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September 14, 1942
11:48 a.m.

HMJr: Hello.

Operator: Mr. Paul.

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

Randolph Paul: Hello.

HMJr: I just got in, Randolph.

P: Yeah.

HMJr: Yeah. I had two hours very successful with Roy.

P: Yeah.

HMJr: We needed all the time.

P: Yeah.

HMJr: Now, I've asked the President whether he would see you and me right after lunch.

P: Yes.

HMJr: And Mrs. Klotz sent word over at ten o'clock, but we haven't heard yet.

P: I

HMJr: She just called up, and they said they hadn't been able to reach him.

P: Yeah.

HMJr: Now

P: Well, I can hold it until then.

HMJr: You can?

P: Yeah.

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HMJr: Until after lunch?

P: Yeah.

HMJr: You've got people around you?

P: Well, you never know who's on another extension.

HMJr: I see. Well, you think you ought to see me before lunch?

P: Yes, I do.

HMJr: I think you ought to come down now.

P: Well, could I make it in about - let's see - it's quarter of twelve - could I leave about ten after twelve? Is that too late for you?

HMJr: No, I'll just have to wait, that's all.

P: Well, I'll see how it breaks here - they're in the middle of - they're just voting on cigars now, and perhaps I can get away right away. I'll do my best, and

HMJr: Why don't you ask George if you could come down - that I want to see you.

P: Oh, I'm not worried about that, but there are a couple of things here that I - which I thought I ought to be here for.

HMJr: Well, I need all the time I can get.

P: All right. Well, I'll leave it to Tommy then. I'll come down.

HMJr: Thank you.

September 14, 1942
11:53 a.m.

HMJr: Okay. Hello.

Chester
Davis: Hello, Henry.

HMJr: Hello, Chester.

D: How are you?

HMJr: I'm fine.

D: I just wanted to - to mention Branch Rickey.
Do you know him?

HMJr: Branch Rickey. The name sounds like a drink.

D: Well, he's the State Chairman of the War Savings
in Missouri, but he's better known as General-
Manager, Vice-President and General-Manager of
the Saint Louis' Cardinals.

HMJr: Oh, of course. I - I - he made this wonderful
speech in Chicago.

D: Yes. Well, that's what I wanted to mention.
I just wanted to dump this thought. Branch
Rickey - come the end of October - is going to -
he's going to want to get into this war.

HMJr: Yeah.

D: He's - his obligations for this year's baseball
season and possibly for the duration, I think will
be over then, and he's - he's a man of the deepest
patriotism, and he's about the most moving

HMJr: Yeah.

D: he - you know, he's capable of inspiring
people.

HMJr: I know.

D: I wanted to mention that to you, so you might
be giving him some thought.

HMJr: I'll do that.

D: And, he's - he's big league now. He can organize
and administer, Henry, as well as inspire or to
speak.

HMJr: Yeah. Well, he's a grand fellow.

D: Yeah, he's a grand fellow.

HMJr: I'm glad to know about him.

D: And - I don't know whether it'll be the War Department or not, but since he's already been in your show, I wanted to tip you off that I'm sure, he's - he's said to me on half a dozen occasions, "I - I've got to get into this thing, and I want to sit down and talk to you about it".

HMJr: Good. Well

D: So, I want you to be thinking about

HMJr: I'll do that.

D: All right.

HMJr: Thank you.

D: All right, sir. Good luck.

HMJr: Good-bye.

September 14, 1942
12:10 p.m.

TAXES

Present: Mr. Bell
Mr. Gaston
Mr. Graves
Mr. Kuhn
Mr. White
Mr. Paul
Mr. Haas
Mr. Odegard
Mr. Blough
Mrs. Klotz

H.M.JR: Paul is on his way down from the Hill. I have spent two solid hours with Roy Blough this morning. I thought I would have Graves in here for a minute, representing War Bonds, and Gaston, who represents the Treasury. I am approaching you and asking you to talk on that basis.

Frankly, I can't see very much difference as far as compulsory savings is concerned - I mean just touching on that - for me to recommend that ten percent of the tax on spending be refunded after the war or whether I recommended ten percent on the income tax be returned after the war. I can't see that there is any fundamental difference.

Now, I gathered from Blough, after Saturday afternoon, that you people, you and Odegard, felt that there was a difference.

MR. GRAVES: A great difference.

H.M.JR: And that that was in conflict with my last statement.

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MR. GASTON: I have just given Harold a little note as to your position, which I think correctly states your present position, which is that you think that forced savings is a necessary element in a plan to restrict expenditures but it must be such a plan of forced savings as will not supplant or destroy the voluntary savings system.

That is in essence your position now; that was your position in your statement to the newspapermen on Thursday, that it must be a plan to supplement and not a plan that would destroy voluntary savings. You said the same thing in your statement on Friday.

Now there comes a question of fact as to how destructive this particular plan is to be on the voluntary savings. It seems to me that this plan ought to be considered more in the light of an induced savings plan, a plan to restrict expenditure rather than a plan to bring money directly into the Treasury. I have a feeling that they could modify that plan so as to make it more on the line of the spendings tax, more of a penalty on spending, and more of an encouragement toward voluntary saving, even though they lose some revenue in doing it.

H.M.JR: Well, what I told Roy was this. I don't want to stop Harold from talking, but I told him to go back again and recommend the ten percent on spending first, and then if we don't get it we will take up this. (Copy of plan attached.)

MR. GASTON: I suggested to Roy yesterday the possibility of making a specific tax credit up to some relatively small sum, such as a hundred and fifty dollars. That is, if a man buys up to a hundred and fifty dollars of war savings bonds it would take the place of that - that much of a tax - and I think, maybe, giving some consideration to that, that would leave you a broad field so far as pay-roll savings is concerned because it would take care of the great bulk of wage earners.

H.M.JR: I wanted to give Harold, if he wanted to say something--

MR. GRAVES: I wrote a memorandum to you which expresses my view about this thing. (Memorandum handed to the Secretary, copy attached.)

H.M.JR: Well now, you say, "The plan would involve withholding at the source." The ten percent tax on spending would be withheld at the source.

MR. GRAVES: That is right.

H.M.JR: It is just the same. This would involve withholding at the source.

MR. GRAVES: It is not the same as it is described in this statement.

H.M.JR: It is withheld at the source.

MR. GRAVES: That is true, but this statement here for the first time says that the Treasury would be required to keep a book account with each person. That was not a part, so far as I know, of the scheme of withholding that they had in mind.

H.M.JR: I think, Harold, because - I mean the fact of whether we give it or whether we give it to George and George does it - let's say that George takes it and sponsors it--

MR. GRAVES: Himself.

H.M.JR: Himself, and what difference is there as to the effect it will have on pay-roll deduction?

MR. GRAVES: This is the difference. If the Treasury does it, it will be regarded by our people generally to mean that the Treasury is giving up voluntary savings. If somebody else does it, it does not necessarily commit you or the Treasury.

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H.M.JR: What is the net result? Supposing it is successful and it goes through as Senator George's plan, what is the net result on war bonds?

MR. GRAVES: I am not now speaking of what would happen if the plan is adopted.

H.M.JR: Let's say that George says, "All right, Mr. Morgenthau, I like this. I like it, I will take it, and I will recommend it." Then it goes through.

MR. GRAVES: If it goes through the effect is the same, but what I am saying--

H.M.JR: That is the point.

MR. GRAVES: What I am saying is that if you sponsor it or approve it, it comes in as a Treasury plan; then our people see the state of mind of the Treasury - that the Treasury itself, which has been pushing this voluntary plan, they will say, has changed its mind, that it does not believe that the voluntary plan will do the job. The difference is very great.

H.M.JR: Well, you and I aren't going to get together on this, I can see.

As I understand it, this went on all Saturday afternoon.

(Mr. Paul entered the conference.)

H.M.JR: Randolph, I am waiting to hear from the President. I have asked if he will see you and me. As I told Miss Tully, I wanted to be sure the President was behind me, but not too far behind me, after reading it. (Laughter)

(Mr. Bell entered the conference.)

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MR. PAUL: George told me this morning that his only doubt was on the question of burden, that he wanted to see the burden tables; and a sample of burden tables will be delivered to him, which he said he would look at this noon.

H.M.JR: The plea that Graves is making is that this be sponsored by George rather than by us.

MR. GRAVES: If you have to do anything other than the spendings tax.

H.M.JR: Well, the spendings tax - you saw what happened. We didn't even get a vote.

MR. PAUL: I hope for a sort of joint sponsorship, because I think then the whole country will not say, "Well, George took it out of the Treasury's hands and did a fine thing."

H.M.JR: Taking it out of the Treasury's hands?

MR. PAUL: Yes. "He did the trick; the inefficient Treasury was not there." I mean if it is going to be done I don't see why - you are going to have the effect on the voluntary savings, anyway--

MR. GRAVES: If it is adopted.

MR. PAUL: Yes, whatever effect that is. We don't know, but whatever it is it seems to me that we ought to get part of the credit.

(Mr. Haas, Mr. White and Mr. Blough entered the conference.)

MR. PAUL: I told George this morning that we did not want to have anything to do with anything unless it stood the very best chance of winning.

H.M.JR: What is that?

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MR. PAUL: I told George this morning - he knew I had not talked with you because I told him - I said, "I know one thing, that we don't want to have anything to do with anything that has not the very best chance of success."

H.M.JR: That is what Roy said, that it should not go before the Committee unless it had a--

MR. PAUL: I told George that this morning. Of course the key man is George. He has got to be with you or he will throw it for a loss - almost for a loss. However, he only threw that other thing, eight to seven.

MR. BELL: Has he come over now?

MR. PAUL: He called me up when I was in your office Saturday. I talked to him yesterday a couple of times on the phone and again this morning, and this morning he said that the doubt in his mind was the burden, and that was all.

MR. BELL: The what?

MR. PAUL: The burden, total burden. He wanted to see what the figure was that you take out of a man's income.

MR. BLOUGH: He won't like it.

MR. PAUL: I gave him some of the figures yesterday, you know, Roy, and I told him that they were substantially less than in Canada.

(Mr. Kuhn entered the conference.)

H.M.JR: We did a little figuring on the trip, and the percentage of tax that a man pays in Canada on the ten-thousand-dollar level is forty-five percent, and in England it is the same. If this

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thing went through as I have it here now it would be twenty-five percent. I had a grand two hours.

I will tell you the way I feel. I have made it urgent for the President, which I very rarely do - for Paul and me to see him. The way I feel about the thing is this. Let's say that the Congress between now and the first of October passes a bill which will cover both wages and prices, which is what they are apt to do. Then the only thing for the country to pick on is the inflationary gap. Then there is a whole concentration on that. And, frankly, I don't want to be in the position that I have not been vocal - I mean aggressive in recommendations to close that inflationary gap because we take the entire burden after the first of October. There is absolutely nothing in sight in the volunteer plan which will do that, and all the estimates that I was given overshot the mark. We have not come up to a single estimate that was made by the War Savings Staff - not one.

(Mr. Odegard entered the conference.)

MR. GRAVES: I don't agree that that is right, Mr. Secretary.

H.M.JR: You fellows made the estimates. The only ones I cut down were for May and June, and the other estimates from then on were made - there was never any doubt about the billion dollars in July.

MR. GRAVES: Mr. Secretary, that is not so. I never had very much optimism. I think that you understood my feeling about that, that we would make a billion dollars in July.

H.M.JR: Well, Harold, I mean you and Odegard and Kuhn - I mean between you there never was any hedging on that.

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MR. GRAVES: What we have said was that we thought we would have a good chance of selling twelve billion dollars in the fiscal year '43, and I still say that in spite of--

H.M.JR: But you have absolutely nothing to back it up with. Now we are talking here in the room, and let's get down to brass tacks. I will look up the record, but certainly among the three of you I was definitely told that a billion dollars - I went out on the end of a limb - I went all through that emotional upset - I told you, "This is something I have got to go out on the end of a limb on."

MR. GRAVES: I think I know of no one who said with confidence that we would sell a billion dollars of bonds in July.

H.M.JR: Well now, look, we went all through that. Mrs. Klotz, will you have Miss Chauncey go through all the records? I have never brought it up before. It isn't important, except for the record, but certainly I made it very plain, my position, between the President and myself. I mean I got the recommendation that we would do it - not the twelve billion dollars but the monthly thing. My name is on all the stuff. Where did I get it from? I did not make the figures. I did not do the adding and subtracting.

MR. GRAVES: I do not think anybody has ever made any commitment that we were certain to raise any given sum based on these quotas.

H.M.JR: You were not certain? You did not make a flat recommendation on the twelve billion?

MR. GRAVES: Twelve billion, yes.

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H.M.JR: You say you didn't. I handle a dozen things a day. We will check our memories. But let's - did you say you would do twelve billion?

MR. GRAVES: I don't say - I don't believe that we said we could be certain about making twelve billion. But I will say now that I think that it is probable that our sales will be pretty close to twelve billion for the fiscal year. Mr. Haas' people have fixed our quotas with reference to the income trends generally throughout the States and with reference to such factors as income-tax payments in four particular months of the year; and after fixing his chart of monthly quotas all of the low quotas were raised and all of the high quotas were reduced in order to smooth that curve.

The fact that we have failed in July and again in August to make these quotas is not so important as the amount by which we did fail to make those quotas.

H.M.JR: Well, Harold, in the room here, the amount that you failed on the E bonds was terrific. Now, we gave ourselves a shot in the arm by increasing the F and G's from fifty to a hundred thousand dollars.

MR. GRAVES: Right.

H.M.JR: And the thing there - I mean, I am sorry I started the thing - let's wipe it off the slate. But the fact remains, let's go on the assumption - oh, let's wipe it off because I don't want to approach it from that angle, because certainly I have never - I have assumed the public sponsorship of this thing, and I have never regretted it. But let's say that you make your twelve billion; that will not do the job. And what I said about supplementing it from there on, if you give me the twelve billion, with the correct proportion of E bonds, the correct proportion of the pay-roll deductions, that will not do the job.

MR. GRAVES: That is right, I agree.

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H.M.JR: See? Now, are we there?

MR. GRAVES: Yes, sir, I agree with that.

H.M.JR: So anything that I said about the other - I never have said it before - what we say here is in the family, so let's forget it. Everybody, whether this person or that person - there is no use - forget about going through the record, Mrs. Klotz. It is unimportant. It is water over the dam. But even if we get everything that everybody promised me under the twelve billion it still will not do it.

MR. GRAVES: I agree.

H.M.JR: All right, then, if you agree on that - and you and I had that little talk that night, and I did not think that you had changed.

MR. GRAVES: No, I have not changed.

H.M.JR: Well, if you and I agree on that, then the question is what do we do. I, personally, publicly, would like to do the spendings tax. I can't get it. Now, not being able to get it at this session, what am I going to get? I think the second best bet, provided the President will back me up on this thing, is this thing that Roy Blough brought up.

MR. ODEGARD: Could I ask, Mr. Secretary, is that the plan we discussed on Saturday?

H.M.JR: I don't know.

MR. BLOUGH: Yes, it is the same plan.

MR. ODEGARD: Could I say just a word?

H.M.JR: Sure. You are supposed to be informative as well as decorative. (Laughter)

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MR. ODEGARD: We have always talked in the War Savings Staff about a total sale for a full year of twelve billion dollars. We have expected that of that twelve billion dollars, in the neighborhood of four billion dollars, at a minimum, would be taken from pay roll, by pay-roll savings, because we know, or are reasonably certain, that that comes out of current income, and hence reduces the available spending that might otherwise go for consumer goods.

You have before you a plan of enforced savings which is estimated, unless it has been changed, to yield four billion dollars during the full year of operations beginning January first. That plan, I am confident, will, for practical purposes, eliminate the pay-roll savings plan of a voluntary savings program, so that you are not making any net gain with this proposal.

H.M.JR: That has all been pointed out.

MR. ODEGARD: I think that ought to be clear.

H.M.JR: It is perfectly clear, because Harold and I took the same position that before we gave up that we wanted at least as much. Is that right?

MR. GRAVES: That is right.

H.M.JR: And the only difference in what has happened in the last two weeks - there is no difference - is that Harold's position was with ten percent deductions.

MR. GRAVES: On spendings.

H.M.JR: Which would not be returned. Am I right?

MR. GRAVES: In large part.

H.M.JR: And this is now a ten percent, and then we said we - we changed it - we voted and decided it would be ten percent on spendings which would be returned after the war. The thing we said was, we did not want to make a swap of a horse for a pony, and that point was driven home very, very hard by Harold.

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MR. GRAVES: There is this difference, Mr. Secretary. The yield, as I recall, on the spendings tax, with all the various factors in it, would have been six and a half billion.

H.M.JR: That plan is six, three or six, two. The statement which was shown us said four.

MR. BLOUGH: That is just the compulsory lending part of the total.

MR. ODEGARD: I think it is important to point out in that connection that four billion dollars is from all income tax payers, people who are liable to file income tax returns.

MR. BLOUGH: That is right.

MR. ODEGARD: The four billion dollars from pay roll is solely from those on pay rolls, so your four billion dollars you are talking about now is a great deal less, actually, from people on pay rolls, than would be the case under the voluntary savings program.

H.M.JR: Well, the point is this, addressing myself to the War Savings people, that if I thought that we were going to stop the ten percent, this thing would not particularly interest me and the plan does not interest me; but as I say, it is a compromise. But I am looking forward to the time where it may be a great deal higher than ten percent, and this is a form of machinery that we have got to get started, Peter.

MR. ODEGARD: Yes. I think, Mr. Secretary, that if we are prepared now to think that forced savings has got to do the job in the end, in any case, probably it is just as well to make a beginning now; but I think we ought to see that clearly, that the effect of this will be practically to reduce the operation of the War Savings Staff to something comparable to the old Division of United States Savings Bonds in the Treasury.

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H.M.JR: Well, in considering this thing, I always tried to look at it at the worst, so what I am saying is that if this thing goes up, and whether I recommend it or George does, or whether it is joint, to me it is unimportant.

The way I feel is, I have a direct responsibility on this inflation question which I cannot escape. I do not see why I should.

I am not saying now anything that I have not said before. I think that the work that the War Savings Staff has done as educational work with the men and the women, to get them to voluntarily take this thing, is magnificent.

Now, if we could go along on the spendings program of two or three billion dollars a month, we could, on the educational method, most likely keep pace with the spending. But where the thing is five billion a month and may go much higher, we cannot educate people fast enough to keep with this thing. We just cannot educate them fast enough, and, therefore, I feel, that we have got to introduce this plan of withholding the tax, and this plan recommends the withholding tax of twenty-five percent of the income - twenty-five percent.

MR. BLOUGH: Above exemptions, yes, of which fifteen percent would be tax and ten percent would be savings. I mean, that is the final outlook.

H.M.JR: After the study which we made, that the average wage earner would like to have his money withheld--

MR. ODEGARD: For his taxes, yes.

H.M.JR: Yes, he would like to have it withheld. I mean I understood - Blough is very fair, and he said that you were sold on that thing.

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MR. ODEGARD: The reports show that, Mr. Secretary.

H.M.JR: Anyway, on the report - so if the wage earner would rather have the Government withhold it for him, then we have got to do it.

Now, as to the future of the War Savings Staff, I am not too clear about it, but again looking at it the worst, I think that you might - let's say this goes into effect on the first of January, and as far as the pay-roll deduction plan is concerned it is out the window. But as far as going to every community and every hamlet, every house in the country, and getting the people to subscribe to Government bonds who are not on pay rolls, I think the job is bigger than ever and I think the job of morale is bigger than ever.

I mean, let's say that this thing passed; then I would like to sit down and really work out a plan so that every house in the community would be visited to get them to subscribe over and above what they are doing on the pay roll, and particularly those people who will not be reached, who are not on anybody's pay roll - the farmers, the sixty or seventy million farmers, and the professional people. So I mean, I am looking forward to that. It will have to be a different kind of campaign, but it will have to be much more intensive, much more thorough, and much more comprehensive.

Now, another thing that Roy pointed out to me, that made me practically make up my mind - we have to move on this thing fast - if we continue to withhold the person's taxes, and income taxes become higher, the chance of getting him to make a voluntary contribution or volunteer purchase is going to be more and more difficult. I think - I do not know whether you people have considered that, but as this tax gets higher and higher, the grain that you are going against - the resistance is going to be steeper and steeper. You cannot brush that off, Peter.

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MR. ODEGARD: That is right, Mr. Secretary. We always said, and I think this is true - I do not think there is any difference of opinion, at least in the War Savings Staff, to the proposition that a tax program, however drastic, would have a less adverse effect upon voluntary savings than a compulsory savings program, however moderate, for the obvious reason that taxes which are not refunded are not savings. A man who is taxed very heavily will still have to go ahead and look out for his savings program; but if you have a forced savings program, he will say, and I think with considerable logic, "Well, that is being taken care of for me. I am going to get that back; why should I save any more?" So that in the tax program we had taken account of that as affecting adversely, but not anywhere near to the extent that a forced savings program would affect that.

H.M.JR: Well, Peter, the thing I am not terribly sold on is the post-war credit; but I am sold on the idea of twenty-five percent withholding at the source. Let's say we had that and no post-war credit, what would that do to your volunteer plan?

MR. ODEGARD: I think that would make it very difficult, but it would not kill it.

H.M.JR: Well, I am being just as honest as I know how, and I am sure you are, too, but, as I say, I have come around to seeing the necessity - I mean always going on the assumption that we cannot do anything with our tax on spending, because one of the big troubles with this plan is that it does not hit the man with the tax-exempts. It leaves him entirely free. The man with the tax-exempts is not touched, but under the tax on spending he would be. He would be in the same class as you and I.

MR. KUHN: It does not give the same incentive to save as the spendings tax plan did.

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H.M.JR: You can't compare it, Ferdie. Now let's just stop for one second, because I would just like to give you everything I have got.

Another political consideration which I am very anxious that the President consider is - let's say, for example, that George said, "All right, we need this thing. I will not take your tax on spending but we will take this."

The President of the United States has given them hell because they are so slow about a tax bill. Now, George is nobody's fool, and he has never forgotten that the President tried to purge him. Don't think he ever forgot that; and he did not like what the President said about the delay.

Supposing he said to me, "Well, all right, Henry, I think that this is all right. Now, where does the President stand on it?" I say, "The President is behind me on this thing." George says, "Well, I would like to talk to the President." He comes down to the White House. The President says, "Well, Walter, this is all right. I want this." Then the tax bill does not pass until November 1 - it doesn't pass, and they say, "We did not want this thing." The President is responsible because it didn't pass until November 1.

Just think that one over for a minute.

MR. BELL: I don't get that.

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H.M.JR: Randolph, you see, I mean as between the Congress and the White House and the Treasury, do we want to say, "All right, we will take full responsibility if the tax bill does not pass until November first, or until after election." I mean, there is a political question which you just cannot brush off.

MR. PAUL: Well, of course George's idea is not to delay the tax bill; that this will go in very fast or not at all; and his idea, also, is that this is not inconsistent with having a committee to study the question.

They are at the point now, either tonight or tomorrow, where they will go into two weeks of drafting; and the drafting will be a certain two weeks if the gross tax stays in, which I hope it won't. George's idea is, throw this in, grab your crowd and put it in so you will have it in conference and you will be able there to deal with it. I do not think he would be for it if he thought it would delay the bill, but, he says, "If you do not get it in now, God knows when you will get it in. You will have some separate bill; you will have public hearings on that, and it will extend way into '43. I don't know how long." He was very emphatic about that.

Now, the only question in George's mind is - and he mentioned it again this morning - that it is too much burden on our taxpayers. That is why I thought it was important to have him see that it was not as much a burden as the Canadians have.

MR. BLOUGH: He will undoubtedly feel that it is not enough burden at the bottom and too much on the middle class.

MR. PAUL: Yes, he always mentions that. But he is up against it in his own argument there, because his gross tax is becoming more and more impossible. The boys cannot even draft it. And of course his alternative will be, "Well, let's go down with those exemptions some more."

H.M.JR: We can't go below five hundred and a thousand.

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MR. PAUL: We have said that, but he may.

H.M.JR: Well, I want to let the War Savings people know the way I feel. After all, I think that this is going to be a long war - a very long war. I think we have got to figure at least five years. I do not see how we can win in less than five years. We have got to change over some time. I think you and I agree that we cannot close this inflationary gap on a volunteer basis. Is that right?

MR. GRAVES: That is right, although I think Peter has put his finger on the point; that is, that if it is a matter of taking the income of the kind we are after, it really would be better to take it in taxes without the compulsory savings feature.

H.M.JR: We are taking it in taxes; that is to say, whether we return it or not is a moot question, and I do not see that that - that does not influence me, as to whether we should increase the taxes sufficiently, and deduct, say, twenty-five percent at the source, or continue as we are, trying to get this four or five hundred million a month from pay rolls.

MR. GRAVES: You can do both.

H.M.JR: Well, again, I do not know. I am not convinced of that, you see. I think we cannot do both indefinitely. It is too uneven. The last figures I saw showed there weren't quite a million and a half people in the United States who were deducting ten percent from their pay rolls.

MR. GRAVES: It is somewhat higher than that, now.

H.M.JR: It is around a million and a half and that is all. So we are a long way from our goal. I, personally - I mean I feel this responsibility so keenly on inflation - I mean I have for several years felt the thing so keenly that I will just have to take whatever blame there is in it from a part of the group in the Treasury that is against feeling that I carry out this responsibility, because I have said I felt right straight

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along, that I, of all people, should be out in the forefront in the fight against inflation. I feel that if I sidetrack this thing, in a day or two - I just won't, that is all. I will not be out and I will be dragging my feet. I cannot do that. I just cannot do it. It is - I mean, no, I haven't, and I do not think, whether it is recommended by George alone or myself, alone, or whether it is jointly - I mean the shock will be a little bit more, but I just think it would be cowardly for me not to be willing to take the responsibility when I am very anxious to take the responsibility in urging something like this.

MR. GRAVES: I would say this, on that point, if, as has been suggested here, the precaution is taken to find out what the chances of approval by the Ways and Means Committee and the Finance Committee-

H.M.JR: Well, we are together on that.

MR. GRAVES: Yes, if that is done. In other words, if we are not sponsoring something that will be later rejected, so that we have gained no ground and lost much, a considerable part of my objection is removed. That is, if we know before we make this proposal - before we let it be announced that we have made this proposal, that it is going to succeed, in view of your policy, as you have just indicated, I would not object. I think it would be just too bad,--

H.M.JR: I think that is a very fair statement.

MR. BELL: Are you convinced that there ought to be something in this bill on forced savings?

H.M.JR: Now, look, let's get this thing straight. I am not necessarily convinced on something which I think is much more important. On the post-war credit - I mean I would be willing, if I had the time, to sit down and argue about it, you see. But I am convinced that in this bill we have got to make the start of having a deduction at the source in a big way, beginning with the first week in January.

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

H.M.JR: Everybodys' worry is his worry.

Where were we?

MR. BELL: I was asking if you were convinced that there ought to be something in this bill on enforced savings, and I took it that you said that you are convinced that there ought to be a start made.

H.M.JR: Of deduction at the source. I am not making the big plea - I mean, I would be willing to sit down and say, "Should we return part of it or shouldn't we?" I mean I think that is a question, you see. But I am convinced that there must be a big slice withheld at the source of people's pay.

Now, whether you return five percent or ten percent or fifteen percent, I think that that is something - I do not think either England or Canada have gone far enough, and certainly, we haven't - we don't know - I mean from the fiscal standpoint. You will be here; I won't be here. We return four billion a month--

MR. BELL: I will be retired by that time. (Laughter)

H.M.JR: I will not be here, but anyway this thing of adding the debt up after the war, the fiscal responsibility of the Treasury as against wanting to put some spending power in the people's hands - that is a nice question that some time when I have got the time I would like to sit around and talk about.

Now, as I remember it, there were a number of people in the room that night who were for returning the money and a good many people who were not, but there was no difference as to the ten percent, that the ten percent spending tax should be there and withheld. There was no difference there. Am I right?

MR. GRAVES: That is right.

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H.M.JR: But the difference was, should they - the only difference in the voting - correct me - was as to whether that should be a post-war credit or as to whether it should be collection.

MR. PAUL: May I--

H.M.JR: I do not know whether I have answered Bell or not.

MR. BELL: Yes, you have answered me, but it raises a further question; if you are going after this six billion dollars additional, which certainly is going to have some effect on your war savings program, I raise the question as to whether you are going far enough and whether you shouldn't go far enough to close the whole gap, bearing in mind that you are going to knock out the war savings--

H.M.JR: Have you been reading Larry Sultzer and that group?

MR. BELL: No, but I do not see any sense in going to a scheme that knocks out a voluntary one which certainly leaves a much better taste in everybody's mouth, unless you go and get much more than you are getting out of the voluntary. I think they are getting it at a rate that is certainly going to get you ten billion, and maybe a good deal more. I think if they have a program that gets you ten, they have substantially accomplished their objective.

H.M.JR: Well, Dan, of the ten, six will be F and G; we will get those, anyway.

MR. GRAVES: No, no, the proportion is the other way, Mr. Morgenthau. The E bonds will produce the bulk.

H.M.JR: You have only claimed four billion for the E bonds.

MR. GRAVES: The E bonds are selling at the rate of about two to one.

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MR. ODEGARD: The four billion from pay rolls is all E money, but that is not all of the E money.

H.M. JR: Well, anyway - but, Bell, the answer to your question is that the thing that George does not know is whether he will accept the six billion dollar burden. He wants to see the burden.

MR. BELL: He will probably want to lower that.

MR. PAUL: I do not think he will.

H.M. JR: What is the use of talking about making it stiffer?

MR. BELL: I think there is one other point in here, and that is that you have not yet solved the problem by taking this additional six billion dollars. What you have left unsolved or uncontrolled is the man's past savings, which he will use to pay part of this six billion; and you have ten billion dollars of savings bonds outstanding which will be cashed and which will undo that much, certainly.

MR. PAUL: That argument seems to work the other way with me, Dan. I mean if you have ten billion now, it is about time we got to some sort of saving that is not cashable, and none of this will be. The sooner we make that turn, the better.

MR. BELL: You have got a problem of controlling that ten billion, I will tell you that.

MR. PAUL: But the problem becomes worse the longer we go on.

MR. GASTON: You have to require a reporting system. You have provision for a tax credit. If he buys a certain amount of war savings bonds, you have got to police that, of course.

MR. BLOUGH: We have cut that out. It is an extremely simple thing. Let them put the credits in; when they do, then take care of it.

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MR. GASTON: The original plan had a fifty-percent credit on the base for their purchases - for their savings, debt commitments, and purchases of war savings bonds. If you eliminate half of that amount from the base taxable, it would amount to a five-percent tax credit. Roy just now tells me that has been eliminated.

MR. BLOUGH: For purposes of simplicity, largely.

MR. GASTON: If that had been included, then you would have to include reports and they would have to show they were net purchases rather than just purchases which they cashed in.

MR. BLOUGH: I quite agree with your view on that.

H.M. JR: I do not like this plan. I do not make any bones about it. I like my spendings tax plan. I am sold on that.

MR. PAUL: So do I.

MR. BELL: The reason I raised the question is I thought maybe if this committee had a chance of studying this matter before December 1 and coming around to the spending tax, it would be much better than going now and getting a start on the enforced savings in this bill.

Now, maybe, as Paul says, you would not get that until well into 1943, late in '43, and that would be dangerous. I agree with that.

MR. PAUL: There is no reason why you could not get a spendings tax later.

MR. BELL: What is that?

MR. PAUL: Doing this does not mean that you will not get a spendings tax later, maybe.

MR. BLOUGH: Or get this shifted to the spendings tax basis.

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MR. PAUL: I am still trying to get a spendings tax, but I might as well be crying for the moon as to try to get a spendings tax in this particular committee, whereas there is a strong support for this.

MR. BLOUGH: Suppose you can get this as a peg on which to hang, or a starting point for the next bargaining point before the Committee, you might say, at least you have gotten something there if they want to move over to a spendings tax; and I would not be surprised if they would, after looking at the thing.

MR. BELL: I would say that would be fine except for the damage that has been done in the meantime to a program already started, and in which we have got quite an investment.

MR. BLOUGH: The spendings tax would damage that as much as this would.

MR. KUHN: I cannot agree. The spendings tax has a fundamental principle in it which this does not, which is an incentive to all forms of savings.

MR. BELL: You have got exemptions, such as life insurance and other forms of savings here, and your withholding, and you are going to make them cash in past savings in order to meet this. I think there is an entirely different approach to the problem than your spendings tax.

MR. GASTON: You can get your incentive here if you want to, but you would not include the tax-exempt income; that is the weakness of this.

MR. BLOUGH: That is a weakness to the tune of about--

MR. PAUL: Two hundred million.

MR. BLOUGH: I do not know how much it is. Four or five hundred million dollars of interest a year.

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MR. HAAS: I was going to say that it seems to me, from the discussion I have heard, that the committee is under a misapprehension as to this burden. It seems to me that the burden was established when Congress appropriated funds which would absorb fifty percent of our national income; that is the burden. Now, the only problem here is how to distribute that burden equitably. If you let it go inflation-wise it would be very inequitable distribution, but to say the six billion burden is too heavy - the burden is already established when you decided to spend fifty percent of your national income some months ago - has been established by Congress.

MR. BLOUGH: I told them that with everything I had in me, but they still keep talking about this money that is being taken away from their constituents.

MR. HAAS: They do not understand it.

MR. PAUL: That is right. We have been telling them that and telling them that.

H.M.JR: George, the fact that they voted it down and the fact that they criticized me because I am borrowing from the banks - who is going to make me continue to borrow from the banks if I do not get something like this? Congress. Where else can I go?

MR. KUHN: George's statement on the spendings tax - his last statement was, "I do not like it because it involves a reduction in our standard of living." Didn't he say that?

MR. GASTON: A leveling off. It was not a reduction in the lower-income groups; it was the fact that in the higher-income groups it is leveled off.

MR. PAUL: The Waldorf-Astoria would have to close up. (Laughter)

MR. GASTON: Sure, and the night clubs would have to close. (Laughter)

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MR. KUHN: Why would he accept a plan like this?

MR. PAUL: Because it hits hard at the lower incomes.

MR. BLOUGH: That is neither so hard as our spendings tax plan at the very bottom, nor is it anywhere near as hard - well, at least it may not be as hard at the top. It is harder on the middle-income groups.

MR. BELL: They are paying it now.

MR. BLOUGH: No, they are not paying it now.

MR. PAUL: We are not paying - even under this plan we are hardly approaching what the Canadians are paying, and nowhere near what the British are paying in those groups.

MR. ODEGARD: Are you convinced, Randolph, that this would actually be anti-inflationary as it stands? I cannot escape the feeling on my own part that it is going to have an inflationary effect, this proposal.

MR. PAUL: I feel the contrary, or, at the very worst, that it will come to the same, and that you have got something in the statute there which can adjust very easily to your problem; but if you do not get it in you will have a long fight through the spring.

MR. HAAS: Can you adjust that easier than income tax rates?

MR. PAUL: Yes, very much easier, because it is saving.

MR. HAAS: That is important.

MR. PAUL: We have no flexible provision in there, but we do have the machinery set up, the whole thing.

MR. ODEGARD: If it were possible to take enough in this proposal - that is, to take money in sufficient magnitude; secondly, if it were possible to set up

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controls against the liquidation and redemption of these outstanding securities; and if it also were possible to take some hedge against withdrawals from savings banks and the liquidation of insurance policies - but when you have all of that in the picture, I suspect the net figure will be an increase rather than a decrease in the total volume of spending available in the Nation because of the effect that this will have on other forms of savings and the savings already established.

MR. PAUL: Personally, I would be in favor of increasing the ten percent to fifteen, or even maybe more. I would be in favor of building up a schedule that had the same take as the Canadian schedule, but there is not any use in talking about that from a political angle. You have to move gradually.

MR. BLOUGH: It really comes down to this, doesn't it, that we may be able to get the victory tax out?

MR. PAUL: Which is also an important by-product.

MR. BLOUGH: And get this plan we talked about the other day - we might be able to do that without getting this ten percent compulsory savings in.

MR. PAUL: We will have to do that.

MR. BLOUGH: Whether we can or not - that is the question, but that is the very top of the amount that can be taken in. Whether the House will take it or not, I do not know, but that certainly is the very top.

H.M. JR: Just to tell you - for instance, in our conversation with Doughton at lunch the other day, for those of you who weren't there, he said, "I do not see all this stuff about spending and all this - whatever you fellows are all excited about. Now, down in my community" - and so forth and so on, and, he says, "The people are paying off their debts." He says, "There is nobody spending any money; they haven't got it to spend. I cannot see what the Treasury is so excited about." Is that right?

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MR. PAUL: That is right. And then he made the even more absurd argument that we will have to pay all this money back some day. Of course, but we will be paying back money some day that we are taking in now. The answer is, we will have to pay it back some day, anyway, and we had better take it in now.

H.M.JR: Well, I do not want to tie up all you people on your lunch hour. I have got to sit here and wait until I hear from the President. Miss Tully is in there with him now. I will undoubtedly hear in a few minutes. Just as soon as I do I will let you (Paul) know. Let's see what he thinks about it. I am certainly going to tell him that I do not like it, but I do not see what else we can do, under the circumstances. Also, I am sure that Doughton won't go into this without public hearings.

MR. PAUL: George is doubtful on that. But then, we have tried.

H.M.JR: But Doughton could call the public hearings.

MR. PAUL: Yes, he could, but George says, "Let's put a hard pressure on it." He said that Saturday.

H.M.JR: I think the thing, though, I agree with Harold a hundred percent that they ought to count noses before they put this thing up, because it would be most unfortunate to have it all spread all over the United States again, a twenty-four hour sensation, and then have it drop like a punctured balloon. I want to tell him that. And then there would be no statement I could get out after that which would correct it.

MR. KUHN: Then your position on this is you have tried. Remember when Harry White said that if you are for the spendings tax you are out in advance of the procession? You have certainly made every effort there. I do not quite see that your position is as you described it.

H.M.JR: Well, the position is this, Ferdie, that some time last Thursday or Friday, Walter George says

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to the Treasury tax people, "Bring me in a plan which will produce as much." It is an order from the chairman of the committee.

MR. KUHN: I only meant--

H.M.JR: No, but I mean we are under orders, and I cannot disassociate myself from Paul and Blough. I mean they are under a mandate. Am I right or wrong?

MR. PAUL: That is right. We were told to bring in something.

H.M.JR: They were told to bring in something.

MR. PAUL: In fact, he said five billion.

MR. KUHN: What I meant, your statement that people will say you are blocking the anti-inflation drive - I do not see how they can say that.

H.M.JR: Supposing George said, "I asked Mr. Paul to bring it," and he called Paul and said, "Why didn't you do it?" Paul has got to say something. He says, "Mr. Morgenthau did not want me to."

MR. PAUL: Then we are--

H.M.JR: What is he going to say? What is Paul going to say?

MR. ODEGARD: Couldn't he say that the Treasury is not prepared to do that until the results of their study are in?

MR. PAUL: That would be very unfortunate, Peter. "What the devil has the Treasury been doing all these months?" all the newspapers will say.

H.M.JR: You two go after him for a minute.

MR. KUHN: "You have asked for a plan. Here is a plan. We do not like the plan because we submitted a plan which we studied long and hard, and presented to you, to raise six and a half billion dollars, the spendings tax."

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MR. PAUL: We can do that. If you want that, we can do it.

MR. KUHN: I do not think the effect of that would be to show that the Secretary is opposed to inflation controls.

MR. PAUL: The effect of that will be if they take the plan every editorial will read somewhat as follows: "The Treasury had its little favorite plan. It did not care what happened about inflation unless its plan was adopted. It presented a plan which was much better only under duress of the Committee. The Committee is entitled to all the credit for stopping inflation."

MR. KUHN: But the same about the sales tax--

MR. GASTON: I do not think it would correctly--

MR. PAUL: We have a better argument on the sales tax. That is so rotten we have a--

MR. KUHN: No conservative paper is going to say that the Secretary is heart and soul behind the inflation drive until he comes out for a sales tax.

MR. GASTON: That would not correctly represent the Secretary's position or the Treasury's position; that is, this plan is better than nothing. It does not approach the problem controlling expenditure. It is not as good as the spendings tax, but rather than have nothing--

MR. PAUL: It is a hell of a lot better than the sales tax.

MR. GASTON: We shouldn't say it is no good.

H.M.JR: It is just better than nothing.

MR. GASTON: It is better than nothing, yes. Otherwise, we are stultifying ourselves in even presenting it.

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H.M.JR: Herbert, you were here when Paul came in about this time on Thursday and wanted me - I do not know what day it was - lunch hour - and wanted me to settle something.

MR. GASTON: Plan one.

H.M.JR: I went all through the thing like Ferdie did. "I gave them a plan - they can take it and like it." Then he finally left and I told Paul, "You go up and do the best you can; just don't get me in the papers. Do the best you can," which he did, and as a result there was nothing in the papers. He did a good job, but now they come back and say, "You give us a plan that will produce five billion dollars," and don't think that those fellows - they are a long way from being economists, but they are pretty shrewd politicians, and they do know how to talk to the newspapers; they are past masters at that.

MR. PAUL: They certainly are.

H.M.JR: And we are not.

MR. PAUL: They are so much better than the Ways and Means Committee at that.

MR. GASTON: They have asked us for a plan, a forced savings plan, the best we can devise to meet this problem, and we are bound to give them what we think is the best in the form of a forced savings plan to meet this situation.

MR. PAUL: We are bound to say it is not as good.

MR. GASTON: Not as good as the spendings tax, but it will accomplish something.

H.M.JR: That is where I have arrived, Herbert.

MR. GASTON: Otherwise we cannot present it.

MR. PAUL: Then they say, "Mr. Morgenthau, assuming that a spendings tax is out, do you recommend it?"

- 32 -

And I say yes or no. And if I say no, we are before the country in a very unfortunate light.

MR. GASTON: We have absolutely stultified ourselves if we say that, because they asked us to present something that would be helpful.

MR. PAUL: I mean, on the point that we would only do it our way.

Additional tax and compulsory lending plan

1. Personal exemptions for the individual income tax would be reduced to \$500 for a single person, \$1,000 for a married couple, and \$250 for each dependent.
2. Surtax rates applicable to 1943 income would be increased by approximately 5 percentage points above the rates tentatively adopted by the Senate Finance Committee.
3. These changes in rates and exemptions would be substituted for the Victory tax.
4. A compulsory loan would be imposed on individuals equal to 10 percent of their surtax net income in excess of the above exemptions. The compulsory loan would apply first to 1943 income.
5. The compulsory loan would be limited to a maximum of one-half of income remaining after taxes (to prevent the combined rate of taxation and compulsory lending from exceeding 100 per cent).
6. Collection at source would be started January 1, 1943, at a rate of 25 per cent on net income above exemptions. Fifteen per cent would represent collection of regular income tax. The other 10 per cent would represent collection of the compulsory loan.
7. To prevent doubling-up collection of 1942 and 1943 taxes, surtax rates applicable to 1942 income would be reduced by approximately 10 percentage points below the rates tentatively adopted by the Senate Finance Committee. (In this way, the 15 percent collected at source would be equal to the difference between the rates applicable to 1942 and 1943 income.)

September 13, 1942

RB:mv
9/13/42



TREASURY DEPARTMENT
WASHINGTON

September 14, 1942.

MEMORANDUM FOR THE SECRETARY:

Re: Attached Statement on "Compulsory Lending."

This statement was considered at a conference in Mr. Bell's office Saturday afternoon.

As the result of that conference, I have the following opinion:

1.--Without regard to the merits of this new scheme, the statement would generally be received as inconsistent with, and a repudiation of, your statement issued on Friday.

2.--If a Treasury spokesman is permitted to make any such statement, it will destroy the confidence of the War Savings organization in the Treasury--to say nothing of the companies cooperating in the payroll allotment plan and their employees. It will result in the early collapse of the voluntary War Savings effort, regardless of anything we may try to do to prevent this.

3.--As to the merits of the scheme, these points should be considered:

(a) This plan is different from, and concededly inferior to, the spendings tax which you have advocated.

(b) The scheme as presented would produce only \$4 billion (probably less), and would sacrifice voluntary savings of far greater magnitude.

(c) The plan is described as being "simple." The statement says that it would present little administrative difficulty. This is disingenuous, to say the least. The plan would involve withholding at the source, and would require the Treasury to keep book accounts with 40,000,000 individuals. Actually, the administration of any such plan would be complicated, difficult, and expensive. It is scarcely too much to say, in view of existing shortages of labor and equipment, that it would break down of its own weight.

Recommendation

My recommendation is that we stand on your statement of Friday; that, if any plan such as the attached is to be submitted to the Finance Committee, it be done without Treasury sponsorship or approval; that, if we are compelled at this time to advocate a savings plan to "supplement" the voluntary plan, we stand by the spendings tax; and that for further action along this line we await the outcome of the studies to be made by the special joint committee which it is proposed to establish to study the whole subject of forced savings.

GRAVES.

Draft of statement on compulsory lending

The need for compulsory lending

In a statement to your Committee on September 8, 1942, Secretary Morgenthau emphasized the need for additional taxes to draw into the Treasury additional funds out of the earnings and savings of the people, substantially in excess of the provisions in H.R. 7378. Since that date your Committee has provided some increases in income tax rates. This meets part of the additional need discussed with you by Secretary Morgenthau. It, however, meets only part of it. The Treasury is firmly convinced that much greater burdens must be imposed.

The problem goes beyond the Treasury's need for additional war revenue. The serious threat of inflation is of equal, if not greater importance. Unless this threat is met by adequate measures, it will seriously impede the war effort and drastically disrupt the financial position of every American. To prevent dangerous inflationary increases in prices a far greater restriction of consumer spending is required than will result from H.R. 7378, as modified by your Committee.

The Treasury would prefer to meet the present financial needs of the war by reliance upon taxes, which would be most effective in controlling inflation. However, saving and lending out of the current income of individuals would be of substantial assistance in checking the demand for goods and would thus achieve much of the anti-inflationary effect of taxes.

- 2 -

For the purpose of providing funds to pay for the war and as a measure for helping to check inflation, the Treasury recommends the adoption of a compulsory lending plan. Under the proposed plan individuals would be required to lend to the Government approximately \$4 billion a year at present levels of income.

A compulsory lending plan will in many cases reduce the amounts which workers can spare for the purchase of War Bonds under the voluntary deduction plans. For this reason only part of the lendings of individuals to the Government under the compulsory plan will be an addition to their present lendings. The two programs will supplement each other and should be operated side by side. "In the face of present conditions", to quote the Secretary, "we can no longer afford to rely entirely upon voluntary lending."

The compulsory lending plan proposed is simple, equitable, and effective. Its administration would be closely integrated with that of the individual income tax and, therefore, would present little administrative difficulty.

- 3 -

Summary of the plan

1. The compulsory lending plan would apply to individuals. It would not apply to corporations.
2. The amount of compulsory lending would be based on net income. The plan would become effective on January 1, 1943, with respect to income received after December 31, 1942.
3. The rate would be 10 percent.
4. The base for the assessment would be surtax net income, adjusted for personal exemptions, family allowances, and part of fixed commitments.
5. The filing requirement would be \$500 gross income for single individuals and \$750 for married couples.
6. Every individual filing a return would be allowed a specific exemption of \$500. In addition a \$25 credit against the amount of compulsory loan would be allowed for the spouse and for each dependent.
7. To prevent a combined income tax and forced loan effective rate in excess of 100 percent on very large incomes, the amount of the compulsory loan would be limited to one-half of the income remaining after payment of income taxes.
8. The compulsory loan return would be incorporated into the individual income tax return -- both the short and long form.

- 4 -

9. The compulsory loan would be collected at source on wages, salaries, and dividends, and would be combined with the collection at source of the Victory tax. Those liable to compulsory lending having substantial income from sources not subject to withholding would be required to file simplified quarterly returns. Final annual returns and final payments would be due on March 15th of the succeeding year. Excess collections would be refunded immediately or credited against current taxes due.

10. The loan would be evidenced by certificates issued by collectors of internal revenue. The Treasury Department would maintain a book account for each lender. The certificates would be nontransferable and would bear no interest. Within one year after the end of the emergency, the face amount of the certificates would be converted into non-interest-bearing, callable War Loan Bonds maturing in five years. The bonds would be callable at any time before maturity at the discretion of the Secretary of the Treasury.

Outline of the plan

The compulsory lending plan would apply to individuals. It would not apply to corporations. Estates would be exempt, and provision would be made for meeting the special requirements of trusts and other fiduciaries.

- 3 -

Loan base

Individuals would be required to make loans to the Government in accordance with the size of their net income. The base would be surtax net income adjusted for personal exemptions and fixed commitments. In some respects, net income as defined for income tax purposes is too narrow for purposes of forced lending. It, however, has the overwhelming advantage of simplicity for the taxpayer and the Government. A minimum of additional computations and record-keeping would be required. These considerations have led the Treasury to select net income as the base for compulsory lending, despite some of its limitations.

Rate of assessment

Individuals would be required to lend the Government 10 percent of their adjusted net income. The flat 10 percent rate would make the computation of the assessment simple.

Under H. R. 7378, as modified by your Committee, the combined maximum income and Victory tax can exceed 90 percent of net income. This, in combination with a 10 percent compulsory loan, could in some cases require individuals with very high incomes to turn over to the Government a sum in excess of their net income. To avoid this possibility, it is proposed to limit the amount of the compulsory loan to one-half of the individual's income remaining after payment of the Federal income and Victory tax. This limitation

- 6 -

would become operative at approximately \$225,000 of net income.

Filing requirements

All single persons receiving gross incomes of \$500 and all married persons receiving gross incomes of \$750 would be required to file returns.

Personal exemptions and credits

Every individual filing a return would be granted an exemption of \$500. This corresponds to the \$500 personal exemption for single individuals under the income tax, tentatively approved by your Committee.

In addition, a credit of \$25 against the loan requirement would be allowed for a spouse and for each dependent. Under a 10 percent rate each \$25 credit would in effect provide an additional exemption of \$250.

Except for single individuals, the exemptions under the compulsory lending plan would in effect be lower than those provided in the income tax. It is essential that they be lower. To provide an adequate curb on the rising threat of inflation, sufficient purchasing power cannot be sterilized in the hands of individual consumers unless the exemptions are at least as low as those here suggested. Furthermore, a temporary burden in the form of a compulsory loan can be imposed on groups on which it would not be desirable to levy permanent tax burdens. Sacrifices must be made now. The levy proposed will impose smaller burdens on the lower income groups than a sales tax designed to immobilize the same volume of purchasing power or inflation.

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Fixed commitments

It is proposed to provide relief to prevent hardship in the case of individuals with heavy fixed commitments such as mortgage repayment on owner-occupied homes, debt repayment, and life insurance. Some relief for these commitments is already provided under the Victory tax as approved by your Committee. It is proposed that for purposes of the compulsory lending plan one-half of the payments of life insurance premiums and repayments of debt contracted before January 1, 1942, and voluntary purchases of war bonds not taken into account in computing the post-war credit of the Victory tax, be allowed as a deduction from the base. A limited relief provision would not seriously endanger the main objective of the compulsory lending plan because the savings involved in such cases are also effective in achieving the anti-inflationary objectives of the plan.

Collection of the compulsory loan

It is proposed that the compulsory loan be collected at source from wages, salaries, and dividends. Collection at source from wages and salaries would be combined with the collection at source already provided for in connection with the Victory tax. The employer would deduct the aggregate amount due for the Victory tax and the compulsory loan, without distinguishing between the two. Collecting the compulsory loan therefore would impose little or no extra burden.

Persons with a substantial amount of income not subject to collection at source - - namely, recipients of interest, profits from

- 2 -

independent business or profession, rents, etc., would be required to file simple quarterly returns with an annual adjustment.

Terms of the loan

The compulsory loan made by the individual to the Government would bear no interest and would be non-negotiable. Each year the Collector of Internal Revenue would issue a non-interest bearing certificate to the lender as an evidence of his loan. The Treasury Department would maintain a book account ~~with~~ for each lender. Within one year after the end of the Emergency, the face amount of the certificates would be converted into non-interest bearing, non-negotiable, callable War Loan Bonds maturing in five years. These Bonds would be callable at an earlier date by the Secretary of the Treasury. Special provision would be made for earlier redemption in cases of demonstrated distress.

Redemption at the discretion of the lender might add fuel to a threatened inflation either during the war or immediately thereafter. At the same time, it is undesirable to provide a rigid repayment date, since it is impossible to foresee now the most desirable timing of the release of the funds in the post-war period. For this reason provision is made for enabling the Treasury to repay the loan at any time during the five years immediately following the conversion of the certificates after the war.

Effective date

The plan outlined above would become effective on January 1, 1943, with respect to income received after December 31, 1942.

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Estimates

It is estimated that under the compulsory lending plan here proposed approximately million individuals would lend the Government approximately \$ billion a year. Tables 1, 2, and 3 show the combined income tax, Victory tax, and compulsory loan at various income levels.

Treasury Department, Division of Tax Research

September 12, 1942

H-RICHMOND

Amount of liability and effective rate of compulsory loan, under Senate Finance Committee income tax rates and exemptions, with and without Victory tax under Treasury Compulsory Loan Plan

Single person - no dependents

Net income : before personal exemption	Treasury compulsory loan proposal ^{1/}		Amount of combined compulsory loan and		Effective rate of combined compulsory loan and	
	Under Senate Income tax	Under Senate Income tax plus Victory tax ^{2/}	Senate Income tax	Senate Income tax plus Victory tax ^{2/}	Senate Income tax	Senate Income tax plus Victory tax ^{2/}
					Percent	Percent
\$ 600	\$ 10	\$ 10	\$ 22	\$ 24	3.7	4.0
800	30	30	73	83	9.1	10.4
1,000	50	50	124	142	12.4	14.2
1,500	100	100	266	305	17.7	20.3
2,000	150	150	418	473	20.9	23.9
3,000	250	250	752	854	25.1	28.5
5,000	450	450	1,480	1,685	29.6	33.3
10,000	950	950	3,516	3,900	35.2	39.1
25,000	2,450	2,450	12,251	13,289	49.0	53.1
100,000	9,950	9,950	74,766	79,790	74.8	79.6
500,000	42,605	28,981	457,396	471,019	91.5	94.2
1,000,000	72,605	45,088	927,396	954,908	92.7	95.5
5,000,000	312,605	173,981	4,687,396	4,826,019	93.7	96.5

^{1/} Amount of loan is 10 percent of net income in excess of the exemption of \$600, but not to exceed one-half of the income remaining after tax.

^{2/} After post-war credit of Victory tax.

Amount of liability and effective rate of compulsory loan, under Senate Finance Committee income tax rates and exemptions, with and without Victory tax, under Treasury Compulsory Loan Plan.

Married couples - no dependents

Net income before personal exemption	Treasury compulsory loan proposal ^{1/}		Amount of combined compulsory loan and income		Effective rate of combined compulsory loan and income	
	Under Senate income tax	Under Senate income tax plus Victory tax ^{2/}	Senate income tax	Senate income tax plus Victory tax ^{2/}	Senate income tax	Senate income tax plus Victory tax ^{2/}
					Percent	Percent
\$ 600	--	--	--	1	--	.2
800	5	5	5	13	.6	1.6
1,000	25	25	25	40	2.5	4.0
1,500	75	75	114	145	7.6	9.7
2,000	125	125	250	298	12.5	14.9
3,000	225	225	556	637	18.5	21.2
5,000	425	425	1,256	1,404	26.1	28.1
10,000	925	925	3,252	3,567	32.5	35.7
25,000	2,425	2,425	11,620	12,636	47.3	50.8
100,000	9,925	9,925	74,160	78,684	74.2	78.7
500,000	42,913	29,539	457,088	470,461	91.4	94.1
1,000,000	72,913	45,651	927,088	954,350	92.7	96.4
5,000,000	312,913	174,539	4,687,088	4,825,461	93.7	96.5

^{1/} Amount of loan is 10 percent of net income in excess of an exemption of \$500 for husband, less a credit of \$25 for wife. The amount of the compulsory loan is not to exceed one-half of the income remaining after tax.

^{2/} After post-war credit of Victory tax.

Amount of liability and effective rate of compulsory loan, under Senate Finance Committee income tax rates and exemptions, with and without Victory tax, under Treasury Compulsory Loan Plan 1.

Married couple - two dependents

Net income before personal exemption and dependent credit	Treasury compulsory loan proposal 1/		Amount of combined compulsory loan and		Effective rate of combined compulsory loan and	
	Under Senate income tax	Under Senate income tax plus Victory tax 2/	Senate income tax	Senate income tax plus Victory tax 2/	Senate income tax	Senate income tax plus Victory tax 2/
					Percent	Percent
\$ 500	\$ --	\$ --	\$ --	\$ 1	--	.2
600	--	--	--	7	--	.9
1,000	--	--	--	14	--	1.4
1,500	25	25	25	54	1.7	3.6
2,000	75	75	95	149	4.8	7.0
3,000	175	175	374	450	12.5	15.0
5,000	375	375	1,044	1,182	20.9	23.6
10,000	875	875	2,998	3,292	30.0	32.9
25,000	2,375	2,375	11,422	12,182	46.7	48.7
100,000	9,875	9,875	73,612	77,936	75.6	77.9
500,000	43,177	29,903	456,824	470,097	91.4	94.0
1,000,000	73,177	46,015	926,824	953,986	92.7	95.4
5,000,000	313,177	174,903	4,686,824	4,825,097	93.7	96.5

1/ Amount of loan is 10 percent of income in excess of an exemption of \$500 for husband, less a credit of \$25 for wife and each dependent. The amount of the compulsory loan is not to exceed one-half of the income remaining after tax.

2/ After post-war credit of Victory tax.

September 14, 1942
12:18 p.m.

HMJr: Hello.

Allan
Sproul: Hello, Mr. Secretary.

HMJr: Good morning.

S: I'm sorry. Mr. Rouse and I were out selling your new tax notes, and that's why it took a little time to get us on the phone.

HMJr: Well, I - well, that's what I wanted to find out. How are - how do they like them?

S: I think they like them, and I think they think they're going to sell. For instance, we were just in a meeting with the principal government security dealers

HMJr: Yeah.

S: getting them lined up to give some instructions to the rest of the investment bankers on the sale of these notes, and they all thought they were going to be a saleable piece of paper.

HMJr: Good. Good. Well, that's all I wanted to know.

S: And I think the rest of the market has as far as we've been able to ascertain, has accepted them. I had a meeting here of the Executive Committee of my Victory Fund Committee this morning, and they also thought that they were a saleable piece of paper, and that they should go well.

HMJr: Good. I just wanted to get the first impression.

S: Well, that's the way it looks.

HMJr: Thank you.

S: All right.

HMJr: Bye.

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TREASURY DEPARTMENT

TO: Mrs. Klots

Signed by the Secretary at the
Staff meeting this morning.

GEORGE BUFFINGTON



TREASURY DEPARTMENT

WASHINGTON

September 14, 1942.

To the President of the Banking Institution addressed:

The Victory Fund Committees throughout the country will assist the Treasury in the distribution of Tax Savings Notes. The official circulars describing these notes have been sent to you by the Federal Reserve Bank in your district.

The terms of the Series A Notes have been changed so as to permit a purchaser to present amounts up to \$5,000 per annum in payment of taxes, whereas the Series A Notes were formerly limited to \$1,200 per annum.

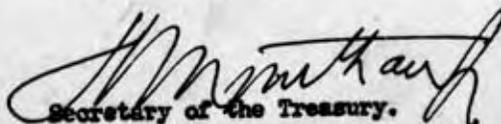
A new Tax Savings Note, designated Series C, will be offered. It will mature three years from date of purchase and may be used in unlimited amounts in payment of taxes. Series C Notes will be redeemable with accrued interest, except by commercial banks, and therefore offer an unusually attractive medium for those seeking temporary investment of funds.

Both series of new Tax Savings Notes will be offered to the public on September 14, 1942.

It would be most helpful to the Committees, as well as to the taxpayers in your community, if you will designate a convenient place in your bank where prospective purchasers of Tax Savings Notes may obtain information and make application for purchase.

I shall appreciate your cooperation.

Very truly yours,


Secretary of the Treasury.

FOR DEFENSE



BUY
UNITED
STATES
SAVINGS
BONDS
AND STAMPS

The National City Bank
of New York
ESTABLISHED 1812

New York September 14, 1942

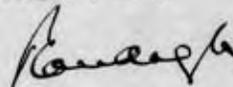
OFFICE OF
THE VICE CHAIRMAN
OF THE BOARD

Dear Henry:

While your letter of September 14 to banking institutions does not necessarily call for a reply it gives me an opportunity to say that here at the Bank we are making sure that all our people are well informed about the new tax notes and will bring them to the attention of their customers. Each one of our branches is prepared to give information and take subscriptions. The new notes are much more attractive than the old series and I should anticipate that they will bring in a substantial amount of funds.

The more I think about it the more firmly convinced I am that the next move in anti-inflationary bond sales is a concentrated united effort, - call it a drive, if you will, carefully set up in advance as they are doing it in Canada. Large additional amounts of funds can, I believe, be reached in that way, particularly if the tax bill can be disposed of first.

Sincerely yours,



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

September 14, 1942.

My dear Mr. President:

I am enclosing herewith a copy of a summary circular prepared in connection with the new Tax Savings Notes placed on sale today.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

The President,

The White House.

Sent over by Secret Service
9/14/42 4:20 pm

OB:dwb

TREASURY DEPARTMENT

TO: Miss Chauncey

These are the enclosures for the letters to the President and Vice President and Cabinet. I had expected these letters would be returned for mailing, but learn that you mail them.

GEORGE B. WILSON

**UNITED STATES TREASURY
VICTORY FUND COMMITTEE**

September 14, 1942

TAX SAVINGS NOTES

The Secretary of the Treasury is offering new and revised series of Treasury Tax Savings Notes to provide (a) a convenient and systematic method of accumulating funds for the payment of taxes, and (b) an exceptionally attractive medium for the safest investment in the world for idle funds, particularly those held by business concerns and others who have unemployed cash seeking short-term investment. These notes constitute an important part of war financing.

Tax Savings Notes continue to be issued in two series — Series A designed primarily for small or moderate taxpayers, and Series C intended for the larger taxpayers and investors. The principal features of these notes are:

SERIES A	SERIES C
Price: Par and accrued interest.	Par.
Date and Maturity: Dated September 1, 1942, due September 1, 1945. Not callable.	Dated first day of month in which purchased, maturing in three years from that date. Not callable.
Interest: Interest accrues at 16 cents a month per \$100 or at interest rate of about 1.92% a year. If not used for tax payment, no interest paid.	Interest accrues each month from date of issue on a graduated scale per \$1,000 as follows: First ¼ yr.....\$0.50 ¼ to 1 yr..... 0.80 1 to 1½ yrs..... 0.90 1½ to 2 yrs..... 1.00 2 to 2½ yrs..... 1.10 2½ to 3 yrs..... 1.10 Average interest rate about 1.07% a year if held to maturity.
Denominations: \$25, \$50, \$100, \$500, \$1,000, and \$5,000.	\$1,000, \$5,000, \$10,000, \$100,000, \$500,000, and \$1,000,000.
Acceptable for taxes: \$5,000 limit in one year. Each series may be presented for taxes at par and accrued interest during and after second calendar month after date of purchase.	Unlimited.
Denom. exchange: Each series may be exchanged from higher to lower but not from lower to higher denominations.	
Form: Name and address of single owner inscribed as in income tax return, but not issued in names of two or more persons jointly.	
Redemption for cash: At purchase price only without advance notice.	At par and accrued interest, after 6 months from purchase date upon 30 days' notice, or at maturity.
Collateral: Not eligible for loans.	Eligible for loans from banking institutions only.

SERIES A

SERIES C

- Transfer:** None, except by parent corporation to its subsidiary in which it owns more than 50% voting stock.
- Conversion:** Series A and B purchased in September, 1942, may be converted into new series with certain limitations.
- Taxes:** Income subject to all Federal taxes. The notes are subject to estate, inheritance, gift or other excise taxes, Federal or State, but are exempt both as to principal and interest from all State or local taxation.
- When and where purchased:** At any time. Through Federal Reserve banks and branches, and the Treasury. For convenience, applications may be made through local banks and security dealers generally.

For complete and governing details, please consult official circulars enclosed.

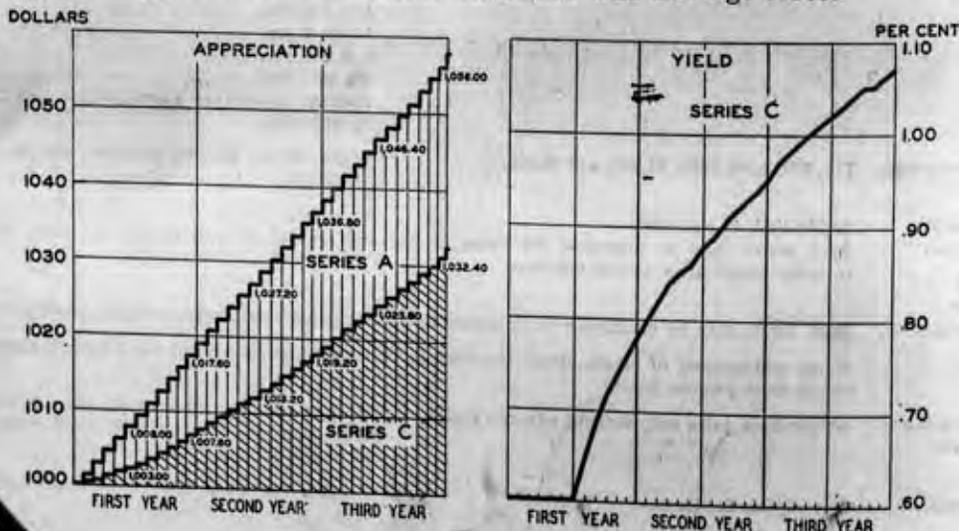
The Secretary of the Treasury has asked us to assist in the distribution of Tax Savings Notes, and it therefore becomes our responsibility to do an effective job. The new Series C notes provide greater flexibility, higher return, and a desirable outlet for employment of short-term funds. The charts at the bottom of this page show appreciation and yields of the notes. The sale of these notes gives us an excellent opportunity to play a significant part in Government war financing. It is a challenge to make our organization a real Victory Fund Committee.

FOR THE VICTORY FUND COMMITTEE

Chairman

Executive Manager

Appreciation and Yields on \$1,000 Tax Savings Notes



September 14, 1943.

My dear Henry:

I am enclosing herewith a copy of a summary circular prepared in connection with the new Tax Savings Notes placed on sale today.

Sincerely yours,

(Signed) Henry

Honorable Henry A. Wallace,

Vice President of the United States.

By Messanger *Salay 4.25*

QB:dwb

September 14, 1942.

My dear Henry:

I am enclosing herewith a copy of a summary circular prepared in connection with the new Tax Savings Notes placed on sale today.

Sincerely yours,

(Signed) Henry

Honorable Henry A. Wallace,

Vice President of the United States.

QB:dwb

By Messenger

**UNITED STATES TREASURY
VICTORY FUND COMMITTEE**

September 14, 1942

TAX SAVINGS NOTES

The Secretary of the Treasury is offering new and revised series of Treasury Tax Savings Notes to provide (a) a convenient and systematic method of accumulating funds for the payment of taxes, and (b) an exceptionally attractive medium for the safest investment in the world for idle funds, particularly those held by business concerns and others who have unemployed cash seeking short-term investment. These notes constitute an important part of war financing.

Tax Savings Notes continue to be issued in two series — Series A designed primarily for small or moderate taxpayers, and Series C intended for the larger taxpayers and investors. The principal features of these notes are:

SERIES A

Price: Par and accrued interest.

Date and Maturity: Dated September 1, 1942, due September 1, 1945. Not callable.

Interest: Interest accrues at 16 cents a month per \$100 or at interest rate of about 1.92% a year. If not used for tax payment, no interest paid.

Denominations: \$25, \$50, \$100, \$500, \$1,000, and \$5,000.

Acceptable for taxes: \$5,000 limit in one year. Each series may be presented for taxes at par and accrued interest during and after second calendar month after date of purchase.

Denom. exchange: Each series may be exchanged from higher to lower but not from lower to higher denominations.

Form: Name and address of single owner inscribed as in income tax return, but not issued in names of two or more persons jointly.

Redemption for cash: At purchase price only without advance notice.

Collateral: Not eligible for loans.

SERIES C

Par.

Dated first day of month in which purchased, maturing in three years from that date. Not callable.

Interest accrues each month from date of issue on a graduated scale per \$1,000 as follows:

First ¼ yr.....	\$0.50
¼ to 1 yr.....	0.90
1 to 1½ yrs.....	0.90
1½ to 2 yrs.....	1.00
2 to 2½ yrs.....	1.10
2½ to 3 yrs.....	1.10

Average interest rate about 1.07% a year if held to maturity.

Denominations: \$1,000, \$5,000, \$10,000, \$100,000, \$500,000, and \$1,000,000.

Unlimited.

At par and accrued interest, after 6 months from purchase date upon 30 days' notice, or at maturity.

Eligible for loans from banking institutions only.

SERIES A

SERIES C

- Transfer:** None, except by parent corporation to its subsidiary in which it owns more than 50% voting stock.
- Conversion:** Series A and B purchased in September, 1942, may be converted into new series with certain limitations.
- Taxes:** Income subject to all Federal taxes. The notes are subject to estate, inheritance, gift or other excise taxes, Federal or State, but are exempt both as to principal and interest from all State or local taxation.
- When and where purchased:** At any time. Through Federal Reserve banks and branches, and the Treasury. For convenience, applications may be made through local banks and security dealers generally.

For complete and governing details, please consult official circulars enclosed.

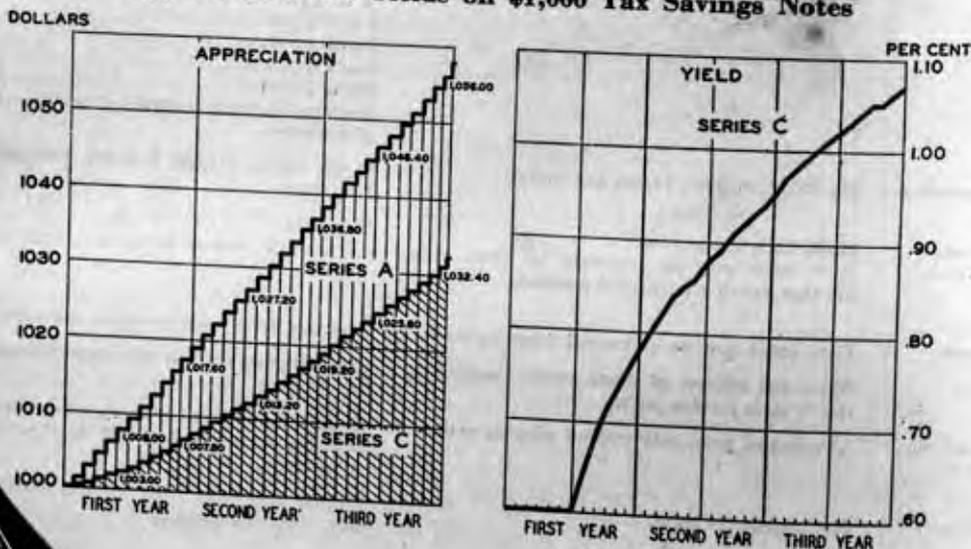
The Secretary of the Treasury has asked us to assist in the distribution of Tax Savings Notes, and it therefore becomes our responsibility to do an effective job. The new Series C notes provide greater flexibility, higher return, and a desirable outlet for employment of short-term funds. The charts at the bottom of this page show appreciation and yields of the notes. The sale of these notes gives us an excellent opportunity to play a significant part in Government war financing. It is a challenge to make our organization a real Victory Fund Committee.

FOR THE VICTORY FUND COMMITTEE

Chairman

Executive Manager

Appreciation and Yields on \$1,000 Tax Savings Notes



September 14, 1942.

My dear Harold:

I am enclosing herewith a copy of a summary circular prepared in connection with the new Tax Savings Notes placed on sale today.

Sincerely yours,
(Signed) Henry

Honorable Harold L. Ickes,
Secretary of the Interior.

GB:dwb

By Messenger

Sturges 4:25

September 14, 1942.

My dear Harold:

I am enclosing herewith a copy of a summary circular prepared in connection with the new Tax Savings Notes placed on sale today.

Sincerely yours,

(Signed) Henry

Honorable Harold L. Ickes,

Secretary of the Interior.

GB:dwb

By Messenger

September 14, 1942.

My dear Henry:

I am enclosing herewith a copy of a summary circular prepared in connection with the new Tax Savings Notes placed on sale today.

Sincerely yours,

(Signed) Henry

Honorable Henry L. Stimson,
Secretary of War.

GB:dwb

By Messenger *Sturgis 4-28*

September 14, 1942.

My dear Henry:

I am enclosing herewith a copy of a summary circular prepared in connection with the new Tax Savings Notes placed on sale today.

Sincerely yours,

(Signed) Henry

Honorable Henry L. Stimson,

Secretary of War.

GB:dwb

By Messenger

September 14, 1942.

My dear Frank:

I am enclosing herewith a copy of a summary circular prepared in connection with the new Tax Savings Notes placed on sale today.

Sincerely yours,

(Signed) Henry

Honorable Frank Knox,

Secretary of the Navy.

GB:dwb

By Messenger

Sturgis
4.25

September 14, 1942.

My dear Frank:

I am enclosing herewith a copy of a summary circular prepared in connection with the new Tax Savings Notes placed on sale today.

Sincerely yours,

(Signed) Henry

Honorable Frank Knox,
Secretary of the Navy.

GB:dwb

By Messenger

September 14, 1942.

My dear Cordell:

I am enclosing herewith a copy of a summary circular prepared in connection with the new Tax Savings Notes placed on sale today.

Sincerely yours,

(Signed) Henry

Honorable Cordell Hall,
Secretary of State.

By Messenger

Sturgis
4:25

GB:dwb

September 14, 1942.

My dear Cordell:

I am enclosing herewith a copy of a summary circular prepared in connection with the new Tax Savings Notes placed on sale today.

Sincerely yours,

(Signed) Henry

Honorable Cordell Hall,
Secretary of State.

By Messenger

GB:dwb

September 14, 1943.

My dear Frances:

I am enclosing herewith a copy of a summary circular prepared in connection with the new Tax Savings Notes placed on sale today.

Sincerely yours,

(Signed) Henry

Honorable Frances Perkins,

Secretary of Labor.

By Messenger

Schuy 4:25

GB:dwb

September 14, 1942.

My dear Frances:

I am enclosing herewith a copy of a summary circular prepared in connection with the new Tax Savings Notes placed on sale today.

Sincerely yours,

(Signed) Henry

Honorable Frances Perkins,

Secretary of Labor.

By Messenger

GB:dwb

September 14, 1942.

My dear Jesse:

I am enclosing herewith a copy of a summary circular prepared in connection with the new Tax Savings Notes placed on sale today.

Sincerely yours,

(Signed) Henry

Honorable Jesse H. Jones,

Secretary of Commerce.

GB:dwb

By Messrs.

Sehey 4:25

September 14, 1942.

My dear Jesse:

I am enclosing herewith a copy of a summary circular prepared in connection with the new Tax Savings Notes placed on sale today.

Sincerely yours,

(Signed) Henry

Honorable Jesse H. Jones,
Secretary of Commerce.

GB:dwb

By Messenger

September 14, 1942.

My dear Claude:

I am enclosing herewith a copy of a summary circular prepared in connection with the new Tax Savings Notes placed on sale today.

Sincerely yours,
(Signed) Henry

Honorable Claude R. Wickard,
Secretary of Agriculture.

GB:dwb

By Messenger *Schey 4:25*

September 14, 1942.

My dear Claude:

I am enclosing herewith a copy of a summary circular prepared in connection with the new Tax Savings Notes placed on sale today.

Sincerely yours,

(Signed) Henry

Honorable Claude R. Wickard,
Secretary of Agriculture.

GB:dwb

By Messenger

September 14, 1942.

My dear Francis:

I am enclosing herewith a copy of a summary circular prepared in connection with the new Tax Savings Notes placed on sale today.

Sincerely yours,

(Signed) Henry

Honorable Francis Biddle,

Attorney General.

By Messenger *Schuy 4:25*

GB:dwb

September 14, 1942.

My dear Francis:

I am enclosing herewith a copy of a summary circular prepared in connection with the new Tax Savings Notes placed on sale today.

Sincerely yours,

(Signed) Henry

Honorable Francis Biddle,

Attorney General.

GB:dwb

By Messenger

September 14, 1942.

My dear Frank:

I am enclosing herewith a copy of a summary circular prepared in connection with the new Tax Savings Notes placed on sale today.

Sincerely yours,

(Signed) Henry

Honorable Frank C. Walker,
Postmaster General.

GB:dwb

By Messenger

Schuy 4:25

September 14, 1942.

My dear Frank:

I am enclosing herewith a copy of a summary circular prepared in connection with the new Tax Savings Notes placed on sale today.

Sincerely yours,

(Signed) Henry

Honorable Frank C. Walker,

Postmaster General.

GB:dwb

By Messenger

September 14, 1942
12:50 p.m.

Operator: Go ahead.

HMJr: Hello.

Harold Ickes: Say, Henry.

HMJr: Yes, Harold.

I: I have a little problem over here, which you are concerned with, although you don't know it.

HMJr: Yeah.

I: Captain of the Park Police is a man by the name of Raspberry.

HMJr: Raspberry?

I: Yes, sir.

HMJr: Not blackberry?

I: No. Red raspberry.

HMJr: Yeah.

I: He's applied for service with the Coast Guard and I've understood that the thing was well on its way through. Now, the reason I'm calling you up

HMJr: Harold, may I interrupt you?

I: Yeah.

HMJr: You're a little bit behind the times.

I: Yeah.

HMJr: Coast Guard left me.

I: Oh, my, that's right.

HMJr: It's with Frank Knox.

I: It is with Frank Knox - that's right.

HMJr: Yeah. I have nothing to do with it.

- 2 -

I: Yeah, I had forgotten it. Sorry to have butted in on you.

HMJr: No bother

I: I forgot.

HMJr: at all. No bother.

I: I want to talk to you one of these days.

HMJr: I'm available.

I: I'll put on your mourning, and I'll put mine on, and we'll - we'll have a session.

HMJr: Okay.

I: All right.

HMJr: Let me know when you're ready.

I: I will.

HMJr: I'll supply the handkerchiefs.

I: All right. (Laughs) Good-bye.

HMJr: Bye.

September 14, 1942

MEMORANDUM FOR THE SECRETARY'S DIARY:

The Secretary and I visited the President this afternoon. The appointment was for 2:10, but the President was somewhat late because of a previous conference with Lew Douglas. We spent about fifteen minutes with him.

We showed him a copy of the plan (Method No. 1) which involves a reduction of 1942 rates; an increase of 1943 rates; total withholding at the source of 25 percent and a compulsory savings feature. We explained to him the attitude of the Senate Finance Committee; recounted my conversations with Senator George, and asked him for his approval of the suggested program. He said that he saw nothing new in it but compulsory saving and collection at the source. We explained that collection at the source was already in the House Bill and that our plan merely increased the rate. He asked the question how employers could determine how much to withhold, and this matter was explained to him.

There was some discussion as to whether we should go beyond the point of submitting data in response to the Committee's request. I explained that it was necessary for us to take a position, because the Committee always asked us whether we favored legislation. It was agreed we could say we favored the legislation assuming that the spendings tax was out. In other words, we still thought the spendings tax best, but with that tax out of the picture, we thought the additional money should be raised in the manner suggested in this plan.

The Secretary at one point suggested that the President help us, if the Senate brings in this plan, to secure approval by the House. The President said he did not like to intervene where there was disagreement between the Senate and the House. I then suggested that he have a private interview with Mr. Doughton, who I thought would be much influenced by the President's attitude. The President said that was a different matter, and that he might do so with a little "Sweetie" stuff. He said that he called Mr. Doughton "Sweetie."

REP

Sept. 14, 1942

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This is the plan which Blough presented to me, and this is the one we presented to the President today.

Additional tax and compulsory lending plan

1. Personal exemptions for the individual income tax would be reduced to \$500 for a single person, \$1,000 for a married couple, and \$250 for each dependent.
2. Surtax rates applicable to 1943 income would be increased by approximately 5 percentage points above the rates tentatively adopted by the Senate Finance Committee.
3. These changes in rates and exemptions would be substituted for the Victory tax.
4. A compulsory loan would be imposed on individuals equal to 10 percent of their surtax net income in excess of the above exemptions. The compulsory loan would apply first to 1943 income.
5. The compulsory loan would be limited to a maximum of one-half of income remaining after taxes (to prevent the combined rate of taxation and compulsory lending from exceeding 100 per cent).
6. Collection at source would be started January 1, 1943, at a rate of 25 per cent on net income above exemptions. Fifteen per cent would represent collection of regular income tax. The other 10 per cent would represent collection of the compulsory loan.
7. To prevent doubling-up collection of 1942 and 1943 taxes, surtax rates applicable to 1942 income would be reduced by approximately 10 percentage points below the rates tentatively adopted by the Senate Finance Committee. (In this way, the 15 per cent collected at source would be equal to the difference between the rates applicable to 1942 and 1943 income.)

September 13, 1942

September 14, 1942
2:57 p.m.

HMJr: Hello.

Operator: Miss Kennedy, Senator George's secretary.

HMJr: Thank you. Hello.

Operator: Go ahead.

HMJr: Hello.

Christie Bell
Kennedy: Yes, sir, Mr. Secretary.

HMJr: How are you?

K: I'm fine, thank you. How are you?

HMJr: Good: It's apple time again.

K: Oh, do you have apples now?

HMJr: Yeah.

K: Wonderful! I made apple sauce yesterday.

HMJr: Good.

K: Uh - huh.

HMJr: All right. Well, we won't forget you.

K: Well, that'll be fine.

HMJr: Miss Kennedy.

K: Yes, sir.

HMJr: Do you suppose you could get the Senator to go
some place where he could talk to me and Mr. Paul
a minute?

K: You mean, right now?

HMJr: Right now.

K: Sure. I'll get him to come around here.

HMJr: How will that be?

- 2 -

K: That'll be fine. It's 342.

HMJr: All right, and you call me on District 2626 - will you?

K: Uh - huh.

HMJr: District 2626.

K: And your extension there?

HMJr: Well, that's - I have my own operator.

K: All right, sir. Fine.

HMJr: That's just - that's just my own number.

K: Well, then - I'll call you right back.

HMJr: Thanks.

K: Thank you.

September 14, 1942
3:03 p.m.

HMJr: Hello.

Operator; Go ahead.

HMJr: Hello.

Christie Bell
Kennedy: Senator George said he would be around to
you in about ten minutes, Mr. Morgenthau.

HMJr: In about ten minutes?

K: Yes, sir.

HMJr: Thank you-all.

K: Thank you.

HMJr: Good-bye.

cc: Mr. Paul

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September 14, 1942
3:22 p.m.

HMJr: Hello.

Oscar
Cox: Hello, Mr. Secretary.

HMJr: Hello, Oscar.

C: How are you?

HMJr: I'm fine.

C: Sorry to bother you.

HMJr: You can't bother me.

C: Some months ago, Sammy Klaus and ourselves
were interested in this internal security thing.

HMJr: Yes.

C: And since then he's run down some fairly important
stuff

HMJr: Yes.

C: and I understand that Randolph is going to
talk to you tomorrow about it.

HMJr: Yes.

C: If we can give you any assistance on following it
up, we're very delighted to do it. It's pretty
darn important in terms of this over-all security
thing.

HMJr: Well, it hasn't reached me yet.

C: Yeah. Well, it will be on your door step, I think
at three tomorrow.

HMJr: At three tomorrow?

C: Yeah, and I'd like to talk to you about it if
you have a few minutes on it.

HMJr: Surely.

C: Right.

- 2 -

HMJr: Surely. I - it hasn't gotten to me yet.

C: Yeah.

HMJr: Or when I get it, I'll - I'll - we'll get together.

C: Fine. Thank you.

HMJr: Thank you.

C: Good-bye.

Copies to: Mr. Paul and Mr. Blough
Mr. Graves

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September 14, 1942
3:35 p.m.

Miss Kennedy: Mr. Morgenthau.

HMJr: Hello.

Sen. Walter George: Yes.

HMJr: This is Henry Morgenthau, Walter.

G: Yes, Henry.

HMJr: I wouldn't have brought you out, but I thought it was important enough to do it.

G: Yes.

HMJr: Now, Randolph's been talking to me about this business of - you asked him to figure on about raising another five billion dollars.

G: Yes.

HMJr: And, they have a suggestion, and before we went any further, frankly, we wanted to clear it with the President. That's what we have been doing.

G: I see.

HMJr: Now, the President said "okay", but this is the point that I wanted to make, because this is the straight-out part of it is for compulsory savings.

G: Yeah, that's right. I've - I've carefully gone over it, in reference - not with everybody, because I couldn't afford to do it, I didn't want everybody to be getting something in the newspapers.

HMJr: And the point is that we didn't want it launched, so to speak, unless we had a - well, at least a fifty-fifty chance of success, because it would hurt the volunteer War Bond sale.

G: I realize that, and I haven't been able to bring it up - out in the open, because I know it will go right straight in the newspapers

HMJr: I see.

G: and I thought that was inadvisable.

- 2 -

HMJr: I see.

G: And I've been spending an hour canvassing certain leading men, and they don't believe that we could succeed with it at this time.

HMJr: I see.

G: Now they - they're rather positive in their views. I thought that I might persuade them but they said, no that that matter ought to be studied a little bit and we wouldn't get anywhere with it right now.

HMJr: I see. Well, I just wanted to know - let you know that the end - this end of the Executive Avenue, we were ready to go along.

G: I can present it, and we can try it out, but I'm afraid to do so at this time, because of the adverse affect it might have on the other program.

HMJr: Well, the War Bond people think that if it was suggested and then knocked down, it would hurt them terrifically.

G: Well, that's what I imagine. Yes.

HMJr: Yeah. Well

G: And the best information I can get, and I talked with five different men that I felt I could trust, and that would be influential about it, and they said ~~not~~ bring it out now.

HMJr: I see. Well, then the thing that - hello?

G: Hello?

HMJr: I was telling them to try - to see if they could find Paul. He was around here somewhere. Well, Paul will be in touch with you.

G: Yes. He'll come over, I imagine.

HMJr: And - well, he may have left. He may have gone on up there.

G: Yes.

- 3 -

- HMJr: But - well, anyway, we - we'll continue to work together.
- G: Yes. Now, the attitude they took was that the resolution we'd already passed, they thought was the best approach, and let the matter be studied a little bit and we'll - I'll try to shorten up the time for that report until some date early in December.
- HMJr: I see.
- G: And they think that's the best and I have to defer to them, because they were very positive about it.
- HMJr: Well - well, this conversation is just between us
- G: Yes, that's right.
- HMJr: we're the only fellows. Because as I say, if it could go through - okay.
- G: Yeah. That would be all right.
- HMJr: But if it couldn't
- G: And I thought it might - the other day I thought - I felt rather confident that it might, but then I knew we had to run the gauntlet of the House people even if it did
- HMJr: Yeah.
- G: and I didn't get much consolation out of Mr. Bob on the point. He - he seemed to think his people wouldn't want to hear it. However, I've talked with about five of the best men over here who I knew would not mention it at all - wouldn't let it go into the newspapers. The newspapers have gotten some little wind that maybe something else was considered, and they're trying to dig it out, you see?
- HMJr: Well, Walter, what's going to happen to this suggestion of yours, on the five per cent tax - or so-called Victory-Fund tax?
- G: I don't know, Henry, what will happen to it. They may have some motions to make over there

in the Committee Room now.

HMJr: Yeah.

G: And I was - I came over here and thought maybe you all had already arrived, or would be arriving, and they - in the meantime, the Committee, I left them considering other matters, but in the meantime they had to go to the Floor for a - for a vote.

HMJr: Yeah, well

G: And, I don't know what may happen to it.

HMJr: Well, I didn't think it was wise for me to come up there, without first talking to you on the phone.

G: I don't think it is necessary for you to come because my judgment is now, that we couldn't accomplish anything on it.

HMJr: But whenever I go up there, I'm always seen, and it always starts a lot of gossip.

G: Yeah. That's right.

HMJr: Well, Walter, I just - one other thing, while I have you on the phone. Now this suggestion, as I say, why, we were ready to go along - it's as far as I'm concerned, it's a much second or third run - choice

G: Yes.

HMJr: because we still think that the - that suggestion we made on tax-on-spending would do the job much better than this would.

G: Yes. Well, I tell you we'll have a chance to review that in this hearing - that is, in this sub-committee.

HMJr: Sub-committee?

G: Joint committee.

HMJr: And I'm a member of that, am I not?

- 5 -

G: Yes, you are a member.
HMJr: Right.
G: Yeah.
HMJr: Well, thank you so much.
G: All right.
HMJr: Thank you.
G: All right.

September 14, 1942
3:45 p.m.

TAXES

Present: Mr. Bell
Mr. Gaston
Mr. Graves
Mr. Kuhn
Mr. Gamble
Mr. White
Mr. Odegard
Mr. Haas
Mrs. Klotz

H.M.JR: Well, we saw the President and he approved this, and I have just got through, this second, talking to Walter George. He had been checking it confidentially, he said, with five different Senators, and he said he could not get any encouragement from them. I gathered that Paul must have impressed on him - you (Graves) will read the conversation with him - the fact that there must not be any leaks. They decided that they were not going to do anything about it at this time; that they would let the committee, of which I am a member, take it up and bring in a report about December first.

MR. BELL: You mean do nothing on this thing we were talking about this morning at all until December first?

H.M.JR: That is right.

MR. BELL: Until December first?

H.M.JR: Until this Committee studies the question of compulsory savings and brings in a report.

MR. BELL: That is what I mean, the deadline of which is December 1?

- 2 -

H.M.JR: He said early in December.

MR. ODEGARD: That means there will be nothing in this bill, then?

H.M.JR: Not if Walter George has his way. So to speak, he kept faith, I kept faith, and Paul kept faith, as far as not having anything go out which would be - you know, it has not turned out. So there you are. And to be frank, I am terribly discouraged to think - not discouraged but disappointed is the word, that they would not do something. I think it is a tragedy. I am glad that it did not go up and come down within the hour. That would have been most unfortunate. I mean, if there had been a skyrocket go up in tomorrow morning's papers and they voted it down again, twelve to two or twelve to one, but I think it is - I do not know when we are going to get total war on taxes. So you can go down - when are you leaving?

MR. GRAVES: This evening at six-forty.

H.M.JR: So you can go down without worrying about picking up tomorrow morning's papers and seeing that I have said that the thing is so and so, on so and so. That is that.

Paul was not here; he was on the way up. But George said he checked very carefully with five Senators whom he could trust, and he said he could not get one of them interested.

MR. ODEGARD: Did they give any reasons, Mr. Secretary?

H.M.JR: None. Did you hear any?

MRS. KLOTZ: No.

MR. BELL: They just were not interested?

H.M.JR: You see, the conversation I had - I am having it quickly typed. It is going in to Harold's office. They just were not interested and did not want to take it up at this time.

- 3 -

MRS. KLOTZ: That is what I got.

H.M.JR: They did not give any reasons.

MR. ODEGARD: Does that mean the "Victory Tax" stays in?

H.M.JR: I asked him that question. He said he did not know. I asked him that question, point-blank; he said, "I do not know." So he said he would protect it up at that end, so let's us not get any leaks down at this end. Don't go talking about that, my being for compulsory savings, now! (Laughter)

MR. GRAVES: I will try to restrain myself.

H.M.JR: Be careful. (Laughter). All right.

MR. ODEGARD: There will be an ecstatic silence. (Laughter)

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

MR. BELL: Well, I think that--

H.M.JR: What are you all waiting for? (Laughter)

MR. BELL: I think that if you get some action in this committee and can get Congress to go quickly on the spendings tax, that you gain rather than lose, in the end. That is my feeling.

H.M.JR: I do not know.

MR. BELL: I know you are disturbed about the inflation, and I think something ought to be done quickly, but--

H.M.JR: I do not think anything should be done quickly. I just think we should be ready to handle it by the first of January.

- 4 -

MR. GASTON: They ought to get more straight revenue into the bill, now.

H.M.JR: Well, we have to do more propaganda work.

MR. WHITE: Is there any possibility of resuscitating expenditure rationing through OPA?

H.M.JR: I will tell you - well, this committee will now be appointed and we will go to work. I am a member of it. So you can start in by resuscitating me.
(Laughter)

MR. GRAVES: Is that being done by joint resolution, apart from the tax bill, itself?

H.M.JR: It is not clear. I have asked that. I am not clear whether it is in the joint or whether it is a joint resolution. I understood Blough to say, this morning, that the resolution had passed. Now, that would mean a joint resolution, separate from the bill. You might ask some of the tax boys.

TREASURY DEPARTMENT

99

INTER OFFICE COMMUNICATION

DATE

September 14, 1942

TO Secretary Morgenthau
FROM Ferdinand Kuhn, Jr.

James B. Carey of the C.I.O. says that he will pay a tribute to you on the Town Hall of the Air either this week or next, by way of answering the recent criticism of the Electrical Workers Union in Cleveland. Carey will say that the C.I.O. endorses wholeheartedly your efforts to close the loopholes and otherwise to give us a sound, fair, and adequate tax program and that any criticisms expressed by a local union certainly do not meet with the approval of the national C.I.O.

Philip Murray was on the road at the time of the Cleveland resolution, and Carey, as a delegate, did not feel he could make the answer on that evening. The resolution was slipped through by Russell Nixon without Carey's knowledge and was read to the convention in such a way that very few on the floor had the slightest idea of what was being said. You will remember that this is the same union which fired Mr. Carey as an officer last year, and it has been behaving badly under Nixon's influence ever since.

F. K.

Mr. Paul;

The Secretary would like you to speak to him about the letter from Mr. Griswold, copy attached.

9/16/42

N.M. Chauncey

Note: Mr. Paul handled this personally with Mr. Griswold.

Law School of Harvard University,
Cambridge, Mass.

September 14, 1942

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

Dear Mr. Secretary,

Since our meeting in your office last Friday morning, I have put in a good deal of time in thinking over the suggestions which you made. I told you in our telephone conversation Saturday that I wanted to try to get my thoughts down on paper. This letter is being sent in compliance with my promise at that time. The question has a good many facets, and I know that you will understand that my effort to keep this letter as short as possible does not allow me to do more than summarize the way my thoughts now stand.

It seems to me that the project you have in mind is an important one. I have always agreed with your many statements that the inflation problem is one of the most serious domestic questions arising in the conduct of the war. Failure to recognize its danger, and to meet it and deal with it can do the war effort and the public very serious harm. Some sections of the public understand this now, but there is certainly great room for further education as to the existence of the problem and what has to be done to defeat its threat.

If such an educational program is undertaken, there are a number of details which would require careful consideration. I can give some examples of the questions I have in mind: I am not sure that it is best to proceed through academic channels. Should not the program be handled with broader sponsorship than the Treasury alone? Is it enough to put the problem before the public and discuss it? It seems to me that there should also be developed a fairly definite plan for meeting the problem, and the education and discussion should be not only as to the situation we face but also as to the possible and recommended ways of dealing with it. This means that there should first be developed an effective cooperation and plan between different agencies of the Government primarily concerned with these questions.

Once the plan is developed and agreed upon, there comes the question of presenting it persuasively to the public. The more I have thought about the situation, the more clear it has seemed to me that this is a job for an organizer or promoter. It is essentially a public relations problem. A person has to have a good deal of experience in that field to do that sort of a task well. He has to have many contacts, and he has to have a sort of flair for that sort of work, as well. I am pretty sure that I am not that sort of a person. I do think that there are others who would be well qualified for an undertaking of this sort. I have in mind some names which I would be glad to suggest to you if you would find that helpful.

This is really not modesty on my part. It is rather a conclusion as to the sort of work I should be doing, and my feeling that a square peg should not be put into a round hole. I think that I have experience and capacities which can be useful in the Treasury, and if the proper place for me can be found, I would be very glad to work in the Department. As evidence of my interest, I may say that I have recently declined opportunities to go with other agencies of the Government.

I am a lawyer, and primarily a tax lawyer. I have spent five years in the Department of Justice, during which I briefed and argued many of the important tax cases before the Supreme Court. Since leaving the Government, I have taught Federal taxation at the Harvard Law School. But during this time, I have written a good deal, I have talked frequently before bar associations and other groups, and I have carried on a considerable practice both in the courts and before the Bureau of Internal Revenue. I am much interested in questions of coordination and cooperation between the Justice and Treasury Departments in tax matters, and between the Bureau and other parts of the Treasury.

As this shows, my experience and interest are in the field of tax law. I would of course be glad to assist you by speaking in connection with the project you have in mind.

Please let me assure you of the real difficulty with which I have come to this conclusion, and of my appreciation for your thinking of me in connection with your plan.

Sincerely yours,


Erwin N. Griswold



TREASURY DEPARTMENT

WASHINGTON

September 14, 1942

MEMORANDUM FOR THE SECRETARY:

Re: "Pete" Street

Mr. Street works for Mr. Kuhn. Accordingly, upon receipt of your confidential inquiry about him, dated September 11, I asked Mr. Kuhn for a full account of his duties and assignments.

Mr. Kuhn's report is attached. I believe it fully answers your inquiry.

GRAVES.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 14, 1944

to Mr. Harold N. Graves
FROM Mr. Ferdinand Kuhn, Jr.

Julian Street's job is to enlist the help of the writers, book publishers, and to a lesser extent, the illustrators and magazine editors for whatever purpose the Treasury may require. He reports to me, since his work is not only concerned with War Savings but with any other Treasury activity that may need promotion of this kind.

At present he is working chiefly on War Bond activities in the following ways:

1. He has been most helpful to the farm section in persuading the Country Gentleman editors to lay out our new farm pamphlet, and then in persuading them to give us the use of their 3,100,000 mailing list stencils for distributing the farm pamphlet. This is the first time the Country Gentleman has made its mailing list available to anybody.
2. He has been equally helpful to the education section in persuading the editors of the Ladies Home Journal to launch the "Schools At War" program through their magazine. In particular, he succeeded in obtaining for War Bond purposes the old bricks from Independence Hall (the property of the Ladies Home Journal) to be used as awards in the "Schools At War" program, and he has been arranging the presentation ceremony on September 25th.
3. He obtained for the War Bond organization the free use of a number of paintings by outstanding American artists, of which we selected two for use as our farm poster and our swastika poster.
4. He has persuaded leading book publishers and authors to agree that the authors of new books shall write a brief appeal for War Bonds to be printed on the jackets of their new books. These little articles by outstanding writers have then been made available to the press and are being used on a large scale.
5. He has obtained War Bond articles from each of the Presidential wives or widows beginning with Mrs. Benjamin Harrison, and these, too, are being made available to the press and to magazines.

The book which he edited, "There Were Giants in the Land", was published last week by Farrar and Rinehart and a review in yesterday's New York Herald Tribune is attached herewith. This series of articles on great Americans was begun by him last year, with the idea that it might be useful in our War Bond promotion. He first selected the writers and assigned the subjects to them, usually after personal discussion with them. The articles turned out so well that he then persuaded the Bell Syndicate to use them serially in more than a hundred Sunday newspapers. He then brought these articles to the Reader's Digest, which

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published two of them. Book publication by Farrar and Rinehart followed, and there is to be a similar publication in England by Jonathan Cape with an introduction by Lord Halifax. Freedom House next made a radio series of these articles, and is broadcasting them once a week over CBS with the authors themselves on the air. At present the articles are being distributed in Spanish in South America with the cooperation of the Rockefeller organization.

Last year, at Secretary Morgenthau's request, Mr. Street took the final report of the Nucky Johnson investigation, persuaded Jack Alexander to write it and then helped to get it published in the Reader's Digest.

This is not a full catalog of his activities, but will give you an idea of what he has been doing. He works in New York from Monday through Wednesday and in Washington from Thursday through Saturday, an arrangement which is working well from our standpoint. In all of these activities of his, personal acquaintance with the writers and publishers is the greatest possible asset, and Mr. Street has the widest personal acquaintance in these fields of anyone I know. He is in more or less constant touch with the Writers War Board and similar bodies, and in this way is in an unusual position to be of service to the War Savings Staff or to any other promotional activity of the Treasury.

J.K.

These Were Americans, and They Were Great

Urbane, Dignified and Powerful "Propaganda"—Characters of the American Past

THERE WERE GIANTS IN THE LAND! Twenty-eight Historic Americans As Seen by Twenty-eight Contemporary Americans. With an introduction by Henry Morganthau Jr. Illustrated by Charles Child. . . 242 pp. . . New York: Farrar and Rinehart. . . \$2.

Reviewed by
GERALD W. JOHNSON

THINK HISTORY of the Treasury building, in his introduction, that the essays in this book are written as the suggestions of his department because "we at the Treasury felt that it would help the American people to learn the historic significance of this generation if they were reminded of the courage, industry and sacrifice with which the leaders of this generation met their duty."

If you glance, therefore, you may think propaganda. Be that as it may, it is an exquisite and luminous book, striking at its core, stirring in mood, and making no pretensions and assuming no boasts. It is thus actually different from most of the propaganda in which we are accustomed. It differs from most propaganda in yet another way, in that it is readable throughout and many of its pages are delightful reading. The effort was not in any case to present a historical, or even an outline of the careers of the subject, but only to stir and convey that spirit of the man which the author himself speaks of for our times. Yet it is probable that few readers will go through the book without having some facts of which they were hitherto ignorant.

Two points will dignify of such value as the work possesses. The first is indicated by the list of subjects and goes beyond debate by the list of writers who deal with them. The names, and numbering 1-27, mentioned, were discreetly held in reserve to a single page, are: George Washington, John Jay, Alexander Hamilton, William Bradford, Thomas Jefferson, James Madison, James Monroe, Andrew Jackson, Andrew Knox, Alexander Hamilton, William Astor, Marquis de Lafayette, George Washington, Mark Van Doren, Edwin Arlington Robinson, Lyman Bryson,

Henry Commager, Struthers Burt, Frederick Lewis Allen, W. E. Woodward, Claude Bowers, Angie Herndon, Douglas S. Freeman, Esther Forbes, Henry Seidel Canby, Allan Nevins, John P. Marquand, Rupert Hughes, Heiense Huntington Smith, Wendell Willkie, Fannie Hurst and Carl Sandburg.

Any one who would look for uniformity of style or approach in a book by twenty-eight such disparate writers could hardly be a rational man. Yet there is one striking unanimity characteristic of the series, every writer, without exception, obviously holds his subject in tremendous respect. Possibly this might not always apply to the whole man, but it always applies to the aspect of him dealt with here; that is to say, his aspect as a servant of the nation. One hesitates to describe it as patriotism, for that is too narrow a word to cover every case. In men of genuinely colossal stature patriotism is usually but one facet of a character equally admirable, and equally valuable to the nation, on many other sides. For example, the patriotism of Abraham Lincoln contributed only a fraction of the sum total of his value to his country. In men who have given greatly to America, patriotism is underlain and supported by a generosity of spirit that is one of the attributes of greatness. Carl Sandburg writes beautifully of Lincoln in this book, and leaves the reader convinced that Lincoln was not great because he was a patriot, but a patriot because he was great.

Naturally, the book is not unexceptionable. No one ever made a list of great men, or of great books, or of great paintings, or of great races, without involving, may, challenging, criticism of his taste and his information. Why did he include this and exclude that? In fairness it should be noted that no claim is made that these are the twenty-eight "greatest" Americans, but only that they are great ones; yet the title does imply that they were all giants, and that in at least open to doubt. Washington, Franklin, Jefferson, Hamilton, Lincoln, yes, certainly; but in that galaxy, what is Lee Wallace doing? Or Paul Harvey? Or James Lawrence?

Not even the magic of both Tar-kington can persuade the reader

that General Wallace, although an admirable citizen as well as the author of "Sea Sur," is tall enough to be impressive in the company into which he is thrust. Not even the craft of John P. Marquand can make James Lawrence other than a rather silly fellow who threw away a fine ship and the lives of many brave men by a vainglorious gesture. Not even the ardor of Esther Forbes can infuse Paul Harvey into anything more than an excellent silver-smith, one of whose deeds attracted the attention of a poet.

The omissions are perhaps even more questionable than the inclusions. Why Daniel Webster and not Henry Clay? Why Joseph Goldberger and not Walter Reed? Why Curdson and not Brandeis? Why Frederick Douglass and not Booker Washington? But that sort of criticism, of course, can be kept up indefinitely, and could be made no matter who had been included; it carries little weight.

On the other hand, some of the selections, considered in conjunction with the purpose of the book, are as happy as they are unexpected. Thomas, for example, may be one of the most heavily overrated writers



Daniel Webster



Henry David Thoreau

in literary history, but as a man wise and independent of the tyranny of possessions, his example is certainly valuable in a day when restrictions grow more rigid almost hourly. Nathan Hale, whose life was so memorable at all, though his death was, is worth our attention now. He regretted that he had but one life to give for his country; but he proved abundantly that one life, given nobly, is enough to make a man's memory imperishable and to inspire and strengthen his countrymen through generation after generation.

Occasionally one picks up an item of information well designed to cause a lift of the eyebrows, as when Fannie Hurst speaks of Benjamin Cardozo as "one of the outstanding chief justices in the history of his country," when that country wasn't aware that he was chief justice at all; or as when Struthers Burt, writing of Thomas Paine, remarks in an aside, "Years later Abraham Lincoln was to say that 'a house divided against itself cannot stand.'" Ignoring the notion cherished by St. Matthew and St. Mark that it was Jesus of Nazareth who said that.

But as a rule the essays are sound enough, historically; the writers, after all, were not delving into obscure phases of their subjects' careers. True, Mr. Commager is taking a long lead off base when he says of William J. Bryan, "his career was characterized throughout by utter integrity, unqualified sincerity, . . . bourgeois consistency," but there is no doubt that a great many Americans believe that.

On the other hand, there are occa-

sionally as many points in the volume at which enthusiasm must rise high. Carl Sandburg's "Lincoln" I think is superb, though the parallel between Lincoln's troubles and those of a later war President is as close that it may be irritating to some people. Heiense Huntington Smith does a remarkably good job in recommending that forgotten hero of

the Revolution, Francis Marion, and Wendell Willkie treats Carl Schurz ably and justly. It goes without saying that you have good writing when Benet treats Webster, and Marquis James, Andrew Jackson, and Nevins, Grover Cleveland, and half a dozen other eminent biographers handle their favorite subjects. I confess, though, that Rupert Hughes's six and a fraction pages on George Washington seem to me to hurl a heavier salvo than any of the other big guns. To be sure, Mr. Hughes had the greatest of the great for his subject, but to have crowded so much of the greatness of Washington into so small a space is a triumph of good writing.

To sum up, "There Were Giants in the Land" is an admirable lesson in Americanism—urbane, dignified, yet powerful in its restraint. It is true and it is the sort of truth in which Americans may rejoice and take comfort, and which they may present to their friends without apology. If this is propaganda, let us have more.

Aircraft Manual

JANES ALL THE WORLD'S AIRCRAFT, 1941. Compiled by Leonard Bridgman. . . 558 pp. . . New York: The Macmillan Company. . . \$19.

Reviewed by
WALTER MILLER

JANES "Aircraft," like its older and more famous brother, "Jane's Fighting Ships," is published this year for the first time in the United States; though the familiar format, the advertisements and, unfortunately, the quality of the paper, reduced by war's necessities, proclaim the fact that the book is printed in Great Britain. In the opening "historical" sections there is a good brief summary of Britain's air war in 1941, but for the other countries there was either little to record or else the facts were unavailable. The civil aviation sections are naturally straggled; but the main body of the volume, listing, as far as it can be done, all principal types of such manufacturer in every country, is a great parade

of the weapons of the new war.

For each there is a photograph and the usual technical catalogue of characteristics and performance; for many of the more important, three-view outline drawings are included, a few feature this year. Very little was obtainable on Russian types; the later Japanese planes do not appear, but the German section seems pretty well up to date. The British and American sections are naturally extensive, though one or two types of which details have been released since last year—notably the British four-motored Lancaster—are merely mentioned. On such rather delicate issues as the relative superiority of American and British designs the Annual is carefully discreet. A foreword by Sir Charles Bruce-Gardner, chairman of the Society of British Aircraft Constructors, notes the advances made by both countries in design; "meanwhile," it adds, "much development at which one may not even hint is going rapidly forward, holding great promise for 1942, 1943 and coming years." Earnestly one hopes so.



Julia Ward Howe

Illustrations by Charles Child, from "There Were Giants in the Land"

N. Ord. 6

IN REPLY ADDRESS
BUREAU OF ORDNANCE, NAVY DEPARTMENT
AND REFER TO NO.

NAVY DEPARTMENT
BUREAU OF ORDNANCE
WASHINGTON, D. C.

September 14, 1942

Dear Henry:

I thought you might be interested and amused by the attached which was given to me at the Officers Club, Naval Air Station, Kaneohe Bay in Hawaii last week. They went 100% over their quota for war bonds.

Sincerely,

Lewis

Lewis L. Strauss

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

U. S. NAVAL AIR STATION
KANEHOE BAY, TH

"BUY A BOND AND KISS A BLONDE WEEK"

The week of 28 August to 4 September has been designated as Bond Week for frequenters of the Officers' Club. During that week a Bond Booth will be established in the club to make a convenient purchase point for all interested persons. This booth will be in charge of Mrs. Tate.

Besides the reward in the feeling of giving financial aid to Uncle Sam in the War Effort, each purchaser of \$100.00 worth of bonds or better made during this week will be given:

- (1) A tolling of the bell in his Honor.
- (2) A kiss from an attractive girl.
- (3) Free drinks all afternoon for each \$100.00 or better Bond purchaser on 4 September.
- (4) A chance to dance to beautiful music on 4 September.

The booth in the Officers' Club will be opened each afternoon of this week from 1300 til 1800. There will be bonds of all denominations available—including \$500.00 and \$1,000.00 species.

For all of those holding \$500.00 bonds or better there will be the added reward of a kiss from a very attractive red head. (To be known as a Flaming Mamie Special).

The \$100.00 FREE bond will be drawn at the Club Dance on the afternoon of 4 September. One chance to be given for each purchase of \$100.00 worth of bonds, ie., any holder of \$500.00 worth of bonds will have five chances, etc.

OUR GOAL IS \$10,000.00 WORTH OF BONDS—LET'S DANCE PAST THAT MARK.

Executive Committee.

*\$20,000 of bonds were sold
at this officers club on this day.*

September 14, 1942

My dear Mr. Johnston:

I am addressing this letter to you to ask your personal help in promoting the Pay Roll Savings Plans which have been installed by all the railroads of the country, as part of the war finance program of the United States Treasury.

The Treasury Department firmly believes that the success of its voluntary 10% Pay Roll Savings Plan is a matter of vital importance to the national war effort. The steadily increasing total of War Bond sales through the Pay Roll Savings Plan sustains our confidence that a continuation of the voluntary method can be fully justified - provided the patriotic support of Organized Labor can be maintained and increased. By the end of August, over 18,500,000 persons were participating in Pay Roll Savings and were purchasing in this way over \$225,000,000.00 worth of War Bonds per month.

The record of Pay Roll Savings on the great railroad systems of America is admirable, and this is due to the fine co-operative spirit of Labor and Management. In four or five cases - mostly small railroads - Pay Roll Savings Plans have already reached 100% participation and an allotment of over 10% of gross pay rolls. On most of the principal railroads results are creeping steadily forward toward these twin goals. But these goals can only be reached by the hard work and personal solicitation of leaders among the workers themselves.

I am advised that, while many of your members have been consistent buyers of United States Savings Bonds since 1936, your Brotherhood has not thought it wise to endorse the Pay Roll Savings Plan nor to urge the participation of your members therein. This is proving a handicap to us at a time when unity of effort is vitally important. Your members occupy a position of leadership among railroad workers and the absence of a positively favorable

*Copy - Diary
Copy - Thompson*

Mr. A. Johnston.

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attitude on the part of your Grand Division is a real obstacle to our success. We need the active support of yourself and of all the officials of your Brotherhood.

To win this war we must use every ounce of steam there is in our boilers. We must "go ahead full throttle". We must have the cooperation of all patriotic citizens in plans which have amply proved their effectiveness. Therefore, we need your unstinted help, and I ask that you recommend to all the members of your organization the fullest participation in the Pay Roll Savings Plan.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Mr. A. Johnston,
Grand Chief Engineer,
Brotherhood Locomotive Engineers,
1116 B. of L. E. Building,
Cleveland, Ohio.

JLH:G

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE Sept. 14, 1942.

TO THE SECRETARY
FROM TED R. GAMBLE

Re: LOCKHEED-VEGA COMPANY CAMPAIGN

The campaign started on September 1st, and ended September 5th. At the start of the campaign there was approximately 35% participation with 2%⁺ of payroll. In five days they succeeded in getting 97% participation with 10.85% of payroll. Lockheed-Vega employs some 60,000 people, and the total monthly sales will amount to over \$1,200,000.

UNITED STATES SAVINGS BONDS - SERIES F AND G COMBINED

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

(At issue price in thousands of dollars)

Date	September		Cumulative sales by business days			
	daily sales	September	September	August	July	September as percent of August
September 1942						
1	\$ 7,528	\$ 7,528	\$ 12,222	\$ 12,597		61.6%
2	9,811	17,339	28,810	21,986		60.2
3	9,397	26,735	41,258	32,441		64.8
4	10,678	37,414	54,105	49,175		69.2
5	10,713	48,127	71,552	62,561		67.3
8	18,550	66,678	84,777	84,413		78.7
9	6,072	72,749	92,566	101,585		78.6
10	6,279	79,029	106,782	124,568		74.0
11	7,235	86,263	112,171	141,618		76.9
12	4,342	90,606	120,974	162,232		74.9

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

September 14, 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 September sales to date with sales during the same number of business days in August and July 1942

(At issue price in thousands of dollars)

Date	September	Cumulative sales by business days				September as percent of August
	daily sales	September	August	July		
September 1942						
1	\$ 11,634	\$ 11,634	\$ 14,044	\$ 15,821		82.8%
2	14,748	26,381	36,222	30,701		72.8
3	18,305	44,687	50,797	47,523		88.0
4	17,804	62,491	63,785	77,320		98.0
5	19,166	81,657	86,789	95,044		94.1
8	49,400	131,057	111,748	116,643		117.3
9	13,295	144,352	128,176	139,390		112.6
10	16,430	160,781	154,981	164,161		103.7
11	19,573	180,354	164,866	183,238		109.4
12	9,584	189,938	180,787	209,787		105.1

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

September 14, 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 - TOTAL

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

(At issue price in thousands of dollars)

Date	September : daily : sales	Cumulative sales by business days			September as : percent of August
		September	August	July	
September 1942					
1	\$ 19,162	\$ 19,162	\$ 26,267	\$ 28,418	73.0%
2	24,558	43,720	65,032	52,687	67.2
3	27,702	71,422	92,055	79,964	77.6
4	28,482	99,904	117,890	126,495	84.7
5	29,880	129,784	158,341	157,605	82.0
8	67,950	197,734	196,524	201,056	100.6
9	19,367	217,101	220,742	240,974	98.4
10	22,709	239,810	261,763	288,729	91.6
11	26,807	266,617	277,037	324,856	96.2
12	13,926	280,544	301,761	372,020	93.0

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

September 14, 1942.

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

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

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Sales of United States savings bonds
September 1 through September 12, 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
	Daily	Sept. 1 to date	Sept. 1 to date	to date as % of quota	Daily	Sept. 1 to date	Sept. 1 to date	to date as % of quota	Daily	Sept. 1 to date	Sept. 1 to date	to date as % of quota
1	\$ 11.6	\$ 11.6	\$ 14.9	77.9%	\$ 7.5	\$ 7.5	\$ 6.9	108.7%	\$ 19.2	\$ 19.2	\$ 21.8	88.1%
2	14.7	26.4	34.5	76.5	9.8	17.3	16.6	104.2	24.6	43.7	51.1	85.5
3	18.3	44.7	55.5	80.5	9.4	26.7	26.4	101.1	27.7	71.4	81.9	87.2
4	17.8	62.5	81.0	77.2	10.7	37.4	35.6	105.1	28.5	99.9	116.6	85.7
5	19.2	81.7	98.3	83.1	10.7	48.1	42.2	114.0	29.9	129.8	140.5	92.4
8	49.4	131.1	143.3	91.5	18.6	66.7	58.1	114.8	67.9	197.7	201.4	98.2
9	13.3	144.4	168.8	85.5	6.1	72.7	67.8	107.2	19.4	217.1	236.6	91.8
10	16.4	160.8	193.4	83.1	6.3	79.0	76.7	103.0	22.7	239.8	270.1	88.8
11	19.6	180.4	220.6	81.8	7.2	86.3	84.4	102.3	26.8	266.6	305.0	87.4
12	9.6	189.9	239.2	79.4	4.3	90.6	90.1	100.6	13.9	280.5	329.3	85.2
14			272.7				99.7				372.4	
15			288.2				105.0				393.2	
16			307.6				112.1				419.7	
17			327.2				119.2				446.4	
18			350.1				125.7				475.8	
19			365.4				130.5				495.9	
22			399.6				141.0				540.6	
23			415.7				147.0				562.7	
24			436.2				155.2				591.4	
25			457.1				163.4				620.5	
26			481.4				171.0				652.4	
28			497.4				176.6				674.0	
29			532.7				188.7				721.4	
30			549.2				195.5				744.7	
			570.0				205.0				775.0	

September 14, 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

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE September 14, 1942

TO Secretary Morgenthau
 FROM Mr. Haas
 Subject: Business Situation,
 Week ending September 12, 1942.

Summary

(1) Basic commodity prices moved somewhat higher last week, largely due to strength in grain prices generated by the President's Labor Day anti-inflation message. The BLS index of 28 basic commodity prices rose by a narrow margin above the previous high reached in July. In the week ended September 5 the BLS all-commodity index also advanced to a new high with an increase of 0.2 point.

(2) Living costs continue to rise due to advances in prices of uncontrolled foods. The BLS cost-of-living index by mid-August had risen to 117.4 from 116.9 a month earlier. This is a gain of 19.1 percent over the pre-war level of June 1939. The rise was due to a sharp advance in food costs, while other components of the index on the whole were slightly lower.

(3) Department store sales in the week ended September 5 rose to the highest levels since the week before Easter. The gain over year-earlier levels was 25 percent, but this was partly due to the fact that the 1942 week contained 1 more shopping day. Advance buying of some articles continues to crop out. Thus recent heavy consumer buying of shoes has compelled the WPB to ask retailers to discourage sales of extra pairs of shoes.

(4) Consumer installment debt was cut nearly \$1.6 billions in the first half of the year, and the Department of Commerce estimates that the consumer debt decline for the full year 1942 will total about \$3.5 billions. Curtailment of civilian goods production, particularly automobiles, and curbs on installment credit have been the primary factors in the decline.

(5) Industrial stock prices in London last week moved ahead moderately to the highest levels of the entire war period. Since the outbreak of the war on September 1, 1939, industrial stock prices in London have risen 10 percent in contrast with a decline of 21 percent in New York.

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Anti-inflation program lifts commodity prices

A generally bullish interpretation was given by the commodity markets to the President's Labor Day message. The relatively lenient terms of the recommendation regarding farm prices was apparently the principal influence which lifted some commodity prices to new highs for the war period. The buoyancy of prices last week was dampened only by the release of the official September crop reports, announcing even higher production than was forecast a month ago. The action of the Dow-Jones futures price index and of Moody's spot price index last week is indicated in Chart 1.

Stabilization of farm products at parity or some recent level, whichever is higher, as recommended by the President, would mean that prices of products now above parity will remain high, and that those below parity will be encouraged to rise to parity. The encouragement may take the form of some kind of price floor, such as those set for a number of agricultural products from time to time "for the purpose of stimulating production". The most important group affected by such support would be grains, all except rice being below parity.

Table 1 shows prices at the farm as of August 15 in percent of parity, for a selected group of 21 important farm products. Under the President's suggested plan, price ceilings would be established for the majority of this group around current levels, while prices for those below parity would be allowed to rise to parity. This suggestion had a stimulating effect on grain prices last week, particularly for rye.

It will be noted that among the important commodities listed as below parity on August 15, cotton prices most nearly approached parity, at 96 percent. It has been suggested that the President's plan may act as a deterrent to cotton's going into the Government loan, as the parity ceiling not far above current levels would be substantially above the loan rate.

How prices at which GOC commodity stocks may be sold would be affected, in view of present legal restrictions, is another question under discussion. Inclusion of agricultural benefit payments in estimating parity ceilings, as recommended in the President's message, would be difficult to work out, owing to differences among commodities and geographic areas.

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Cost of living again sharply higher

The cost of living continues to rise because of price advances for uncontrolled foods. The BLS cost-of-living index (1935-39 = 100) rose 0.5 point to 117.4 on August 15, showing approximately the same gain as in the two previous months (See Chart 2.) This carries the index 19.1 percent above the pre-war level of June 1939. Food costs were again sharply higher, while other components on the whole were slightly lower.

Since most cost-of-living food products are already above parity, prices of these could not rise higher under the formula as recommended by the President. However, if price floors should be set also, consumers would have little hope of any decreases in food prices. Moreover, the OPA let it be known last week that relief from price squeezes on a large number of food lines would be granted by October 1, when price ceilings will be raised on a list of food products which press reports place as high as 500.

Commodity prices at new high for war period

The BLS wholesale price index of nearly 900 commodities touched a new wartime high in the week ended September 5, and at 99.1 percent of the level in 1926, stood 32.1 percent above the pre-war level of August 1939. When the terms of the President's program became known last week, staple commodity prices, led by wheat and rye, made pronounced gains. The rise was reflected in the BLS index of 9 uncontrolled commodities, and also in the index of 28 basic commodities, which rose slightly above its July peak. (See Chart 3.)

Among the uncontrolled commodities, rosin led the rise with another substantial increase, amounting to 4.7 percent. Wheat prices reached their highest levels since March, and prices of barley, flaxseed, and cotton also rose. Butter touched another new high for the season, as the Government entered the market for substantial quantities. Prices for steers increased noticeably. Hog prices, on the other hand, reached their lowest levels since June 12 as receipts expanded further, though the prices are still more than 40 percent higher than in the week before Pearl Harbor.

Meat outlook improves

Some relief from the Eastern meat shortage seems to be in prospect after the autumn marketings of hogs attain full volume, and after pork is placed under revised price ceilings

- 4 -

designed to correct various disparities.

Hog slaughter has increased substantially from its summer low in August, and in the week ended September 5 was the largest of the past six weeks. Chart 4 shows the upturn in hog slaughter of the past two weeks and the concurrent decline in the price of hogs. The abrupt decrease in the Department of Agriculture's purchases of pork may have had more effect marketwise than the chart indicates, because purchases since July 3 have consisted chiefly of canned pork. Such purchases presumably have been drawn from stocks rather than from current market supplies.

Canned pork, like canned fruits and vegetables, may be kept for an indefinite period. Among the half dozen types of canned pork developed over the past few years, two are being purchased in some quantity by the Government -- "luncheon meat" made from shoulder trimmings, and canned corned pork known under various trade names, such as "Spam" -- the first because of its abundance, and the second because it is readily handled.

The recession in hog prices in the week before last resulted in an increase in the differential between prices paid for live hogs and prices received for pork products as calculated by the Department of Agriculture, indicating an improvement in packers' margins. Early in the month Armour and Company omitted their dividend, ascribing the omission to uncertainties lying ahead and to operation of the company's meat business at a loss.

Record crop prospects lifted still higher

Crop prospects, outstandingly favorable this summer, improved 5 percent during August according to the Department of Agriculture's crop report as of September 1. In comment, Secretary Wickard warned that despite the large agricultural production, we shall not have enough food to give everyone all he wants, and that foods must be conserved in view of the great demands upon us by our soldiers and Allies.

Led by corn, forecast as the largest crop since 1920, the outlook for the principal feed crops was substantially increased during the month. Oilseed production is expected to be 44 percent larger than ever before, more than compensating for the imports previously obtained from the Far East. The wheat forecast was increased from 955 million bushels to 982 million bushels, approaching the record crop of 1,009 million bushels produced in 1915.

- 5 -

Canadian wheat crop a record

A record Canadian wheat crop of 615 million bushels is forecast by the Dominion Bureau of Statistics. Such a crop would be almost double that produced in 1941, and would compare with the previous production record of 567 million bushels in 1928. As in the United States, the increase is being produced through a rise in yield rather than in acreage.

Department store sales show further gains

Following a greater than seasonal rise in August, department store sales in the week ended September 5 spurted to the highest levels since the week before Easter. Sales ran 25 percent above year-earlier levels, but this was attributable in large measure to the fact that the corresponding week last year had one less shopping day due to the earlier Labor Day holiday. Nevertheless, sales were still a trifle higher than the pre-Labor Day week last year, when a wave of scare buying reached a temporary peak. (See Chart 5.)

Instances of excessive public buying of certain articles continue to crop out. Thus during the past week the WPB requested shoe retailers to discourage unnecessary sales of extra pairs of shoes as a result of heavy consumer buying recently. Retailers were also requested to discontinue advertising and promotions tending to incite public buying now by hinting at possible shortages later on.

Mail order sales substantially below year-earlier levels

Mail order sales last month continued to lag considerably behind last year's boom levels, with Sears Roebuck's and Montgomery Ward's showing declines of around 26 percent and 16 percent respectively from August 1941. As compared with the more nearly normal levels of August 1940, however, both companies still showed gains, with Sears' sales up 10 percent and Ward's sales up 14 percent.

In addition to the adverse effects of output restrictions on the sales of such items as stoves, refrigerators, bicycles and tires, credit restrictions were said to be cutting down on sales. Thus, Sears Roebuck reported that their credit business has been cut 50 percent as a result of credit restrictions imposed under the Government's anti-inflation program.

- 6 -

In contrast with the decline in mail order sales, most leading chain stores in August showed gains over year-earlier levels. J. C. Penney and F. W. Woolworth, for example, showed gains of 25 percent and 10 percent respectively over August 1941. A notable exception to this trend, however, was shown by Bond Stores, a leading retailer of men's clothing, which showed a drop of over 35 percent. This decline tends to corroborate recent trade comment to the effect that men's clothing sales have been adversely effected by the draft, and by uncertainty engendered by prospective broadening of Selective Service requirements.

Heavy liquidation of consumer indebtedness

Tightened credit restrictions undoubtedly have been one of the factors tending to restrain retail sales volume. Considerable progress has been made this year in liquidating consumer debt, and the Department of Commerce recently estimated that during the full year 1942 consumer debt would be reduced by \$3.5 billions. During the first half of the year consumer installment debt was cut nearly \$1.6 billions.

By far the most important factor in the reduction of consumer installment debt in the first half of the year was a 42 percent decline in outstanding automobile installment notes. However, all major categories of retail and cash loan consumer installment debt showed declines, as will be seen in Table 2 attached.

Curtailment in the output of consumer durable goods, such as automobiles, refrigerators, etc., together with credit restrictions, have been the primary factors in the decline in consumer debt. By the middle of 1943 it is expected that finance company holdings of automobile paper will be practically non-existent. In the meantime, finance companies are confronted with the necessity of finding new outlets for their funds. The largest companies are reported to be endeavoring to do direct war financing, and they also have begun to buy up manufacturing companies, including producers of electrical, pumping and well drilling equipment and metal furniture.

New York industrial stock prices lag behind London

The virtual elimination of such usual outlets for funds as new automobiles and new homes has prompted some observers to look for a spilling over of surplus cash into the stock market. Thus far the action of the New York stock market

- 7 -

shows little visible evidence of such diversion of funds. Industrial stock prices have been moving in a very narrow range for about a month, and daily trading volume has not been as high as 500,000 shares since August 19. The volume of stock trading on the New York Exchange in August was 32 percent below year-earlier levels, and was at the lowest level for that month in 24 years.

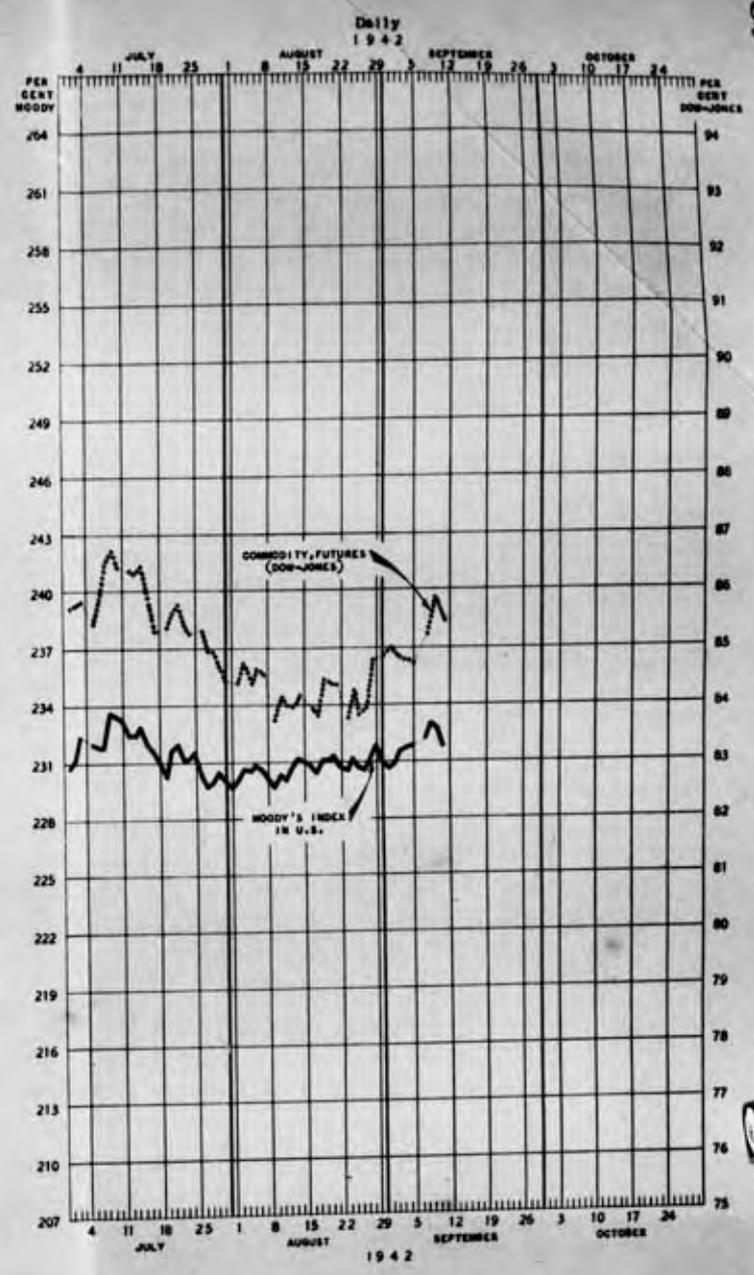
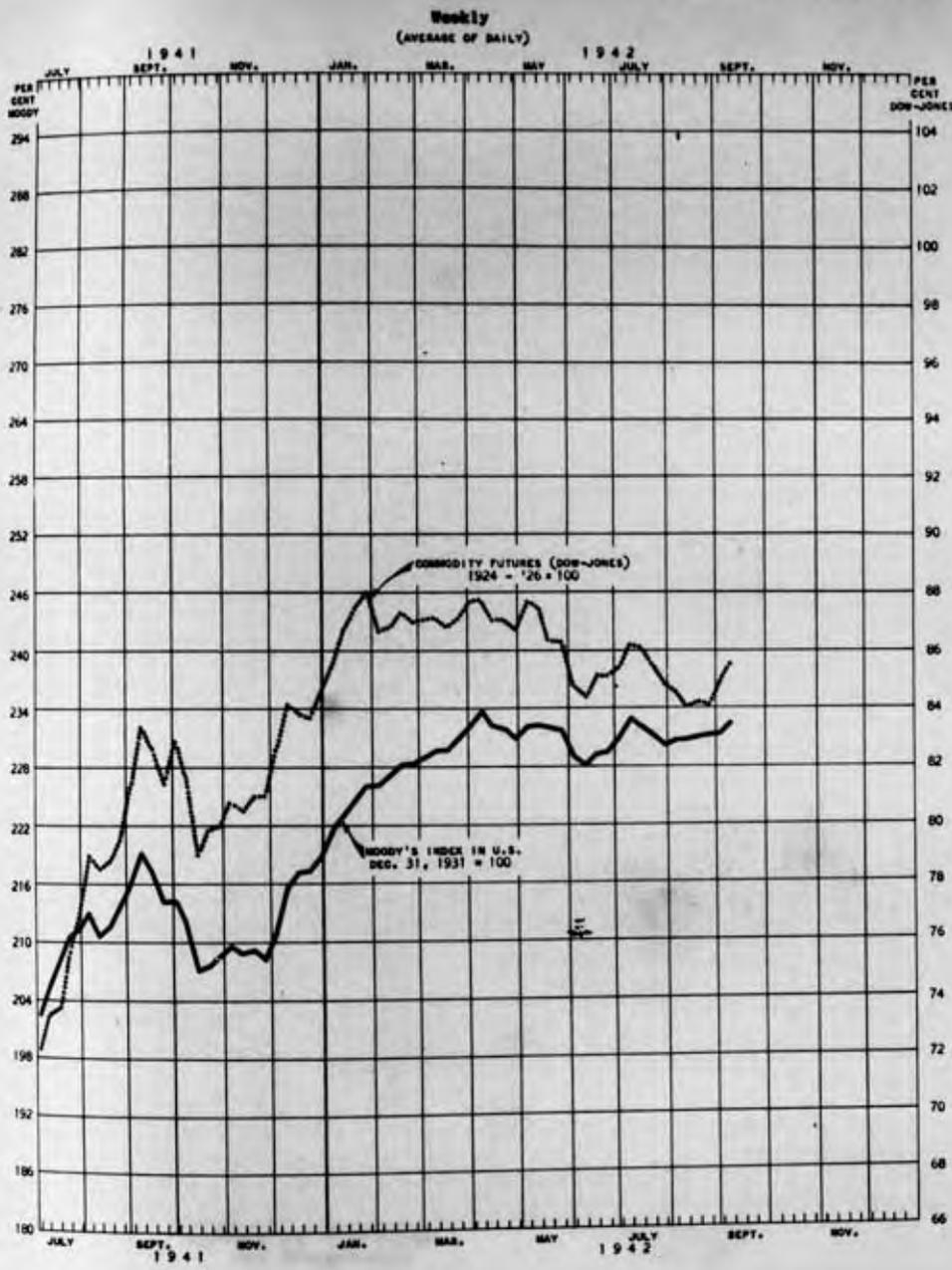
In contrast with the narrow movement in New York, industrial stock prices in London showed further moderate gains last week to reach a new peak for the entire period of the war. (See Chart 6.) At the end of last week, industrial stock prices in London stood 10 percent above the level prevailing on the eve of the outbreak of war, as contrasted with a decline of 21 percent during that period in industrial stock prices in New York.

A variety of reasons have been advanced for the strength in stock prices in London. One viewpoint is that expressed by the London Economist in its issue of July 25, which states in part as follows:

"It is all the more surprising that heavy industrials should be rising well, in view of the known fact that profit margins are being progressively reduced. The buying may be mainly a hedge against the inflation, which threatens to become more marked with every month that passes without the evolution of a genuine price and wage policy, but the market does not seem to be conscious of any such movement of opinion."

COMMODITY PRICE INDEXES IN U.S.

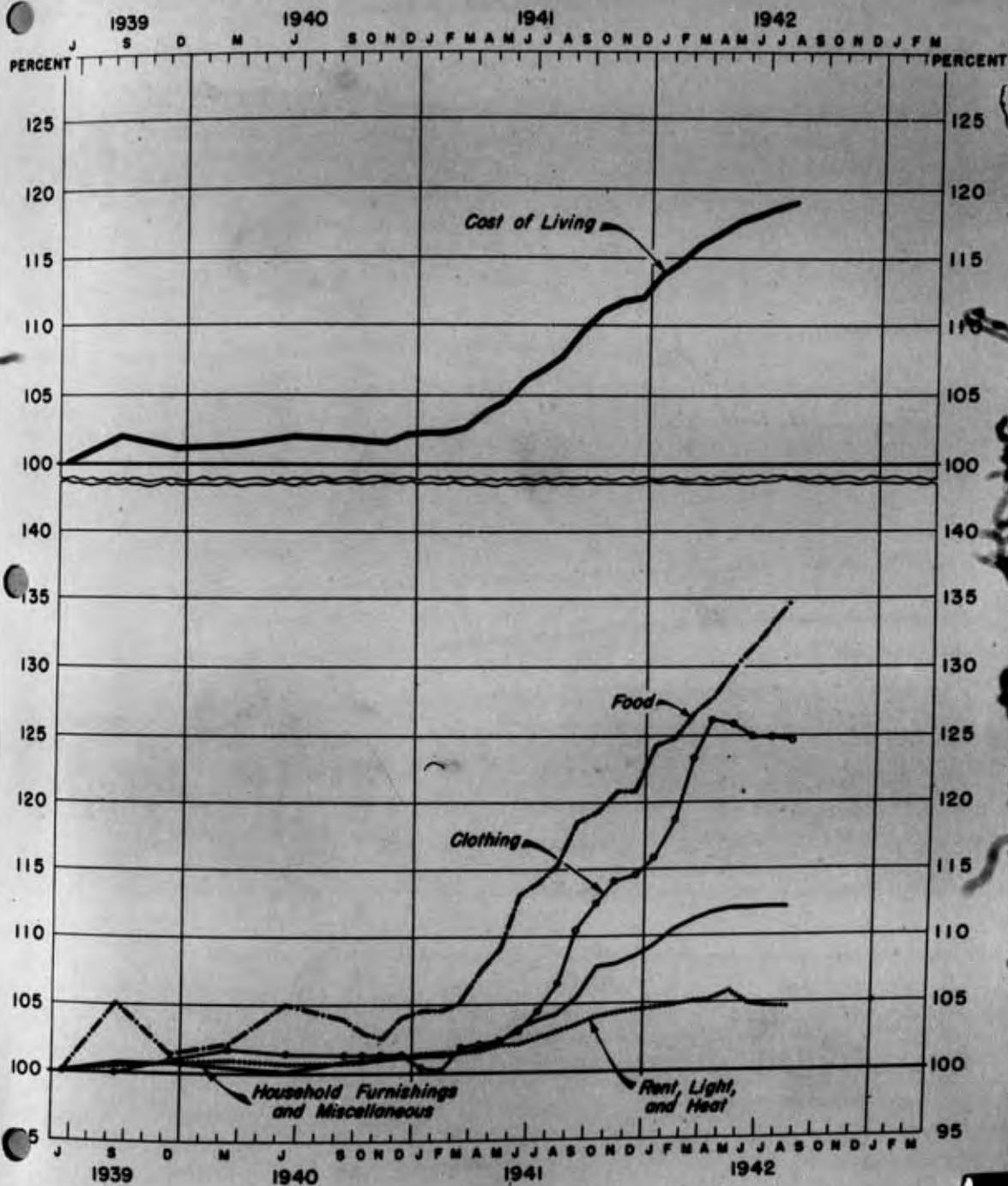
123
Chart I



COST OF LIVING AND SELECTED ITEMS

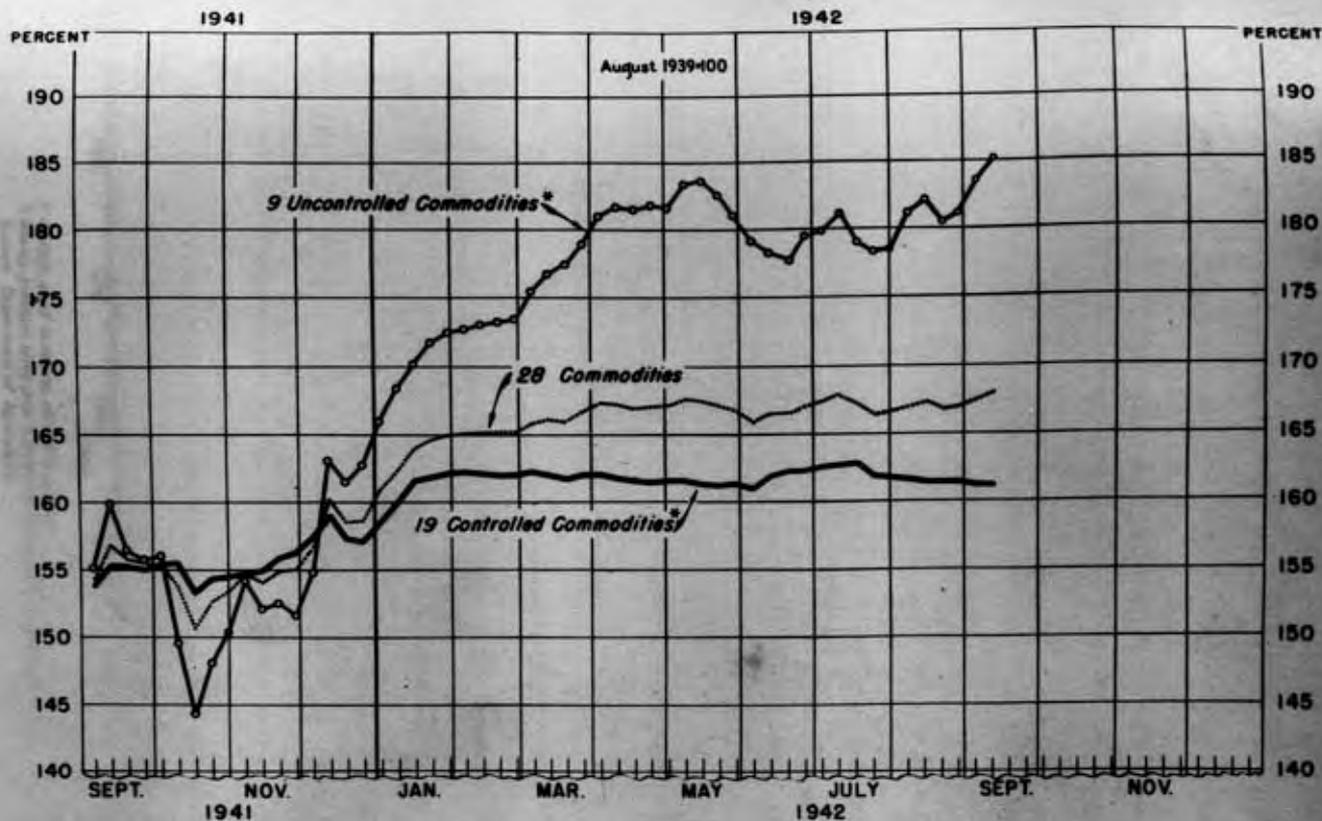
124

June 1939=100

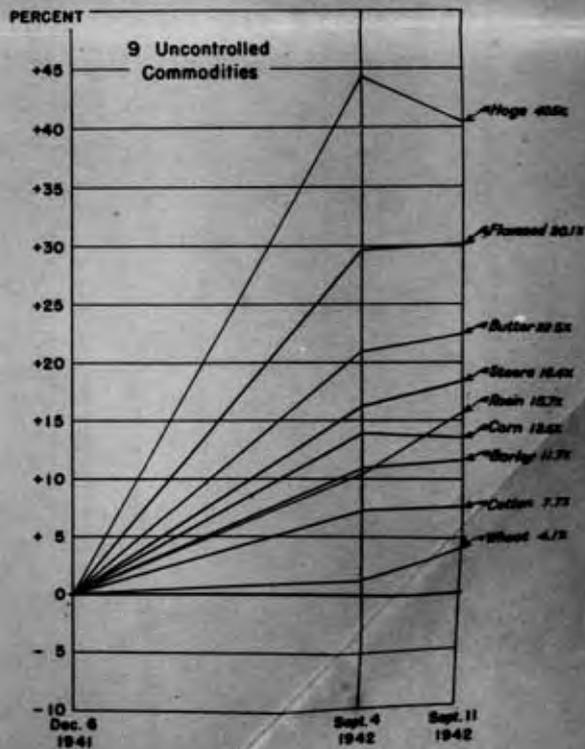
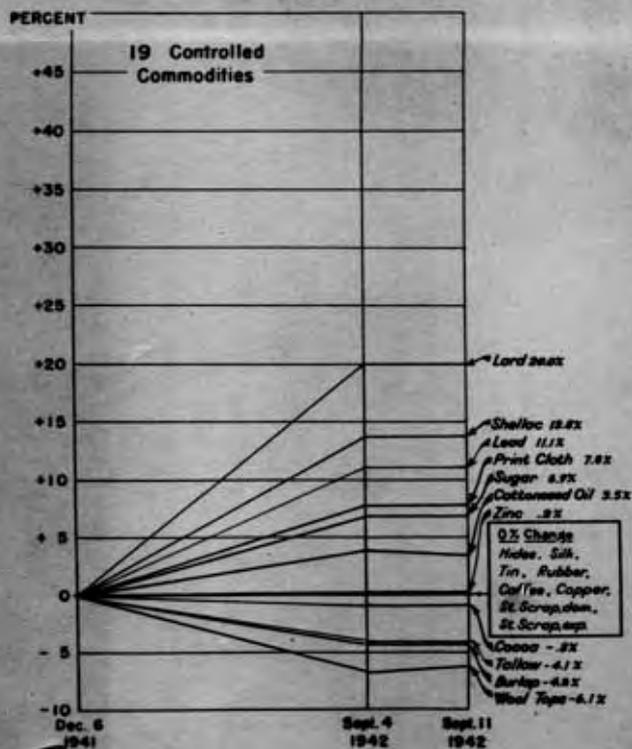


Source: B.L.S.

MOVEMENT OF BASIC COMMODITY PRICES

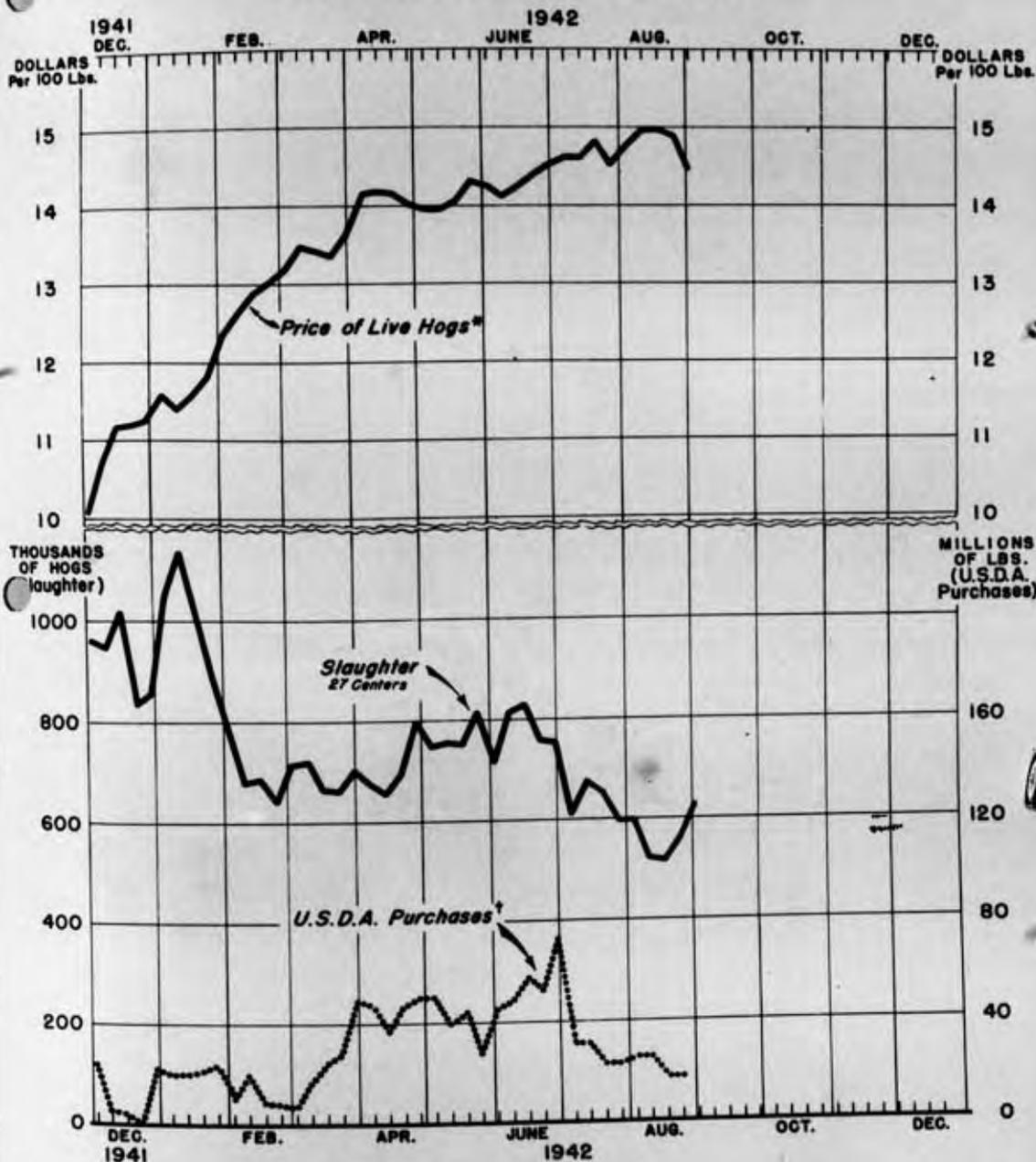


PERCENTAGE CHANGE DEC. 6, 1941 TO SEPT. 4 AND SEPT. 11, 1942



* 20 Controlled and 8 Uncontrolled previous to June 25

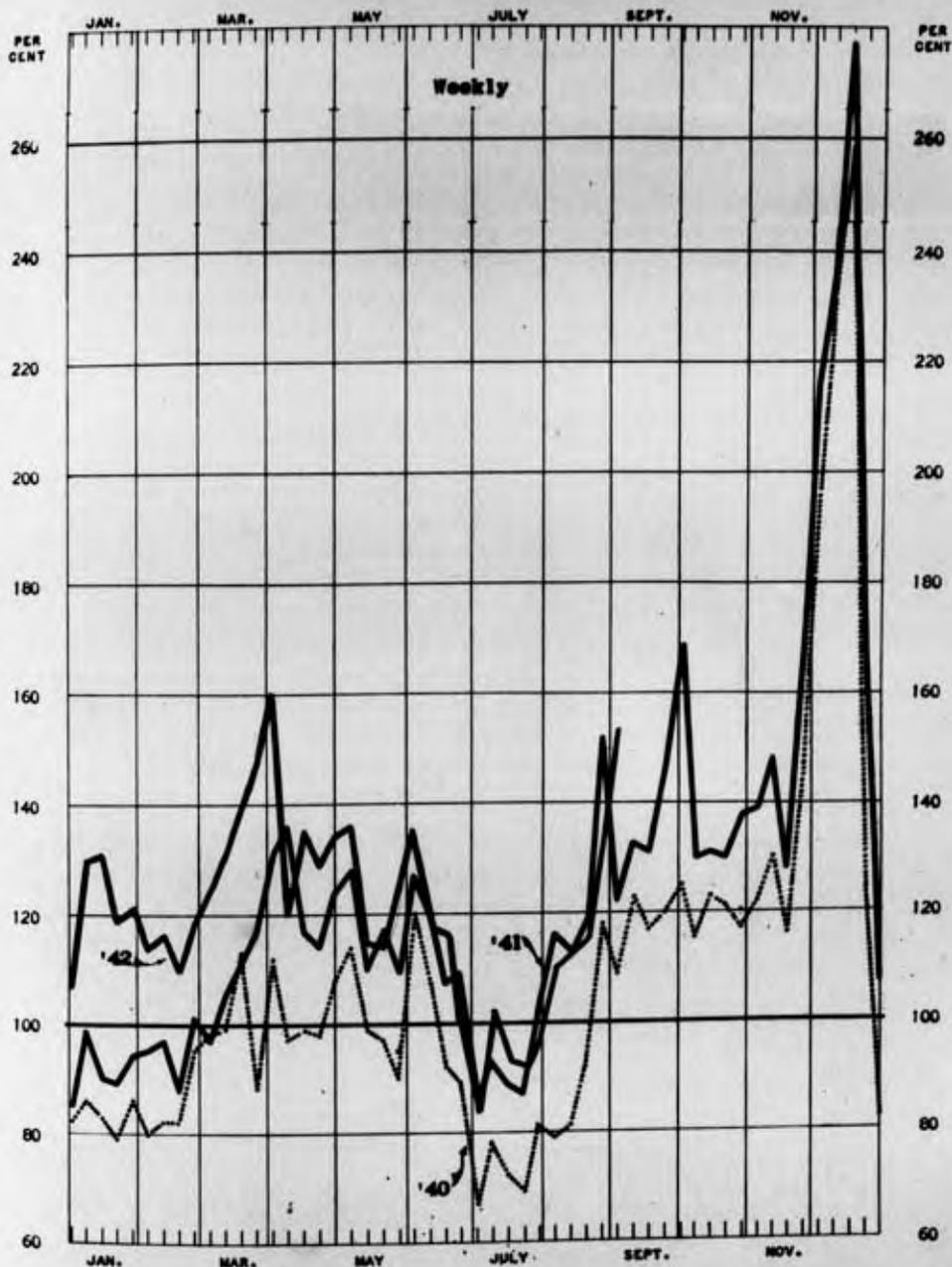
HOG PRICES COMPARED WITH HOG SLAUGHTER AND U.S.D.A. PURCHASES



* Chicago, good to choice, 180-200 pounds
 † Weekly averages since July 3, based on reports for 2-week periods.
 Source: Department of Agriculture

DEPARTMENT STORE SALES
1935 - '39 = 100, UNADJUSTED

127



INDUSTRIAL STOCK PRICES IN U.S. AND U.K.

AUGUST 1936 = 100

Weekly
(AVERAGE OF DAILY)

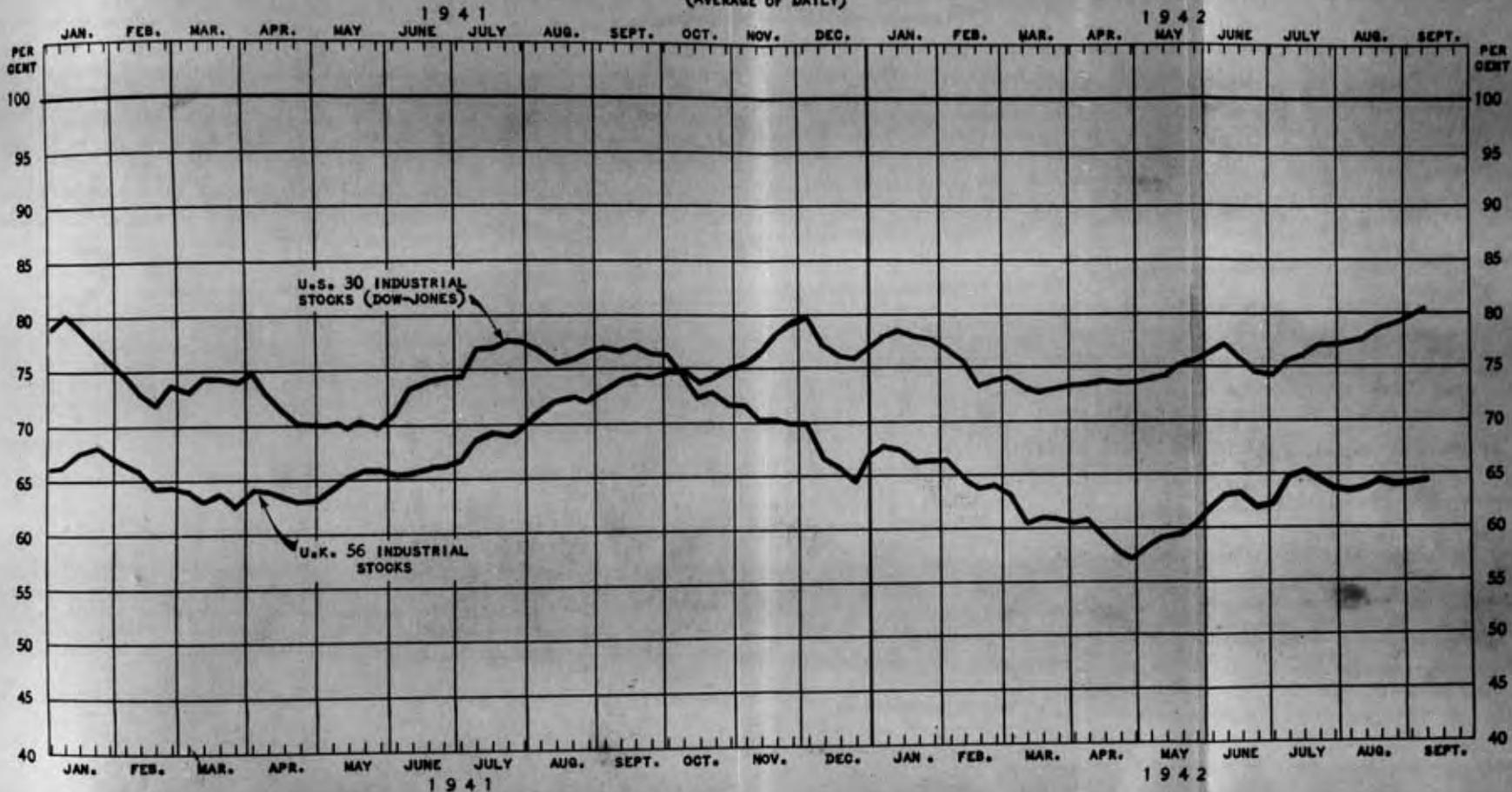


Table 1

Farm prices as percent of parity, August 15, 1942

Commodity	Percent of parity
Wool	142
Beef cattle	137
Lambs	135
Rice	132
Hogs	128
Cottonseed	128
Veal calves	126
Tobacco, flue cured, types 11-14	121
Chickens	113
Butterfat	107
Potatoes	107
Sweetpotatoes	103
Eggs	102
Cotton	96
Flaxseed	88
Corn	85
Apples	79
Wheat	71
Oats	70
Barley	60
Rye	45

Source: U. S. Department of Agriculture.

Table 2

Retail and Cash Loan Consumer Installment Debt, by Originating Agency. (End of Month Estimates)*
(Millions of dollars)

	December 1941	June 1942	December-June Dollars	Change Percent
Total.....	5,853.7	4,275.1	-1,578.6	-27.0
Retail.....	3,720.5	2,473.4	-1,247.1	-33.5
Automobile dealers.....	1,941.7	1,120.6	- 821.1	-42.3
General merchandise stores...	468.8	344.8	- 124.0	-26.5
Furniture stores.....	618.6	512.2	- 95.5	-15.4
Household appliance dealers..	312.8	219.0	- 93.8	-30.0
Jewelry stores.....	119.9	78.5	- 41.2	-34.4
All other stores.....	258.7	198.3	- 60.4	-23.4
Cash loan.....	2,133.2	1,801.7	- 331.5	-15.6
Credit unions.....	211.4	172.7	- 38.7	-18.3
Industrial banks.....	297.6	260.7	- 36.9	-12.4
Personal finance companies...	535.4	493.1	- 42.3	- 7.9
F.H.A. Title I.....	294.0	250.0	- 44.0	-15.0
Commercial banks and other...	794.8	625.2	- 169.6	-21.3

*Preliminary and subject to revision.

Source: Department of Commerce.

SEP 14 1942

Dear Mr. Chen:

I am forwarding herewith to you a memorandum prepared by Mr. William H. Taylor, Alternate American member of the Stabilization Board of China, on the activities of the Hong Kong branch of the Board from December 8th until the occupation of Hong Kong by the Japanese. This memorandum was submitted to me by Mr. Taylor on his return to the United States from Hong Kong.

I am sure that you will agree with me that the resourcefulness and courage exhibited in the activities of the Hong Kong branch in attempting to carry out its duties under the most adverse conditions is worthy of special commendation.

I trust that this letter finds you in the best of health.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. K. P. Chen,
Chairman, Stabilization
Board of China,
Chungking, China.

(Transmitted via Diplomatic
Pouch thru the State Dept's
Foreign Mail Section)

Enclosure.

By Messenger (Bundy) to State
5:20 9/14/42

147/cfs
9/14/42

Return to Secretary's office

Memorandum: STABILIZATION BOARD OF CHINA, HONG KONG BRANCH

1. Scarcely had bombs fallen on Kai Tak airdrome on December 8th when the Government of Hong Kong ordered the Stabilization Board to vacate its offices in the Union Hotel which was taken over immediately as an internment center for aliens. The removal of the records and effects to the Hong Kong & Shanghai Bank was carried out in good order.

2. Following the departure of the Board Members from Hong Kong and in the absence of any instructions, an Emergency Committee was organized, consisting of Messrs. W. H. Taylor, W. F. Frese, A. E. Marker, G. E. Gilbert, F. E. L. Dobbs and Miss E. F. Chomeley as secretary. Mr. W. Y. Lin, alternate to Mr. Tsuyee Pei, was appointed to the Committee but he did not report for duty. It was decided to:

(a) Suspend all exchange operations for a few days pending clarification of the situation and probable instructions from the Board. For this purpose the cipher and code keys were left in the custody of Miss Chomeley, to whom they had been given by Dr. Chi, the Secretary of the Board. She was instructed to destroy them in the event of need; these keys were burned about December 17th, the day the Japanese effected a landing on the island. The code books were placed in the office safe under the control of Mr. Ho, who had been the custodian of the codes in pre-war days.

(b) Attempt to arrange air transportation to the interior for women connected with the Board, whom it was feared would fare badly in the event of capture, viz., Miss Chomeley, Miss Howkins, Mrs. Dobbs. Nothing could be done along these lines as the CNAC suspended operations after December 9th.

(c) Provide for payment of salaries to the Board staff for services rendered and in view of future uncertainties.

(d) To file the accumulated documents and pending papers of the Board and divide the files into two groups; one to be destroyed if the fall of Hong Kong seemed imminent and the other to be kept intact.

3. When the Emergency Committee took over there was only HK\$1,000.00 remaining in the current expense account with the Central Bank. Upon application to Mr. P. N. Chung, the manager of the Central Bank, the sum of \$38,000.00 was earmarked for Board account. \$30,000 of this was drawn in cash and paid out to staff employees on the following

- 2 -

basis: two months' salary for regular employees, 1½ months' salary for persons hired in November, and 1 month's salary for persons employed in December. The funds were paid out by the Board's paymaster and records kept. An unexpended balance of some \$3,000 was turned over to Messrs. Marker, Gilbert, Frese and Taylor who subsequently paid out this amount and more to Board employees who could not get to the office in the early days of the war. A few employees, unable to get to the office, were not paid.

4. Kowloon was evacuated on December 11th. The same day shrapnel splinters shattered windows in the Board offices fronting on the Bund. Following these events the destruction of incriminating and confidential records was begun and continued until the capitulation and after. Essential records, which would facilitate reconstruction, were locked in a tin despatch box and buried on the hillside back of the city. The personal papers belonging to Members Chen, Hsi, Pei and Hall-Patch were destroyed in toto by their confidential secretaries. Mr. Fox's papers were in a locked file cabinet to which he alone had the key. This cabinet was set aside and eventually turned over intact to Mr. Southard, the American Consul General, upon receipt of cabled instructions from Mr. Fox in Chungking. Later enquiry revealed that the complete file was taken over by the Japanese when they sealed the Consul General's offices. The code and cipher keys were destroyed when it became evident that no payments for exchange transactions, though approved and pending, could be made. Daily bombings and disruption of transportation facilities prevented Mr. Ho from returning to the office and the code books in the office safe were not destroyed. Frequent attempts to get in touch with Mr. Ho were to no avail.

5. As hostilities progressed the staff thinned out. Some, such as K. C. Lee, were unable to get away from Kowloon. Some retreated to their homes or went into hiding and nothing more was seen of them until after the capitulation. Some stayed on and worked zealously throughout the entire period. Worthy of special commendation in this regard are Messrs. Wong (formerly of National City Bank) and Huang (formerly of Shanghai Customs). The foreign members of the staff either stayed on or requested to be allowed to volunteer for Essential Non-combatant Service Work. Mr. Marker joined the Medical Bureau, Mr. and Mrs. Dobbs enrolled in the Food Control Administration, Miss Fairfax Chomeley joined the Bureau of Information, Mr. Andrews became a truck driver, etc.

6. About December 18th conversations, initiated by Mr. Heasman, confidential secretary to Mr. Rogers of Fund A, were held with Mr. Edmonston of the Hong Kong and Shanghai Bank anent the disposal of several millions of Chinese national dollars belonging to Fund A, in which the Board had an interest. It was recommended that the notes be destroyed. Mr. Edmonston stated, however, that it would be impossible to destroy the notes. Many of the essential bank employees were in the front lines with the Hong Kong Volunteers. It should be added that the feeling was widely prevalent in official circles that the city could withstand a siege for three to six months. Such deposits were presumably taken over intact by the Japanese.

- 3 -

7. Messrs. Frese and Taylor managed to get back to the Board offices for a brief visit on January 2, 1942. The place had been ransacked, though locked files and office safes were still intact. It was planned to visit the office again after contacting Mr. Ho but the opportunity did not come. Information gleaned from Chinese sources would indicate that the office was later thoroughly looted. What the Japanese did not take, Chinese looters did.

8. When the Japanese first took over control of Hong Kong they enquired at the American Consulate regarding the whereabouts of Messrs. Frese and Taylor. Nothing developed from this. It was March 31, 1942 before Mr. Taylor was called up for questioning by Mr. S. Oda of the Bank of Japan who was in Hong Kong on an inspection trip. The interview, though lengthy, was formal and no confidences violated.

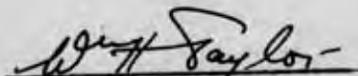
9. During the months since the termination of hostilities many of the Chinese employees of the Board have tried to make their way to Free China. Some have remained behind under precarious circumstances and at least a few have entered the employ of the Japanese. The American and British personnel of the Board were interned on January 5th, or confined to house detention pending removal to the Stanley Internment area. In late February Miss Chomeley, accompanied by friends, escaped from the Camp. It is understood that she has reached Chungking.

10. Interned in the Stanley Camp at the present time are: Messrs. Marker, Gilbert, Andrews and Miss Howkins. These people were virtually destitute and when the opportunity presented itself in June, just prior to repatriation when funds were made available to Americans, Messrs. Frese and Taylor loaned them funds aggregating HK\$2,450. An additional \$200 was loaned to Mr. Heasman. Messrs. Marker, Gilbert and Andrews are anxious to rejoin the Board or its successor as soon as conditions permit.

11. The only known casualty amongst Board officers was that of Mr. F. E. L. Dobbs, Administrator of the Kunning Branch office, who had been called to Hong Kong in late November on temporary assignment. On December 22nd, Mr. Dobbs was listed as "Missing, presumed killed." Reliable witnesses state there is no room for doubt about his death.

12. It has been ascertained that the United States Treasury Attache's office in Shanghai destroyed its cables, codes, and other papers concerning the Board's activities in that area.

Washington, D. C.
August 30, 1942


Wm. H. Taylor

989

TREASURY DEPARTMENT
OFFICE OF THE SECRETARY

September 14, 1942

CONFIDENTIAL

Received this date from the Federal Reserve Bank of New York, for the confidential information of the Secretary of the Treasury, compilation for the week ended September 2, 1942, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York and the means by which these expenditures were financed.



vw-9/14/42

C
O
P
YFEDERAL RESERVE BANK
OF NEW YORK

September 10, 1942.

CONFIDENTIALDear Mr. Secretary: Attention: Mr. H. D. White

I am enclosing our compilation for the week ended September 2, 1942, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Very truly yours,

/s/ H. L. Sanford

H. L. Sanford,
Manager, Foreign Department.

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

Enclosure

Copy:vw:9-12-42

ANALYSIS OF BRITISH AND FRENCH ACCOUNTS
(In Millions of Dollars)

Week Ended Sept. 2, 1942 Strictly Confidential

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT)								BANK OF FRANCE						
	DEBITS			CREDITS					DEBITS			CREDITS			Net Incr. (+) or Decr. (-) in Balance
	Total Debits	Gov't Expenditures (a)	Other Debits	Total Credits	Proceeds of Sale of Gold	Proceeds of Securities (Official) (b)	Other Credits (c)	Net Incr. (+) or Decr. (-) in Balance	Total Debits	Gov't Expenditures (d)	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	
First year of war (8/29/39-8/28/40)*	1,793.2	605.6	1,187.6	1,828.2	1,356.1	52.0	420.1	+ 35.0	866.3(e)	416.6(e)	449.7	1,095.3(f)	900.2	195.1(e)	+229.0
War period through December, 1940	2,792.3	1,255.6	1,356.7	2,793.1	2,109.5	108.0	575.6	+ 10.8	878.3	421.4	456.9	1,098.4	900.2	198.2	+220.1
Second year of war (8/29/40-8/27/41)**	2,203.0	1,792.2	410.8	2,189.8	1,193.7	274.0	722.1	- 13.2	38.9	4.8	34.1	8.8	-	8.8	- 30.1
1941															
Aug. 28 - Oct. 1	140.9	105.9	35.0	176.2	20.1	2.0	154.1	+ 35.3	0.3	-	0.3	0.5	-	0.5	+ 0.2
Oct. 2 - Oct. 29	109.0	77.3	31.7	150.9	0.8	-	150.1	+ 41.9	0.3	-	0.3	0.3	-	0.3	-
Oct. 30 - Dec. 3	156.1	111.6	44.5	134.6	-	1.0	133.6	- 21.5	16.1	-	16.1	0.4	-	0.4	- 15.7
Dec. 4 - Dec. 31	88.4	69.6	18.8	51.5	-	-	51.5	- 36.9	0.8	-	0.8	0.4	-	0.4	- 0.4
1942															
Jan. 1 - Jan. 28	102.3	73.2	29.1	69.3	-	0.5	68.8	- 33.0	0.2	-	0.2	0.4	-	0.4	+ 0.2
Jan. 29 - Feb. 25	87.2	63.8	23.4	57.2	-	1.0	56.2	- 30.0	-	-	-	0.3	-	0.3	+ 0.3
Feb. 26 - Apr. 1	121.4	86.4	35.0	171.4	-	-	171.4	+ 50.0	0.1	-	0.1	0.4	-	0.4	+ 0.3
Apr. 2 - Apr. 29	98.1	64.2	33.9	70.6	-	0.5	70.1	- 27.5	0.2	-	0.2	0.4	-	0.4	+ 0.2
Apr. 30 - June 3	104.0	81.4	22.6	165.7	-	-	165.7	+ 61.7	-	-	-	0.3	-	0.3	+ 0.3
June 4 - July 1	89.9	72.6	17.3	113.6	-	0.5	113.1	+ 23.7	-	-	-	0.3	-	0.3	+ 0.3
July 2 - July 29	66.1	45.9	20.2	84.4	-	-	84.4	+ 18.3	0.1	-	0.1	0.3	-	0.3	+ 0.2
July 30 - Sept. 2	72.2	52.5	19.3	116.1	0.9	-	115.2	+ 43.9	0.4	-	0.4	0.4	-	0.4	-
WEEK ENDED:															
Aug. 5	19.6	16.7	2.9	23.3	0.9	-	22.4	+ 3.7	-	-	-	0.1	-	0.1	+ 0.1
Aug. 12	15.7	12.2	3.5	9.6	-	-	9.6	- 6.3	0.2	-	0.2	0.1	-	0.1	- 0.1
Aug. 19	13.0	10.3	2.2	26.5	-	-	26.5	+ 13.5	0.1	-	0.1	-	-	-	- 0.1
Aug. 26	10.2	7.1	3.1	13.6	-	-	13.6	+ 3.4	-	-	-	0.1	-	0.1	+ 0.1
Sept. 2	13.7	6.1	7.6	43.1	-	-	43.1(r)	+ 29.4	0.1	-	0.1	0.1	-	0.1	-

Average Weekly Expenditures Since Outbreak of War

France (through June 19, 1940) \$19.6 million

England (through June 19, 1940) 27.6 million

England (since June 19, 1940) 35.4 million

Transfers from British Purchasing Commission to Bank of Canada for French Account

Week ended Sept. 2, 1942 \$ -
Cumulation from July 6, 1940 \$162.7

million
million

*For monthly breakdown see tabulations prior to April 23, 1941.
**For monthly breakdown see tabulations prior to October 8, 1941.
(See attached sheet for other footnotes)

- [REDACTED]
- (a) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply, Timber Control, and Ministry of Shipping.
 - (b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of our securities through December, 1940 amounted to \$334 million.
 - (c) Includes about \$85 million received during October, 1939 from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts since October, 1939 apparently represent the acquisition of proceeds of exports from the sterling area and other currently accruing dollar receipts.
 - (d) Includes payments for account of French Air Commission and French Purchasing Commission.
 - (e) Adjusted to eliminate the effect of \$20 million paid out on June 26, 1940 and returned the following day.
 - (f) Includes: \$15.8 million received from Defense Supplies Corporation in connection with the purchase of Australian wool.
\$10.0 million for credit of U.S. Army.
\$11.2 million deposited by British Ministry of Supply, including \$6.8 million by British Ministry of Supply Mission (British Purchasing Commission).

ANALYSIS OF CANADIAN AND AUSTRALIAN ACCOUNTS
(In Millions of Dollars)

Week Ended Sept. 2, 1942

Strictly Confidential

PERIOD	BANK OF CANADA (and Canadian Government)								COMMONWEALTH BANK OF AUSTRALIA (and Australian Government)							
	DEBITS				CREDITS				DEBITS				CREDITS			
	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C For Own A/C	For French A/C	Other Credits	Net Incr. (+) or Decr. (-) in Balance	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in Balance
First year of war (8/29/39-8/28/40)*	323.0	16.6	306.4	504.7	412.7	20.9	38.7	32.4	+181.7	31.2	3.9	27.3	36.1	30.0	6.1	+ 4.9
War period through December, 1940	477.2	16.6	460.6	707.4	534.8	20.9	110.7	41.0	+230.2	57.9	14.5	43.4	62.4	50.1	12.3	+ 4.5
Second year of war (8/29/40-8/27/41)**	460.4	-	460.4	462.0	246.2	3.4	123.9	88.5	+ 1.6	72.2	16.7	55.5	81.2	62.9	18.3	+ 9.0
Aug. 28 - Oct. 1 1941	23.1	-	23.1	52.2	21.2	-	-	31.0	+ 29.1	10.7	0.5	10.2	2.8	2.1	0.7	- 7.9
Oct. 2 - Oct. 29	37.4	-	37.4	19.7	11.9	-	-	7.8	- 17.7	8.2	5.5	2.7	8.0	5.9	2.1	+ 0.2
Oct. 30 - Dec. 1	52.8	0.1	52.7	32.5	19.3	-	-	13.2	- 20.3	10.3	6.9	3.4	11.6	9.0	2.6	+ 1.3
Dec. 4 - Dec. 31 1941	47.7	-	47.7	22.2	17.2	-	-	4.9	- 25.5	3.9	1.8	2.1	2.8	0.2	2.6	- 1.1
1942																
Jan. 1 - Jan. 28	39.5	-	39.5	33.0	27.0	-	-	6.0	- 6.5	4.5	-	4.5	10.8	-	10.8	+ 6.3
Jan. 29 - Feb. 25	34.1	-	34.1	35.7	12.4	-	-	23.3	+ 1.6	8.4	5.3	3.1	1.6	-	1.6	- 6.8
Feb. 26 - Apr. 1	46.5	-	46.5	98.3	20.5	2.7	-	71.1	+ 52.8	7.8	1.3	6.5	3.6	-	3.6	- 4.2
Apr. 2 - Apr. 29	37.4	-	37.4	35.9	14.2	-	-	21.7	- 1.5	10.9	8.0	2.9	16.8	-	16.8	+ 5.9
Apr. 30 - June 3	54.2	-	54.2	47.9	15.7	-	-	32.2	- 6.3	13.2	9.5	3.7	14.6	-	14.6	+ 1.4
June 4 - July 1	47.2	-	47.2	72.9	14.7	-	-	58.2	+ 25.7	2.5	0.5	2.0	3.0	-	3.0	+ 0.5
July 2 - July 29	40.8	-	40.8	37.7	9.0	-	-	28.7	- 3.1	19.1	15.0	4.1	19.5	-	19.5	+ 0.4
July 30 - Sept. 2	65.1	0.2	64.9	77.3	15.4	-	-	61.9	+ 12.2	7.7	3.1	4.6	17.1	-	17.1	+ 9.4
WEEK ENDED: Aug. 5	4.0	0.2	3.8	15.1	3.1	-	-	12.0	+ 11.1	2.5	1.0	1.5	0.4	-	0.4	- 2.1
August 12	7.4	-	7.4	11.6	7.3	-	-	4.3	+ 4.2	0.8	-	0.8	0.7	-	0.7	- 0.1
19	9.4	-	9.4	17.5	3.3	-	-	14.2	+ 8.1	-	-	-	3.2	-	3.2	+ 3.2
26	17.8	-	17.8	3.4	0.1	-	-	3.3	-14.4	2.1	2.1	-	1.0	-	1.0	- 1.1
Sept. 2	11.5(a)	-	11.5	14.7(a)	1.6	3.2	-	9.9(b)	+ 3.2	2.3	-	2.3	11.8	-	11.8(c)	+ 9.5

Weekly Average of Total Debits Since Outbreak of War

Through September 2, 1942 \$ 8.2 million

* For monthly breakdown see tabulations prior to April 23, 1941.

** For monthly breakdown see tabulations prior to October 8, 1941.

(a) Does not reflect U.S. Treasury bill transactions.

(b) Includes \$8.6 million representing proceeds of U.S. Government checks deposited by War Supplies, Ltd.

(c) Includes \$10.5 million for credit of U.S. Army.

NOT TO BE RE-TRANSMITTEDCOPY NO. 13BRITISH MOST SECRET
U.S. SECRETOPTEL No. 319

Information received up to 7 A.M., 14th September, 1942.

1. NAVAL

On the morning of the 13th 2 ships in a large convoy to RUSSIA were torpedoed and during the afternoon 10 more ships were sunk in an attack by 37 torpedo bombers in close formation. On 10th/11th 300 Russian Marines landed on the south side of MOTOVSKI GULF west of MURMANSK and destroyed several guns besides inflicting 160 casualties. Russian losses were less than 40. Subsequently enemy dive bombers attacked the area from which the raiding party had already been withdrawn. Early 14th one of H.M. Canadian destroyers escorting an outward bound convoy, was torpedoed and sunk about 400 miles east of NEWFOUNDLAND.

2. MILITARY

MADAGASCAR. Operations are proceeding satisfactorily. AMBANJA was occupied on the 12th and the situation there is quiet. In NOSSI-BE conditions are becoming normal and trade is reviving.

3. AIR OPERATIONS

WESTERN FRONT. 13th/14th. BREMEN - 446 bombers, including 230 heavy, were sent. 9 fighters also carried out intruder operations. 19 bombers are missing and 2 crashed. Preliminary reports - weather at BREMEN clear but slight haze and very dark. This together with intense searchlight activity made definite identification of objective difficult but majority of crews report a successful attack.

RUSSIA. On the STALINGRAD front heavy air attacks have continued against Russian supply lines and aerodromes. The Germans assert that 171 Russian aircraft were shot down during the 10th and 11th by German, Italian, Rumanian, (?Spanish) and Hungarian fighters and A.A. fire. In the far north the Germans claim attacks against camps and air bases and to have bombed Russian forces preparing for attack in the Leningrad area. Russian aircraft on the 10th/11th heavily raided LUOSTARI (FINLAND) and BANAK (NORWAY) aerodromes. 6 or more enemy aircraft were destroyed on the ground and 5 ME 109's are claimed shot down for the loss of 3 Russian aircraft.

EGYPT. 11th/12th. TOBRUK HARBOUR bombed again. 12th. Our fighters destroyed 1 enemy aircraft, probably destroyed 7 and damaged 8.

BURMA. 12th. 6 Blenheims bombed railway communications at MANDALAY hitting buildings, rolling stock and permanent way.

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ENCLOSURES _____
COPY No. _____
(For Record Section only)

MILITARY INTELLIGENCE DIVISION W. D. G. S.

New York Office, MIS ~~CONFIDENTIAL~~ REPORT France 5060

Subject **Who's Who, The Bank Worms and Co** (Country Report) 4730, 3115
I. G. No. 8990, 4400
2010, 3860

From M. A. Report No. 5758 Date September 14, 1942

~~Source deemed of reliability~~
is considered factually reliable. Although prejudiced, source

SUMMARY.—Here enter careful summary of report, containing substance succinctly stated; include important facts, names, places, dates, etc.

Collaboration of the Worms bank, immunity of its Jewish partners to anti-Semitic laws, and its political influence in Vichy.

Plants and in particular shipyards owned or controlled by the bank met probably working for the Germans.

CONFIDENTIAL

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Distribution by originator

Routing space below for use in M. I. D. The section indicating the distribution will place a check mark in the lower part of the recipients' box in case one copy only is to go to him, or will indicate the number of copies in case more than one should be sent. The message center of the Intelligence Branch will draw a circle around the box of the recipient to which the particular copy is to go.

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						2	X	X								
A. C. of S. G-2	Chief of B.	MA Sec.	FL Sec.	Rec. Sec.	Trans. Sec.	CIB	SSG	P. and T.	Inf. Cont.	Coord. Sec.	OLLA	Tank Center	Coord. of Inf.			
				2												
AB	BE	CE	SE	EE	WE	FE	LA	SL	Cont.	Dissem.	Field Pers.	OSS	PMB	ASW	USW	ASWA
		X			10							X	X			
CHIEFS OF ARMS AND SERVICES																
Inf.	Av.	FA	CAC	AC	AAF	Ng.	Armd.	Ord.	QM	CWS	Med.	Eng.	Fin.			

Attached at	CG Phil.	CG Pan.	CG Haw.										

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ENCLOSURES

COPY No. (For Record Section only)

MILITARY INTELLIGENCE DIVISION W. D. G. S.

New York Office, MIS **REPORT** France 5060

Subject **Who's Who, The Bank Worms and Co** I. G. No. 4230, 3115
8990, 4400
2000, 3800

From M. A. Report No. 5758 Date September 14, 1942

Source and degree of reliability: **French newspaper "Liberation". Although prejudiced, source is considered factually reliable.**

SUMMARY.—Here enter careful summary of report, containing substance succinctly stated; include important facts, names, places, dates, etc.

Collaboration of the Worms bank, immunity of its Jewish partners to anti-Semitic laws, and its political influence in Vichy. Plants and in particular shipyards owned or controlled by the bank most probably working for the Germans.

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A. C. of S. G-2	Chief IB	MA Sec.	PL Sec.	Rec. Sec. 2	Trans. Sec.	CIB	SSG	P. and T.	Inf. Cent.	Coord. Sec.	OLLA	Tank Center	Coord. of Inf.			
Asst.	BE	CR	SE	RE	WE 10	FE	LA	SL	Cont.	Dissem.	Field Post.	CSS X	PWB X	ASW	USW	ASWA

CHIEFS OF ARMS AND SERVICES

Inf.	Cav.	FA	CAC	AC	AAF	Eng.	Arml.	Ord.	QM	CWS	Med.	Engr.	Fin.
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Attended at	CG Phil.	CG Pac.	CG Mex.										

Eval. & N/D L/O
Dissem. Br. BEN
4 X

Enclosures:

CONFIDENTIAL

(Classification)

September 15, 1942
9:05 a.m.

CANADIAN CONTRACTS

Present: Mr. Bell
Mr. White
Mr. Viner
Mr. Fennelly
Mr. Ecker
Mr. Stinebower
Commander Strauss
Mr. Currie
Mr. Shenefield
Miss Kistler

H.M.JR: Supposing we start. There are two things up here. One is - I do not know if you call it that - a request from the Navy, and another from the Shipping Board. I did not have sufficient information from either to act intelligently, and so I thought I would ask you gentlemen if you would help - ask the Navy and the Shipping Board to cooperate by giving us the information we need.

I thought what we would do is to show our good will. We will tell you in strictest confidence what the Canadian dollar position is from where we were last time. Mr. White will give you that.

MR. WHITE: The latest figures that we have are as of a week ago - very current. Canada has increased her dollar and gold resources to about two hundred and fifty-five million dollars, which is a small increase of about eleven million over the July position, and that is expected to increase to the end of the year.

They probably have about two hundred and seventy-five million, and then in about the following months that will likewise increase, so that they are apt to

- 2 -

have, by March 1, something in the neighborhood of three hundred and fifty million. That estimate is lower than the one the Treasury made by a substantial amount. The Treasury estimate was larger chiefly because we expected deliveries to be more rapid, deliveries from Canada to the United States, so that they would get paid more. Our schedule of deliveries was taken from the record of the Joint War Production Board, but apparently, judging from the Canadian figures alone, those deliveries are not taking place nearly as rapidly as scheduled, so their dollar position has not improved. Although the rapidity of increase is much less than we anticipated, still the general trend is upward, and by next spring they will have almost as much as they had when the war started.

Most of the contracts which have been placed, except the contracts which we are going to consider this morning, are not included in that figure. So there is every reason to believe that by the end of 1943, Canada will have substantially more than she had at the beginning of the war, which would seem to suggest that the consideration of their dollar balance should not be the decisive factor in the determination of the position of the contracts. There must be other good reasons for placing them.

That is the general dollar position.

H.M.JR: We will go ahead with the Navy. The point is that the Navy wants to place with the Boeing Aircraft Company of Canada, Limited, two hundred airplanes at a cost of thirty and a half million dollars. Now, some of this information - and also, I do not know whether they have or whether they are just telling us about it - whether they actually have placed it with the Boeing - and they also want to place with the Fairchild Aircraft of Canada, just under thirty million dollars. Now, this is some of the information that we ought to have, and I think that some of you can give us before we can act on it intelligently. One is, could these airplanes be built in this country without interfering with our own production? That would be the first question.

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COMDR. STRAUSS: I am unable to answer it, Mr. Secretary. The authority on that in the Bureau of Aeronautics, the single authority, left to join Mr. Willkie on his trip, quite unexpectedly, a couple of days ago, and I will have an answer, probably, this afternoon, which I will telephone to Mr. White. I am sorry that I do not have it this morning.

H.M.JR: Before I proceed, have the contracts with the Boeing and with the Fairchild been placed?

COMDR. STRAUSS: I do not believe they have. I think they are still in the stage of negotiation.

H.M.JR: I did not know whether they had been. We could not tell from your communication.

COMDR. STRAUSS: I think they are still negotiating.

H.M.JR: Then that would be question one. Question two, if the contract is not placed with Canada, for these planes, what would Canada do with that capacity?

COMDR. STRAUSS: My understanding is that the capacity does not exist at the moment. That is to say, part of these contracts are for facilities, but as to that I would likewise prefer to confirm that. There will be two things, therefore, that I will communicate with Mr. White about this afternoon.

H.M.JR: And the other question we wanted to ask you, are these planes intended for the United States or are they going to be for the United Kingdom under Lend-Lease?

COMDR. STRAUSS: I will make a perfect score of ignorance. I do not know the answer to that, either.

H.M.JR: Maybe we should have asked you these before you came over, I don't know.

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COMDR. STRAUSS: In any case, while you are on Navy topics, if I may be excused a few moments I will attempt to see what answers I can get before the meeting adjourns.

H.M.JR: Let me give you the others. When I get through--

COMDR. STRAUSS: I do not know whether these were asked of Lieutenant Commander Linder or not, previously.

H.M.JR: We were not able to get the answers.

COMDR. STRAUSS: He did not leave a memorandum to that effect?

MR. WHITE: No, I spoke to him over the phone and told him those were the questions we wanted to take up.

COMDR. STRAUSS: In any case, I think I can answer one and two this morning and the third this afternoon.

H.M.JR: Another is how much of this material will have to be supplied from the United States?

COMDR. STRAUSS: That I doubt whether I could even find an answer for you today on, Mr. Secretary.

H.M.JR: Well, I think the simplest thing would be to give Commander Strauss a copy of the memorandum that I have got here. Why don't you give him that, and then he could, at his convenience--

COMDR. STRAUSS: I would like to try it this morning if I may be excused for a few minutes.

H.M.JR: The trouble is, the Shipping Board people are not here, and Lewis Douglas, for ten days, has been crying for a twenty-four-hour answer. Each day I call up and ask where his letter is. It took him ten days to get a letter over here.

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MR. FENNELLY: Is that a different problem in connection with the Shipping Board?

H.M. JR: The thing in connection with their problem, they are asking about placing eighty-one Victory type vessels for '43 and '44 to cost one hundred and forty-six million dollars. That is their problem. And the same questions we are asking of Commander Strauss we are asking of them, and we have not gotten the answers on that, either. They are exactly the same questions.

MR. WHITE: Maybe the Joint Production Board would know the answers to some of the questions.

MR. FENNELLY: I wonder if Mr. Shenefield, representing the Joint Canadian Committee--

MR. SHENEFIELD: We do not have those specific answers; we might be able to get them.

MR. WHITE: Does the Joint Production Committee have anything to do with the placing of the orders?

MR. FENNELLY: No, it is just an attempt to balance the production in terms of materials.

MR. SHENEFIELD: Our subcommittees have administrative responsibilities, and under those administrative responsibilities place the contracts.

MR. FENNELLY: Our chief interest over at the War Production Board, Mr. Secretary, would be to know whether the figures for these items are included in the total Navy figures and the total Maritime Commission figures. We are now in the struggle of trying to get a combined balance sheet on departments, everybody concerned. Would you happen to know, Lewis, whether those - are they something additional to the Navy program?

COMDR. STRAUSS: I would assume so, John, but I would not like to make a categorical statement.

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MR. FENNELLY: It seems to me that is something that is vitally important for us to know, because we are in process of getting to the point of cutting the program back, which is just absolutely essential, and if this is something additional in both cases it is--

H.M. JR: Well, what Doctor White told me - the reason of this meeting is, he was stumped - he could not get the information. So he asked me to hold this meeting with the hopes he would get the information, and he could go ahead. These people want an answer on the spot, and we cannot give it to them. We do not have the information. Evidently you don't, either.

MR. FENNELLY: No.

MR. WHITE: I thought the Joint War Production Board had something to do with the determination of the placing of these orders - whether they are to be placed in Canada or the United States. But I gather from you that they do not.

MR. FENNELLY: They theoretically do, Mr. White. I mean, they are just getting under way. Isn't that correct, Mr. Shenefield?

MR. WHITE: You mean you haven't begun to--

MR. FENNELLY: We haven't begun to shift production from one country to another. We began in a limited degree between Great Britain and the United States, but as far as I know there has been no shifting of production between Canada and the United States as yet.

MR. WHITE: Then, presumably, when the Maritime Commission places an order for ships in Canada, it has assumed the responsibility of determining whether that is the best place to produce the ships - the capacity, and so forth?

MR. FENNELLY: Up to this point, yes.

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MR. WHITE: From now on the Joint War Production Board--

MR. FENNELLY: I assume they will give general supervision over it. Mr. Shenefield is representing the Joint Board. I am just Mr. Knowlson's deputy, and was asked to come here in his absence.

MR. SHENEFIELD: These purchases had been made under Army and Navy directives by the Secretaries of each department, which have said that they should look to the production advantage, whether purchased in Canada or the United States; and that has been, so far as I know, the sole formal directive on placing the contracts - the quickest and best. That has been the directive.

MR. WHITE: I suggest, then, Mr. Secretary, that we write the Maritime Commission these questions.

H.M. JR: Yes. They evidently were busy. As soon as these gentlemen go I am calling up Lew Douglas and paying my respects to him on the telephone.

MR. WHITE: He said he would see that Admiral Vickery was here. Lewis Douglas said he did not know about it.

MR. CURRIE: I would like to make a suggestion Mr. Secretary, of an alternative method of procedure. Perhaps you know I was responsible for starting this Joint War Production Committee, and part of the idea there was to try to get away from this shop-keeping angle. I found in '41 in trying to follow the Hyde Park agreement, the War Supplies Committee was shopping around Washington. "Do you want to buy some of this? We have some of this. Can we interest you in something else?" - that sort of atmosphere. So we got it set up to have the main criteria, not just the securing of the dollar exchange, but the proper integration and coordination of war production between the two countries, with the idea of getting the full benefit of division of labor, and so forth. It worked out very well along those lines.

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There was an attempt, as new things came along, to standardize, the criterion being where it could be gotten the quickest. That was the main criterion we used, not the fact of giving Canada dollars. Then along about June, I was watching this thing and I saw the dollars beginning to accumulate; for fear that they might, I got in touch with Harry and told him about this, that I thought it was time we began to watch this thing - that there were certain things we could take care of.

I still think that is true, but I would like to suggest that instead of holding these meetings between departments on each big new order as it comes up, internally we examine the whole Canadian dollar position; and if it looks as though there is going to be a hundred million ahead, or two hundred million ahead, see what we can lop off. I have a lot of good candidates for that. There are some orders the Canadians have accepted on British specifications, to be shipped directly to Britain, which do not come here to our common pool at all and which we pay for under Lease-Lend; and they are very susceptible to criticism.

MR. WHITE: That is contrary to what was told us and what we were assured would happen, Mr. Secretary, right in this office.

H.M.JR: Yes, and everybody who attended the last meeting has been terribly good. They have not thought of placing a thing without first writing us a letter. That is about two months ago now. They have been awfully good. I have gotten a hundred percent co-operation.

MR. CURRIE: There are a lot of those things which if we could sit down and examine - the staff of the Joint War Production Committee with your staff - we could pick out. Another thing, Canadian gold production was justified, always, on the ground it is necessary for the Canadians to secure dollar exchange. That necessity is past.

H.M.JR: Let's call a spade a spade and save a lot of time. You can see from the questions we are

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asking here - and these are the first two big contracts that have come up, two for the Navy and one for the Board, and up to now this has been the first of any size whatsoever - that we don't have the information. Now, are you suggesting that this Joint - what do you call it - Canadian Munitions Board, could get this information and supply it to me?

MR. CURRIE: I am suggesting that if you have all the ground work, preparatory work, done by your staff and the Joint Production Committee, you will have the whole picture, and then can suggest action if it appears to be indicated.

H.M.JR: The answer to your question is - it would save a lot of my time if you people would do it, but the answer is, it has not been done, so we have to do it here. Let's call a spade a spade. The very fact of the questions we have prepared, which Harry gave me, and the fact that he could not get the information, shows somebody is not doing his job. Now, if this Joint Production Board will do this thing and give me a finished product, so that I could sit down with White and one or two others and save everybody else, I could settle it in five minutes. It would save a lot of time.

MR. FENNELLY: It is perfectly reasonable to do that.

MR. CURRIE: We can get that for you.

H.M.JR: If you can get the answers to these questions and give me the answers - we have been fooling around with this now for ten days, and they need it. As I say, the only purpose of this meeting was that White could not get any further.

MR. WHITE: That would be the logical Board to examine these questions, because it takes an over-all committee. It takes a committee that is familiar with Canadian facilities, American facilities, and what is going for Lend-Lease, and the allied questions. So it would seem that the Board is the proper one to determine the answers to most of these questions.

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MR. FENNELLY: That is what it is set up to do, it seems to me.

MR. CURRIE: And according to all the instructions given to all these subcommittees they are not supposed to be influenced by getting dollar exchange for Canada. This is not the idea.

H.M.JR: Are you chairman of that Board?

MR. CURRIE: I am not on the Committee.

MR. STINEBOWER: Milo Perkins is chairman.

MR. CURRIE: No, now it is Mr. Knowlson.

MR. FENNELLY: He has just gone into the position, Mr. Secretary.

MR. WHITE: Mr. Knowlson was out. Mr. Hall said he would be here, and Mr. Hall could not come.

MR. FENNELLY: Mr. Hall asked me to come as I am Mr. Knowlson's deputy, but I am not connected with that part of his show. Mr. Shenefield is the executive secretary of the Joint Board.

MR. WHITE: Under Mr. Knowlson - I see.

H.M.JR: Lauch, I thought that this was your creature - your creation.

MR. CURRIE: It is, but I cannot be on it because of my other job, but I sit in at all meetings and follow it.

H.M.JR: Who is chairman of this Joint Board?

MR. FENNELLY: Mr. Knowlson. Mr. Knowlson is away, and I was asked to come, and I, frankly, know nothing about the background.

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MR. CURRIE: Mr. Knowlson does not know much about it, he just shifted over the last few weeks. Milo Perkins was chairman.

H.M.JR: How long do you suppose it would take this Board - the Navy and the Shipping Board want to place some orders; do you suppose this Board could go into action and give me an answer tomorrow?

MR. SHENEFIELD: I wouldn't think so.

H.M.JR: Why not?

MR. SHENEFIELD: I think that is too fast. It involves the Canadian and American facilities, Mr. Secretary.

H.M.JR: This thing has been kicking around--

MR. FENNELLY: Has the problem been up before you at all?

MR. SHENEFIELD: No, the problem has not arisen so far under the directive.

MR. CURRIE: I am rather concerned to get the over-all picture. I would like to have these other British orders in the picture - Canadian exports in the picture. These things - I have known about them for some time and suggest there is no great rush on these ships for 1943.

H.M.JR: How about the Navy?

MR. CURRIE: The Navy I thought was all right, because we have - frankly, the Canadian air program is in a bit of a mess. They had over fifteen models last year for different things. We have been making an effort to get them standardized on a few models.

MR. WHITE: Is this an effort in that direction, these plane orders?

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MR. CURRIE: I assume that some specific instruction is given to the subcommittee working to reduce the number of types and models produced in Canada.

H.M.JR: Lauch, there is something wrong somewhere. These requests come from the Navy - the Shipping Board and the Navy, and this Joint Board has not been informed. Maybe it is just a "paper" board.

MR. CURRIE: We should be able to find out from the subcommittee.

H.M.JR: But I mean you cannot ask the Navy and the Shipping Board to sit around while these people go into action.

MR. CURRIE: On the second one, Mr. Secretary, there is no hurry.

MR. WHITE: The Canadians are pressing for it. Doesn't that mean a hurry?

MR. CURRIE: That is, Mr. McMillan is pressing for it. It is very natural that anybody would like to get his orders way ahead, but, after all, that is '43; he does not need those orders yet. We are waiting to see how the dollar position is shaping up.

H.M.JR: Let me ask Commander Strauss - after all, the Shipping Board - how much of a hurry are you gentlemen in?

COMDR. STRAUSS: Of course we are in a hurry for everything we can get, as fast as we can get it, Mr. Secretary. I would like to ask Mr. Currie, if I might, is this something that Mr. Bell has promoted, do you know? He did that first airplane trick up there.

MR. CURRIE: I don't know.

COMDR. STRAUSS: If you would be good enough to excuse me for ten minutes - five minutes - from the room, I think I would come back with some useful information, just as a result of what I have heard here.

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MR. CURRIE: I am speaking only of the ship deal, not of the airplanes - about the hurry.

H.M.JR: We have only half the people. Why not let this thing - let me adjourn this meeting. Do you want to take this on, Lauch.

MR. CURRIE: I would be delighted to, sir.

H.M.JR: How fast will you move?

MR. CURRIE: I will get you something this week.

H.M.JR: Well, let's leave it this way. If the Navy or the Shipping Board say they can't wait and they want an answer, as far as I am concerned - if you can give me the answer to this question, because--

MR. CURRIE: If we can find - we can find, probably this morning, if this airplane order is in the line of our directive of standardizing and increasing the production for use of Canadian facilities with American type planes; I should think you could say go ahead, because there are many other things we can take out or shift over to the British program.

H.M.JR: There is something wrong with this Board that they don't know what is going on.

MR. FENNELLY: Is it that? What is the process by which this came up? Did this come directly from the Navy to you? For some reason the Board has never been informed.

COMDR. STRAUSS: It is bound to work through the Board. There is a subcommittee on aeronautical material of the Joint War Production Committee, U.S. and Canada, on which Commander Pihl represents the Navy.

MR. FENNELLY: And this matter has been up before that subcommittee?

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COMDR. STRAUSS: It is inconceivable that it hasn't. I cannot state categorically it has, because he is away, but he is a very meticulous person. I just believe that it has.

MR. CURRIE: Mr. Secretary, this committee works largely, as Commander Strauss just indicated, through the subcommittees, technical subcommittees - this gearing in of production. I do not think it is proper for the committee to look over the whole thing from the point of view of the dollar position, or anything like that. I think that is your job.

MR. WHITE: That is not what he is asking. He is merely asking whether they should not be able to answer questions, which would seem to me to be the basic questions which they would put to themselves before placing the orders. Probably they have, but it is merely--

MR. CURRIE: I think it is a fair question and we should be in a position to answer it.

MR. WHITE: Without those questions--

H.M.JR: All I am going to say is, because I do not operate the Treasury this way - if the Navy or the Shipping Board, within the next day, do or do not - I am still going to ask them to give me this information direct while this organization is trying to get under way. If they say to me, "Mr. Morgenthau, we need this stuff; we cannot sit here" - I will just have to make up my mind on the dollar position. Before I do it, I will sit down with you (Currie) - I can't keep the Navy and the Shipping Board waiting while a lot of people learn what their work is, and so forth and so on. I cannot do business like that.

MR. CURRIE: That is reasonable.

H.M.JR: I have asked the Navy and any others to let me know. They have been very good about it and they are entitled to an answer, but this whole thing

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came up last time about this committee, and I cannot operate like that. So I am just saying I am going to ask them to give me this information. I will find out what happened to Admiral Vickery - get the FBI to find out where he is. (Laughter) But if at any time they say, "Well, we have got to have a yes or no," I will ask you (Currie) to come over, and we will do the best we can. But I am not going to sit here and wait - I mean, if the Navy or the Shipping Board says, "We have got to make a move today."

But if you - inasmuch as I understand you created this Board, see if you can find it. (Laughter) I mean I get so disgusted. I cannot work like that.

MR. CURRIE: Did you ask the Board?

MR. WHITE: They knew it was coming up. We did not ask them specifically. We asked a representative to be here, and the representative is not here, and the other representative is here and does not know.

MR. CURRIE: I find I was too apologetic. The Board was not asked for this meeting to--

MR. WHITE: They were told it was coming up. They are here. We did ask them, and what answer did you get? So let's not find any unnecessary excuses.

MR. FENNELLY: On the other hand, if the Board had not been informed except that there was going to be a meeting - as far as I knew, I was just advised there was going to be a meeting on this general subject. Mr. Shenefield may know.

MR. WHITE: I spoke to Mr. Hall, myself, and he said he would be here, and I told him what it was about, and Mr. Shenefield knew. However, I do not see that - you don't know and Mr. Shenefield does not know, and now that is the status. I take it that in the future you will have some other facilities.

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H.M.JR: Well, let's adjourn now, and then, as I say, as soon as you--

COMDR. STRAUSS: I will communicate today with Doctor White.

H.M.JR: Right. I am sorry it was such a bad meeting.

Agenda for Meeting in Secretary Morgenthau's Office
September 15, 1942, 9:00 A.M.

1. Proposed contract for ships to be placed in Canada by War Shipping Administration.

This contract is for BA Victory type vessels to be delivered in 1945 and 1944 at an aggregate cost of \$146 million.

- a. Could these vessels be built in this country without interfering with the war production program of the United States.
 - b. Are these vessels intended for United States use or are they going to be chartered to the United Kingdom under Lend-Lease?
 - c. If this contract is not placed, what will Canada do with the capacity?
 - d. How much of the material needed to build these ships will have to be imported from the United States?
 - e. Will the construction of these ships in Canada interfere significantly with the execution of our own war program?
2. Contract to be placed by Navy with Boeing Aircraft of Canada, Ltd.

This order covers 200 airplanes and spare parts, having a dollar value of \$30.5 million.

Some materials would have to be imported from the United States, but in the opinion of Navy officials, this contract would utilize facilities in Canada which would otherwise be idle. The production period is not indicated.

(Questions (a), (b) and (c) listed above would likewise apply to this contract).

3. Contract under negotiation between the U.S. Navy and Patrolaid Aircraft, Ltd., of Canada.

Three hundred airplanes, spare parts, machine tools, and other equipment are included in the aggregate price of \$28.7 million.

As in case of the other naval aircraft contract under consideration, the Navy anticipates the importation of some U.S. components and the use of facilities which would otherwise be idle. We have no information on probable production schedule.

(Again questions (a), (b) and (c) seem to apply).

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4. Navy contracts for construction of various types of naval vessels in Canada.

It is not clear from the information at hand whether or not these contracts have already been signed. They total roughly \$43 million.

A large proportion of U.S. materials will be required for their completion and it is believed by Navy officials that the facilities would probably have been utilized on British and Canadian account in the absence of these U.S. contracts.

(Questions (a), (b) and (c) are also applicable here).

TMK:rl 9/14/42

Treasury Department 169
Division of Monetary Research

Date 9/16/42.....19

To: Miss Chauncey

Attached is copy of letter
which you requested.

L. Shanahan

Mrs. Westinghouse:

This was in a White House
envelope which had been opened up-
stairs and which I gave to Secy
without breaking the seal. Steve
said the Secy sent it to Dr. White
so I asked MR. WHITE for this copy.
Branch 2058 - Room 214½ nmc

C
O
P
Y

THE WHITE HOUSE

Washington

September 15, 1942.

Dear Mr. Secretary:

I have made certain inquiries today on the two pending orders to Canada, which you brought up in our meeting this morning. On the proposed aircraft order of \$59 million, for which letters of intent have been issued, I am informed that we require both types of planes in question. By placing the order in Canada, however, we release a portion of our own facilities for more advanced models.

It is estimated that the completion of these orders will require only 20 percent American materials. About one half by dollar value of this order is on Lend-Lease account and about one half on Navy account. This particular order appears to fit admirably our qualifications of leading to a net increase in the overall production of the two countries and I should like to recommend that you interpose no objections to its conclusion.

The other large impending order, that of approximately \$100 million for some 60 merchant ships in 1943, raises more difficult questions. I have discussed the matter, both with Admiral Vickery and with Mr. Howe, Minister of Munitions for Canada. It is perfectly agreeable all around to hold the matter of placing an order in abeyance for the time being. In the meantime, the Canadians will convert to an American type ship and we will endeavor to supply them with the approximately 1,000 tons of plate steel that they need per ship. If it develops that additional U.S. dollar exchange is required, the Maritime Commission is prepared to purchase these American type ships for our common pool. I recommend, therefore, that you tell Lew Douglas that it is your understanding that through common consent this matter is being held in abeyance for the time being.

Yours sincerely,

(Sgd) LAUCHLIN CURRIE

Lauchlin Currie
Administrative Assistant
to the PresidentHonorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D. C.

162
September 15, 1942
9:39 a. m.

HMJr: Hello.

Operator: Mr. Lewis Douglas is talking on another call, and he'll call you right back.

HMJr: Thank you.

Operator: You're welcome.

HMJr: Hello.

Operator: Lewis Douglas.

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

Lewis Douglas: Yes, Henry.

HMJr: Good morning, Lew.

D: Good morning, Sir.

HMJr: We were to have a meeting this morning on that request of yours, you know...

D: Yes, Henry.

HMJr: ...and Admiral Vickery was supposed to have been here at nine.

D: Yes, Henry.

HMJr: He never showed up.

D: Oh, well. All right.

HMJr: He never showed, never telephoned - nothing.

D: O. K., Henry, and I'm sorry Old Man I sent him a memorandum and talked to him about it...

HMJr: Well, he never came.

D: ...a few days ago.

HMJr: What?

D: Everybody else was there, I gather.

HMJr: Everybody else was here.

D: O. K., Henry.

HMJr: Now, there's some information that we need...

D: Yes, exactly.

HMJr: ...and we can't get it.

D: All right, Henry. Yes, Harry was good enough to call me up and give me a list of that. I have - I listed it and put it in the form of a memorandum and took it over to Howard myself.

HMJr: Well, O. K., I...

D: (Laughs) What do you want me to do, do you want me...

HMJr: Well, if we can have...

D: ...do you want me to get in touch with Harry White?

HMJr: Yes. Would you?

D: Yes. I will.

HMJr: I thank you.

D: Thank you, Henry, ever so much.

HMJr: All right.

D: I've just been a damn nuisance on this.

HMJr: No - I, we want to be helpful...

D: I know you do.

HMJr: I don't want to - I don't want to inadvertently be the bottleneck...

D: Well, I'm just as grateful to you as I can be.

HMJr: ...but we can't act if the people don't show up.

D: Absolutely. YOU're just as right as you can be.

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HMJr: Well, if we can get the answers to those questions and get them into Harry White's hands, I can give you an answer damn quick.

D: Right, Henry.

HMJr: Yeah.

D: All right.

HMJr: Thank you.

D: Thank you, ever so much.

HMJr: Goodbye.

September 15, 1942 165
10:14 a. m.

Operator: Go ahead.

Jesse Jones: Hello.

HMJr: Hello.

J: Henry?

HMJr: Yeah.

J: These two new - you're offering two new issues, aren't you?

HMJr: You mean these Tax Anticipation Notes?

J: Is that what it is?

HMJr: Yeah.

J: Have you got one that, uh, is an "F" - some sort of an "F"?

HMJr: No, that's in the - that's in these so-called War Bonds - the limit on that's a hundred thousand dollars.

J: Well, what is that?

HMJr: Well, that's a note - that's a bond that sells at - let's see, uh, seventy-four dollars, and over a period of twelve years goes up to a hundred, you see?

J: So, I can buy a hundred of those?

HMJr: You can buy a hundred thousand of those. The average if you hold them the twelve years - the average, I think, is just under 2-1/2%.

J: I see. Well, what I want to do, I got a little pocket change here that I want to - it's sort of Movie industry money.

HMJr: Movie industry money?

J: Yeah, it's in connection with the Will Rogers'...

HMJr: Oh yeah.

J: ...Memorial thing, and...

HMJr: Yeah.

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J: ...I want to buy a hundred of those, and get them, let the - I'm doing it at their request.

HMJr: Well, you need any - you need the income on that?

J: Yes, that's what they want. We've got to have it because we operate that Hospital up...

HMJr: Well, then you...

J: ...up in the Adirondacks.

HMJr: ...you ought to buy the G bond - that pays income as it goes along.

J: That pays income?

HMJr: Yeah.

J: Well, they - they thought - it was this - I think the one - I'll have to call them back. I think this is the one they wanted was this where they get...

HMJr: The appreciation? One's called an "income bond" and one's called "appreciation bond".

J: Is the - "F" - what is that? Is that...

HMJr: As I remember it, I haven't got the circular before me, it's an "appreciation bond".

J: I see. Well, let me - either way, I want to get it in through - I want to help these boys, they're working pretty hard.

HMJr: Well, the one is bigger - they both work out for twelve years 2-1/2%.

J: I see.

HMJr: One, one you buy, you see, at a discount...

J: Yeah.

HMJr: ...at seventy-four, and it goes to a hundred. The other one you - is - I can send you over, by hand, a little circular - I'll have it over there in ten minutes for you.

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J: If you would, that would - that would help me,
Henry.

HMJr: Let me send this circular over, I'll have it over
to you in five minutes.

J: Thank you, very much.

HMJr: Right.

J: Goodbye.

September 15, 1942
10:30 a.m.

FINANCE

Present: Mr. Bell
Mr. Gaston
Mr. Paul
Mr. Viner
Mr. Haas
Mr. Odegard
Mr. Kuhn
Mr. Blough
Mr. White
Mrs. Klotz

H.M.JR: Who is not here that knows anything about the economics of finance? Who in the Treasury have I overlooked? Sullivan is in New Hampshire. I guess everybody is here.

What I wanted to say was this. I know what I want, but who should do it and how we get it done I do not know. But let us just take a minute. I think that in view of the turn that the tax bill has taken and the way it leaves me on my financing, I am left in a very uncomfortable, and possibly dangerous, position.

I think that we ought to get down on paper what we think the fiscal and monetary problem is, looking ahead just as far as we can, and what we need. Then after we get it I would like it distributed.

Take, for instance, the way the bill is now. On borrowing the figures that I have got are fifty or fifty-five billion; well, how are we going to borrow? Let's tell the truth; and then let's say, on the other hand, that if Congress had considered the program which we had asked for the picture would look so and

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so. I am going on the assumption, and I think it is pretty safe, that we will not get anything out of this conference. I can get no help from the President. So I think it is up to us to sit down and, as I say, look ahead just as far as possible and state the position. Then, having done it, let other people pick it up and continue to go out over the country and sell it.

MR. PAUL: A lot of this will be relevant, anyway, in consideration of this joint committee, of which you are a member. They will ask all these questions, and we will have to have it ready.

H.M.JR: If I remember - I may not be right - didn't I state publicly what I wanted in the way of economy before I went to that committee - so-called Byrd Committee.

MR. BELL: You wrote a letter or submitted a memorandum to the committee of the items that should be studied and what might be--

H.M.JR: I made it public.

MR. KUHN: But you did say in a number of speeches that you felt there should be much greater economy in non-defense expenditure, so you did something publicly.

MR. PAUL: Yes, but I mean on this new committee which has not been appointed yet, and I mean not only on the small end of economy but on the big end.

H.M.JR: This was a year ago. I am talking about - after all, my big job is to borrow this money and to borrow it in a way that will not add to the inflation possibilities either now or post-war. I haven't got what I wanted. The situation may become dangerous, and unless I go out and tell the people about it I will never get it. I will never get it from the Senate or the House.

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MR. GASTON: You do not need to stand on precedent in this situation. You do not need to worry about precedent on this.

H.M.JR: Herbert, I am not worrying about anything along those lines. It is like the other day when Ronald Ransom called me up for the third time about whether or not he should come over and in what capacity. My answer to him was, "Damn it, we are at war. I am asking you to come over. I don't care what capacity you come over in." That was my answer.

MR. GASTON: That is the way I feel about this situation.

H.M.JR: That is what I told him. I said, "Come on over, and I don't care." That is just what I told him.

MR. GASTON: We should not worry about whether it is Bob Doughton's toes or Senator George's toes, or anything else.

H.M.JR: Now, I want this. I don't say when I want it, but I don't want it to fall by the wayside.

Now, the question is how to organize this thing so that I can get it, you see; and that, Jake, is one of the principal reasons that I asked you and Stewart to come down about, you see.

MR. KUHN: Would you do this before the tax bill is finally done?

H.M.JR: Now don't let's worry about that. You heard what Herbert said. Don't let's worry about that. Let's get the thing on paper - let's get the thing on paper. I mean, this is going to take a lot of good, hard, clear thinking.

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MR. GASTON: I would not say the "thing." I would say several things.

H.M. JR: Pardon?

MR. GASTON: I say, not the "thing", but I would say several things. I mean to say that you might start out with an ordinary press release, a statement to the public, and follow that up with a radio speech, and whang at it repeatedly from three or four or five different ways.

MR. PAUL: First we have to know what we are going to do.

MR. GASTON: The first thing we are clear on is that this bill does not contain enough revenue.

MR. PAUL: Yes, but that is only part of the problem.

H.M. JR: I agree, Herbert, but the thing that I am trying to get is - we certainly can look through to July 1, '43, and then we can say, "Supposing this war lasts for from three to five years, how is the Treasury going to do this thing?" Let's do a little star-gazing. Supposing this thing does get to a hundred billion dollars in fiscal '44. We can ask somebody over at the War College, "What could you use for the next two years? Give us the figures."

MR. HAAS: We asked them.

H.M. JR: All right, we may end up with a figure - we are faced with borrowing from three to five hundred billion dollars in the next three or four years. Now, how is the Treasury going to do this? I mean I don't know how far out I would want to go, but I would go out just as far as the joint chiefs of staff would tell me. They have talked about thirteen and a half million men, haven't they? Isn't that what it is?

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MR. KUHN: Yes.

H.M.JR: All right. What does that mean in dollars, in the way of munitions. Let's just take that figure - that thirteen million men. This friend of mine said they are talking about a million and a half tons of copper just for munitions. He said he couldn't figure it out. Somebody has got to plan. Everything else is on that basis.

Bell, have you got any suggestions as to how we can lay this thing out as a problem?

MR. BELL: You mean in the Treasury?

H.M.JR: Yes, just in the Treasury.

MR. BELL: I think, as you say, that we certainly can run it up to July 1, 1943. I don't know that we need figures from there on. We can say that certainly the problem is not going to be any smaller than the 1943 program, and it is probably going to be a lot larger.

H.M.JR: Well, for my own use I would like to run it, if I could, out for five years.

MR. BELL: Couldn't you say that the chances are that this war may last five years and that the calls may be in the neighborhood of so much.

H.M.JR: I don't know. Within the official Treasury family I would like to study the thing. I mean, what do thirteen million men mean in the way of expenditures? I am sure that the joint chiefs of staff have a plan. They have got a program. They know how much it means.

Supposing we do it this way. We have got three economic staffs here, Blough's, White's and Haas'.

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Supposing each of you talk it over with your respective staffs, see, and put something down on a piece of paper. Today is Tuesday. Show it to each other, and then come in and see me Thursday morning. That gives you two days.

MR. BLOUGH: Would you mind giving us another day, Mr. Secretary? I suggest that for this reason, that the man connected with our organization who has been doing a great deal of this very thing is Mr. Shoup. By the time I get him down here it will be tomorrow. I want to have him work on it.

H.M.JR: I am not going to make any appointments for Friday. I don't know whether I will be here or not.

MR. BLOUGH: We can have something Thursday, but if we could have until Friday we could do a much better job.

H.M.JR: I tell you what I will do - no, I can't do it, I am sorry. I can't do it.

MR. BLOUGH: All right, Thursday morning.

H.M.JR: We will start at - well, I am at my best at nine o'clock.

Let me just go around. Kuhn, do you want to ask some questions?

MR. KUHN: No. I think it is good. I think it is a good idea.

H.M.JR: Don't let's worry about the timing. Let's get it in hand and digest it. You see what I mean.

Haas?

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MR. HAAS: I think it is an excellent idea. We have done some thinking on it.

H.M.JR: You have?

MR. HAAS: We have made some projections for five years, going the way we are going, which is very set.

H.M.JR: Harry?

MR. WHITE: No questions.

H.M.JR: Let's go around the room.

Peter, do you want to make any suggestions?

MR. ODEGARD: I just wanted to say, Mr. Secretary, that I am convinced that if a statement such as you suggested the other day on the over-all problem which the Treasury has to meet had been placed in the hands of the War Savings Staff alone, that half a million or million people, the reaction to these proposals of forced savings and all the rest would be quite different. I think you would not have that sense of misunderstanding and confusion. The reason is because they do not know. It has never been placed before them.

H.M.JR: Is that my fault?

MR. ODEGARD: No, I don't think so.

H.M.JR: I don't, either. I can't do it all, Peter.

MR. ODEGARD: I think, for example--

H.M.JR: I just can't do it all.

MR. ODEGARD: I just saw the screening of this

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statement that you sent out the other day, which is now on twenty-seven hundred screens today, with Jimmy Cagney. The interesting thing about that statement is that the plug for the savings and spendings tax stands out more prominently than the material on the voluntary savings program in that statement by Jimmy Cagney; and I think it is all to the good because of that. So I would think this would be an excellent thing. If we had the information it would, I think, have a very salutary effect upon the public.

H.M.JR: I agree with you, and of course that is why I asked for this bulletin.

Now, I want to go much further than that. I want to go for this. Once we are on solid ground on this, as Herbert Gaston said, we can use it in a half a dozen different ways.

Jake?

MR. VINER: I think that you will have to be doing this for the next six months pretty steadily. I don't know just when you ought to start. That is a question of tactics and policy, but you will have to be hammering away at this, and hope that as a result you will get what you need in installments, if not when you would like to get it.

H.M.JR: As to laying this out, would you be available for consultation for the next day or two?

MR. VINER: Yes, today and tomorrow.

H.M.JR: I mean if any of these men want to consult you they may?

MR. VINER: Absolutely. I am at their service.

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H.M.JR: As to layout. After all, it is not exactly the same, but you did lay out one for me in '34, didn't you? In '34 was when that study was made.

MR. VINER: I think that the lines are fairly indicated by the situation.

MR. KUHN: Isn't it like the preliminaries to your inflation speech up in Boston? We worked at it for a long time before we even knew where you were going to make it or under what circumstances, and then you got the stuff together and made a speech that lasted for months. (Laughter)

H.M.JR: That is right.

MR. ODEGARD: Speech that lasted for months?

MR. KUHN: I gave myself away, Peter. (Laughter)

MR. ODEGARD: Yes.

H.M.JR: What is the joke?

MR. KUHN: It was a good speech. I meant there wouldn't have to be another one for months. I said "a speech that lasted for months." (Laughter)

H.M.JR: I think more highly of you than they do.

MR. KUHN: What I meant to say was that it had a public effect for months.

H.M.JR: Well, Jake, you think about it today. Then you are available for consultation?

MR. VINER: Yes, at their command.

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H.M.JR: I hope they will consult you, and I hope that before I see you all on Thursday that you will talk it over with each other.

Paul?

MR. PAUL: Of course I think you have to do something like this. I cannot be of great service on the economic end of it, but I think you have to do it.

H.M.JR: No, but--

MR. PAUL: When you get it, I will be very interested, and I will probably be in on some of the putting it across.

H.M.JR: Roy?

MR. BLOUGH: I think it is grand, very necessary, and we are prepared to put our whole energy into it now that the tax bill is a little bit--

H.M.JR: Get hold of Shoup and call him on the phone.

MR. BLOUGH: I will have him come down immediately. Friedman and Shoup, between them, have done a great deal of this kind of thing, and I am sure they can be very helpful in this connection.

H.M.JR: You pull in Shoup. Is there anybody in the outside world whom we ought to pull in on a thing like this?

MR. VINER: I think, if possible, if you are going ahead two or three or four years in this that you ought to keep step with other agencies so that they don't backfire. I don't know what the situation is there. (Laughter)

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H.M.JR: Our relations aren't anything like that. They are good now, with all these agencies, with the exception, possibly, of the Budget. Bell is supposed to take care of that. (Laughter)

MR. BLOUGH: They are good with Budget, I think, on a matter like this.

H.M.JR: No, we would check it. But White, would you want to call in anybody?

MR. WHITE: No, sir. If the men on my staff are not competent to do their job I will join the Salvation Army. (Laughter)

MR. VINER: Why don't you join it? (Laughter)

MR. WHITE: I think I have got men that are competent.

MR. VINER: Oh, I didn't get it. I thought you were asking a question. (Laughter)

MR. WHITE: It seems to me that is the essence of our job.

H.M.JR: George, without being influenced by what--

MR. HAAS: The same, except I will substitute the USO for Harry's statement. (Laughter)

H.M.JR: USO?

MR. HAAS: We can't all be in the Salvation Army. (Laughter)

H.M.JR: I don't agree with Harry, but that is all right. I think there are many times when people who are specialists--

- 12 -

MR. HAAS: Shields has done some work along that line.

MR. WHITE: I don't feel that way, Mr. Secretary. That is the essence of the economic staff - that is the essence of the kind of problems that I think for you our organization is supposed to contend with. If we are not competent to get a program - that does not mean we are going to be in agreement on it. It has to be thrashed out in the group, but if we are not competent to present a preliminary draft of a program, which I think we have done in the past, anyway, then I would say it is time to change the staff.

MR. VINER: I do not think the difficulties will be on the technical features but on the effective presentation - on distribution of emphasis.

MR. WHITE: That will come out in the general thrashing subsequent to the preliminary drafting.

MR. VINER: There it may be that you will need talent.

MR. WHITE: I think that is where it would come in very handy.

H.M.JR: What I wanted - I take it Shoup is part of the Treasury?

MR. BLOUGH: Shoup has been part of the Treasury ever since I have been here. I claim him as my staff man for all the time that I can get from him. I don't take what Harry has to say as comparing-- (Laughter)

MR. WHITE: I was paying you a compliment. I think you have got a good staff without him. (Laughter)

- 13 -

H.M.JR: Well, anyway, may I just add this, that I don't want anybody to feel - I don't care how novel or radical or revolutionary the suggestion is, put it in. See? In other words, the sky is the limit.

Now, the problem - I will state it once more. Oh, Herbert?

MR. GASTON: I think this plan is grand. I think we should look ahead at the whole picture, three or four years ahead, but I think we should look, also, at the present picture. We have made a clear record of constantly insisting upon greater revenue than is provided in the House bill and greater revenue than is now provided in the Senate bill; and regardless of what the picture is three years or four or five years ahead, the immediate picture that we have been constantly presenting over this next fiscal year calls for a lot more than the Senate Committee has done. I think all the circumstances of your previous position and the position that the country finds itself now in warrants that you should come out with another item or series of items for the record, showing very positively that you are greatly discontented with what has been done by the Senate Committee up to date. I don't think you need to rest the argument on the greater demands for the future or the prospect of a longer war.

I think on just what we see immediately ahead of us we ought to hammer at them again.

H.M.JR: Yes, but that does not - I can do that, but that does not mean that the other should not be worked on, too. It is part and parcel.

MR. GASTON: I think it is a grand idea. It is in line with your responsibility to really look ahead on the thing.

- 14 -

H.M.JR: I mean we are not in disagreement.

MR. GASTON: Not at all.

H.M.JR: And the problem that I am stating - I wouldn't expect - at least the thing I want to start is, how are we month by month going to raise this money to finance this war. You start with the first month; you start with October, and then go on. See? And then go on and go on just as far as we can.

After all, that kind of planning should be taking place here, and then after we get it, as Ferdie says, maybe it will be good for three months. (Laughter).

My Boston speech of September 9, '41 is still good. I read it the other day.

MR. KUHN: It circulated for about six months after you made it. We got demands for it in great quantity.

H.M.JR: When Stewart comes down he will be here for consultation on the same thing, and if anybody gets anything between now and Thursday which you would like to talk to me about I am available for consultation. I have nothing to do the rest of the week except this.

MR. BELL: Are you going to give the monthly breakdowns of the financing?

H.M.JR: Well, I said monthly in answer to Herbert. I meant--

MR. BELL: Just the year?

H.M.JR: I mean, you start with October and then you go forward and go forward just as far as you can.

MR. BELL: I agree with that. I questioned the monthly basis.

- 15 -

H.M.JR: That was in answer to Herbert.

MR. VINER: You ought to have to next June some sort of monthly breakdown - at least to next June.

MR. BELL: We can give it to you as an estimate. We can give the type of financing.

H.M.JR: Well, please advise your staffs that I do not want to read about it in the Wall Street Journal.

MR. WHITE: I will make a note of that, Mr. Secretary. (Laughter)

H.M.JR: On that, Bryan came down from the Hill yesterday. He had heard a little whisper. I said, "What are you doing down here? Why don't you cover the Hill for the Wall Street Journal? I thought you had all your pipelines." He said, "Yes, but I heard there was a little something going on down here."

MR. BELL: When?

H.M.JR: Yesterday at press. I said, "It is nothing I am going to talk about." They heard a little murmur, but it did not get out.

Well, anyway, between now and nine o'clock on Thursday, if anybody wants to ask any questions - at three I have invited somebody to come in with Mabel Newcomer, and that is to continue her on her stuff with women and other organizations, which is a by-product of this.

MR. GASTON: Yes. You have that draft of hers for the AAUW, don't you, or Miss Chauncey has it. I think that material is useful.

H.M.JR: For my approval?

- 16 -

MR. GASTON: No, it was just a copy of what she had already done.

MR. WHITE: Let me make certain that I understand the assignment. The assignment relates to a program and not to an attempt to put it in the kind of form that you would subsequently wish to place it in. It is rather--

H.M.JR: No, that is Kuhn's and Gaston's job to do that. This is to be exploratory and factual.

MR. HAAS: For internal use. (Laughter)

H.M.JR: Very much internal. (Laughter)

All right. I repeat again that everybody in the room is available for consultation, and Stewart will be here. Any time between now and Thursday morning, if anybody wants a meeting call me. I think this is important.

O.K., gents.

September 15, 1942
4:10 p.m.

DEFERMENTS

Present:

Mr. Gaston
Mr. Thompson

H.M.JR: Just see if you agree with me on that case.

MR. GASTON: Yes, I looked at it, and I initialed it. I do agree with you.

H.M.JR: You agree on that?

MR. GASTON: Yes, I do.

H.M.JR: I do.

(Case of Martin C. Kunkel, six months' deferment approved.)

H.M.JR: This is Lazarus. Has he a hundred and forty-three employees under him?

MR. THOMPSON: Yes.

MR. GASTON: He is a review examiner, isn't he?

MR. THOMPSON: Yes, in the Cleveland district.

MR. GASTON: They are scarce as hens' teeth.

H.M.JR: Are they?

MR. GASTON: Yes.

- 2 -

H.M.JR: We cannot ask for more than six months, anyway.

MR. THOMPSON: No. Six months is all we asked for on any of them.

H.M.JR: Has he any family?

MR. THOMPSON: No, he is single.

H.M.JR: But he is forty-three?

MR. THOMPSON: He is forty-three. I think the Commissioner has been very careful in recommending deferments. This man has a big force under him. This is only the second one he has asked for.

H.M.JR: How do you feel on that, Herbert?

MR. GASTON: I am in favor of it - that type of man, too old for active service as an enlisted man, and no special training to be an officer.

(Case of Louis J. Lazarus, six months' deferment approved.)

H.M.JR: Is that all, those two?

MR. THOMPSON: Yes.

September 15, 1942
4:57 p.m.

Operator: Go ahead.

HMJr: Hello.

Frank C. Walker: Hello, Henry.

HMJr: In person.

W: How are you, sir?

HMJr: Okay, Frank.

W: That's good. Say, sometime ago, you know, Dan and I were talking about this Postal Savings business.

HMJr: Yeah.

W: And I get kind of cold feet to bring it up now, as I was afraid that they might start picking on you and me both.

HMJr: Yeah.

W: But, I still am of the same opinion that it's largely a financial enterprise, that - and I was wondering if you had anybody over there that could kind of size up the situation over here for me.

HMJr: Sure. Bell would be the best person.

W: Yeah. Will you talk to Dan?

HMJr: I certainly will, and I'll have him get in touch with you direct.

W: Because I would like to - it's more down your alley, you know, and you're on the Board.

HMJr: Yeah. I'll have him call you in the morning.

W: Will you do that?

HMJr: I certainly will.

W: All right, Henry.

HMJr: Thank you.

TREASURY DEPARTMENT

187

INTER OFFICE COMMUNICATION

DATE

September 15, 1942

TO Secretary Morgenthau
FROM Randolph Paul

The following is a copy of a memorandum handed to me yesterday afternoon by Senator George. In view of this memorandum I did not bring up any compulsory savings program.

"Have talked with Secretary and advised him of conditions as found them at noon. We conclude it would be unwise to bring up at this time.

W. F. G."

You will be interested to know that at my suggestion the language of the resolution for a Joint Committee was enlarged. We took out some language which would have precluded an investigation of the spendings tax, and we advanced the date of January 11 to December 1.

REP.

TREASURY BILLS

	<u>Sept. 16</u>	<u>Sept. 9</u>	<u>Sept. 2</u>	<u>Aug. 26</u>
Amount offered	\$ 400 M	\$ 350 M	\$ 350 M	\$ 350 M
Bids tendered	882	710	873	892
Low rate	*.297%	.297%	.297%	.297%
High rate372	.376	.372	.372
Average rate369	.368	.367	.369
Amount in New York	\$ 132 M	\$ 113 M	\$ 147 M	\$ 139 M
Amount in Chicago	129	92	67	106
Amount in San Francisco ...	27	29	25	22
Amount in balance of country	112	116	111	83

* One tender of \$25,000 received at par.

September 15, 1942.

Sales of Treasury Notes - Tax Series A and Tax Series B

January - August 1942

Classified by denomination
 (Par amounts in millions of dollars - As reported
 by the Federal Reserve Banks)

Series and denomination	Jan.- Mar.	April* June	July	August	Total
Tax Series A					
\$ 25.....	.6	.6	.2	.2	1.6
50.....	.9	.9	.3	.3	2.4
100.....	9.4	8.5	3.3	2.7	23.9
500.....	1.4	1.7	.8	.6	4.5
1,000.....	<u>2.5</u>	<u>3.1</u>	<u>1.4</u>	<u>1.1</u>	<u>8.1</u>
Total - Tax Series A	14.8	14.8	6.0	4.9	40.5
Tax Series B					
\$ 100.....	1.4	1.7	.7	.7	4.5
500.....	3.0	3.1	1.5	1.4	9.0
1,000.....	29.4	36.4	15.9	16.0	97.7
10,000.....	96.4	158.2	71.4	74.1	400.1
100,000.....	195.0	379.2	150.8	172.5	897.5
500,000.....	62.0	133.0	81.0	37.5	313.5
1,000,000.....	<u>191.0</u>	<u>350.0</u>	<u>55.0</u>	<u>92.0</u>	<u>688.0</u>
Total - Tax Series B	578.2	1061.6	376.3	394.2	2410.3
Total - Both Series..	<u>593.0</u>	<u>1076.4</u>	<u>382.3</u>	<u>399.1</u>	<u>2450.8</u>

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

September 15, 1942

Classification by Type of Purchaser of the Sales of Treasury Notes
Tax Series A and Tax Series B

January - August 1942
(Par amounts in millions of dollars - As reported
by the Federal Reserve Banks)

Type of purchaser and month	Tax Series A	Tax Series B	Total
<u>Individuals</u> ^{1/}			
January - June.....	26.7	196.9	223.6
July.....	5.4	33.5	38.9
August.....	<u>4.3</u>	<u>24.5</u>	<u>28.8</u>
Total.....	<u>36.4</u>	<u>254.9</u>	<u>291.3</u>
<u>Corporations</u>			
January - June.....	2.9	1,442.9	1,445.8
July.....	.6	342.8	343.4
August.....	<u>.6</u>	<u>369.7</u>	<u>370.3</u>
Total.....	<u>4.1</u>	<u>2,155.4</u>	<u>2,159.5</u>
<u>Total Sales</u>			
January - June.....	29.6	1,639.8	1,669.4
July.....	6.0	376.3	382.3
August.....	<u>4.9</u>	<u>394.2</u>	<u>399.1</u>
Total.....	<u>40.5</u>	<u>2,410.3</u>	<u>2,450.8</u>

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

September 15, 1942

^{1/} Includes partnerships and fiduciaries.



THE SECRETARY OF STATE
WASHINGTON

September 15, 1942

Dear Henry:

Thank you very much for your letter of September fourteenth enclosing a copy of a summary circular prepared in connection with the new Tax Savings Notes recently placed on sale.

With best wishes,

Sincerely yours,

A handwritten signature in cursive script, reading "Cordell Hull". The signature is written in dark ink and is positioned below the typed name.

The Honorable
Henry Morgenthau, Jr.,
Secretary of the Treasury.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE
SEP 15 1942

TO Secretary Morgenthau
FROM Mr. Paul

Reference is made to the Raleigh News and Observer editorial on taxes which was given to Colonel Halsey to be inserted in the Congressional Record.

Colonel Halsey's secretary phoned my office yesterday afternoon that the Colonel was unable to get the editorial in Monday's Record. He hadn't been able to contact the Senator he thought would offer the editorial but will try to do so before the next session of the Senate on Thursday.

RSF

193
per Secret Service

September 15, 1942

My dear Mr. President:

In reply to your request of September 12, 1942, I am enclosing herewith a suggested reply for your signature to letter of September 9, 1942, from Mr. Percy S. Stevens on the subject of charitable contributions under the surplus limiting to \$25,000 individual incomes remaining after taxes.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

The President,
The White House

E-R

1042
9/15/42

FILE COPY

RAB

RAB

Dear Mr. Struna:

Thank you for your letter of September 9, 1942, and for your kind comments about my Labor Day speech.

I appreciate that the tax treatment of charitable contributions under the supertax proposed to limit to \$25,000 the income remaining to individuals after all taxes could affect the volume of private contributions. For this reason, we have given careful consideration to the treatment of this matter under the proposed supertax.

If the present income tax treatment were carried over to the supertax, it would in effect enable some individuals to make substantial contributions without any cost to themselves. Contributions would reduce only the donor's tax liability and not the income remaining to him after taxes. The total cost of the contribution would be borne by the Government. If, on the other hand, the deductibility of contributions were further limited, donations would in some cases be reduced. To avoid this result, the Treasury suggested to the Congress that for purposes of the supertax the present income tax treatment of contributions be retained; namely, that donations not in excess of 15 percent of net income be allowed as a deduction. This would result in a revenue loss to the Government but would be a substantial benefit to the institutions depending upon private contributions.

I am glad that you called the need for this clarification to my attention.

Sincerely yours,

Mr. Percy S. Struna,
151 West 34th Street,
New York, New York

Σ-R
UN:KL:ted

9/13/42

FILE COPY

RB

1942

COPY

THE WHITE HOUSE
WASHINGTON

September 12, 1942.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

FOR PREPARATION OF REPLY FOR
MY SIGNATURE.

F.D.R.

Howe

COPY

Percy S. Straus
151 West 34th Street
New York

September 9, 1942

The President
The White House
Washington, D. C.

Dear Mr. President:

Your speech on Labor Day was a masterpiece of clear exposition of a difficult subject. I listened to it with a number of ladies, all of whom seemed to grasp what you were trying to put over.

I should like to call your attention to an omission which I trust was not intentional. In advocating a top income after taxes, of \$25,000, you did not mention that allowance would be made for donations to philanthropic and educational institutions, U.S.O., Army and Navy relief, and the like, over and above that amount. If everybody were limited to \$25,000 without such an allowance, our hospitals, orphan asylums, settlement houses, universities and colleges, would find it hard to continue.

I think it would help many campaigns for funds during the next year if you would make a clear statement on that subject, provided, of course, that your intention, in the limitation, is to permit donations to philanthropic and educational institutions to be deducted before the final tax is paid.

I hesitate to write to you, knowing how much your mind and time are occupied, but I thought you would not take it amiss if I called this situation to your attention.

Mrs. Straus joins me in friendly greetings to you and Mrs. Roosevelt.

Cordially yours,

(s) Percy S. Straus

COPY

Percy S. Straus
151 West 34th Street
New York

September 9, 1942

Miss Marguerite LeHand
The White House
Washington, D. C.

My dear Miss LeHand:

I would appreciate it greatly if you would see that the attached letter reaches the President's desk. He receives such volumes of mail these busy days it otherwise might not come to his attention.

With many thanks and kind regards,

Sincerely yours,

/s/ Percy S. Straus

UNITED STATES SAVINGS BONDS - TOTAL

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

(At issue price in thousands of dollars)

Date	September daily sales	Cumulative sales by business days			September as percent of August
		September	August	July	
September 1942					
1	\$ 19,162	\$ 19,162	\$ 26,267	\$ 28,418	73.0%
2	24,558	43,720	65,032	52,687	67.2
3	27,702	71,422	92,055	79,964	77.6
4	28,482	99,904	117,890	126,495	84.7
5	29,880	129,784	158,341	157,605	82.0
8	67,950	197,734	196,524	201,056	100.6
9	19,367	217,101	220,742	240,974	98.4
10	22,709	239,810	261,763	288,729	91.6
11	26,807	266,617	277,037	324,856	96.2
12	13,926	280,544	301,761	372,020	93.0
14	48,890	329,434	324,518	402,122	101.5

September 15, 1942.

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

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

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

UNITED STATES SAVINGS BONDS - SERIES E

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

(At issue price in thousands of dollars)

Date	September daily sales	Cumulative sales by business days			September as percent of August
		September	August	July	
September 1942					
1	\$ 11,634	\$ 11,634	\$ 14,044	\$ 15,821	82.8%
2	14,748	26,381	36,222	30,701	72.8
3	18,305	44,687	50,797	47,523	88.0
4	17,804	62,491	63,785	77,320	98.0
5	19,166	81,657	86,789	95,044	94.1
8	49,400	131,057	111,748	116,643	117.3
9	13,295	144,352	128,176	139,390	112.6
10	16,430	160,781	154,981	164,161	103.7
11	19,573	180,354	164,866	183,238	109.4
12	9,584	189,938	180,787	209,787	105.1
14	35,544	225,482	197,143	225,532	114.4

September 15, 1942.

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

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

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

UNITED STATES SAVINGS BONDS - SERIES F AND G COMBINED

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

(At issue price in thousands of dollars)

Date	September daily sales	Cumulative sales by business days			September as percent of August
		September	August	July	
September 1942					
1	\$ 7,528	\$ 7,528	\$ 12,222	\$ 12,597	61.6%
2	9,811	17,339	28,810	21,986	60.2
3	9,397	26,735	41,258	32,441	64.8
4	10,678	37,414	54,105	49,175	69.2
5	10,713	48,127	71,552	62,561	67.3
8	18,550	66,678	84,777	84,413	78.7
9	6,072	72,749	92,566	101,585	78.6
10	6,279	79,029	106,782	124,568	74.0
11	7,235	86,263	112,171	141,618	76.9
12	4,342	90,606	120,974	162,232	74.9
14	13,347	103,952	127,375	176,590	81.6

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

September 15, 1942.

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

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

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Sales of United States savings bonds
September 1 through September 14, 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
	Sept. 1	Sept. 1	Sept. 1	to date	Sept. 1	Sept. 1	Sept. 1	to date	Sept. 1	Sept. 1	Sept. 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	\$ 11.6	\$ 11.6	\$ 14.9	77.9%	\$ 7.5	\$ 7.5	\$ 6.9	108.7%	\$ 19.2	\$ 19.2	\$ 21.8	88.1%
2	14.7	26.4	34.5	76.5	9.8	17.3	16.6	104.2	24.6	43.7	51.1	85.5
3	18.3	44.7	55.5	80.5	9.4	26.7	26.4	101.1	27.7	71.4	81.9	87.2
4	17.8	62.5	81.0	77.2	10.7	37.4	35.6	105.1	28.5	99.9	116.6	85.7
5	19.2	81.7	98.3	83.1	10.7	48.1	42.2	114.0	29.9	129.8	140.5	92.4
8	49.4	131.1	143.3	91.5	18.6	66.7	58.1	114.8	67.9	197.7	201.4	98.2
9	13.3	144.4	168.8	85.5	6.1	72.7	67.8	107.2	19.4	217.1	236.6	91.8
10	16.4	160.8	193.4	83.1	6.3	79.0	76.7	103.0	22.7	239.8	270.1	88.8
11	19.6	180.4	220.6	81.8	7.2	86.3	84.4	102.3	26.8	266.6	305.0	87.4
12	9.6	189.9	239.2	79.4	4.3	90.6	90.1	100.6	13.9	280.5	329.3	85.2
14	35.5	225.5	272.7	82.7	13.3	104.0	99.7	104.3	48.9	329.4	372.4	88.5
15			288.2				105.0				393.2	
16			307.6				112.1				419.7	
17			327.2				119.2				446.4	
18			350.1				125.7				475.8	
19			365.4				130.5				495.9	
			399.6				141.0				540.6	
22			415.7				147.0				562.7	
23			436.2				155.2				591.4	
24			457.1				163.4				620.5	
25			481.4				171.0				652.4	
26			497.4				176.6				674.0	
28			532.7				188.7				721.4	
29			549.2				195.5				744.7	
30			570.0				205.0				775.0	

September 15, 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.

September 15, 1942.

Dear Colonel Macdonald:

Thank you very much for the photographs which arrived this morning. They will help to remind me of the enjoyable hours I spent at Fort Riley. I appreciate your kindness in collecting and sending these pictures to me.

Sincerely,

(Signed) H. Morgenthau, Jr.

Col. John C. Macdonald,
Assistant Commandant,
The Cavalry School,
Fort Riley, Kansas.

FK:eg

THE CAVALRY SCHOOL
FORT RILEY, KANSAS

In Reply
Refer to:

JCM/lms
September 12, 1942

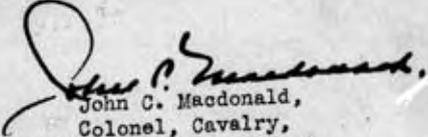
Mr. Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D. C.

Dear Mr. Morgenthau:

Colonel J. H. Phillips asked me to send you copies of pictures taken of you and your son during your visit at Fort Riley.

I have inclosed three copies of the pictures I thought would be of interest. They are the only ones I could find, which included you and your son together. The picture where you and your son are standing by the tail of the plane is one of the best, and I know you will enjoy it.

Yours sincerely,


John C. Macdonald,
Colonel, Cavalry,
Assistant Commandant.

1 Incl--
21 pictures.

FOR DEFENSE



Conference in Mr. White's Office
September 15, 1942
4:15 P.M.

Present: Mr. White
Mr. Bewley

Mr. Bewley called at his own request. He had received a message from his Government relative to their need for silver for war purposes.

Mr. Bewley informed Mr. White that the message said that his Government might need 150 tons of silver to carry them through until September 1943. They were not certain they would call on us but they would like to have the assurance that they could if they needed to. The silver is needed to replace tin in soldering in the war effort. The message also stated that they wouldn't feel happy about replacing the silver in kind inasmuch as it was going to be consumed in the process.

Mr. White asked whether they needed any silver for coinage and Mr. Bewley stated that he had made such an inquiry in his message to his Government but that they had not mentioned anything about coinage.

Mr. White said he was not sure whether their reluctance to replace the silver in kind would make the possibilities of a Lend-Lease arrangement more difficult, but that he would make inquiries.

H. D. White

TREASURY DEPARTMENT

205

INTER OFFICE COMMUNICATION

DATE Sept. 15, 1942

TO Secretary Morgenthau
FROM Mr. Hoflich

Subject: Shipment of Planes to British Forces

Sixty planes of all types, including 54 combat planes, were sent to British forces from the United States during the week ended September 8, 1942. This is the smallest number of planes sent to the British in any week since early in February, 1942.

Table A - Shipments by Area

	Week Ending Sept. 8, 1942	Total Shipped in 1942 to date	Total Shipped since Jan. 1, 1941
<u>to the United Kingdom</u>			
Light and medium bombers	11	560	1,721
Heavy bombers	0	142	246
Naval patrol bombers	13	59	161
Pursuit	1	918	1,229
Army Cooperation	0	119	150
Trainers	0	0	24
Total to the United Kingdom	25	1,798	3,531
<u>to the Middle East</u>			
Light and medium bombers	8	503	833
Heavy bombers	0	0	5
Naval patrol bombers	0	6	6
Pursuit	10	510	1,358
Army Cooperation	0	35	35
Trainers	0	18	160
Total to the Middle East	18	1,072	2,397
<u>to the Canadian Forces</u>			
Light and medium bombers	1	60	228
Heavy bombers	0	1	1
Naval patrol bombers	0	23	31
Pursuit	0	30	72
Trainers	6	613	1,854
Total to Canadian Forces	7	727	2,186
<u>to the British Pacific Forces</u>			
Light and medium bombers	0	145	245
Naval patrol bombers	0	0	27
Pursuit	0	200	363
Trainers	0	12	117
Total to Pacific Forces	0	357	752
<u>to the British Indian Forces</u>			
Light and medium bombers	10	136	136
Pursuit	0	40	40
Trainers	0	13	13
Total to Indian Forces	10	189	189
<u>Totals</u>			
Light and medium bombers	30	1,404	3,163
Heavy bombers	0	143	252
Naval patrol bombers	13	88	225
Pursuit	11	1,698	3,062
Army Cooperation	0	154	185
Trainers	6	656	2,168
Grand Total	60	4,143	9,055

Table B - Shipments by Types

	Week Ending Sept. 8, 1942	Total Shipped in 1942 to date	Total Shipped since Jan. 1, 1941
Bell Airacobra	0	315	469
Boeing B-17	0	42	62
✓ Boston III	0	15	39
Brewster Buffalo	0	0	168
✓ Bermuda		1	1
Cessna-Crane I-A (AT-17)	0	97	97
✓ T-50	0	86	700
Consolidated Catalina PBY-5B	13	88	225
✓ Liberator	0	101	190
Curtiss Kittyhawk	10	741	1,123
✓ Tomahawk	0	0	544
Douglas Boston I, II, III	0	1	493
Fairchild 24 R-9	0	117	139
✓ PT-26 Cornell	6	87	87
Glenn Martin B-26A (Marauder)	4	49	49
✓ Baltimore	0	280	348
✓ Maryland	0	0	150
Grumman Martlett II	0	57	98
✓ Martlett IV	0	40	40
Lockheed A-29A (AG-151)	0	1	1
✓ Hudson	8	497	1,467
✓ Lightning	0	3	3
Lockheed Ventura I	0	12	12
✓ Ventura Bomber	8	299	299
North American B-25	0	110	110
✓ Harvard II	0	89	986
✓ Mustang	1	537	617
Northrop Vengeance	10	104	104
Pitcairn Autogiro	0	0	5
Stearman PT-27	0	297	298
✓ Vought-Sikorsky Chesapeake	0	0	50
✓ OS2U	0	27	27
✓ Vultee Stinson O-49	0	10	14
✓ Vultee Vengeance	0	40	40
Total	60	4,143	9,055

Table C - Plane Shipments to the British by Weeks

<u>Week Ended</u>	<u>Light and medium bombers</u>	<u>Heavy Bombers</u>	<u>Naval patrol bombers</u>	<u>Pursuit</u>	<u>Army Cooperation</u>	<u>Trainers</u>	<u>Total</u>
Weekly average of shipments in 1941	35	2	3	27	1	29	97
Weekly average of shipments in first 6 months of 1942	36	4	1	55	3	18	117
July 7, 1942	77	17	0	17	0	30	141
July 14, 1942	42	11	3	24	0	1	81
July 21, 1942	66	8	3	0	2	4	83
July 28, 1942	39	0	2	0	6	46	93
August 4, 1942	32	0	4	27	38	8	109
August 11, 1942	59	9	6	70	8	19	171
August 18, 1942	60	3	7	20	0	11	101
August 25, 1942	25	0	11	26	0	26	88
September 1, 1942	33	0	8	81	17	28	167
September 8, 1942	30	0	13	11	0	6	60
Total shipments since Jan. 1, 1941 to date ^{1/}	3,163	252	225	3,062	185	2,168	9,055

^{1/} Total includes planes shipped in 1942 prior to March 17 which are not included in the weekly totals up to that date.



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

September 15, 1942

MEMORANDUM TO THE SECRETARY:

There is submitted herewith the operating report of Lend-Lease purchases for the week ended September 12, 1942.

We are now reviewing the procedures used in handling shipments of Lend-Lease goods purchased for the Russians. It is believed that a better coordination of the participation by the several agencies taking part in the supervision of Lend-Lease transportation matters, particularly as to the Russian shipments, would be beneficial.

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 SEPTEMBER 12, 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	\$2100.2 (2100.2)	\$1086.5 (1081.6)	\$558.8 (550.1)	\$56.6 (56.6)	\$3.7 (3.7)	\$394.6 (408.2)
Purchase Authorizations (Requisitions)	\$1534.0 (1502.8)	\$947.3 (943.2)	\$531.2 (503.8)	\$40.5 (40.5)	-	\$ 15.0 (15.3)
Requisitions Cleared for Purchase	\$1484.4 (1463.0)	\$933.6 (927.9)	\$495.9 (481.2)	\$40.4 (40.4)	-	\$ 14.5 (13.5)
Obligations (Purchases)	\$1383.9 (1347.6)	\$906.5 (894.0)	\$425.1 (402.1)	\$40.4 (40.4)	\$2.2 (2.1)	\$ 9.7 (9.0)
*Deliveries to Foreign Governments at U. S. Ports	\$ 572.6 (560.6)	\$457.6 (446.7)	\$ 92.1 (91.1)	\$20.1 (20.1)	-	\$ 2.8 (2.7)

* 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 September 5, 1942.



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

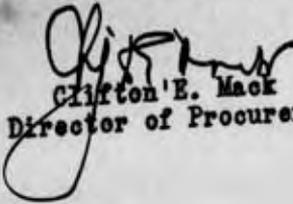
WASHINGTON

September 15, 1942

MEMORANDUM TO THE SECRETARY:

In accordance with your request, the total tonnage of Lend-Lease materials for the Russians purchased by this Division in warehouses as of September 11th is 180,669 tons. In addition, there were 53,592 tons total for that Country at the Ports of Baltimore, New York, Philadelphia, Portland, Oregon, and Takoma, the bulk of which is scheduled for shipment this month.

The War Department has again resumed the issuance of releases for movement of cargo to the Ports of Portland and Takoma. Releases have been received for 32,323 tons during the month against 34,000 tons scheduled for shipment from the West Coast.


Clifton E. Mack
Director of Procurement



Handwritten: ^{note to Mr Paul} *Hon's pencilled notation on Carlson: "Dear Paul, people involved that I am very pleased at the results. 212 Hon"*

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE
SFP 15 1942

TO Secretary Morgenthau
FROM Randolph Paul

You may be interested in the story of one of the first cases in which our new currency controls operated to prevent the unloading in the dollar-using countries of the Caribbean area of a substantial amount of United States currency sent out of Europe.

On June 9, 1942, the SS Iciar arrived in the Dominican Republic from Malaga, Spain. The master of the Iciar carried \$300,000 in United States currency in his safe with which he intended to pay for two ship loads of tobacco to be made from Cuba and the Dominican Republic to the State Tobacco Monopoly of Morocco in Tangiers. He gave \$80,000 of the currency to a representative of a Cuban tobacco company who immediately flew to Cuba with the currency. This much the United States Legation at Ciudad Trujillo learned and reported on June 12, 1942.

At about the same time, our Censorship picked up two cables. The first one was from the General Sales Company (C.D.D.T. Export Company) in Ciudad Trujillo to one Hugo Scheltema, President of C.D.D.T., in Washington, asking whether he would accept \$220,000 in United States currency in payment for tobacco. The second was Scheltema's reply, advising his agent not to accept the currency. Scheltema later came to us with the story and it appears that he was immediately suspicious of this unusual form of payment.

Meanwhile our Legation obtained and transmitted to the State Department the serial numbers of the \$220,000, still in the Dominican Republic. With the aid of the British authorities, Foreign Funds Control learned that the Iciar was owned by Juan March, a notorious pro-Axis Spaniard, and that the master, Jose Albertini Palmer, had replaced the regular captain of the Iciar solely for this voyage. Meanwhile, also, Palmer was questioned by the officials of the tobacco companies, and by both the British and United States authorities. After considerable time-delaying prevarication, it was learned that the \$300,000 had been sent from Spain by the Moroccan Tobacco Monopoly.

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The Dominican Government at first refused to block the funds and the State Department was timid about applying pressure. State did agree to our issuance of a press release on June 17, 1942, giving the serial numbers of the \$220,000, stating that this currency was believed to bear Axis taint and that we would not release such currency if it were imported into the United States.

Simultaneously we got Mr. Stopford of the British Embassy interested in the matter, pointing out that the shipment of this currency violated the ship's navicert. He took immediate action, both in London and in the Dominican Republic.

The response to the press release and British action was immediate. On June 19, 1942, the Dominican Government issued a decree authorizing the seizure of the \$220,000. On June 20, 1942, the Dominican Government released a story to the newspapers giving the somewhat misleading impression that the Dominican Government was responsible for obtaining the serial numbers and uncovering the story of the currency. On June 19, 1942, the Cuban Government issued a decree establishing controls over United States currency in Cuba and immediately blocked the \$80,000 from the Iciar which was held in Cuba. None of the currency has been released in either country.

Thus, with the cooperation of British and American authorities in the Dominican Republic and in Cuba, the Office of Censorship and the State Department, we prevented the liquidation of a large amount of currency coming into this hemisphere from a highly suspect source, and succeeded in obtaining prompt passage of currency control legislation in two neighboring Republics.

REF



DEPARTMENT OF STATE
WASHINGTON

reply refer to
012.3/7569

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and with reference to previous communications regarding the welfare of the Messrs. A. E. Price, Reynolds North, Maxwell Anderson, Lawrence Hebbard, and Pake Nelson, all members of the Foreign Funds Control staff of the Treasury Department at Manila, Philippine Islands, informs him that a report, which arrived from the Far East on the exchange vessel Gripholm, indicates that they are interned with other Americans from the office of the United States High Commissioner in a house at 911 M. H. del Pilar. It is understood that the house is large and includes a garden and it is believed they are fairly comfortably situated there.

In this connection it is believed that the enclosed statements regarding the civilian internment conditions at Manila and the arrangements which have been made and those which are contemplated for providing relief supplies for Americans detained in the Far East, including the Philippine Islands, will be of interest.

Enclosures:

Information Sheets,
September 1, 1942.



Civilian Internment Conditions in
Manila, Philippine Islands

There are about 3,500 men, women and children in the Santo Tomas Internment Camp, in Manila. Of these, over 2,500 are American and most of the rest British and Dutch. About 1,000 Americans are living in Manila outside the camp, including a number of women with small babies who are staying in the Holy Ghost Convent. Some women with babies, as well as some older people and those who are sick, are permitted to remain in their homes or in the homes of friends in Manila, but are closely restricted in their movements. Internees are sometimes permitted leave to visit families living outside the camp.

The administration of the camp is entirely in the hands of the internees, including prominent business executives, engineers, doctors, dentists and educators. While the rooms are crowded, with 30 to 40 people sleeping in an average university classroom, and bathing and toilet facilities somewhat less than adequate, internees do not complain of discomfort on that score. The university grounds are large and give plenty of room for recreation. Scrupulous cleanliness is observed throughout the camp and prizes are given in the weekly room cleanliness contest. There are school classes and dances for children and lectures and entertainments for adults. Children under six years of age live with their mothers in a special building, where they are less crowded and are given extra food.

The food used in the camp has so far been supplied by the Philippine Chapter of the American Red Cross, from funds at its disposal. The diet, planned by doctors of the Rockefeller Foundation, is monotonous but adequate. Internees with funds are able to supplement it at a very moderate cost by purchase of fresh fruit and vegetables. The health of the internees has so far been very good and the morale is excellent.

Department of State,

Washington, D. C.

September 1, 1942.

Information Concerning the Shipment of Relief Supplies
to Americans Detained in the Far East,
Including the Philippines

The American Red Cross with the support of this Government is endeavoring to make arrangements for the continuing transmission of relief to American prisoners of war and civilian internees held by the Japanese. The Red Cross has already dispatched on the M.S. Gripsholm, one of the ships engaged in the exchange of nationals between the United States and Japan, various relief supplies for Americans held by the Japanese. These supplies are sent to Japan and Japanese-occupied territories by way of Lourenço Marques, Portuguese East Africa, and are being distributed in those territories under the supervision of the International Red Cross Committee. The American Red Cross has requested that this cargo be distributed to Americans held in Manila, Shanghai, Hong Kong and Japan. The supplies included twenty thousand American Red Cross standard food parcels containing evaporated milk, biscuit, cocoa, sardines, oleomargarine, beef, sugar, chocolate bars, powdered orange concentrate, prunes, cheese, dehydrated vegetable soup, coffee, cigarettes and tobacco. The Gripsholm also took \$50,000 worth of American Red Cross medical supplies as well as 1,000,000 cigarettes and 10,000 tins of smoking tobacco for American prisoners. Under arrangements negotiated through the International Red Cross Committee the American Red Cross also shipped for the War and Navy Departments a supply of clothing and other necessities for their respective prisoners.

In the near future the Gripsholm is expected to make another voyage to Lourenço Marques, in the course of the exchange now under way, and, as on the last voyage, it is planned to ship on the vessel a large quantity of relief supplies for distribution by the International Red Cross Committee to American prisoners of war and civilian internees in the Far East.

Department of State,

Washington, September 1, 1943.

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 320

Information received up to 7 A.M., 15th September, 1942.

1. NAVAL

A raid on TOBRUK was carried out on the night 13th/14th by two of H.M. destroyers and some motor torpedo boats with a small military force supported by a considerable air attack. Full details have not yet been received. During the 14th one of the destroyers was disabled by shore batteries and is presumed to have sunk. The other destroyer after being hit while attempting to tow the first was later bombed and sank. One of H.M. antiaircraft cruisers was bombed 120 miles northwest of ALEXANDRIA and was subsequently sunk by our forces.

A further attack on the convoy to RUSSIA was carried out by torpedo bombers on the 13th without loss to the convoy.

2. MILITARY

MADAGASCAR. On the morning of the 13th our forces advancing towards TANANARIVE were approaching ANDRIBA, little or no opposition was met. The column from the DIEGO SUAREZ area is making good progress southwards from AMBANJA.

RUSSIA. The Germans continue to close in on STALINGRAD. Their forces trying to extend the bridgeheads in the MOZDOK area are meeting stubborn resistance.

3. AIR OPERATIONS

WESTERN FRONT. 13th/14th. BREMEN: 346 aircraft attacked, including 171 heavy. H.E. and incendiaries were dropped in equal proportions total weight being 714 tons, including 4 8,000 lb. bombs, 107 4,000 lb., and 2 4,000 lb incendiaries. An advanced force attacked from 1:15 A.M. to 1:30 A.M. followed by the main force from 2:30 A.M. to 3:05 A.M. In the early stages fires were scattered but a concentration in the old town and docks area was reported later. An aircraft which bombed CUXHAVEN 14th reported 1 large and 15 scattered fires still burning at 5 A.M. Amended casualties 20 bombers missing, including 4 heavy.

14th. 5 Mosquitos bombed various towns in Northwest GERMANY. A JU 88 was destroyed off CROMER. 14th/15th. 202 bombers were sent to WILHELMSHAVEN. 2 Wellingtons are missing and 1 Sterling crashed. Weather was good but with much ground haze. Preliminary reports indicate scattered fires with some large ones near the objective.

RUSSIA. 13th. The Russian Air Force made fairly heavy attacks on a German advanced ground unit south of MOZDOK.

EGYPT. 12th/13th. Our aircraft bombed landing grounds south of MATRUH. 13th. 3 enemy fighters were probably destroyed and 3 others damaged by our fighters 1 of which is missing.

Treasury Department
Office of the Secretary 21

Date September 15, 1942

To: Secretary Morgenthau

From: Mr. Hoflich

Attached are copies of all
copies of the Chief Broadcasts since
July 1, 1942.

'VOICE OF THE CHIEF'

NAZI SUB LOSSES ARE TERMED TOO LARGE

According to the clandestine transmitter, "Voice of the Chief", with Gustav Siegfried Eins broadcasting in German (Aug. 29, 10:53 p.m. EWT), the Nazi War Production Council has instituted a concerted drive against Admiral Doenitz, head of the German U-boat fleet.

Abortive Losses--The "Chief" adds that Marshal of Aviation Milch and Lieutenant General Wahrliman, both ranking members of the Council, are attempting to "torpedo the huge sub construction program for 1943 and 1944" by demanding more planes and tanks instead. Both Milch and Wahrliman charge Doenitz' figures on U-boat successes in the Atlantic are "inflated", that the entire sub campaign as devised by Doenitz turned out to be a "bad speculation," and that 5.16 subs are lost on a weekly average in the Atlantic, chiefly due to abortive attacks on U.S. troop convoys.

Campaign of Whispers--To "torpedo" Doenitz, the "Chief" continues, the "Commune" has loosened a whispering campaign against the heroic Admiral, accusing him of cowardice and of crooked deals in U-boat construction materials. The "Chief" concludes by stressing that the sub construction program must not be curtailed, that tanks and dive bombers must be built simultaneously and that, if necessary, German workers would toil 14 and even 16 hours "if they are only well treated and cared for."

(Federal Communications Commission, August 31, 1942)

'VOICE OF THE CHIEF'

NEW OXYGEN FLASK HELPS NAZI PILOTS. The clandestine transmitter "Voice of the Chief," (Aug. 27) lauds a new oxygen apparatus installed in Nazi planes over the machinations of the corrupt S.S. 'Commune'.

New Focke-Wulf Plane--"I have now had various opportunities to see the Focke-Wulf 190 in action in the West and to talk with comrades who fly it," the "Chief" says. "With the exception of the wireless apparatus which unfortunately is still the old M.G.7, the comrades are extremely satisfied with the performance of the F.-W.190. It beats the Spitfires and Hurricanes of the English without any effort.

New Oxygen Flask--"What pleased me most was the general satisfaction of our comrades with the new high altitude oxygen apparatus of First Lieut.-Engineer Hensken which Kurt Funk of Focke-Wulf has installed in the F.-W. 190, in place of the old, oversensitive Draeger flask, in the face of vicious 'Commune' intrigues.

New Flask's Excellence--"In the first place, the Hensken altitude apparatus, unlike the Draeger flask, doesn't explode on contact with the least little splinter. In the second place, when it does explode, its three sections prevent such devastating effect as the old suicide flask furnished by Draeger.

Publicity's Value--"The fact that a man like Kurt Funk of Focke-Wulf has adopted Hensken's invention and thus smashed the 'Commune's' monopoly of the Draeger flask, proves once again that it really does pay to bring such evils before the public eye and to force their elimination, as we did the time we uncovered the Draeger scandal.

Persisting Danger--"And we shall continue to do so, because the Draeger scandal is by no means eliminated yet. True, the F.-W.190 now flies with the Hensken apparatus. But all our other airplane types are still equipped with the old Draeger...which takes one life after the other.

Losses in Russia--"Especially in the East, where we aren't blessed with F.-W.190's yet, they are talking about entire squadrons that are exterminated. I have seen an entire group come back with four machines. The seventh wing had one left, the ninth had one, and the eighth had two machines left. Out of 62 comrades who trained in Beningen a year ago, only nine are still alive today, and I could go on enumerating cases like this for hours.

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Suicide Apparatus--"No German flyer should take off with this Draeger death at his back, this outmoded, played-out...Draeger flask, which explodes at every grazing shot, little fire and splinter and which infallibly blows plane and machine to pieces with its 150-atmospheric pressure.

Vicious Profiteer--"And even now, after Kurt Funk has secured complete recognition for Hensken's altitude oxygen apparatus, after he has been installing it in his F.-W. 190, the best pursuit plane in the world, even now the infamous General Staff Engineer Luchs stubbornly and obstinately defends the damned murderous Draeger monopoly because he gets a profit from it."

(Federal Communications Commission, August 29, 1942)

'VOICE OF THE CHIEF'

TUBERCULOSIS RAVAGES NAZI CHILDREN

Over the clandestine transmitter, "Voice of the Chief" "Gustav Siegfried Eins," (Aug. 25) contrasts the banquet orgies of S.S. bigwigs in France with the Reich's shortage of healthy cows, and the resulting increase of tuberculosis among children.

Paris Bright nights--"The Chief personally convinced himself of the high life of the Commune in Paris," the radio says. "At the restaurant La Therese in Paris, a banquet was served to the following parasites: Dr. Neugebauer of the S.S. who was escorting a Fraulein Tella Gartner of Navy Headquarters, who is known to serve Neugebauer as mistress and spy. Next, there was the homosexual Herr Fritz von Nidda, our general representative at Vichy who specializes in sending us unskilled negro laborers to the Reich. Then, there was Major Albrecht, director of meat distribution and rationing in Occupied France. Next to him was his lady, the Jewess de Brinaut, nee Frank. For her, a cock was roasting on a revolving spit, with melting butter being poured over it. Similar delicacies were served for the others.

Meat Shipments Banned--"Most piquant feature of the banquet was that only a few days earlier Major Albrecht had stated not an ounce of meat could be shipped from France to the fatherland regions ravaged by air raids.

Children's Diseases--"While Albrecht and his ilk stuff themselves in Paris with butter, and refuse to send us French cows or milk, our children at home get tuberculosis of the bones and intestines for lack of sanitary milk. For the irresponsible scum among the 'Commune' have so mismanaged affairs that if all sick cows were killed now and all tuberculous milk poured out, there would not be left enough butter and fat to cover rations even halfway. And instead of admitting their mismanagement and reducing rations, they prefer to let the remaining healthy cows be infected by the sick beasts with the result that children get more and more tuberculous milk.

Spreading Epidemic--"Now the 'Commune' scum says: 'Why, the milk may be tuberculous, but that doesn't matter because it's pasteurized.' My answer is that statistics prove tuberculosis of the bones and intestines is constantly on the increase. During the first 25 weeks of this year, it showed a 9½ percent rise over the same period of last year. And tuberculosis of the bones and intestines comes solely from the consumption of tuberculous milk.

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Crippled Generation--"Meanwhile, our children crawl around with crooked backs and incurable swellings on their limbs until they are freed of their sufferings by death. If we still want to stop all this, our sick cattle must be slaughtered at once to stop the pestilence. And to make up for the loss, healthy cows and milk must be shipped immediately from the occupied territories in the west. But in order to carry out these measures, we must put other men into economic key posts in the occupied areas, not those parasites and banquetiers."

(Federal Communications Commission, August 26, 1942)

DIEPPE RAID SCARES PARIS S.S. CHIEFS

"Voice of the Chief" paints the turmoil caused among the S.S. bigwigs in Paris by the Dieppe commando raid as follows:

War on the West Front--"I always pictured a Western front just like that," the "Chief" says. "You should have seen the circus in Paris. Some 170 kilometers away, the English ferry a task force to the French coast, one of those timid drawback affairs with rubber protection.

Message to Paris--"The news had hardly reached Paris when all those self-styled heroes, bigwigs, pince-nez wearers, and rear-guard warriors crowded their offices, decked out in full battle array.

Preparations for Battle--"All phone lines are jammed. S.S. chiefs and special leaders hug their autos and affect fearless heroism. Applications for extra gas presented at Pelke's in the Majestic reach unprecedented heights....The Majestic Hotel, temple of the 'Commune' and usually the scene of profiteering, bribery, and embezzlement, suddenly is packed with wild, martial figures. In the lobby, a double guard. On each floor, a double guard. On the roof, a double guard. And all the sausage-necks and beer-bellies sport steel helmets.

Army's Quiet Heroism--"All this excitement--because far from Paris the English played hide-and-seek, and got promptly slapped down by a couple of our regiments who were only waiting for such a chance. If our comrades in Russia heard the Russians were attacking some 170 kilometers away, they would hardly stir in their sleep. But in the West, they really play war. There, the fat bellies of the 'Commune' play heroes for the benefit of the awed German people.

S.S. Profiteering--"Meanwhile, each tries to make the best of the occasion. S.S. Standard Leader Dr. Knochen arrests five wealthy Paris citizens as hostages. But as every one in Paris knows, they will be able to buy their freedom by paying a substantial sum to the account of the S.S. whore, Countess Daisy Brodlieve.

Victory Party--"And tonight, the S.S. 'Commune' will guzzle, stuff, and whore in celebration of the historic victory over the alleged English invasion--which will never come, but is an excuse for those parasites to continue their carousing in Paris."

(Federal Communications Commission, August 20, 1942)

'VOICE OF THE CHIEF'

PROFITEERS WANGLE HUGE RAID CLAIMS

"Voice of the Chief" cites instances of huge air raid indemnity claims wangled by party bigwigs and profiteers with good "Party Commune" connections.

Saarbruecken Profiteer--Thus, according to the "Chief," one Richard Becker, owner of the textile firm of Sinnand and Co., at 81-85 Adolf Hitler Strasse, Saarbruecken, sent to the authorities a claim for 5,000,000 marks for his business which was bombed during the night of July 29 to 30.

High Party Backer--"These claims were in excess by at least 3,500,000 marks. Becker submitted his claims to a friend who happened to be none other than Gau Secretary Barth, an S.S. Chief Storm Troop Leader. For the smooth and quick settlement of Becker's claims, Barth got 25 percent.

Claims of the Poor--"At about the same time, a soldier's wife, Frau Emilie Schickzimmer of 19 Lindengasse, Saarbruecken, presented her claims totaling 1,400 marks for damages caused by an incendiary bomb," the radio says. "This claim was rejected by the 'Party Commune' on the grounds that a charge lodged against Frau Schickzimmer in police court accused her of insufficient blackout of her premises.

Suspected Picture--"Another case is that of Richard Toelen, a foundry worker of 81 Worstadtsgasse, whose claim for raid damages was refused because the authenticity of the photo of his dwellings presented by him was doubted by the 'Commune'."

(Federal Communications Commission, August 15, 1942)

S.S. SHIRKS FIRE FIGHTING DANGERS

Over the clandestine transmitter, "Voice of the Chief", Gustav Siegfried Eins asserts that in Hamburg and other Reich cities, S.S. fire protection and anti-air raid units are now kept in their shelters during the raids: As a result, incendiary fires have reduced whole districts to ashes, and civilians have to do their own fire fighting.

Inferno in Naziland--"The same scandal that we experienced on a smaller scale during the last air attack on Osnabrueck, has assumed large proportions during the recent raids on Saarbruecken, Duesseldorf, and especially Hamburg," the "Chief" asserts. "The sirens sounded, explosive bombs roared, incendiary bombs came raining down. Who did not come were General Daluege's fire protection police and air raid units.

Too Little and Too Late--"Only after the attack was over, after the flak had ceased firing, after dozens of houses in the older city districts had burnt down, the fire engines arrived. With them came fire protection and air-raid police units. With wild courage, they all suddenly came roaring from their holes, unwound their hoses, and started to sprinkle the neighborhood buildings to prevent the fire from spreading, since most of the blazes had gotten beyond control, anyhow.

Heroic Fire Fighters--"This thing happened in Saarbruecken, just as it did in Duesseldorf, Hamburg, and earlier in Osnabrueck. This, then, is the heroic efficiency of our fire protection police. In Hamburg, women, children, men on leave, and old people ran with death-defying courage to the attics and, amidst the hail of bombs, tried to put out the fires, and often perished in the process. But the men with the marvelous asbestos suits and smoke masks were held back by their S.S. leaders in their safe bunkers until the attack was over.

Hamburg Disaster--"Typical was the case of S.S. Unit 76, on duty in the St. Georg District of Hamburg. Entire blocks were already on fire. Between Steinbach and Grossner Avenues, one attic after another caught fire. Still, S.S. Unit 76 failed to arrive. They were not thrown into action until the last bomb had fallen. Then, of course, they came running but were unable to save anything.

S.S. Circular--"In back of this cowardly action of S.S. General Daluege's fire fighting units is a very interesting circular which had recently been issued by that worthy to all S.S. and police troop leaders. It reads as follows: 'on account of the heavy losses of trained crews and heavy loss of material in the fire and air protection as well as the technical auxiliary

personnel during enemy mass air attacks, I hereby decree: Formations of the fire protection police, fire brigades, air-raid police and technical auxiliary service under jurisdiction of S.S. leaders will during enemy raids keep themselves ready to be thrown into action at the end of the attack, and will then be used for fire fighting and rescue work, but not earlier than the sounding of the all-clear. During the raid, however, air-raid protection work is the object of the civilian air protection units, self-protection units in the factories, and auxiliary units of the Wehrmacht. The civilian population should be encouraged to tackle much more intensively and energetically the task of self-raid protection.'

S.S. Cowardice--"At last, we know now what the score is. S.S. General Daluege's fire protection units calmly leave all anti-air-raid work to the population, while they themselves sit in their concrete bunkers and play poker. Only mothers and children may go to the shelters. The rest of the population has to get out when the bombs come, and try to tackle the difficult rescue work. That our compatriots, who don't even get steel helmets for their own protection, get smashed up, and roasted in the course of fire protection work, that hundreds of houses unnecessarily catch fire and burn down, that is of no importance to Herr S.S. General Daluege.

Abnormally High Losses--"We don't need to be surprised over the abnormally high losses among civilians during the last terror raids on Duesseldorf, Saarbruecken, and Osnabrueck. And what would happen if the enemy should return every half hour? Should the fire fighting units stay away till the last house is in ashes, till the last German is buried underneath? After all, the dependability of these services was the only thing still able to uphold the spirit of our terror-stricken compatriots."

(Federal Communications Commission, August 12, 1942)

'VOICE OF THE CHIEF'

S.S. IN FRANCE HAS INVASION JITTERS

The clandestine transmitter "Voice of the Chief", asserts that the S.S. in France has asked for immediate reinforcements to forestall a second front invasion.

Jittery General--According to the "Chief", Gen. Josef Dietrich, Commander of the S.S. forces in France and an ex-janitor, told a Nazi party big shot in a Paris restaurant about the "deplorable state" of coastal defenses in France. Dietrich maintained that the defense preparations by the German Navy were "a complete failure, and that the English, if they tried to break through anywhere between La Rochelle and Hendaye, would have no trouble whatsoever."

Admiral's Inspection--The "Chief" goes on to relate that as a result of Dietrich's panicky report no less a personage than Grand Admiral Erich Raeder, Commander in Chief of the Nazi fleet, hurried to the French Coast and drew up a volunimous report in order to keep himself in the good graces of the Party Commune.

Ridiculous Fears--"Dietrich had demanded that a cruiser and six destroyers be sent down to the Atlantic immediately," the "Chief" says. "Also, he demanded two more motorized S.S. divisions. Thus, the former Sergeant Major, who was such a conspicuous failure in the East, wants to bring more of his S.S. mercenaries to soft berths in France. We are not surprised.

Groundless Anxiety--"Dietrich's fears of an invasion by the English are stupid. Our air reconnaissance has shown again and again that there is not even a trace of troop concentration anywhere in England, or any other landing preparations. Thus, the fact that Dietrich's alarmist chatter brings the commander of our fleet rushing to France, all this is a sad and serious sign of the defensive spirit in our highest circles. If there is going to be any invasion, it is we who are going to land in England."

(Federal Communications Commission, August 10, 1942)

'VOICE OF THE CHIEF'

NAZIS DEPRIVE HOUSEWIVES OF HOMES

The "Voice of the Chief" asserts: "Beginning August 15, all German war-working housewives will lose their own homes if on this day either their husbands are not living at home or they have no children or other close relatives living with them or their own children are away working with Labor Front groups on farms during vacations.

Half Million Homes Needed--"Thus the Party Commune plans to obtain at one stroke 450,000 homes to satisfy the crying need for housing. But this stroke aims at the only and last possession of the German soldier's wife, her own home.

Labor Barracks--"After moving out, the soldier's wife will either have to move into an apartment with 4, 5, or 6 other women or she will have to house in barracks or camps at the place of her work," the "Chief" continues.

Soldier's Experience--"The Chief" then mentions the case of a soldier who had received a very brief leave while his train passed through his native town. "Eagerly, he hurried off to call on his wife-- only to find that his home was occupied by a strange family while his wife had been made to move out and find asylum in the labor barracks at her war plant.

Party Bosses' Palaces--"One can imagine the effects of such intrigues by the party bosses on our soldiers' morale," the "Chief" continues. "But how about the party bosses? Each of them possesses a town home, a country home, and a luxurious air shelter in one of the office palaces. Such is the lot of the 'Peoples' Liberators', four and a half million of them. Their place ought to be at the front or in a plant. Instead, every sunny, large, attractive apartment throughout the Reich is infested with these bedbugs, these local county, district, national bosses and their offices, thus depriving the German people of hundreds of thousands of much-needed apartments."

Soldiers' Revenge--"Is it not enough that German women have to go to work for these shirkers? Now, if soldiers' wives are going to be deprived of their homes, and if front soldiers return and find their homes no longer belong to them, it may happen some day that these soldiers will smoke out a few of these party drones and show the Commune bosses where in the Reich there are still homes for homeless fellow Germans", the "Chief" concludes.

(Federal Communications Commission, July 28, 1942)

'VOICE OF THE CHIEF)

GROWING S.S. IS THREAT TO WEHRMACHT

Breaking his pledge that the armed S.S. would never exceed 10 percent of the Wehrmacht's peacetime strength, Heinrich Himmler has built an elite guard of 750,000 armed against "the people and the Army", "The Chief" charges.

New Recruitment Order--"The Chief" claims that "the Reichsfuehrer Schutzstaffel has now given orders on his own authority to raise the S.S. by new recruitment to the full peacetime strength of the Wehrmacht....The whole...is nothing more than a crude attempt at prettying up the existence of a civil war army, which is already 750,000 strong, is equipped with the best German weapons, and is a host of unscrupulous Landsknechten (derogatory term for the murderous soldiery of the 30 Years' War.) of whom Himmler asks nothing more than that they sell him their blind obedience for pay."

Armed against the People--In this "host of mercenaries which Himmler is building up against the people and the Army," says "The Chief", "he recruits side-by-side with bestialized German youth the human foam from the filthiest sewers of Eastern Europe -- Pollacks, Letts, Slovenes, and Croats--signed up with a kiss of the hand as so-called 'racial Germans.'"

Himmler's 3 Justifications--The swelling of the S.S. has been justified in Himmler's eyes, says "The Chief", for three alleged reasons:

Stragglers among troops--"Reason Number One is the swelling of straggler figures among the troops. Of course, there will be more and more stragglers, the deeper we penetrate into those colossally vast areas with their pig Latin names for localities and their illiterate inhabitants. But to interpret the increase as an increase in the general slacker spirit and refusal to fight, and then to cite this as a reason for strengthening the S.S. still more...something that would occur only to the Gestapo...Himmler who was never a soldier himself and never will be one.

Slipping Discipline and Morale--"Himmler points to certain signs of the decline of discipline and fighting morale among the troops. And he especially calls attention to Infantry Regiments 239 and 240. To be sure, the latter have on various occasions made rather energetic complaints that all communication with the homeland has been denied them and therewith any possibility of learning what has happened to their relatives in the bombed districts.

Scandalous Conditions at Home--"This bad feeling, however, is only to be attributed to the incapability and basically incorrect policies of the...Commune in the homeland. They think they can keep secret from the troops at the front the scandalous conditions at home by simply cutting off the communications between front and homeland. God knows, the healthy and justifiable concern of the soldier for his family, for whom he is in the last analysis fighting, cannot be termed signs of defeatism or lack of fighting spirit.

S.S. for Occupied Areas--"Himmler's third argument is that he allegedly needs more S.S. for the occupied territories in order to wrestle around there with the bicyclists and knife-stabbers. In other words, there are to be more S.S. slackers and S.S. crooks in the rear of the army. There will be more drinking, whoring, and bootlegging--but nevertheless, the pig-sty in the occupied territories will remain exactly as it is."

Non-German Forces--"The Chief" not only alleges that the S.S. is being unduly strengthened but also claims that Himmler sends 'naturalization trains' through the occupied areas to recruit non-Germans who, he charges, will turn their guns against the people of the Reich more readily than a purely German S.S. might.

Rubber Stamp--He says: "There sits an Obersturmbandfuehrer in his saloon car and with his rubber stamp--ping, ping--he makes German policemen out of Pollacks and Kirghizians. In the back a Kakinski or a Kakonski gets on the train and in front out he steps as a patented German finished manufactured product....In this way, the S.S. Obersturmbandfuehrer (Malsen-Tonikow) with his Lodz 'naturalization train' manufactures 400 Germans a day by a fast ennoblement process."

"The Chief" Shouts--"And such a crew get German weapons in their hands.

Himmler is Scared--He adds: "Himmler and his clique can rely 100% on his...Praetorian Guard. These know no bonds with the German people, and they will not have any superfluous inhibitions if there is ~~an~~ an order (against) shooting at the German people--the armed and unarmed people. That is why the S.S. is stuffed full of the mixed breeds of Europe. That is why it is being treated so well with every means--not because Himmler is serious in what he says about defeatism and bad morale among the troops but because the...is scared, scared at the resoluteness of the men who one day will come home from the Bolshevik front."

(Federal Communications Commission, July 22, 1942)

CHARGES REFLECT ITALO-NAZI INTRIGUE

Coming to the defense of General (von Gleiser-Horstenau) who he says is being unjustly investigated in Croatia by the German Security Police, "The Chief", says: "We have already gone so far that a whore and aduress can stick her painted fingers into our state affairs because she stands in the highest graces of Der Fuehrer's headquarters."

Frau Winkelkaemper--The woman he names as instigating treason charges against the German General is Frau Margarete Winkelkaemper, "the wife of the Mayor of Cologne and bed-warmer of all the macaroni diplomats who are running around the Reich." Frau Winkelkaemper is accused by "The Chief" of having to do with Ervi, Italian Consul General in Cologne; Dino Alfieri, Italian Ambassador in Berlin; Otto Mahrenbach of the German Labor Front; and Alfieri's secretary, Count Manzoni who, according to "The Chief", degraded the Mayor of Cologne at 120 kilometers per hour in an auto.

Every Step Watched--Says "The Chief": "Grave charges have been made against General von Gleiser-Horstenau. A great investigation against him is under way. The General's every step is watched by the Sicherheitsdienst (German Security Police) in Croatia. His telephone is tapped and his mail snooped through. All this is being done because of a letter to the Fuehrer's headquarters in which the General is accused of high treason on the basis of alleged documentary proofs....This letter comes from FrauWinkelkaemper."

Struggle in Croatia--Explaining how the letter mirrors the struggle between the Italians and the Nazis for control in Croatia, "The Chief" says: "Gleiser-Horstenau is the man who stands in the way of the treacherous machinations of the Italians in Croatia. While our soldiers fight for the...Italians in North Africa, while our soldiers in the East fight against the Bolshevik hordes and the Italians refuse to send more troops under the pretext of their difficult position in Serbia and Croatia, the dogs can use the opportunity to exert their influence on the Balkans and bring the key position of the whole southeastern position into their hands."

Fights to the Last--"The Chief" adds: "We have one man down there who offers them bitter resistance, who fights to the last for our interests, Gleiser-Horstenau, the 'Eagle'."

New Diplomacy--Says "The Chief". "And what the wops have not accomplished with normal diplomatic means, Dino Alfieri now attempts to achieve via the charms of Frau Winkelkaemper."

(Federal Communications Commission, July 20, 1942)

SOLDIERS' WIVES TARGET OF SHIRKERS

"The Voice of the Chief", rants against Nazi Party bigwigs who blackmail soldiers' wives into working in war plants. He advises mothers to complain to Wehrmacht authorities if party functionaries threaten to cut off their allowances.

Rivals in Blackmail--"Among weary home-warriors, from block wardens to local group leaders, a kind of noble rivalry seems to have broken out to press mothers whose husbands are at the front into factory service which the filthy fellows avoid for themselves," the "Chief" asserts.

Favorite Method--"A favorite method by which they lately force labor service on unadvised wives, is to threaten them with suspension of their support if they do not go to work. And unfortunately, the wives often enough let themselves be bluffed by such low blackmail. They get frightened and think their and their children's existence is at stake. Nonsense. Their existence is not at all at stake. None of these filthy office dogs has the right or the might to take support away from a German soldier's wife because she does not want to do voluntarily physical work which is not becoming to her. And factory work is not the work for German mothers.

'Kommune' Stallions--"As long as there are still 4,500,000 useless 'Kommune' stallions, who avoid going into the factories, or to the front to free suitable workers for the factories, so long has the "Kommune" not even the shadow of a right to send the German wives into the factories, and certainly not soldiers' wives with small children.

Proper Defense--"Immediate denunciation to the proper defense-district command is the proper action," the "Chief" counsels. "Family support is the sacred security that the soldier has been given. His family will be cared for as long as he fights out there. That must not be changed. The Wehrmacht stands by that, as the local group leader of Gross Strehlitz, in Upper Silesia, a certain Mr. Potetzki, has learned to his great sorrow. Potetzki was one of the filthy fellows who, in order to stand well with the "Kommune" try with threats and blackmail to hire wives for the factory work.

Rise and Fall of Herr Potetzki--"Potetzki tried to make a young mother, wife of a first lance-corporal, understand that from now on she herself would have to earn at Dreiger, as a transport worker, the 160 marks which she fetched monthly from the town hall for herself and the child. First the woman was vague. She

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had no intention of placing her 2-year old child in a home while she went to work. Of course, in spite of this her support continued to be paid out to her. But when Potetzki said that he would have her support withdrawn if she did not go to work, the woman wrote to the defense-district commando in Oppeln.

Wehrmacht Intervention--"The defense-district commander himself, 1st Lieut. Stoetscher (?), immediately made a proper stink. The result is that: (1) the woman does not have to go to work; (2), she receives her full support; and (3), Herr Local Group Leader Potetzki was given an opportunity, shovel in hand, to make himself useful behind the Eastern front, instead of continuing to drive German women into the factories by brutal intimidation.

Army's Motives--"The Wehrmacht has good reasons for proceeding rigorously in such cases. It is impossible for the Wehrmacht to allow this evil practice against wives of soldiers to spread. Because our troops can do their utmost only if they fight in the knowledge, firm as a rock, that their wives at home are really being cared for, and not driven into the factories like working cattle by their own caretakers.

Preservation of Charm--"The German wife has not only the right, she has the sacred duty, to keep herself in complete maternal freshness for her husband, her children, and her people. She does not belong at the machine, nor in the poison kitchen of the munition factories which destroy her skin and ruin her health. And if filthy "Kommune" shirkers consider it right to wax fat in their office chairs and let our wives grow old in the factories, then there is still the Wehrmacht. It will see to it, all right, that soldiers' wives do not let themselves be scared by indefensible threats of the community."

(Federal Communications Commission, July 17, 1942)

'VOICE OF THE CHIEF'

GESTAPO WRECKS SUBMARINE STRATEGY

The "Voice of the Chief" tells how a Nazi U-boat crew putting in at the Spanish port of Vigo, was interned by the Spaniards, as the result of machinations by the Gestapo.

South-Atlantic Strategy--"Admiral von Doenitz wanted to use the ports of Vigo and Ferrol not only for U-boat repairs and as supply ports, but he was well on his way to installing advance bases there, from which our boats could make quick, surprising thrusts into the South Atlantic if a profitable target were to be reported there," the "Chief" declares.

Reported Mutiny--"The Chief" then tells how a Nazi U-boat commanded by Captain Langmann put in at Vigo and how Spanish inspectors came aboard and forthwith left to circulate stories of the crew's unbelievable state of neglect. He adds that even cases of insurrection had occurred on the boat. These reports next reached Admiral Raeder, Commander in Chief of the German Navy who sent several high S.S. officials to Vigo for an investigation.

S.S. Snooping--"These guys stirred up nothing but dust down there. They acted like a 'Strength through Joy' outing in a monkey house. They knocked all about Spain after an alleged deserter from the U-boat. The man in question, however, was lying at the hospital in Vigo all the time, suffering from a nervous breakdown.

Cafe Showdown--"In the long run, the constant sniffing about and the stink was too much for the U-boat men. One evening, at the Cafe Comercio in Vigo, there was a painful settling of accounts between members of the crew and a couple of those snoopers of the S.S. The latter made immediate use of their firearms. A U-boat machinist named Alfons Zug was shot, two other men were severely wounded, and a Spanish woman was also shot. S.S. Super Big-Shot Schroeder, who was present at the melee, had given the order to fire upon our U-boat men, then drew up his report in which, to justify his murderous act, the conduct of the U-boat crew was described as sheer mutiny. As a wretched desperate solution to hush up the whole filthy matter, the community has our naval attache, Major Diner, give the Spaniards a sign that the Reich would not mind if the crew were interned. Those filthy Spaniards didn't have to be told twice. So that is the end. That is the thanks for U-boat men who, after weeks of death-defying action against the enemy, the hardest privation and nervous tension, put in at port of a friendly nation.

Upset of Strategy--"The most beautiful part of it is, however, that we have lost not only a well-trained special troop and U-boat crew, but that the whole South Atlantic strategy of Doenitz, insofar as it was based on Vigo and Ferrol, has been completely upset. I say it as it is, and I don't give a damn who hears me. Ferrol and Vigo have been lost to us as U-boat bases, because an old played-out Admiral, through envy and fear for his position, combined with the

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"KUMMUNE" to bring about the downfall of the man who is better than he and better than all other admirals whom this war has brought forth among us or elsewhere."

(Federal Communications Commission, July 15, 1942)

'VOICE OF THE CHIEF'

MENINGITIS EPIDEMIC SWEEPS HUNGARY

Reporting an epidemic of spinal meningitis in Hungary and admitting that strong measures must be taken to fight it, "Gustav Siegfried Eins," broadcasting on the clandestine "Voice of the Chief" transmitter (July 5, 6:53 p.m. EWT), charges, however, that doctors and nurses from the all-important Eastern front have been diverted to the affected area.

Cannot Face Another Winter--"The Chief" says: "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 -- Ed.) 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."

Treasonable Action--"The Chief" adds: "The comrades on the Eastern front perform everything humanly possible. Perhaps even more than that. Is everything humanly possible, however, also done for them? The measure taken by the sanitary inspection offices of the Army, I am just now informed from Kronstadt, does not prove this. On the contrary, one could hardly desert the fighting soldiers in a more treasonable way than by taking the medical help away from them and that is happening now."

No Substitutes--"From Reserve Field Hospital 162 in Kronstadt all doctors of Department 13 with the whole section of National Socialist nurses have been sent to Hungary to fight spinal meningitis. There are no substitutes available for them. The result of this is that the doctors and nurses remaining in the field hospital of Kronstadt with many patients, who have already been overworked, are now confronted with a problem that cannot be solved while new wounded are brought in in great numbers."

3,000 Reich Children--"Men are dying in their care, because they are not taken care of in time or have not sufficient care. And there is no excuse for this. Under no circumstances should the sanitary inspection office of the Army have deprived a field hospital in such a way. I do not underestimate the urgent need of doctors and caretakers in the respective territory of Hungary. Every one knows as well as I do the meaning of spinal meningitis, how rapidly it spreads and how difficult it is to fight it. Unfortunately, since the beginning of May, 3,000 children, boys and girls, mostly from Northern Germany, have been sent into Hungarian territory, which is now afflicted with the epidemic."

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Like Rear Attack--"And in spite of this I say that German military doctors and German nurses should in these weeks of the most important decision of destiny belong at the side of the soldiers. They cannot be replaced there and to send them away, no matter for what noble purpose it may be, means to attack our fighting soldiers from the rear. It should, of course, never have happened that our children got into such a damnable situation, as they have been brought into by their incompetent and irresponsible 'Kommune' guardians.

Should have been Returned--"When in the beginning of May the first cases of spinal meningitis appeared in the Hungarian population, a few small groups of several hundred boys and girls led by Bannfuehrer Atmut had arrived in Hungary. They should have been sent back on the next train or to some other destination. But Mr. Bannfuehrer Atmut likes Budapest too much.

Insufficient Prevention--"The only thing that was done was to give the Hungarian foster parents which sheltered our children a note which read how they should treat the boys and girls, that the children should clean their teeth, gargle regularly, and wash frequently. This measure would have been necessary anyhow with the lack of hygiene prevalent among this gypsy population. It can, however, hardly be regarded as sufficient prevention against such a dangerous epidemic as spinal meningitis. Only 5 weeks later, on June 8, Oberschildfuehrer Kohlmeier in Hamburg received the first report regarding the existence of the epidemic.

Trapped in 2 Towns--"Then already the first paralytic effects had occurred with our children in (Budacoels) and in (Meina). The epidemic had already progressed so far that the children were not allowed to leave the districts in which they were stationed in order not to introduce the sickness elsewhere.

Nothing Done--"Naturally, nothing was said. Kohlenmeyer and the whole rotten 'Kommune' kept the parents in suspense and they could not understand at all why contact with their children was entirely cut off all of a sudden. These 'Kommune' boys used the usual excuses and chatted about technical difficulties, only because they did not expect the parents to have enough brains and discipline to recognise the necessity of a rigid quarantine."

(Federal Communications Commission, July 6, 1942).

'VOICE OF THE CHIEF'

SPANISH OFFICERS TOURED 5 U-BOAT BASES

Repeating its broadcast of June 29, on the activities of three Spanish officials who spread a story of troubles among U-boat crews, the "Voice of the Chief" gives (June 30) the names of the officials and the ports they visited in the occupied areas.

Luxurious Gold Braid--They were: "Rafael de la Roja y Riva, Chief of Spanish Marine Construction; Carlos de las Brancas, and Captain Lloyana Romero, all of whom are now wandering around the country in their luxurious gold braid in order to gather information on the spot about our U-boats."

Five Visits--"The Chief" says: "They have already been in Flensburg, Nuerbach, Kiel, Lemwerder and....now they were also at The Hague in order to inspect the boat flotilla in Scheveningen."

(Federal Communications Commission, July 1, 1942)

'VOICE OF THE CHIEF'

SUB STORIES ARE CUTTING ENLISTMENTS

Admitting (July 1) that, "in the past 8 weeks, about 200 U-boatmen have been admitted to Wernigerode with nervous shock and mental disturbances," Gustav Siegfried Eins charges that wild rumors of the rigors of life on submarines are seriously affecting enlistments.

Ferrol Mutiny--The Chief returns to consider the complaints he made in a broadcast Monday (June 29) that three high Spanish officials had circulated unfounded rumors of a mutiny aboard a U-boat being repaired in Ferrol, Spain. Although he criticized General Admiral Erich Raeder and others for being "taken in" by the Ferrol story on Monday, he says now:

Painstaking Investigation--"A line of bull such as the report of the three Spanish naval officers...naturally travels around like wild-fire. So it is no wonder if the stories the Spaniards have recounted have been taken seriously by men like the B.D.C. and have been made the object of a painstaking investigation in the very highest places."

Enlistments Drop--"The Chief" adds: "The harm done in this case is only that rumors of this kind, as they hum everywhere in the country, make themselves felt in the serious decline in voluntary enlistments for the U-boat arm, a decline which, unfortunately, has made itself felt more and more in the district commands."

Average Men Won't Do--The decline of voluntary enlistments is "a bad sign," says The Chief, "because we can use no indifferent or average person drafted willy-nilly for our U-boats. For them we need daring, spirited young fellows--in other words, as we had them in droves formerly, young fellows who give the ultimate for their fatherland without asking a lot of questions."

Rumor More Effective than Speeches--"But these unscrupulous, in many cases even malicious, accounts about the alleged intolerable conditions on the U-boats on their long voyages, these appear to have more effect than the finest speeches of be-medaled recruiting officers in parade uniforms. And the worst (gathering points) for such inexcusable pictures are, specifically, such towns as Bracke, Breda, Emden, Pillau, and Buxtehude where the young U-boatmen are supposed to receive their first training."

150 Lost of 400--"....In (Beida), the recruits (were made) to hear that, out of the 400 men who have taken the course in the past 6 months, 150 have failed to return from the training trip or the trip against the enemy."

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Exaggeration--"Also, the nervous strain and the injurious effects of working under pressure on board are freely exaggerated. As a result, the fact that in the past 8 weeks, about 200 U-boatmen have been admitted to Wernigerode with nervous shock and mental disturbances has already led to the ridiculous superstition that every U-boat seaman sooner or later becomes mad.

Tales from U-boatmen--"And this sort of thing is more readily believed if it comes from the mouths of active U-boatmen. Unfortunately it must be said that those who always manage to get special leave and are feted as heroes in the cities for which their U-boats are named are the very ones who pompously have their mouths so terribly full of horror stories.

Recruits Back Down--"The result of this is that many a young comrade already mustered for the fleet suddenly reconsiders the matter and, before he gets his orders to report, quickly lets himself be enlisted in the S.S. just so he won't join the U-boat arm.

Home Leaves Needed--"The fact alone that the U-boatmen do not get either regular or sufficient home furlough has often led to the view on the part of relatives at home that something is not in order and that they are therefore forced to spend their furloughs abroad and in the U-boat base instead of being given home leave. Such fears, once properly entrenched, no longer let themselves be so easily displaced, not even by propaganda speeches by people such as Kork and his accomplices who travel about the country and give rosy-red descriptions about life on board ship. These are too beautiful to be believed today. The people prefer to believe the horror stories they hear."

Training Must be Longer--"The Chief" says reasons for the rumors "actually exist" and that the only way to eliminate the rumors would be to eliminate the reasons. "The first step, of urgent necessity, is a notably longer and more fundamental training of crews as is constantly being demanded by responsible comrades. Three months of training leads to nothing except unnecessary losses in men and boats. That is definitely a false policy. In order to get more men suited for front service, they are trained faster, and the faster they are trained just that many more are lost.

Second Recommendation--"The second important requisite in personnel management, however, is regular home furlough. The men need that not only for their health, their nerves, and their mental condition, but the homeland must also see its fighting men, sons, and brothers again from time to time. Then the damaging rumors, which are now afloat, will find no new nourishment."

(Federal Communications Commission, July 2, 1942)

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE Sept. 15, 1942

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

Japanese preparations in Western Burma

When British aircraft attacked Akyab (on the west coast of Burma, about 70 miles southeast of the Indian border) on August 9, strong Japanese fighter opposition was encountered. There had been no indication of Japanese aircraft in that region for more than two months. It seems evident that the Japanese are strengthening their air force on the west coast of Burma near India, and that greater activity may soon be expected in that area.

(U.K. Operations Report, September 12, 1942)

India

An American observer in India states that unless the British offer the Indian people a constructive, workable program, India cannot become an effective United Nations' base for military operations against Japan. It is his opinion, furthermore, that the present tendency of minimizing the possibility of a Japanese invasion of India strengthens the British Government in its refusal to reach a clear-cut solution of the difficulties with India. He believes that an intensified civil disobedience campaign will soon become so powerful that the government will not be able to suppress it.

(O.S.S., "The War This Week", September 3-10, 1942)

Anglo-Fighting French Relations

The Office of Strategic Services reports continued controversy between the British and the Fighting French in Syria. According to this source, De Gaulle has implied that he expects the British to hand over the military command of the Levant this month. This demand is said to be based on

the De Gaulle-Lyttelton agreements of 1941 which provided that command would be given to the nation (England or France) which had the larger force in that area. But the British deny De Gaulle's claim that his troops outnumber the British there.

(O.S.S., "The War This Week", September 3-10, 1942)

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Sept. 14, 1942

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

Effects of R.A.F. raids on German industrial accident rate

According to the clandestine radio station "Wehrmacht-sender Nord" (located in Norway), the increasing rate of industrial accidents resulting from air raids has caused the Kaiser Wilhelm Institute to conduct a survey in West German factories. "The inquiry disclosed that the probability of accidents occurring to men, after sleepless nights, had increased 56 percent, and among women, 78 percent. After two successive air attacks, the accident curve would be more than double."

(Federal Communications Commission, September 11, 1942)

Japanese preparation for possible attacks on Siberia and India

The Office of Strategic Services reports that the Japanese are fully prepared for an invasion of Siberia. Estimates of Japanese forces in Manchuria range from 650,000 to 1,000,000 men. It is estimated also that the Japanese have half or more of their combat planes in that area.

At the same time, a secret British report indicates that the Japanese may be preparing for an invasion of India. According to that source, a considerable movement of Japanese aircraft from Central and South China to Burma and Indo-China took place during the latter part of August. It is estimated that the Japanese now have about 300 aircraft in Burma, Thailand and Indo-China, and that the number in Central and South China has been reduced to about 120.

(Office of Strategic Services, "The War This Week",
September 3-10, 1942; British Operations Report,
September 9, 1942)

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, September 16, 1942.

Press Service
No. 33-29

Secretary of the Treasury Morgenthau today announced the subscription figures and the bases of allotment for the cash offering of 0.65 percent Treasury Certificates of Indebtedness of Series C-1943 and of 1-1/4 percent Treasury Notes of Series C-1945.

For the 0.65 percent Treasury Certificates of Indebtedness of Series C-1943, reports received from the Federal Reserve Banks show that subscriptions total approximately \$1,992,000,000. Subscriptions in amounts up to and including \$25,000, totaling about \$44,000,000, were allotted in full. Subscriptions in amounts over \$25,000 were allotted 75 percent, on a straight percentage basis, but not less than \$25,000 on any one subscription, with adjustments, where necessary, to the \$1,000 denomination.

For the 1-1/4 percent Treasury Notes of Series C-1945, reports received from the Federal Reserve Banks show that subscriptions total approximately \$3,637,000,000. Subscriptions in amounts up to and including \$25,000, totaling about \$134,000,000, were allotted in full. Subscriptions in amounts over \$25,000 were allotted 42 percent, on a straight percentage basis, but not less than \$25,000 on any one subscription, with adjustments, where necessary, to the \$500 denomination.

Further details as to subscriptions and allotments will be announced when final reports are received from the Federal Reserve Banks.

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September 16, 1942
9:45 a.m.

Harold
Ickes:

Hello.

HMJr:

Yes, Harold.

I:

Henry.

HMJr:

Yeah.

I:

We've been trying to work out a proposition with the Russian Government for the designing and supplying of materials to build some hundred octane refineries over there.

HMJr:

Yeah.

I:

Now at the very best after - take the engineering plus the procurement end of it, it will be two years

HMJr:

Yeah.

I:

.... before the damn things are finished, so that every hour really is important.

HMJr:

Yeah.

I:

Now Mack of Procurement, with Walsh assisting him seems to be in charge, and our people seem to think that they aren't able to get decisions that ought to be made promptly.

HMJr:

Well, I don't know what the facts are, but I'll look into it.

I:

Will you? All right.

HMJr:

He spoke to me about it about a week ago

I:

Yes.

HMJr:

And

I:

And yesterday one of the Russians came in - Razin, he came in to see me because he - he's worried because he can't get these decisions.

HMJr:

Well, that's unusual because Mack usually beats everybody on the buying. I don't know what his -

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would you care - would you care to have him call on you?

- I: No. I've got to go over to Baltimore to make a speech at one o'clock today, but suppose you just
- HMJr: I'll - I'll call him just as soon as you hang up.
- I: All right. Thanks.
- HMJr: I'm glad you brought it to my attention.
- I: All right.

September 16, 1942
12:00 a.m.

Clifton
Mack:

Hello.

HMJr:

Cliff.

M:

Yes, sir.

HMJr:

What's the answer to Secretary Ickes?

M:

This is the story. There have been a number of general discussions about this refining equipment.

HMJr:

Yeah.

M:

We had nothing specific as to - as to what was wanted until Monday of this week. We don't yet have any requisition. We - we - when we got their - their specifications on Monday of this week, we got in touch with them and told them that there were two things that we needed an answer on.

HMJr:

Yeah.

M:

One was - why they specify a unit that calls for a very substantial royalty. The royalties in this case, by the way, run about five-and-a-half million dollars.

HMJr:

Gosh.

M: ~~Now~~

So we asked them, "Now, why do you have to have a unit that calls for these substantial royalties?" and said, "Can't you use a unit that doesn't call for a royalty?". And some of our engineers - some of the engineering people claim that that is possible. Now, maybe it isn't possible, but we want to be sure that we don't get ourselves in the position of - of not

HMJr:

Well, I'll tell you what I'm going to do. Can you be here at three-fifteen?

M:

Yes, sir.

HMJr:

And I'll have the head of the Russian Purchasing Mission here

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M: Yes.

HMJr: And you have that - what you are telling me - have it on a piece of paper for me.

M: Yes. All right.

HMJr: I mean the fact that they only brought in the requisition - Monday, you say?

M: Well, they only brought in the specifications Monday. We don't yet have a requisition.

HMJr: Well, put that in - that you only got the specifications - Monday?

M: Yes, sir.

HMJr: And that you still haven't gotten the requisition.

M: Yes, and as a matter of fact, Interior telephoned to us this morning, saying that - saying they couldn't find our letter that we had written to them on Monday, and asking if we would give them another copy of the letter.

HMJr: I see.

M: So, this royalty business - I - I had noted that I wanted to talk with you about it, because

HMJr: Well, put that in.

M: it's dynamite.

HMJr: Well, put all and everything, so I can have it both to talk to the Russian and also to send to Ickes.

M: Yes, sir, and do you want me to be there?

HMJr: I want you here at three-thirty.

M: At three-thirty?

HMJr: Isn't that what I said?

M: At three-fifteen, I thought, but that's all right. Three-thirty.

HMJr: Three-thirty.

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M: Yes, sir.

HMJr: But have it - don't - I mean, just the facts. The royalty - the fact that we only had this stuff Monday, and you still haven't got a requisition, and is there anything under the Department of Interior that we could - are they in any way at fault?

M: Well, of course, they have the oil people over there, you know, and they have been recommending one engineer, and we're a little bit - we - we're not entirely satisfied that this one fellow that they recommend, is the fellow that should be hired. And we've

HMJr: Hire - hired for what?

M: To do the engineering job. And we've asked them why they specified this particular fellow? Why couldn't somebody else be considered too? But, I'll - I'll get all of this in shape in memorandum form and I'll be at your office at three-thirty.

HMJr: Right.

M: Yes, sir.

HMJr: Thank you.

September 16, 1942
2:21 p.m.

HMJr: Hello.

Operator: Secretary Ickes and Mr. Burlew are both out of the city, but the Under-Secretary, Mr. Fortas, is there.

HMJr: Let me speak to him.

Operator: All right.

HMJr: Is he on the wire?

Operator: Go ahead.

HMJr: Hello.

Abe Fortas: Hello, Mr. Secretary.

HMJr: How are you?

F: Fine. Thank you.

HMJr: Mr. Fortas, Harold Ickes called me up this morning telling me that he thought that we were slow on placing an order for an oil well - not an oil well, for a gasoline refinery for Russia.

F: Uh - huh.

HMJr: Well, he only had about a third of the story.

F: Yes.

HMJr: And I've got this General Beliaev, the head of the Russian Purchasing Mission coming here at three-thirty today, also Mr. Mack, Director of Procurement.

F: Uh - huh.

HMJr: And I think some of it, maybe some of it will be on the fault of your oil people. You aren't situated so that you could sit in and listen, are you?

F: No. I'm just terribly sorry. Tugwell of Puerto Rico is up here, and we're trying to work out an

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arrangement with Agriculture and get them some food down there.

HMJr: Yeah.

F: How about Davies?

HMJr: Well, I - I don't - that's just the trouble. I think that's part of the trouble. For your information, they're - they're trying to give the Russians a process on which the Russians will have to pay five million dollars royalty. And my man has been trying to work it out so that they won't.

F: Oh, I see.

HMJr: So I don't think that Davies would help a bit.

F: Yeah.

HMJr: Well, I'll tell you, I'll go through with it, and I'll just have to write - I hate to - am going to have to most likely put what I'm going to have to put in a letter.

F: Yeah.

HMJr: But, Harold called me up, you know, and he always thinks the other fellow's wrong

F: (Laughs)

HMJr: but, somebody's been trying to pour something, as a matter of fact, we have no order from the Russians. The facts are that we only got the specifications Monday, we're still waiting for a requisition

F: Yes.

HMJr: and your people are - I mean, we think they're trying - somebody there is trying to force a process on them that's going to cost them in royalties, five million dollars

F: Yes.

HMJr: and our Treasury people have been trying to find a process that they won't have to pay

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any royalties.

F: If I could get away, and

HMJr: Do you think that - my meetings don't last more than fifteen minutes.

F: Uh - huh.

HMJr: And they start on time.

F: Yeah. Well, that's three-thirty, is it?

HMJr: Yeah.

F: All right. I'll be over there.

HMJr: Good. And as I say, I run them very punctually and they won't last.

F: Fine. Well, I'll

HMJr: But, I - I think that as long as Harold Ickes started this, he ought to know about it.

F: All right. (Laughs)

HMJr: What?

F: Yeah. Well, I'll be over there at three-thirty.

HMJr: Swell.

F: Thank you very much. Good-bye.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE Sept. 16, 1942

TO Secretary Morgenthau
FROM H. D. White.

Commander Strauss telephoned me Tuesday morning, September 15, 1942, to report on the answers to the questions raised at the morning conference in the Secretary's office with respect to the Canadian orders.

Commander Strauss stated that (1) the contracts with the Boeing plant were for planes intended to be released to the United Kingdom but he said that did not mean the planes will finally be turned over to U.K. The Army may take them over for their own purposes.

(2) The particular planes ordered were planes which the Army does not regard as the most modern planes. Though needed, the Army prefers to use Canadian facilities for them, reserving our own facilities for the "hottest" planes.

(3) Material and parts to a value of about 20 per cent of the contract value of the planes would have to be imported from the United States.

(4) If these orders were not given to Canada, it would, they believe, in the case of the Fairchild Plant, use those facilities for English orders. The Navy does not have information enough to answer that question with respect to the Boeing Plant facilities.

The proportion of the contract price going to expand facilities in both the Boeing and Fairchild contracts are too small to be a significant factor in the decision.

(5) The \$42 million of naval vessels referred to in the letter had been agreed to at the Hyde Park Conference. The ships are already being built and are supposed to be built and operated by the United States.

I have not yet heard from Mr. Douglas about the Maritime ship contracts.

September 16, 1942
2:57 p.m.

HMJr: Hello.

Operator: Mr. White.

HMJr: Harry.

Harry White: Yes, sir.

HMJr: I've read three times your memorandum of your conversation with Commander Strauss....

W: Yes.

HMJr: and I don't - it doesn't make sense. Now, maybe it's Strauss, maybe it's me, maybe it's the memorandum.

W: (Laughs) Yeah, it's probably the memorandum.

HMJr: Well, now let me tell you what bothers me. There's one - the contract for the Boeing plant or for planes intended to be released to the United Kingdom.

W: That's right.

HMJr: But he said that it does not mean that planes will finally be turned over to the United

W: That's right. He said it first passes through the pool and he said, "We may decide not to send them there".

HMJr: Well, one statement contradicts the other.

W: Well, they're intended then-it's on contract. I'm - I a little suspect, I may be wrong, that he added that last part because in view of our statement that they wouldn't - weren't going to do that earlier, and he - I guess he realized that, and so he said to me over the phone, "Well, the mere fact that they're ordered for U. K. and are allocated to U. K., doesn't mean that they will get there - we may change our mind".

HMJr: Well, now, there's another thing, why should the Navy be ordering planes for the Boeing plant

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that the Army might take over?

W: Is it - did I say the Army will take over?

HMJr: " the Army may take them over for their own purposes "

W: Well, maybe that's my mistake. Maybe he meant - just meant "we".

HMJr: Well, you say "the Army".

W: Well, maybe he said it, or maybe he didn't, but in any case, he meant "we".

HMJr: Well, on either one, I - I - certainly the way it's written, and the way I understand it, I'd raise the question that the Boeing should have an order.

W: Well, the only answer to that would be if Boeing was going to use the facilities otherwise, the only consideration would be, I suppose, that they might not get the order from England.

HMJr: Well, anyway, I wish you and Lauch would look into that Boeing situation further.

W: All right.

HMJr: It's entirely - in an unsatisfactory condition as far as I'm concerned.

W: Well, I would agree.

HMJr: What?

W: I would agree with that.

HMJr: Now, that's number one. Number two - on the planes here - as I say - two of them, but I don't know what that means. Then you get down to the Fairchild plant

W: Yeah.

HMJr: if these orders were not given, it would - they'd leave the case of the Fairchild plant with - they'd - using these facilities for English orders.

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W: Yeah.

HMJr: Why, in - I don't know whether these latest planes refer to the Fairchild, or whether they refer to the Boeing.

W: The Boeing plant, I think, is the one they didn't know what would happen to the facilities.

HMJr: Well

W: He said they didn't know. The Fairchild, they thought, might be available.

HMJr: Well, now, when you say the "hottest planes" - does that refer to Boeing, or does that refer to Fairchild?

W: I think that refers to both of them.

HMJr: Well, then I - I raise the question, if these aren't the most modern planes - why - second-best plane is - is worse than no planes.

W: Well, he claims that they still can use them. They're those PBV's or something like that.

HMJr: Well.

W: He says they still can use them.

HMJr: Well, it's like everything else, by the time they build the stuff and yet it'll be two years from now and if they're not good now, they'll be useless two years from now.

W: Well, my frank opinion is this.

HMJr: Yes.

W: If you were to dig into that whole situation and start from scratch, and examine every - every angle of it, I suspect that it would look a mess, but I don't know whether you are in a position at this time to

HMJr: Well, yes, I'd like you and Lauch to look into it.

W: From scratch?

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HMJr: Yeah.

W: All right. Then we'll just hold it up until we do. I'll - well, I'll - I'll talk with Lauch and then I'll talk with you.

HMJr: Well, as it affects this Boeing and Fairchild - I don't mean all the contracts, but just as it

W: What it means is that somebody would have to talk with somebody - or examine - who is familiar with the whole situation, as far as it affects those plants and those orders and our plants.

HMJr: Well, we even put up Lauch's - what's this committee of his for if it isn't for that?

W: In other words what we can do is - say, here's a good place for his committee to start and let them present a - a report that would satisfy you that they've gone into it satisfactorily.

HMJr: Well, the way it is now, it looks very fishy to me.

W: Well, are you willing to take the position with Strauss that you want this hold - held up until - for more information?

HMJr: Definitely.

W: All right.

HMJr: Yeah.

W: All right. That applies then to the planes.

HMJr: Both Boeing and the

W: And the other matter is already in the - in the mill, so there's nothing to do about it.

HMJr: Yeah.

W: Okay. I'll get in touch with Lauch

HMJr: If he can't say that this is urgent when the planes - I mean

W: Well, it can't be urgent, because as a matter

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of fact, they've got to build a little more facilities.

HMJr: Well, if it's - if the plane - if it's a PBV plane, I - it's a flying boat. They make about one hundred and fifteen miles an hour.

W: Yeah.

HMJr: And, if they're obsolete now, what will they be two years from now?

W: Yeah. It may be that they just gave those orders because those fellows said they had nothing to do and couldn't they give them some work

HMJr: Well, then let them build some - let them build a plane which will be good two years from now. From all the reports I see is that this latest German plane is way above anything

W: Well, this may be a good opportunity to dig in the nest and see just what's going on.

HMJr: Well, I - call

W: But, I'll - he - I think we'll have to work through him, because I have no

HMJr: Well, he's got the committee, and you tell Lauch that - that I think that those two things look fishy, and asked would he dig into them for me.

W: I'll do that.

HMJr: And if he's got any question, he can call me himself.

W: And we won't call Strauss until he raises a question.

HMJr: That's right.

W: Okay.

HMJr: Hello?

W: Yes, sir.

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HMJr: No. I - I - I'd rather that you'd call Strauss, and say, "I'm not satisfied and I've asked Currie and the committee to look into it further".

W: All right. I'll do that. No - I'll tell them that you - all right, I'll tell them just

HMJr: No, tell them that I'm not satisfied.

W: Right. Okay.

HMJr: Yeah. You might as well just - I'm these days - God-damn it, I'm going to be frank.

W: Okay.

HMJr: I think I always have been, and I'm going to just try to be a little franker, that's all.

W: Okay. I'll tell them.

HMJr: I mean, at least when they deal with us, let's - let's hit and hit hard.

W: Yeah. I'm perfectly agreeable.

HMJr: Well, I mean that's - you can tell Lauch that this whole thing looks fishy to me and let's find out.

W: All right.

HMJr: Why we should be ordering a plane today that you can't

W: Here - I just got a - I just noticed. My secretary has brought in a letter from Lauch on this very point. He says - it begins, "I have made certain inquiries today on the two pending orders to Canada which you brought up in our meeting this morning. On the proposed aircraft order of fifty-nine million dollars, for which letters of intent have been issued, I am informed that we require both types of planes in question. By placing the order in Canada, however, we release a portion of our own facilities for more advanced models. It is estimated and so on". That's the significant sentence. The others - it doesn't matter.

HMJr: Well

W: And the order says "... we require both planes".
Now, we're going to raise a question.

HMJr: We're - we're going to raise it.

W: Right.

HMJr: I mean - that's - that's another - now that's
another excuse.

W: Yeah.

HMJr: Yeah.

W: Well, that's implied in the other - that's
why they placed the order.

HMJr: Yeah.

W: Okay. We shall hear what he has to say.

HMJr: U. K. or O. K.?

W: I said - well, U. K.'s never O. K. with me.
(Laughs) Okay.

HMJr: All right.

W: All right.

September 16, 1942
3:30 p.m.

OIL REFINERY PURCHASE (RUSSIA)

Present: Mr. Fortas
Mr. Mack
Gen. Belyaer
Mr. Razin
Capt. Zladimirov (interpreter)

H.M.JR: What happened was this: The Secretary of the Interior called me up this morning and asked why I didn't order a gasoline refinery for you people, and why I was so slow. So I called up Mr. Mack, and he said that only Monday had he gotten the specifications, and he has not yet gotten an order.

Now the other thing, because you know I am very frank, Mr. Mack was hesitating to order a refinery that you would have to pay five million dollars in royalties on. He was trying to find some process which you wouldn't have to pay any royalties on. Is that right?

MR. MACK: That is right.

H.M.JR: And last, which happens in all governments, somebody from the Purchasing Commission went to Mr. Ickes and complained that we were not doing our job, you see.

Now, we cannot order a refinery for you until we have a requisition, and we have no requisition.

(Mr. Fortas entered the conference.)

(Discussion off the record.)

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CAPT. ZLADIMIROV: Mr. Razin, who is in charge of all this business in our Commission, states the following, that he was the man who was at Mr. Ickes' office, and he said that he was not complaining - not at all. He only wanted to clear up the whole situation, and the only thing he did say there was that he wanted to make sure how the payments would be made. That was the main question he wanted to find out.

MR. RAZIN: Royalties.

CAPT. ZLADIMIROV: What amounts, what time, what rates, and which way the thing will be handled.

H.M.JR: Well, I do not mind anybody complaining - that never bothers me, but I just felt that - I mean, Mr. Ickes was under the impression that we were being slow about it. Now, we have no order yet, have we?

MR. RAZIN: No.

H.M.JR: I mean, you haven't given us an order - a requisition?

MR. RAZIN: Yes, you are right.

H.M.JR: That is right, isn't it? We have no requisition?

CAPT. ZLADIMIROV: We have not given it yet, no.

H.M.JR: I take it, also, that the Russian Government is not anxious to pay five million dollars in royalties.

CAPT. ZLADIMIROV: The General says only after we find out at what rates this should be paid, what time, and actual amount - only then can our government decide, and so far we have not heard whether they are anxious or not. Maybe they would - we do not know.

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H.M.JR: I don't understand why this gentleman would go to Mr. Ickes rather than to Mr. Mack to get this information.

CAPT. ZLADIMIROV: Mr. Ickes called him up and asked him to come to his office. The General thinks that Mr. Ickes called Mr. Razin in connection with that radio broadcasting. He is not sure about it; that is what he thinks.

H.M.JR: Radio?

CAPT. ZLADIMIROV: Radio broadcast on the subject.

H.M.JR: Did you know anything about it?

MR. FORTAS: Not about the radio broadcast, no.

H.M.JR: I just want to say to the General, so he does not misunderstand me, that as far as I am concerned, it does not disturb me that this gentleman has gone to Mr. Ickes; that does not bother me at all. What disturbs me is that there is any delay in your getting what you want. That would bother me, you see. But that anybody goes to anybody else - that does not bother me.

Now, Cliff, I promised Mr. Fortas, who left another meeting, that we would keep this very short. Will you tell these gentlemen what you have to do to buy this plant for them, and don't pull any punches, see, about any oil advisors or about E. B. Badger & Sons Company, or anybody else. Just lay it right on the line and say what you can do for them if they will do their part. See? Just lay it right on the line.

MR. FORTAS: Mr. Secretary, could I ask one question?

H.M.JR: Sure.

MR. FORTAS: It is my understanding that this particular type of equipment was selected by you; that

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is to say, the people under Mr. Ickes told you to go out and select your own equipment. Is that right, you selected your own equipment?

MR. RAZIN: Yes, you are right.

CAPT. ZLADIMIROV: Yes. All the specifications were worked out, together with the people in Mr. Ickes' office.

MR. FORTAS: But the equipment was selected by you?

CAPT. ZLADIMIROV: Yes.

H.M.JR: Go ahead, Cliff, do your stuff.

MR. RAZIN: You see, the question is not about delay in conclusion of contracts. It is quite true that the Procurement Division received information just a few days ago; that is quite true. But the question is that on Monday, when we had a meeting at the Procurement Division, Mr. Walsh, your assistant - when we asked at that meeting about payments on royalties, nobody could tell us the basis on which we have to pay royalties.

Some time ago Mr. Ickes' people - Mr. Crampton, Mr. Ickes' assistant - told us that under the oil refinery program all refinery plants had been put under the defense plants program, and there were to be no royalties during the war and we have to pay a royalty at the cessation of the war. But nobody could tell me, or anybody from our Commission, the official confirmation about royalties, when, at what rating, on what basis could we pay such royalties.

As I understand, we will send a requisition to Lend-Lease. Lend-Lease will approve that requisition and send it to your office, and you will conclude contracts with the companies. You will conclude contracts with the companies, not our Commission, and I think the Procurement Division of the Treasury Department has to arrange this question and tell us, as buyers, about the size of payments.

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From certain companies we know the approximate sum of the royalties. Up to date we cannot know definitely the royalty which the United Oil Products Company wants to get from us.

Just one question; we selected processes, we selected companies, but now we want to arrange the financial side of the question. We are ready to give you requisitions, but we want to know, during the conclusion of contracts, about payments of royalties - not now, maybe some time in the future. This is the situation up to date.

H.M.JR: Well, now, let Mr. Mack tell his side of the story, please.

MR. MACK: On Monday of this week we received the detailed specifications, and on that day a meeting was held - the one that you refer to. This meeting was attended, I believe, by representatives from your office, representatives from Lend-Lease, and Mr. Fortas', I think, and ours, and certain engineers.

Now, Mr. Walsh was not in a position to make a decision that day because there are two questions, and these are the two questions. He could not very well bring them up at the meeting because it had to be handled after the meeting, you see. The two questions are these. You see, some of these engineers that we have talked with have said that - in fact, Lummus - do you know him?

MR. RAZIN: Yes.

MR. MACK: Now, Lummus says that in his opinion there is no reason why we cannot use equipment other than the Houdray process, and that the equipment which he recommends does not call for a royalty payment. Now, the royalties for the entire project run something in the neighborhood, on the basis of production, design, capacity, and so forth, of about five million one hundred and thirty thousand dollars, it is estimated.

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H.M.JR: Over how long a period?

MR. MACK: This runs how many years, now, on the royalties we figured?

MR. RAZIN: We do not know. It was not settled.

MR. MACK: Walsh's position is this, that if Lummus' contention - if Lummus, the engineer, is correct in his position that we can use this other equipment that does not involve a royalty, and if it is agreeable to you to use this other equipment that does not call for royalty payment, that then, of course, no royalties are involved. Now, that is one point.

The second point is that I think a recommendation was made by you (Fortas) that E. B. Badger be the engineer in charge of this entire project.

MR. FORTAS: I do not know whether this is so or not.

MR. MACK: Yes. Now I believe E. B. Badger - I believe the original recommendation came from you folks, didn't it, that E. B. Badger be employed?

MR. RAZIN: As chief contractor.

MR. MACK: As chief contractor. Therefore, on Monday we got the detailed specifications, and after that conference we asked two questions of the Department of Interior and the questions were these: First, is it absolutely essential that we use this equipment that calls for the royalty payments; and secondly, what is the reason for specifying Badger as a construction engineer. Those are the two questions. Now, if you recommended Badger--

MR. RAZIN: That is the Office of Petroleum Coordinator.

MR. MACK: It is my understanding from Walsh that the recommendation as to Badger came from OPC.

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MR. RAZIN: That is right.

H.M.JR: That is why I wanted Mr. Fortas here, rather than somebody from the oil people. You see, I wanted somebody from Mr. Ickes' office. I did not want somebody from the oil people here.

MR. MACK: Well, now, just before leaving the office--

H.M.JR: Excuse me - let's get this thing straight. The Russians say that they did not recommend Badger.

MR. RAZIN: No, we had no objections.

H.M.JR: And they also say that - do I understand that this particular process which calls for this royalty, that you did not pick this process - this particular refinery? Did you select this particular refinery or was this selected by the oil people?

MR. RAZIN: Mr. Mack made a small mistake. Lummus cannot produce the Houdray process; Badger could produce the Houdray process.

MR. MACK: Perhaps we can clear that up.

MR. RAZIN: I understand what you mean. The question is between Lummus and United Oil Products Company regarding - not about Houdray process - this is another question.

MR. MACK: Yes. Well now, the detailed specifications that we have call for the Houdray process and, I believe, the Dubbs process.

MR. RAZIN: It is Dubbs.

MR. MACK: Now, that is a process that - it is a thermal process but it has a reaction chamber.

MR. RAZIN: That is right.

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MR. MACK: Well, now, Lummus claims that since that process was developed they have been able to establish the same results without the reaction chamber. The royalty is on the reaction chamber, you see.

MR. RAZIN: That is right.

MR. MACK: So their point is, in effect, why do you have to have a Dubbs process. If you have the Dubbs process you are obliged to pay a royalty. Now, just before leaving to come over here Walsh had a call from one of your - I think Mr. Crampton--

MR. FORTAS: Yes.

MR. MACK: One of your men. He said that they would have an answer to these two questions. They said they are tough ones, but they will have an answer for us as quickly as they can get the information.

H.M.JR: Do I get it, then, we are waiting to hear from the Department of Interior for something - we are waiting on them?

MR. MACK: For the information as to these two questions.

MR. FORTAS: There is one question that you asked that this gentleman did not answer, and for my own information I would like to have an answer to it. And that is whether this particular process was selected by you or whether it was selected by OPC?

MR. RAZIN: You see, the oil processes were selected by us - OPC people - under their recommendation; and our engineers worked very hard for it last time, and we selected it ourselves, but--

H.M.JR: Excuse me, you have not answered that question. This is the question - and I asked it and he has not answered it. Probably it is the language difficulty.

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The question that we are asking is, here is a certain kind of a process, is this - it is either yes or no - is this a process that the Russian Government is asking for, or is this a process which was recommended by OPC? I mean, it cannot be both. It must be one or the other.

CAPT. ZLADIMIROV: You mean the Dubbs process?

H.M.JR: I do not know what it is. I mean, is this something which the Russian Government is asking for, or is it something--

CAPT. ZLADIMIROV: It is something that was recommended by the OPC. We selected it ourselves.

MR. MACK: What process - the Dubbs process?

MR. RAZIN: All processes.

MR. MACK: And those are all specified in the detailed specifications. Those are your recommendations. You have a copy of the detailed specifications that we got on Monday.

MR. RAZIN: That is right.

MR. MACK: Have you gone into this matter of Lummus' recommendation? Do you think there is - do you think Lummus' recommendation is right or not?

MR. RAZIN: That is another question.

MR. MACK: Lummus is the man that said the process would not call for royalties.

H.M.JR: What Mr. Mack is trying to do is to find a process which is as good, which you won't have to pay royalties on. You see, he has Scotch blood in him, and he is trying to save you five million dollars. (Laughter) Is that right, Cliff?

MR. MACK: Yes.

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H.M.JR: He is trying to save you five million dollars. Now, it would be very easy for him to say, "There is no difference," but there is.

(Discussion off the record.)

H.M.JR: I am sorry. I am not an oil expert, so I have to ask for some information.

I would like to ask this question. Have you satisfied yourself that this process which you have selected is the only process that will give you the results that you want?

CAPT. ZLADIMIROV: You mean the Dubbs process?

H.M.JR: Whichever one he has selected. Is it the only one that will do the work?

MR. FORTAS: There may be a little misunderstanding here. The Houdray process is the one that has been specified, is it not? The question is whether you are satisfied yourself that the Houdray process is the only one that will produce the results.

H.M.JR: Which one have they selected?

MR. MACK: They have specified each of these. Certain ones accomplish certain things; that is, the Houdray process is for refining of gas. Then there is another process which is for dewaxing; another process which is for desalting; and of course, the Dubbs process is the same as the - very similar to the Houdray process.

H.M.JR: Let me put the question another way, then. In the Department of Interior there are two bureaus. One is known as the Office of Petroleum Coordinator, OPC. Then there is the old Bureau of Mines, which used to do this sort of work.

Now, what I was suggesting, if it does not take too much time - we are going on the assumption that you do

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not want to spend five million dollars for royalties if you can get something as good that you pay no royalties on. That is the only thing that is bothering us. Would you like Mr. Fortas to ask the Bureau of Mines - not the OPC but the Bureau of Mines - are you familiar with that?

MR. RAZIN: No.

H.M.JR: It is the Bureau of Mines; it is the Federal Government, you see. Mr. Fortas could ask the Bureau of Mines if there is any other process available which could do as good a job as this where you pay no royalties, you see, not an experimental process but a process that you could go and see with your own eyes; or do you feel that you have exhausted everything and that this is the only group of processes which you can get? Do I make myself clear? There are two bureaus, the OPC and the Bureau of Mines. Now, they have not been to the Bureau of Mines.

CAPT. ZLADIMIROV: I understand. They have been to the OPC; and there is also the Bureau of Mines, which can say if there is a process which can do as well.

H.M.JR: In the Bureau of Mines there are only civil servants. There are no commercial oil men. Right?

MR. FORTAS: That is right.

H.M.JR: Do you get the significance?

CAPT. ZLADIMIROV: Surely.

H.M.JR: I mean, there are no commercial oil men. They are all civil servants.

What I am suggesting is that, if you think well of it - unless he says he has exhausted all possibilities - this thing can be very quickly reviewed by the Bureau of Mines.

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(Discussion off the record.)

CAPT. ZLADIMIROV: Mr. Secretary, the General wants to know whether you understand us correctly. There is not one process; there are seven of them making the complete unit - seven different companies involved and they are changing. Just one does not solve the whole problem because we have to pay royalties to the other. It is one building here and one building there, which makes the whole group of buildings. So I do not know how Mr. Mack can solve the business.

MR. MACK: The entire refining process, as I understand it, is this, that for the most part it will be used for refining gas. Is that right?

MR. RAZIN: Yes.

MR. MACK: And then to some extent, but to a smaller extent, for refining certain types of oils. Therefore, the greater part of this would have to do with the refining of gas where this process is involved. Is that right?

MR. RAZIN: We have four plants for producing aviation gasoline, and that sort, and there is another plant which has two units where we take care of desalting - they are desalting units. They are quite different processes, and quite different companies will prepare them. The question is--

MR. MACK: Mr. Razin, I wonder if you could tell the Secretary how you arrived at these processes. Did you have engineers who advised you?

MR. RAZIN: Yes, we did.

MR. MACK: Which engineers?

MR. RAZIN: Our engineers.

MR. MACK: With the Soviet Commission?

MR. RAZIN: Yes, we have a specialist in our Commission.

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MR. MACK: What did he do?

MR. RAZIN: They made a selection and they prepared the whole technical specification. Engineers from the Office of Petroleum Coordinator all the time were--

H.M.JR: In consultation?

MR. RAZIN: Consultants, yes.

MR. MACK: What do your engineers have to say about the Lummus opinion that we do not need to use royalty processes?

MR. RAZIN: I will tell you our opinion - the opinion of our engineers. From the point of view of engineering work, as a technical question, there is no difference between Dubbs and Lummus. The one thing is the reaction chamber - that is the difference between Dubbs and Lummus. The Lummus process has not the reaction chamber. Dubbs has the reaction chamber. That is the difference between them.

MR. FORTAS: Is that an important difference, the presence of a reaction chamber? Does that make the process better?

MR. RAZIN: Yes.

MR. FORTAS: Your engineers think the process is better and that is where the royalty comes in?

MR. RAZIN: Yes. Lummus made the statement - I saw a letter myself, dated August 31 - that they do not want any royalty for their process. But the UOP, United Oil Products Company, wants to get some royalties for their processes.

MR. MACK: The point is, have your engineers considered this Lummus process? Have your engineers studied the Lummus process?

MR. RAZIN: Yes.

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MR. MACK: They say they still prefer the other process, the Dubbs process?

MR. RAZIN: They are almost the same.

MR. FORTAS: Yes, but now you say, "almost the same," but then you say there is a reaction chamber in the Dubbs process which is advantageous according to your engineers. Is that right?

MR. RAZIN: As I told you, the difference between the processes is the reaction chamber.

MR. FORTAS: Yes, but is that a substantial advantage? Is that important? Do you want that?

H.M.JR: The answer is he does - he does want it.

MR. MACK: I wonder if this might help. We have written a letter to OPC asking for specific answers to these two questions: Why do you want this process, and what is the justification for it? They will get the answers from the Russian engineers, and then we will have it in specific detailed form, and also the specific answers as to why he wants E. B. Badger. When we get that, we have got it down on paper as to what the specific reasons are.

H.M.JR: While getting it from OPC, you will also get--

MR. FORTAS: I will check with the Bureau of Mines on this.

Here is the difficulty on all of these things. If they had selected the Lummus process and had consulted an engineer who was more familiar with or more interested in the Dubbs process he would have recommended that. Somebody has to decide these things, and the decision is "by guess and by gosh" and hope it is right.

H.M.JR: Let me ask you this. This is what I cannot get through my head. Why do the Russians -

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why isn't there somebody in the United States Government that can give them this advice for nothing? I mean, why do they have to go to Badger or to Lummus or anybody? Why can't we, the United States Government, give them this advice without any charge?

MR. FORTAS: Well, there are two agencies, OPC and the Bureau of Mines. Beyond that when you get into actual construction work there just is not any agency in the United States that does that work. If it were the problem of constructing a dam we could give them the best advice in the world, outside of their own.

H.M.JR: Is Badger going to go over to Russia and construct this?

MR. MACK: In effect, yes. A large part of the work would be done here.

H.M.JR: I mean, does Badger go to Russia and build this thing?

MR. RAZIN: Yes, Badger builds some plants for us.

H.M.JR: Well, to sum up, as I understand it, Mr. Mack says that he has asked the OPC to give him a letter saying that these processes - these royalties are all right. What it amounts to is that he will be protected as to what he is doing. Now, the only additional thing that has come out of this meeting is that Mr. Fortas is also going to have this reviewed by the Bureau of Mines.

Now, how long will this take?

MR. FORTAS: Well, I think we ought to put a deadline on it, and if the Bureau of Mines says it will take them more than a couple of days we ought to eliminate that.

H.M.JR: Do you think this thing could be settled this week?

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MR. FORTAS: From our point of view, yes. From our point of view, I think it either ought to be settled this week on the basis of OPC's opinion or on the basis of OPC plus the Bureau of Mines. If the Bureau of Mines cannot give us an opinion this week I think we ought to ignore that step. That is a matter for you gentlemen to decide.

H.M.JR: As I understand it, if OPC says this is all right, that they have got to pay the royalties, then the Russians will come through with a requisition.

MR. RAZIN: The requisition--

CAPT. ZLADIMIROV: Yes, we are in position to give the requisitions.

MR. MACK: Then it is a matter of negotiation. We could do that very quickly.

H.M.JR: Between who?

MR. MACK: Between ourselves and the companies that have the processes that are finally determined, and of course with the engineer that is to do the construction job - supervise it.

H.M.JR: Do you think you can get this thing by September 1, '43?

MR. MACK: We are not going to be able to get it by September 1 '43 unless we get the highest sort of a rating. Don't you think so? That is the double A or triple A. If we are obliged to pay royalties there are certain standards that we can govern ourselves by; that is, we have gone into that in considerable detail with Lend-Lease Administration.

H.M.JR: So that the General knows, all that we have been trying to do is this. We don't like to see you pay out royalties unnecessarily. Mr. Fortas will find out from these two separate bureaus, in the Department of Interior, and if they say it is necessary

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then we will go ahead. If he has his doubts and says it is not necessary, that there is some other process which he feels is as good, then we will ask you to take a look at what they say; but either way the thing should be settled this week.

MR. FORTAS: Yes.

H.M.JR: So I am sorry to have taken fifty minutes of your time, but I was trying to save you - I don't know what, but five million dollars into fifty minutes goes-- (Laughter)

CAPT. ZLADIMIROV: The General thinks that under the circumstances this is the best way out that one can think of.

H.M.JR: With your help, we will get an answer one way or the other.

MR. FORTAS: Yes, I will undertake to do that today.



TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

September 16, 1942

OFFICE OF THE DIRECTOR

MEMORANDUM TO THE SECRETARY:

Concerning the proposed purchase of refineries for the Russians, General Burns of the International Supply Council presented a tentative program to the Russians on July 6th which was accepted on July 22nd with the understanding they would reach a decision by September 1 on the processes to be used. This has been done except as to the thermal process. During this period there have been various discussions of a general nature between representatives of the Office of Petroleum Coordinator, Lend-Lease, the Russians and this office, also various engineers having knowledge of refining processes. On September 14th, there was delivered to this office by a representative of the Office of Petroleum Coordinator a detailed statement of the requirements which will be used as the basis for the requisition to be submitted by the Russians.

Immediately upon receipt of the detailed statement of the requirements, this office raised two questions which we believe to be important. First, why units were specified which require the payment of substantial royalties, in view of opinions expressed by engineers that units not requiring the payment of royalties could be used; and secondly, justification for the selection of E. B. Badger & Sons Co. as the engineer architect for the entire program. These two questions remain unanswered, and promptly upon receipt of this essential information, an immediate decision can then be reached by this office.

The War Production Board have indicated that they will give this requirement favorable priority consideration, and just as quickly as complete information is available, a request will be made of the War Production Board to establish a high rating necessary to meet delivery of September 1, 1943.

As a part of this entire program, we have already employed engineers to appraise and inspect two existing refineries in Texas preliminary to purchase.



Clifton E. Mark
Clifton E. Mark

Director of Procurement

The WASHINGTON

Merry-Go-Round

By Drew Pearson

Ban on Scrap to Japs Was Frustrated

THE COMPLETE STORY never was told, but it happened two years ago this month. And if it had happened differently it might have changed history.

A group of cabinet officers were dining at the British Embassy with the late Lord Lothian—Secretary of War Stimson, Secretary of the Navy Knox, Secretary of the Treasury Morgenthau. They all agreed that it was suicide to continue shipping scrap iron and oil to Japan, that it should be stopped at once. The British Ambassador agreed that his government would cooperate.



DREW PEARSON

Next day, Morgenthau flew to Hyde Park, put the proposal before FDR, got him to sign two executive orders banning the sale of all scrap iron to Japan, and all oil.

But under the law, executive orders must be issued by the Secretary of State. And when the White House sent Mr. Hull the orders he vigorously disagreed. In fact he delayed issuing the orders until he and his advisors could argue with the President, finally persuaded him to reverse himself.

The orders were changed so that only high test gasoline was embargoed, and all other forms of gas and oil could be and were sent to Japan up until a few months before Pearl Harbor. The scrap iron embargo permitted the Japs to import all except No. 1 grade of scrap, though later the State Department was overruled on all scrap iron.

Expert Control - Japan

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September 16, 1942

Dear Mr. President:

In accordance with your request of September 15th, I am enclosing herewith a draft of a letter to Mr. John B. Hawley, Jr., for your signature.

Sincerely,

(Signed) H. Morgenthau, Jr.

The President,

The White House.

Orig. file to Thompson
Photostat File - Diary

Sent over by Secret Service 9/17
(afternoon)

Dear Mr. Hawley:

Your letter of September 13th has given me great pleasure. It is an admirable thing that you have done in limiting your salary to \$25,000 after taxes, and I only wish that others might come to the same decision.

All of us will have to tighten our belts to win this war. I cannot think of a better way to accomplish this result than for people of your standing to set the example.

Cordially and sincerely yours,

Mr. John B. Hawley, Jr.,
Northern Pump Company,
Minneapolis, Minnesota.

FK/cgk

THE WHITE HOUSE
WASHINGTON

January 15, 1954

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

FOR REPLY

FOR MY SIGNATURE

Page 1

NORTHERN PUMP COMPANY

ESTABLISHED 1907

MINNEAPOLIS, MINNESOTA

COLUMBIA HEIGHTS P. O.

JOHN B. HAWLEY, JR.
PRESIDENT GENERAL MANAGER

September 13, 1942

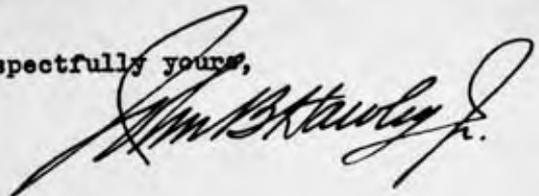
The President of the United States
The White House
Washington, D. C.

Mr. President:

My salary for many years has been a small percentage of the volume of business of the Northern Pump Company and for the year prior to Pearl Harbor was \$448,000.00.

Your recent recommendation that salaries should be limited to \$25,000.00 per year after taxes in the best interests of the war effort is reasonable. My salary for this year has been reduced to conform with your recommendation.

Respectfully yours,



JohnBHawleyJr
dh



E

September 16, 1942

Dear Harry:

I am enclosing herewith a detailed explanation of the national income. This is in answer to the question you asked me at dinner last week.

Sincerely yours,

(Signed) Henry

Honorable Harry Hopkins,

The White House.

via S. S. Agent

September 15, 1942

MEMORANDUM FOR THE SECRETARY

Government Expenditures and National Income

Federal expenditures in fiscal 1943 are expected to total approximately \$80 billion, including both budget expenditures and expenditures by Federal corporations. In addition, State and local governments are expected to spend about \$8 billion. Total government expenditures will be about \$88 billion.

Consumer goods and services available for purchase during fiscal 1943 are expected to total about \$69 billion. In addition, private industry is expected to purchase about \$11 billion of goods for replacement and for additions to plant and equipment. Total private expenditures will be about \$80 billion.

Combined government and private expenditures will therefore be about \$168 billion, although national income is expected to be \$120 billion.

This apparent discrepancy is explained by the fact that government and private expenditures include many items not included in national income. National income includes wages, salaries, interest, dividends, rents, and the like. Government and civilian expenditures include, in addition, such items as business taxes paid to Federal, State and local governments, charges to depreciation and depletion accounts, expenditures for the purchase of land and other capital goods.

For example, suppose that the Government pays \$1 million to a business concern for a shipment of goods. The business concern will use part of the million dollars to pay wages, salaries, interest, and dividends. This part will be included in the national income. In addition, it will use part of the million dollars to pay taxes to

- 2 -

the Federal, State and local governments, and to add to its depreciation reserves. This part of the million dollars will not be included in the national income.

Further, some government expenditures never enter into the income stream at all. For example, suppose the Government purchases land. No income has been created; one capital asset has simply been exchanged for another - land for money. Other expenditures in the same category are loans to business, relief and pension payments, and prepayments on Government contracts.

These items, totalling \$48 billion, make up the difference between government and civilian expenditures, on the one hand, and national income, on the other.

The attached sheet shows in tabular form the estimated figures for fiscal year 1943.

NFR:dad
9/15/42

Government expenditures and National incomeFiscal 1942Estimates
(Billions of dollars)

1. Consumer goods and services	69	
2. Private capital goods	<u>11</u>	
3. Total civilian expenditures		80
4. Federal expenditures		
5. War expenditures	71	
6. Non-war expenditures	<u>2</u>	
7. Total	80	
8. State and local government expenditures	<u>1</u>	
9. Total government expenditures		<u>81</u>
10. Total civilian and government expenditures		168
11. National income		<u>120</u>
12. Apparent discrepancy		48

Reconciliation of discrepancy

13. Government expenditures not constituting a drain on national income (loans to business, relief and pension payments, expenditures outside United States, purchases of land and other capital items, prepayments to government contractors)		8
14. Business taxes not included in national income (State, local, and Federal as provided in H.R. 7376)		24
15. Depreciation and depletion charges, other business reserves, etc.		<u>16</u>
Total		48

Treasury Department,
Division of Tax Research

September 14, 1942

Friedman:jvl
9/14/42

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM Randolph Paul

September 16, 1942

Attached hereto is a statement of the estimated revenue yield of the 1942 bill as of September 14, 1942. This statement is on the basis established in the Committee that all major policy decisions have been made by the Senate Finance Committee. You will note that the annual yield is now \$6,851.7 million, or \$560.4 million in excess of the House bill.

Mr. Gaston suggested that you may have questions at your Press Conference tomorrow on this subject.

REP

Estimated revenue yield of the Revenue Bill of 1942 (H.R. 7378) as revised by the Senate Finance Committee (September 14, 1942), compared with the yield of the present law and with the yield of the Revenue Bill of 1942 (H.R. 7378) as passed the House of Representatives (July 20, 1942)

(in millions of dollars)

	Increase or decrease (-) over yield of present law 1/		Increase or decrease (-)
	H. R. 7378 as passed House of Representatives	H. R. 7378 as revised by Senate Finance Committee 2/	Senate Finance Committee over House of Representatives 3/
Income and excess profits taxes:			
Corporations:			
Income	383.4	72.8	- 310.6
Excess profits tax	2,315.8	2,106.6	- 209.2
Declared value excess profits tax	- 58.5	- 107.5	- 49.0
Total corporation (gross)	2,640.7	2,071.9	- 568.8
less post-war credit	--	- 570.4	- 570.4
Total corporation (net)	2,640.7	1,501.5	- 1,139.2
Individual:			
Income	2,872.3	3,143.0	270.7
Victory tax (gross)	--	3,107.0 3/	3,107.0
less post-war credit	--	- 1,169.0 3/	- 1,169.0
Victory tax (net)	--	1,938.0 3/	1,938.0
Total individual	2,872.3	5,081.0	2,208.7
Total income and excess profits taxes	5,513.0	6,582.5	1,069.5
Miscellaneous internal revenues:			
Capital stock tax	- 51.5	- 290.0	- 238.5
Estate tax	5.3	20.1	14.8
Gift tax	7.7	7.7	--
Total	- 38.5	- 262.2	- 223.7
Liquor taxes:			
Distilled spirits	266.1	246.4	- 19.7
Fermented malt liquors	61.8	61.8	--
Wines	11.6	11.6	--
Special taxes in connection with liquor occupations	--	1.5	1.5
Total liquor taxes 4/	339.5	321.3	- 18.2
Tobacco taxes:			
Cigarettes	51.4	51.4	--
Tobacco (smoking)	11.8	--	- 11.8
Cigars, large	15.8	9.9	- 5.9
Cigarette papers and tubes	7.8	--	- 7.8
Total tobacco taxes 5/	86.8	61.3	- 25.5
Manufacturers' excise taxes:			
lubricating oil	13.9	13.9	--
Photographic apparatus	7.6	2.8	- 4.8
Rubber articles	- 8.9	- 8.9	--
Electric signs	- .1	- .1	--
Washing machines	- .1	- .1	--
Optical equipment	- .3	- .3	--
Total manufacturers' excise taxes	12.1	7.3	- 4.8
Miscellaneous taxes:			
Telephone, telegraph, radio and cable facilities, leased wires, etc.	26.8	25.8	- 1.0
Telephone bill	36.8	36.8	--
Transportation of persons	33.9	70.6	36.7
Coin-operated amusement and gaming devices	4.4	8.3	3.9
Transportation of property	252.9	--	- 252.9
Pari-mutual wagers	23.6	--	- 23.6
Total miscellaneous taxes	378.4	141.5	- 236.9
Total miscellaneous internal revenue	778.3	269.2	- 509.1
Total revenue yield	6,291.3	6,851.7	560.4

September 15, 1942.

Treasury Department, Division of Research and Statistics.

- 1/ Estimates of the yield of income and excess profits taxes and the gift tax are at levels of income estimated for calendar year 1942. All other estimates are at levels of income estimated for fiscal year 1943.
- 2/ Estimates of Senate Finance Committee revisions are preliminary and tentative pending the drafting of the revised bill.
- 3/ Estimates of yield of the Victory tax assumes that spouses with separate sources of income would each have an exemption of \$624 and a post-war credit of 40 percent of the Victory tax if separate returns are filed.
- 4/ Excluding non-recurring collections of floor stocks taxes: House of Representatives, \$94.3 millions; Senate Finance Committee, \$94.3 millions.
- 5/ Excluding non-recurring collections of floor stocks taxes: House of Representatives, \$8.8 millions; Senate Finance Committee, \$6.8 millions.

Secretary Morgenthau
Randolph Paul

September 16, 1942

Attached hereto is a statement of the estimated revenue yield of the 1942 bill as of September 14, 1942. This statement is on the basis established in the Committee that all major policy decisions have been made by the Senate Finance Committee. You will note that the annual yield is now \$6,851.7 million, or \$560.4 million in excess of the House bill.

Mr. Gaston suggested that you may have questions at your Press Conference tomorrow on this subject.

(Initialed) R.E.P.

Copy to Mr. Gaston

REP:mv

September 16, 1942.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

I made a rough draft yesterday of a proposed letter to Senator George which noted the fact that the Committee had reached final decisions as to all major policy points and went on to say that the bill as it stands is unsatisfactory from two points of view: (1) It does not raise enough revenue; (2) it does not contain any provisions which would have the effect of restricting expenditures. The draft ended with a suggestion to George that the Committee, even at this late date, ought to reconsider the decisions it has made and amend the bill so as to remedy these defects.

I have discussed the matter with Randolph Paul and we have come to the conclusion that while such a letter might help to stir up the right kind of public sentiment, it would create a bad situation in our relations with Congress and could not be effective except with strong backing by the President.

Paul made available to the press today estimates of the yields of the bill as it stands, of which you have received a copy. The estimates show yields, based on the decisions the Senate Finance Committee has made, of approximately 6 billion, eight hundred fifty-two millions on an annual basis, which is 560.4 millions above the House bill but almost two billion short of your final recommendations to the House Committee.

It is quite probable that if you hold a press conference tomorrow morning some of the newspaper men will ask you what you think about the decisions of the Committee and the bill as it now stands. It seems to me entirely

- 2 -

proper for you to reply by simple adherence to your position as repeatedly stated in Committee. I am attaching a memorandum of a possible form that your reply might take.



The answer to your question is simply to say that my position has not changed. Naturally I am disappointed by the decisions of the Committee. I think the bill as it now stands, in the light of the Committee's decisions, is inadequate in two respects: First, it does not yield enough revenue, and second, it does not contain any special provisions for restriction of consumer expenditures.

I am disappointed also that the bill fails to correct loopholes and inequities in existing law that we have repeatedly pointed out. I intend to continue to press for legislation to remedy these defects.

now	about 17 billion
proposed	<u>6.8</u>
	23.
cost	24
revenue	30.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM Randolph Paul

September 16, 1942

For your information, I attach hereto a copy of the amendment to H. R. 7378 providing for the appointment of a committee to study methods of financing the war.

The words in brackets were the language of the original resolution. Outside of the brackets the resolution reads as finally adopted.

ASP

AMENDMENT TO H. R. 7378

Insert at the proper place in the bill the following:

Sec. ___ (a) There is hereby established a committee to study methods of financing the war, to be composed of (1) five members of the Senate Committee on Finance, to be appointed by the President of the Senate; (2) five members of the House Committee on Ways and Means to be appointed by the Speaker of the House of Representatives; and (3) the Secretary of the Treasury. A vacancy in the committee shall not affect the power of the remaining members to execute the functions of the committee, and shall be filled in the same manner as the original selection. A majority of the committee shall constitute a quorum, and the powers conferred upon them by this section may be exercised by a majority vote.

(b) It shall be the duty of the committee to make a full and complete study and investigation of all plans for compulsory savings, and other plans, excepting taxation by which money may be raised to assist in the conduct of the war and the avoidance of inflation. The committee shall report to the President and to the Congress the results of its study, together with its recommendations, on or before January 11, 1943 ~~December 1, 1942~~.

(c) The committee, or any duly authorized subcommittee thereof, is authorized to hold such hearings, to sit and act at such times and places, to employ such experts and such clerical and other assistants, to require by subpoena or otherwise the attendance of such witnesses and the production of such books, papers, and documents, to administer such oaths, to take such testimony, and to make such expenditures, as it deems advisable. The provisions of sections 102 and 104, inclusive, of the Revised Statutes shall apply in case of any failure of any witness to comply with any subpoena, or to testify when summoned under the authority of this section.

(d) The committee is authorized to utilize the services, information, facilities, and personnel of the departments and agencies of the Government.

(e) There is hereby authorized to be appropriated, the sum of \$10,000, or so much thereof as may be necessary, to carry out the provisions of this section.

(f) All authority conferred by this section shall terminate upon the submission of the committee's final report.

September 16, 1942

Dear Bob:

Thank you for your letter
of September 14th with the enclosure,
which I read with great interest.

Sincerely yours,

(Signed) Henry

Honorable Robert P. Patterson,
Under Secretary of War,
War Department,
Washington, D.C.

Photostats sent to Mr. Bell and Mr.
White on 9/16/42

102

Howe

WAR DEPARTMENT
OFFICE OF THE UNDER SECRETARY
WASHINGTON, D. C.

September 14, 1942.

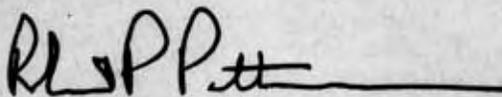
Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D. C.

Dear Henry:

The subject of military government was discussed at the meeting in your office about two weeks ago.

I am sending you with this letter an outline of the War Department program for military government. A great deal of work is being done along this line.

Sincerely yours,



Robert P. Patterson
Under Secretary of War.

RPP:er

Enclosure
Synopsis of WD Program
for Mil. Government.

RECEIVED
SEP 15 1942
WAR DEPARTMENT
WASHINGTON, D. C.

September 14, 1942.

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

Dear Henry:

The subject of military government was discussed at the meeting in your office about two weeks ago.

I am sending you with this letter an outline of the War Department program for military government. A great deal of work is being done along this line.

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Robert P. Patterson
Under Secretary of War.

RPP:er

Enclosure
Synopsis of WD Program
for Mil. Government.

WAR DEPARTMENT
SERVICES OF SUPPLY
OFFICE OF THE PROVOST MARSHAL GENERAL
WASHINGTON

Synopsis of War Department Program for Military Government

Any occupation of hostile or Axis-held territory may be divided into two phases: (a) a period of military necessity and (b) an ensuing period when military necessity will no longer exist. During the first phase, it is the obligation of the armed forces to establish and maintain military government; during the second phase, civilian authority of some type will probably assume the mission then to be surrendered by the Army. Until the second phase has begun, however, it devolves upon the Army to administer the government of any occupied area.

In recognition of these basic principles, the War Department is now pursuing a program designed to accomplish two objectives: (1) the procurement and training of an adequate personnel to fulfill its mission of military government and (2) the development of a technique which will effect the transition from military to civilian control with a minimum impairment of efficiency.

The procurement and training program is designed to produce, with the necessary rapidity, the following categories of personnel for military government: (a) top administrative commissioned personnel, (b) junior commissioned personnel, (c) occupational (or military government) military police, and (d) technical and advisory personnel. Category (a) is now being produced at the School of Military Government at Charlottesville, Virginia, which graduated its first class on August 29, 1942, and which began its second four-month's course on September 9. Categories (b) and (c) will be produced at two new schools to be opened at the Provost Marshal General's School Center at Fort Oglethorpe, Georgia, about November 1, 1942. Category (d) will be developed in the manner presently to be indicated.

This last-mentioned group of technical and advisory personnel is to be selected from highly trained civilians. Since there will be no immediate need for their services, it would be inadvisable to withdraw them from their present non-military pursuits at this time. However, it is necessary to compile a roster of these specialists, select those best-qualified, and make arrangements to have them available for call. Only a minimum amount of training in the special field of military government will be necessary for them as they will be already highly trained in their respective fields for the specialized functions which they will later perform. On them will fall the burden of performing the important duties hereafter referred to.

Many complicated technical problems will inevitably arise in any occupation. Among these will undoubtedly be fiscal matters of far-reaching economic importance. Control of local banking establishments must be undertaken. Disentanglement of monetary systems from Axis-imposed regulations must be accomplished and American occupational currency and rates of exchange established.



The economic problems that will arise will be of doubly difficult solution because of the prior Axis occupation and total disarrangement incident thereto. Industries must be surveyed to determine those to be continued in operation or re-established. Raw materials, operating personnel, and funds must be allocated to obtain maximum efficiency of production.

Administrative problems arising from the care and feeding of liberated peoples will require special techniques, tact, and skilled administration. Public health and sanitation will present other problems requiring specialized knowledge. The broad field of public utilities will demand trained technical administrators.

These problems, but a few of those that may be anticipated, prove the immediate need, at the beginning of an occupation, for skilled technicians and advisors in all fields of public endeavor.

The Army's mission of military government is primarily an administrative one. Many underlying policies will be determined by agencies other than the War Department or the Army. Thus, the political policy of an occupation will be determined by the State Department; the economic policy by the State Department or the Board of Economic Warfare, or both; the fiscal policy by the Treasury Department and the Federal Reserve Board, and so forth. These general policies will be administered in great part by the technicians referred to above who will, however, during the period of military government, be under military control and direction. But since the functions to be performed by them will be largely the administration of those policies formulated by agencies other than the War Department, it is planned to recruit them from nominations supplied by the various agencies concerned, since such agencies are in a position to discover the best-qualified individuals for the tasks in which they have a peculiar interest.

In the light of the foregoing, the following immediate cooperative activities between the War Department and other agencies of the government are indicated:

a. The furnishing to the War Department of lists of persons qualified for missions in military government in ~~the~~ special field with which any agency is concerned. From such lists, the technical and advisory group referred to above will be principally recruited. The War Department has already requested such lists from certain agencies; a general request will be made shortly.

b. The study, by certain agencies, at the request of the War Department, of various special and technical problems arising in military government. The War Department has heretofore suggested to the State Department and the Board of Economic Warfare certain studies in the fields of international law and economics. A need for research in other fields exists, and studies concerning them are to be requested.

c. For the past five months, several departments and agencies have been cooperating with the School of Military Government in furnishing it with materials and lecturers in connection with its instructional work. These activities are continuing.

September 16, 1942

CONFIDENTIAL

Dear Bob:

I have your letter of September 15, 1942, (WD 123 (9-14-42)MS), advising that information has been received indicating the need for an additional \$20,000,000 of the class of currency referred to in your letter of August 31, 1942, and requesting that it be engraved.

I am glad to advise you that we have anticipated your needs, and \$20,000,000 of this currency was engraved last Thursday and Friday and has been available since Monday of this week for requisition by the War Department.

Sincerely yours,

(Signed) Henry

Honorable Robert P. Patterson,
Under Secretary of War,
War Department,
Washington, D. C.

Via Secret Service 9/16
at 3:05

DWB:NLE

Orig File ret'd to DWBell by Miss Chauncey

SECRET
WAR DEPARTMENT

WASHINGTON

WD 123 (9-14-42)MS

1942

The Honorable,

The Secretary of the Treasury.

Referring to letter of August 31, 1942, requesting the engraving of \$20,000,000 in special currency for use overseas, information has been received indicating the need for an additional \$20,000,000 of this class of currency, and it is requested that same be engraved.

The denominations of this special currency and the details as to its delivery to Army agencies will be arranged for separately with your office by the Chief of Finance of the Army.

Sincerely yours,



Robert P. Patterson,
Under Secretary of War.

SECRET

EMBASSY OF THE
UNION OF SOVIET SOCIALIST REPUBLICS
WASHINGTON, D.C.

September 16, 1942

My dear Mr. Secretary:

I have been informed that a shipment of 28 cases of gold shipped by the Government of the Union of Soviet Socialist Republics has arrived at Norfolk, Virginia. Please arrange with the Federal Reserve Bank of New York to have the gold transported uninsured and at our risk from Norfolk, Virginia, to the United States Assay Office in New York where it is to be deposited for the account of the Secretary of the Treasury of the United States by order of the Government of the Union of Soviet Socialist Republics. The gold contained in this shipment is to be applied against the amount sold under the agreement of January 3, 1942. Please request the Federal Reserve Bank of New York to communicate with the State Bank of the U.S.S.R., Moscow, relative to any expenses which it may incur in connection with the transportation of this gold.

The Honorable

The Secretary of the Treasury

Washington, D.C.

Sincerely yours,



BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 322

Information received up to 7 A.M., 16th September, 1942.

1. NAVAL

During the attacks on the Russian convoy 15 enemy aircraft were destroyed and many others damaged. 3 Hurricanes from one of H.M. auxiliary aircraft carriers were lost but her pilots claim 4 enemy aircraft destroyed, 3 probably destroyed and 13 damaged of the total.

15th. In the early morning our light forces severely damaged 2 small enemy vessels off the Hook of Holland. Naval aircraft sank an E-boat off LE TOUQUET and hit a ship of 500 tons off LE TREPORT.

On the 12th a 19,000 ton ship from MIDDLE EAST to U.K. with 700 service personnel was sunk by a U-boat 300 miles northeast of ASCENSION ISLAND. 2 ships are searching for survivors.

2. MILITARY

MADAGASCAR. Our columns advancing on TANANARIVE and southward from DIEGO SUAREZ met little active opposition.

RUSSIA. The position at STALINGRAD has deteriorated further. Russian resistance is holding the German southward advance at several points in the MOZDOK area.

3. AIR OPERATIONS

WESTERN FRONT. 14th/15th. WILHELMSHAVEN: 179 bombers including 111 heavy dropped 157 tons of H.E. and 266 tons of incendiaries including 1 8,000 lb and 61 4,000 lb bombs. Visibility was moderate with much ground haze and some cloud which made accurate identification of the objective difficult. Many scattered fires were reported over a large area with some concentration in the BAUHAFEN area. Several reports of an exceptionally large explosion in the town and a large oil fire in the docks. Much accurate light antiaircraft fire.

15th. 12 Bostons with fighter escort attacked the SOLGLIMT, Whale oil factory ship, at CHERBOURG. Many bursts were seen on and around the ship. 15th/16th. 72 aircraft were sent out - 47 sea mining and 25 against shipping off the Dutch Coast and at CHERBOURG. Out of 8 enemy aircraft which operated, one was probably destroyed and another damaged.

EGYPT. 13th/14th. A strong force of bombers successfully attacked TOBRUK. Other aircraft bombed BENGHAZI HARBOUR and landing grounds south of MATRUH. 8 bombers including 4 U.S. are missing. 14th. One ME 109 was destroyed.

RUSSIA. 13th/14th. Russian aircraft bombed BUCHAREST, KONIGSBERG, and PLOESTI. The Germans claim to have attacked Soviet reinforcements east of the VOLGA and also communications and aerodromes by day and night.

TREASURY DEPARTMENT

311

INTER OFFICE COMMUNICATION

DATE Sept. 16, 1942

TO Secretary Morgenthau
FROM Mr. Hoflich
Subject: "Voice of the Chief"

"Voice of the Chief" broadcasts are not reported daily by the Federal Communications Commission, but at irregular intervals. The failure to report daily is due to poor reception. None has been reported since August 31, 1942.

We discovered, however, by checking with the Federal Communications Commission, that "Voice of the Chief" broadcasts recorded by them on September 2 and 15 were not included in the reports received by us. Copies of these broadcasts are attached.

In the future I shall send to you copies of all "Voice of the Chief" broadcasts as soon as they are received. The F.C.C. has been requested to include in the daily reports sent to the Treasury all such broadcasts recorded by them.

The "Voice of the Chief" broadcasts (September 2, 1942):

"Today, I am going to read a report which Admiral Doenitz received from one of our young Commanders, Lieutenant of the Navy, George Stass, from North America, where he is a prisoner of war.

"This report is the story of the heroic last battle of a young crew of U-boat men and the closeness between the U-boat crew and their commander. This report was declared as dangerous to morale by Commune clique-representatives and propaganda manufacturers. It is intended to suppress it against the will and intentions of Doenitz, because these small jealous Commune dumbbells did not approve of the fact that a young commander, after swimming around in oil and hardly escaping death, regards it as his duty to openly give account to his Commander-in-Chief about the fate of his men.

"They approved even less of Doenitz's intention to publish the report of Schorsch (nickname for George) Stass, as a fortifying example of unbroken manliness to inspire and encourage our youth to volunteer for service in the U-boat arm.

"But what do these bloated, profane propagandists know about the capacity of our youth for enthusiasm? They thought something like this could possibly have a frightening effect.

"They proposed changes, cuts and distortions. They wanted to change the simple manly report of Schorsch Stass into an insipid, dull propaganda babble. They had hopes that that would be effective. Doenitz said: "No, all of it or nothing at all," and withdrew the report.

"The report follows here, as it was written by Schorsch Stass:

"My esteemed Admiral! I deeply regret that I am not in a position to report back to my Commander in the usual way. Cruel fate has wrenched the weapon out of my hands, a fate which was brought about by the catastrophic mistake of my still inexperienced first watch officer, Lieutenant Otto Schulz.

"I assume that you have received a list of the few survivors through the report of the Red Cross. It is very embittering to us to be prisoners of war, while our comrades at the front continue to do their heroic duty. But even though we have drawn an unhappy lot, we are still grateful that destiny has left us our miserable lives and more so since we had to fight hard for it in those oily, salty waters which, thank God, were at least very warm.

"Heaven had sent much misery and distress to us, but if one has no firm ground under one's feet there is nothing to do but swim.

"With only a few life preservers and some more which we found in the water, only very few of our comrades could stand 50 hours in a heavy sea. The ones who were left adrift drifted altogether 90 sea miles. That is the reason why they were found so late.

"After a few days in a hospital we became human beings again. We lost our boat through a severe navigation mistake by Schulz, for which he probably should not be blamed too severely because he travelled for the first time in difficult waters which were not familiar to him.

"On June first, at 20:15 o'clock we were pressed down to a depth of about 60 meters by an attack by depth charges. Unfortunately, Chief Mate Walluka suffered a severe bruising of his leg during the alarm diving and was put out of commission. Schulz, as the first watch officer, had to take over the navigation.

"In finding his bearings Schulz did not take into account the current (Stromversetzung), which is unusually strong in these waters, and ran the boat on a reef, which, according to our log, was 10 miles away from us. Schulz should have known that the log did not show the true location of the boat.

"In two minutes the control room and the tower were full of water and we were listing 20 degrees to starboard. Eighteen comrades were able to save themselves through the trap door. Fourteen of these died a hero's death in the oil covered waves in the next fifty hours. One of them could not swim. Two got out of their lifebelts to swim ashore, believing in their state of delirium to see land. The others died from exhaustion.

"Our entire nourishment in those fifty hours consisted of an oil-soaked lemon and a cocconut, which Schab opened by means of unspeakable efforts, with the help of the oxygen bottle from his pocket. Shortly after that, Schwab sank without a sound.

"A special word of appreciation is due my radio mate Baeumers, who lent a helping hand in every situation, with exemplary self-denial, and inspired the despairing ones with an ever new will to live. It was Baeumers, too, who saved me and three other comrades in a state of unconsciousness in a rubber boat which an American plane dropped for us on the third day.

"At this point, May I take the liberty of proposing the following decorations to be awarded.

"The Iron Cross, first class, for the Radio Mate Baeumers. The Iron Cross, second class, for the machine mate Werner Liebhold, the mechanic Corporal Guenther Vollrat and the sailor

Alvin Jungnichel.

"They all fought excellently, as I can, moreover, report with pride about all my comrades, that they knew how to fight and to look death in the face.

"Even though they knew that the tragic mistake of their Eins W O. (Eins Wachoffizier, or First Watch Officer) could have been prevented, yet they showed by their behavior that they are inspired by the spirit which keeps on fighting even when the battle seems lost.

"With German greetings,

"Respectfully,

"Georg Stass,
1st Lt., at Sea".

"Those are words which a man has written", continues the Chief. "Words which stand so towering high about the filthy sentiments of the propaganda Pharisees, that their miserable thoughts sound like a desecration.

"A propaganda dog like Berndt has the brass to say that this description of a heroic battle to the death is defeatist, and might give the other crews a defeatist attitude.

"He dared to object to the publication, if all indications of the navigation mistake of the first watch officer and the results of his inexperience were not eliminated from the report.

"This fagged-out soul of a bureaucrat, Berndt, holds it necessary to falsify with his shit-methods such a document of proud heroism because he cannot grasp that the report as it is in its unassuming genuineness is a hundred times more effective than all the propaganda which he could ever suck out of his pen.

"Because he is afraid that young German men would be frightened away from the service on U-boats when they learn from the report that aside from heroic deeds, sometimes also mistakes are made, and that these mistakes might be traced to the fact that the new comrades cannot be trained as thoroughly and as long as the old ones.

"Of course that happens. Of course the men today are not trained as they were before the war, but that does not frighten German youth by a long shot. If they were as lousy as the louse Berndt thinks they are, then they could give up anyway.

"The B.D.U. (Crews of German U-boats) needs young, fresh, able and unspoiled officers and men who do not try to be on the safe side, but who attack the enemy courageously, under good conditions and under bad conditions.

"Boys who brave death and who do not ask where it comes from. Boys who are able to materialize that spirit which speaks from the report of Schorsch Stass and his crew.

"But that, the shitpot Berndt and his propaganda spies will never understand, and that is the reason why I have read the report of Schorsch Stass, in order that those will hear it who should hear it, uncensored, unchanged and not falsified.

"Hear Gustav Siegfried Eins.

"The Chief has spoken.

"We return every hour till five o'clock in the morning, always seven minutes before the hour."

(Federal Communications Commission, September 2, 1942)

VOICE OF THE CHIEF

The clandestine transmitter, "Voice of the Chief" broadcasts on September 15, 1942:

"That in spite of superhuman efforts and heavy losses we have come to a complete stop in the desert need surprise no one who knows the filthy conditions under which the comrades have to fight in North Africa.

"Yes, if we had to fight only against the English, New Zealanders and Australians, Indians and other negroes - but they fight not only the Tommy, not only sand, thirst and desert. They must fight at the same time the base treachery, the slovenliness and cowardice of their Italian allies, and they must fight the deception of the community profiteers, who do their filthy business on the ruins of the Italian supply catastrophe, and with all this the comrades are supposed to be victorious, to storm forward and not relax.

"The Italians were unable to bring over anything. They send a convoy with the greatest difficulty, then only a third of it gets through, because the 10 ships are protected by just one miserable destroyer. Their air force doesn't afford any protection at all, and of us they demand that we withdraw our Ju-88's and our Heinkel-111's from the front, in order to fly filthy convoy protection for them.

"And then when some macaroni transport does drip through to Bengazi or Derna, or to Tobruk, it isn't meant for us, no, then it's for the Italian gentlemen. There's selami in it, and Chianti, or, at best, adulterated Dago fuel with which no one can drive or fly. They mix up everything together, the pigs. And then our fliers wonder when they can't get their machines up with the gravy, and crash at the first take-off.

"But it's not enough that these macaroni defecators leave us sitting in the desert without supplies, with inferior fuel and inadequate transport facilities. Now the community profiteers also come and squeeze out their profit in the bargain, from the collapse of our supply.

"North Africa is now swarming with these so-called War Administration Councilors, Party inspectors and special leaders, who would like to sell the shirts off the behinds of the fighting soldiers, if it made them richer.

"They feel a magic attraction in the Italian bad luck; they flock together for commissions and, armed with army orders, they journey to Tunis, Algiers and Morocco to do their buying.

"What they buy up is stuff and filth, and what they earn on it stinks to the tropical heavens. But they can make their profit in peace. Rommel needs every old tub, every worn-out tire and every liter of gasoline he can get for his campaign, the Italians weakened him so.

"For example, there is a certain Colonel Boese running around now in French Africa with a comet's tail of 40 special leaders who buy motor trucks. This Boese is no novice in the business. Last year already he was on the notorious Daktona (?) Purchasing Commission, which the profiteer Major Dankharst manipulated. With the rusty and painted-over French L.K.W.'s (Lastkraftwagen, or motor trucks), the transport had already collapsed at that time, and now Boese has again sent 4,000 of these terrible filthy pieces of junk.

"Boese has the Jewish and Arab auto thieves and garage owners buy up all the discarded Chevrolets and Berliots and Fords of Algeria, and officially pays the highest army prices for them. As a matter of fact, he gets the whole kaboodle for a filthy nothing, and the difference between the real purchase price and the price he estimates for the army, he shares with his Jewish buyers and special leaders.

"Herr Dr. Theodor Auer, our so-called Consul General in Casablanca also has his sexy fingers in the business, of course, in so far as he hasn't them in the behind of some lascivious Berber boy.

"And these are the purveyors for our people's army, the Auers and Boeses and their community profiteers in army uniform, like Herr Major Dr. Hippel or Herr Capt. Rittmeister.

"And with the stuff that they filthy fellows shunt to the front, our drivers must negotiate hundreds and hundreds of kilometers of desert road daily, in order to supply the troops up front, from Derna to Bengazi and back to Derna, and forward to Tobruk and Mersa-Matruh, and again back to Derna.

"70,000, 140,000, 150,000 kilometers, the filthy junk has already travelled. Batteries are mended with wire, the springs are rusty, the bearings worn out, the carburetors and spark-plugs worn down, etc.

"And the driver must repair everything himself, since the repair stations are always overburdened. On the way they must even take on additional wreckage, and after ten minutes there they are in trouble themselves.

- 3 -

"The Vlonka (?) road to Derna is one long auto graveyard. And up ahead, at the front, they lie and wait, and nothing comes through, no fuel for the LKW's, no fuel for the flier protection, not even enough water for washing.

"The men get lousy and catch typhus. 315 cases of typhus are already lying in isolation barracks, and every week there are a couple of dozen new ones. If it goes on like this, we can one day shut up shop in Egypt.

"And it would be better if we packed up today rather than tomorrow, it would be better if we packed up Rommel's whole tank army, and over to the Eastern front with it, where every man and every tank is needed these days.

"The war will be decided in the East, and not in filthy Egypt, where we Germans have lost nothing, where our comrades hunger, thirst and become infected, because those filthy Italian arses, in gratitude for their armed help are cowardly, base traitors to them.

"This is Gustav Siegfried Eins.

"The Chief spoke.

"We come again every hour until five o'clock in the morning, always at 7 minutes before the hour.

(Federal Communications Commission, September 15, 1942)

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Sept. 16, 1942

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

Russian Convoy Losses

On Sunday, September 13, a convoy en route to Russia was attacked by Nazi submarines and torpedo bombers. Twelve ships were sunk.

(U.K. Operations Report, September 14, 1942;
Military Intelligence Service, September 16, 1942)

Loss of Yorktown

The United States Navy has announced the sinking of the aircraft carrier "Yorktown" in the Battle of Midway on June 7, 1942. The "Yorktown" was five years old and carried 85 planes. This is the second United States aircraft carrier reported lost. The "Lexington" was lost in the Coral Sea battle.

9-16-42

INTELLIGENCE REPORT

REACTIONS TO THE RUSSIAN WINTER CAMPAIGN

CONFIDENTIAL

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OFFICE OF
WAR INFORMATION
BUREAU OF
INTELLIGENCE

COPY No. 7
Henry Morgenthau, Jr.

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THE REPORT IN BRIEF

German successes in South Russia this summer have demonstrated that the Russian winter offensive was reported to the American people in terms of exaggerated optimism.

Wishful thinking inclined Americans to overrate the significance of Red Army successes. But it is clear now that this tendency fostered and supported extravagant hopes. Headlines screamed of Russian victories: "Germans smashed" . . . "Russians drive on" . . . "Nazi stand crushed." News commentators, editorial writers and government spokesmen, though they gave a somewhat more realistic view of the situation than did the headlines, also exaggerated the scope and success of the Red Army's winter campaign. Only an unheeded minority tried to present the offensive in its proper perspective.

This distorted reporting and interpretation promoted some relaxation of effort -- results which exactly suited Hitler's purposes. They left the public unprepared for subsequent events, and thus paved the way for an unhealthy swing from optimism to pessimism in July.

To some extent they impaired confidence in the accuracy of all the war news released, not only in Russia but in the United States and its other allies as well. Had not many Americans been unaware of the key role of Russia in the war and had not the nation's attention been focused on sobering reverses in the Pacific, even more harm might have been done.

The danger points to the need for using a two-fold informational approach to prevent the public from getting an unbalanced conception of the progress of the war. In addition to safeguarding the accuracy of official news, it is necessary to give analysts and editorial commentators effective guidance in the interpretation of important developments.

"Those who indulge themselves in false optimism, those who believe that the peoples who are fighting with us for our common cause should relieve us of our due share of sacrifice, those who are reluctant to give their all in this struggle for the survival on the earth of what is fine and decent, must be regarded as enemies of the American people." --- Sumner Welles, address at the Arlington National Amphitheatre, Memorial Day, 1942.

REACTIONS TO THE RUSSIAN WINTER CAMPAIGN

German gains in the battle for southern Russia have compelled Americans to revise their appraisal of the military situation on the Eastern front. It is clear now that the published reports of the Russian winter offensive, in newspapers and other media, fostered extravagant, unjustifiable hopes and gave a misleading impression of the relative strength of the Red Army and the Reichswehr.

The damaging effect such inadequate reporting can have on war morale has perhaps not yet received sufficient attention. The concept of total war calls for recognition of the close interrelationship of psychological, military and economic activities. An over-optimistic interpretation of a military campaign may breed complacency; and that complacency in turn may make a nation half-hearted in the prosecution of the war, inclined to postpone important decisions and to balk at sacrifices.

Inaccurate reporting is the foe of another component of sound morale, a reasonable stability of opinion. In a global war, in which the strength of 29 nations is pitted against strong enemies who have been preparing for the struggle for years, it is clear that the total balance of forces cannot

shift significantly in a day, a week or a month. But poor reporting, both because of its immediate impact and because it leaves us unprepared for subsequent events, encourages a violent fluctuation of opinion from fatuous optimism to extreme and unreasoning despair. The steady, resolute prosecution of the war is impeded, at times by complacency, at times by defeatism.

A third disadvantage of reporting which breeds unjustified hopes is that it may undermine confidence in all of the war news released by a particular nation, and even impair confidence in the reports of its allies. A recent Bureau of Intelligence study indicates that confidence in United Nations reports has, in fact, been somewhat impaired in recent months because they have so frequently had to give belated confirmation to Axis claims and because of the belief, justified or not, that bad news is often screened out of American releases. The reputation for reliability earned by German military communique has won a wider acceptance for all news from Axis sources from a public insufficiently familiar with the Goebbels technique of mixing truth and falsehood.

TREATMENT OF THE RUSSIAN OFFENSIVE

The treatment of the Russian winter offensive provides an instructive case history of the ease with which war news can be distorted and morale impaired, in the absence of positive efforts on the part of the Government to eliminate distortion and to counter the propaganda strategy of the enemy.

Even before the termination of the Germans' 1941 offensive on December 7, both newspaper accounts and official statements encouraged an inaccurate appraisal of what was occurring in Russia. On July 2, Stalin announced:

"The enemy's best divisions and the best units of his air force have already been crushed." On September 9, Churchill proclaimed: "Already in three months Hitler has lost more German blood than was shed in any single year of the last war." Churchill may have been referring to German losses in the first World War on the Eastern front alone, but he did not in any way qualify his statement. The fact is that Germany's total casualties in 1916 were more than three and one-quarter million.

Subsequent statements by Churchill, Stalin and others minimized Russian reverses and overemphasized the cost the Germans were forced to pay, in terms of casualties, for the vast and valuable stretches of territory they over-ran. But the success of the German offensive was perhaps itself an adequate antidote for the over-optimistic official statements which appeared prior to the onset of winter.

With the launching of the Russian winter offensive, a sharp gap materialized between the reports of military developments and the actual state of affairs. During its winter campaign the Red Army reoccupied or recaptured a certain amount of territory and forced the Germans to utilize a number of divisions they would have preferred to send to the zone of the interior to rest and refurbish. In turning upon an enemy which had been pressing it backward for months, it exhibited recuperative power and courage which were an inspiration to the enemies of Hitler throughout the world.

But its offensive engaged only a fraction of the German forces; took almost no important strategic points they seriously tried to defend; may have been as costly to the Russians as to the Germans; and, as subsequent events proved, neither routed the German army nor reduced its strength to the point where it could no longer recapture the initiative.

News stories, editorials, the comment of columnists, and official statements all gave a false impression of the magnitude, strategic importance and success of the Red Army offensive. A few individuals tried to present the campaign in its proper perspective but their voices were drowned out in the hubbub of optimistic interpretations.

A few headlines and leads will perhaps recall the flavor of news treatment of the offensive:

GERMANS SMASHED, 85,000 DIE,
VITAL POINTS RETAKEN IN
DEBACLE
BERNE, Dec. 13--
(New York Times)

By Daniel T. Brigham
BERNE, Dec. 26--"German forces
on the Russian front continue
their headlong retreat..."
(New York Times)

RUSSIANS DRIVE ON, CRUSH NAZI
STAND
BERNE, Jan. 23--
(New York Times)

SMOLENSK IN PERIL OF SOVIET
PINCERS, VICTORY NEWS IS
AWAITED
BERNE, Feb. 20--
(New York Times)

RED ARMY BATTERS KHARKOV DE-
FENSES, LATVIA ENTRY ALSO IS
INTIMATED
BERNE, Feb. 21--
(New York Times)

NEW RUSSIAN FEAT ROUTS A NAZI
ARMY
MOSCOW, Feb. 25--(AP)
(New York Times)

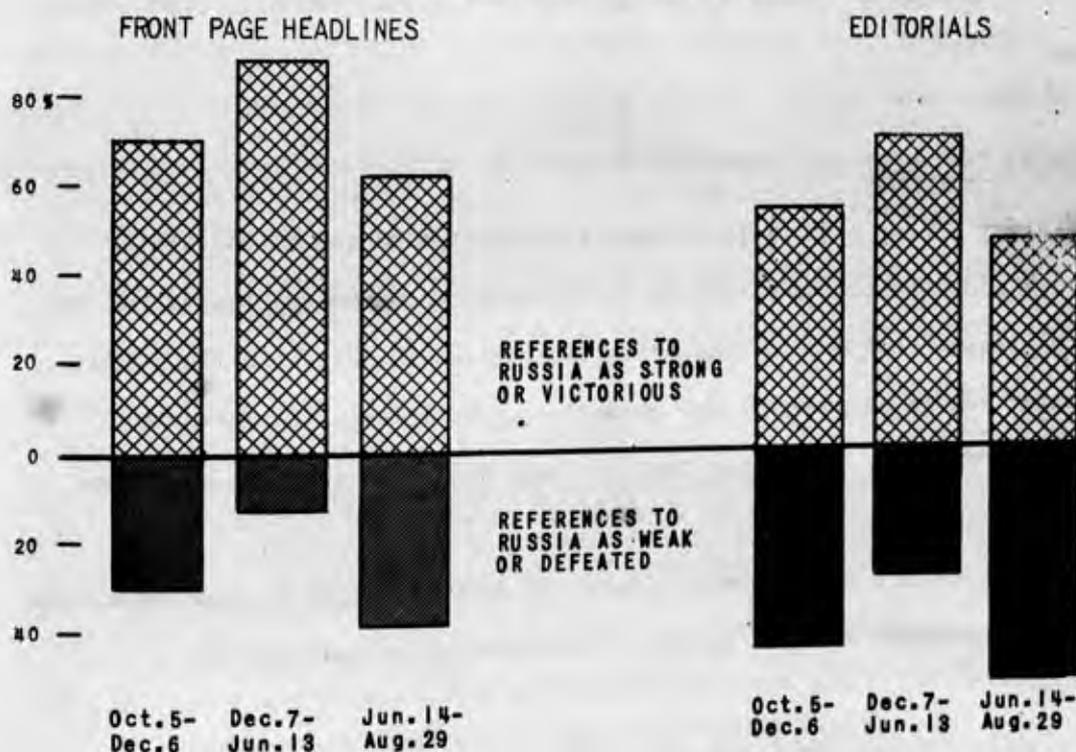
NAZIS FACE HIGH VYAZMA TRAP
BERNE, Feb. 26--
(New York Times)

REDS REPORT TRAP CLOSED. GER-
MAN GENERAL ADMITS SITUATION
"HOPELESS"
MOSCOW, Feb. 27--(AP)
(Baltimore Sun)

These quotations are representative, not exceptional. Even during the period of the Germans' 1941 offensive, newspapers had given a misleading impression of the strength of the Red Army. As generally happens in the treatment of war news, small successes were played up to counterbalance important reverses, so that the number of references to Russia as strong or victorious actually exceeded the number of references to her as weak or defeated.

TREATMENT OF RUSSIA'S STRENGTH

In the New York Times, October 1941 through August 1942



The chart above illustrates the ratio between references to Russian strength and references to Russian weakness in the New York Times for three periods since the Nazi invasion of the Soviet Union. No attention was paid

to the relative importance of the references; thus a front page headline reporting a minor Russian gain was given the same weight on the plus side as was given on the minus side to a front page headline reporting a major Russian disaster. Half of the chart shows this ratio as it appeared in front page headlines, while the other half illustrates the ratio in editorial treatment. During the winter campaign, it will be seen, the disproportion between the references to Russia as strong and the references to her as weak became overwhelming in news stories. Editorial treatment in the Times was somewhat more restrained. The most significant aspect of the chart is the sharp variation in the ratio between optimistic and pessimistic emphasis from period to period.

EDITORIAL TREATMENT

Many of the editorials on Russia during the period of the winter campaign sidestepped the matter of her strength or discussed the matter in neutral terms. But most of the editorials which did deal with the subject presented Russia as powerful and victorious. Relatively few editorials maintained with any insistence that the news from Russia had to be interpreted cautiously.

Most columnists also went all-out in describing the Russian offensive. The military commentator of the New York Sun wrote on December 23:

"Nazi casualties are mounting by the tens of thousands in the...disordered retreat... Unless the Germans can hold within the next twenty days...the present retreat will develop into one of the greatest debacles in history..."

Hanson Baldwin's January 7 column in New York Times was captioned: "Nazis hard pressed by Russians and history hints of new routs." An AP

commentator wrote, on January 14: "Germany's reverses on the Russian front have upset the whole Axis applecart, usually reliable informants reported from Europe today." Dorothy Thompson consistently exaggerated Russian successes. On April 15 she wrote: "Our strategic position is good... Germany is in a pincer... The Russians...hold a superiority in manpower as well as their badly underrated air power." Major Eliot described the Red Army's spring offensive against Kharkov as "a clear-cut victory for the Russians."

Official statements frequently struck the same note. To some extent they were probably influenced by a desire to puncture the myth of Nazi invincibility and to present Russia as a powerful ally which could be counted upon to continue the struggle against Hitler. But they were perhaps influenced to some extent by wishful thinking as well. In any case, they reinforced, instead of correcting, the misleading impression the media gave of Russian strength.

Some of the commentary which appeared during this period, it is true, was sophisticated and realistic. The New York Post's military expert, Fletcher Pratt, wrote on February 24:

"The strictly temporary and local significance of the positions...needs emphasis... There is no real front at all, only a series of fortified positions...all still in Nazi hands... along with the only reliable means of communication... the railroads."

On several other occasions, Pratt wrote along the same lines. On March 20 a UP reporter wrote from Moscow: "Reports that the German army on the eastern front is riddled by defeatism and a shattered morale are nonsense." And Secretary Knox stubbornly maintained (in a press conference, January 14): "I do not think there has been a rout of the Germans in Russia." But such comments were rare and received little notice. Most

interpretations of the winter campaign encouraged the dangerous belief that the Red Army was a match, or more than a match, for the Reichswehr.

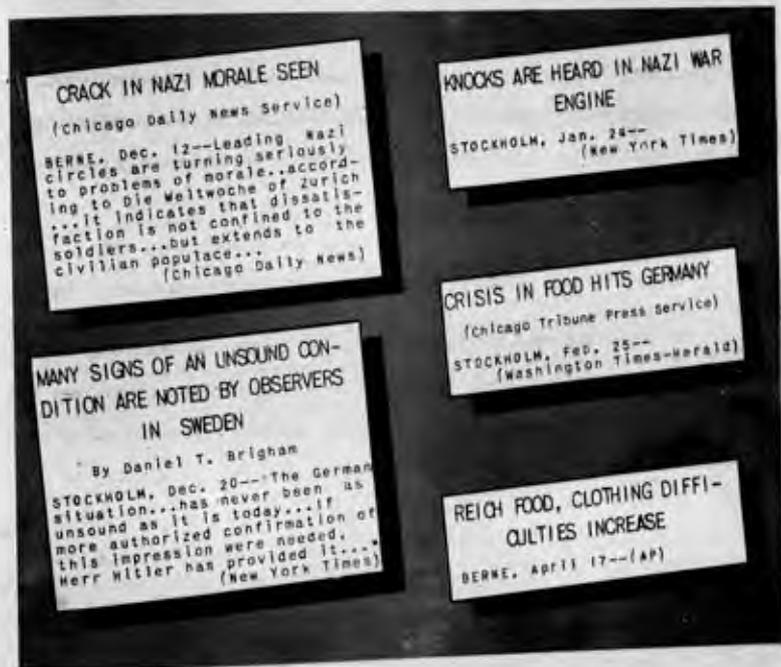
RESPONSIBILITY

Our own wishes were primarily responsible for our overestimation of Russia's winter military successes. Dupes of our own hopes, we unquestionably looked for evidence to bolster the belief that the tide had turned in Russia and that the Germans were being soundly thrashed. Inaccurate Russian military reporting encouraged us to form an overoptimistic estimate of the real situation.

Some students of psychological warfare believe that our false appraisal of the Russian situation was in part the intended result of German propaganda. Although the real difficulties the Germans faced may have dictated the tone of their winter statements, many straws indicate that they deliberately fostered a pessimistic appraisal of their situation on the Eastern front, just as they had earlier lulled the world into believing that the war on the Western front was a "phony." It is certain that they did not exert themselves to dispute Russian communiques, and that the speeches delivered by prominent Nazis during the winter months were consistently gloomy in tone. By putting a pessimistic interpretation on her situation in Russia, Germany could hope at once to stiffen home morale and to soften United Nations' resistance. She well knew that complacency might weaken the feeling that it was urgently necessary to aid our Russian allies and in general make us less resolute in the prosecution of the war.

Many of the stories which described the difficulties the Reichswehr faced in Russia and the deterioration of conditions within Germany emanated from centers where they might readily have been planted by the Germans

themselves, notably from Stockholm and Berne. Yet these stories were accepted as authentic by the most reputable American newspapers and usually run without cautionary statements or reservations. A few examples are given below:



Speeches by Nazi officials during the winter stalemate were consistently grim and pessimistic. Hitler himself declared, on January 30, "Germany is going through the worst winter since Napoleon." Again and again Goebbels insisted that Germany was fighting for its very existence. The Nazi leaders put continual stress on the necessity for making sacrifices and enduring

hardships.

Most American commentary, both by government spokesmen and publicists, encouraged the nation to accept these pessimistic accounts and speeches at their full face value. Sumner Welles called Hitler's speech of March 15 "an admission of defeat." In the same month A. A. Berle commented: "We now have information from sources inside Germany making it clear that the Germans themselves know that there can be but one end." Hitler's speech of April 26 was almost universally regarded as an indication that the German situation was desperate. The New York Herald Tribune summed up the general reaction:

"Washington viewed the speech as a striking indication that Der Fuehrer was losing his grip on the situation in the Third Reich... The general impression was that it justified the atmosphere of optimism that has been prevalent here..."

A few observers were not taken in. H. J. Taylor, who had been a correspondent in Berlin, warned that the Nazis had "dedicated themselves to making us think they will fall apart." Constantine Brown pointed out on more than one occasion that the Germans were deliberately attempting to create an optimistic climate of opinion in this country. And on January 14 Secretary Knox declared: "Nearly all the stories about the terrible situation in Germany originate in territory controlled by Germany... I have a hunch the Germans are putting out these stories to take the fine edge off our energy and singleness of purpose..."

Optimistic commentary, however, predominated. The consequences, whether the Nazis were primarily responsible for them or not, exactly suited their purposes.

REACTIONS

The amount of damage done by the distortion of the Russian winter campaign is not exactly measurable. At the very least, however, it helped to sustain an over-sanguine view of the progress of the war. There is evidence for this hypothesis in the fact that, once the Russian "victories" ended, there was a perceptible change in people's expectations about the length of the war. In June, before Germany began to score renewed successes on the Russian front, and while America's hopes were stimulated by the Coral Sea and Midway battles and the thousand plane raids on Germany, three-fifths of the people in one sample interviewed by the Bureau of Intelligence thought that the war would be over in two years or less. In July, after the fall of Tobruk and Sevastopol, and the rapid advance of the Germans through Southern Russia, only two-fifths of the sample held to this belief.

The overemphasis on Russia's winter successes could have hardly failed to affect the thinking of many of those who recognize the importance of her role in the struggle of the United Nations against the Axis. This includes a substantial proportion of the American public. As previous Bureau of Intelligence publications have reported, almost one-third of a group of people interviewed by the Bureau in July thought that America's prospects of victory would be reduced by the defeat of Russia. An even larger number, fully half of those interviewed, and more than two-thirds of those with an opinion on the question, felt that the war would be greatly prolonged in the event that Russia was knocked out.

It cannot be demonstrated that the inaccurate presentation of the Russian winter offensive induced widespread overoptimism and complacency. The damage which might have been done was reduced by two important factors:

1. Discouraging reverses in the Pacific area, upon which America's attention was riveted.
2. The failure of many people to appreciate the critical and central role of Russia in the war.

Pearl Harbor sobered and chastened the nation, and throughout the winter and spring there followed a devastating succession of defeats: the fall of Hong Kong, Manila, Singapore, Java and Bataan. While such disasters were being experienced, there was little danger of people becoming over-optimistic. The emphasis put on the Russian offensive may have averted discouragement and defeatism. On the other hand, Americans might have been more grim and determined than they were, if the Russian campaign had not been presented in such a manner as to raise their hopes unduly.

Many people, however, were immune to the distortion of the news from Russia simply because they were unaware of the crucial importance of Russia's role in the war. As pointed out above, one-third of the public felt that the complete defeat of Russia would change the outcome of the war. But it is equally necessary to observe that the remaining two-thirds did not think that it would. Similarly, it is significant that half of those interviewed either did not believe that the defeat of Russia would prolong the war or had no opinion about the matter. In July, Bureau of Intelligence interviewers expressed surprise at the infrequent references people made to the Russian reverses and at their apparent lack of effect on people's thinking. Fewer than one person in ten showed real anxiety over Russia's situation.

This failure to experience concern about Russian summer reverses may itself have stemmed in part from complacency generated by winter news. But in part the lack of appreciation of Russia's importance is a result of her geographical remoteness. Americans lack the information to follow the

progress of the war in such a distant portion of the world. They cannot appreciate the significance of the loss of a given area because they lack facts about its people and its resources. The fall of Russia's great cities does not have the emotional impact that marked the occupation of Paris and the bombing of London.

Hostility toward Russia, as well as ignorance, causes us to discount her as an ally. Despite admiration for her courageous resistance to Hitler, there is a widespread feeling -- a heritage perhaps of the way Russian developments have been presented to America ever since the Revolution -- that she cannot be trusted. Many people still feel that Russia may make a separate peace with Hitler. A majority feels that she cannot be trusted to cooperate with the United States after the war. This distrust makes it difficult for people to identify themselves with the struggle of the Russian people.

Such factors as these reduced the damage which might have been done by overoptimistic accounts of the Russian winter offensive, but it is certain that some damage was done. And it is important to recognize that, under another set of conditions, the impact of a distorted presentation of a military campaign might be aggravated rather than lessened by developments in other areas. The objective of informational policy must be the most accurate presentation of events which knowledge of them and security considerations permit.

PREVENTION

The distortion of the Russian winter offensive could probably have been prevented. There is reason to believe that American military authorities and Federal informational agencies appreciated the limited nature of

the Russian successes. U. S. Army news digests, through their selection of material, put a sober appraisal on the situation on the Eastern front. The War This Week, confidentially circulated within the Government by the Office of the Coordinator of Information (now the Office of Strategic Services) consistently minimized Russian gains. The February 5-12 issue maintained:

"After two weeks of 'victory by communique,' the Russians still appear to have breached no essential part of the German defensive system on the eastern front, and military advisers to the Swedish government believe that the Soviets have made no genuine advance in the past ten days. The key points in the Nazi system — Novgorod, Rzhev, Vyazma, Bryansk, Orel, and Kharkov — are still held by strong German forces."*

The analysis pointed out that Russian pressure had probably forced the Germans to utilize divisions they had intended to keep in reserve, but concluded that the process had not been "extensive enough to cause any real weakening of German offensive strength next spring."

A discussion in the April 2-9 issue amounted to an indirect protest at the treatment the Russian offensive was receiving in the American press:

"For approximately a month there have been no real changes on the Russian front. Competent American observers, who have consistently stressed the fact that the Soviet counter-offensive this winter succeeded in wresting no vital strong points from German control, now believe that there is little likelihood of any further Russian gains. Recent newspaper stories — such as the accounts of 'fierce fighting' in the Donets and Kalinin sectors — printed with banner headlines and then a day or two later quietly dropped without sequel or confirmation, seem to be frequently the joint product of journalistic bull-sessions, working on the flimsiest evidence.

"The initiative on the Russian front will apparently soon be in German hands. It seems unlikely that there will be further movement of any magnitude until the Nazis choose to launch a spring offensive."*

Federal informational agencies were alert to the possibility that Germany was deliberately attempting to maximize its reverses, the difficulties the Reichswehr faced in Russia, and troubles on the home front. Two confidential analyses submitted to the Office of Facts and Figures, for example, as well as one prepared within the organization, agreed that Hitler's speech of April 26 did not necessarily indicate that he felt threatened by disintegration of morale within Germany. One analysis, submitted by a staff member of the Office of the Coordinator of Information, is worth quoting at some length:

"Hitler knows and must know that such remarks as these will be interpreted abroad as evidence of weakening morale. It is not unreasonable to suppose that this effect was deliberately aimed at. So far as the home front is concerned, he wanted to broadcast to the widest possible audience that inefficiency and half hearted support of the war will no longer be tolerated... The speech is not evidence of cracking German morale. It aims at stiffening morale at home... It would make nonsense to say that it must have a demoralizing effect on Germans... If Hitler's mechanism for feeling public opinion tells him that a dose of terror will strengthen German morale, he will not hesitate.

"...the speech aims at exactly opposite effects at home and abroad..."

No real effort appears to have been made, however, to insure that these more realistic military and ideological analyses would govern the treatment of the Russian campaign in American media. Either our own military and informational authorities lacked complete confidence in them or there was no policy and mechanism at this early stage of the war effort for preventing misinterpretations of important war developments in newspapers and other media.

In any case, no effective steps were taken to protect the public from a distorted and misleading presentation of the Russian campaign.

* Quoted by permission

An informational policy which would have stubbornly resisted any deliberate falsification of the news, to induce either optimism or pessimism, was nevertheless guilty of the negative sin of permitting a dangerous and damaging misinterpretation of events to dominate public consciousness.

CONCLUSIONS

The treatment of the Russian winter offensive demonstrates that an informational policy founded upon the strategy of truth must be equally concerned with two objectives. As is widely recognized, it must strive for maximum accuracy in the presentation of news from American sources. But it is also important that it concern itself with the accurate interpretation of news originating in enemy, neutral and even allied countries.

Because wishful thinking is a constant danger, special efforts must be made to guard against overoptimistic interpretations. Exhortations against overoptimism, while they may occasionally be necessary and helpful, are not alone sufficient. In addition, it is necessary to see that there is not an unwarranted diffusion of optimistic news and that good news is not exaggerated or overemphasized.

In this instance, for example, more attention should have been given by those in charge of information policy to the trend of what was being said to the American people about the strength of Russia and Germany. The ratio of optimistic to pessimistic statements with regard to all key war issues deserves continuing attention. A ratio that is too high or too low, a sudden shift in emphasis, should suggest the need for caution. Imbalance in the headlines is a particular source of danger. The steady, resolute prosecution of the war is clearly endangered by presentations of the news

which violently fluctuate between extremes.

Continuing emphasis should be put on combatting Axis propaganda. Constant vigilance is, of course, necessary in the interpretation of news from abroad. There appear to be promising possibilities, too, in making Americans more aware of the principles and techniques of Axis propaganda, so that they can be on their guard against it.

Guidance to American media in interpreting specific events offers perhaps the most important means of safeguarding the public against overoptimism and the tricks of Axis propaganda. What appears to be most needed is background information which will help editors and commentators to see an event accurately and in its true perspective. Such information will facilitate the correct interpretation of events and reduce the likelihood of too much importance being attached to any one development. Off-the-record conferences, official appraisals of events by military spokesmen and civilian officials, and confidential newsletters to editors and commentators all present promising possibilities for putting an accurate interpretation upon events. There is good evidence that editors and commentators would welcome guidance of this sort.

SOURCES OF THE REPORT

This report is based on the following material:

- "The 'Battle of Russia' and American Opinion,"
and appendixes, Source Materials Division,
August 29, 1942
- "Reactions to Russian Reverses," Division of
Surveys, Special Report #18, August 5, 1942
- "Effect of a Russian Defeat on the Progress of
the War," Extensive Surveys Division,
Special Report #16, August 21, 1942
- "Trends in American Public Opinion Since Pearl
Harbor," Bureau of Intelligence Report,
September 11, 1942
- Weekly Media Report No. 32, Part III
- "American Reaction to News From Axis Sources,"
Special Services Division, Report #25

Certain of the above reports are available to
authorized individuals through the Bureau of Intelligence of
the Office of War Information.