for the purchase of War Bonds."

I want to reemphasize this seventh point in the President's recent Message to Congress so that there may be no misunderstanding about it.

Specifically, I want to clear up a misconception that may have arisen from a memorandum recently presented by Mr. Randolph Paul, Tax Adviser to the Secretary of the Treasury, to the Ways and Means Committee of the House of Representatives on the subject of repayment of debts under high tax rates. This memorandum stated explicitly:

"It should be emphasized that this memorandum does not contain any recommendations of the Treasury but was submitted merely for the information of the Committee in response to questions relating to various subjects, particularly the debt problem. It is merely a staff study and does not incorporate any policy decisions."

Committee questions called for a discussion of all remedies and the subject of a debt moratorium was, therefore, referred to in the memorandum. As some misunderstanding seems to have arisen, I should like to make it clear that the Treasury did not recommend such a moratorium. Nor did the Committee take any action with respect to the memorandum.

-oOo-

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE VICE CHAIRMAN

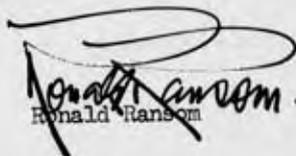
July 8, 1942

My dear Mr. Secretary:

I am today in receipt of your letter of July 6 acknowledging mine of July 3 on the subject of the memorandum on the repayment of debts under high tax rates which Mr. Paul submitted at the request of the Ways and Means Committee on June 22.

I am also today in receipt of a copy of your press release of this date clarifying the matter and want to express my sincere appreciation to you and Mr. Paul for your prompt response to the request that something be said that would explain any implied inconsistency between the subject matter of Mr. Paul's memorandum to the Ways and Means Committee and the general policy of regulating consumer credit.

Sincerely,


Ronald Ransom

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

July 8, 1942.
4:06 p.m.

HMJr: Hello.

Operator: Mr. Rouse.

HMJr: Hello.

Robert Rouse: Hello.

HMJr: Well - how's it look to you?

R: Well, it's done pretty well, I think.

HMJr: Pretty well.

R: The - the reports we get from out of town indicate that they're not as enthusiastic as for a two and a quarter, but they like it....

HMJr: I see.

R:that - there is - and they - they feel generally that they have a job to do and will subscribe.

HMJr: I see.

R: The figures here, I think, are fairly good. For three o'clock we had \$321 million.

HMJr: Do you think it's all right for me to announce that it closes tomorrow night?

R: Yeah, I think it's the only way we'll get the action we need. I would.

HMJr: Okay.

R: The....

HMJr: All right.

R: We've bought about \$10 million altogether here....

HMJr: Well, that's not....

R:notes and bonds.

HMJr: Well, that's not bad.

R: If we hadn't dropped the prices as much as we had, we would have bought a good deal more.

HMJr: Yeah.

R: But it's - I think it's coming along all right. The reports we had and the - those who actually put in their subscriptions indicate it's holding up pretty darn well, I'd say.

HMJr: Okay.

R: You got the report on the National City and....

HMJr: Yeah.

R:Corn Ex. came along the same way. Well, I - every indication we have is - is satisfactory.

HMJr: Okay.

R: Okay.

HMJr: Thank you.

Please ask them
AW not to give
me these citations
two months after
the event took
place. They should
do it each week.

J.M.J.

Informed Mr. Kubin 7/8/42

Please ask them
AW not to give
me these citations
two months after
the event took
place. They should
do it each week.

J.M.J.

Informed Mr. Rubin 7/8/42-

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 8, 1942

TO Secretary Morgenthau
 FROM Mr. Haas
 Subject: Additional cost to the Government of 100 percent of parity crop loans

This statement is prepared in response to your request for information on the cost to the Treasury of the proposed parity crop loans.

The Bankhead-Russell parity loan bill, which passed the Senate by a close vote on July 7, provides for loans at 100 percent of parity on the 1942 crops of the 6 so-called "basic" farm products: wheat, corn, rice, cotton, tobacco and peanuts. Prices for 4 of these crops are below parity, as indicated by farm prices on June 15:

	Parity price June 15 (Cents)	Average farm price June 15 (Cents)
Wheat, per bu.	134.4	95.7
Corn, per bu.	97.6	81.9
Rice, per bu.	123.6	171.1
Cotton, per lb.	18.85	18.26
Peanuts, per lb.	7.30	5.51
Tobacco, per lb.	<u>1/</u>	30.2

1/ Varies with different types, but for flue-cured and Burley, which constitute the bulk of the crop, parity prices are 27.9 cents and 27.1 cents, respectively.

Senator Russell, in advocating the parity loan bill, said "The bill will not cost the Treasury any more money, and it deals fairly with the Government, farmers, and consumers." It is difficult to find a basis for such belief. While no quantitative estimate of the cost to the Treasury can be made, the several ways in which the parity loan plan is likely to increase Treasury expenditures are indicated in the following discussion.

The effect of the passage of this legislation would be to raise prices of the commodities concerned. Since there are no price ceilings on those commodities, and none can be imposed below 110 percent of parity, it is probable that prices would rise to somewhere near the 110 percent level. The amount of the various crops which would go under loan would depend, of course, on the relationship of the market price to the loan level.

The crop loans would be made initially by interior banks, the loans being guaranteed by the Government. To the extent that notes were turned over to the Government, funds would have to be borrowed by the Treasury to pay the banks. In either case an inflationary credit expansion would result.

Experience has shown that whenever crop loans are offered at or near current market levels, a substantial quantity of the commodity has nearly always been left in the hands of the Government, which must then carry the liability for storage costs and price risks. The stocks of cotton, wheat, and other commodities now held by the Commodity Credit Corporation were largely derived from such loans.

Of much greater importance to the Treasury would be the inevitable effect of higher crop loans in increasing the cost of the war program. The effect would be felt immediately in an increase in prices paid for various farm products that are being bought in huge quantities for lend-lease shipments and for Army and Navy use. Prices of grains and grain products would be affected directly. This rise, in turn, would have wide repercussions on the whole price structure, since it would raise feeding costs and thereby lead to increased prices for meats, poultry, eggs and dairy products. It is useless to assume that price ceilings would hold under these conditions. They could be made to hold only by costly Government subsidies to processors and distributors. In the case of pork products, it is becoming doubtful whether price ceilings can hold even under present conditions.

If it be argued that feed costs may be held down by a supplementary provision allowing the sale of Government stocks of wheat and corn for feeding purposes at 85 percent of parity, this would mean that the Treasury must absorb the difference between that price and the original cost of the wheat and corn. To the extent that such subsidies are financed by increased bank credit their effects would be doubly inflationary.

The most serious feature of the parity loan plan would be its indirect and immeasurable effects in contributing to general price inflation through (1) raising living costs, and thereby lifting wage rates (which would increase contract prices for war materials), and (2) undermining the faith of the people in the Government's ability to prevent a wartime price advance.

July 8, 1948

TO: MR. BELL:
FROM: THE SECRETARY

Please talk to me about starting a drive to get the hoarded money into Government bonds. I think we should start with the foreign-born first.

7/16-
Bell has done

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE July 8, 1942

TO THE SECRETARY
FROM TED R. GAMBLE

Mr. Bayard Pepe called from New York, and advised that they had, following our suggestion, contacted the Federal Reserve and arranged for \$10,000 in stamps for use in their canvas.

I have advised Mr. Bell.



TREASURY DEPARTMENT
WASHINGTON

July 8, 1942

MEMORANDUM FOR THE SECRETARY:

You will recall that when Mr. Trownstine was here the other day, he spoke specially of the newspaper advertisements used in the Cincinnati pledge campaign.

I attach hereto a portfolio of such advertisements.

GRAVES.



*material too large & voluminous
to handle in diary. R-
turned to Mr Graves.*





TREASURY DEPARTMENT
WASHINGTON

July 8, 1942.

MEMORANDUM FOR THE SECRETARY:

Mr. Houghteling reports to me that all arrangements have been made for Mrs. Morgenthau, Miss Elliott, and Miss McCarthy to visit the Glenn Martin plant to-morrow, Thursday, July 9.

GRAVES.



TREASURY DEPARTMENT

WASHINGTON

July 8, 1942

MEMORANDUM FOR THE SECRETARY:

We are making arrangements to have complete and regular reports, for your information, of companies and firms which attain 10% participation in the Payroll Savings Plan.

The first of these reports should be available to you about the middle of next week. It will be supplied by Mr. Tickton.

GRAVES.


July 2, 1942

Mr. Road

R. H. O'Malley

W E E K L Y R E P O R T

1. Statistics
2. The following concerns have now reached the 10 percent of gross payroll goal:

<u>NAME & ADDRESS</u>	<u>NUMBER OF EMPLOYEES</u>	<u>EMPLOYER PARTICIPATION</u>	<u>PAYROLL PARTICIPATION</u>
Arma Corp., Brooklyn, N. Y.	3,000	100%	12%
Sonoco Products Co., Hartsville, S.C.	1,525	99.5%	10%
Diamond T. Motor Car Co., Chicago, Ill.	1,743	98%	10% plus
W. T. Grant Co., New York, N. Y.	900	96%	11%
Northwestern Steel and Wire Co., Sterling, Ill.	1,795	100%	10%
W.S. Butterfield Theatres Inc., Detroit, Mich.	1,289		10.6%
Baycove Associates, Bayonne, N. J.	1,100		16.8%
Consolidated Steel Corp., Orange, Texas	12,000	94%	10% plus
Cummins Construction Co., Cedar Point, Md.	2,000		10% plus
Hamilton Foundry & Machine Co., Hamilton, Ohio	331		10%
Green Watch Co., Cincinnati, Ohio	184	100%	10% plus
General Electric Co., Schenectady, N. Y.	125,000 plus	95%	10%
Northern Pump Co., Minneapolis, Minn.	6,630	100%	14.39%
Deere & Webber Co., Minneapolis, Minn.	317		10%
Southern Bleachery & Print Works Inc. Greenville, S.C.	1,441		10% plus
Consagra Coal Co., Elakely, Pa.	300	100%	10%
Beech Aircraft Corp., Wichita, Kansas	5,000 plus		16.14%
American Hoist & Derrick Co., St. Paul, Minn.	1,500	95%	10% plus
Scruggs, Vandervoort & Barney, St. Louis, Mo.	2,610	98% (St. & Bds)	14.8%
Caseo Products Corp., Bridgeport, Conn.	855	100%	11.9%
J. Hungerford Smith Co., Rochester, N. Y.		100%	10%
Aro Equipment Corp., Bryan, Ohio	750	100%	12% plus
Westinghouse, Nuttall Works, Pittsburgh, Pa.	998	100%	10.25%
American Chain, Division of American Chain and Cable Co., York, Pa.	2,058	100%	10.24%
Saquett Silk Mill, Scranton, Pa.	1,100	100%	10%
Speer Carbon Co., St. Marys, Pa.	1,100	98%	10%
Babcock & Wilcox Tube Co., Beaver Falls, Pa.	2,000		10% plus

Mr. Reed

- 2 -

July 2, 1942

3. Local No. 7544 United Mine Workers Union, U.M.W.A., Blakely, Pennsylvania, passed the following resolution:

"Resolved that Consagra Coal Co. of Blakely, Pa. be and is hereby authorized to deduct from the semi-monthly pay of each member of our Union, 10% of wages earned to be invested in war bonds of the U. S. A., representing the contribution of the members of our Union to the government toward the prosecution of the war now involving it with the Axis powers. Be it further resolved that Local #7544 of the U.M.W.A. will cooperate in any manner and make any sacrifice in their power to bring this war to a victorious conclusion for the U. S. A."

A resolution similar to the one above was passed today by the Executive Committee of the United Mine Workers Union, U.M.W.A. District #1, Scranton, Pennsylvania (Mr. Michael Kosik, President) making it mandatory that every Local Union under the District pass a resolution instructing the employers to deduct 10% from every single member for the purchase of War Savings Bonds.

This resolution automatically secures 10% participation in the Payroll Savings Program from 22,000 miners in Lackawanna County and 37,000 in Luzerne County.

Inasmuch as the miners already have the check-off in effect, the above resolution simply increases the amount of each worker's deductions and can be definitely checked by the War Savings Staff.

4. Six thousand posters, "We can, we will, we must", have been sent to Mr. Arthur R. Hopper, General Agent of Ringling Bros. and Barnum & Bailey Combined Shows Inc., who has agreed to place this poster at their billing locations throughout the country.

LEW:lk



TREASURY DEPARTMENT
WASHINGTON

July 8, 1942

MEMORANDUM FOR THE SECRETARY:

Herewith a table, prepared in Mr. Haas' division, showing, by States, a comparison of June sales of War Savings Bonds with the quotas which were fixed for that month.

It is only fair to the low States to say that there is considerable doubt in my mind about the validity of the June quotas--a matter which we are now studying with a view to appropriate revisions for subsequent months.


GRAVES.



Comparison of Actual Sales of War Savings Bonds Series E, F and G
By States, June 1942, with Quotas Established for the Month

(In thousands of dollars)

State	Actual Sales	Quota	Difference	Percent Actual Sales to Quota
Alabama.....	6,045	5,320	725	113.6
Arizona.....	1,574	1,921	-347	81.9
Arkansas.....	3,241	3,815	-574	85.0
California.....	41,226	54,441	-13,215	75.7
Colorado.....	4,332	5,572	-1,240	77.7
Connecticut.....	16,284	17,381	-1,097	93.7
Delaware.....	2,414	2,249	165	107.3
District of Columbia.....	5,807	8,075	-2,268	71.9
Florida.....	5,768	7,864	-2,096	73.3
Georgia.....	6,468	7,444	-976	86.9
Idaho.....	1,241	1,972	-731	62.9
Illinois.....	55,835	65,409	-9,574	85.4
Indiana.....	16,669	14,876	1,793	112.1
Iowa.....	15,106	12,000	3,106	125.9
Kansas.....	5,345	6,475	-1,130	82.5
Kentucky.....	5,922	7,474	-1,552	79.2
Louisiana.....	5,899	6,957	-1,058	84.8
Maine.....	3,406	4,272	-866	79.7
Maryland.....	9,137	12,002	-2,865	76.1
Massachusetts.....	28,441	36,789	-8,348	77.3
Michigan.....	31,589	29,783	1,806	106.1
Minnesota.....	11,892	15,268	-3,376	77.9
Mississippi.....	3,219	4,202	-983	76.6
Missouri.....	17,398	22,658	-5,260	76.8
Montana.....	2,101	3,847	-1,746	54.6
Nebraska.....	4,309	4,562	-253	94.5
Nevada.....	575	817	-242	70.4
New Hampshire.....	2,108	2,508	-400	84.1
New Jersey.....	25,472	36,562	-11,090	69.7
New Mexico.....	960	1,457	-497	65.9
New York.....	102,025	161,795	-59,770	63.1
North Carolina.....	6,733	8,191	-1,458	82.2
North Dakota.....	1,652	1,985	-333	83.2
Ohio.....	32,042	42,723	-10,681	75.0
Oklahoma.....	5,076	7,486	-2,410	67.8
Oregon.....	5,913	7,746	-1,833	76.3
Pennsylvania.....	51,115	69,834	-18,719	73.2
Rhode Island.....	5,310	6,588	-1,278	80.6
South Carolina.....	3,505	3,351	154	104.6
South Dakota.....	1,520	1,808	-288	84.1
Tennessee.....	5,930	7,189	-1,259	82.5
Texas.....	19,261	26,002	-6,741	74.1
Utah.....	1,642	1,747	-105	94.0
Vermont.....	1,128	1,630	-502	69.2
Virginia.....	9,900	12,007	-2,107	82.5
Washington.....	9,564	10,462	-898	91.4
West Virginia.....	4,534	5,703	-1,169	79.5
Wisconsin.....	16,005	16,271	-266	98.4
Wyoming.....	982	1,416	-434	69.4
Alaska.....	428	400	28	107.0
Canal Zone.....	50	-	50	-
Hawaii.....	4,841	1,365	3,476	354.7
Puerto Rico.....	256	316	-60	81.0
Virgin Islands.....	8	13	-5	61.5
Subtotal.....	629,203	800,000	-170,797	-
Adjustment to cash deposits..	4,742	-	4,742	-
Total.....	633,945	800,000	-166,055	79.2

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

July 7, 1942.

Note: Figures in this table are based on preliminary telegraphic reports and are subject to revision.

THE SECRETARY OF THE NAVY
WASHINGTON

July 8, 1942

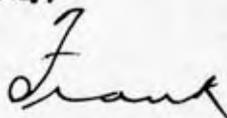
Dear Henry:

Thank you for your nice note of July 3.

I am glad if the Navy Department has contributed to the success of your War Heroes Tour. I saw a lot about it in the newspapers and I judged it was being very successful. In fact, I spoke at Harvard University on the day following their appearance in Boston, and the success and prestige of the affair had penetrated even the sacred precincts of Harvard.

Congratulations on the success it proved to be.

Yours sincerely,



The Honorable Henry Morgenthau
Secretary of the Treasury

July 8, 1942

R. W. Coyne

Secretary Morgenthau

I was very much pleased to receive your memo advising me what you have done as a result of my suggestion. I like to get these follow-up memos.

TREASURY DEPARTMENT

96

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
Attention Mrs. Klots

FROM R. W. Coyne

July 7, 1942

This will confirm our conversation of this morning, in which you suggested that I call upon Admiral Conard regarding promotion in the establishment of the payroll savings plan in government departments.

I spent three-quarters of an hour with the Admiral this afternoon. He spoke quite optimistically of most government departments and called particular attention to the Navy Department, which is beginning its campaign for an exhilarated participation on July 10.

Admiral Conard spoke of the necessity of a great deal of follow-up work with these government departments, some of which agree readily to establish the plan but are slow to bring about the actual promotion campaign. He advised that certain technical difficulties of accounting were impeding his progress somewhat in the War Department, where a very low-g geared payroll savings plan has been in effect for some months.

R. W. Coyne

UNITED STATES SAVINGS BONDS - TOTAL

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

(At issue price in thousands of dollars)

Date	July daily sales	Cumulative sales by business days				July as percent of June
		July	June	May	July as percent of June	
July 1942						
1	\$ 28,418	\$ 28,418	\$ 29,539	\$ 19,981	96.2%	
2	24,269	52,687	45,442	39,430	115.9	
3	27,277	79,964	67,046	72,048	119.3	
6	46,531	126,495	98,208	88,605	128.8	
7	31,110	157,605	132,341	122,575	119.1	

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

July 8, 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 B

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

(At issue price in thousands of dollars)

Date	July daily sales	Cumulative sales by business days				July as percent of June
		July	June	May		
July 1942						
1	\$ 15,821	\$ 15,821	\$ 19,834	\$ 12,679		79.8%
2	14,880	30,701	27,841	24,263		110.3
3	16,822	47,523	40,811	46,532		116.4
6	29,797	77,320	58,199	55,460		132.9
7	17,724	95,044	82,988	73,824		114.5

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

July 8, 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 F AND G COMBINED

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

(At issue price in thousands of dollars)

Date	July daily sales	Cumulative sales by business days				July as percent of June
		July	June	May		
July 1942						
1	\$ 12,597	\$ 12,597	\$ 9,705	\$ 7,302		129.8%
2	9,389	21,986	17,601	15,168		124.9
3	10,455	32,441	26,235	25,516		123.7
6	16,734	49,175	40,009	33,145		122.9
7	13,386	62,561	49,353	48,751		126.8

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

July 8, 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 July 1 through July 7, 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
	Daily	July 1 to Date	July 1 to Date	to Date as % of Quota	Daily	July 1 to Date	July 1 to Date	to Date as % of Quota	Daily	July 1 to Date	July 1 to Date	to Date as % of Quota
1	\$ 15.8	\$ 15.8	\$ 23.6	66.9%	\$ 12.6	\$ 12.6	\$ 19.4	64.9%	\$ 28.4	\$ 28.4	\$ 43.0	66.0%
2	14.9	30.7	47.9	64.1	9.4	22.0	36.4	60.4	24.3	52.7	84.3	62.5
3	16.8	47.5	73.0	65.1	10.5	32.4	50.6	64.0	27.3	80.0	123.6	64.7
6	29.8	77.3	126.0	61.3	16.7	49.2	82.6	59.6	46.5	126.5	208.6	60.6
7	17.7	95.0	139.3	68.2	13.4	62.6	94.2	66.5	31.1	157.6	233.5	67.5
8			162.2				114.5				276.7	
9			189.8				129.5				319.3	
10			216.0				139.9				355.9	
11			236.6				147.7				384.3	
13			273.2				160.6				433.8	
14			287.6				168.0				455.6	
15			311.6				181.8				493.4	
16			335.5				193.5				529.0	
17			358.7				202.8				561.5	
18			377.4				210.5				587.9	
20			411.8				223.9				635.7	
21			425.9				231.8				657.7	
22			451.1				247.0				698.1	
23			477.5				260.1				737.6	
24			503.8				270.7				774.5	
25			525.0				279.5				804.5	
27			562.7				295.1				857.8	
28			577.2				304.3				881.5	
29			601.3				322.1				923.4	
30			625.8				337.5				963.3	
31			650.0				350.0				1,000.0	

July 8, 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.

Note: Quota takes into account both the daily trend during the week and the monthly trend during the month.



TREASURY DEPARTMENT

WASHINGTON

July 8, 1942

MEMORANDUM FOR THE SECRETARY:

I hand you herewith a memorandum from Mr. Klaus, outlining the connection of Mr. Harold Thomas with Sterling Products.

I invite your attention especially to the underscored portions of this memorandum (underscoring my own).

You will note from this memorandum that Mr. Thomas is clear from any suspicion of any improper activities.

I strongly recommend that you allow me to make an engagement for Mr. Thomas to see you at your early convenience. I believe that it would be helpful if you could find it possible to allow considerable time for this interview--at least a half hour. I believe Mr. Thomas will be glad to come here for such an interview on very short notice.

I will take no action with Mr. Waymack until you advise me further.

GRAVES.


TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE July 8, 1942

TO Mr. Graves
FROM Mr. Klaus

Mr. John J. Lawler of Mr. Bernstein's office, who was in personal charge of the Sterling Products investigation, reports, after refreshing his recollection this morning, that Mr. Harold Thomas has had nothing whatever to do with the Latin American or Nazi purge programs of Sterling Products. Mr. Thomas is the president of two subsidiary companies of Sterling Products, the Centaur Company and the Ironized Yeast Company, both of which handle products for domestic consumption and are entirely independent of any German connection. Mr. Thomas has also handled for Sterling Products, within the company, the program of Government publicity for the sale of bonds and stamps. He was born in the United States and gets \$30,000 a year.

For your information, Sterling Products is an enterprise with seventy-four subsidiaries selling all kinds of ethical and patent medicines and articles which are possibly not even medicines. The German connection comes from two facts. First, Sterling Products has marketed in the United States the ethical drugs of the I. G. Farbenindustrie of Germany, mainly under the names of two subsidiaries, Winthrop Chemical Company and Alba Pharmaceutical Company, each of these half-owned indirectly by I. G. Farben. Secondly, Sterling had an arrangement with I. G. Farben covering the distribution of Bayer Aspirin in Latin America. However, it has been estimated that about 92 percent of the business of the Sterling Products enterprise is domestic and is unrelated to aspirin or ethical pharmaceuticals. It consists of such products as Phillips' Milk of Magnesia, California Syrup of Figs, the Dr. Watkins products, Molle Shaving Cream, Emergine, Diamond Dyes, etc.

The funds of Sterling as such have never been frozen by the Treasury. The funds of the subsidiaries, Winthrop Chemical Company and Alba Pharmaceutical Company, have been frozen mainly because 50 percent of the stock was in the name of the General Aniline and Film Corporation, which in turn was frozen as being controlled by I. G. Farbenindustrie.

The company, under an agreement made on August 15, 1941, with the Foreign Funds Control Committee (consisting of representatives from State, Treasury and Justice), agreed to clean its own house, primarily by dismissing employees who might be deemed to represent the interests of I. G. Farben in the company or might otherwise be disloyal to the United States, and by pushing an export program in Latin America which would drive out the Bayer Aspirin cross and substitute American products. According to the report of Mr. Lawler, the company has "apparently made a sincere effort to fulfill its obligations under the representations which were made to the Foreign Funds Control Committee."

Samuel Klaus



TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

July 8, 1942

OFFICE OF THE DIRECTOR

PERSONAL

MEMORANDUM TO THE SECRETARY:

I talked with Messrs. Bell, Graves and Thompson Monday afternoon as you suggested, and I plan to advise General Somervell's office today of my decision to remain with Procurement.

From a long-range standpoint there is a real job to be done by the Procurement Division to carry out the intent of the Executive Order designating this Division as the central procurement agency for the Federal Government, and currently we are actively engaged in the war effort; both of these activities are most interesting to me, and all of us in Procurement are most anxious to do a real job, likewise, I feel that there is a splendid opportunity for good results.

The matter is completely settled in my mind, and I am most appreciative that you took the time to share my

FOR DEFENSE personal problem.



Clifton E. Mack
Clifton E. Mack
Director of Procurement



TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

July 8, 1942

OFFICE OF THE DIRECTOR

MEMORANDUM TO THE SECRETARY:

There is submitted herewith the operating report of Lend-Lease purchases for the week ended July 4, 1942.

A survey is now being made to determine the necessity for the detailed reports which we are called upon to furnish with respect to purchase, fiscal, and traffic matters relating to special procurement programs, including Lend-Lease.

The objectives are to relieve the suppliers who are asked to furnish considerable information required for the reports now being prepared and to reduce the work-load necessitated by the preparation of numerous and detailed reports.

Clifton E. Mack
Clifton E. Mack
Director of Procurement



LEND-LEASE
 TREASURY DEPARTMENT, PROCUREMENT DIVISION
 STATEMENT OF ALLOCATIONS, OBLIGATIONS (PURCHASES) AND
 DELIVERIES TO FOREIGN GOVERNMENTS AT U. S. PORTS
 AS OF JULY 4, 1942
 (In Millions of Dollars)

	<u>Total</u>	<u>U. K.</u>	<u>Russia</u>	<u>China</u>	<u>Administrative Expenses</u>	<u>Undistributed & Miscellaneous</u>
Allocations	\$1695.9 (1695.9)	\$940.9 (791.8)	\$389.7 (331.2)	\$56.7 (56.7)	\$1.6 (1.6)	\$307.0 (514.6)
Purchase Authoriza- tions (Requisitions)	\$1234.4 (1106.0)	\$805.5 (721.2)	\$376.2 (331.7)	\$46.5 (45.8)	- -	\$ 6.2 (7.3)
Requisitions Cleared for Purchase	\$1187.5 (1064.7)	\$796.5 (710.3)	\$338.7 (301.8)	\$46.4 (45.7)	- -	\$ 5.9 (6.9)
Obligations (Pur- chases)	\$1140.7 (1017.7)	\$784.4 (699.0)	\$311.1 (274.5)	\$39.9 (39.1)	\$1.5 (1.4)	\$ 3.8 (3.7)
*Deliveries to For- eign Governments at U. S. Ports	\$ 449.8 (445.4)	\$359.5 (358.0)	\$ 68.6 (65.7)	\$20.0 (20.0)	- -	\$ 1.7 (1.7)

*Deliveries to foreign governments at U. S. Ports do not include the tonnage that is either in storage, "in-transit" storage, or in the port area for which actual receipts have not been received from the foreign governments.

Note: Figures in parentheses are those shown on report of June 27, 1942.

EXPLANATION OF DECREASE

The decrease of 207.6 Undistributed & Miscellaneous is offset by the increases in United Kingdom and Russian allocations of 149.1 and 58.5 respectively.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 8, 1942

TO Secretary Morgenthau

FROM Mr. White

Subject: Salient data on Bolivia

I. Bolivia's economic and financial problems.

1. Bolivia is a one-product country, with tin accounting for three-fourths of all exports and all exchange availabilities. As much as 85 percent of Governmental revenues are said to be derived from the mining industry, especially from tin.
2. The recently amended tin contract with the United States Metals Reserve Corporation increases the price paid for tin to 60 cents a pound, and tin production is currently at the highest rate in more than a decade. A little less than half the Bolivian tin is sold to the British under a contract which provides dollars for three-fourths of the purchase price, and the balance is being sold to Metals Reserve.
3. For the duration of the war, the Bolivian tin industry will be very prosperous and as a consequence Bolivia will continue to have ample gold and exchange reserves (which are now exceptionally high), a very high level of Government revenues, no unemployment worries, and sufficient funds to finance sizable developmental projects.
4. Bolivia's long-run economic problem is the depletion of tin ore reserves and the need for diversification of economic activity. A developmental program with United States aid is now under way, one of the most important projects being establishment of transportation between the eastern agricultural regions and the western mining areas.
5. Bolivia has chronic large fiscal deficits, a constantly expanding monetary circulation, and one of the most rapidly rising price levels in all of Latin America.

II. United States cooperation with Bolivia.

1. In addition to the Metals Reserve contracts, for the purchase of tin, tungsten and other minerals, the United States has concluded a Lend-Lease Agreement and a sizable Export-Import loan agreement. The United States-Bolivia Stabilization Agreement, is ready for signature and a reciprocal trade agreement is expected to be signed on July 14.

for \$2 million

The United States Government was of assistance in the recent settlement of the Standard Oil Company claims regarding its expropriated properties in Bolivia, for which payment of \$1.75 million was made by Bolivia on April 20, 1942.

2. No agreement has been reached as yet in regard to Bolivia's large defaulted external debt. Recent repatriations have pushed up the price of a leading Bolivian issue from 6 to over 12 in the New York market.

III. Freezing Controls in Bolivia.

1. Although Bolivia has broken relations with the Axis and in December 1941 froze the funds of Axis nationals, the freezing decrees are said to be easily evaded. The regulations do not normally apply to Bolivian citizens even though such citizens are included on our Proclaimed List. It is said that the operation of Axis enterprises under the intervention of representatives of the Government is an ineffective method of control in Bolivia, and the Finance Minister himself is said to have sabotaged the freezing decrees. Bolivia has instituted no controls over dollar currency.

IV. Population and natural resources.

1. Bolivia's population is about 3 million, including 1.7 million Indians, 900,000 mixed Indian and white (mestizo), and 400,000 white. The white population is predominantly of Spanish descent. There are about 8,000 Germans.
2. The area of Bolivia is roughly 500,000 square miles, about the size of Texas, Arizona and New Mexico. The low-lying plains of Eastern Bolivia are little developed but have potentialities for agricultural production. There is almost no transportation at present, however, between Eastern Bolivia and the more heavily populated mining regions of Western Bolivia. Most of the mining takes place in the Altiplano, a large mountainous plateau area with altitudes ranging from 12,000 to 15,000 feet.
3. Bolivia's principal industry is mining. Its tin production is the third largest in the world and accounts for 15 percent of world production in peacetime. Many other minerals are produced, but exploitation is hindered by poor transportation facilities, the principal access to the sea being through mountain passes and across Northern Chile.

~~TOP SECRET~~C
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P
Y

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

Buenos Aires
Dated July 8, 1942
Rec'd. 11 p.m.

Secretary of State,

Washington,

1344, July 8, 9 p.m.

Embassy's 1326, July 6, 8 p.m.

In a conversation with an officer of the Embassy and two officers of the Department regarding the deficiencies in Central Bank's circular no. 295 Prebisch stated today.

One. Although all currency exports to countries except the United States are not prohibited but are merely subjected to the bank's control the bank at present does not envisage any circumstances under which it will permit currency exports other than to the United States. If such permission should be granted the Central Bank of the other country and this Embassy will be informed.

Two. Although thirty three banks and financial institutions have been authorized to act as intermediaries in the exportation of currency it is not expected that the number of enterprises which will actually engage in such exportations will exceed the number twelve fixed by Gagneux.

Three. Although controlled banks and institutions have not been prohibited from dealing in currency the Central Bank's "recommendations" against such dealings for practical purposes constitutes a direction which, in view of the banks comprehensive general authority, banks and institutions will follow.

Four. Dealings in currency by individuals who are not carrying on "regular course of business" in such currency were not prohibited for lack of legal power. Individuals who carry on such a regular business will be prosecuted for unfairly competing with the authorized banks and institutions.

In this connection and in general Prebisch indicated that the present would not be a propitious time for the bank to request legislation (in addition to the two draft laws previously reported) necessary to increase its power.

ARMOUR

RR

Copy:imc:7/10/42

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China.

DATE: July 8, 1942, 5 p.m.

NO. : 813

This is a message from Mr. Adler for the Secretary of the Treasury and is marked TF49.

The Chairman of the Board having invited me to attend as an observer, the Stabilization Board today met and decided to alter the official rate for the national currency of China to three and one-sixty-fourths pence sterling and five and one-sixteenth United States cents. This will be effective July 10 as from the opening of business. The banks selling rate will be three pence sterling and five cents in United States currency.

GAUSS

eh:copy
7-10-42

INCOMING CABLEGRAM

Rec'd: July 9, 1942

Dated: July 8, 1942

From: Chungking

Federal Reserve Bank of New York

New York

No. 13

Board's new rates will be $5\text{-}\frac{1}{16}$ United States cents and $0\text{ s.}\frac{3}{4}$ d. for Chinese dollar one and the bank's selling rate will be 5 United States cents and $0\text{ s.}\frac{3}{4}$ d. to be effective from the opening of business on July 10, 1942.

(signed) Stabilization Board

0 s. $3\text{-}\frac{1}{4}$ d.

(Received by telephone from Federal Reserve Bank of New York, N.Y.,
July 9, 1942.)

lc

PMW

PLAIN

London

Dated July 8, 1942

Rec'd 5:18 p.m.

Secretary of State,
Washington.

3783, Eighth.

FOR THE SECRETARY OF THE TREASURY FROM CASADAY..
Department's 1730, April 22 and Embassy's 3124,
June 4 and previous.

A visit was made to Liverpool (population 718,740) the headquarters of the Deputy Regional Commissioner for area no. 1 of the North Western Region. Hoylake situated in this area which embraces West Lancashire and Cheshire was also visited. The decentralization process or devolution of responsibility mentioned in previous telegrams has recently been completed in the northwestern region.

Until two weeks ago the Deputy Commissioner of area no. 1 referred to the Regional Commissioner all matters pertaining to the issue of a credit stock of stamps, affiliation of savings groups to the National Savings Committee and money outlays from the National

Savings

-2- #3783, July 8, from London

Savings Committee grant to local committees. The Deputy now assumes responsibility for these undertakings. Area no. 1 deputy has eleven assistant commissioners, five of whom are responsible for Liverpool, the others each advise and assist roughly nine or ten local savings committees. In addition to these civil servants there are thirty-five paid clerks. Permission has just been given to the Assistant Commissioners to have one typist if necessary. No further expansion of paid staff in this area is anticipated.

Area no. 1 has 52 voluntary local savings committees which were in existence prior to the war. These committees on the whole have been able to perform their function of organizing and maintaining savings groups in their area. The big exception was Liverpool where the local committee as constituted at the outbreak of war proved unequal to the task of systematically organizing savings groups in the city. This inability is not peculiar to Liverpool but is characteristic of all the large cities in Great Britain. The cause of the breakdown of the prewar local savings
committees

-3- #3783, July 8, from London

committees in large cities may be assigned to the fact that few persons on the committee lived within the city limits and therefore did not know the group secretaries or collectors who form the backbone of the voluntary savings movement. For example in Liverpool the street groups were organized not by the local savings committee but by the civil service staff of the National Savings Committee. Theoretically the function of the Deputy and his Assistant Commissioners is to advise and assist the local committee to do the work of organizing and maintaining savings groups but when the local committee proves unable to do it the burden falls on the paid staff.

Largely through the efforts of the Deputy Commissioner in area no. 1 the Liverpool local savings committee was reconstituted in January 1942 with a view to eliminating all inactive members and securing an interested committee. The committee was reorganized so that the functional subcommittees publicity divisional industrial et cetera were represented on the executive committee of the general committee. The reorganization did not succeed however in eliminating all the deadwood because although the present committee is more

-4- #3783, July 8, from London

is more active it is not assuming the full share of responsibility and too large a part of the work of organizing must still be carried by the civil servants. An example of the local committee's inadequacy may be seen in the organization of savings in industry. The Deputy Commissioner has removed this work from the voluntary workers both in Liverpool and the rest of area no. 1 entirely because a knowledge of accountancy methods and organization of the various firms is essential before any deductions scheme can be pressed and he does not want "amateurs" to ruin the prospects of organization. There is a wide variety of industries in the area such as coalmining glassmaking shipbuilding engineering and ship unloading. All of these require different techniques.

The Liverpool dockers present a special problem. At first stamps and certificates were sold at four pay points called clearing houses on the docks. These were destroyed by enemy action and now wage payments are made in ramshackled huts where the men cannot be approached easily. As a result of a meeting between the Trade Union Council and the shipping companies it was arranged that men should go through the gangs
and sell

-5- #3783, July 8, from London

and sell stamps but as they do not remain together it is not very successful. There are only 22 savings groups embracing 1500 dockers out of 7600. The shipping authorities are trying to bring in a zoning system which will keep the men working permanently in one dock area and they will be easier to reach regularly.

There are several large ordinance factories in the area which present a problem from the point of view of tapping savings effectively. The Deputy Commissioner claimed that while deductions from pay schemes were in existence in the factories it was too impersonal a method of securing the best savings figure. Additional methods of tapping savings would require a more personal approach which is not possible at the present time because of staff shortages.

Publicity. The usual publicity supplied free by the National Savings Committee is used in Liverpool. One interesting piece of local publicity was attempted. When the street groups were being organized an advertisement, a map of the city of Liverpool, was printed in the local paper showing the seven divisional areas and requesting persons who would like to serve as collectors

-6- #3783, July 8, from London

collectors to volunteer their services. This was paid for by an insurance company.

Street groups in Liverpool are based on the seven police divisions and ARP districts. In November 1941 when the warships week was held a committee was formed in each division consisting of the warden as chairman and representatives of the women's voluntary services churches et cetera. The committee was given a list of streets in the district which was further subdivided into ten areas. Group leaders were chosen in all subdivisions and they chose collectors. The seven divisional committees are also used for schools savings groups and the personnel tends to merge. The divisional committees hold monthly meetings and are represented on the executive committee. There are 1989 street groups in Liverpool and it is considered a most successful method of organizing savings groups. The publicity committee is now trying to foster inter-divisional competition by arranging for a movable pylon on which a flag can be hoisted to be presented each month by the Lord Mayor and kept in the division securing the largest monthly increase in membership.

The Deputy

-8- #3783, July 8, from London

to savings booths. Kiosks have been set up by the Wigan Trustee Savings Bank in a coalmining area but after a six months trial cannot be considered successful.

WINANT

CSB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: AMLEGATION, Bern
TO: Secretary of State, Washington
DATED: July 8, 1942
NUMBER: 3177

STRICTLY CONFIDENTIAL

Section one.

Reference is made to the Legation's previous cable of June 30, 1942, no. 3044.

A competent French official has supplied the following information in the strictest confidence. The French credit balance at the end of April, 1942 in the Franco-German clearing agreement amounted to 12,000,000,000 francs. This official estimates that the present French credit balance is now rising by about 1,000,000,000 francs per month because the spread between French and German deliveries has been increased.

Not included in this clearing are purchases made by the German government and by private individuals on the Black Market throughout France for both local consumption and for export. An indication of the extent of the former purchases has been obtained from the records kept by Germany Hotel Majestic Paris of official to refute black market purchases in France which from January through June 1942 amounted to 3,000,000,000 francs with all but a small proportion of these purchases being exported to Germany or countries occupied by the Germans or for reexport by them.

Section two.

Not included in this amount are black market purchases by local units of the authorities of occupation or by individual officers and soldiers or purchases made by or for German individual or commercial interests in France for their own consumption or for "clandestine" export into Germany or into countries under Japan as domination. It is of course impossible to determine accurately the extent of these latter purchases but this official estimates that they can find nothing equivalent at least to the black market purchases made under official German control.

From official French contracts in the unoccupied zone it was recently learned that the maintenance of the bread rations in France until the coming crop which was considered to be assured following the satisfactory deliveries from hidden farmers' reserves has now been jeopardized and is requiring the mixture of greatly increased quantities of substitutes for wheat because of the requisition of 600,000 quintals of wheat for shipment to Germany in addition to the deliveries which the Wiesbaden Agreement requires.

Section three.

It is learned from another official source that priority transport orders call for the delivery during June of 450,000 quintals of wheat from France to Belgium. These amounts of wheat represent approximately twelve days supply of wheat bread (?) with substitutes for metropolitan France and would appear to explain the increasingly inferior quality of French bread at this time and why official French statements are less categorical with regard to voicing the present French bread rations until deliveries from this year's harvest are received.

ch:copy 7-18-42

HARRISON

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 233

Information received up to 7 A.M., 8th July, 1942.

1. NAVAL

Northern Waters. Of the outward convoy to RUSSIA only six ships out of a total of 33 have at present been accounted for. These were reported on 7th to be off CAPE STOLEBOVOI (west coast of NOVA XEMELA) together with nine of the escorting vessels.

2. MILITARY

EGYPT. The enemy position has been strengthened by the location of 88 M.M. guns on the western flank. There are indications that there was heavy enemy movements of M.T. from the centre of his position towards the north and northwest during 7th. During 6th/7th and 7th columns of our infantry and armour were active and dispersed enemy columns but there was no appreciable advance. During morning of 7th about 20 enemy guns were silenced some 12 miles southwest of EL ALAMEIN.

3. AIR OPERATIONS

WESTERN FRONT. 7th. Four Me 109's machine gunned buildings at YARMOUTH (ISLE OF WIGHT). Night 7th/8th. 102 aircraft despatched to lay sea mines off FRISIAN ISLANDS. All returned. About 25 enemy aircraft raided TYNE-TEES area. A factory was extensively damaged at MIDDLESBOROUGH and one at GREATHAM was also damaged. Damage was also done to a gasholder, power house and crane shed in the dockyards at West HARTLEPOOL. Oil cisterns at STOCKTON ON TEES reported hit and on fire. Casualties so far reported small. A further 8 aircraft were probably sea mining in BRISTOL CHANNEL. Our night fighters destroyed four and damaged one.

EGYPT. 6th/7th. Five enemy aircraft operated over GULF OF SUZE probably sea mining. A night fighter destroyed one and probably destroyed another.

MALTA. Between one fifteen P.M. 6th and eight forty-five A.M. 7th, about 120 enemy aircraft operated, destroying one Beaufort on the ground. Our fighters destroyed 21, probably destroyed five and damaged 19 for the loss of 6 Spitfires (five pilots safe).

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE July 8, 1942.

TO Secretary Morgenthau
FROM Ferdinand Kuhn, Jr.

You may be interested in the following excerpts from the latest British Home Intelligence report for the week ending June 30.

Russia: There is continued praise and admiration; popularity is increasing.

The visit of Churchill to the United States: There was satisfaction, but slight interest.

Relations with U.S. and U.S. Troops: In two regions there was protest at United States press criticisms of fighting men at Tobruk. This "stirred up antagonism to U.S. which is always present in some sections of public opinion." The "way in which this matter was handled in radioed American commentary however, gave satisfaction." Two regions report preliminary indications of public concern at the possibility of trouble which is brewing between British and American Troops as the result of the lavish way in which the Americans fling money about, and their relations with local girls. There is also irritation at swagger and big talk. Insults regarding Tobruk being retailed by rumor mongers in public houses.

J. K.



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

OFFICE OF STRATEGIC SERVICES

July 6, 1942

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

Dear Henry:

The attached is the British Home Intelligence report for the week ending June 30.

Sincerely,

Bill
William J. Donovan
Director

General Confidence: Although initial disappointment is maintained, the shock of the fall of Tobruk has worn off and the principle reaction now is anger -- directed at many targets, including guns, tanks and those responsible for supply; the tactics and strategy of the generals, and "Central" direction of War, and in particular, at those responsible for official communique and pronouncements. Confidence in ultimate victory continues with a few small exceptions. This latter feeling helped by the Churchill-Roosevelt statement. It is also generally believed that the war will be much longer. There is almost unanimous belief that "we have been inferior to Axis in almost every respect". The anxiety of the public about future developments is acute. There is strong revulsion against public speeches and pronouncements. Among workers there is feeling "Why should we produce stuff for the Army to throw away?", but the war effort has not been substantially lessened.

Government: There is little tendency to select scapegoats despite much criticism. There is still some criticism of Churchill as defense minister, but this is lighter than last week. There is the general feeling that he is the only man capable of leading the nation. The main result

of the vote of censure has been to discredit politicians still further and there is no sympathy for the vote. The previous reputation of Beaverbrook for political irresponsibility and "stunts" is being recalled. People are asking whether his claims of a vast output were "just so much showmanship."

Libya and Egypt: Main trends:

- a. There has been a storm of protest concerning the way the "public has been misled." "Cairo spokesman has been surpassed", and "our intelligence must have been hopeless."
- b. Military leaders were out-generaled, failed.
- c. Contradictory views: "Our men being needlessly sacrificed through muddle", but "surrender to avoid unnecessary bloodshed indicates an unwillingness to fight to bitter end."
- d. "Either quality of equipment was inferior or it was hopelessly misused."
- e. There is general apprehension over ability to hold Egypt.
- f. Mortification at the surrender of Tobruk in three regions brought mention for the first time of some

-3-

doubts of the fighting qualities of men "ruined by twenty years of soft living."

g. In three regions there was mention of "the prosperity and gaiety present in Cairo and Alexandria, talk of officers dining out, attending theatres as usual." "There are still signs, however, that people are quite willing to "wait and see."

Russia: There is continued praise and admiration. Popularity is increasing.

Shipping: Alarm and anxiety. Figures are wanted.

R.A.F.: Little interest, comparatively that is, was roused by the thousand bomber raid on Bremen. There was surprise that Bremen had to be revisited again.

The visit of Churchill to the United States: There was satisfaction, but slight interest. Also some anger that he was attacked in Parliament while away.

Second Front: Opinions on a second front are very divided. Many still favor it in order that pressure on Russia might be relieved. But the setbacks in Libya have produced dread of another defeat.

Relations with U.S. and U.S. Troops: In two regions there was protest at United States press criticisms of fighting

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men at Tobruk. This "stirred up antagonism to U.S. which is always present in some sections of public opinion." The "way in which this matter was handled in radioed American commentary however, gave satisfaction." Two regions report preliminary indications of public concern at the possibility of trouble which is brewing between British and American Troops as the result of the lavish way in which the Americans fling money about, and their relations with local girls. There is also irritation at swagger and big talk. Insults regarding Tobruk being retailed by rumor mongers in public houses.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 9, 1942

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

R.A.F. Activities

Bremen was the object of three night attacks during the week of June 25.- July 2. 1,835 tons of bombs were dropped, including 1,210 tons of incendiaries.

Two features of the mass bombings of Germany are (1) the use of a steadily increasing number of heavy bombers carrying up to three tons of bombs; and (2) concentration of the entire force above the target in as little as 1-1/2 hours. This concentration of a large number of bombs in a short period serves to overwhelm the A.R.P. and fire fighting force, and to intensify the physical damage and the effect on morale. Such concentration will continue to increase as circumstances permit.

(U.K. Operations Report, June 25 - July 2, 1942)

North African Ports

The British report that the North African ports recently occupied by the enemy have a greatly diminished capacity owing to demolitions and the removal of lighters (barges used for loading and unloading).

(U.K. Operations Report, June 25 - July 2, 1942)

Voice of the Chief

Reporting an epidemic of spinal meningitis in Hungary and admitting that strong measures must be taken to fight it, the "Voice of the Chief" charges that doctors and nurses from the all-important Eastern front have been diverted to the affected area.

"Let us not be deceived...This summer we must crush bolshevism. We must spare our troops a second even worse Russian winter. Everything else must disappear into the background behind this requirement and Sevastopol is a new and bloody proof of it...It may be hard for mothers to know that their children are in the danger zone (that is, German children in Hungary), but the activity of our troops must not be endangered by the fact that doctors and nursing personnel are removed and sent to the children in Hungary."

(Federal Communications Commission, July 6, 1942)

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Thursday, July 9, 1942.
7/8/42

Press Service
No. 32-43

Secretary of the Treasury Morgenthau announced last night that the subscription books for the current offering of 2 percent Treasury Bonds of 1949-51 will close at the close of business today, July 9.

Subscriptions addressed to a Federal Reserve Bank, or Branch, or to the Treasury Department, and placed in the mail before 12 o'clock midnight Thursday, July 9, will be considered as having been entered before the close of the subscription books.

Announcement of the amount of subscriptions and the basis of allotment will probably be made around noon on Saturday, July 11.

-oOo-

July 9, 1942
9:35 a.m.

GROUP

Present: Mr. Bell
Mr. Graves
Mr. Buffington
Mr. Paul
Mr. Gamble
Mr. Thompson
Mr. Blough
Mr. Schwarz
Mr. Kuhn
Mr. White
Mrs. Klotz
Mr. Cairns

H.M.JR: What is this about?

(Mr. Schwarz handed the Secretary a copy of PM magazine.)

MR. SCHWARZ: It is about Laval and the gold and that lawyer up in New York.

MR. BELL: Coudert.

MR. SCHWARZ: I thought you might be interested as a New Yorker.

H.M.JR: Incidentally, where is Foley, and all the rest of these people?

MR. BELL: Sullivan is away in Boston. Gaston is away. I don't know where Foley is.

MR. WHITE: I think they are having the final meeting.

H.M.JR: I just want to say this about this moving picture, if you don't mind. I hope you don't

- 2 -

think I am a school teacher, but there are thirty-one seats down stairs; thirty-seven people said they would come, as the result of which Fitzgerald stayed home. It is the only movie he can go to, and about half the people didn't show up. We didn't ask the Houghtelings; we didn't ask the Coynes. So another time if you can't come would you mind saying so, so that a thing like last night won't happen again, because, as I say, I felt particularly bad about Fitzgerald. I hope you all can come next time; but if you can't, if you will say so, and then, say, people like the Houghtelings and Coynes, and particularly Fitzgerald, if he wants to come, could come. He missed a very good movie, one of the nicest movies I have ever seen.

Norman?

MR. THOMPSON: I have nothing this morning.

(Mr. Cairns entered the conference.)

H.M.JR: Huntington, I have been wanting to ask for some time, and while this isn't your particular thing, you are Acting General Counsel for the minute--

MR. CAIRNS: Yes, sir.

H.M.JR: I would like - when I originally told Vichy, France, they could have so much money a month - then we gave them ten percent more than they asked for - they were to submit each month an accounting of what they spent it for. Nobody has ever brought it to my attention what they do spend it for; but I would like you to tell Foreign Funds that all of these countries which are getting an allotment each month - I would like to find out, one, do they get the accounting; two, why don't they; and if they do get the accounting, does anybody look at it at the top, see?

- 3 -

Here, for instance, "Vichy Buys the Palatial Mitchell Mansion on Fifth Avenue." Now, why should we give them the money to buy what looks like a fifty to seventy-five foot house on Fifth Avenue?

MR. CAIRNS: Yes, they did that some months ago. I will find out.

H.M.JR: The original arrangement was once a month. After all, we do give them an allotment for this hemisphere. You remember? And I would like somebody to take a look at it regularly. I don't mean - not only France, but take Denmark, Belgium, Sweden, ought to be audited, and not by a clerk. I'll bet you a good five-cent cigar that they don't do it.

MR. CAIRNS: I will check on it.

H.M.JR: And then if there is anything irregular, let me know and I will let Sumner Welles know, and he will take care of it.

Smile when I say that.

Norman?

MR. THOMPSON: I have nothing this morning.

MR. BELL: You had an appointment at two-fifteen with me. I assume that you will have to cancel that.

H.M.JR: I would rather speak with you than go to the club.

MRS. KLOTZ: Is that today?

H.M.JR: Yes.

MR. BELL: I can do it afterwards if you would like to.

H.M.JR: I wouldn't wait; don't wait for me.

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MR. BELL: I will go ahead and carry through the transactions; but if you would like to see the figures afterwards we can come in.

H.M.JR: I would, please.

MR. BELL: National City--

H.M.JR: Just one thing - never mind, I won't say what I was going to say. It didn't affect you personally.

MR. BELL: The National City Bank has written us a long letter about airplane priorities from here to South America. They have taken it up with the Army and the State Department. The Army has told them - or the Navy, whichever one has charge of priorities - that there ought to be some place in the Government where these banking people can come with their problem and have that Government agency take it up with the Army or Navy, approving their priority - or approving their application. The State Department--

H.M.JR: May I interrupt you? That is for personnel to fly?

MR. BELL: Personnel officials of the National City. Now, there may be other banks, too, but we are interested in it primarily from the National Bank standpoint. The State Department, I understand, is setting up such an agency, and I thought in the Treasury that the Comptroller of the Currency would be the proper one to handle it. It seems as though the State Department is very much interested in having these branches maintained and that once in a while they ask to have the officials come up to discuss problems in those particular countries. On one or two occasions they haven't been able to get transportation back. One time, I think on the way back, a man and his wife were put off in the center of Brazil in some small town to make way for some Nelson Rockefeller chorus girls on a good-will tour,

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and they had to stay there, apparently, a couple of weeks before they could get another plane.

H.M.JR: That is nothing - I mean, we have chorus girls arriving in Washington every day that help on the War Bonds. Sometimes high Treasury officials meet them, and it is O.K. Sometimes they meet them and it isn't O.K. So we are pretty close to home - it just depends on which high Treasury official meets them. (Laughter)

MR. BELL: Depends on - anyway, I thought the Comptroller ought to handle it.

H.M.JR: I don't think that Paul ought to handle it.

MR. BELL: He can have the chorus girl in.

H.M.JR: Well, when they have tax troubles they want to see him.

MR. PAUL: Might be a change, another sort of tax.

H.M.JR: Do you want to go up on the hill, Mr. Paul?

MR. PAUL: Yes, I have to go pretty soon. I have nothing, but Mr. Blough has a thing he may as well state.

MR. BLOUGH: I won't go on the Hill, I can wait.

MR. PAUL: He doesn't have to go on the Hill.

MR. BLOUGH: Frank Bane of the Council of State Governments has called a meeting in Washington tomorrow and Saturday of representatives of State tax administrators and other State tax people. They want to talk on an informal basis with Harold Groves and people who have been doing the studying here, and it

- 6 -

seems to me that is a very good idea to exchange views. Mr. Bane asked me to ascertain whether you would be interested in attending a tea he thought he would give Friday afternoon for these people.

H.M.JR: I would just love to, but I am not going to be here.

MR. BLOUGH: I think from all points of view that is an excellent solution. Thank you. (Laughter)

H.M.JR: It sounds as though you didn't want me.

MR. BLOUGH: I don't think it is the time for that formal recognition of the situation. Therefore, I think that it is really a very good solution.

H.M.JR: O.K. Well, I won't be here. I hope not to be here next Monday and Tuesday. Harold?

MR. GRAVES: I find that Mr. Waymack is at the moment in Mexico City, and I haven't learned yet when he is coming back, so I am going to hang onto that until I can find out.

H.M.JR: Harold, this is an over-night suggestion. I was thinking of the people who do good advertising and whose business is diminishing, you see. I don't know who the advertising-merchandising manager for Coca-Cola is, but remember when we first started out on alcohol they were very helpful, put themselves out, you remember, teaching us how to handle the thing. Now, the Coca-Cola business is on the skids on account of the sugar, and I just wondered who their advertising manager is.

MR. GRAVES: I don't know, but I do know, as you do yourself, that they have done a great deal for us.

MR. KUHN: They have been doing more in recent weeks than ever before, and for the coming summer a great deal more.

H.M.JR: Most likely they haven't got a product to sell. This plant in Poughkeepsie - one of the girls came up to me and said, "If you really want to do something for us, Mr. Morgenthau, get us a supply of Coca-Cola; we can't get any."

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MR. GRAVES: We will explore that.

H.M.JR: Would you, because they were very - you remember when you and I were in the alcohol business together, you remember how nice they were. That fellow came up and stayed.

MR. GRAVES: Yes, indeed. Our relations with them have always been very fine. You remember, we have had dealings with them about narcotics.

H.M.JR: It is apt to be a southerner. It isn't necessary we get a New Dealer; but at least just a suggestion.

MR. GRAVES: There is one other suggestion I would like to make.

H.M.JR: What, Harold?

MR. GRAVES: Yes. What is the name of this man from the Book-of-the-Month Club that we were talking about?

MR. KUHN: Harry Scherman.

MR. GRAVES: That comes from you, in another connection.

H.M.JR: Did you see the book he wrote?

MR. WHITE: On gold - it was terrible.

MR. KUHN: No, but my impression is that Scherman personally is very much of a prima donna. He is hard to work with and wants to be the whole show.

MR. GRAVES: Maybe that is a good thing.

MR. WHITE: It isn't even a point of view.

H.M.JR: No, I would rather have Ironized Yeast.
(Laughter)

MR. GRAVES: I will look into it.

H.M.JR: It is one thing to ask Scherman to advise you technically on how to handle mail direct, which he knows, but to put him in charge of ideas, no.

- 8 -

H.M.JR: Anything else, Harold?

MR. GRAVES: Nothing.

H.M.JR: I am still - I feel like a wallflower, having offered to dance with you fellows at any plant, and I get no invitations.

MR. GAMBLE: We have two, Mr. Secretary. We want a little better information on them about the program as a whole before we bring it up with you. One situation is the Sun Shipbuilding Company and the Baldwin Locomotive, both of them in Philadelphia, very close together; and the other one is Roanoke, Virginia, and we have asked them for a letter - or estimate of the number of firms that they can have pledging themselves to be over ten percent before we commit ourselves to any cooperation, on the suggestion that you made. We should have that letter today.

H.M.JR: Have I a grievance, or not yet?

MR. GAMBLE: Not yet.

H.M.JR: All right. You have heard that old story of mine about the little local politician up in Dutchess County that wanted to get a job for years. Finally he backed the fellow and he was elected judge, or the county boss. He was campaign manager and everything else. Finally he says, "Now Bill, I suppose you have got a good job for me?" He says, "The only thing I have got for you is a twelve hundred dollar clerk of the court." He says, "No, thanks, Bill, I think I would rather keep my grievance." (Laughter)

H.M.JR: Harold, Harry is disappointed. It is clean. (Laughter)

MR. WHITE: I sure have worked up a terrible reputation.

H.M.JR: White, have you got anything?

MR. WHITE: No, I have nothing.

H.M.JR: Mr. Schwarz?

MR. SCHWARZ: No.

MR. BLOUGH: May I revert to that Frank Bane conference again? Would you be willing to have Mr. Paul or myself indicate your continued interest in this subject?

H.M.JR: Oh Lord, yes.

MR. BLOUGH: Moderate enthusiasm.

H.M.JR: I have been interested in it since 1928. I have yet to see any results.

MR. BLOUGH: All right.

MR. GAMBLE: I have nothing, sir.

MR. KUHN: You got quite a remarkable letter from Mr. Jim Landis. I don't know if you saw the letter, quoting from an Executive order and suggesting, as far as I could make out, that all our War Bond activities at the community level be turned over to OCD. I think that the proper answer would be to treat this as an offer of help and say - rather than as any suggestion--

H.M.JR: Oh, ask Landis how far it is from his office to the Potomac.

MR. KUHN: That is what I would like to say.

H.M.JR: Then tell him to take a swim.

MR. KUHN: That is what I would like to do.

H.M.JR: I wouldn't be--

MR. KUHN: On the subject of--

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H.M.JR: No, I mean I would just tell him to go jump in the Potomac. Tell him to demonstrate in any city in the United States where he can sell any bonds.

MR. KUHN: I will have a letter for your signature today.

H.M.JR: Remember, when you start in with Landis you have got to be smart, because - I mean, in the first place you never know when he will publish it, so I mean, whatever we want to do--

MR. WHITE: That last idea of yours seems to be a very good one - cooperation, let him try one city.

MR. GRAVES: No, it would be very bad.

MR. WHITE: If he isn't successful, he is out. If he is successful, it wouldn't be bad.

MR. GRAVES: You mean you are willing to ruin one city to demonstrate something you already know?

MR. WHITE: I didn't know. I didn't know you did.

MR. GRAVES: Well, I do.

H.M.JR: What did you say?

MR. WHITE: I didn't know. I didn't know that Harold did.

H.M.JR: Well, anyway, put the best Treasury brains on it, and bring it in.

I sent George Haas a memo. I don't know where this Likert man is on this twenty thousand - do you know, Norman, where that stands? Is George sick?

MR. THOMPSON: I--

MR. KUHN: Likert told me--

MR. THOMPSON: I thought you said liquor. On the

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Likert matter, I understand they are going to proceed with the survey that was agreed to.

H.M.JR: How recently have you heard that?

MR. THOMPSON: Yesterday. Ferdie told me.

MR. KUHN: Likert called me, Mr. Secretary, just to say that the personal difficulties over at his office, that is, with Kane and the others, had been smoothed over, so that they could proceed with the Buffalo thing; and I made it clear to Likert that we weren't yet definite at all on the bigger proposition.

H.M.JR: You see, I sent them an ultimatum through Haas that I do the twenty thousand dollars through the Department of Agriculture with Likert direct or I wouldn't do it at all, and that was last week. Now, are we going ahead?

MR. KUHN: Likert indicated that that would be all right with Kane, which was the difficulty, you remember, and he understands. I think he is going ahead. I can check on it again.

H.M.JR: Would you?

MR. KUHN: Yes, sir.

Only one other thing, on the subject of hoarding of coins. The radio boys got up some very excellent radio announcements, but we boys can't agree on them. Would you be interested to see what--

H.M.JR: Well, I would. I don't feel like hoarding this morning. I mean, I am not in the mood for it, but I was talking with Bell coming down, and I would like to try the thing out in some of the foreign press or foreign communities. I don't want to try it on the whole country. I mean, I would like to go into - they have got a lot of small stations in New York using foreign languages.

MR. WHITE: The situation is getting more serious.

H.M.JR: I would like to try it on a block basis or an area basis - try the thing out through house-to-house canvasses, or something like that.

MR. BELL: I thought these announcements were very good, some of them.

H.M.JR: Well, the point is - I mean, I would like to send some interviewers into a community or a block, find out what they do and talk to them in their own language, explain the thing, find out what is the situation.

Now, whose job is that, Dan?

MR. BELL: Well, gosh, I don't know.

H.M.JR: Would you be willing to let Graves take it?

MR. GRAVES: I should think perhaps--

H.M.JR: Take a half a dozen people, go into a Polish section, an Italian section, or a German section, and just talk to them in their own language. Sit down and say, "Well now--"

MR. GRAVES: I think that would be a very useful thing for us to do, unless you have some other--

MR. BELL: No, I haven't.

MR. WHITE: I thought we were talking about de-boarding of coins in order to put more coins in circulation. You are talking about selling bonds.

H.M.JR: I am talking about trying to explain to these people who are frightened about their money and have it hoarded - get them to lend it to their Government.

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MR. WHITE: I thought you meant the saving of pennies and nickels by people.

MR. BELL: It is both coins and currency.

H.M.JR: People who are afraid. While we are on that, I wish you bond people would think up some kind of a container, Harold, to put out to people. I don't mind if it has a little advertising on it, a container for them to put their coins in, then a little inscription, "Convert these into" - little glass containers - "Convert these into stamps."

MR. WHITE: Isn't that the very opposite of what we are trying to do?

MR. BELL: That is just the opposite, I should think.

H.M.JR: Well, they are going to have them. You don't want them to do that?

MR. BELL: We don't want them to hoard the coins. We want them to take the ten cents and buy the stamps and hoard the stamps.

H.M.JR: O.K.

MR. BUFFINGTON: I would like to go to Baltimore and New York next week to talk with these Victory Fund people, if that is agreeable to you.

H.M.JR: O.K.

MR. CAIRNS: Nothing.

H.M.JR: What are you doing back there, anything?

MR. CAIRNS: I don't think there have been any developments - no, nothing of importance.

H.M.JR: Foley is taking his physical?

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MR. CAIRNS: I hadn't heard.

H.M.JR: I haven't seen him this morning.

MR. BELL: I think I am going to lose William Heffelfinger, and I may lose Ed Kilby - my right and my left arm both.

H.M.JR: Well, I won't say - somebody told me yesterday that Mr. Hull wrote a letter three times to the draft board here in Washington in regard to somebody he wanted in South America and the draft board turned him down and drafted him. In fact, all of the requests of the State Department have been refused.

How old is Heffelfinger?

MR. BELL: About forty or forty-one.

MRS. KLOTZ: I don't understand it.

MR. BELL: Well, he has a mother and a father dependent on him and he put those down as dependents, but the draft board put him in 1-A.

H.M.JR: I would like to talk with you and Norman, if you will stay a minute. I would like to talk to you about him.

MR. WHITE: I think it would be terrible.

MR. BELL: It is my right arm, but, on the other hand, if it is the policy and William doesn't want to appeal - he is very embarrassed about appealing the case.

H.M.JR: If you will stay.

MR. BELL: I might tell you that when the Chief of Finance found it out he said, "It is a shame to let that boy go in the Army." He said, "If the Treasury isn't going to look into it I am going to give him a commission. He would be invaluable to us."

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H.M.JR: Who?

MR. BELL: Loughry.

H.M.JR: As I say, if you will stay and the Stenotypist will stay - that is all. School is dismissed.

July 9, 1942
9:55 a.m.

DEFERMENTS

Present: Mr. Bell
Mr. Thompson
Mrs. Klotz

H.M.JR: What is this thing on Heffelfinger, now?

MR. BELL: Wehl, he is in the second draft. Of course he registered and he got his papers to fill out, and he filled them out the same as Kilby did. They put down the type of work they were doing, and then they put down their dependents.

William Heffelfinger has a mother and father and has supported them for years, and is buying a home.

Last week he got his notice that the draft board had put him in 1-A, and he has until tomorrow - tomorrow is Friday, isn't it - to appeal, but he doesn't want to appeal.

H.M.JR: What did he do in the last war?

MR. BELL: He was only fifteen years old. He came into the Treasury as a messenger.

H.M.JR: Let me just tell you how I feel when it comes to people directly connected with finance, directly connected with taxes, the people of that age - I feel differently about it. I feel differently about it. Those, I mean, are definitely the Treasury's jobs. Now, in Heffelfinger's case I would like to ask for a six months' deferment.

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MR. BELL: He didn't want to appeal it because he said, "If I appeal, as much as I think I could get would be six months, then I would have to go."

H.M.JR: No, I don't think he should be in 1-A.

MR. BELL: I don't think he should, either, but then they had put him in 1-A. Now, Kilby is in the same boat. They couldn't have taken two people more valuable to me. Kilby is under Broughton, and Broughton is getting old and can't carry that by himself.

H.M.JR: How old is Kilby?

MR. THOMPSON: He is forty-three or forty-four.

MR. BELL: Or forty-five.

H.M.JR: I think in both cases I would ask for six months. I would do it today and I will sign them - both cases.

MR. BELL: And what will we do when the six months are up?

MR. THOMPSON: He may be reclassified before then.

MRS. KLOTZ: Cross that bridge when you come to it.

H.M.JR: But you can tell them that I feel differently about people in that position than I do - well, let's say, a lawyer.

MR. THOMPSON: You can't replace either of those fellows. It would take years.

MR. BELL: Heffelfinger grew up with this work.

H.M.JR: I can't go out in private life and get a man. No, I feel differently about those boys, and I want you to tell them so.

MR. BELL: I think it is probably foolish to say

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you can't get along without them, but it means I certainly have got to do a lot more detail work than I am doing now.

H.M.JR: No, it is not - these are the kinds of cases that I feel very - I mean, I am perfectly willing to sign and say that in connection with raising the revenue these men are necessary. So if you will fix it up I will do it this morning.

MR. BELL: Would you want to maybe discuss the matter informally with the draft board as to dependents?

H.M.JR: Dependents?

MR. BELL: Yes. William Heffelfinger has a mother and a father.

MR. THOMPSON: Doesn't William's brother live here?

MR. BELL: I don't know, but he has his own family.

MRS. KLOTZ: There are other brothers. They don't care - that is no dependent.

H.M.JR: I think, gentlemen, put it on a necessity for the Treasury - that these men are necessary, definitely necessary in connection with the revenue, and I am asking for six months, and it takes a lifetime to replace these people.

MR. BELL: All right. I think that is the right thing to do if you don't feel that you are creating a precedent and that you can't maintain your general policy which, I think, is right.

H.M.JR: No, no. I would - in cases like that, I would almost be willing to ask for a permanent deferment.

MRS. KLOTZ: Lots can happen between now and six months.

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MR. BELL: We can put up the letter in such a way as to indicate that it just takes years to train people to do this work and that we are asking for six-months' deferment, and unless the situation changes materially we will be back in six months for another deferment, but six months at a time is all we are going to ask for, something like that.

MR. THOMPSON: I don't know that you need to do that because the regulations provide at the end of six months you can--

H.M.JR: I am perfectly willing to make it strong about their duties, and so forth and so on, and that this is something that we need.

Who is it that goes to?

MR. THOMPSON: There is a form.

MR. BELL: It goes to the draft board.

H.M.JR: Yes, but I am willing to sign a personal letter to accompany it, which I haven't done before.

MR. THOMPSON: You have never done that.

H.M.JR: In these two cases I am willing to do that. They are both married?

MR. BELL: No, Heffelfinger isn't.

MR. THOMPSON: But he has his father and mother.

H.M.JR: How old?

MR. BELL: Early forty's.

H.M.JR: What I feel is there are literally millions of people from eighteen years up who haven't been taken and why should they take a man who is forty-one? Now, if White or Haas came in the next minute and

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said, "Well, I have got a status," I wouldn't do it, but this is right close up to my financing.

MR. BELL: You see, the reason they are taking these boys, and I heard the other day--

MRS. KLOTZ: I don't understand it.

H.M. JR: It is different.

MR. BELL: I heard of a boy the other day that had been classified in 3-B and the board had reclassified him in 1-A, though married. They called him the next day. The reason for that is in these ages - certain sections are short of ages from eighteen to twenty-eight, or thirty-five, whatever it is, so they step over into the next group in order to fill their quota. Now, William has got a low number in his group, and the fact that he got his card back so quickly - he thinks that he will be called very shortly, and tomorrow is the last day of appeal.

H.M.JR: Well, each one of these things has to be considered separately. I can get all the economists, lawyers, and so forth, but these fellows, you can't train them under five years.

MR. BELL: There just isn't anybody that has got the knowledge that Heffelfinger has of the Treasury fiscal setup - just isn't anybody.

H.M.JR: And he is definitely over forty?

MR. BELL: Yes, he is, I think forty or forty-one, but we will establish that.

MR. THOMPSON: He must be, because I picked him up in World War I as a messenger boy.

H.M.JR: In both cases I am willing to write a personal letter.

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MR. BELL: Thank you very much. It relieves me.

H.M.JR: No, it is a question - after all, it is a question how much can you and I do personally - we have got to finance this war - and physically. They begin to take these people away from us and when it gets up close to the thing that has to do with financing or with the taxes, I mean - well, take - for example, supposing that they would take the assistant to Helvering - what is his name?

MR. BELL: Norman Cann, and they want him, too.

H.M.JR: Well, I would do the same thing for Norman Cann.

MR. BELL: And they want Tim Mooney.

H.M.JR: I would do the same on both of those fellows. I mean the thing sort of gradually makes a pattern.

MR. THOMPSON: Those are cases that under the regulations it would take more than two years to train a replacement, so they are right in line with the regulations.

H.M.JR: In my mind it gradually makes a pattern. Then I think - here is this Martha whatever her name is--

MRS. KLOTZ: Strayer.

H.M.JR: I feel perfectly free to explain it.

MRS. KLOTZ: Is that this Cann that was here this morning - that is Norman Cann?

H.M.JR: No, but you take some of the lawyers in the General Counsel's office - I can go out and get a man fifty years old.

MR. THOMPSON: It is different. You can train a man in less than two years, but you have got to grow up in this financing to know it.

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MR. BELL: I would be scared of everything coming to my desk without Heffelfinger or Kilby - scared to death of the documents. As it is, I can rely on these two people.

H.M.JR: That is all. Fix it up this morning -
six months.

July 9, 1942.
12:45 p.m.

HMJr: Hello.

Operator: Mr. Rouse.

HMJr: Hello.

Robert Rouse: Good morning, sir.

HMJr: How are you?

R: I'm fine. I hope you are.

HMJr: I'm all right.

R: Good.

HMJr: How are things going?

R: I think they're going a good deal better than they did yesterday morning.

HMJr: Uh huh.

R: The - our overnight subscriptions were quite encouraging. We had quite a large number. Of course, those subscriptions aren't large....

HMJr: No.

R:and they aggregated, the overnight ones, about \$75 million in the mail.

HMJr: Good.

R: And I'm just getting the latest figure for you. The - but in - the Central Hanover, for example, called last night late and said that they were going in for thirty anyway....

HMJr: Oh, good.

R:that they were going to try to get it up to fifty.

HMJr: Oh, good.

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R: But....

HMJr: That's the bank we were worrying about, wasn't it? Or was it the Guaranty?

R: No, it was the Guaranty.

HMJr: Oh, it was the Guaranty.

R: All these were subject to executive committee meetings to be this noon.

HMJr: I see.

R: And I think that during the - between now and about half-past three, we'll have a pretty good line on these large situations.

HMJr: Yeah.

R: The subscriptions at the moment here are \$533 million.

HMJr: Well, I need more than that.

R: Yeah.

HMJr: Well....

R: Well, I think we'll - I'm not concerned about getting them.

HMJr: No.

R: How have - how were you on the rest of the other districts?

HMJr: I don't know. I haven't - oh, you mean that's just for New York?

R: That's just New York.

HMJr: Well, let - let me see if I can get Kilby on the wire. You stay on, will you?

R: All right, good.

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HMJr: Stay on and you can listen.

Operator: Operator.

HMJr: Can you put Mr. Kilby on this same wire?

Operator: Yes, indeed. Just a minute.

R: Market wires have been very quiet this morning. We bought a few bills and C. I.'s for money market purposes, but nothing other than switches otherwise.

HMJr: Yeah.

Operator: Go ahead.

HMJr: Kilby?

Edwin
Kilby: Yes, sir.

HMJr: Mr. Rouse is on this phone too. How much have we got in altogether now?

K: I've asked for a report at two this afternoon, Mr. Secretary, and I haven't anything further than last night's figure.

HMJr: Well, that doesn't help any.

K: No, sir.

HMJr: You won't have anything until two?

K: It will be shortly after two, I expect.

HMJr: I see.

R: Ed, did you have as - a pretty good response yesterday?

HMJr: Well....

R: I thought ours was quite satisfactory here.

K: I don't think it looked bad in comparison with the certificate job last month where we also had the two-day provision announced in advance.

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R: Well, that's what we were comparing to, and it seemed to us that it was better than that.

K: It seemed to me that - that you might look for somewhere between three and three and a half billion when this thing finally settles.

HMJr: How much?

K: Between three and three and a half, I would think.

R: Well, that's where our guessing is - is falling too here.

HMJr: Thank you. All right. Fine.

R: Fine. Thank you.

HMJr: Thank both of you.

K: Goodbye.

July 9, 1942.
3:50 p.m.

HMJr: Hello.

Operator: Mr. Rouse.

HMJr: Hello.

Robert
Rouse: Hello.

HMJr: Hello, Bob.

R: I thought you'd like to know we just crossed
the \$1 billion mark....

HMJr: Hurray!

R:and still some to be heard from.

HMJr: I see, and....

R: That particular bank we were talking about,
the Guaranty Trust, came in for twenty-five.

HMJr: Good for them. I was about ready to close my
account. I think I got \$5.00 there.

R: (Laughs) The....

HMJr: I have - as a matter of fact, I have an account
there, and I was - I thought I might - at least
might close it, and then they'd write me a letter.
Then I could tell them why.

R: (Laughs)

HMJr: But they came in for twenty-five.

R: They came in for twenty-five.

HMJr: My, my, my, how these old beavers, they are get-
ting sporty, aren't they, in their old age?

R: (Laughs)

HMJr: What?

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R: They certainly are.

HMJr: Yeah.

R: The Central Hanover came through as their man hoped they would. They jumped from thirty yesterday, which they'd planned on, to fifty.

HMJr: Good. The banks are behaving beautifully, and I don't know if anybody knew - I had a little impromptu speech up at Poughkeepsie, and presented a couple of banks with these ninety and....

R: Oh, yes.

HMJr:tenders, we call them - certificates.

R: Right.

HMJr: I went out of my way to say something about the banks.

R: Well, there's one other interesting thing. I don't know the exact numbers, but I - we have checked back to the last issue of forty-nine fifty-one's, and we find that the number of subscriptions is in excess of the last lot of forty-nine fifty-one's.

HMJr: Well, did the Victory Fund Committee get some credit for that?

R: Well - I don't know.

HMJr: Don't be....

R: Fundamentally, I don't think it's....

HMJr: Don't be stingy now.

R: Well, I'm not going to be stingy. I - it's just that I have a tremendous faith in the - in our people, that if there's a need to do a job, I think they'll do it without any prompting.

HMJr: I see.

- R: And they - I think the prompting's a good thing, and from the standpoint of what we've got to do, we - these fellows are going to do a - a real job for us.
- HMJr: You don't believe in salesmen.
- R: Not for this issue, particularly.
- HMJr: No, I - I don't think....
- R: But I - I do believe that we're going to have a bunch of salesmen, we're going to do a job, and you're going to give us the issues, and you're going to provide the organization, and we'll get it done.
- HMJr: Well, I'm very much pleased, and I'm pleased the way you've handled this thing the last couple of days on your own.
- R: Oh, that's fine.
- HMJr: Yeah.
- R: But - I - I've really - this - this business of selling them to the public instead of against - to the banks and doing it on a voluntary basis, I may be a little "hipped" on the subject, but I think it's a job that can be done, and....
- HMJr: Now what - what do you mean, because I've got so many different kinds - much different kind of merchandise?
- R: Well, we're going to have more kinds. (Laughs)
- HMJr: Yeah.
- R: We'll have a lot....
- HMJr: Yeah.
- R:before we're through.
- HMJr: Good.

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- R: And - but I - I really believe that. I think it can be done. You look at - at what we've done in the last war. For example, take your ten percent. They come to me and say, "Rouse, you ought to be down here for ten percent." And I say, "Well, my God, the - the taxes and so on, I don't know how I can, but anyway you've got it." The next day a fellow could come in and say, "Well, I know you're down for ten percent, but we've got an issue here. Haven't you got \$500 extra in your bank account?"
- HMJr: Yeah.
- R: Well, you have. You've kept something back for contingencies....
- HMJr: Yeah.
- R:and you - you - I think when we start after that kind of money, we can get a lot of it.
- HMJr: Good. Well, you sound quite - in a good frame of mind.
- R: Well, I am today. I was awfully discouraged between the - the Henderson problem and the Farm Bloc and the War Labor Board, Monday morning I was so low I didn't know whether I was coming or going.
- HMJr: Well, you know what I told you, fellow. When you sleep on the floor you can't fall out of bed.
- R: (Laughs) All right, sir.
- HMJr: Okay.
- R: Okay.

July 9, 1942.
4:12 p.m.

HMJr: Hello.

Operator: Mr. Hall.

HMJr: Hall?

Alvin
Hall: Yes, Mr. Secretary.

HMJr: How are you?

H: Fine, thank you. How are you?

HMJr: Very well. Tell me, Hall, how are they calling on you for War Bonds, I mean....

H: Well, we're getting pretty heavy demands, and we're able to keep up with them.

HMJr: What's your production per day?

H: We're turning out 725,000 a day now, and we're going up to 800,000 on Monday.

HMJr: You are.

H: That's all they ask for.

HMJr: And your capacity is what?

H: Well, (laughs) after we get these new machines that we have ordered coming in - we're getting some automatic gathering machines - we could go up, oh my goodness alive, to two million a day if necessary.

HMJr: Well, when will those machines be around?

H: Well, they're - two of them expected the early part of next week.

HMJr: Good.

H: We have four of them operating now, and six more to come in.

- 2 -

HMJr: Fine. Now your present capacity is - is what?

H: We're - we're only - well, our present capacity now, Mr. Secretary, is based upon the actual requirements, 800,000 a day. But we could exceed that if they wanted more by taking on additional employees.

HMJr: And how many days - days a week are you working?

H: We're working six days a week.

HMJr: You have worked seven, haven't you?

H: Well, we worked over last Sunday because - in preparation for this big run on the seventeenth.

HMJr: How many shifts?

H: Two - two shifts.

HMJr: Two shifts. Good.

H: But on the gathering machines we're running three shifts, because they're too valuable to let stand idle for eight hours.

HMJr: Well, they're not crowding you too much then.

H: Not at all. We're in good shape.

HMJr: Fine.

H: Not a bit worried about it. We've taken on this - this big bond issue and we - we broke a record on that....

HMJr: Well, Mr. Bell will be pleased, because he was a little worried.

H: Yes, well, I've talked with him to keep me in close touch with him on it, and he seemed....

HMJr: Fine.

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H:to be entirely satisfied.

HMJr: Good. Thank you. We - we've got some plans we're going to crowd you a little bit, so just - I think I'll warn you.

H: Well, we're prepared for it.

HMJr: Good.

H: I think we're in very good shape considering what - what has been thrust upon us the beginning of this fiscal year.

HMJr: Fine. Okay, Hall.

H: Thank you.

HMJr: Right.

July 9, 1942.
4:33 p.m.

HMJr: Hello.

Operator: Kilby. Go ahead.

HMJr: Kilby?

Edwin
Kilby: Yes, sir.

HMJr: In your shop is the place where they control the number of bonds that are sent out? For instance, when the Federal Reserve writes that "we want so many bonds," does it go to your place?

K: Yes, sir.

HMJr: Now what I'd like you to do for me - and I'd like to have it by one o'clock tomorrow - the number of bonds that have been sent out - oh, each day starting with April 1. Hello?

K: Yes, sir.

HMJr: I'd like them since - say, you start - April 1 would be on the first column, you see?

K: Uh huh.

HMJr: At the head of the column would be "\$25, \$50, \$100," whatever the denomination, across the top, you see?

K: Yes, sir.

HMJr: And then give it to me each day beginning with April 1, right down to how many pieces have gone out. Is that very difficult?

K: No, indeed. I can take care of that nicely.

HMJr: You think - you see what I mean? The outside....

K: Yes.

- 2 -

HMJr:will be "April 1, April 2," right down.

K: Right down each day from April 1 to date.

HMJr: To date - on one sheet of paper.

K: And the total amount in each denomination each day.

HMJr: Yeah, and across the top you should start with "\$25, \$50, \$100" and so forth.

K: Yes, sir. I can do that nicely.

HMJr: And - I'd like to have something like that - do you handle stamps? Who handles stamps?

K: No, the post office handle the stamps.

HMJr: Oh, well, let's take - let's take the bonds. Do you think I could have that by one o'clock tomorrow?

K: You certainly may.

HMJr: I thank you.

K: All right, sir.

July 9, 1942

Dear Larry:

Thank you very much for your letter of June 30th and for your good wishes to me.

Your departure for Coast Guard service has left a real gap here, and all of us hated to lose you. In your work here you have always lived up to what I like to regard as Treasury standards, and you have shown a spirit that should be an example to us all.

We all look forward to having you with us after the war; in the meantime, please remember that you will have my best wishes wherever you may be assigned.

Sincerely,

(Signed) H. Morgenthau, Jr.

Commander Lawrence J. Bernard,
United States Coast Guard,
Washington, D. C.

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JUL 8 1942

ASSISTANT GENERAL COUNSEL
TREASURY DEPARTMENT
WASHINGTON



June 30, 1942.

My dear Mr. Secretary:

I am leaving the Treasury tomorrow to enter upon active duty in the Coast Guard. Before I go I want to tell you that I am proud to have been a member of your Treasury team; also, that my work here under your direction has been filled with the pleasure and personal satisfaction that comes from service under high-minded, hard-working, and honest leadership.

I hope to have the privilege of serving under you again after the war has been won. Until then, I wish for

you from the bottom of my heart good
luck, good health, and a continuation
of the success which has marked your
administration in the past.

Sincerely yours,

Lawrence J. Bernard

Hon. Henry Morgenthau, Jr.,
Secretary of the Treasury.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 9, 1942.

TO Secretary Morgenthau
FROM Mr. Thompson

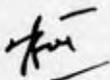
Secretary Knox possibly may speak to you about the needs of the Navy for office space in San Francisco. Treasury personnel in the Federal Building there has been ordered out to make way for the Navy and I have had Ed Berney canvassing the space situation so that we might move. The only space which might be made available is the Empire Hotel building. Secretary Jones has indicated that he is willing to buy the building through the RFC at whatever price we might fix. We have been unable to fix a price as the hotel owners are asking \$2,000,000, less alteration costs, for their property while our highest appraisal is \$1,500,000. The question boils down as to whether in view of the emergency need for the space we should pay the hotel price, having them do such alterations as are necessary to make it into a suitable office building at a cost which they would absorb of about \$125,000, or whether we should proceed to take the building by condemnation, leaving to the courts the fixing of the price for the building.

Mr. O'Connell is looking into the legal phases of the matter and is to see Mr. Williams of the RFC this morning. After his conference, he will report back and a decision then may be made based on the results of his conference.

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Incidentally, Ed Berney's people looked over 54 office buildings in San Francisco. None had adequate space to meet our needs except one which the owners were unwilling to lease except on a five year basis, for which we have no legal authority, and as between that building and the hotel building, the hotel is much more desirable and would be an ideal Government Federal building after the War, both as to location and space capacity.

In view of the legal phases involved, I also had Larry Bernard go out to check the whole situation and he is in entire agreement as to the desirability of taking over this hotel building.



July 9, 1942

George Haas

Secretary Morgenthau

Please let me know what has happened about the \$20,000 that we were going to give to Dr. Likert. Has he started to work or hasn't he?

Taken care of

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 9, 1942.

TO Secretary Morgenthau
FROM Mr. Haas

Dr. Likert just telephoned me and told me that he had solved his difficulty last night. Mr. Elmer Davis, the new Director of War Information, has agreed to Dr. Likert working directly with you on your surveys. Dr. Likert also said that Mr. Davis would call you today advising you to that effect.

10:10 AM

July 9, 1942

Dear Mr. Davis:

Thank you for your letter of July 4th. I am glad to see that you are making headway in carrying out the big and difficult assignment given to you in the Executive Order of June 13th.

I hope to see your deputy, Mr. Feller, early next week, but in the meantime I just want to assure you again that the Treasury intends to be helpful at all times.

Sincerely,

(Signed) H. Morgenthau, Sr.

Hon. Elmer Davis,
Director, Office of War Information,
Washington, D. C.

Photostat file to NMC
Orig. File to Thompson

FK/cgk

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE FOR EMERGENCY MANAGEMENT

WASHINGTON, D. C.

OFFICE OF WAR INFORMATION

July 4, 1942

The Honorable
The Secretary of Treasury

Dear Mr. Secretary:

Plans for the organization of the Office of War Information have now reached a point at which discussion of the general relation of the Office to the various departments and agencies of government would seem to be desirable. I should like these discussions to take place before our plans are fully crystallized, in order that our plans may reflect the pertinent suggestions made by other officers of government.

Broadly speaking, the situation as established by the Executive Order of June 13 "consolidating certain war information functions into an Office of War Information" is as follows:

The several departments and agencies of the government are to retain "the formulation and carrying out of informational programs relating exclusively to the authorized activities of the several departments and agencies..." but these programs are to "conform to the policies formulated or approved by the Office of War Information."

All other war-related informational activities of the government are to be carried out through the Office of War Information which is to "formulate and carry out through the use of press, radio, motion picture, and other facilities, information programs designed to facilitate the development of an informed and intelligent understanding, at home and abroad, of the status and progress of the war effort" and policies, etc.



In other words, the various departments and agencies will continue to release information relating to their particular concerns in conformity with policies approved by this Office but all other information activities of the government related to the war will be carried out by, or under the direction of, the Office of War Information, which will establish policies and programs in this field and which will provide centralized radio, moving picture, press, graphic, and other facilities, for publication in the various media.

The Office of War Information cannot effectively perform these functions, nor can its centralized facilities effectively serve the government unless there is a clear understanding and a close and continuing contact at policy-making levels, between this Office and the various departments and agencies. For this reason, I am requesting the Liaison Officers of the Office of War Information, who represent me and are in effect my personal deputies, to discuss with the heads of the various departments and agencies the general questions thus raised, and particularly the broad phases of the problem of effective integration of the information policies and programs of the departments and agencies with the information plans of the Office of War Information. I should therefore appreciate it if you could see my deputy who will get in touch with you on Monday or Tuesday of next week.

Within a few days we shall have in tentative form the first set of regulations governing war information activities. It is my intention to ask your principal information officer to meet with me and review these proposed regulations. No doubt you will wish to speak to your information officer about this matter in the meantime.

These regulations will be spelled out in detail to meet the problems peculiar to each agency as these problems present themselves. My liaison officer will stand ready at all times to discuss these problems with you and to convey your suggestions to me.

Very truly yours,

Elmer Davis

Elmer Davis
Director

July 9, 1942

Dear Jim:

Thank you for your letter of June 29th. I take it that this is a renewed offer of help to us in our War Bond program, and I appreciate it as such.

As you know, our operation "at the community level" is a big one, and it has been useful to us in the past to be able to call on your defense councils for assistance, as we did with real success in Illinois and with somewhat less success in New York and Pennsylvania.

We have approximately 3,000 counties now organized for War Bond activities, with 13,000 men and women giving a substantial part of their time, 125,000 working committee members throughout the United States and more than a million who are working for us as volunteers in one way or another.

We shall continue to regard the Civilian Defense organization as a source of volunteer help wherever needed, and I can assure you that we shall make every effort in the future, as in the past, to integrate our activities with yours and those of other Federal agencies in the field.

Sincerely,

(Signed) Henry

Hon. James M. Landis,
Director, Office of Civilian Defense,
Washington, D. C.

Photostat file to NMC
Orig. file to Thompson

FK/cgk

OFFICE OF CIVILIAN DEFENSE

JUL 8 1942

JUN 29 1942

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

Dear Mr. Secretary:

The increasing scope of the war program of the Federal Government has in turn required increased participation by communities throughout the United States. Many Federal agencies in pursuit of their particular programs require the assistance of numerous individuals in various communities. At times there has been a tendency to establish independent lines to communities and to create independent committees of civilian volunteers for the purpose of carrying out a particular program.

The Office of Civilian Defense has now organized throughout the country nearly nine thousand local defense councils. Approximately nine million people have offered to serve these councils in a volunteer capacity. These defense councils represent in their particular communities the mechanism whereby the manpower of that community can be mobilized for different phases of the war effort. They also represent a mechanism whereby these different phases can be coordinated and integrated into a whole so that the program of the Federal Government becomes a single, intelligent, powerful thing.

It seems, therefore, not only desirable, but in conformance with the Executive Order of the President of April 15, 1942, to bring about this integration at the community level of all war programs that call for community and volunteer effort of this character. That can be best done if the existing organization of defense councils is utilized to its utmost.

In your activities may I urge you to use the facilities of the Office of Civilian Defense in order that we may help in making certain that, through the defense councils, your program may become a vital part of the whole civilian defense effort. The Civilian Mobilization Branch of the Office of Civilian Defense is prepared to place itself at your disposal in carrying out tasks of this character. I also should be glad to discuss with you at any time the facilities of this office to further your war aims

BUY FACTORY



JUN 29 1942

- 2 -

in this manner and to plan just how the volunteer manpower of this country can be marshalled to such an end.

My own experience and my contacts with the field lead me to a clear conviction that elimination of duplicate and over-lapping organizations is immensely desirable not only from the standpoint of making the Federal program intelligible as a whole but from the standpoint of promoting the efficiency of its parts. I can assure you that the Office of Civilian Defense will be happy to be of the greatest possible assistance to you in this respect.

Faithfully yours,

James M. Landis
Director

JUL 9 1942

Mr. Andrew Mills, Jr., Chairman
Committee on Public Information
Savings Banks Assn., State of New York
110 East 42nd St., New York City

Dear Mr. Mills:

My attention has been called to the very interesting campaign being conducted by the savings banks of New York State to encourage greater savings and the purchases of War Bonds out of current earnings.

The newspaper advertising you have been running, first to discourage wasteful spending and hoarding, and then in support of the War Bond Pledge Campaign, must be having a constructive effect. This is indicated by the favorable trend of your savings deposits, the high percentage of War Bonds being sold by the savings banks, and the strong editorial support you are receiving from the press throughout the State.

Now is the time when it is vitally important for every American to realize how necessary it is to save every possible dollar; and I am confident that the savings banks will continue their aggressive efforts towards this end.

Sincerely,

(Signed) H. Morgenthau, Sr.

Secretary of the Treasury

FBR:TRG:jrc

Photostat file to NMC
Orig. File to Thompson

THE SECRETARY OF THE TREASURY

Washington, D. C.

July ____, 1942

Mr. Andrew Mills, Jr., Chairman
Committee on Public Information
Savings Banks Assn., State of New York
110 East 42nd St., New York City

Dear Mr. Mills:

My attention has been called to the very interesting campaign being conducted by the savings banks of New York State to encourage greater savings and the purchases of War Bonds out of current earnings.

The newspaper advertising you have been running, first to discourage wasteful spending and hoarding, and then in support of the War Bond Pledge Campaign, must be having a constructive effect. This is indicated by the favorable trend of your savings deposits, the high percentage of War Bonds being sold by the savings banks, and the strong editorial support you are receiving from the press throughout the State.

Now is the time when it is vitally important for every American to realize how necessary it is to save every possible dollar; and I am confident that the savings banks will continue their aggressive efforts towards this end.

Sincerely,

H. MORGENTHAU, JR.

RUTHRAUFF & RYAN Inc. ADVERTISING
405 LEXINGTON AVENUE . . NEW YORK

July 3 1942

Mr T R Gamble
Main Treasury
15th and Pennsylvania Avenue
Washington D C

Dear Mr Gamble:

This is with reference to our discussion Thursday concerning the letter we would like to have from Secretary Morgenthau.

You will remember that I left with you the newspaper advertising which the Association has been running along with the many editorials we have had in newspapers complimenting us on the campaign.

I would very much appreciate this letter from the Secretary at your earliest possible convenience, as we are right now in the throes of lining up the Association to continue this effort for another year.

The attached letter is a suggestion of what the Secretary might say. Of course, you can edit it as you see fit.

Thank you very much for taking care of this for me and I hope it will come through speedily.

Cordially yours

RUTHRAUFF & RYAN, Inc



FBRJr
ES
Encl

JUL 9 1942

Dear Phil:

Bert Johnston, of the Kroger Company, has sent us a portfolio of the newspaper advertisements used in the Cincinnati Pledge Campaign.

Let me congratulate you and your associates upon the excellence of this material.

With kindest personal regards,
I am

Sincerely,

(Signed) Henry

Hon. Phil J. Trounstine,
State Chairman, Ohio
War Savings Committee,
Keith Building,
Cincinnati, Ohio.

HNG/mff

Copy to Thompson
(Portfolio ret'd by NMC)

nmc

United States Senate

COMMITTEE ON
EDUCATION AND LABOR

ELBERT D. THOMAS, UTAH, CHAIRMAN
DAVID I. WALSH, MASS.
JAMES E. MURRAY, MONT.
ALICE PEPPER, FLA.
LEW J. ELLENDER, LA.
JOHN LEE, OKLA.
LISTER HILL, ALA.
DORNBUS CHAVEZ, N. MEX.
HARRY H. SCHWARTZ, WYO.
JAMES M. MEAD, N. Y.
BERKELEY L. BUNKER, NEV.

KARL B. WOODCOCK, CLERK
W. ALAN THOOT, ASST. CLERK

July 9, 1942

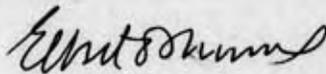
The Honorable
The Secretary of the Treasury
Washington, D. C.

My dear Secretary Morgenthau:

Many thanks for sending me the recent copy of "THE MINUTE MAN" which contains the highlights of the campaign to sell War Savings Bonds.

I have read this booklet and should like to commend the American people on their fine cooperation and patriotism in this worthy cause.

Sincerely yours,



Elbert D. Thomas

UNITED STATES SAVINGS BONDS - TOTAL

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

(At issue price in thousands of dollars)

Date	July daily sales	Cumulative sales by business days				July as percent of June
		July	June	May	July as percent of June	
July 1942						
1	\$ 28,418	\$ 28,418	\$ 29,539	\$ 19,981	96.2%	
2	24,269	52,687	45,442	39,430	115.9	
3	27,277	79,964	67,046	72,048	119.3	
6	46,531	126,495	98,208	88,605	128.8	
7	31,110	157,605	132,341	122,575	119.1	
8	43,451	201,056	154,085	157,866	130.5	

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

July 9, 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 July sales to date with sales during the same number of business days in June and May 1942

(At issue price in thousands of dollars)

Date	July daily sales	Cumulative sales by business days				July as percent of June
		July	June	May		
July 1942						
1	\$ 15,821	\$ 15,821	\$ 19,834	\$ 12,679		79.8%
2	14,880	30,701	27,841	24,263		110.3
3	16,822	47,523	40,811	46,532		116.4
6	29,797	77,320	58,199	55,460		132.9
7	17,724	95,044	82,988	73,824		114.5
8	21,599	116,643	98,197	97,049		118.8

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

July 9, 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—~~IN~~ SERIES F AND G COMBINED

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

(At issue price in thousands of dollars)

Date	July daily sales	Cumulative sales by business days				July as percent of June
		July	June	May		
July 1942						
1	\$ 12,597	\$ 12,597	\$ 9,705	\$ 7,302		129.8%
2	9,389	21,986	17,601	15,168		124.9
3	10,455	32,441	26,235	25,516		123.7
6	16,734	49,175	40,009	33,145		122.9
7	13,386	62,561	49,353	48,751		126.8
8	21,852	84,413	55,888	60,817		151.0

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

July 9, 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 will not necessarily add to totals.

Sales of United States Savings Bonds
From July 1 through July 8, 1942
Compared with Sales Quota for Same Period
(At issue price in millions of dollars)

CONFIDENTIAL

Date	Series E				Series F and G				Total			
	Actual Sales		Quota,	Sales	Actual Sales		Quota,	Sales	Actual Sales		Quota,	Sales
	July 1	July 1	July 1	to Date	July 1	July 1	to Date	to Date	July 1	July 1	to Date	to Date
Daily	to	to	as % of	Daily	to	to	as % of	Daily	to	to	as % of	
	Date	Date	Quota		Date	Date	Quota		Date	Date	Date	Quota
1	\$ 15.8	\$ 15.8	\$ 23.6	66.9%	\$ 12.6	\$ 12.6	\$ 19.4	64.9%	\$ 28.4	\$ 28.4	\$ 43.0	66.0%
2	14.9	30.7	47.9	64.1	9.4	22.0	36.4	60.4	24.3	52.7	84.3	62.5
3	16.8	47.5	73.0	65.1	10.5	32.4	50.6	64.0	27.3	80.0	123.6	64.7
6	29.8	77.3	126.0	61.3	16.7	49.2	82.6	59.6	46.5	126.5	208.6	60.6
7	17.7	95.0	139.3	68.2	13.4	62.6	94.2	66.5	31.1	157.6	233.5	67.5
8	21.6	116.6	162.2	71.9	21.9	84.4	114.5	73.7	43.5	201.1	276.7	72.7
9			189.8				129.5				319.3	
10			216.0				139.9				355.9	
11			236.6				147.7				384.3	
13			273.2				160.6				433.8	
14			287.6				168.0				455.6	
15			311.6				181.8				493.4	
16			335.5				193.5				529.0	
17			358.7				202.8				561.5	
18			377.4				210.5				587.9	
20			411.8				223.9				635.7	
21			425.9				231.8				657.7	
22			451.1				247.0				698.1	
23			477.5				260.1				737.6	
24			503.8				270.7				774.5	
25			525.0				279.5				804.5	
27			562.7				295.1				857.8	
28			577.2				304.3				881.5	
29			601.3				322.1				923.4	
30			625.8				337.5				963.3	
31			650.0				350.0				1,000.0	

July 9, 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.

Note: Quota takes into account both the daily trend during the week and the monthly trend during the month.

7-9-42

Actual revenue collected in the fiscal years 1941 and 1942, and estimates of revenue to be collected in the fiscal year 1943.

	<u>1941</u> (actual)	<u>1942</u> (actual)	<u>1943</u> (estimated)
Income taxes	\$3,470 M	\$ 7,960 M	\$12,031 M
Miscellaneous internal revenue . .	2,967	3,847	3,959
Social security and railroad taxes	932	1,194	1,840
Customs	392	389	245
Others	508	277	284
	<hr/> \$8,269 M	<hr/> \$13,667 M	<hr/> \$18,359 M
Less transferred to Old Age trust	661	868	1,441
Net receipts	\$7,608 M	\$12,799 M	\$16,918 M
Budget estimates of new taxes <i>1/</i>	--	--	<hr/> 7,000
			<hr/> <hr/> \$23,918 M

Estimated receipts under new tax proposals now before Committee are \$3,450,000,000, assuming excise taxes will begin to be collected on October 1.

swB

July 9, 1942

MEMORANDUM FOR THE SECRETARY

From: Mr. Blough

To check on the ability of employers to handle income tax collection at source, Mr. Cann and I are sending into the field four teams, each made up of one staff member of the Division of Tax Research and one staff member from the Bureau of Internal Revenue. These four teams will interview taxpayers in (1) New York, (2) Chicago, (3) Detroit, Michigan and Windsor, Ontario, and (4) Greensboro, North Carolina and Atlanta, Georgia.

In addition, Internal Revenue Agents will interview other taxpayers on the basis of a questionnaire which has been prepared.

I believe it would be helpful in securing the full cooperation of the taxpayers if our teams could carry a letter indicating your interest in the matter. Are you willing to sign the four letters, one for each team, attached hereto?

RB

Attachments

July 9, 1948

TO WHOM IT MAY CONCERN

In connection with the Revenue Bill of 1948, which is under consideration, the House Ways and Means Committee has tentatively adopted a plan whereby beginning in 1949 part of the regular income tax would be collected at source from wages and salaries and certain other types of income.

As in all tax matters, I am anxious to devise the most effective and least burdensome procedure for the taxpayer. In order that I may obtain first hand information on how this important tax measure could best be adapted to the convenience of the employers, I am asking Mr. T. C. Atheson and Mr. Milton Friedman of our staff to interview as many public spirited taxpayers as the limited time available to us will permit.

I should appreciate greatly your assistance on this important matter.

Sincerely,

July 9, 1942

TO WHOM IT MAY CONCERN

In connection with the Revenue Bill of 1942, which is under consideration, the House Ways and Means Committee has tentatively adopted a plan whereby beginning in 1943 part of the regular income tax would be collected at source from wages and salaries and certain other types of income.

As in all tax matters, I am anxious to devise the most effective and least burdensome procedure for the taxpayer. In order that I may obtain first hand information on how this important tax measure could best be adapted to the convenience of the employers, I am asking Mr. Paul A. Hankins and Mr. C. Lowell Harris of our staff to interview as many public spirited taxpayers as the limited time available to us will permit.

I should appreciate greatly your assistance on this important matter.

Sincerely,

LS:MDW
7/10/42 FILE COPY

July 9, 1942

TO WHOM IT MAY CONCERN

In connection with the Revenue Bill of 1942, which is under consideration, the House Ways and Means Committee has tentatively adopted a plan whereby beginning in 1943 part of the regular income tax would be collected at source from wages and salaries and certain other types of income.

As in all tax matters, I am anxious to devise the most effective and least burdensome procedure for the taxpayer. In order that I may obtain first hand information on how this important tax measure could best be adapted to the convenience of the employers, I am asking Mr. Milton E. Garter and Mr. Walter Heller of our staff to interview as many public spirited taxpayers as the limited time available to us will permit.

I should appreciate greatly your assistance on this important matter.

Sincerely,

LS:and
7/10/42

July 9, 1942

TO WHOM IT MAY CONCERN

In connection with the Revenue Bill of 1942, which is under consideration, the House Ways and Means Committee has tentatively adopted a plan whereby beginning in 1943 part of the regular income tax would be collected at source from wages and salaries and certain other types of income.

As in all tax matters, I am anxious to devise the most effective and least burdensome procedure for the taxpayer. In order that I may obtain first hand information on how this important tax measure could best be adapted to the convenience of the employers, I am asking Mr. J. M. Boland and Mr. Martin Atlas of our staff to interview as many public spirited taxpayers as the limited time available to us will permit.

I should appreciate greatly your assistance on this important matter.

Sincerely,

LS:dsd
7/10/42

July 9, 1942.

My dear Mr. Attorney General:

This will acknowledge receipt of your letter of July 6, 1942, dealing with proposed legislation affecting the Board of Tax Appeals. I am glad to have the copy of your letter of July 3, 1942, to the Honorable Robert L. Doughton, Chairman, Ways and Means Committee, dealing with this proposal.

The question is being given further consideration in this Department. We shall be very glad to cooperate with you in any way in presenting your views to Congress.

Very truly yours,

(Signed) H. Morgenthau, Sr.

Secretary of the Treasury.

The Honorable
The Attorney General,
Washington, D. C.

Photostat file - NMC
Orig. File to Thompson

ENG:ro



Office of the Attorney General
Washington, D. C.

July 6, 1942

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

My dear Mr. Secretary:

I have your letter of July 2, 1942 in reply to mine of June 5, 1942, concerning proposed legislation affecting the Board of Tax Appeals. I am glad to learn that you join me in my opposition to the proposal to convert the Board into a full-fledged court and that your opposition has been expressed to the Committee on Ways and Means.

Your letter referred to the decision of the Committee on June 24, 1942 to include in the Revenue Act now being drafted a provision changing the name of the Board to the United States Court of Tax Appeals. This modified proposal seemed so illogical and unnecessary that I considered it appropriate to convey my views to the Committee. A copy of my letter of July 3, 1942 to the Honorable Robert L. Doughton, Chairman, Ways and Means Committee, expressing my reasons why the present proposal should not be enacted into law, is enclosed.

Your letter of July 2nd refers to the proposed amendment as affecting only the name of the Board with its jurisdiction, powers, membership and other aspects of its operations left unchanged. It is my view that the proposal, while expressed in terms of nomenclature only, will probably give rise to controversy and litigation over the matters mentioned in your letter and others concerning the Board. My feeling is based upon the conviction that inevitably an attempt will be made to read some

The Secretary of the
Treasury

-2-

July 6, 1942

significance into an Act of Congress with reference to the status
of the Board. It seems unfortunate to create troublesome
problems of this kind during this time of emergency.

Sincerely,

Encl.

Attorney General.

July 5, 1942

Honorable Robert L. Doughton
Chairman, Ways and Means Committee
House of Representatives
Washington, D. C.

My dear Congressman Doughton:

I have been informed that the Ways and Means Committee has approved in principle a proposal to change the official designation of the United States Board of Tax Appeals to United States Court of Tax Appeals. I understand that the change of designation is the full extent of the present proposal and that the "court" is to remain "an independent agency in the executive branch of the Government." (Section 1100, Internal Revenue Code.) I think that this change is not in the public interest and that I should advise you of my views.

A court which operates as an independent agency in the executive branch of the Government is an incongruity in our system of Government. It ignores the basic principle upon which this Government was founded that a clear line of demarcation should be preserved between the three great branches of Government; Legislative, Executive, and Judicial. The creation of such an organization will not only result in confusion and uncertainty in the mind of the public, but is likely to be seized upon as evidence of an attempt to establish a court under executive supervision and restraint.

On June 5, 1942, I addressed a letter to the Secretary of the Treasury opposing the conversion of the Board into a full-fledged court, which letter, I understand, has been brought to the attention of your Committee. The present proposal merely to change the name from "Board" to "Court" is so illogical that it must be regarded as the first step in an attempt to bring about the larger change piecemeal. This is confirmed by references in Committee Print No. 12, dated June 25, 1942, containing some data submitted to the Committee on Ways and Means in connection with this proposal. These references are to giving the Board authority at a future date to enforce subpoenas, to exercise jurisdiction over tax refunds, and to designate commissioners.

Honorable Robert L. Doughton
House of Representatives

July 5, 1942

My attention has been called to the statements in Committee Print No. 12 that the Board is already a court and that its name should be changed to accord with the existing situation. I do not agree with this characterization of the Board's status.

The Board has been in existence since 1924 and its status is well understood. It is an administrative agency which reviews administrative determinations. Like other administrative agencies, its decisions are subject to judicial review. The Supreme Court has repeatedly characterized it as an administrative body exercising quasi-judicial powers. Old Colony Trust Co. v. Commissioner, 279 U. S. 716; Goldsmith v. Bd. of Tax Appeals, 270 U. S. 117. Its administrative status has been held sharply to distinguish it from a court. Cf. Blair v. Oesterlein Machine Co., 276 U. S. 220, with Williamson v. Co. v. United States, 277 U. S. 551. Its jurisdiction is limited by statute. It does not have authority to enforce its decisions (U. S. ex rel. Girard Co. v. Helvering, 301 U. S. 540, 542); nor does it possess any of the inherent powers of a court. It is in no sense a part of the judicial branch of the Government.

As the cases cited above show, the status of the Board and its powers have in the past been the subject of much litigation. Controversies of this character, however, have reached the courts infrequently in recent years. Undoubtedly the proposed change in name will revive these old questions and will, I fear, breed additional litigation. The present emergency is scarcely an appropriate time to make a change which will reopen questions previously settled or which will furnish occasion for renewal of controversy over the nature and powers of the Board.

Its proponents offer no substantial reasons for the proposed change. The plan is not supported upon the ground that it will aid in any substantial sense in the performance of the functions for which the Board was created. No benefit to the Government is indicated, nor can any be perceived. It is not suggested that taxpayers generally are demanding the change, nor that it is calculated to serve any significant need.

- 3 -

Honorable Robert L. Doughton
House of Representatives

July 3, 1942

I must respectfully urge for the reasons set forth that
the present proposal should not be enacted into law.

Sincerely,

Attorney General.

MEMORANDUM

Secretary Morgenthau handed the attached file in relation to Cuban and Mexican alcohol to Judge Samuel I. Rosenman on July 7. On July 8, Judge Rosenman telephoned me and made an engagement to discuss the matter with me at the White House at 3:15 in the afternoon. In the course of our discussion I pointed out to him as a reason for continuing our investigation the fact that it was necessary for the Treasury Department to consider the question of waiving the tariff and excise tax on alcohol imported into this country, and that I felt it was incumbent on the Treasury Department to learn whether there was any movement on foot to defraud the Government before such a waiver should be granted. He agreed with this conclusion. Upon further discussion, however, it was decided, in view of the fact that a gigantic fraud was in the process of being perpetrated, that he should call Mr. Sidney Weinberg, Assistant to the Chairman, War Production Board, and inform him confidentially of the investigation. This he did. Mr. Weinberg stated that the matter had already been looked into by the FBI; that he had the file covering the investigation on his desk, and that it indicated there was "nothing to the matter." Judge Rosenman asked Mr. Weinberg to send the file to him in order that he might look it over. After hanging up the telephone, the Judge asked me to come to his office the next morning and bring Special Agent Lane, who had conducted our investigation, in order that we might review the FBI file with him.

On the morning of July 9, Mr. Lane and I called on Judge Rosenman. Before the conference began, Judge Rosenman sent in to us the file he had received from Mr. Weinberg. Examination of that file disclosed that on May 27, 1942, Mr. Byron Price, Director, Office of Censorship, sent to Mr. Donald M. Nelson, Chairman, War Production Board, a photostatic copy of an intercepted letter dated May 16, 1942, from A. L. Sullivan,

New York City, to Dr. Jose Polak, Mexico City, which letter contained reflections on the official integrity of Frazer M. Moffatt, Director, Alcohol Division, War Production Board, and mentioned his connections with Waldemar A. Chadbourne and Sullivan. On May 28, 1942, Mr. Nelson referred the intercepted letter to the Federal Bureau of Investigation and requested an investigation of possible collusion between Moffatt, Chadbourne and Sullivan. The file contained a report dated June 25, 1942, from the Federal Bureau of Investigation that Moffatt had no improper relationship with Chadbourne and Sullivan. Apparently the only intercepted communications obtained by the Federal Bureau of Investigation during their inquiry was the one sent to them by Mr. Nelson and one other that contained no information of value. The report by the Federal Bureau of Investigation showed that the personnel file of Mr. Moffatt of the War Production Board was examined; that Moffatt receives \$12,000 yearly salary from the U. S. Industrial Alcohol Company; that, in addition to the examination of the personnel file, several Government officials were interviewed, including W. L. Clayton, Special Assistant to the Secretary of Commerce, Einar Jensen, Board of Economic Warfare, and Howard B. Boyd, Commodity Credit Corporation. From the persons interviewed, it was learned that Moffatt had opposed buying alcohol through Chadbourne and Sullivan because of the exorbitant prices they asked. The report concludes with the statement that no evidence was found to indicate collusion between Moffatt and Chadbourne or Sullivan.

When Judge Rosenman came in he stated that since Moffatt had gone into the Army his case did not need further consideration; that Mr. Weinberg said the War Production Board had intended to discontinue Moffatt's services with that Board anyway because of his connections with commercial alcohol interests. Judge Rosenman asked for suggestions for additional action, and it was agreed to orally acquaint Mr. Weinberg, War Production Board, Mr. Einar Jensen, Board of Economic Warfare, and the proper person in the Defense Supplies Corporation, with the contents of the censorship intercepts now in our possession in order that the Government might be protected from dealing further with Chadbourne and Sullivan and from paying an exorbitant price for Cuban and Mexican alcohol.

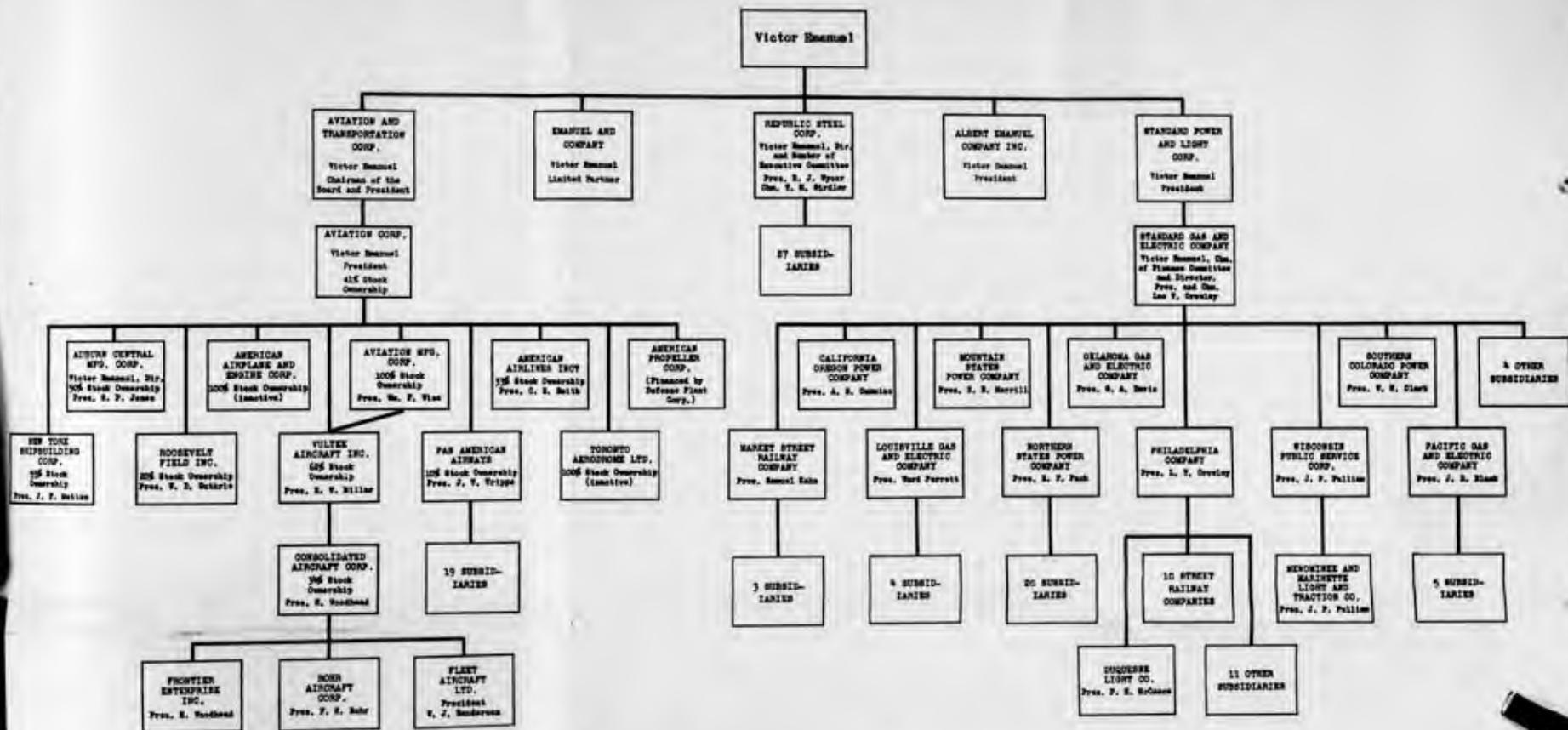
Judge Rosenman asked that a copy of the intercept of a telephone conversation on April 18, 1942, between Rudolfo Ruibal, et al., New York City, and Julio Lobo, Havana, Cuba, regarding a Miss Renee and other matters, be sent to Mr. Weinberg.

A handwritten signature in dark ink, appearing to be 'J.R.', is located to the right of the typed text. The signature is stylized and somewhat illegible.

7-9-42

PRINCIPAL BUSINESS INTERESTS OF VICTOR EMANUEL, AS DERIVED FROM PUBLISHED SOURCES
(Interests do not necessarily represent control)

March 1, 1942



*Aviation Corporation's interest in the stock of American Air Lines is held in trust by Jesse Jones, Secretary of Commerce.
Source: Moody's Manual of Investments

Regraded Unclassified

C
O
P
Y

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

San Jose

Dated July 9, 1942

Rec'd 8:55 p.m.

Secretary of State,

Washington.

369, July 9, 3 p.m.

Reference my telegram no. 312 of June 15, 3 p.m.

The Official bulletin for July 9, carries decree 22 which
modifies article one of decree 18 of May 21 with respect to
control of United States currency.

The decree prohibits importation and exportation of money
and bank notes of any country except necessary amounts for
travelers, and savings brought to Costa Rica by Canal Zone
laborers. Exportations and importation of money and bank notes
between Costa Rica and the United States to be made exclusively
by the issue Department of the National Bank of Costa Rica.

SCOTTEN

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DEPARTMENT OF STATE

WASHINGTON

In reply refer to
FD 846K.5151/11

July 9, 1942

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of despatch no. 78, dated June 26, 1942, from the American Consulate, Suva, Fiji Islands, concerning the present currency position in Fiji.

Enclosure:

From Consulate, Suva,
no. 78, June 26, 1942.

Copy:ime:9/10/42

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STRICTLY CONFIDENTIALPRESENT CURRENCY POSITION
IN FIJI.Suva, Fiji Islands.
June 26, 1942.

THE HONORABLE

THE SECRETARY OF STATE

WASHINGTON.

SIR:

I have the honor to report that for some time past the currency situation in the Colony has been deteriorating as the result of the non-arrival of supplies from the United Kingdom; and as a consequence of the influx of additional troops here the position at present is most acute and is being met by the payment of the United States troops with United States currency. Therefore, Captain Robertson, the Financial Secretary and Colonial Treasurer, hurriedly departed from Suva on June 16 for Australia, in an effort to right the situation which was already out of his immediate control.

As long ago as April, 1941, the managers of the Banks of New South Wales and of New Zealand had pressed Captain Robertson to increase his reserves, as in their opinion, with shipping facilities dangerously curtailed, the present reserves might prove insufficient to meet even the Colony's normal demands for a prolonged period. They also pointed out that the position would be greatly aggravated by any increase in the New Zealand forces, which was not unlooked for at the time, and warned him that he would find himself faced with a note and coinage shortage unless he took immediate steps to follow their advice. Whether Captain Robertson feared having large reserves on hand which might fall into enemy hands, or whether he had not been kept fully informed by the Governor of possible developments in Fiji, he apparently considered the Bankers' fears unwarranted, and took no action until the beginning of this year, when he notified the banks that new supplies had been ordered. At the time of doing so he stated that while he believed this action was unnecessary, he was only taking the step as a precaution.

The currency deficiency was first felt when there was a lack of coin during last summer. Later it was emphasized with the appearance of "overprinted" New Zealand one and five pound notes. The coinage shortage was met by the introduction of British silver to the Colony, imported from Australia, which was in the possession of the Commonwealth Bank there; but this supply soon disappeared, being hoarded by the Indians who are notorious hoarders and bury their savings in the ground.

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In the last few weeks one shilling paper notes, printed by the Government Printer here, have made their appearance, and it is understood that further smaller denominations of this unsatisfactory paper will shortly be put in circulation.

Captain Robertson's present mission to Australia is to arrange with the Commonwealth Bank, which prints New Zealand's note issue, to overprint for use here further quantities of these notes as they are already widely circulating in Fiji, and later to print supplies of Fiji notes. Heretofore all Fiji's paper currency and coinage has been purchased in Great Britain.

It is believed by the banks that the situation will be righted in time, but for the present the payment of United States troops must be made in United States currency, which, while not legal tender here, is authorized to be accepted by the shops, and later sold by them to authorized dealers, i.e., the banks, at the fixed rate of five shillings and four pence per dollar. (See Consulate's unnumbered despatch, dated June 13, 1942, transmitting Fiji Royal Gazette, No. 30, in which is published a notice relative to the United States dollar rate.)

I have just now been informed in strict confidence that the banks, in a letter dated today, have requested the Currency Commissioners to cable Captain Robertson in Sydney to urge the immediate printing of an initial supply of £F500,000 Fiji Currency of stated denominations, £F250,000 of which to be forwarded at the earliest possible moment, the balance being considered sufficient to provide an immediate reserve.

Respectfully yours,

Wainwright Abbott,
American Consul General.

File 851.5
WA/lw
In sextuplicate.

A true copy of the
signed original.
(Init.) LW

Copy:ime:9/10/42

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Department of State

Financial Division

7/11/48

Despatch No. 1091 has just been received in the Department and should be available for transmittal early next week.

F.L.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Vichy, France

DATE: July 9, 1942, 10 p.m.

NR. 1005

Reference is made to telegram no. 3773, dated July 6, from the American Embassy at London.

This Embassy's confidential despatches 972 of May 19 and no. 1051 of June 22 both concerned the formation of the Societe de Credit Intercontinentale in Paris. A message from the Guaranty Trust Company at Vichy to its head office in New York City was transmitted in the Embassy's telegram no. 674, sent at 11 a.m. on June 17. This message reported a negative reply when financial participation in the Societe was offered.

Several persons since then, including the former French Ambassador in Washington, Andre de Laboulaye, have made confidential inquiries concerning the Embassy's reaction to the Societe.

Several prominent French banks in Paris, according to Laboulaye's intimations, because they now consider that the Societe is simply a cover for Clarence Dillon's interests in Europe, have withdrawn their original offers.

The representative of Morgan's Bank at Chatelguyon, Alan Arragon, told me confidentially he much doubted that
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the National City and Chase Banks had agreed to participation financially in the Societe. (In May while talking to Laval's son-in-law, Rene de Chambrun, I was told by him that these two banks were prepared to back the Societe financially.) Neither the Guaranty Trust Company nor Morgan's Bank desire any competition with this arrangement concerning which they are highly suspicious.

This telegram was repeated to the American Embassy at London.

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July 9, 1942

Mr. Liversy

Mr. D. V. Bell

Will you please send the following cable to the American Consul, Calcutta, India.

"From Treasury.

Reference your No. 495, July 7, 2 p.m.

(1) Procedure outlined in telegram No. 66, February 25, 2 p.m. relative to checks drawn on Treasurer of the United States is hereby extended to the Chartered Bank of India, Australia and China, Bombay.

(2) The Chartered Bank of India, Australia and China, Bombay is hereby designated a depository of public moneys of the United States in order to carry out the procedure in telegram No. 66, February 25, 2 p.m.

(3) Treasury checks negotiated by the Chartered Bank of India, Australia and China, Bombay may be delivered to the American Consul, Bombay.

(4) Please advise the Chartered Bank of India, Australia and China, Bombay, American Consul, Bombay and other Government officials appropriate parts hereof."

FD-100, 7-9-42

COPY NO. 13BRITISH MOST SECRET
U.S. SECRETOPTEL No. 234

Information received up to 7 A.M., 9th July, 1942.

1. NAVAL

Home Waters. Early morning 9th a channel convoy obviously shadowed by aircraft was attacked by E-boats and later by aircraft. 3 ships were sunk and 1 damaged in northern waters. 1 merchant ship additional to those mentioned in OPTEL No. 233 reported anchored off west coast of NOVA ZEMLYA.

2. AIR OPERATIONS

WESTERN FRONT. 8th/9th. Aircraft despatched WILHELMSHAVEN Naval Dockyard 285, anti-shipping 8, aerodromes 12, leaflets 5. The attack on WILHELMSHAVEN was made in good visibility except for haze. Numerous fires reported including a large one in dock area. 5 of our bombers missing. Intruders destroyed 2 enemy aircraft over ORLEANS aerodrome. Early on 9th 2 M.E. 109's bombed a small hangar at FRISTON (SUSSEX) aerodrome. An enemy bomber was damaged by fighters off SPURN HEAD.

MALTA. Between 1416/7 and 0922/8 about 70 aircraft attacked. Our fighters destroyed 8 and damaged 13. A.A. gunfire destroyed another. We lost 6 fighters, 1 pilot safe.

NEW GUINEA. 6th. 30 Japanese aircraft approached PORT MORESBY but were driven off by our fighters one of which is missing.

3. Reconnaissance of MESSINA on 7th show 8 inch cruisers GORIZIA and BOLZANO and 6 destroyers present. This confirms GORIZIA now completed after repairs at SPEZIA.

BRITISH MOST SECRET
U.S. SECRET

OPTTEL NO. 241

Following is supplementary resume of operational events covering period 2nd to 9th July, 1942.

1. NAVAL

The latest convoy to RUSSIA left ICELAND (C) on 26th June numbering 37 ships of which two fell out through accidents. On 1st July enemy aircraft located the convoy which was thereafter shadowed both from the air and by U-boats. The Cruiser covering force was sighted on 3rd July and similarly shadowed. Air attacks developed on 4th and some 7 ships were sunk and damaged. Presence of enemy heavy surface units caused the convoy to be ordered to scatter on the night of 4th and Cruiser cover to be withdrawn in position about 150 miles North East of BEAR ISLAND. Reported damage to TIRPITZ by Soviet submarines is thought improbable. Estimated that 10 U-boats attacked the convoy and after scattering their task was inevitably much easier. A provisional estimate of casualties is 11 ships known sunk, six probably sunk, eight unaccounted for. All escorts accounted for, except one trawler.

MEDITERRANEAN. No change in position of main units of Italian Fleet. Proportion of tonnage sunk to tonnage sailed ITALY - NORTH AFRICA last months -

March	9.6 per cent
April	2.7 per cent
May	5.5 per cent
June	30 per cent, excluding damaged ships.

Improvement in sinkings is due to reduced air attacks on MALTA. The Italian Liner ROMA which is being converted into an aircraft carrier may be ready for trials in the late autumn. One REGOLO Class Cruiser (3362 tons, eight 5.3" guns) is now complete and has arrived at GENOA.

GENERAL. Each day recently 60 or more U-boats have been operating in the Atlantic. Attacks are still mainly concentrated on unescorted shipping in areas where convoys are not yet started or on ships too fast or too slow for inclusion in convoys. The latest reports show that 681,000 tons of shipping, the third highest monthly total of the war including 184,000 tons of tankers, were lost through enemy action during June. U-boats accounted for 87 percent of this shipping. 81 percent of the losses were in the Atlantic. Situation seemed slightly to improve during the latter part of the month and losses were heaviest in first two weeks. Percentage of losses in convoy in June was still low at two percent. Imports in convoy into U.K. week ending 4th July, 459,000 tons of which 103,000 oil.

2. MILITARY

EGYPT. Situation as reported in daily telegrams.

RUSSIA. Operations in the RZHEV, GSHATSK and OREL areas seem designed to pin down the Russians in those sectors and to eliminate some awkward salients while the main blows are delivered further south. The unconfirmed German claim to have captured VORONEZH is probably true which, with the Russian loss of ROSSOSH, constitutes a serious threat to Russian North - South communications.

FRANCE. Two German Infantry Divisions, both reported to have suffered heavy casualties, have arrived from the Russian Front. This movement appears to have been counter balanced by the departure of two Divisions from FRANCE eastwards.

TURKEY. The Turks are reported to be strengthening their defences on the BLACK SEA coast.

3. AIR OPERATIONS

WESTERN FRONT. Bomber Command operated on two nights only during the week, the objectives being BREMEN and WILHELMSHAVEN. On the former occasion, 510 tons of high explosive and incendiaries were dropped, but owing to haze the bombing was widely scattered, although fires were reported. Weather favoured the WILHELMSHAVEN attack, where 580 tons of bombs were dropped assisted by well-concentrated flares resulting in a satisfactory proportion of hits in the area of the Naval and Commercial docks.

- 2 -

EGYPT. Our Air Forces continued to operate at maximum intensity in support of our ground forces. In spite of frequent moves during our recent withdrawal and the large number of sorties flown daily, ground staffs have succeeded in obtaining a serviceability figure of 80 per cent. Two S.A.A.F. Boston Squadrons have flown over 1,500 sorties since May 22nd, and on July 7th lost their first aircraft to enemy fighters since the present campaign opened. The effectiveness of our daylight attacks on the enemy by light bombers, fighter-bombers and long range fighters has been confirmed by reconnaissance. It is also certain that the G.A.F. has sustained heavy losses in the air, especially in dive bombers and also among aircraft on the ground during the course of surprise attacks on his aerodromes by our fighter bombers. Wellingtons, assisted by some United States Liberators, maintained heavy night attacks on the Axis Harbour Bases.

MALTA. The scale of enemy attacks increased but only at heavy cost. The reinforcement by Spitfires has had a notable effect upon enemy losses, which are now proportionately higher than during the time of his heavy scale bombardments in the spring, in spite of the fact that his bomber formations are normally escorted by fighters in the proportion of about one to four. Torpedo and bombing attacks by Beauforts and Wellingtons upon Axis convoys in the MEDITERRANEAN were continued.

4. EXTRACTS FROM PHOTOGRAPHIC AND INTELLIGENCE REPORTS ON RESULTS OF AIR ATTACKS ON ENEMY TERRITORY IN EUROPE

DELLENHORST. Photographs taken on 1st show severe industrial damage by fire in Linoleum Works, a large jute factory and in woollen spinning mills.

FLENSBURG. Photographs taken during the attack on 2nd show one of the main buildings of the gas works completely gutted and another on fire.

5. OPERATIONAL AIRCRAFT BATTLE CASUALTIES

METROPOLITAN AREA

<u>British</u>		<u>Enemy</u>			
<u>In the Air</u>		<u>Destroyed</u>	<u>Prob. Dest.</u>	<u>Damaged</u>	
Bombers	28	Bombers	11	1	7
Coastal	6	Fighters	2	Nil	1
Total	34	Miscellaneous	1	Nil	2
		Total	14	1	10

MIDDLE EAST (Including MALTA)

<u>British</u>		<u>Enemy</u>				
<u>In the Air</u>	<u>On the Ground</u>	<u>Destroyed</u>	<u>Prob. Dest.</u>	<u>Damaged</u>		
Bombers	16	3	Bombers	53	11	41
Fighters	57	3	Fighters	60	27	57
Total	73	6	Total	113	38	98

2 crews and 19 pilots are safe.

Note: No account is taken of enemy aircraft destroyed on the ground in any theatre or of British Naval aircraft casualties.

HOME SECURITY

BILLINGHAM. Some damage at Imperial Chemical Industries and the Furness Shipbuilding Company. Estimated civil casualties for week ending 6 A.M. 8th - Killed 16, Seriously wounded 25.

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NUMBER 39

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OFFICE OF STRATEGIC SERVICES

THE WAR THIS WEEK

July 2-9, 1942

Printed for the Board of Analysts

Copy No. 6

Secretary of the Treasury

July 2-9, 1942

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Office of Strategic Services

THE WAR THIS WEEK

Long after the blow was anticipated by most observers, the Germans have finally struck with great power in the Kursk sector and have launched the much heralded push to the east. The drive has already crossed the Don, cut one and probably two of the three north-south railroad lines available to the Russians, and now seriously menaces the whole position of Timoshenko in the south.

At the same time the Axis offensive in Egypt has come to a halt, only 70 miles from Alexandria. In the face of rapidly gathering British reinforcements, the exhaustion of Axis troops, and unremitting attacks on lengthening Axis lines of supply, Rommel's drive has now entered a crisis period. Military observers feel that he must either break through to Alexandria and the Delta very soon or be obliged to withdraw to positions to the west.

As the repercussions of the Nazi offensive in Egypt reached even South America, speculation was general concerning the extent to which the current German drive in Russia might further depress the prestige of the Allied cause. Meanwhile, Japanese preparations in Manchuria appeared to be accelerating, and it is believed in some responsible quarters that Japan may strike as soon as the Germans are fully committed in Russia and have achieved a convincing military success.

The Big Push Begins

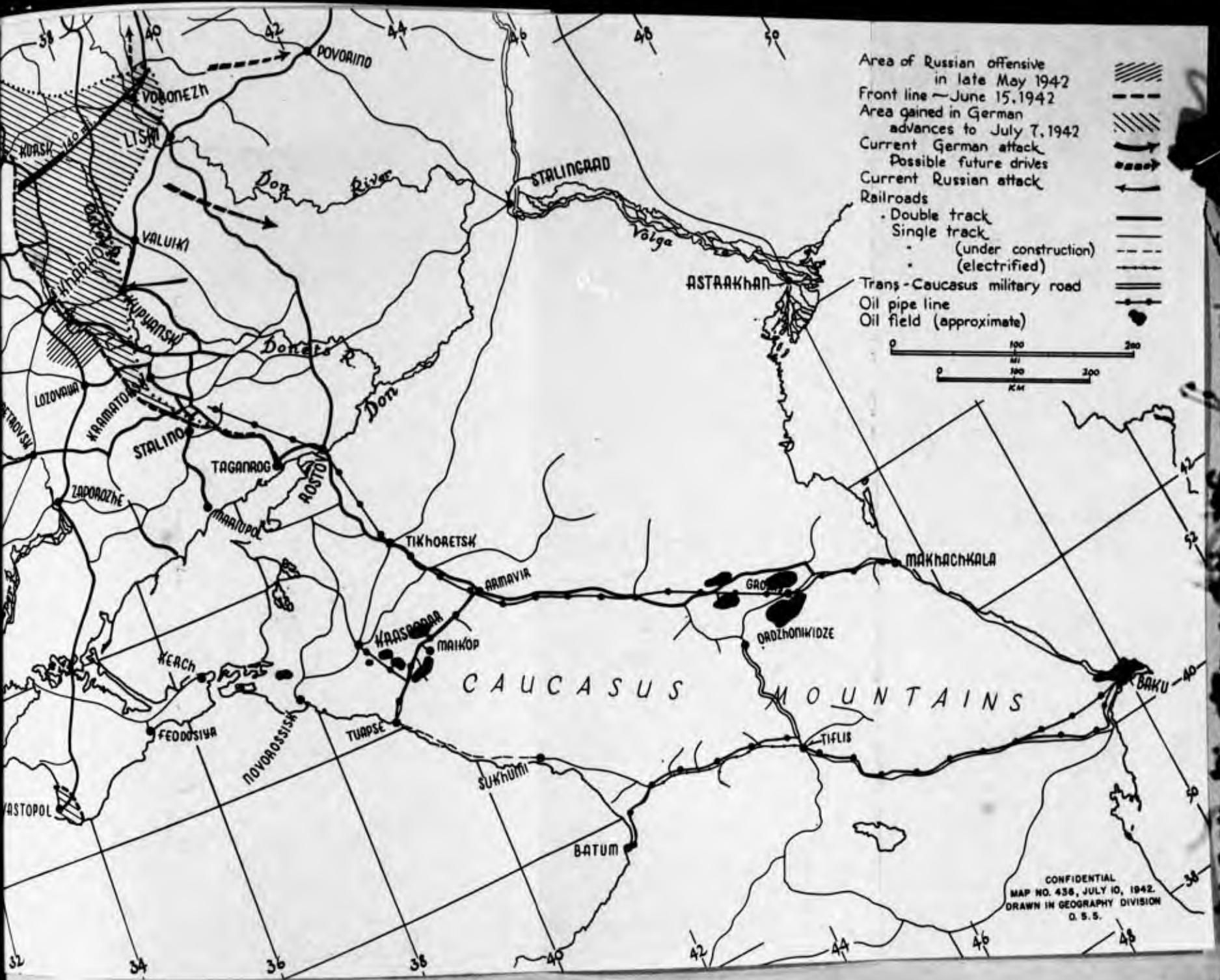
In a swift, smashing offensive the Nazis now claim to have driven east more than 100 miles from the vicinity of Kursk—

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thrusting a wedge between the southern army group of Marshal Timoshenko and the Russian forces on the central front, interdicting two out of the three north-south railway lines previously in Russian hands, and capturing the strategic rail junction near Voronezh to establish a bridgehead over the Don.

Faced with these drastic developments, Allied observers have not been slow to conclude that the long-expected summer offensive is under way. In fact, it may have begun on June 22—the anniversary of the outbreak of war between the Soviet Union and the Reich—when the Nazis launched their attack from Kharkov toward Kupyansk. In any case, the rapid success of the present offensive would tend to discredit the belief that either Timoshenko's attack southwest of Kharkov in late May or the Russian resistance at Sevastopol significantly slowed or disorganized German preparations for an offensive.

The map illustrates the substantial Nazi gains made in a period of about three weeks since the middle of June—and likewise the general area of Timoshenko's earlier offensive. American military observers warn, however, that the establishment of a huge salient intersecting the important heavy-freight line from the Donets basin via Valuiki, Staryi Oskol (whose loss the Soviets now admit) and Yelets to Moscow—and probably also the main railroad Rostov-Olzhanka (Voronezh)-Michurinsk-Moscow—is perhaps only part of a larger offensive scheme. Already a German attack in the vicinity of Rzhev has indicated that the Nazis are not restricting their operations to southern Russia alone. And from the bridgehead over the Don already established at Voronezh, the Germans have at least three possible lines of further advance open to them.



CONFIDENTIAL
MAP NO. 436, JULY 10, 1942.
DRAWN IN GEOGRAPHY DIVISION
O. S. S.

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Three Lines of Attack

The boldest of these alternatives would be an advance northeast along the railroad toward Michurinsk, combining with the attack from Rzhev to form a pincer movement on Moscow and the strongest of the Soviet army groups. The success of such an advance would mean the liquidation of the chief center of Russian resistance. It would have the disadvantage, however, of leaving the German right flank exposed to a counterattack by Marshal Timoshenko's southern armies—a force still to be reckoned with.

A second possibility would be the classic German maneuver of turning downstream on a great river, taking bridgeheads on the way—a maneuver already brilliantly executed on the Aisne-Somme in 1940. Such a move down the Don, with the German left flank protected by the river itself, might offer an excellent opportunity for a final reckoning with Marshal Timoshenko. Yet the Nazis would face a real logistic handicap, since no railroad parallels the river.

In the view of the role that the Soviet railway system has played in Nazi offensive plans thus far, a final possibility would be an attack straight east from Liski (south of Voronezh) to Povorino. Such an advance would not only roll up the only east-west railroad that the Russians can use in this area; it would also intersect rail communications between Moscow and Michurinsk to the north and Stalingrad to the south—isolating Timoshenko's armies from the bulk of the Soviet forces, except for river transport on the Volga.

Soviet Counter-Moves

Meantime, the Russians have retaliated in an effort to stem the German advance before it is too late. An all-out Soviet attack by the central army group from the Oka River, in the vicinity of Orel, is an obvious effort to apply pressure from the

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north on the base of the new German salient. American military observers point out that its success or failure will offer a significant clue to present Russian offensive strength.

The southern armies of Marshal Timoshenko are now partially cornered. Already Timoshenko has launched an attack toward Kupyansk—to strike at the southern base of the German salient. But it seems unlikely that the Russian southern armies, weakened by the attacks of late May, will be able to advance very far westward. If the Germans choose to strike at Timoshenko southeastward down the Don or to cut him off by advancing straight east toward the Volga, he may stand his ground in the south. Or alternatively he can try to escape down the Don, or turn north to join the central Russian armies. The last of these alternatives would be a difficult operation in view of the inadequate railroad net left to the Soviets, and one that would imply the abandonment of the Caucasus.

Voronezh and Sevastopol

The quick Soviet admission of their retirement in the Voronezh region—about 48 hours after the original German claim—is a departure from previous Russian public-relations technique. It suggests that in the future the Soviets may be unwontedly frank about their reverses, in an effort to strengthen the effect of their pleas for aid from their Allies.

Similarly the Russians have now admitted the loss of Sevastopol—a loss which, despite the severe casualties suffered by the Nazis, may release about eight German divisions and 250 planes to be used in other sectors. As for the shipping situation along the eastern shores of the Black Sea, American observers suggest that the loss of the Crimean naval base may not have such serious effects as might at first be imagined. Lighter units of the Soviet fleet have been able to fall back on the ports of Novorossiisk, Tuapsi, and Batumi. If, despite

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this naval protection, German U-boats should penetrate these waters, much of the output of the oil refineries of Batumi (estimated annual capacity: 3,000,000 tons) could probably be shipped north of the Caucasus mountains by rail.

The Maritime Front in the North

In the far north, the Germans have claimed the sinking of an American heavy cruiser and 32 merchant ships out of an Allied convoy of 38 vessels bound for Archangel. Capitalizing on the short distance between Murmansk and their air bases in Finland, the Nazis have subjected Murmansk to heavy bombardment.

Meantime, the Russians assert that they have scored two torpedo hits on the powerful new battleship *Tirpitz* in the Barents Sea. Furthermore, in the opinion of an American naval observer on the spot, the most dangerous season for Allied convoys in these waters is drawing to a close. In about three weeks, he notes, the period of perpetual daylight will come to an end, while a season of fog is already beginning. In addition, the receding of the ice to the north has widened the lane that Allied convoys can use—thereby increasing their ability to elude German air and submarine attacks.

In the Baltic, the depredations of "unidentified" submarines have continued. Stockholm reports that the sinking of one Swedish ship has been followed by unsuccessful attacks on perhaps two others, while the Swedish navy has dropped depth charges in the vicinity of a submarine operating in Swedish territorial waters. After a polite war of words, the Swedish foreign office—producing as evidence parts of a torpedo with Russian letters on it—has apparently convinced the Soviet envoy that a Russian submarine was responsible for the original sinking.

The High Command Announces Its Losses

It seems hardly necessary to say that the total of dead and missing—337,342—announced by the German High Command for the Russian campaign through June 21, 1942, does not merit serious consideration. It falls far short of the estimates accepted by competent American military opinion. Furthermore, it is incomplete. No figures for this past winter and spring follow the total for wounded (571,767) through November 21, 1941. There is no breakdown as between air and ground forces, and there is no indication as to whether the figures include non-combat as well as combat losses. Finally the admitted average loss rate of 768 men per day for the past winter, as against 439 men per day for this spring, scarcely corresponds with the comparative magnitude of operations during these two periods.

The Axis Drive Stalls in Egypt

Although the crisis has not yet passed, the British position in Egypt has greatly improved. The Imperial forces have been able to hold their positions, to throw back minor Axis thrusts, and to launch a counterattack from the south that carried them to within 18 miles of El Daba. The battle took place along a curved front southwest of El Alamein, the Axis having been forced to draw its southern arm back to the west to form an anti-tank screen against slashing British attacks.

Meanwhile Rommel has been concentrating on repairing his tanks just behind the forward area, and military observers believe that his acute supply situation will force him either to break through to Alexandria and the Delta in the near future, or to withdraw to bases of supply and reinforcement, perhaps in the Solum area. Latest reports of enemy dispositions indicate preparations for a possible

offensive thrust aiming to cut through the corner of the British lines southwest of El Alamein.

Three factors appear to have been instrumental in halting the Axis drive. The Eighth Army received large reinforcements, including very substantial numbers of fresh troops. Axis supply lines have been dangerously extended by Rommel's rapid advance, and last week they were subjected by British and American bombers to the heaviest pounding yet delivered in the desert, all the way from Benghazi to the battle area. It is to be noted that, as a result of demolition in Tobruk and other ports, Rommel is now obliged to move much of his supplies all the way from Benghazi; hence, he has lost his earlier advantage of moving supplies largely under cover of night. Finally, the Axis forces appear to have been close to exhaustion, having fought continuously for six weeks over nearly 400 miles of desert. An example of the effect of this exhaustion appeared in the mass surrender of 600 Germans from the crack 90th Light Division.

The Axis is being given little chance to rest in its present positions. British attacks, led by the New Zealanders, are believed to have knocked out two depleted Italian divisions, one an armored unit. The recent bombings of Malta indicate that supplies and reinforcements are being moved across the Mediterranean to North Africa, and it is known that oil has reached Solum despite Allied bombings of port facilities.

In general, however, military observers suggest that Rommel may have been directed to exploit his success primarily within the limits of the forces at his disposal. The fact that he was not given decisive reinforcements or added air and paratroop support at a moment when victory seemed within his grasp has caused some observers to speculate as to whether these forces are still available, now that a large offensive in Russia has begun. It is, of course, possible that they may still appear in either Egypt or Syria.

Churchill's Review of the Campaign

In his review of the Libyan campaign, Mr. Churchill stated that the British had started with about 100,000 men, and with numerical superiority of 7 to 5 in tanks, 8 to 5 in artillery, together with air superiority. By July 1 upward of 50,000 men and large quantities of stores had been lost, and Churchill gave some indication of the destruction of British armor by revealing that in a single day 230 tanks failed to return. After the fall of Tobruk, which came as a distinct shock to the War Cabinet, it was felt that ten days or a fortnight would be gained by the British withdrawal to Matruh. Instead, Rommel attacked in less than a week. In conclusion, the Prime Minister emphasized that the battle was now in the balance and was in no way decided. The speech was followed by a vote of confidence, 475 to 25.

Some of the Possible Effects of a Debacle in Egypt

Should the present British resistance collapse, King Farouk and his government, who are at present neither assisting nor opposing the British defense of the country, would quickly come to terms with the winner, observers are convinced. The King has refused to leave Cairo, and the British have just taken over the guarding of all vital points. As yet there is no word of active fifth column attacks; but British demolition efforts would probably be widely hindered.

The full repercussions of a possible British loss of Egypt cannot be analyzed here. Some of the more immediate effects would be a serious weakening of the Allied naval and air position in the Mediterranean, and definite reduction of British political influence in the whole Moslem world. The Allied military position in the Near East would become difficult, and it is a question how long even Turkey and Saudi Arabia could maintain their neutrality.

Economically the Axis would probably be able to obtain increasing amounts of Turkish chrome and copper, as well as small but important quantities of vegetable oils, tobacco, citrus fruits, wool, hides, and other Near Eastern products. In Egypt the Axis would have potentially available a petroleum production estimated at 1.1 million metric tons per year, and a cotton crop of the first importance.

Textiles have represented an acute shortage in the German economy, and the Reich can expect only about 25,000 or 30,000 tons of cotton for the year 1942-43, as against a pre-war consumption of 335,000 tons. Even some military textile requirements have been forced to depend on synthetic fibers yielding commodities of inferior quality. This situation would be completely altered if Germany were to secure present Egyptian stocks of long-staple cotton, which are estimated to amount to more than 300,000 tons. Destruction of these stocks would be extremely difficult, in view of the difficulty of burning the compressed bales and of possible native opposition. Even were provisions made for partial destruction, a crop of at least 125,000 tons is estimated for this fall, and a potential crop of 400,000 tons in future years, based on previous normals.

Compensating Aspects of Defeat

Some observers suggest, however, that the loss even of the whole of the Middle East would not be an unrelieved disaster. The United Nations would gain certain positive advantages of undetermined extent. Above all, much shipping now making the long trip around Africa could then be diverted to the British run, where its effectiveness would be roughly doubled.

Undoubtedly the German High Command fully understands the extent of Allied embarrassment in retaining the Middle East, and more cynical observers have suggested

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that Rommel's drive may already have fulfilled its primary objective of summoning Allied reinforcements once more into this area, and of sowing confusion in Allied plans for a "second front."

Italian Elation

The Italian reaction to British reverses has been one of exultation, characterized by a Fascist propaganda barrage unequalled in volume since the beginning of the war, except possibly on the occasion of General Graziani's advance into Egypt in December, 1940.

There can be no doubt that the prestige of the Fascist regime in Italy has been enhanced. All the forces making for the stability of the regime—the monarchy, the army, the Fascist party organization, favorable public opinion—have unquestionably been strengthened, and their opponents weakened. The "wisdom" of the alliance with Germany has received new confirmation: Italy has already extended her sway to Albania and Greece, and now looks forward to a secure hold on Libya and the possible widening of her power in Egypt and the Near East. Moreover, the recent Axis success opens up the possibility that eventual Italian expansion need not be at the expense of France, but might be achieved in the Eastern Mediterranean, thus avoiding conflict among Germany's associates.

Repercussions in France and North Africa

Rommel's victories have raised the spectre of further French collaboration with the Axis. It is apparently widely felt that the Egyptian campaign will prolong the war, and this prospect has contributed to an increase in the enrollment for work in Germany of Frenchmen who feel that, even though

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the Allies may eventually win, body and soul must meanwhile be held together.

Stating that Laval's prestige has risen in both France and North Africa, one source suggests that his recent expression of hope for a Nazi victory was forced from him by German threats of economic reprisals and of activities in support of Doriot. Laval himself, however, has since revealed his meaning more clearly in an authoritative interview. Expressing irritation at the American reaction to his speech, he repeated that a Nazi victory on the continent was necessary to save Europe from communism. It is his belief that a stalemate between the United States and Germany will bring a peace of exhaustion, after which France as an equal partner will help the Reich develop the New Order on the continent.

Fear of renewed Axis pressure is widespread in North Africa as well as France. Germany is insisting on shipping control at Casablanca and has forced the removal of the French consul at Tangier. In Tunisia the Germans are reported to be developing a very effective intelligence service, while Italian aggressiveness has received a new impetus. An Italian general is reported to have arrived in order to enlist 6,000 workers for reconstruction work at Tripoli. If the British should be defeated in Egypt, Vichy could probably not resist further Axis penetration of North Africa, it is believed.

The French Fleet at Alexandria

In the event of a British withdrawal from Alexandria, Vichy has ordered the French naval ships there to sail to a French port, or, if that should prove impossible, to remain in Alexandria under the French flag. The British, ruling out both these alternatives, propose that the French either scuttle or go to a British port. But the French reply that if they should consent, Germany would then demand an

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equivalent of warships now in French ports. Meanwhile, the French commander at Alexandria, Admiral Godfrey, claims to have received no demands from the British for scuttling his ships. An unconfirmed report suggests that the French officers are preparing their vessels for a getaway, but as yet the ships have not moved. It should be noted that Axis air forces have mined the Suez Canal.

Should the British evacuate Alexandria, then, they would probably be reduced to scuttling the French warships themselves. No doubt, such an action would have profound repercussions in France, like the affair at Mers-el-Kebir. But like that action, it would probably not result in cooperation with the Axis by the main French fleet at Toulon.

American experts believe that the average French naval officer is pro-Vichy and anti-British, but not necessarily pro-German, or eager for a fight. The vast majority of the enlisted men are apparently pro-Ally; available evidence suggests that the French crews have already made preparations to scuttle their ships should the Germans attempt to seize them by force. Nevertheless, the cooperation of the Vichy navy with the Axis in an attempted reconquest of Syria is not beyond the realm of possibility. More probably, however, the French fleet would take no action, or perhaps confine itself to convoying French merchant vessels plying between France and North Africa—an activity that might involve it in sporadic clashes with the British.

Spanish Complications

Events in Egypt are reported also to have caused uneasiness in Spain, Spanish Morocco and Tangier. Officials who have remained friendly to us are fearful lest their country become involved in the war. They have expressed appre-

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hension about a coming German economic mission and suggest that the German air raid on Gibraltar may presage an effort to close the western Mediterranean. Other sources deny that Germany has any such intention.

Meanwhile the Falange is said to be elated over Rommel's drive and to have stiffened its resistance to monarchist movements. According to other reports, Spanish ships are refueling submarines in the Caribbean area, and U-boats are using a bay in Rio de Oro, on the west coast of Africa, as a base.

Repercussions of Axis Victories in Argentina

Recent Axis successes in Egypt, and now in Russia, may have significant repercussions in Latin America, close observers believe. This is true notably in Argentina where Rommel's drive, by indicating that an eventual Allied victory is still in doubt, has strengthened the supporters of "prudent neutrality." These supporters—President Castillo and his political advisers, certain military officials, and the native fascist groups of "nationalists"—are in position to regain some of the ground they lost at the time of the recent *Rio Tercero* sinking (*The War This Week*, June 25-July 2, pp. 19-20). Even then the Argentine government had to content itself with German promises of non-repetition and completely forego the reparations and full honors to the Argentine flag which it had demanded. Furthermore, it has now ordered Argentine ships to accept the German blockade of the east-coast ports of the United States and to use the ports on the Gulf of Mexico instead.

Anti-Axis Moves in Brazil

On July 2 President Vargas ordered Felinto Muller, chief of police at Rio de Janeiro, detained at his residence, the

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reason given—that Muller had refused to take action against certain enemy agents. The chief of police has long been known as an Axis sympathizer, and his loyalty to the President has often been questioned.

On July 4 students staged a large demonstration in the Brazilian capital, culmination of a series of mass meetings presided over by Commander Ernani Amaral Peixoto, head of the state of Rio de Janeiro, and son-in-law of President Vargas. In Brazil such events are the equivalent of an election day in the United States. If a mass meeting proves unsuccessful, like the parade of the Integralistas in 1937, the movement is promptly outlawed; but if there is great popular enthusiasm, the government quickly adopts the recommended policies. The students in Rio were demanding an immediate and energetic campaign against fifth columnists and an end of opposition to whole-hearted cooperation in the war effort. The demonstration was further evidence of the apparently wide popular support of the President's detention of Felinto Muller.

The Shape of Things to Come in Siberia

The Russian reverses in Europe make the expected Japanese invasion of Siberia appear increasingly probable, and current developments in the Far East lend confirmation to this view. The Japanese have recently safeguarded their flanks by capturing threatening airfields in southeastern China and by occupying the westernmost Aleutian Islands. Recent concentration of Japanese naval vessels in the Solomon Islands may indicate a forthcoming attempt to seize Port Moresby for the same purpose, although it is thought possible that these ships have been steadily in the Solomons and were merely shifting position when seen.

It is known that the Japanese are now reducing their garrisons in the southwest Pacific and directing strong forces

northwards. Two or more divisions have left the southern seas under convoy along the China coast past Formosa, apparently headed for Manchuria. Another division has moved into Manchuria from North China. These reinforcements bring the total number of divisions in Manchuria and northern Korea to around thirty, about half of which are square divisions composed of four infantry regiments instead of the usual three.

Observers have felt that Japan would not attack Siberia with fewer than 2000 operational planes available in that theater. During the spring they maintained fewer than 1000 there. But at the rate planes have recently been leaving other areas for the north, with no logical destination except Manchuria, it is estimated that the desideratum of 2000 will be attained in the next week or two. Reports indicate also that the number of airfields in Manchuria has increased from 150 to 250 in recent months.

The Russians are not unprepared. They have brought the defenses of the Vladivostok area to the point where no further preparations are observable. The exodus of wives and children of officials to western Siberia has declined to a trickle. In conversation the officials themselves have stopped saying "If . . ." and now say "When war comes with Japan," it is reported.

The morale of the Siberians is good. By reason of the Roosevelt-Molotov agreements and the arrival of American foodstuffs (flour and hams) sentiment toward the United States is the best since the outbreak of the Pacific war, it is reliably reported. American foodstuffs, together with improved harvest prospects, largely counteract the depressing effects of the none too favorable food situation.

The Japanese Consolidate Their Aleutian Position

While preparations continue in Manchuria, the Japanese are endeavoring to consolidate their hold on the western Aleutians, as is indicated by the sighting of transports near Agattu, which they are apparently occupying. Agattu is a very small island near Attu. Counter-activity by the United States continues to be greatly restricted by the weather.

Japanese aims in the Aleutians are not clear and may be various. Their hold there (1) creates an additional threat to sea-borne communications between America and Siberia, especially Kamchatka, (2) bottles up the Russian bases at Petropavlovsk (Kamchatka) and on the Komandorski Islands, (3) protects Japanese fisheries on the east coast of Kamchatka, (4) affords a stepping stone for an advance eastwards along the Aleutians, and (5) furnishes prestige for Japan's amphibian forces, which have not done very well of late.

Chinese Anniversary Celebration

As the Chinese, on July 7, began their sixth year of war against Japan, Chungking was celebrating the exploits of American airmen in China. The Chinese press was jubilant over the bombing attack directed against Hankow and Nanchang on July 4 by the new United States Army Air Force in China, successor to the American Volunteer Group.

Chiang Kai-shek added to the festival air of the anniversary celebration by stating that Japan was "plunging deeper and deeper into a morass," that the enemy was "beyond recovery" and that a Japanese collapse would become apparent in "the near future." It was evident, however, from the Generalissimo's statements that the Chinese remain perturbed lest their war with Japan be considered of secondary importance. Chiang's claim that it was "the

duty of America to deal with her first and most threatening enemy, Japan" and his reference in a message to General Marshall to the necessity for an "early liquidation of the Pacific situation" under American leadership, were reminders that the Chinese do not propose to agree to any minimizing of the importance which they believe should be attributed to their theater of war.

Confirmation of Loss of the Chekiang-Kiangsi Railway

Meanwhile Chungking confirmed the fact that Japanese troops have completely occupied the Chekiang-Kiangsi railway. Having linked Hangchow and Nanchang, the Japanese are now striking southwest from the latter city in what may develop into a serious attempt to reach the junction of the Kiangsi-Hunan and Canton-Hankow railways, south of Changsha. On the Inner Mongolian front the Japanese movement westward from Pao-t'ou seems to have halted, and the Chinese are claiming that they have retaken the city of Wu-ch'eng, in Suiyuan, which the Japanese occupied last week. In the mountains on the Honan-Shansi border, north of the Yellow River, fighting has again subsided.

Gandhi Moderates His Stand

On the burning issue of India's relation to the Allied war effort, Mahatma Gandhi revealed a new attitude of compromise in the July 28 issue of *Harijan*. The apostle of non-violence now maintains that in some cases violence is necessary and ethically proper. Furthermore, he suggests that the immediate withdrawal of Allied troops from India is no longer a part of his program. India, he concludes, although she has no quarrel of her own with Japan, should do nothing to imperil the war effort of China or the other United Nations.

Whether this change of view reflects the moderating influence of Nehru and Rajagopalachariar, it is as yet impossible to say. American observers in New Delhi report, however, that the latter has been conferring alternately with Gandhi and Jinnah, head of the Moslem League, in an effort to secure the adoption of one of two alternative proposals: cooperation between Gandhi and Jinnah in a national government for the duration of the war; or, failing that, the establishment by the British of a government of prominent Indians, cutting across party lines, to which the Viceroy would turn over his powers.

Neither of these proposals is likely to meet with much success, in the view of at least two American representatives in India. The stand of both Jinnah and the Congress leaders, they feel, is too uncompromising to admit of the first, and even Rajagopalachariar is very doubtful of its success. As for the second, Jinnah would not permit Moslem League leaders to join such a government unless assured of numerical equality with Congress representatives.

Meantime the British government has appointed two Indians to the imperial war cabinet, and has enlarged the Viceroy's executive council to include 11 Indians out of a total of 15 members. But with the possible exception of Dr. B. R. Ambedkar, leader of the depressed classes, the new members of the council do not represent the largest political groups in India. Furthermore, the appointment of Sir Firoz Khan Noon as minister of defense has in no way lessened the supreme authority of General Wavell in all military matters.

APPENDIX I

A COMPARISON OF WAR PRODUCTION AND RAW MATERIAL SUPPLIES IN THE UNITED STATES AND AXIS EUROPE

This memorandum¹ has two parts. The first presents a comparison of the current rate of war production in the United States and in Axis Europe. As data on which to base this comparison, it has used estimates of production of comparable armament items in the two belligerent areas. To obtain over-all comparisons, the memorandum has then related the volume of production of these selected items in each area to estimated total war production in that area. Through this procedure it has made allowances for the different composition of war production in the United States and Axis Europe.

The second part of the memorandum compares the supplies of some of the more critical raw materials available to the United States and Axis Europe as these materials are related to war production. In their respective utilization of these materials, significant differences emerge between the two.

PART I

1. Comparison of Selected Items

Table I shows production data for selected groups of armament items in the United States and in Axis Europe. Indexes for the groups of items shown are based on weighted aggregates of physical production of individual items. Only items regarded as comparable as between the two areas are included, and the same set of weights is used in combining the same set of items for the two areas. The weights used are United States unit values for each specific item.

This procedure involves the assumption that in physical terms a United States two-engine bomber, for example, is comparable to a German two-engine bomber. If this assumption is valid, then there is a presumption that, within each area, the relative importance of different items (i. e. two-engine bombers and four-engine bombers) is sufficiently similar to warrant their combination by the same set of unit value weights and that the resulting group totals are comparable between the two areas.

¹ Prepared by The Economics Division of the Office of Strategic Services.

TABLE 1.—Production of Selected Armament Items in the United States and Axis Europe, 1942

[Axis monthly average rate=100]

Items	Axis Europe		United States	
	1st quarter	1st quarter	Calendar year	
			1st quarter	Calendar year
Planes.....	100	94	153	
Combat.....	100	96	156	
Training and transport.....	100	86	139	
Guns (army and air).....	100	72	171	
Armored combat vehicles.....	100	61	150	
Tanks.....	100	75	171	
Armored cars and carriers.....	100	33	105	
Trucks.....	100	147	276	
Total selected items.....	100	85	165	

Except for trucks, for which ample peace-time capacity existed, and for planes, for which capacity was pushed early in the defense program, United States output was substantially below that of Axis Europe in the first quarter of this year. It is believed, however, that by this time, production in Axis Europe had reached its peak and that, with the increasing pressure on manpower during the remainder of the year, there might be some decline. If at the same time production in the United States continues to expand according to schedule, output for the entire year will exceed that of Axis Europe in every group of items and by perhaps 50 percent or more for this combined group of finished armaments. By mid-1942, roughly speaking, the further expansion of United States production should have begun to overtake the lead represented by the accumulated reserves of Axis Europe.

2. Comparison of Total War Production

The selected items shown in Table 1 are only a part of the total war production of each belligerent. Since the remaining items are less comparable between the two areas and since less information is available on their output in Axis Europe, the over-all comparison of total war production that follows is both rough and preliminary. The margin of error involved is suggested by the data in Table 2, in which the total value of the selected items is compared with the value of all categories of United States war production.

TABLE 2.—United States War Production, 1942

[Monthly average]

Categories	First quarter		Calendar year	
	Millions of dollars	Percent of total	Millions of dollars	Percent of total
Armaments, land and air.....	1,427	53	2,066	50
Navy and merchant marine.....	454	17	718	17
War construction.....	788	30	1,359	33
Total war production.....	2,669	100	4,143	100
Selected items (table 1).....	465	17	907	22

In addition to the selected items shown in Table 1, there are two major types of arms output, ammunition and naval construction, which were excluded from the index owing to the inadequacy of the data for Axis Europe. Enough information is available, however, to warrant preliminary quantitative comparisons. Of the two, ammunition is much the more important in total value. It is estimated that the Germans expended roughly six million tons of projectiles on the Eastern Front during the five-month 1941 offensive. Anticipation of 1942 campaigns on a similar scale might be expected to give rise to an annual production rate somewhere in the same neighborhood, in view of the fact that it would be difficult to have stores of ammunition in such tremendous quantity. Scheduled United States production of ammunition for 1942 is less than half this amount.

Naval construction in the United States (warships and guns) is estimated, on the other hand, to be about double the 1942 volume of Axis Europe. When account is taken of both ammunition and warships in addition to the selected items shown in Table 1, the comparative indexes for the United States would be in the neighborhood of 50 for the first quarter and 100 for the year.

This comparison has some significance because it includes most of the actual weapons of warfare. Merchant marine construction and the construction of factories, bases, and other installations bulk about as large (in total United States war production shown in Table 2), but they do not of themselves provide striking power. In a rough way, it may be said that total war production in the United States during the first quarter of this year was half that of Axis Europe, but that it will be equal for the year as a whole.

It is clear that merchant marine and other war construction is in much greater volume in the United States than in Axis Europe, perhaps double for the entire year. Our need for transporting and supplying expeditionary forces and for installing distant bases of operation, as well as our resources for such construction, far exceed that of German Europe. As a guess, then, our total war production may have been about three-quarters that of the European Axis in the first quarter of the year, and it may be a fourth larger for the year as a whole.

PART II

3. Comparison of Raw Material Supplies

United States supplies of the raw materials basic to war production seem ample for a 25 percent superiority over Axis Europe in the production of finished material. Supplies available in the two areas during 1942 are indicated in Table 3.

TABLE 3.—Estimated Supply of Selected Raw Materials in the United States and Axis Europe, 1942

(Thousands of net tons)

Material	Supply		
	United States	Axis Europe	United States as percent of Axis Europe
Petroleum.....	267, 800	26, 700	1, 003
Molybdenum.....	40	5	800
Nickel.....	115	16	719
Chromium (for metallurgical uses).....	300	45	667
Manganese.....	1, 650	250	660
Copper.....	2, 250	410	549
Tungsten.....	15	3	500
Steel.....	86, 000	46, 000	187
Magnesium.....	86	53	162
Aluminum.....	800	548	146

NOTE.—Supply includes total stocks as of January 1 and imports and output for 1942.

Even if we take into account the fact that during a period of rapidly expanding output stocks of materials in process must be greater than those used in the production of the articles currently reaching completion, these data provide no basis for the belief that raw material shortages will soon constitute an insuperable barrier to further expansion in the output of finished material. On the contrary, the extent of our raw material superiority suggests the possibility of a level of war production two or three times that of Axis Europe or, for that matter, two or three times our present rate.

In spite of the superiority of our raw materials position, there seem to be, at the present time, pressures on our raw materials supplies. If the above comparisons are correct, these pressures can arise only from the greater non-military consumption of materials in this country, from their less effective utilization in the production of war materials, or from the less efficient control of inventories. There is no question that non-military consumption is higher in this country than in Axis Europe, and it is probably also true that inventories are less closely controlled and that materials are used more lavishly in the production of armament.

On the last point some evidence is obtainable from analysis of the quantity of various types of raw materials used by Germany and the United States in the production of shells, explosives, and high-speed tool steel.¹ The Germans use only .01 percent molybdenum in the core of their 7.92 mm. armor piercing projectiles, while the United States uses from .8 percent to 1.05 percent, or between eighty and one hundred times as much. The same American projectiles contains over twice as much magnesium as does the German. The United States uses about seven times as much nickel as Germany in the body and about fifteen times as much nickel in the cap of the 75 mm. armor-piercing shell. The United States employs almost twice as much tungsten as the Reich in high-speed tool steels.

It is not surprising to find Germany utilizing less of the various types of raw materials in question, since it has less. Yet, since 1939, there have been few allegations that German war materials are deficient in quality.

APPENDIX II

THE ROLE OF FISH AND THE FISHING FLEET IN JAPAN

The fundamental importance of fish in the Japanese diet and the exposed position of some Japanese fishing grounds might offer the Allies an opportunity to deal a blow to the Japanese economy, especially in the event of hostilities between Russia and Japan, according to a current report by the Geographic Division of the Office of Strategic Services. Japan's efficient high-seas fleet of tuna and bonito vessels, as an example, operates in an exposed area to the east almost as far as Midway and screens Japan proper from surprise attack in the only area where she has no outposts—if one excepts Marcus Island. For many years and in ever increasing numbers, Japan has maintained in that area fishing vessels which in time of war can serve the double purpose of providing much-needed food and warning against sudden enemy attacks. The deep-sea boats fishing there exceed a thousand in number, and many of them, in addition to wireless, are equipped with such special apparatus as direction-finders and electric sounders.

Significance of the Fishing Industry

For Japan the fishing industry has a relative significance far greater than that for any Western country, with the possible exception of Norway. One-half of the world's fishing population, nearly one-half of the world's fishing fleet, and one-third of the world's catch are Japanese. The Japanese utilize an unusually large number of species, putting them to a great variety of uses, including food, feed, oil, fat, and fertilizer. Since very little meat is eaten in Japan, seafoods are an important source of protein in the Japanese diet. At the outbreak of the war

¹ Data obtained from *Steel Analysis in U. S. Ammunition* and *Steel Analysis of Selected Items in U. S. Ordnance other than Ammunition*, Statistics Division, War Production Board, and *Analysis of Steel in German Ammunition and Analysis of German Steels in selected uses other than Ammunition*, Economics Division, Office of Strategic Services.

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Japan harvested annually more than eleven billion pounds of marine products; the United States, ranking second, about five billion. Japan's per capita consumption in 1935 was almost 65 pounds.

The Location of Fishing Grounds

Japanese fishing is concentrated in the coastal waters of Japan proper, in the Pacific waters east of Japan, in the Yellow Sea and East China Sea, along the Japan Sea coasts of Chosen and Karafuto, and around the margins of the Sea of Okhotsk. Of secondary importance are the tropical waters of Indonesia and the Pacific Mandated Islands, the Bering Sea, and the Antarctic whaling regions.

For a distance of a hundred to two hundred miles off the southern coast of Honshu, fishing occurs the year round. Farther out in this region and in the Yellow Sea are the chief winter fishing grounds. In the summer the scene changes to the waters stretching hundreds of miles to the northeast of Honshu, while the season around the shores of the Sea of Okhotsk and Kamchatka is from the end of March to August.

Japan has relatively few large ports specializing in fishing, but carries on her activities through a multitude of small coastal towns and villages having only the simplest harbor facilities. An ample railway network makes possible rapid transportation of marine products from these bases to all parts of the principal islands.

A variety of vessels are employed, the majority of which are small, motorless, sampan-like craft which operate near shore out of the coastal villages. Of the powered craft, the greatest number are small seiners, tenders, druggers, and other trawlers. Large steam- and Diesel-powered vessels include floating crab and salmon canneries, whalers, and various refrigerated carriers equipped to transport the catch from remote bases to the markets of Honshu.

The Problem of Destruction

In so far as the problem of maritime destruction is concerned, the great majority of the Japanese fleet are boats of a highly individualistic and recognizable type, operating in the inshore fisheries (backbone of the great Japanese industry), near the main islands of Japan and farther southward. From Hokkaido northward, however, most of the equipment used in the fisheries is very much like that operated by the United States, England, and other maritime nations in similar latitudes. The extensive fishing operations in home waters are relatively safe from hostile attack.

The trawlers in Japanese service have all come into service since the first World War, during which a large part of the earlier fleet was purchased by France and Italy for mine-sweeping and patrol work in European waters. Some observers state that about half of these boats have a distinctive Japanese appearance. Japan has about 20 floating canneries for crab and nearly 10 for salmon. Photographs are available of most of these boats, which in general range from 2,500 to as high as 8,000 tons.

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APPENDIX III

A SOCIALIST PLAN FOR POST-WAR FRENCH ECONOMY

The tremendous German penetration of business in France may eventually offer the basis for the post-war socialization of French industry following a United Nations' victory, in the view of a "Committee for Socialist Action" now functioning in France. A current report in *France Speaks* (June 26) notes that the executive committee of this organization passed in January a resolution embracing a plan to attain this end. This plan assumes that popular discontent in France will demand destruction of the power of the French "moneyed interests." It involves two steps.

In the first place, the Germans have shown great skill, not unattended by ruthlessness, in bringing about mergers, reorganizations, and purchases—frequently with French money—of controlling interests in French businesses. Socialization of all the principal parts of French economy would be easy precisely because of this wide scale German penetration, it is said. Such socialization would, according to the socialist plan, be initially effected through an article of the peace terms, which would in substance stipulate that every form of German participation since the Armistice in a French enterprise of any kind should pass to the French state, to be held as a possession of the nation.

The second step would be to ensure that all enterprises in which the state secures an interest—which would be practically all enterprises of any importance, since the Germans have everywhere installed themselves—shall have representation of the nation on the boards of directors. In the past, the power of "the 200 families" has, it is asserted, been exercised primarily in this very way. This, in turn, has been made possible largely by the ignorance and indifference of the public, that is to say, the majority of stockholders in many enterprises. Hence, it is proposed that the stockholders, while being free to vote as they like for representatives on boards of directors, should, in the event of failure to vote, be presumed to wish to entrust their interests to the representatives of the state. The socialist resolution points out almost gleefully that in this connection a Vichy decree could be used with effect. The decree, dating from the end of 1940, stipulates that enterprises in which the state has a capital interest of as much as 20 percent or from which it buys as much as 20 percent of the production, must furnish within one month a list of directors, in order that the government might specify those it desired to see eliminated.

The socialist resolution stresses the fact that its proposals are not specifically socialist in character. Hence, a non-socialist majority might vote them. Even where the state would be the majority holder, the plan anticipates that socialization would be partial and gradual.

July 10, 1942
9:30 a.m.

GROUP

Present: Mr. Bell
Mr. Buffington
Mr. Blough
Mr. Thompson
Mr. Schwarz
Mr. White
Mr. Gamble
Mr. Graves
Mr. Kuhn
Mr. Foley
Mrs. Klotz

H.M.JR: Edwin?

MR. FOLEY: The conference is concluding today. The last session is this afternoon at three o'clock. All the formal work has been done. I think it has been a very satisfactory conference, and I think a great deal has been accomplished. If the formal resolutions that have been adopted are translated into action on the part of the countries, we will have a unified system of controls in the Western Hemisphere that should cut off trade, financial transactions, and commercial, with the Axis powers.

H.M.JR: Good. Congratulations. You got, I suppose, a great deal of help from the State Department. (Laughter)

MR. FOLEY: Well, at least they didn't hurt us.

H.M.JR: How was your banquet last night?

MR. FOLEY: It went off very well, I think.

H.M.JR: What did you have to eat?

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MR. FOLEY: I couldn't tell you, it was all State Department.

H.M.JR: You didn't even know after you ate it?

MR. FOLEY: I knew it was good. It was all right, wasn't it, Harry?

MR. WHITE: Yes.

H.M.JR: What did they give you in the way of wines?

MR. FOLEY: They had two kinds of wines, a light Chilean wine and a California red wine - split it between two continents.

H.M.JR: Was it all right?

MR. FOLEY: Yes, it was all right.

H.M.JR: Did they give you cocktails and hors d'oeuvres?

MR. FOLEY: Yes, the Mexicans supplied the cocktails first, and then they had some cocktails before the dinner. They had the Marine Band there. They did it up right - the State Department did a good job.

H.M.JR: Well, I am glad it went so well - I mean, not the dinner, but the conference.

What else, Ed?

MR. FOLEY: Nothing.

H.M.JR: Throw that pillow away - it will give you more room.

MR. GAMBLE: I may need it. (Laughter)

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H.M.JR: What have you got?

MR. GAMBLE: Mr. Grant is away until the first of August on a vacation. We will not be able to see him until then.

H.M.JR: It is a long way between drinks.

MR. GAMBLE: Yes, it is; it is a couple of weeks, but it may be he is good enough - has got enough ideas for this job, and I suggest we wait for him.

H.M.JR: In the old days when I was young I would find out where a man was on his vacation and go to see him.

MR. GAMBLE: We can do that.

H.M.JR: But, that was when I was young and full of beans. (Laughter)

MR. GAMBLE: We will give you a written report on that. Mr. Neville Miller, the President of the National Association of Broadcasters, is in town this morning and will be here this morning. If you can spare a few minutes, Mr. Callahan will bring him in.

H.M.JR: Sold, eleven o'clock. I am looking for something to do this morning.

MRS. KLOTZ: Who is it?

MR. GAMBLE: Neville Miller.

H.M.JR: What else? Eleven o'clock?

MR. GAMBLE: Eleven o'clock.

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H.M.JR: Might I suggest - I forgot who said they went over John Sullivan's speech - somebody said they did, I forget who - Odegard or who--

MR. KUHN: Peter went over it.

H.M.JR: ~~Might~~ I suggest - I learned something campaigning with Mr. Roosevelt for governor. Mr. Roosevelt would never mention his opponent's name. See? That was his big thing. He never would mention it. He said if he didn't, people wouldn't know who was running against him. In future speeches may I suggest that the name "compulsory savings" be omitted. (Laughter)

MR. KUHN: He didn't actually mention it - I am not sure he did. He spoke of more painful means, or something of that kind.

H.M.JR: Yes, he did, but that is my suggestion. I mean - if you will circulate that around. It is true.

MRS. KLOTZ: That is marvelous; the comparison is wonderful.

H.M.JR: It is true.

Anything else?

MR. KUHN: Yes, I have one little job for you, Mr. Secretary. Those Advertising Council ads are waiting on your O.K. They are all up in the poster room.

H.M.JR: All right, I tell you what we will do. Ten-thirty to eleven I am working here. You are going downstairs - you and Gamble and Graves are going downstairs with me at ten o'clock. I have got something to show you. Immediately after that I will do your advertising.

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MR. KUHN: Good. That is all I have.

H.M.JR: You couldn't make your radio commentator fellow, or whatever he is, at eleven-fifteen, could you?

MR. GAMBLE: Yes, sir.

H.M.JR: That will give us fully three-quarters of an hour.

MR. GRAVES: That is - I don't know whether you--

H.M.JR: Is that wrong?

MR. GRAVES: ... consider this important or not, but we have the weekly staff meeting, that you asked me to hold, at eleven-thirty in the Sloane Building, and I would like very much to have Callahan there.

H.M.JR: We will stick at eleven then; you can get back. That is all right. That gives me thirty minutes. What is the weekly meeting, the one you conduct?

MR. GRAVES: That is right.

H.M.JR: You are conducting it?

MR. GRAVES: Once a week I am.

H.M.JR: That is right. Last week you had it here, didn't you?

MR. GRAVES: Yes, we did.

H.M.JR: You want him to be back over there at eleven-thirty?

MR. GRAVES: Yes.

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H.M.JR: That is all right. I can do it this way, but Kuhn and Gamble and Graves and Mrs. Klotz will go down. I have something I want to show you.

What else, Ted?

MR. GAMBLE: That is all I have, sir.

H.M.JR: Ferdie?

MR. KUHN: Nothing.

H.M.JR: Blough?

MR. BLOUGH: The first interview with taxpayers on the collection at the source mechanics was held yesterday. Beginning on Monday there will be four teams representing the Bureau and our office--

H.M.JR: Four what?

MR. BLOUGH: Four teams of two people each, representing the Bureau and our office, interviewing taxpayers in various parts of the country: New York, Detroit, Windsor, Chicago, Greensboro, North Carolina, and Atlanta. We hope by the middle or end of next week to know whether this collection at the source will mechanically interfere too much with the operations of these companies. The interview yesterday was very favorable.

H.M.JR: Which?

MR. BLOUGH: The Washington Gas and Light Company.

H.M.JR: What did they say?

MR. BLOUGH: They liked collection at the source. They would be glad to have it and could do it without any difficulty whatever.

H.M.JR: Isn't that the intelligent way to do it?

MR. BLOUGH: I think it is the intelligent way, find out the facts, and I wonder, Mr. Secretary, if you would

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be willing to help our teams in getting started by signing a letter indicating your interest in this subject.

H.M.JR: Yes.

MR. BLOUGH: I will bring them in right after the meeting.

H.M.JR: It again proves you can't prove anything by sitting in a swivel chair, that is, that has to do with people.

MR. BELL: Roy, they might also talk to the Federal Reserve Banks.

MR. BLOUGH: We are going to do a number of other things besides this, talk with the Federal Reserve Banks, have the revenue agents interview quite a number of other concerns, with the use of questionnaires, and we are going to have a number of other methods, but these teams are personal contacts.

H.M.JR: Good.

MR. BLOUGH: That is all.

H.M.JR: And, George, I got a memo from you that everything is all right with Mr. Likert.

MR. HAAS: That is what he told me. Then I called him yesterday, he says, "Mr. Davis called the Secretary and he said he didn't know." I told him they had better get busy on it.

H.M.JR: I got a memo from somebody that said Davis had O.K.'d it.

MR. HAAS: That was from me. Likert called me and said that it was satisfactory with Davis that Likert work directly with you and that Mr. Davis would call you about it. Has he called yet? He had a pretty busy day yesterday, I see in the paper.

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H.M.JR: Well, I will call him.

MR. HAAS: I have nothing else.

H.M.JR: Chick?

MR. SCHWARZ: Nothing.

H.M.JR: Harry?

MR. WHITE: There is nothing.

H.M.JR: Harold?

MR. GRAVES: Nothing.

H.M.JR: Dan?

MR. BELL: The total report of this morning is about two billion six. We got almost a half a billion last night in New York, so that it is--

H.M.JR: You mean before you get the mail it is two billion six?

MR. BELL: Before we get the later mail, yes.

H.M.JR: What does that look like?

MR. BELL: It will go between three and three and a half - it looks like it might be a little more than three now because New York is much heavier than I expected, and New York, heretofore, has usually gotten about half of the issue, the subscriptions, but this time they really ought to get a good deal less than half. I should think it ought to go up above the three billion.

Rouse asked me to tell you that he had never seen a crowd work as hard as they did yesterday. Bankers and dealers all just took the day off and went around and told everybody that they should get in the saddle and work on Treasury financing, and he said they did a good job.

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H.M.JR: For those of you who haven't been associated with me on this financing, we are sort of setting a pattern now for short-term money, seven to nine years, two percent; long term money, that is, twenty years or over, two and a half. Of course your bills are set at three-eighths, and we hope to be able to go along on that basis. If we can finance the war on that basis, I think everybody ought to be very happy.

The Fed and the bankers are crowding us to raise our bill rates another eighth - ought to have half of one percent, but we are sitting tight. But the Fed was with us on this two percent, but the banking community wanted something around two and a quarter, didn't they, two and an eighth?

MR. BELL: Yes, I think that mix-up probably came the other day on the New York situation where New York felt that a large part of this issue should go outside of New York and therefore it should be two and a quarter percent, whereas New York was interested in the shorter term, the two percent. I think that is where the mix-up came.

H.M.JR: What else, Dan?

MR. BELL: That is all.

Did you want to see me this morning on how we do those transfers?

H.M.JR: Oh, yes. I am working with Mrs. Klotz, ten-thirty to eleven. How about eleven-fifteen, Dan?

MR. BELL: Any time.

H.M.JR: For those of you who like to play golf in the sunshine, I will not be in the office Monday or Tuesday and I don't think Wednesday - certainly not Monday and Tuesday. I won't be on the phone much, either.

MR. WHITE: Do you want to get this silver letter off? There is a draft ready this morning. It hasn't

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been cleared, unless you don't mind waiting until you come back.

H.M.JR: I would rather not wait. I could do it right after lunch.

MR. WHITE: It has to be cleared with Foley and Dan.

H.M.JR: Well, are you going to be over at that conference all day?

MR. FOLEY: No, I don't go over until three o'clock.

H.M.JR: Why don't we say two-thirty and then definitely do it at two-thirty?

MR. WHITE: They will have it cleared before then, and we will come in with it at two-thirty.

MR. BELL: No luncheon?

H.M.JR: Luncheon?

MR. BELL: I thought I had an invitation to lunch.

H.M.JR: Those people didn't come. I am sorry. I am going up to have lunch with the Vice President. That was called off.

MRS. KLOTZ: I should have let you know.

MR. BELL: That is all right.

MR. WHITE: If you are going to be away Wednesday you may want to take up the bill which Berle asked us to prepare. It is over a month and a half ago - a month ago you indicated you would cooperate; and you may also want to take up the question of the letter to the British exchequer that you asked me to see you about some time.

H.M.JR: I have got a half an hour. I will be free from two-thirty to three.

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MR. WHITE: Why don't we bring those things in?

H.M.JR: Bring them in and see how you fare. If you don't do all the talking-- (Laughter)

MR. WHITE: I will try to restrain myself and give you a chance to do some. (Laughter)

MR. BELL: You didn't fare very well the other morning, did you, Harry, at that, bringing everything up?

H.M.JR: I promise not to tell any stories.

What else, Dan?

MR. BELL: That is all.

H.M.JR: Norman?

MR. THOMPSON: Over the last week-end we moved the Treasurer's people from the top floor of this building to the annex. Now we have got to reshuffle the whole building.

H.M.JR: Give White the top floor. He asked for it.

MR. WHITE: It wasn't ready in time.

H.M.JR: What did you use?

MR. THOMPSON: I had plans ready to submit for your approval. I would like to do it today if it is convenient.

H.M.JR: I have got nothing to do for the next few minutes.

MR. THOMPSON: I will bring the plans right in.

H.M.JR: Come on, let's go to town, and I will meet Graves, Kuhn and Gamble downstairs at ten.

July 10, 1942.
9:46 a.m.

HMJr: Hello.
Operator: Mr. Davis hasn't come in yet. They expect him shortly.
HMJr: I thank you.
Operator: Right.

10:05 a.m.

HMJr: Hello.
Operator: Go ahead.
HMJr: Hello.
Elmer
Davis: Hello.
HMJr: Morgenthau speaking.
D: Yes, sir.
HMJr: Good morning. I know the last couple of days there's been discussion between your office and mine whether this Dr. Likert could work for us directly.
D: Yes.
HMJr: Has it been brought to your attention?
D: Yes, it has....
HMJr: Yes.
D:and I haven't had time to form much of an opinion on it yet. As I understand, he's working under contract now - for us?
HMJr: Ah....

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- D: And the question is whether you would take him over for a special job.
- HMJr: Well, he's all - he - he originates in the Department of Agriculture.
- D: Yeah.
- HMJr:in the Bureau of Economics. That's where he originates, and then, I think he was loaned to you people. Then we want to do a job up in Buffalo.
- D: Yeah.
- HMJr: And - this is for you only - he said three bosses were too many.
- D: Yeah.
- HMJr: See?
- D: Yeah.
- HMJr: So what we did was - we have given the money to Agriculture, you see?
- D: Yeah.
- HMJr: Allocated \$20,000. But he didn't want to do it unless your people were entirely satisfactory - satisfied.
- D: Can you hold the wire one second while I talk to the man who knows about that? I think it's okay but....
- HMJr: All right.
- D: Just a second. (Talks aside)
Yes, Mr. Secretary, that's okay. We'll go right ahead, and anything that we may need to do to facilitate this will be done.
- HMJr: Well, I'd appreciate it because Likert is awfully good but a little temperamental like all of us....
- D: Yeah.

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HMJr:and he felt it a little difficult to work for three bosses. But whatever he does in Buffalo, of course, is available to you or anybody else.

D: Yeah.

HMJr: But it's just that it makes it a little bit easier all around.

D: Yes.

HMJr: Would you issue orders then to give - let Likert go ahead?

D: I will so do, yes.

HMJr: Today - this morning?

D: Yes, this morning.

HMJr: I thank you.

D: Righto. Thank you.

HMJr: Goodbye.

July 10, 1942.
10:54 a.m.

HMJr: Hello.

George
Haas: Hello, Mr. Secretary.

HMJr: George....

H: Yes, sir.

HMJr: Miss Elliott will call you a little later.
She'd like to meet Dr. Likert.

H: Swell.

HMJr: And she also wants to see a copy of that
questionnaire.

H: Fine.

HMJr: It's prepared, isn't it?

H: Yes, sir.

HMJr: Well, she's over at the DeMoll Building -
Miss Elliott.

H: Fine.

HMJr: You might send it over to her awhile, anyway.

H: All right.

HMJr: And then she'd like to take a look at it, you
see, and then she said she'd like to talk with
Likert.

H: That's fine.

HMJr: Now if she talks with Likert, you can arrange
it because I told her anything that has to do
with the questionnaire will have to clear
through you.

H: Fine.

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HMJr: I got a - I - I got a....

H: That's a good idea. I'm glad you thought of that.

HMJr: What?

H: That's a good idea. I'd forgotten she's around here.

HMJr: Yes. So she'll call you in a little while, and she may be helpful. Now I - I've got....

H: Thanks for clearing that. I just got a copy of your conversation.

HMJr: That's all right. And so you might send her over - the - the questionnaire's in existence, isn't it?

H: I don't have one right here but it - I went over it, and she - with Likert so I know he's got it. I mean, we had a meeting here on the questionnaire.

HMJr: Well, get two copies, and send one to Miss Elliott and one to Mrs. Morgenthau. She's over at the DeMoll Building.

H: Swell.

HMJr: Will you do that?

H: I'll do it right away.

HMJr: Do it this morning.

H: All right, fine. Goodbye.

July 10, 1942.
11:34 a.m.

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

Alla Clary: Hello, Mr. Morgenthau?

HMJr: Yeah, who is this?

C: This is Miss Clary.

HMJr: Who?

C: Miss Clary.

HMJr: And - are you Mr. Rayburn's secretary?

C: Yes, sir.

HMJr: Well, could you give him a message for me.

C: Yes, sir.

HMJr: He spoke to me about reappointing - oh - Cottrell, Samuel A. Cottrell of the Income....

C: That's right.

HMJr:Tax Unit?

C: Yes, sir.

HMJr: Now I find this - that last year when we went to the President and asked him to do this....

C: Uh huh.

HMJr:that the President made a note and said this would be the last time that he'd do it.

C: Oh, I see.

HMJr: And he - right on here it says that - from the President, this was - "Please do not make further request." Hello?

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C: Yes, sir.

HMJr: It said - that was signed June 25, 1941.

C: June 25, 1941.

HMJr: It says on this memo, "Please do not make further request." So you give that to the - the Speaker, and in view of that, doesn't he want to drop it, you see?

C: I imagine so.

HMJr: See?

C: Yes, sir.

HMJr: Will you tell him that?

C: Yes, sir, I'll be glad to....

HMJr: And....

C: I'll give him the message Monday.

HMJr: What's that?

C: I'll give him that message Monday. He's leaving....

HMJr: That's all right, that's all right.

C: Yes, sir.

HMJr: I thank you.

C: All right. You're welcome.

July 10, 1942
2:35 p.m.

SILVER

Present:

Mr. Bell
Mr. White
Mr. Foley
Mr. B. Bernstein
Mrs. Klotz

H.M.JR: All right, silver.

(Letter addressed to Senator Elmer Thomas handed to the Secretary by Mr. White.)

H.M.JR: This is to Thomas.

MR. FOLEY: Thomas is the chairman of the committee.

MR. WHITE: He never acts that way; I don't understand why.

H.M.JR: Did I say on an ounce-for-ounce basis in my conversation?

MR. BERNSTEIN: Yes. Dan has the conversation.

MR. BELL: Yes, this is your conversation. I think after you get through reading it you ought to know what you said in a couple of places.

H.M.JR: It is all right. I think it is a good letter.

MR. WHITE: We haven't got clearance from the Lend-Lease. I spoke to Cox and Stettinius. They

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both are favorable, but Stettinius asked for a memorandum and said he would give us a formal clearance Monday morning. So it was Dan's thought, if you sign the letter, to postpone sending it until we get an appropriate statement from them that they are willing to go ahead on it.

H.M.JR: I think that is well. (Letter signed by the Secretary.)

Did you want to warn me on something?

MR. BELL: I want you to know what you said in your telephone conversation with McCarran. After talking about the silver and getting something settled on it you said, "My own thought which I - if you'd care to have it, I'd like to give it to you." He said, "Yes."

You said, "...and that is I think the easiest way to give - furnish silver to England and those countries would be to loan it to them."

He says, "Yes, that might be true."

You went on, "...and then get it back on an ounce-for-ounce basis."

He said, "Yes."

You said, "That would - that avoids a lot of questions which I'm sure you don't want raised."

He said, "No, that's true."

Then you said this, which I think is important, "But I really think we've got to act on that. I mean, we've - we've got to give these countries an answer."

He says, "Well, we'll try and get at that with you just as soon as possible."

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That is the only point where there is an indication that you have got to come back to them or they have got to come to you.

MR. WHITE: The only thought is that after they have discussed it and after discussions get to the point just before you do it finally, you might then again take it up, either over the phone or by letter, or something else, so that they will have one more come-back at you before any definite step is taken.

H.M. JR: I think it depends a little bit, Harry, on what kind of a letter I get back from them.

MR. WHITE: You are not troubled by writing to Thomas instead of McCarran? All of your conversations have been with McCarran. Thomas is chairman of the committee.

H.M. JR: Well, if he asks any questions as to why I did it, "One, you are chairman of the committee; two, McCarran is out of town."

I will tell you, I am not terribly bothered on this thing. You know I kept saying that McCarran was out for a dollar an ounce, and I think if we wait long enough the whole game is just to squeeze this thing up; and if these friendly Nations don't get the silver for coins they have got to go in the market and buy it - just another pressure on the thing. I am worried about all these pressures. One man wants to push silver up; another one wants to push the farm products up; another wants to push the prices of wages up; and the first thing you know we will have a first-class inflation.

MR. BELL: I am not so sure that they hope to get a dollar an ounce because this fellow that used to be clerk of Pitman's committee, who is now working for McCarran, was in the other day. He intimated they would be quite happy if the market got to a place where private producers could sell it at just above the seventy-two cent price.

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H.M.JR: Now, supposing they came back and said, "Mr. Morgenthau, you haven't kept faith with us." Now, I haven't signed anything--

MR. WHITE: You are only going to notify them, not get their approval.

H.M.JR: Yes. "If you can convince me I am wrong I can still stop. I am just putting you on notice, that is all." But while Senator McCarran is travelling around the country seeing how the silver miners feel about the income taxes - he is not a member of the committee on finance - I can't just sit here and wait for our boys to get some money, some change, in Australia. I am pushing them a little bit, and I have been kind of a softie up to now. I am going to push them a little bit, although I felt they pushed me clear off the lot.

MR. WHITE: As a matter of fact, the Treasury isn't to do this at all. It is only Lend-Lease - it is maybe your suggestion.

H.M.JR: Well, is even Bernie satisfied on that?

MR. BERNSTEIN: Yes, sir.

H.M.JR: Wonderful!

What else?

MR. FOLEY: Berle sent to Harry White a draft of a joint resolution to authorize the President, on the recommendation of the Secretary of State, to make loans to certain governments in an amount to not exceed a hundred million dollars. That was in May. We went over the draft and told them that we wanted to make a suggestion. We said we thought that the draft should provide that this money should be loaned not on the recommendation of the Secretary of State; it should be

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loaned by the Secretary of the Treasury. They came back then and said that they thought there ought to be a consultative clause.

So, as the legislation stands now, and no decision has been made as to what will be done with it, it provides that after consultation with the Secretary of State and with the approval of the President, the Secretary of the Treasury may make certain loans.

MR. WHITE: Loans or give other financial aid. They expect to give it away.

H.M.JR: Who is going to go up and testify on this bill?

MR. FOLEY: Well, we asked Mr. Berle about that. Mr. Berle thought that it would be necessary for both you and Mr. Hull to appear before the committees.

H.M.JR: Would somebody, in simple language, tell me why they want a hundred million?

MR. WHITE: Well, the matter first arose, I think, from a request from the Polish Government for twelve million dollars. I think that was the figure that they asked for, to continue the war effort in Poland. What they are using the money for Berle didn't tell us. He said it was secret. They finally got two million dollars from the President's special fund to keep them going. I think there is some thought that maybe they will reimburse it out of this amount, should that bill pass. They think there will be other governments - I think he said there are other governments but he said that matter was confidential.

They didn't anticipate using all of this hundred million, but they thought if they could get a hundred million they would be better off to have it in the kitty.

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It is our understanding that the President has approved - I don't know if they used the word "approved" - or told them to go ahead with the bill, and it is something which the State Department wants, and the President, and the Treasury is in it only since it is an international arrangement and ought to be done here; but if there is any defense of the bill to be made the State Department will have to do it.

H.M.JR: You know what happens. I mean, if it is a question of getting a loan through I will have to take the brunt of it. How do I know the President wants this?

MR. WHITE: I am only repeating what Berle said.

H.M.JR: Has somebody reminded you of this recently?

MR. WHITE: No. The last time was when we went over to Berle's office and drafted it. The next step, after approval, was to sound out the Congressional committees.

H.M.JR: How much time has elapsed since Berle spoke to us?

MR. FOLEY: The thing came over here first on the twentieth of May. Then I called Berle, after Harry and I had gone over the thing, and he was on his vacation, and I sent him a letter saying that we thought it ought to be by the Secretary of the Treasury and not by the Secretary of State. Then he called Harry after he got back - about two weeks ago, wasn't it, Harry?

MR. WHITE: Yes.

MR. FOLEY: He asked Harry to come over and talk to him about it, and Harry asked me to go with him. The two of us went over - I think it was one day last week - the twenty-sixth of June we were over there.

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H.M.JR: When I don't like these things I just stall on them, and I don't like this. I mean I am perfectly familiar with the thing.

MR. WHITE: They called you up first two months ago.

H.M.JR: When they want something they call again. I don't like it. Let Mr. Berle wait until they make another move, and then when they do tell Berle to come over and see me. I would sit tight. I don't like it.

The President has got two hundred million dollars for this purpose?

MR. BELL: He has had this much. I don't know how much has been spent.

H.M.JR: I don't like it. I think that is about enough.

MR. WHITE: Well, it is their baby.

H.M.JR: It is their baby, and I never knew Mr. Hull to go up and fight for anything like this yet, and we have started on a lot of these things. I wouldn't know how to explain it.

MR. WHITE: Do you want to consider this letter on the-- Were you through?

MR. FOLEY: I just wanted to say that the bill is in proper form whenever you make your decision as to what you want to do.

MR. WHITE: And Berle has agreed to the form itself.

Do you want to take up this question of a letter to the British Exchequer on the relief on British contracts, or put it on ice?

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H.M.JR: Until I get back put it on ice.

MR. WHITE: Yes. We drafted the letter, and you told me to take it up with you.

I would like to raise again the question of China because--

H.M.JR: Oh, I am not going to do that unless you do it my way.

MR. WHITE: It will only take a--

H.M.JR: No, I am not going to do it.

MR. WHITE: It seems as though what we are only doing is we are asking them to go a certain way rather than another way to get a--

H.M.JR: No, Harry, I am not going to do it their way. I won't do it.

MR. BELL: I think I would say no rather than do it the other way.

H.M.JR: I don't have to say anything. I don't care.

MR. WHITE: You can't say no. I don't see - it is more serious than that. They have asked us a definite thing. We have got to answer it. I don't see--

H.M.JR: What?

MR. WHITE: They want to pay the loan off; they pay interest on it. They get no use out of it whatsoever. They want to pay this loan off out of the five hundred million dollars, and that would release the gold which would be part of their gold reserves.

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H.M.JR: I am perfectly willing to say no, and I am willing to do it to the man myself. Again, you get - you get in on this thing and they keep shoving you and shoving you, and you can't sit here and say you are helping the Chinese to win the war by just letting them push you all over the place.

MR. WHITE: This has no significance - not that much significance.

H.M.JR: Well, it has in my mind.

MR. BERNSTEIN: Why would it be out of order, Harry, to go back to the Chinese and say that we appreciate their suggestion and we suggest that in the interest of both countries it be worked out this way: "You pay that off, then we will give you another twenty millions in gold on the financial aid program." We realize there is a little more expense from their point of view, but it makes a better record. They will realize it is for--

H.M.JR: I got to make a record.

MR. BERNSTEIN: Fifty thousand for a better record.

H.M.JR: I mean, they put this thing up as collateral; either they did it in good faith or they didn't.

MR. WHITE: Collateral merely means you forfeit it if you don't pay, but they can't pay if this money at their disposal, which they understand is at their disposal--

H.M.JR: Harry, I am not going to do it.

MR. WHITE: I get the idea. O.K. (Laughter)

H.M.JR: Harry, I am not going to do it. You picked a bad time. They just got thirty thousand

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Japanese surrounded. Every other time either Canton was going to fall, or Nanking. Now they are doing well, Harry, they got thirty thousand Japs. Now, if the Japs escape and they don't catch them come around and see me. (Laughter)

MR. WHITE: Maybe we just got to wait a week.

H.M.JR: Right now they are doing fine in a military way.

MR. FOLEY: You won't settle on good news.
(Laughter)

My dear Senator:

At a recent meeting of the Senate Special Silver Committee I told the Committee that the Treasury has received requests from friendly countries for aid in acquiring silver for coinage and essential war purposes. These requests have come from the United Kingdom, Australia, Iran, and the Dominican Republic. Two other countries, Equador and El Salvador, are also seeking silver for coinage purposes.

In some of these areas the need for additional silver coinage is directly related to the presence of the armed forces of the United States and the transportation of war supplies for the United Nations. In every instance the provision of silver would be an aid directly or indirectly to the war effort of the United Nations. The Department of State has informed us that it is interested in having made "available to friendly foreign governments for essential coinage needs some of the silver now held by the United States Treasury."

In a recent telephone conversation with Senator McCarran I told him that it is necessary to come to an early decision on the lending of silver to friendly governments to be returned after the war on an ounce-for-ounce basis. As this question is becoming more urgent and cannot be delayed any longer, I shall immediately proceed to discuss this question with the interested governments.

Very truly yours,

Secretary of the Treasury

Honorable Eimer Thomas,
Chairman, Senate Special Silver Committee,
Washington, D. C.

EMB:meh
7/9/42

July 10, 1942

My dear Mr. Meyer:

It was very kind of you to write me, but I feel that the shoe was on the other foot. I thoroughly enjoyed the meeting, last Saturday, and came home with renewed enthusiasm. I thought you conducted the meeting extremely well and we hope to pattern other meetings after yours.

In making my way around the crowd, I found that Mrs. Meyer was well accustomed to the guiding touch of her husband.

With kindest regards to Mrs. Meyer and yourself, in which Mrs. Morgenthau joins me, I remain,

Yours sincerely,

(Signed) H. Morgenthau, JR.

Mr. Richmond F. Meyer, Chairman
War Savings Committee, Dutchess County,
Poughkeepsie, New York.

TMC



TREASURY DEPARTMENT
DEFENSE SAVINGS STAFF
NEW YORK

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

ALBANY
STATE BANK BUILDING

BUFFALO
MARINE TRUST BUILDING

ROCHESTER
LINCOLN ALLIANCE BUILDING

Poughkeepsie, N.Y.
July 7, 1942

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

My dear Mr. Secretary:

Just a few words to again thank you in behalf of the Dutchess County War Savings Committee for the very important part you took in the War Savings ceremonies at the International Business Machines Corporation plant last Saturday. Your presence had the greatest influence on the success of the ceremonies. This influence extended through other plants in our community and will have a continued effect on the increasing sale of War Savings Bonds.

May I also tell you that we greatly appreciated the fact that Mrs. Morgenthau accompanied you on this occasion. It was a real pleasure for all of us to enjoy the presence of your gracious lady.

I felt a bit embarrassed about the way we pushed you from one thing to another during the program. You were certainly a very good sport about the whole affair. (I have it on good authority that Mrs. Meyer received some gentle pushing around in another way. Perhaps that evened the score.)

We all look forward to the time when you will again join with us in another worth-while ceremony.

My best wishes to you and to Mrs. Morgenthau.

Sincerely,

Richmond F. Meyer
Richmond F. Meyer, Chairman
War Savings Committee
Dutchess County

RFL:LRS

Countersigned:

C. P. Adams
Deputy Administrator



RAYMOND GRAM SWING HOTEL ROOSEVELT WASHINGTON D. ²⁴

10 July 1942

Dear Mr. Secretary:

It was sweet of you to send me your note and I value it.

Thank you again for the pleasure you gave me in letting me lunch with you the other day.

You have my continual thanks for your great service at this time.

Yours sincerely,

Raymond Gram Swing

The Secretary of the Treasury
Mr. H. M. Morgenthau, Jr.
Washington, D. C.

OFFICE OF
CHIEF COORDINATORTREASURY DEPARTMENT
TREASURY ENFORCEMENT AGENCIES
WASHINGTON

July 10, 1942.

TO: Secretary Morgenthau
FROM: Elmer Ireby

Many of the companies with which Victor Emanuel is associated are at present doing business with the Government under war contracts. Most of those which do not have such contracts are large utility companies.

The income tax returns of those companies engaged in war work are being given intensified investigation under a policy indicated to the officials of the Bureau of Internal Revenue by Assistant Secretary Sullivan. They are being given precedence over other cases within the various revenue agents' districts and the examination of the returns for 1940 and 1941 will be completed promptly.

It has been my plan since you instructed me to go into the Victor Emanuel cases to gather together all reports from the field offices covering these various Emanuel corporations, including those having war contracts and those which are public utilities, and have a good technical man review them with the object in view of tracing through the connections of Victor Emanuel. It is by this means that I hope to secure information as to his activities and determine whether he is manipulating income or stocks in a way to evade income taxes.

You will recall that on February 19, 1940, I submitted to you a memorandum showing that for the years 1928 to 1938, inclusive, Emanuel reported consistently substantial losses and had paid no taxes; that he had resorted to the same type of illegal tax avoidance schemes as were outlined before the Joint Congressional Committee in June, 1936, which resulted in laws designed to correct the situation. Inasmuch as the review at that time covered the years to and including 1938, I am planning to limit the present review to subsequent years, and for this purpose am awaiting the reports for 1940 and 1941 which are the most important tax years.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE July 10, 1942

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

At the 9:30 meeting yesterday you referred to the purchase of the Mitchell house in New York by the Vichy French Government and asked about the general question of our control over the financial activities of the French and other governments.

The various French Government agencies in the United States are issued each month licenses which permit them to use specified amounts of blocked funds for their regular diplomatic and consular expenses. The total monthly allotments for such expenses of the French Government in the United States amount to \$91,000, which would not appear to be an unreasonable amount. The licenses are restricted to payments for ordinary running expenses and for any extraordinary payments special applications must be submitted. The licenses require the filing of detailed reports which are carefully reviewed each month by a staff member of the Foreign Funds Control before the licenses are renewed for the succeeding month.

The purchase of the Mitchell house was not accomplished under any general license, but was authorized in January, 1942, by a special license which was issued after careful consideration. The French purchased the building to house their New York consulate. There would not appear to be any objection to allowing the French to purchase a building for such purposes so long as we maintain diplomatic relations with such government.

The licensing procedure with respect to the expenses in the United States of Finland is similar to that used in the case of France. The four European neutrals, of course, operate under the general licenses that we issued last summer at the insistence of the State Department, which authorize transactions on behalf of, or certified by the governments of the neutral countries or their central banks. We have imposed a number of restrictions in these licenses since their issuance and we get detailed reports on all large transactions which take place under them. All such

- 2 -

reports are carefully scrutinized by responsible personnel and any suspicious transactions investigated.

Incidentally, you may be interested to know that the Foreign Funds Control is conducting an investigation of the activities of the French Line. We have installed investigators on the premises who are going through all the files and making a thorough investigation of all the activities of the French Line in order that we may satisfy ourselves that the licenses which have been issued to the French Line have not been misused.

9117h.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 10, 1942

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Recent Changes in Prices and Yields of Government Securities

The most significant development in the market for Government securities during the past week was the reaction to the offering of \$2 billions of 2's of December 1949-51. Outstanding 2 percent taxable issues registered declines on Wednesday, the first day of the offering, ranging from 7/32 to 11/32. No further losses occurred on Thursday, while two of these issues closed with slight gains.

During the week ended last night, longer-term bonds were the only Government securities that showed general improvement, while other sectors of the market were weak. The 2-1/2's of 1967-72 closed yesterday at 101-7/32, up 5/32 from a week ago. The 1-1/2 percent taxable notes declined 4/32, the premium last night being 7/32. On Monday the new, restricted 2-1/2's of 1962-67 were quoted for the first time, with the price on that day of 100-6/32 improving slightly during the week.

Prices of short- and medium-term securities continue substantially below their March 19 levels. Prices of longer-term bonds, however, are generally above their levels of that date. (See attached chart and tables.)

Certificates of indebtedness were firm during the week, the new 5/8 percent issue closing last night at a price to yield 0.61 percent, unchanged from a week ago. The average rate on the weekly offering of bills was 0.365 percent, up fractionally from the previous week.

Federal Open Market Account purchases during the week aggregated \$127 millions, consisting of \$68 millions of bills, \$32 millions of the 5/8 percent certificates of indebtedness, \$12 millions of the taxable 1-1/2 percent notes, and \$15 millions of taxable bonds, including over \$8 millions of the 2's due September 15, 1949-51. Sales totaled \$10 millions, consisting of \$9 millions of wholly tax-exempt notes and \$1 million of the taxable 2-1/2's of 1967-72. The net increase in the portfolio was \$117 millions.

Attachments

Table I

Price and Yield Changes of United States Securities
July 2, 1942 to July 9, 1942

(Based on mean of closing bid and asked quotations)

Security	Prices			Yields		
	July 2, 1942	July 9, 1942	Change	July 2, 1942	July 9, 1942	Change
	(Decimals are thirty-seconds) $\frac{1}{2}$			(Percent)		
<u>Bills</u>						
Average rate last issue	-	-	-	.36	.36	.00
<u>Certificates</u>						
1/2% 11/1/42	100.019	100.019	.000	.44	.44	.00
5/8 2/1/43	100.010	100.009	-.001	.61	.61	.00
<u>Taxable Notes</u>						
3/4% 3/15/43	100.06	100.06	.00	.48	.47	-.01
3/4 9/15/44	99.24	99.24	.00	.87	.87	.00
3/4 12/15/45	99.11	99.10	-.01	.94	.95	+.01
1 3/15/46	99.14	99.12	-.02	1.16	1.17	+.01
1-1/2 12/15/46	100.11	100.07	-.04	1.42	1.45	+.03
<u>Taxable Bonds</u>						
2% 3/15/48-50	101.12	101.05	-.07	1.75	1.79	+.04
2 6/15/49-51	100.21	100.10	-.11	1.90	1.95	+.05
2 9/15/49-51	100.18	100.08	-.10	1.92	1.96	+.04
2 12/15/51-55	100.10	100.01	-.09	1.96	2.00	+.04
2-1/2 3/15/52-54	103.28	104.01	+.05	2.06	2.04	-.02
2-1/4 6/15/52-55	101.02	101.05	+.03	2.13	2.12	-.01
2-1/2 3/15/56-58	102.30	103.05	+.07	2.25	2.23	-.02
2-1/2 6/15/62-67	-	100.08	-	-	2.48	-
2-1/2 9/15/67-72	101.02	101.07	+.05	2.44	2.44	.00
<u>Wholly Tax-exempt Notes</u>						
2% 9/15/42	100.16	100.12	-.04	3/32*	0/32*	-3/32*
1-3/4 12/15/42	100.24	100.22	-.02	.09	.16	+.07
1-1/8 6/15/43	100.25	100.23	-.02	.30	.35	+.05
1 9/15/43	100.25	100.23	-.02	.35	.39	+.04
1-1/8 12/15/43	101.02	101.01	-.01	.39	.40	+.01
1 3/15/44	100.30	100.29	-.01	.45	.46	+.01
3/4 6/15/44	100.16	100.16	.00	.49	.49	.00
1 9/15/44	101.03	101.03	.00	.50	.50	.00
3/4 3/15/45	100.17	100.19	+.02	.55	.53	-.02
<u>Partially Tax-exempt Bonds</u>						
3-3/8% 6/15/43-47	102.20	102.19	-.01	.60	.58	-.02
3-1/4 10/15/43-45	103.08	103.05	-.03	.70	.74	+.04
3-1/4 4/15/44-46	104.08	104.06	-.02	.84	.85	+.01
4 12/15/44-54	107.12	107.09	-.03	.95	.96	+.01
2-3/4 9/15/45-47	105.14	105.13	-.01	1.02	1.02	.00
2-1/2 12/15/45	105.02	105.02	.00	1.00	1.00	.00
3-3/4 3/15/46-56	109.08	109.06	-.02	1.19	1.19	.00
3 6/15/46-48	107.03	107.00	-.03	1.16	1.17	+.01
3-1/8 6/15/46-49	107.15	107.12	-.03	1.18	1.20	+.02
4-1/4 10/15/47-52	115.05	115.02	-.03	1.27	1.28	+.01
2 12/15/47	104.13	104.14	+.01	1.16	1.15	-.01
2-3/4 3/15/48-51	107.18	107.15	-.03	1.37	1.38	+.01
2-1/2 9/15/48	106.28	106.27	-.01	1.34	1.34	.00
2 12/15/48-50	104.12	104.12	.00	1.29	1.29	.00
3-1/8 12/15/49-52	110.22	110.20	-.02	1.60	1.60	.00
2-1/2 12/15/49-53	106.15	106.15	.00	1.58	1.57	-.01
2-1/2 9/15/50-52	106.26	106.27	+.01	1.61	1.60	-.01
2-3/4 6/15/51-54	108.20	108.21	+.01	1.71	1.70	-.01
3 9/15/51-55	110.19	110.20	+.01	1.75	1.74	-.01
2-1/4 12/15/51-53	105.05	105.08	+.03	1.66	1.65	-.01
2 6/15/53-55	103.17	103.20	+.03	1.65	1.64	-.01
2-1/4 6/15/54-56	105.11	105.16	+.05	1.75	1.74	-.01
2-7/8 3/15/55-60	110.10	110.16	+.06	1.95	1.94	-.01
2-3/4 9/15/56-59	109.18	109.24	+.06	1.97	1.96	-.01
2-3/4 6/15/58-63	109.26	110.00	+.06	2.03	2.01	-.02
2-3/4 12/15/60-65	110.10	110.17	+.07	2.07	2.06	-.01

July 9, 1942.

Treasury Department, Division of Research and Statistics.

$\frac{1}{2}$ Decimals in prices of certificates are cents.
Excess of price over zero yield.

Table II

Price and Yield Changes of United States Securities
March 19, 1942 to July 9, 1942

(Based on mean of closing bid and asked quotations)

Security	Prices			Yields		
	March 19, 1942	July 9, 1942	Change	March 19, 1942	July 9, 1942	Change
	(Decimals are thirty-seconds) $\frac{1}{2}$			(Percent)		
Bills						
Average rate last issue	-	-	-	.20	.36	+16
Certificates						
1/2% 11/1/42	-	100.019	-	-	.44	-
5/8 2/1/43	-	100.009	-	-	.61	-
Taxable Notes						
3/4% 3/15/43	100.12	100.06	-.06	.37	.47	+10
3/4 3/15/44	99.31	99.24	-.07	.76	.87	+11
3/4 9/15/44	99.21	99.10	-.11	.84	.95	+11
3/4 12/15/45	99.29	99.12	-.17	1.02	1.17	+15
1 3/15/46	-	-	-	-	1.45	-
1-1/2 12/15/46	-	100.07	-	-	-	-
Taxable Bonds						
2% 3/15/48-50	101.28	101.05	-.23	1.67	1.79	+12
2 6/15/49-51	101.04	100.10	-.26	1.83	1.95	+12
2 9/15/49-51	-	100.08	-	-	1.96	-
2 12/15/51-55	100.12	100.01	-.11	1.96	2.00	+04
2-1/2 3/15/52-54	103.23	104.01	+.10	2.09	2.04	-.05
2-1/4 6/15/52-55	101.06	101.05	-.01	2.12	2.12	.00
2-1/2 3/15/56-58	103.05	103.05	.00	2.24	2.23	-.01
2-1/2 6/15/62-67	-	100.08	-	-	2.48	-
2-1/2 9/15/67-72	100.27	101.07	+.12	2.46	2.44	-.02
Wholly Tax-exempt Notes						
2% 9/15/42	101.04	100.12	-.24	5/32*	0/32*	-5/32*
1-3/4 12/15/42	101.11	100.22	-.21	2/32*	.16	-4/32*
1-1/8 6/15/43	101.04	100.23	-.13	.22	.35	+13
1 9/15/43	101.03	100.23	-.12	.26	.39	+13
1-1/8 12/15/43	101.16	101.01	-.15	.26	.40	+14
1 3/15/44	101.10	100.29	-.13	.34	.46	+12
3/4 6/15/44	100.27	100.16	-.11	.37	.49	+12
1 9/15/44	101.16	101.03	-.13	.39	.50	+11
3/4 3/15/45	101.00	100.19	-.13	.41	.53	+12
Partially Tax-exempt Bonds						
3-3/8 6/15/43-47	103.21	102.19	-1.02	.41	.58	+17
3-1/4 10/15/43-45	104.06	103.05	-1.01	.57	.74	+17
3-1/4 4/15/44-46	105.06	104.06	-1.00	.72	.85	+13
4 12/15/44-54	108.11	107.09	-1.02	.91	.96	+05
2-3/4 9/15/45-47	106.06	105.13	-.25	.94	1.02	+08
2-1/2 12/15/45	105.28	105.02	-.26	.90	1.00	+10
3-3/4 3/15/46-56	110.08	109.06	-1.02	1.11	1.19	+08
3 6/15/46-48	107.28	107.00	-.28	1.09	1.17	+08
3-1/8 6/15/46-49	108.08	107.12	-.28	1.13	1.20	+07
4-1/4 10/15/47-52	115.20	115.02	-.18	1.33	1.28	-.05
2 12/15/47	104.23	104.14	-.09	1.15	1.15	.00
2-3/4 3/15/48-51	107.28	107.15	-.13	1.38	1.38	.00
2-1/2 9/15/48	107.07	106.27	-.12	1.33	1.34	+01
2 12/15/48-50	104.21	104.12	-.09	1.28	1.29	+01
3-1/8 12/15/49-52	110.22	110.20	-.02	1.65	1.60	-.05
2-1/2 12/15/49-53	106.16	106.15	-.01	1.60	1.57	-.03
2-1/2 9/15/50-52	106.20	106.27	+.07	1.66	1.60	-.06
2-3/4 6/15/51-54	108.18	108.21	+.03	1.74	1.70	-.04
3 9/15/51-55	110.20	110.20	.00	1.78	1.74	-.04
2-1/4 12/15/51-53	104.29	105.08	+.11	1.70	1.65	-.05
2 6/15/53-55	103.10	103.20	+.10	1.68	1.64	-.04
2-1/4 6/15/54-56	104.28	105.16	+.20	1.80	1.74	-.06
2-7/8 3/15/55-60	110.00	110.16	+.16	2.00	1.94	-.06
2-3/4 9/15/56-59	109.10	109.24	+.14	2.01	1.96	-.05
2-3/4 6/15/58-63	109.12	110.00	+.20	2.07	2.01	-.06
2-3/4 12/15/60-65	110.00	110.17	+.17	2.10	2.06	-.04

July 9, 1942.

Treasury Department, Division of Research and Statistics.

1/ Decimals in prices of certificates are cents.
 * Excess of price over zero yield.

UNITED STATES SAVINGS BONDS - TOTAL

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

(At issue price in thousands of dollars)

Date	July daily sales	Cumulative sales by business days				July as percent of June
		July	June	May	July as percent of June	
July 1942						
1	\$ 28,418	\$ 28,418	\$ 29,539	\$ 19,981		96.2*
2	24,269	52,687	45,442	39,430		115.9
3	27,277	79,964	67,046	72,048		119.3
6	46,531	126,495	98,208	88,605		128.8
7	31,110	157,605	132,341	122,575		119.1
8	43,451	201,056	154,085	157,866		130.5
9	39,918	240,974	192,659	181,431		125.1

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

July 10, 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 July sales to date with sales during the same number of business days in June and May 1942

(At issue price in thousands of dollars)

Date	July daily sales	Cumulative sales by business days				July as percent of June
		July	June	May	July as percent of June	
July 1942						
1	\$ 15,821	\$ 15,821	\$ 19,834	\$ 12,679	79.8%	
2	14,880	30,701	27,841	24,263	110.3	
3	16,822	47,523	40,811	46,532	116.4	
6	29,797	77,320	58,199	55,460	132.9	
7	17,724	95,044	82,988	73,824	114.5	
8	21,599	116,643	98,197	97,049	118.8	
9	22,746	139,390	125,245	114,218	111.3	

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

July 10, 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 F AND G COMBINED

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

(At issue price in thousands of dollars)

Date	July daily sales	Cumulative sales by business days				July as percent of June
		July	June	May		
July 1942						
1	\$ 12,597	\$ 12,597	\$ 9,705	\$ 7,302		129.8%
2	9,389	21,986	17,601	15,168		124.9
3	10,455	32,441	26,235	25,516		123.7
6	16,734	49,175	40,009	33,145		122.9
7	13,386	62,561	49,353	48,751		126.8
8	21,852	84,413	55,888	60,817		151.0
9	17,172	101,585	67,414	67,213		150.7

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

July 10, 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 July 1 through July 9, 1942
Compared with Sales Quota for Same Period
(At issue price in millions of dollars)

CONFIDENTIAL

Date	Series E				Series F and G				Total			
	Actual Sales		Quota	Sales	Actual Sales		Quota	Sales	Actual Sales		Quota	Sales
	July 1	July 1	July 1	to Date	July 1	July 1	July 1	to Date	July 1	July 1	July 1	to Date
Daily	to	to	as % of	Daily	to	to	as % of	Daily	to	to	as % of	
	Date	Date	Quota		Date	Date	Quota		Date	Date	Quota	
1	\$ 15.8	\$ 15.8	\$ 23.6	66.9%	\$ 12.6	\$ 12.6	\$ 19.4	64.9%	\$ 28.4	\$ 28.4	\$ 43.0	66.0%
2	14.9	30.7	47.9	64.1	9.4	22.0	36.4	60.4	24.3	52.7	84.3	62.5
3	16.8	47.5	73.0	65.1	10.5	32.4	50.6	64.0	27.3	80.0	123.8	64.7
6	29.8	77.3	126.0	61.3	16.7	49.2	82.6	59.6	46.5	126.5	208.6	60.6
7	17.7	95.0	139.3	68.2	13.4	62.6	94.2	66.5	31.1	157.6	233.5	67.5
8	21.6	116.6	162.2	71.9	21.9	84.4	114.5	73.7	43.5	201.1	276.7	72.7
9	22.7	139.4	189.8	73.4	17.2	101.6	129.5	78.5	39.9	240.1	319.3	75.2
10			216.0				139.9				355.9	
11			236.6				147.7				384.3	
13			273.2				160.6				433.8	
14			287.6				168.0				455.6	
15			311.6				181.8				493.4	
16			335.5				193.5				529.0	
17			358.7				202.8				561.5	
18			377.4				210.5				587.9	
20			411.8				223.9				635.7	
21			425.9				231.8				657.7	
22			451.1				247.0				698.1	
23			477.5				260.1				737.6	
24			503.8				270.7				774.5	
25			525.0				279.5				804.5	
27			562.7				295.1				857.8	
28			577.2				304.3				881.5	
29			601.3				322.1				923.4	
30			625.8				337.5				963.3	
31			650.0				350.0				1,000.0	

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

July 10, 1942.

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

Note: Quota takes into account both the daily trend during the week and the monthly trend during the month.

MEMORANDUM FOR THE SECRETARY.

July 10, 1942.

Mail Report

The past week has shown a more cheerful attitude developing among Treasury correspondents, many of whom, having blown off steam, now seem to feel somewhat repentant. The early part of the week found bond complaints very heavy, with a ratio of 38 on failure to receive interest, to 10 on delays in handling bond transfers, etc. The letters reporting the arrival of the checks began to come in, with a number of apologies for earlier complaints. Two letters did not recede from the critical attitude -- one from a bank official who said that a business firm guilty of this delay would still be regarded as delinquent; the other from an elderly lady in Northern Maine who said that the girl who mailed out the checks should certainly be admonished not to let it occur again.

There is still much grumbling over Government expenditures, rationing, and other Administration policies, particularly those which seem contradictory, and those which work a hardship on any one group, lack of sugar for canning, farm price ceilings, salesmen deprived of their cars, etc. A letter attributing falling off in Bond sales to Government extravagance, as printed in the New York Herald Tribune, has been clipped and sent to the Secretary by 20 or 30 readers. Small investors in utilities stocks are worried over shrinking dividends due to taxation, while a number of elderly people, dependent on regular payments on property sales, were badly frightened by the rumored debt moratorium.

The withholding tax has a number of advocates, the ratio being 3 favorable, to 1 unfavorable.

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Memorandum for the Secretary.

July 10, 1942.

Comments on lowered exemptions and on mandatory joint returns are about evenly divided, pro and con. Exemptions for children over 18, who are still being educated, and for medical expenses, have many advocates and no opponents. There are 5 letters for the Sales Tax to 4 against it. The car use tax is the subject of many letters, and literally hundreds have been smitten with the bright idea of selling gasoline only to those who display the tax stamp.

There has been a very favorable reaction to the announcement that provisions have been made for the purchase of Bonds by religious objectors and others who wish to contribute to national expenses without having their money devoted to military ends.

Publicity in regard to a debt moratorium brought widespread criticism, and newspaper statements that gold certificates may again be released have also elicited some comment - most of it unfavorable. There has been criticism of the silver bloc and the farm bloc, but criticism of labor has greatly fallen off in the last few weeks.

Suggestions follow the accepted lines, with requests for annuity bonds for older persons, and small denomination bonds (\$1 to \$5) for children, to be used as prizes, gifts, etc. Other subjects touched upon include the establishment of lotteries, increase of postage rates, confiscation of frozen legacies, the selling of cancelled car use and War Stamps to collectors, etc.

W. F. Forbush

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General Comments

Alonzo M. West, New Orleans, La. As a general thing, our press has done a pretty good job in suppressing publication of information valuable to the enemy. Why then, in Heaven's name, did they break out with the exultant news of our building a U. S. Naval Base at Londonderry, Northern Ireland? Has Hitler suddenly grown deaf or unresponsive to such valuable information? The enclosed clippings are from Times-Picayune, July 2, 1942; one relates the Londonderry Naval Base, the other to a drive for the sale of War Bonds and Stamps. Part of this money goes for such projects as Naval Bases. Should not all United States property, such as Naval Bases, for which the people are paying, be better protected from potential enemy attacks? Silence by the press and radio may pay big dividends to the U. S. Treasury.

A LOYAL JAPANESE-AMERICAN, Stockton Assembly Center, Stockton, Calif. Enclosed to you please find clipping from this local Stockton Record about Japanese land law case, which might benefit United States Government by looking at income taxes papers of several partys. I know Mrs. Sui Ishida, who is a bad Japanese lady of Samurai class (so she say), and very unaffectionate to American Government. She talks much about her people winning this war, and how to help them. She have told how her husband, now deceased, have not paid income taxes on farming nor any of her family, but all have been fixed some way by Attorney Smallpage. * * * Attorney Smallpage too not fair to loyal isei and citizen Japanese people by charging too much for small work on looking after their land and property reports and many think him more crooked than holding land for H. Ishida; that is, in being too much to make high bills and not doing much.

Rev. Gabriel Petre, Pastor, The West Hungarian Baptist Church, Cleveland, Ohio. I am writing on behalf of a member of the West Side Hungarian Baptist Church, Mrs. Mary Fazekas, 80 years old and mother of 8 living children. She is sending this Money Order as a gift from her to the

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Government (\$50.00). I know that it is like a "drop in the ocean", but it gives her satisfaction to express her love and gratitude toward this country. She asks nothing in return. She came from Europe as a widow with 8 children. She has raised them up here to be loyal citizens. Two of them fought in the First World War, and three grandsons are already in duty in this war. * * *

M. E. Carroll, Camp Campbell, Clarksville, Tenn. * * * God has blessed my Georgia farm with a bumper crop. I am donating the proceeds to my country to be used in the defeat of the destruction of Hitlerism. * * * As fast as the crops are placed on the market, the money will be forwarded. Please address to whom, and how to make payments. I am a crippled man, but am filling my place on defense construction. * * *

W. F. Nelson, Graham, Texas. (Transmits an idea for Bonds to be used as bank loan security.) I listen in on the radio whenever we know you have for our country a message, and appreciate what a difficult task lies before you, and wish you success.

Wm. Semion, Cincinnati, Ohio. (Distributors of Box Board) * * * I might state that the public generally has great faith in your abilities, and your sagacity in financial affairs. If there is anything that you personally can do, if you are in sympathy with my ideas (as to economy in Government spending), I trust that you will take such action as you deem fit.

Copy of letter written by C. V. Easterwood, Industrial Appraisal Company, Memphis, Tenn., to Mr. Arthur B. Newhall, Rubber Co-Ordinator, War Production Board, Washington, D.C. * * * My income tax on March 15, 1942, was three times what it was March 15, 1941. Next March, I expect to have to pay at least twice my 1942 payments, which is six times over 1941. But I am not kicking about it. The point is this: I must have RUBBER and GASOLINE to continue my business so that I CAN pay these TAXES. I use my automobile 95% in my business. I can't get to my clients' factories in any other way. Automobiles are not luxuries to drive to bridge parties and golf links. Automobiles are not an absolute national

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necessity. When automobiles can't run, the national income is going to drop clear to the bottom. If you and Mr. Morgenthau expect tax income to hold up, you had better act pretty quick about replenishing tires as they wear out. The Publicker Corporation at Philadelphia, as a representative of the alcohol industry, is anxious to spend their own money to manufacture synthetic rubber from alcohol, with half the plant equipment and half the time required for the petroleum product. But your bureau refuses to cooperate with them. The petroleum boys are in the saddle on your bureau and want to control the synthetic rubber business after the war. * * * Your rubber program is a fizzle on account of being shot through with petty politics and personal jealousies, and industrial jealousies. The nation can go hang for all you fellows care. The only thing at which you bureaucrats are efficient is the art of making people mad. A man who has spent the best part of his life developing Guayule states he can supply all our rubber needs in three years. Nothing is done. A California chemist and engineer states that he can supply all our needs with milkweed rubber, which is fireproof, in one year, and still nothing is done. A Jacksonville, Fla., man during the last war developed rubber from slash yellow pine; says he can still do it, and nothing is done. A West Virginia dentist developed a synthetic rubber and built some test tires in his own laboratory, and nothing more is heard of it. Dow Chemical Company says it can produce enough Thiokol to retread a million tires a month, by September, and still you do not do anything about it. WHEN ARE YOU GOING TO DO SOMETHING?

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Favorable Comments on Taxation

William B. Hoge, Paris, Idaho. * * * I like your suggestion that there be a service charge of \$5 for every one who has to file a return. Now if you would cut the personal exemption down to \$400 and \$800 for single and married men, there would be a lot of people paying tax next March instead of just filing a nontaxable return. Congress handles this personal exemption as carefully as "grandma" Hull handled Vichy and see what we got in Indo-China.

Robert L. Hill, Sr., Topeka, Kan. I read your suggestion that a moratorium be put on wage earners' debts by the U. S. Congress to enable wage earners to assist in the Bond drive. I and many others agree with you. This letter represents several hundred persons who requested me to write you. Many wage earners are now slaves of many short loan companies. In my own case, I signed a note in 1925 for a man for \$300. He paid interest on same for three years. He died. I took over the note by signing a new note for \$300, or perhaps \$319, in July, 1928. The depression came in 1929, and it didn't release its grip until about 1938. During the depression this loan shark sued me, asking for interest from 1928, at 10%. Was allowed judgment for \$840, that amount to bear 10% interest until paid. I've paid in about \$650 and they still claim \$550. Many others are in the same shape. We desire to buy Bonds. We are compelled to pay a specified amount - at least that amount specified by creditor. Garnishment is served, so we are enslaved to that extent. I buy some Stamps, but am simply afraid to disobey my creditors for my wages will be tied up and cause me to lose time from work, and the Courts usually allow the creditors the amount they ask. Unless something is done by way of a moratorium on debts, the Bond drive will fall short under these existing circumstances. Your high ideas and suggestions will save the country. A lot of us wage earners have large families and have fallen victim to these loan sharks, and some other debts.

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Howard M. Collins, President, Standard Insurance Agency, Inc., Alden, Pa. I was very much interested in a press report to the effect that your Department has suggested to Congress that payments on debts be allowed as deductions in computing an individual's income tax. This seems to me to be a very sensible plan for if taxes are going to continue increasing, it is going to be more and more difficult for a man to meet his obligations contracted at a previous date, such as amortization of a mortgage or payments on pre-depression debts. I know that there are a great many people who would be very glad and also relieved to see such an arrangement incorporated in the tax bill now before Congress, and I hope the suggestion of your Department will be accepted.

Unfavorable Comments on Taxation

H. H. Cotton, Los Angeles, Calif. I am writing to call your attention to the effect of the largely increased inheritance taxes in the new tax bill. As you know, the majority of the estates do not consist of readily realizable securities that can be marketed quickly for the payment of taxes levied by both the Federal and State Governments on inheritances. This is particularly true of the holders of real estate or real estate equities, and although these are appraised by the inheritance tax appraisers at values comparable to properties of like character, still they are not marketable from the quick sale standpoint at these appraised values, or in many cases, if they are forced on the market, at a very small fraction of their true value. * * * I would like to suggest that some agency be set up through the R.F.C. that would loan estates up to say 80% of the appraised value of the assets in the estate, sufficient to pay the levied taxes, and at least a five-year period at a reasonable interest rate, for the purpose of orderly liquidation and to the end that the estate could not be completely confiscated. * * *

Gerrit W. Kooyers, Attorney at Law, Holland, Mich. I am asked whether the \$5 automobile sticker stamp must be purchased. Many of my clients say that persons who did not buy the \$2.00 stamp got by. What is the ruling? Are those who do not buy the stamp going to get by?

J. I. Schnitzer, Western Costume Co., Hollywood, Calif. We are willing to pay taxes for the prosecution of the war, but the impression is growing that the Administration is not playing fair in asking sacrifices from its citizens, which it is not willing to make itself. We have reference to the budget for non-military purposes, which for the year 1932 was some \$3,853,000,000 as against the same Department for 1942 of some \$7,457,000,000. Surely some pruning can be done in these Departments to the advantage of the country and of the taxpayer, who will make any sacrifice toward winning the war, but expects the Administration to deliver the same kind of cooperation.

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C. A. Hines, President, Spokane Realty Board, Spokane, Wash. The President of the United States in many public utterances has proposed to the American people that they combat inflation by the payment of their debts and mortgages. * * * The Directors of the Spokane Realty Board, therefore, were somewhat disturbed upon reading in the Spokesman-Review of July 1 the proposal of Randolph E. Paul, Tax Adviser to the Treasury, that drastic tax increases might be met by a moratorium on debt payments, at least for home owners. They feel that the voicing of a policy so opposed to the President's, and so against the traditions of this country can only undermine morale and bring confusion. * * * We sincerely hope that the statement attributed to Mr. Paul does not reflect the views of your Department, and that steps will be taken to correct any false impressions that may have been made.

Congressman R. E. Thomason (Texas) transmits a letter he has received from G. J. Casselberry, President, First Federal Savings and Loan Association, El Paso, Texas, commenting as follows: There are too many loose, ill-considered statements coming out of Washington that affect the economy of our country, all of which has a marked bearing on the morale of the people, and contributes to a certain amount of disunity, and goodness knows, this doesn't win wars. * * * The latest appeared on the radio last night and in the press this morning. I refer particularly to the suggestion of the Treasury Department that a "moratorium be declared on debts, particularly to payments on homes, in order that these people will be able to pay the high income taxes that are to be imposed". President Roosevelt just recently made an appeal that borrowers accelerate their contract payments as a means of helping to prevent inflation. The F.H.A. issued regulations waiving certain penalties if advance payments were made. As a general rule, home loans are on such a long term basis that the monthly payments, (including taxes and insurance) are not any more than rent, and in many cases less. So it would be just as logical to put a moratorium on rents for the duration, and this would of course lead to suspension of payments on other obligations, all of which would reduce or entirely wipe out the income of many, who now pay income and other taxes. * * *

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W. R. Orndorff, Washington State Senate, Olympia, Wash.
The Randolph Pauls might advise you, but you should make
the recommendations. A moratorium on installment payments
by purchasers of homes will rob Peter, but not necessarily
pay Paul; and the practice of repudiation thus encouraged
can well extend to other debts. It also tends to nullify
President Roosevelt's efforts to promote home ownership.

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Favorable Comments on Bonds

Marion Roberts, Route 4, Frankfort, Ky. That is our Grandpa, Marion Roberts. We stay with him, my little brother and I. We too buy Bonds. We have one each (\$25), and we are buying Stamps to get another. We get our Stamps at school. We go, but our school is out now, but we buy at our 10¢ store now. Oh, yes, our only uncle is in the army, and he told Grandma that he too was buying Bonds. He is Grandmother's only son, but she is proud of him, and we are too. Excuse this, I am only 10 years old. Respectfully - Bobby Privett.

E. Davis McCutcheon, N.Y.C. The sales of U. S. War Bonds and Stamps in the department store of D. H. Holmes Co., Ltd., on the first day of July exceeded the quota for the entire month of July. * * * May we also call to your attention the special announcement in our advertising to the effect that a complimentary luncheon was given in our restaurant to any one purchasing a Bond during the 15 minute period. This alone resulted in more than four times the first day's quota for the entire store. We have our plans all set for a continuance of this Bond and Stamp selling and feel sure that the results will be even greater than our expectations.

J. T. Hutchings, Salina, Kans. Congress seems to have bogged down on the appropriation of six hundred eighty million dollars to operate the Department of Agriculture. To my mind it is a small loss if they don't pass it at all. Last week the girls at a dime store here bought \$42 worth of Savings Stamps. Those kids think they are buying for the war effort, and it looks like that is the way the money should be spent. Two years ago when Germany invaded the lowlands, Blind Boone would have known there was a shortage of meats and dairy products coming up. If farmers had held all their female cattle, hogs and sheep, they could have raised enough meat and dairy products so those foods would be selling at a reasonable price to the consumer now, and the surplus of grains would have been all fed up. * * * If I am not misinformed, the Department of Agriculture alone is holding some 200,000 men out of war effort. * * * Personally, I really cannot afford to buy Bonds, but by

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renting out my bedroom and sleeping on a cot, I save enough to put at least 10% of my salary in Bonds. But if they could figure out up there at Washington to save three or four billion dollars a year on programs and set-ups, it would make it easier to finance the war. * * *

La Rue Smith, President, Smith-Monroe Co., South Bend, Ind.
* * * My entire capital is invested in the small distributing business which I have. My total earnings are derived from this business. My family consists of my wife and a daughter who has just completed high school and is starting college. We own the modest home in which we live. When War Bonds were first offered, I took \$3,000 from my current account, and by borrowing the additional money necessary, purchased \$5,000 worth of War Bonds, feeling such action was not only my duty but a privilege. Under the present campaign, I am being solicited to invest further -- to the extent of mortgaging the home -- from my salary, which is very modest. Will you please advise me frankly just what, under the conditions set forth, I should do in this matter?

Mr. and Mrs. George Koenig, N.Y.C. (German script type handwriting) Today is the Fourth of July and we receive our first interest of our Savings Bonds. We think this monny helps us to buy on other Savings Bond to help our Country to win this war, and help to crack Hitlerichen. I and my wife working hard to win and spend all our monny for our Country. We make not so moth monny -- my wife works for 17th dollar the week, I make 19th dollar the week, and we are glad to go every month to buy a 50 dollar Bond. We have 1,500 dollars in Bonds, and as soon as possible we will take all our monny from the bank to give to our Country. We think wenn everybody is doing the same, it is impossible to los this war. God bless you, Mr. Morgenthau, Jr., and our good President, to give us our freedom.

Lillian Hicks, President, Penny a Plane Club, Southern Bell Tel. & Tel. Company, Louisville, Ky. Enclosed you will find a Money Order for \$100, which makes a total of \$500 since the first of the year. We regret very much to say this will be the last, as our office of 181 employees have pledged 10% of their salary for War Bonds through the

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duration, and most of us have relatives and close friends in the service we like to remember occasionally. We are also doing our bit to help entertain the boys at Bowman Field at Fort Knox.

Myron Earl Freedman, Harvard University, Cambridge, Mass. In celebration of my 20th birthday, my parents presented me with a \$50 Defense Bond. It is my opinion that it is I who owes a debt to the Government of the United States for the innumerable privileges and pleasures which she has endowed upon me as one of her citizens. * * * Therefore, I should like to make some token payment, for that is the most that it can be considered, as an acknowledgment of my indebtedness, and to cancel that obligation in the form of a Defense Bond which the Government of the United States "owes" to me. * * * Accordingly, I should like to return my Bond to the U. S. Treasury Department that it may be retired unpaid, and I only await your instructions as to how I may best do so.

Constantine Papageorges, N.Y.C. I am a purchaser of United States War Bonds which I bought cash and regularly, as I am alone in this country (American Citizen). * * * If death or something happens to me, my heir (or) heiress if not American Citizen they have no right to beneficiary in those Bonds. My people are living in Greece, Island Crete, and I do like those poor people to get some help because in present time very hard to help them, and I don't know if they are alive or dead, they live under slavery today. But we all hope to be free again soon. At present time I bought cash and regularly \$2,500 and \$50. And I will buy more to help our Country, United States, victory to Democracy, because the Old Mother of Democracy, the little Greece, killed by the barbarians. All we hope to smash soon those barbarian nations Germany, Italy and Japanese death for them, and it would be ease my mind if you could advise me on this subject favorably.

Thomas F. Vigorito, Paterson, N.J. I acknowledge, on behalf of our Committee of American World War Veterans of Italian descent, your splendid telegraphic message, which it was

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my happy privilege to read to the gathering assembled at exercises sponsored by us on the morning of July 4. I thought you might perhaps like to know just a little about results of our efforts. Mr. and Mrs. Robert Alois, parents of Sergeant Ralph Alois, first Paterson boy killed at Pearl Harbor on December 7 last, purchased \$1,000 worth of Bonds, and have pledged to purchase an additional \$1,000. Mr. Celentano of 56 Market Street, Paterson, signed pledge cards for himself, wife and nine children. Many more families have done likewise. * * *

T. Sutter, Vice President, Baker Oil Tools, Incorporated, Los Angeles, Calif. A very outstanding example of individual effort in the purchase of War Bonds is the case of a young man employed in our organization as messenger, Gordon Anderson, who has voluntarily agreed to have his total earnings, approximately \$23.00 a week, deducted for the purpose of purchasing War Bonds through our payroll allotment plan. This young man, whose decision we consider meritorious, is 14 years of age, and has been employed for the summer vacation only. * * *

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Unfavorable Comments on Bonds

Comments from letter written by James H. Sheppard, Grand Rapids, Mich., and forwarded to this Department by Senator Prentiss M. Brown. * * * We are creating by the sale of large amounts of these Bonds an enormous liability for the United States Treasury, which is in effect practically a demand liability. * * * We all know that the Government is strongest whose debt is long rather than short dated. In this respect the British war financing has been wise. * * * In contrast, the whole history of French public finance between the last war and the beginning of this war was marked by recurrent difficulties due to the excessive amount of refunding necessary, often at times which created grave embarrassments for the Treasury, and which resulted in the Government's paying an excessive rate for money. It seems almost incredible to me that with these two examples right in front of us, the United States is, so far as Bonds sold to the mass of people are concerned, following the bad example of the French, and I venture to predict that the same troubles will result in the future. We must always bear in mind that large amounts of War Savings Bonds are being sold to people who are not naturally Bond buyers, and who will dispose of the Bonds upon the first pretext. * * * After the first war, it is true that long term Government 4 $\frac{1}{2}$ s declined to a price of about 83, but the discount from par created by the sales constituted in itself a brake which eventually slowed up and stopped the sales at declining prices. * * * With the War Savings Bonds we unfortunately have exactly the opposite situation. The Government guarantees the price, and hence encourages people to sell, and this guarantee cannot be withdrawn without an absolute breach of faith which will destroy the confidence of the people in their own Government securities. Without being too precise about the details, it seems to me that what we should be selling the public is a ten-year 3% Bond. Since the present Bonds carry 2.9% if held to maturity, the difference in cost to the Government would be negligible, but a 3% Bond sounds much better to the public than the present arrangement. * * * Its relatively moderate maturity would prevent it from selling at any very

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disastrous discount, even with a good deal of pressure on the market. Furthermore, sales would be made on the general market, and the Bonds could not be thrust back upon the Treasury of the United States at a time when it might be forced to resort to a desperate expedient in order to meet them. * * * In other words, the Treasury would have to meet in 1952 only the ten-year Bonds sold in 1942, whereas under the present plan the Treasury may conceivably have to meet in some one future year all of the War Savings, Defense Savings and United States Savings Bonds sold from the beginning back in 1935 to date. * * *

Lawrence H. Donnally, Berkeley, Calif. * * * I have some money which I might put into Bonds. However, my experiences with the Government in financial things have held me back. * * * I have some \$700 in Postal Savings. I originally had them in New Jersey, and the literature said they paid 2%. I left the money there several years, and moved to Pennsylvania. There I found out that without telling me, the interest rate had been cut to 1% in New Jersey. I consider that this was a breach of contract, and of trust on the part of the Government. * * * I understand that a State law was passed which put all the Banks on 1%. However, it is the first time that I ever heard that the Federal Government welshed on its debts to please the State. * * * So I decided to change my account from New Jersey to Pennsylvania. Do you know what they did then? They made out several Money Orders for the money, since a Money Order cannot be made out for more than \$100, and charged me for the Money Orders at the regular rate. Mr. Morgenthau, in my humble opinion, that is a filthy way of doing business. * * * Another thing, I paid my income tax recently. It was a lot of money, but I didn't mind paying it so much. What did bother me was that you made me waste a lot of my time to get a receipt and to pay you at all. I took the blank to one of your sub-stations and they notarized it and all, (by the way, Mr. Morgenthau, I think it was an excellent idea to eliminate a lot of the foolish questions you had on the blanks before) but they wouldn't take the money in any other form than Money Orders. Now honestly, is the Government so hard up that they have to swell their Money Order business to get along? They told me that I could pay cash if I would go

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down to the central office. This I did. Well, I thought, I have a Government check, I will just pay them with that. Do you think they would take it? No indeed. A Government check may be good at the bank, but it is worthless as far as the income tax branch is concerned. * * * That check was made out to me, it was to be paid into my income tax account, yet they wouldn't take it, and there was no question of identification either. So I had to go all the way down town and get the check cashed, and the bank charged me for cashing it - just because the Government wouldn't take one of its own checks. So you see, Mr. Morgenthau, I can't get enthusiastic when you bring up the subject of War Bonds to me. I am afraid that when I go to cash them you will manage to ream me out of more of my hard earned money, and when any one does that, it always raises my blood pressure. * * *

J. S. Dargavel, Executive Secretary, The National Association of Retail Druggists, Chicago, Ill. Enclosed you will find a copy of a letter I have sent to Major Namm. I want to bring this to your attention because, Mr. Secretary, it is a wonder you have any backing at all among the independents of this country. They have been discriminated against continually. We believe the United States Government should be fair in this time of crisis, and that no discrimination should be shown. The independent merchants are ready and willing to do their part. I believe you should set up an organization in your Department to see to it that they are given the consideration they deserve, and that the big business interests should not be the only ones who are taken into consideration. * * * (Excerpts from the letter to Major Namm follow.) * * * We have attempted to cooperate with you people in every way possible, and I want to call it to your attention that I believe it is about time some one besides the heads of department stores and chains was considered by you people to head these drives. * * * You are the Chairman of this Division, and you have the responsibility for it. Ever since you have been appointed, all activities have been backed by the chain store group. It has been resented by the independents, including this Association. We have gone along with you and have tried to assist you in every way possible, notwithstanding this discrimination, thinking that perhaps in time, the independents would get a square deal. * * *

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Dr. A. D. Newhard, Los Angeles, Calif. Fully 75% of the time I try to buy \$25 War Bonds here at Bank of America (Broadway-Manchester Branch), they are out of them. I also see many other people turn away disappointed. Naturally, not as much money will be spent on Bonds this way when they can't get them. This Bottleneck should be overcome, in the interest of our country.

B. B. Powell, The Scranton Tribune, Scranton, Pa. I am paying on a FHA mortgage through a local bank. On August 1 my employer will begin making a 10% deduction from my salary for Defense Bonds. I have asked the bank if I might designate it as the owner of the Bonds, and have the amounts which have been invested in the Bonds, apply on the principal of the mortgage. The bank informs me that I cannot do this, and I am advised that I can turn in the Bonds each month to be converted into cash. * * * I am unwilling to follow this latter procedure inasmuch as I feel it would defeat the very purpose of Defense Bond purchases. * * *

H. W. Brown, Manager, Brown-Jones Mercantile Co., Kremming, Colorado. * * * Today, in cooperation with our local Chamber of Commerce, we began the drive through the various business houses without any Stamps because the Post Office had none to sell. This shortage seems to be the general thing, and we as a business have been forced to buy Stamps for sale from other offices. Were this to be universal throughout the country, many thousands of dollars could be diverted from the National Emergency, as much of the money intended for Stamps will go to buy other things. This is particularly true of money the children spend. * * *

D. J. Young, Tacoma, Wash. * * * I have not as yet, nor do I propose to voluntarily purchase any War Savings Bonds. Up to date, my reason has been on account of other pressing financial commitments, largely due to serious and extended illness. * * * It appears now that I can have something to spare above my income tax to help finance this war. I am therefore enclosing my check for \$50, payable to the Treasurer of the United States. This is a donation, and similar checks will be sent to you each month in the amount I can spare. * * * While the selling of Bonds, as one part of the President's program to prevent inflation, is of undoubted

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value as to immediate results, it only tends to postpone and ultimately exaggerate the future inflation. * * * The public is getting tired and bored with the constant, and, in my opinion, undignified pressure being used in the Bond campaign. They are commencing to suspect that they are being sold a "bill of goods", represented as a good investment and likely to end up as a "gold brick". * * *

Mrs. Edna Heiligenstein, Belleville, Ill. In January, 1942, I turned over to the First National Bank here \$1,000 denomination U. S. Defense Savings Bond of Series E, for refund, due to excess holding. I would accept a Series G Bond for like amount, provided the Bond would bear the same issue date as the Bond which was surrendered. Almost six months have elapsed without this matter having been finally adjusted. * * *

L. A. Corya, Scarsdale, N.Y. We are doing everything possible to increase the sale of War Savings Stamps and Bonds. It has been a personal pleasure with all of us to feel that we have succeeded in selling a substantial amount. When I read in this morning's paper that the ceiling in price of canned goods has been broken in the interest of farmers, I am led to propose a question to you which I think should be answered in all candor. It is one which we are asked at times by children, widows and so-called inexperienced small time investors. * * * "When this Bond matures, will the money be worth anything near what it is today?" * * * If these people are not to be kidded, then the breaking of ceilings in prices for the benefit of particular groups under high pressure such as the carefully nurtured group of voters in Labor Unions, farm groups, etc., it is high time a showdown was had. * * *

Dr. P. P. T. Wu, Mayo Clinic, Rochester, Minn. I am in this country for the duration of the war, and have lived in this country previously, having obtained my professional degree and post graduate work here. However, this is merely a matter of introduction. I am a Chinese, and shall return to China when conditions permit. I should like to purchase Series E or other War Savings Bonds, but am told by the Postmaster at Rochester, Minn., that I must reside in this country at the time the Bonds are payable in order to obtain payment. Will you please send me information on this matter, and any other suggestions you may care to make?

- 18 -

R. L. Higgins, Fairfield, Ill. The local Defense Council, of which the writer is Salvage Chairman, recently completed a salvage drive for the Government. The proceeds were sold to a local junk dealer and the money converted to War Stamps. The local Boy Scout Troop assisted the writer, and we gave them the Stamps. Rather than bother with 510 Stamps of 10¢ denomination, we made the error of buying 51 \$1.00 Stamps and pasted the \$1.00 Stamps in the 10¢ books, along with the 10¢ Stamps. We thought this saved paper and time. We are now advised by the Stamp Clerk that we "have ruined \$51.00 worth of \$1.00 Stamps by pasting them in the 10¢ books". He says the Post Office is unable to honor the \$1.00 Stamps when pasted in the 10¢ books. Were it not for the possible loss of the \$51.00 to the Scouts, this would be as good a red tape joke as we have heard. The information here is that these Stamps are lost, therefore, and we would appreciate your advice on same. We wish to learn if the Government, for which we donate our services, is so ham-strung with red tape that they will render this \$51.00 worthless because some postal clerk would have to count the Stamps in the book. * * * The Committee and the Scouts will be governed by your reply, but we wish to have the latter so that we can give it to them at their next meeting. * * *

Ellsworth S. Frazee, Jersey City, N.J. * * * In the huge armament plant of the Crucible Steel Company at Harrison, N.J., a wage or salary deduction plan has been in operation for some months. However, because of an unreasonable delay in delivering Bonds after they have been fully paid for by the employees, also due to the fact that when finally delivered, the Bonds are dated from one to two months, and sometimes longer, after payments have been completed, many workmen who have indicated to me that they would like to increase the amount of their savings, have refrained from doing so. * * * Part of the dissatisfaction seems to arise from a suspicion on the part of some workmen that the local bank, through which the Bonds are issued, is unreasonably holding the installments on deposit longer than is necessary for the purpose of temporarily bolstering the cash deposits of the bank, with consequent loss of interest on the Bonds to the workingman. * * * I have received estimates from various workmen that the total amount of War Bond sales in this particular plant might be increased as much as 30% if the Bonds could be delivered within a week of the time they were fully paid for. * * *

C O P Y

STRICTLY CONFIDENTIAL

276
Submitted
by Sherman to
White
July 10, 1942

Relief and Rehabilitation Administration

Draft No. 1

The Governments whose duly-authorized representatives have subscribed hereto,

Having subscribed to a common program of purposes and principles embodied in the Declaration of January 1, 1942, known as the United Nations Declaration and the Joint Declaration of the President of the United States of America and the Prime Minister of the United Kingdom of Great Britain and Northern Ireland dated August 14, 1941, known as the Atlantic Charter,

Being determined that victory shall bring relief as well as freedom from oppression and cruelty, and that immediately upon the liberation of any area by their armed forces the population thereof shall receive aid and relief from their sufferings, food, clothing and shelter, assistance in obtaining the means of resuming agricultural and industrial production and in restoring essential services, the return of exiles and prisoners to their homes,

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homes, the prevention of pestilence and the recovery of the health of their people, and assistance in general in restoring the essential foundations upon which a liberated world may build anew.

Being resolved that each shall contribute to the fullest extent of its resources and powers, to the relief and rehabilitation of its own and other peoples; have agreed as follows:

- 3 -

Article I

Establishment of the Administration

There is hereby established the United Nations Relief and Rehabilitation Administration, the purpose of which shall be ~~the~~ the planning, coordination and, where desirable, administration of international measures for the relief and rehabilitation of the victims of war in any area under the control of any of the United Nations. The Administration shall have power to take, hold and convey property, to enter into contracts and undertake obligations, to manage undertakings, and in general to perform any legal act appropriate to its object and purpose.

- 4 -

Article II

Membership

The members of the United Nations Relief and Rehabilitation Administration shall be the governments signature hereto and such other governments as may upon application for membership be admitted thereto by action of the Council or the Policy Committee thereof.

- 5 -

Article III

The Council

1. Each member shall name one representative upon the Council of the United Nations Relief and Rehabilitation Administration, which shall be the policy-making body of the Administration. The Council shall, for each of its sessions, select one of its members to preside at the session.

2. The Council shall be convened in normal session not less than twice a year by the Policy Committee. It may be convened in special session whenever the Policy Committee shall deem necessary, and shall be convened within thirty days after request therefor by a majority of the members of the Council.

3. The Policy Committee of the Council, consisting of the representatives of China, the Union of Soviet Socialist Republics, the United Kingdom, and the United States of America, with the Director General presiding, shall between sessions of the Council exercise all the powers and functions thereof, and, during sessions, shall constitute the steering committee of the Council. The Policy Committee shall invite

- 6 -

the participation of the representative of any member government at meetings at which action of special interest to such government is discussed.

4. The Council shall establish regional committees to advise it on the making of plans and formulation of policy for the relief and rehabilitation of Europe, the Far East and of any other areas where such committees may be found desirable. The regional committees shall normally meet within the area and shall comprise representatives of the member governments directly concerned with the problems of relief and rehabilitation in that area. The Regional Committee on European Relief as so constituted shall take over and carry on the work of the Inter-Allied Committee on European Post-War Relief established in London on September 24, 1941.

5. The Council shall establish such standing committees as it considers desirable to advise it in respect of particular problems such as materials and supplies, finance, repatriation, agriculture, nutrition, health, and transport. The members of such committees shall be appointed by the Policy Committee, with the approval of the Council if it

be

- 7 -

be in session and otherwise subject to its ratification, from members of the Council representing the Governments most directly concerned in each case or alternates whom such members may nominate because of special competence in their respective fields of work. Should a regional committee so desire, subcommittees of these standing committees shall be established to advise the regional committees.

6. The travel and other expenses of members of the Council and its committees shall be borne by the governments whom they represent.

The Director General

The executive authority of the United Nations Relief and Rehabilitation Administration shall be in the Director General, who shall be appointed by the Council on the nomination of the Policy Committee.

2. The Director General shall have full power and responsibility for carrying out relief and rehabilitation operations within the limits of available resources and the broad policies determined by the Council or its Policy Committee. In arranging for the procurement, transportation and distribution of supplies, he and his representatives shall consult and collaborate with the appropriate authorities of the United Nations and shall, wherever practicable, use the facilities made available by such authorities. In any area receiving relief or rehabilitation aid from the Administration, the activity of voluntary agencies may be permitted with the consent and subject to the regulation of the Director General and of the appropriate authority of the United Nations in control in that area.

- 9 -

3. He shall appoint such Deputy Directors, other officers, and staff, whether at his headquarters or in other areas, including the staff of field missions, and may delegate to them such powers as may be necessary to perform the functions of the Administration and to provide secretarial staffs for the Council and its committees.

- 10 -

Article V

Emergency Relief

The Director General immediately upon taking office shall in conjunction with the military and other appropriate authorities of the United Nations prepare plans for the emergency relief of the civilian population upon the occupation of any area by the armed forces of any of the United Nations, arrange for the procurement and assembly of the necessary supplies and create the emergency organization required for this purpose.

Article VI

Supplies and Resources

1. Each member government pledges its fullest possible support to the Administration, within the limits of its available resources and subject to the requirements of its constitutional procedure, through contributions of funds, materials, equipment, supplies and services, for use in its own, adjacent or other areas in need, in order to accomplish the purposes of this agreement.

2. The supplies and resources made available by the member governments shall be kept in review in relation to prospective requirements by the Director General, who shall initiate action with a view to assuring additional supplies and resources as may be required.

3. All purchases, by any of the member governments made outside their own territories during the war for post-war relief purposes shall be made only after consultation with the Director General, and shall, so far as practicable, be carried out through the appropriate United Nations agency.

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The Director General, working with the appropriate standing committees, shall draw up proposals for the coordination of purchasing, chartering of ships and other procurement activities, after the war for relief and rehabilitation so as to avoid the dislocation of markets and provide an equitable distribution of the available supplies.

- 13 -

Article VII

Administrative Expenses

Administrative expenses shall be borne by the member governments in proportion to be determined by the Council. The governmental authority of any territory receiving aid from the Relief and Rehabilitation Administration shall in addition place at the disposal of the Administration any sums required in the currency of that territory for local expenditure in the administration or distribution of such aid.

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Article VIII

Amendment

The provisions of this agreement may be amended by
unanimous vote of the Policy Committee and two-thirds
vote of the Council.

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Article IX

Entry into Effect

The present agreement shall become provisionally effective upon signature hereof, and shall come definitely into force in respect of each member country upon compliance with its constitutional procedure.

C
O
P
YPARAPHRASE OF TELEGRAM RECEIVED

FROM: AMERICAN CONSULATE, Bombay
TO: Secretary of State, Washington
DATED: July 10, 1942, 11 a. m.
NUMBER: 70

It has been announced that the Bombay
branch of the National City Bank of New York will
be closed.

DONOVAN

EMB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate, Bombay, India

DATE: July 10, 1942, 11 a.m.

NO. : 470

Reference is made to telegram no. 242, sent by the Consulate on April 4, 1942.

Announcement has been made by the National City Bank of New York that it is going to close its branch here.

Reference is made to the Consulate's despatch no. 596, dated June 23, 1942.

DONOVAN

eh:copy
7-17-42

TELEGRAM SENT

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

July 10, 1942

1 a.m.

AMERICAN CONSUL

CALCUTTA, (INDIA)

305

From Treasury

Your 495, July 7, 2 p.m.

(1) Procedure outlined in telegram no. 68, February 28, 2 p.m. relative to checks drawn on Treasurer of the United States is hereby extended to the Chartered Bank of India, Australia and China, Bombay.

(2) The Chartered Bank of India, Australia and China, Bombay is hereby designated a depository of public moneys of the United States in order to carry out the procedure in telegram no. 68, February 28, 2 p.m.

(3) Treasury checks negotiated by the Chartered Bank of India, Australia and China, Bombay may be delivered to the American Consul, Bombay.

(4) Please advise the Chartered Bank of India, Australia and China, Bombay, American Consul, Bombay and other Government officials appropriate parts hereof.

HULL
(FL)

FD:FL:BM

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 235

Information received up to 7 A.M., 10th July, 1942.

1. NAVAL

NORTHERN WATERS. Latest report regarding the convoy to RUSSIA shows the position as follows: 7 ships arrived WHITE SEA, 8 ships en route to WHITE SEA from NOVA ZEMBLA, 1 Russian tanker on East coast of NOVA ZEMBLA, 6 ships known to be sunk and 12 ships missing. In addition a Fleet oiler and a rescue ship have been sunk and 3 minesweepers, a rescue ship and a trawler are missing.

9th. One of H.M. boom defence vessels mined and sunk off HARWICH. One of H.M. armed boarding vessels intercepted a Portuguese 4,500 ton ship and sent it into GIBRALTAR. One of H.M. submarines sank a 2,500 ton ship in the GULF OF SIDRA on 23rd June and a 3,000 ton southbound Auxiliary vessel northeast of DERNA on 29th June.

2. MILITARY

CHINA. Japanese have completed their occupation of the CHEKIANG-KIANGSI Railway.

3. AIR OPERATIONS

8th/9th. In attack on WILHELMHAVEN about 580 tons of high explosive and incendiaries were dropped.

9th/10th. 59 aircraft were despatched sea mining off FRISIAN ISLANDS and HELIGOLAND. 1 missing.

MALTA. Between 4.40 p.m. 8th and 9.52 a.m. 9th, about 75 aircraft attacked. HAL FAR aerodrome was rendered temporarily unserviceable, runways at TAKALI were hit, and two aircraft destroyed on the ground at LUQA. 3 enemy aircraft destroyed, two probably destroyed and three damaged by our fighters, of which two are missing. Two enemy aircraft shot down by anti-aircraft.

BURMA. On 7th and 8th, small scale bombing attacks were made on KALEMYO, MYITKYINA, PALERWA and GANGAW.

July 10, 1942.

Dear Mr. Kane:

Thank you for your letter of July 8, which tells me that you have arranged to have me receive copies of the Intelligence Report prepared in your office each week.

I shall be glad to have you send me these Reports, and to read them with your comments in mind. You may be sure that all this material will be held in confidence, as you request.

Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable E. Keith Kane,
Assistant Director in Charge,
Bureau of Intelligence,
Office of Facts and Figures,
Office of War Information,
Washington, D. C.

GEF/dbs

File - Mmc

OFFICE OF WAR INFORMATION
OFFICE OF FACTS AND FIGURES
WASHINGTON

July 8, 1942

Dear Mr. Secretary:

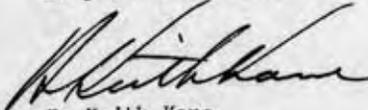
In the belief that they may be of service to you and with the approval of Mr. Elmer Davis, I have arranged for you to receive copies regularly of the Intelligence Report prepared weekly by the Bureau of Intelligence of the Office of War Information. You will find enclosed a copy of the report issued today.

These reports have a double purpose: to report briefly on "spot" items coming to our attention during the preceding week, and to review in some detail the results of investigations of war-related problems with a public opinion bearing. The list of studies on which each report is based appears at the end of the report. Copies of the detailed studies are available to any government department or agency to which such information may be of assistance.

It is not our purpose to circulate these reports beyond their range of direct usefulness. If you do not feel they can be of service to you I shall appreciate it if you will let me know so that we will not burden you unnecessarily.

Of course, the material is not for publication and we shall appreciate it if you will caution all who may handle the reports that they should be treated confidentially.

Respectfully yours,



R. Keith Kane
Assistant Director
In Charge, Bureau of
Intelligence
Office of Facts and Figures
Office of War Information

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

Recommendations, suggestions, and other items included from time to time in these Surveys are not submitted to the Director of the Office of Facts and Figures in advance of mimeographing and do not necessarily reflect his views or those of the Board of Facts and Figures. They are merely presented as possible alternative courses of action believed by the Bureau of Intelligence to be appropriate for the consideration of the Director and Board.

BI-Misc-3
3-23-42

Secret

July 8, 1942

SURVEY OF INTELLIGENCE MATERIALS No. 31
Office of War Information
Office of Facts and Figures
Bureau of Intelligence

SUMMARY

Men and women join together in voluntary associations to promote their economic interests or to express ideational, cultural or racial points of view which they have in common. These associations afford channels through which their members enter into social relations and make the community as a whole responsive to their organized will. They are also channels through which the Government can reach their members in an atmosphere of intimacy and confidence.

Businessmen have developed a variety of associations ranging from spokesman for major industrialists, such as the National Association of Manufacturers, the Iron and Steel Institute and the United States Chamber of Commerce, to heterogenous organizations of small businessmen and the thousands of trade associations representative of special commodity interests. In varying degrees, they employ the media of communication -- newspapers, radio, moving pictures, billboards, pamphlets -- to influence public opinion. In addition, they endeavor to promote legislation on behalf of their membership.

Labor has developed three main associations for the articulation of its points of view -- the American Federation of Labor, the Congress of Industrial Organizations and independent unions, including the Railway Brotherhoods. These organizations endeavor to influence legislation, choose candidates for office and impress upon the public labor's interests. They exercise a powerful influence upon their members. Their sponsorship is indispensable in securing the full participation of workers in any national program.

Farmers have similarly developed three organizations -- the Farm Bureau Federation, the Farmers Union and the Grange. These, too, exert pressure upon legislative bodies and are immensely effective in mobilizing the opinion of their constituents.

A wide range of service clubs, fraternal associations, ethnic and racial groups and women's organizations bring together cross sections of the national population for the advancement of common purposes.

Because these bodies are of their members' own creation, under their collective management and made up of essentially like-minded people, they provide friendly channels through which the Government can effectively transmit information regarding its purposes and problems in the prosecution of the war.

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VOLUNTARY ASSOCIATIONS AND PUBLIC OPINION

Introduction

Men and women view events, not merely as individuals, but as church members, Farmers, industrial workers, manufacturers, Rotarians, Negroes. Their reactions may be conditioned, in some measure, by geographical location. The nation has taken note of this consideration in its political organization. Even more largely, however, the conditioning factor is likely to be occupational or economic interest. Even in their local affairs, individuals are likely to express themselves through clubs, groups, trade associations or one of the innumerable functional organizations with which they identify their interests.

The totalitarians, mistaking uniformity for unity, suppress the special interests entirely. The normal organizations in which men join for the promotion of their interests are uprooted and destroyed. State-controlled bodies are substituted — the first step which the Fascists took in both Germany and Italy. For it is through the elimination of these channels of expression that the individual is most effectively submerged into the mass and subordinated to State.

By contrast, in a society based upon the principles of freedom of association and expression, voluntary associations are the means by which men and women enter into social relations. They are instruments

of social and political order. Without them, the State is a remote and hostile power. With them, the State takes on the character of a community ceases to be an abstraction and is made responsive to the will of its organized and articulate members.

It is a function of most voluntary associations to impress upon the community as a whole the will of their members. To this end, they exert pressure upon public opinion and upon the Government. Being of their members' own creation, made up of like-minded or similarly situated people, they constitute relatively homogeneous groups which are at once channels for the expression of their own desires and channels through which the Government can reach their constituents in a congenial and intimate atmosphere.

It is important to note that the more extensive and enduring of these voluntary associations arise, not in response to synthetic or artificial stimulation, but in a felt need for communication among those having common or sympathetic interests. They afford indispensable avenues for any central information agency. If they did not already exist, it would be necessary to create them. Information reaching members through their sponsorship carries with it a validity and impact which cannot be achieved by any outside source.

ECONOMIC INTEREST GROUPS

The basic rivalry in American life is among conflicting economic interests, particularly between those which possess advantages and those which seek to gain them. There is a natural resistance to societal change on the part of those who benefit from established or moribund social patterns; they resent limitation of their privileges and do what they can to impede innovations. Conservators are forever wrestling with reformers.

The most highly developed organizations for the advancement of economic interests are found among the three major occupational divisions of the public — management, labor and agriculture. Each segment seeks to mobilize its own constituents and to influence the public as a whole for the promotion of its group advantage.

Associations of Businessmen

American business associations fall naturally into three divisions: organizations which are controlled by and speak for "big business"; the overall organization of the "small business" groups, together with those trade associations which are more typically composed of small businessmen; and those civic and service clubs concerned with community improvement in which the business point of view is dominant. Individual business firms themselves, of course, directly influence the opinion of employees, stockholders and customers.

"Big Business"

The three foremost "big business" associations are the National Association of Manufacturers, the United States Chamber of Commerce and the Iron and Steel Institute. For the purposes of this report, the NAM has been chosen for analysis as representative of the means by which "big business" operates in the sphere of public relations.

The NAM is an association of large manufacturers and refers to itself as "industry's spokesman". It claims a membership of 7,000, has an average annual revenue in excess of \$1,000,000 and, in addition, secures free advertising worth several millions a year. With such resources, it is obviously a potent force in the formulation of popular attitudes. It has influenced them for the promotion of its own prestige, to persuade the public that its members perform valuable services to the community and to enhance their opportunities

in the pursuit of economic gain.

The strength of the NAM is wholly disproportionate to the number of its members. This strength is derived from the prestige attendant upon financial success and from the avenues of communication which prestige and money make available to it.

The propaganda of the NAM defends civil, economic and political freedom. Not unnaturally, in discussing these freedoms, it places its primary emphasis upon the preservation of "private enterprise in a free society". And it defines freedom of private enterprise as "freedom to choose one's occupation.... freedom to profit.... freedom to buy.... freedom of enterprise to supply what the people want, to compete for the people's choice".

The ideas which the association supports are disseminated, in part, through pamphlets which have an extremely widespread distribution, some of which are prepared for use in the public school system; through official publication of resolutions, committee studies, annual platforms and reprints of significant addresses by industrial leaders and others.

Through its press service, it releases a great deal of material to more than one-quarter of the newspapers in the country. In addition to general press releases, the material distributed includes editorial cartoons, regular features such as "You and Your National Affairs", a daily column, "Popularizing Economics for the Masses" and a popular daily comic feature, "Uncle Abner Says". It is worth noting that the NAM editorials and cartoons are usually published without credit so that the public is unaware of the source of this material. In addition to these hand-outs, the NAM has purchased full-page newspaper advertisements to create community "harmony".

In like fashion, the NAM has extensively utilized radio, motion pictures,

foreign language publications and has promoted numerous conferences, attended by educators and businessmen, dealing with the relation of business and education.

It is apparent that, by these means, the public is getting an effectively disguised special pleading of the association's case for the maintenance of corporate control of our economic life. The efficient organization of its channels of communication, together with the prestige of its personnel and the extent of its financial resources, make it a formidable competitor of any public information agency. They also make it, if its cooperation can be enlisted, a potent channel for ideas and information about the war effort.

"Small Business"

Smaller businessmen express their points of view through a dozen or so national small business organizations and through some 8,000 trade associations representing the particular type of business in which they are engaged. The membership of some of these organizations is over 25,000, but most of them have fewer than 1,000 members.

Most trade associations attempt to exert pressure by sponsoring or opposing legislation which affects the commodity interest which they represent. To some extent, they endeavor to publicize the points of view which they support; but their main effectiveness is in their relations with individual legislators and in the personal appearance of representatives before Congressional hearings; sometimes association members are induced to write or telegraph members of Congress on particular bills.

The points of view on labor, statutory and tax matters of most of these organizations are closely allied. They all strive toward bigger and better business, freedom from Government regulation and the uninhibited increase of their respective business volumes.

Civic and Service Groups

Businessmen are extremely prone to associate in civic or service organizations in addition to the bodies which directly and avowedly represent their specific business interests. Most of these groups have a local orientation. Chambers of Commerce, Rotary, Kiwanis, Optimists, Lions and other such bodies are concerned with promoting the development of the particular communities with which they are identified. But since their members are largely businessmen, they tend naturally to think of the advancement of the community in terms of business opportunities.

The number and variety of these associations is tremendous. Nationally, they are organized on an extremely loose basis; most of the local bodies are, for all practical purposes, autonomous. Since their members are in close relationship and sympathy with one another, ideas propagated under their sponsorship carry considerable weight. They are, therefore, especially effective vehicles for the promotion of programs in which participation on a local level is desired.

Of a somewhat different nature are such national organizations as the American Legion and the Veterans of Foreign Wars. These, too, however, are composed largely of small businessmen or employees of business and carry on their main activities on a neighborhood plane. They grew out of special objectives consistent with the common experience of their members in the armed services, yet much of their activity is concerned with the promotion of a type of "Americanism" beneficial to business interests.

Professional Associations

Like businessmen, members of the several professions are wont to join hands in associations for the advancement of their particular callings. Lawyers,

doctors, teachers, newspaper publishers and editors, life insurance underwriters, dentists, architects and the whole range of arts and crafts maintain organizations which seek to enhance the prestige of their members and to affect public opinion in such a way as to improve their economic opportunity. The imprimatur of the best of such associations naturally carries considerable weight with their members. They are, therefore, extremely effective in mobilizing the opinion of professional men in support of, or in opposition to, governmental programs.

Associations of Workers

Organized labor consists of three well-established and well-differentiated groups. They are the American Federation of Labor, the Congress of Industrial Organizations and the independent unions, including the Railway Brotherhoods. A fourth faction may be in the making if John L. Lewis succeeds in taking the United Mine Workers and other unions under his domination away from the CIO.

Labor's basic unit is the local union which is the fundamental point of contact between labor and management. Each local unit sends a delegate or delegates to a periodic convention at which national officers are elected and national policies adopted. National or international officers hold a great deal of power, especially in the older unions. And this power is determined, in large measure, by the personal loyalty which leaders evoke from the rank and file. In this sense, the structure of a labor organization is akin to that of a political machine.

Union membership is influenced by its leadership through union, shop and committee meetings, as well as national conventions, through the labor press and through radio programs. The standard techniques of any pressure group are used by labor organizations in their efforts to influence legislative bodies. Resolutions are passed; members are urged to write to Congressmen;

delegates are sent to state and national capitals; union members sit on committees, attend hearings, prepare briefs and rally support from the general public.

In essence, the strength of organized labor lies less in its influence upon public opinion, which has met with only partial success, than upon a pressure influence exerted directly upon the Government itself. What labor leaders lack in popular prestige, they compensate for by the number of votes which they are able to control. They exert immense influence over the millions of their members, and their sponsorship of Government purposes is consequently of inestimable value. For it is only through their endorsement that labor in general will espouse national causes or programs.

Associations of Farmers

Like labor, farmers have developed three main associations for the advancement of their economic interests: the American Farm Bureau Federation, the National Grange Order of the Patrons of Husbandry and the National Farmers Educational and Cooperative Union of America.

The Farm Bureau is an organization of 475,000 middle to large farmers with its greatest strength in the corn and cotton belts. The membership doubtless includes many family-farm members, but the leadership is, and always has been, drawn from the industrial corporate, absentee-owner, farm management group. The Bureau's national activities are almost wholly concerned with pressure in Washington.

The Farmers Union, by contrast, is a family organization dedicated to the interests of the family-farm and opposed to the corporate industrial farm. It has a membership of about 125,000 farm families of small to middle economic status. Like every farm organization, it is dedicated to the preservation of farm prices at a high level; but it aims also to deal with the farm problem

through the development of cooperative buying, holding and marketing organizations. It is unique among farm groups in that it is not anti-labor but liberal in outlook, advocating cooperation between agricultural and industrial workers.

The Grange, although the oldest of the three farm associations, is less influential nationally than either of the other two. It has its principal strength in New England and the Middle Atlantic states and differs from the others in that it includes professional men and educators in its membership and is a lodge with a secret ritual. It comprises about 800,000 members. In policy, it is somewhat closer to the Farm Bureau than to the Farmers Union.

None of the farm organizations can claim to be wholly representative of agricultural interests. There are at least 16,000,000 farmers in the United States, of whom about 2,000,000 are organized in farm associations. Nevertheless, the nationally circulated newspapers and magazines which each of the farm bodies publishes are important influences exerted upon the minds of rural people.

Even larger numbers of farm people are members of groups organized in connection with one or another of the programs sponsored by the United States Department of Agriculture. To a considerable extent these groups are already being used as channels for reaching farm people.

The editors and publishers of privately owned farm papers and magazines are in active accord with most of the work and objectives of one or more of the national farm groups. Subscribers to the farm press are urged to identify themselves with some growing farm organization in order to increase their influence on the country at large.

The farm groups, like labor organizations, make their influence felt more through the exertion of pressure, backed by voting strength, on legislators

than through the formulation of public opinion. Their sponsorship, like the sponsorship of labor unions, is invaluable in enlisting the participation of members in any national endeavor.

IDEATIONAL, CULTURAL AND RACIAL INTEREST GROUPS

Men and women tend to associate with one another for the furtherance of other than economic aims. They have objectives and enthusiasms which sometimes cross occupational lines and bring together an assortment of persons from several of the economic interest groups.

Church Organizations

The most widely embrasive of all these forms of association is the church. Total church membership of religious bodies within the continental United States is 65,000,000 individuals distributed among 244,319 local churches. Over 52,000,000 members are 13 years of age or over; of these, 33,000,000 are Protestants, 15,000,000 Roman Catholic and 3,300,000 belong to Jewish congregations. Leadership is provided by 150,000 professional religious men, clergymen, priests and rabbis, aided by several tens of thousands of lay-people who cooperate with them in church, community and educational work.

The churches of America have rejected pacifism, but they have not yet accepted war. Among the leaders of Protestant sects, there is a strong feeling that supporting the war effort in 1917 led to a decline of the prestige and spiritual leadership of the churches. Today they are reluctant to support the war effort actively, although they endorse the democratic principles for which the nation is fighting.

The attitude of Roman Catholic leaders has been conditioned, in considerable part, by the uncompromising hatred of the church for Communism.

Since the hierarchy in the United States takes its direction from the Vatican, and since Pope Pius XII has placed more emphasis upon the desirability of peace than upon the defeat of Fascism, American Roman Catholics are not fully mobilized, as such, in support of the national cause. The church, together with allied associations concerned with the spiritual interests of men and women, is potentially an immensely powerful instrument in conditioning their attitudes toward the war.

Fraternal Associations

Fraternal associations bring together men of varied occupational backgrounds in an atmosphere which makes them especially receptive to the ideas their organizations sponsor. This is equally true of organizations formed to protect the interests of ethnic minorities. In these bodies, men are tied together by close bonds of common experience, as well as common interest.

Women's Organizations

There is a type of voluntary association, long conspicuous in American life, which has a mass membership, supports its central office by the payment of dues, emphasizes high ethical standards and protects the established family, economic and religious patterns of middle-class American life. In this category may be placed the dominant organizations with female membership -- the American Federation of Women's Clubs, which has a membership of 2,000,000 in 16,000 locals; the National Congress of Parents and Teachers, also comprising some 2,000,000 members in 16,000 locals; the American Association of University Women, with a membership of 71,000 ex-college women in 915 local units; and the National League of Women Voters, with approximately 16,000 members in 597 local leagues in 33 states.

The Association of University Women and the League of Women Voters have

memberships of upper middle-class background and often are of considerable influence in local community life. They provide mechanisms for reaching women of education and philosophical outlook who are capable of exerting important influence upon the people around them. The Federation of Women's Clubs and the Parent-Teacher Associations embrace rural, as well as urban, chapters, and have members ranging from upper class down to lower middle-class status. They are instruments for the influencing of membership opinion, rather than representatives of special interest groups.

POWER AND RESPONSIBILITY

The voluntary association, as has been pointed out before, exercise an important influence upon public affairs and public opinion in the United States. They have been referred to as democratic instruments. It is essential to note, however, that in certain respects they operate in an altogether undemocratic fashion.

It is only through the organization of counter-pressure that the power of certain of the economic interest groups is kept within reasonable bounds. These groups are subject to no formal control by the Government. The resources which they command and the means they employ are not regulated by law. Their pressure is exerted often in ways which are inimical to the general public welfare. In many cases, moreover, the activities of pressure groups are determined by a few individuals without democratic control by the membership.

The National Association of Manufacturers, for example, is largely financed and governed by a small group of powerful corporations. In the period from 1933 to 1937, the latest years for which accurate figures are available, there was a progressive concentration of financial backing and leadership on the part of a few companies representing approximately five per cent of the membership.

Through their guidance of the policies of the NAM and its affiliated network of employers' associations in the National Industrial Council, this coterie of powerful interests organized the strategy for a national program of resistance to unions and to governmental action on behalf of labor.

The labor unions, on the other hand, have their policies similarly determined by a few dominant leaders whose conduct is only nominally subject to approval or rejection by the rank and file. The United Mine Workers of America, for example, is under the autocratic control of John L. Lewis, who has summarily purged the organization of leaders sympathetic to the administration and the war effort. Lewis controls abundant financial resources and a host of tough experienced organizers loyal to him personally. His domination of the union can be challenged only by a bitter and difficult campaign among union members.

The largest farmer organizations are also under oligarchical direction. The Farm Bureau's national policies, for instance, are made almost wholly by the executives and are presented to the membership only at annual meetings and under steam roller pressure.

In all of these organizations, the possible development of demagogic leadership represents a real danger. While the preservation of their freedom is an essential of democracy, it is vitally necessary for them to temper their power with responsibility and to assure the regulation of their leaders by their members.

CONCLUSIONS

The associations in which men and women have voluntarily banded afford the best possible means for any program of adult education. Through these

organizations, it is possible to explain Government programs in personal face-to-face communication. Most important of all, the explanation can come from men and women known to one another and identified by common interests.

All over the United States, there are tens of thousands of meetings held by groups at the community level possible of utilization as class rooms in which the problems of the war and the significance of current events can be discussed in an atmosphere of intimacy and confidence. While the importance of the media of mass communication — press, radio and motion pictures — is tremendous in promoting an awareness of current problems, the full understanding of these problems can be achieved only by painstaking education at the grass roots.

Voluntary associations constitute an invaluable vehicle, in particular, for information programs concerned with long-range purposes. Because of their staggered meeting schedules, the unevenness of attendance and the variations in the quality of local leadership, time and patience are required in employing them. Above all, it is necessary to adjust programs to the particular associations which are to be utilized. Standard approaches will not suffice.

It is in the spelling out and amplification of informational themes such as those outlined by the Office of Facts and Figures that the voluntary organizations can be especially useful. Better than any mass media, they can tell their own members about the magnitude of the job confronting us, about the nature of the enemy, about the United Nations concept and the post-war world.

Similarly, they are indispensable for the painstaking education in elementary economics requisite to an understanding of the President's seven-point economic program and the complex interrelationships involved in it.

Finally, these voluntary associations provide the most effective

instruments for bringing men and women into direct participation in the war effort. The publications of all these associations can be utilized to reach their members. Material for their use must be prepared, of course, in terms of the group interest which they represent. Suggested participation in national programs should be designed for the interest, capacity and educational level of the specified groups.

Although the Office of Civilian Defense has successfully mobilized some voluntary organizations in numerous war activities, there has as yet been no comprehensive program for the enlistment of them in major informational efforts. Such a recruitment needs to be undertaken by the Office of War Information on a thorough and carefully planned basis. These associations offer an avenue for reaching people of all backgrounds and points of view under auspices that are favorable to maximum acceptance of national appeals.

CURRENT OPINION

Editorial Attitudes

Inflation

Inflation has become a major theme in editorial minds. Reverses on the fighting fronts abroad are frequently followed by attacks on the Administration's conduct of the war effort at home. The commentators have turned during the past week from the unhappy battlefields in Russia and North Africa to economic problems on the domestic front.

In part, their criticism seems to spring from frustration and general hostility to labor and to the domestic policies of the New Deal. Much of it is defeatist in tone, suggesting that economic disaster is virtually inevitable under the present Administration. But it reflects also some sense of real alarm. Editorial anger appears to be divided fairly evenly between the Congress and the Administration.

Criticism of Congress

The editorial assault on Congress is directed primarily toward the farm bloc in the House because of its refusal to permit the sale of Government-owned grain at a price below parity. Eastern metropolitan newspapers are, of course, particularly vehement in their condemnation of this obduracy on the part of midwestern representatives. But the prevailing feeling in other segments of the press, as well as among radio commentators, is that Congress as a whole has been playing politics at the expense of the war effort.

Congressional action in regard to the tax program is viewed with almost equal dissatisfaction by most commentators. They are by no means in agreement among themselves as to the kind of fiscal program which should be adopted. A

majority are out of sympathy with the Treasury Department's tax proposals: they desire a general sales levy or a broadening of the income tax base. Most of them are vehement in their opposition to mandatory joint returns and treat the President's proposal of the \$25,000 limitation on income as mere political tomfoolery.

Most of them, however, do desire far heavier taxation than the House Ways and Means Committee seems disposed to endorse. And they desire it, regardless of other economic considerations, as a means of closing the inflationary gap.

Criticism of the President

The Administration, however, also comes in for a large share of blame from commentators in the newspapers and on the air. For the critics, in general, find a rising wage level even more terrifying than rising farm prices. They regard wages as a cost of production and as the inevitable driving force of an inflationary spiral.

A Scripps-Howard editorial expresses the prevailing view. It praises the President for his fight against the farm bloc, then goes on to say that "the chief reason for his lack of success, we think, is that he has not fought with equal vigor on the labor front to stabilize wages. He has said that stable wages are as necessary to the prevention of inflation as stable food prices, but he has stopped there".

Almost all commentators express vigorous opposition to the recommendation of the War Labor Board panel that workers in the four Little Steel companies should receive a wage increase of a dollar a day. The general reasoning is that the increase would be a signal for general requests from all unions for pay increases, that the effect would necessarily be inflationary, that the cost would be borne by the Government and the taxpayers and that the step would be a violation of the economic program which the President himself enunciated.

Fulton Lewis, Jr., Mutual Broadcasting System news commentator, observed that "if the WLB follows the same line of thought.... followed by the three members on this special investigating board, the President's wage stabilization policy will land pretty close to the scrap pile".

The St. Louis Post-Dispatch summed it up as follows: "Here, in the Little Steel case, is not a simple example of a rich and grasping employer as against deserving workers. It is a test case to decide whether the Administration's campaign against inflation is going to be broken down through specious reasoning and mistaken action".

Out of their dissatisfaction with the Administration's economic policies, press and radio are endeavoring to promote large scale public protest. But the fear of inflation which they are engendering by their comment may have inflationary repercussions of a character more dangerous than any measures which the Government may take or fail to take.

DEVELOPING SITUATIONS

Aleutians

There is continued editorial clamor regarding the presence of Japanese in the Aleutians. Western newspapers, in particular, are vehement in an insistence that the invaders be driven out forthwith. Some newspapers, notably the Scripps-Howard chain, utilize the situation as an argument in support of their contention that American strength should be concentrated now against the Japanese.

Saboteurs

Virtually all commentators insist on a summary death penalty for the eight Nazi saboteurs captured last week by the FBI. The Portland Oregonian, in a typical

comment, warns against "leniency toward men who came to this country on missions of wholesale murder. The Nazis had best know that, tried far enough, we are capable of answering in kind".

Envy

Interviewing conducted by the Bureau of Intelligence reveals that a considerable number of people in both rural and urban areas are envious of war industry workers, feeling that they are profiting unduly from the war emergency. The war workers themselves resent the feeling bitterly. A dangerous cleavage might develop from this antipathy.

Feud

The newest development in the Lewis-Murray feud: it is reported that Lewis is conducting a campaign among the priests in steel towns to convince them that Murray is a Communist.

China

Press and radio celebrated the fifth anniversary of China's resistance to Japan with a number of glowing tributes to the heroism of the Chinese people. Radio commentators were especially warm in their praise. The accent, however, appears to be on China's desperate need of allied assistance, rather than upon the importance of China to the United Nations.

Aviation

Most newspapers have been celebrating the demise of the battleship. There is now an unrestrained enthusiasm for the effectiveness of air power in modern warfare. About half the press seems already convinced that aircraft carriers have been outmoded by land-based planes. The Navy is usually damned by faint praise for belatedly recognizing the value of the airplane.

Negroes

The execution of Odell Waller appears to have precipitated a partially submerged rancor among colored people. Their sense of injustice is currently being fanned by inflammatory comments in the Negro newspapers and bitterly indignant speeches by Negro leaders.

There was extreme resentment among a delegation of Negro leaders representative of the NAACP, the Workers Defense League and the March-On-Washington Committee who were unsuccessful in an endeavor to see the President and persuade him to commute Odell Waller's death sentence.

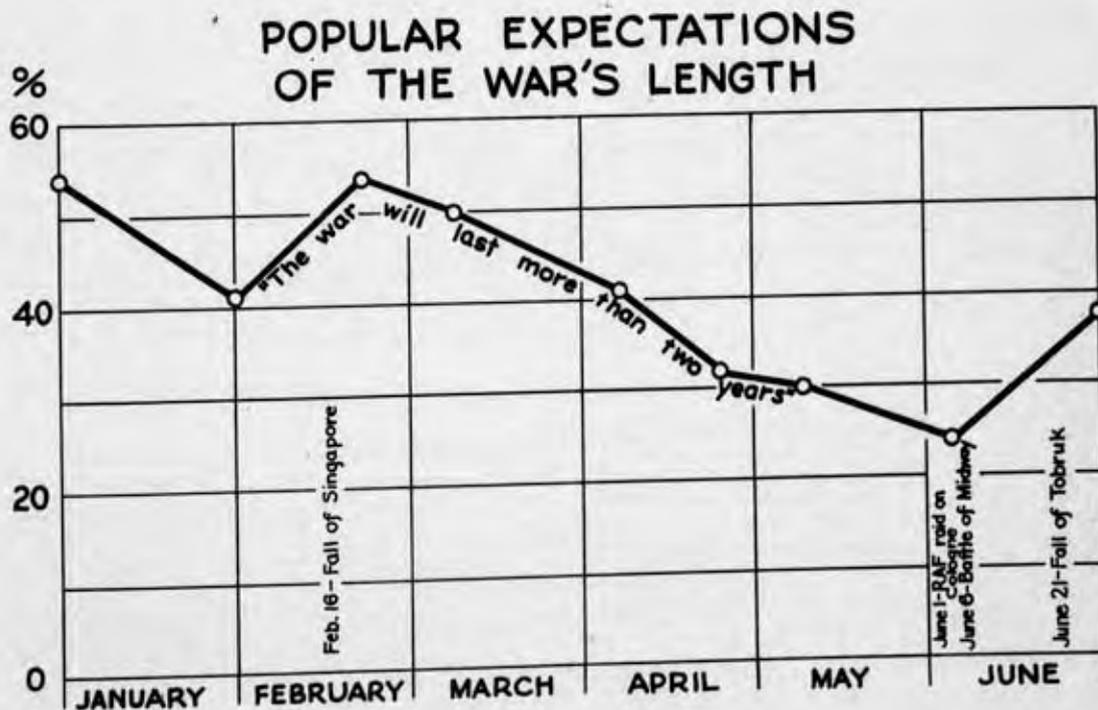
Something of the indignation to which Negroes are being stirred by their own leaders can be gauged from an address delivered by A. Philip Randolph at the second of the series of mass meetings staged by the March-On-Washington movement. This took place at the Coliseum in Chicago on June 27 — prior to the Waller execution — and was attended by an audience variously estimated at 12,000, 15,000 and even 20,000.

Randolph pointed an accusing finger at the federal Government as the chief offender in exercising Jim Crow tactics. He called attention to the fact, that after the last war, when the Negro leadership decided to "close ranks and forget their grievances" for the duration, the Government took them at their word and forgot their grievances for good. "We are resolved that we shall not make that blunder again", he said, "We are fighting to kill Jim Crow now during the war. We don't propose to wait until the war ends.... If the President does not issue a war proclamation to abolish Jim Crow in Washington and all Government departments and the armed forces, Negroes are going to march and we don't give a damn what happens.... It is better that Negroes face extermination than a life of segregation with degradation and bitter humiliation. Rather we die standing on our feet fighting for our rights than to exist upon our knees begging for our life".

The March-On-Washington Committee appears to remain a powerful pressure group. There is genuine danger that its leaders may be unable to keep under reasonable control the anger and indignation they have stimulated.

Estimates

From time to time, the Bureau of Intelligence has asked national samples the following question: "About how much longer do you think the war will last?" The chart below illustrates the trend of opinion on this score. It reveals an instability which can scarcely be considered a component of healthy morale. People tend to think that the war will be over in a relatively short time when news from the fighting fronts is good, but they reverse this opinion sharply as soon as they learn of defeats in battle.



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