

DIARY

Book 571

September 20 - 24, 1942

- A -

	Book	Page
Airplanes		
Aircraft despatched, week ending September 15, 1942 - British Air Commission report - 9/21/42.....	571	96
Shipment to British Forces - Hoflich memorandum - 9/24/42.....		286
Andrews, Adolphus (Commander Eastern Sea Frontier) See LEEDSTON, SS		

- B -

Barber, "Red"		
See Financing, Government: War Savings Bonds		
Business Conditions		
Haas memorandum on situation, week ending September 19, 1942 - 9/21/42.....		79

- C -

Canada		
See Lend-Lease		
China		
Economic Conditions - White memorandum - 9/24/42.....		278

- D -

Draeger Shipping Company		
See Foreign Funds Control		
Draft, Military		
Selective Service Men: Classification cards of 100 at Fort Dix, New Jersey, given to Treasury - 9/24/42..		274

- E -

Eliot, Tom		
Connection with Treasury discussed by 9:30 group - 9/22/42.....		108
Embassies		
See Revenue Revision		

- F -

Federal Reserve System		
Savings accounts control denied - 9/21/42.....		11

- 
- Diplomatic Pouches - immunity of  
    See State Department

- F - (Continued)

	Book	Page
Financing, Government		
War Savings Bonds:		
"Red" Barber (broadcasts baseball games over Radio Station WHN, New York City) has sold nearly \$½-million worth of bonds - 9/21/42.....	571	13,15
a) Possible meeting with HMJR discussed - 9/22/42.....		217
Pennies, Nickels, and Dimes: Investment in War Bonds to be urged over all radio stations - 9/22/42.....		207
Foreign Funds Control		
Separate status discussed in Thompson memorandum - 9/22/42.....		228
a) HMJR signs Order.....		230
Draeger Shipping Company: Conference; present: HMJR, Paul, Bernstein, Pehle, and Cox - 9/22/42.....		163
a) Paul memorandum - 9/22/42.....		178
b) Treasury letter to Alien Property Custodian - 9/22/42.....		181,182

- H -

High, Stanley  
See "Reader's Digest"

- I -

Inflation		
Price Legislation: Cairns, Paul, and Bernstein work on draft - 9/21/42.....		61

- K -

Kamarck, Andrew M. - Lieutenant  
See Military Reports

- L -

Law, Richard		
Thanks HMJR for interview - 9/24/42.....		281
Leib, Joseph		
Accusations against HMSr and HMJR discussed by 9:30 group - 9/22/42.....		99
Lend-Lease		
Report for week ending September 19, 1942 - 9/22/42..		231

\* LEEDSTON, SS

History by Adolphus Andrews, Commander Eastern Sea Frontier, 90 Church Street, New York City - 9/24/42.....		302-A
a) HMJR-Forrestal conversation - 9/25/42: See Book 572, page 23		
b) Forrestal report 9/26/42: Book 574, page 142-I		

- L - (Continued)

	Book	Page
Lend-Lease (Continued)		
Canada: Naval aircraft and vessels		
Currie-Treasury correspondence - 9/22/42.....	571	247
War Shipping Administration--Treasury correspondence - 9/22/42.....		249
United Kingdom: Final payment of fair and just compensation for airplanes, etc., requisitioned from United Kingdom on or about December 7, 1941 - War-White House-Treasury correspondence - 9/24/42....		283
a) Conference; present: HMJr, Sir Frederick Phillips, and White - 9/28/42: See Book 572, page 188		
1) Letter given Phillips: Book 572, page 189		

- M -

Military Draft		
See Draft, Military		
Military Reports		
British operations - 9/20/42, etc.....		8,261,299, 300,301
Kamarck (Lieutenant), Fort Sill, Oklahoma, pamphlet: "The Unknown British-American Victory" - 9/22/42...		262
"The War This Week, September 17-24, 1942" - Office of Strategic Services report.....		298

- O -

Oftedal, Alf		
Investigatory work on tax evasion cases (Schenck, etc.) and relations with Department of Justice discussed in Gaston memorandum - 9/22/42.....		226

- P -

Pegler, Westbrook		
Column answered by Treasury - 9/21/42.....		26
Pennies		
See Financing, Government: War Savings Bonds		

- R -

"Reader's Digest"		
Usurpation of power by executive branch of Government - possible article by Stanley High discussed in Cairns memorandum - 9/24/42.....		271

- R -

	Book	Page
Revenue Revision		
Embassies: White House--Treasury-State correspondence concerning taxing of - 9/21/42.....	571	45
a) Hull-HMJr conversation.....		201
1942 Bill: Chart showing comparative revenue from House, Senate, and Treasury proposals - 9/23/42.....		268

- S -

Selective Service Men		
See Draft, Military		
State Department		
Diplomatic Pouches - immunity of: Paul memorandum on conference in Acheson's office; present: representatives of Treasury, Censorship, and State - 9/23/42.....		269-A

- T -

Taxation		
See Revenue Revision		

- U -

United Kingdom		
See Lend-Lease		

- W -

War Savings Bonds		
See Financing, Government		

September 20, 1942

SECRET

MEMORANDUM

TO: James S. Knowlson  
 Milo Perkins  
 J. V. Ferrestal  
 E. E. Stettinius, Jr.  
 H. L. Vickery  
 R. P. Patterson

FROM: Hale T. Shanefield  
 Executive Secretary

Attached you will find the October 1st revision of the Statistical Reports for the Joint War Production Committee, as follows:

1. Contracts with War Supplies Limited by Months;
2. War Supplies Limited Contracts Classified by Type of Munitions Ordered;
5. Record of Deliveries: War Supplies Limited Contracts;
6. Canada's Munitions Production in September Compared with Forecast;
7. Changes between September 1 and October 1 in the Canadian Munitions Production Program.

cc:

Morgenthau  
 Currie  
 Harrison  
 Strauss  
 Taub

Coe  
 White  
 Nathan  
 Hall  
 Allen

\*

Secret

REPORT NO. 1  
(October 16, 1942)

Secret

CONTRACTS WITH WAR SUPPLIES LIMITED IN SEPTEMBER, 1942

<u>Item</u>	<u>Quantity Ordered</u>	<u>Value</u>
3.7" AA Shells, H.E., Q.F.	1,350,000	\$33,750,000.00
Airplanes, AT-16 (Harvard)	700	15,520,629.60
Propellers, 12D40	2,619	2,985,660.00
Stationary Oxygen Plants	18	1,173,186.00
Anhydrous Ammonia	15,000 Tons	1,050,000.00
RC-148 Radio Equipment	1,500	1,050,000.00
40 MM Cartridge Cases	1,000,000	1,020,000.00
Propeller Blades, 8930-3	4,000	840,000.00
Machine Tools	Various	801,000.00
40 MM Primer #12	1,000,000	380,000.00
Radio Sets, SCR-602	200	240,000.00
Cummins Diesel Generator Sets	41	231,643.85
Miscellaneous Items and Revisions		<u>10,885,818.37</u>
<u>Total September Contracts</u>		<u>\$69,927,937.82</u>

SUMMARY OF REPORT NO. 1 TO SEPTEMBER 30, 1942

1941: To June 30	\$28,005,168.55
July	31,508,048.67
August	82,792,761.99
September	16,752,199.25
October	57,993,118.96
November	6,429,056.99
December	<u>5,228,988.00</u>
<u>Total for 7 Months, June to December:</u>	<u>\$228,709,343.03</u>
1942: January	22,290,717.17
February	26,643,349.03
March	144,838,673.77
April	55,478,635.24
May	67,856,599.29
June	207,820,550.37
July	57,777,181.35
August	26,212,444.93
September	<u>69,927,937.82</u>
<u>Total for 9 Months, January to September:</u>	<u>\$678,846,088.97</u>
<u>GRAND TOTAL TO SEPTEMBER 30, 1942</u>	<u>\$907,555,432.00</u>

- Joint War Production Committee -

Secret

REPORT NO. 2  
(October 16, 1942)

Secret

WAR SUPPLIES LIMITED CONTRACTS DURING SEPTEMBER CLASSIFIED  
BY TYPE OF MUNITIONS ORDERED

(Summary)

<u>Subcommittees</u>	<u>Total to September 30, 1942</u>
Mechanization & Mechanical Transport	\$ 87,564,291.17
Tank	527,500.00
Gun	111,415,502.25
Shell	181,802,626.39
Small Arms & Small Arms Ammunition	37,933,447.00
Chemicals & Explosives	11,689,978.50
Merchant Shipbuilding	160,101,655.88
Naval Shipbuilding	20,085,000.00
Airplane	191,879,254.44
Communications & Fire Control	68,691,449.07
Unclassified	<u>35,864,727.03</u>
<u>GRAND TOTAL TO DATE:</u>	<u>\$907,529,481.73</u>

Items Ordered in September, 1942

<u>Item</u>	<u>Value</u>
MERCHANT SHIPBUILDING	} No Contracts in September
NAVAL SHIPBUILDING	
TANK	
SMALL ARMS & SMALL ARMS AMMUNITION	
<u>MECHANIZATION &amp; MECHANICAL TRANSPORT:</u>	
Sand Shields for Universal	
Carriers	61,200.00
Miscellaneous	<u>494.13</u>
	61,694.13
<u>Add Revaluation on Earlier Contracts</u>	<u>9,901,977.76</u>
	<u>9,963,671.89</u>
<u>GUN:</u>	
Tube Forgings for 40 MM Guns	<u>180,000.00</u>
	180,000.00
<u>Add Revaluation on Earlier Contracts:</u>	<u>16,805.29</u>
	<u>196,805.29</u>

Report No. 2, October 16, 1942: War Supplies Limited Contracts During  
September Classified by Type of Munitions Ordered --- Page 2

<u>Item</u>	<u>Value</u>
<u>SHELL:</u>	
3.7" AA H.E., Q.F.	33,750,000.00
40 MM Cartridge Cases	1,020,000.00
Primer #12 for 40 MM	380,000.00
Parts for Fuze #251	<u>3,118.59</u>
	<u>\$35,153,118.59</u>
<u>CHEMICALS AND EXPLOSIVES:</u>	
Anhydrous Ammonia	1,050,000.00
Nitric Acid and Oleum	<u>64,825.00</u>
	<u>1,114,825.00</u>
<u>AIRPLANE:</u>	
Harvard (AT-16) and Spares	15,520,629.60
Propeller 12D40	2,985,660.00
Propeller Blades	840,000.00
Miscellaneous	<u>201,087.00</u>
	<u>19,547,376.60</u>
<u>COMMUNICATIONS &amp; FIRE CONTROL:</u>	
Radio RC-148	1,050,000.00
Radio Set SCR-602	240,000.00
Miscellaneous	<u>68,124.42</u>
	<u>1,358,124.42</u>
<u>UNCLASSIFIED:</u>	
Stationary Oxygen Plants	1,173,186.00
Machine Tools, etc.	801,000.00
Cummins Diesel Generator Sets	231,643.85
Miscellaneous	<u>388,043.66</u>
	2,593,873.51
<u>Add Revaluations to Earlier Contracts:</u>	<u>142.52</u>
	<u>2,594,016.03</u>
<u>TOTAL CONTRACTS IN SEPTEMBER, 1942</u>	<u>\$69,927,937.82</u>

- Joint War Production Committee -

Secret

REPORT NO. 5  
(October 20, 1942)

Secret

RECORD OF DELIVERIES DURING SEPTEMBER: WAR SUPPLIES LIMITED CONTRACTS

The value of deliveries on War Supplies Limited contracts for the month of September 1942 is approximately \$29.3 million. This compares with a figure of roughly \$29.0 million in August 1942.

Delivery of Selected Canadian Munitions Items to U.S. During September, 1942

Selected Item	Deliveries In September	Cumulative Deliveries to U. S. September 30	Total Orders	Percent of Order Delivered to September 30
Universal Carrier	612	3,404	12,854	26.5%
40 MM Anti-Aircraft Barrels	400	4,712	18,798	25.1%
40 MM H. E. Shells	116,108	1,293,733	3,000,000	43.1%
6-Pdr. A. A. P. Shot	41,988	402,365	4,000,000	10.1%
Harvard AT-16 Airplanes	16	166	1,500	9.6%
3.7" Anti-Aircraft Shells	105,008	1,040,375	2,550,000	40.8%
75 MM Smoke Shells C/R	35,206	259,214	1,700,000	15.3%
#19 Radio Sets	*	7,828	11,950	65.5%
2" Bomb Throwers, Mk II	2,403	6,671	30,071	22.2%
3.7" Anti-Aircraft Barrels	23	1,953	2,400	81.4%
Lee Enfield Rifles, Mk I	8,000	47,402	100,000	47.4%
Boys Anti-Tank Rifles	1,350	3,517	34,000	10.3%
6-Pdr. Guns, Mk II	440	941	1,000	94.1%
6-Pdr. Carriage, Mk II	4	20	500	4.0%
37 MM S. A. P. Shot	99,990	366,469	500,000	73.3%
2" Smoke Bombs	0	170,010	1,000,000	17.0%
Bren Machine Guns	0	5,904	33,000	17.9%
.303 Ammunition	23,192,832	133,768,930	406,120,000	33.0%
2-Pdr. Anti-Tank Equipment	8	264	360	73.3%
4.5" H. E. Shells	1,628	425,991	852,000	50.0%
Anhydrous Ammonia (Lbs.)	*	34,030,760	65,200,000	52.2%
Hexachlorethane (Lbs.)	702,000	7,975,040	9,064,110	88.0%
2-Pdr. Q.F. Cartridges	0	486,261	1,540,000	31.6%
Nitric Acid & Oleum (lb)	1,102,685	2,426,319	6,070,000	40.0%
25-Pdr. Shell & Cartridge	0	71,402	612,000	11.7%

\* Earlier Figures not Available.

- Joint War Production Committee -

Secret

REPORT NO. 6  
(October 20, 1942)

Secret

CANADA'S MUNITIONS PRODUCTION IN SEPTEMBER COMPARED WITH FORECAST

Selected Item	September Production	
	Actual	Scheduled

Items for which September Production Exceeds Forecast

Ram Tanks	290	175
Universal Carriers	907	775
40 MM Anti-Aircraft Guns, Complete	220	200
3.7" Anti-Aircraft Guns, Complete	71	60
90 MM Anti-Aircraft Gun Barrels	84	20
6-Pdr. Anti-Tank Gun Carriage	409	185
25-Pdr. Gun, Complete	88	72
Bren Machine Gun	5,468	4,500
Browning Aircraft Machine Gun	3,580	3,000
Sten Machine Carbine	3,463	2,500
.303 Calibre Ball Ammunition, Mk VII (000's)	93,396	82,500
25-Pdr. Projectile, H. E. (000's)	431	382

Items for which September Production Fell Below Forecast

Fairmiles Motor Torpedo Boats	2	8
Lysander Reconnaissance Plane	13	24
PBY Flying Boat	0	7
Hurricane Pursuit Plane	32	50
Cornell Primary Trainer	1	4
Valentine Tank	70	90
Scout Car	55	200
Armored Car	30	77
6-Pdr. Tank & Anti-Tank Gun	495	875
2" U.P. Mounting (Naval Anti-Aircraft Rocket Projectile)	817	1,000
Boys Anti-Tank Rifle	2,984	4,000
2" Trench Mortar	277	400
(000's)		
.303 Incendiary Cartridge	7,452	9,500
.303 A. P. Cartridge	6,690	10,000
9 MM Luger Parabellum	0	1,500
.55 A. P. Cartridge	24	100
75 MM S. A. P. Shot	79	100
75 MM H. E. Shell	0	100
75 MM Smoke Shell	39	100
6-Pdr. A.P. Shot	244	350
Anti-Tank Mine, Mk II & Mk V	0	112
Anti-Tank Grenade, #75	0	200

The Production of Merchant Vessels and Anti-Aircraft Ammunition was approximately equal to forecast.

- Joint War Production Committee -

Secret

REPORT NO. 7  
(October 20, 1942)

Secret

Changes Between September 1st and October 1st in the Canadian  
Munitions Production Program

Changes in the Canadian Munitions program in the past month are recorded below. The most important revisions concern the Cargo Vessel, Corvette, Bren Gun, and Lee Enfield Rifle programs, all of which have been stepped up. Browning Aircraft Machine Gun output is to be cut sharply and the production of .30 Calibre Ball Cartridge is to be brought to an end. Other changes are also listed in the following tables.

Items for which Schedules have been Increased Between September 1 & October 1

Selected Item	Production Schedule for 1943	
	September 1st	October 1st
Corvettes	38	63
Minesweepers (Algerine and Wooden)	19	53
Merchant Vessels	80	133
Bren Guns	82,250	100,400
Lee Enfield Rifle	300,000	375,600
(000's)		
3" Trench Mortar Bomb	1,200	1,500
Depth Charges	48	66
.455 Mk III Cartridge	0	10,600

Items for which Schedules have been Decreased Between September 1 & October 1

Selected Item	Production Schedule for 1943	
	September 1st	October 1st
Armored Personnel Carrier	3,000	1,000
40 MM Anti-Aircraft Gun Barrels	18,000	10,800
6-Pdr. Tank and Anti-Tank Guns	12,000	10,500
Browning .303 Aircraft Machine Guns	54,000	6,000
(000's)		
20 MM H. E. and S. A. P. Ammunition	20,900	7,250
.30 Calibre Ball Cartridge	9,600	0

In addition a rather large number of schedules have been set back because of engineering and other difficulties.

- Joint War Production Committee -

NOT TO BE RE-TRANSMITTED

COPY NO. 13

BRITISH MOST SECRET  
U.S. SECRET

OPTEL No. 327

Information received up to 7 A.M., 20th September, 1942.

1. NAVAL

The convoy to RUSSIA was due at ARCHANGEL last night. On the 18th it was attacked by high level and torpedo bombers off the entrance to the WHITE SEA and one U.S. 5500 ton merchant vessel was torpedoed and sunk. At least 4 enemy aircraft were shot down. One of H.M. armed boarding vessels was torpedoed and sunk early 19th southwest of LISBON. 27 of the crew were rescued.

Attacks on shipping. During the last three days (16th to 18th September) 15 ships were reported torpedoed between 12th and 16th September. 5 ships (British, Norwegian, Dutch, Greek and a U.S. ship which later reached port) in convoy in GULF OF ST. LAWRENCE. A U.S. ship in West Atlantic, a British and Dutch ship in convoy in CARIBBEAN SEA. 3 British ships and 2 Panamanian (one a large tanker) in the TRINIDAD area, a Swedish ship in the FREETOWN area and a large British trawler in the SOUTH ATLANTIC. Latest news of attack on outward bound convoy is 10 ships definitely torpedoed, 5 of which are sunk, one still afloat and 4 reached port. 2 other ships missing from convoy.

2. MILITARY

RUSSIA. The Russians continue their attacks in the northern and central sectors and have gained some success against the German bridgehead over the DON at VORONEZH. At STALINGRAD street fighting continues and the Germans appear to be making slow progress though the situation is confused. In CAUCASIA the Russians are still resisting strongly in the MOZDOX area and are counter attacking on the passes of the western CAUCASUS.

3. AIR OPERATIONS

WESTERN FRONT. 18th/19th. A total of 341 mines were laid successfully. 19th. 3 Mosquitos, with bombs, reached the BERLIN area but could not identify the town owing to complete cloud, another Mosquito was shot down.

19th/20th. 226 aircraft were sent out - SAARBUCKEN 114, MUNICH 90, all heavy. Intruders 14 MUNICH. Weather very good, all pathfinders accurately identified the objective and flares worked well. Many fires and one very large explosion believed in the gas works. Only moderate searchlight and S.A. fire. 5 bombers missing. SAARBUCKEN. Heavy ground haze made identification difficult, 5 bombers missing.

NOT TO BE RE-TRANSMITTED

COPY NO. 13

BRITISH MOST SECRET  
U.S. SECRET

OPTEL No. 327

Information received up to 7 A.M., 20th September, 1942.

1. NAVAL

The convoy to RUSSIA was due at ARCHANGEL last night. On the 18th it was attacked by high level and torpedo bombers off the entrance to the WHITE SEA and one U.S. 5500 ton merchant vessel was torpedoed and sunk. At least 4 enemy aircraft were shot down. One of H.M. armed boarding vessels was torpedoed and sunk early 19th southwest of LISBON. 27 of the crew were rescued.

Attacks on shipping. During the last three days (16th to 18th September) 15 ships were reported torpedoed between 12th and 16th September. 5 ships (British, Norwegian, Dutch, Greek and a U.S. ship which later reached port) in convoy in GULF OF ST. LAWRENCE. A U.S. ship in West Atlantic, a British and Dutch ship in convoy in CARIBBEAN SEA. 3 British ships and 2 Panamanian (one a large tanker) in the TRINIDAD area, a Swedish ship in the FREETOWN area and a large British trawler in the SOUTH ATLANTIC. Latest news of attack on outward bound convoy is 10 ships definitely torpedoed, 5 of which are sunk, one still afloat and 4 reached port. 2 other ships missing from convoy.

2. MILITARY

RUSSIA. The Russians continue their attacks in the northern and central sectors and have gained some success against the German bridgehead over the DON at VORONEZH. At STALINGRAD street fighting continues and the Germans appear to be making slow progress though the situation is confused. In CAUCASIA the Russians are still resisting strongly in the MOZDOK area and are counter attacking on the passes of the western CAUCASUS.

3. AIR OPERATIONS

WESTERN FRONT. 18th/19th. A total of 341 mines were laid successfully 19th. 3 Mosquitos, with bombs, reached the BERLIN area but could not identify the town owing to complete cloud, another Mosquito was shot down.

19th/20th. 226 aircraft were sent out - SAARBRUCKEN 118, MUNICH 90, all heavy. Intruders 14 MUNICH. Weather very good, all pathfinders accurately identified the objective and flares worked well. Many fires and one very large explosion believed in the gas works. Only moderate searchlight and S.A. fire. 5 bombers missing. SAARBRUCKEN. Heavy ground haze made identification difficult, 5 bombers missing.

- 2 -

8 enemy aircraft flew over TYNESIDE and TEESIDE dropping mainly incendiary bombs. 8 others were probably sea mining. One was shot down, 2 probably destroyed and one damaged.

EGYPT. 17th/18th. TOBRUK was bombed and a small ship probably hit. Wellingtons attacked 3 vessels north of TOBRUK on 2 of which explosions were reported, one of them was left stationary and low in the water.

18th. 2 ME 109's were probably destroyed and 2 others damaged by our fighters, one of which is missing.

H. 10  
OFFICE OF LEND-LEASE ADMINISTRATION  
FIVE-FIFTEEN 22d STREET NW.  
WASHINGTON, D. C.

E. R. Stettinius, Jr.  
Administrator

September 21, 1942

Honorable Henry Morgenthau  
Secretary of the Treasury  
Treasury Department  
WASHINGTON, D. C.

Dear Mr. Secretary,

During the week end, Mrs. Klotz was kind enough to send me a copy of Mr. Ickes' letter to you of the 18th, relative to securing oil refinery equipment for the Russians.

She has asked me to give you my views on the matter, and I wish to advise that, in our opinion, Mr. Ickes has made an accurate statement relative to the part that his organization has played in the matter.

With best wishes,

Sincerely yours,

  
E. R. Stettinius, Jr.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

OFFICE OF THE VICE CHAIRMAN

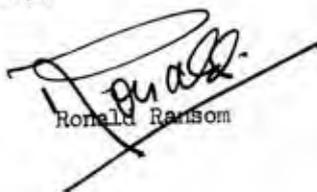
September 21, 1942

Dear Henry:

I called you this afternoon to read you the attached press release, but, finding that you were not in your office, I read it to Dan Bell.

There were two stories in the Wall Street Journal of today, one on page 1 and the other on page 5. There was also a brief reference to the same story on the Dow-Jones ticker today.

Sincerely,

  
Ronald Ransom

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

Attachment

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

Statement for the Press

For immediate release

September 21, 1942.

The Board of Governors of the Federal Reserve System wishes to deny a report printed in the Wall Street Journal of September 21 to the effect that Federal Reserve officials are contemplating some form of control of savings accounts. This report may be interpreted to mean that Federal Reserve officials are considering some interference with the individual's freedom to use his savings account. This is not true.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE September 21, 1942

TO Secretary Morgenthau  
FROM Vincent F. Callahan

Red Barber, who broadcasts baseball games over station WEN in New York City, has sold nearly one-half million dollars worth of Bonds through his broadcasts. The latest actual figure is \$476,000. He has devoted two entire broadcasts of baseball games to Bond selling. The first one brought pledges of \$105,000 and the second brought pledges of \$330,000. The cash in to date is 98 per cent of that pledged - a remarkable high.

Mr. Barber starts his program with an immediate goal (say \$10,000 in the first ten minutes of play) to be pledged by the Red Barber baseball fans. As soon as the goal is reached he doubles it and urges his fans to pledge twice as much. He gives the totals between innings, and wherever else possible, always adding "Come on, let's make it more". He has offered to the fans autographed pictures of the Brooklyn Dodgers and autographed baseballs.

The \$40,000 not accounted for in the two broadcasts run in this fashion represents the money pledged from occasional Bond plugs dropped into other games.

-2-

The idea of devoting an occasional complete ball game broadcast to Bonds has the approval of Barber's sponsor, Old Gold Cigarettes.

Mr. H. L. Petty, Director of WHN, reports that the handling of the details in connection with the Bond selling has necessitated augmenting his staff, and also much overtime on the part of the employees. "It has cost us many hundreds of dollars", says Mr. Petty, "but we love it".

Vincent F. Caclahan

# Red Barber Sells \$100,000 In War Bonds On Dodger-Giants Ball Game Broadcast—Phone Calls Swamp Board At Radio Station WHN

### Orders Received From 18 States—Soldiers Also Wire For Bonds

A total of \$100,000 in war bonds were sold by WHN on Wednesday, August 5, on the Jack Barber Dodger-Giants night broadcast, when thousands of Barber followers stepped up his offer to air sales of war bonds calling the station to order bonds. At the end of traffic, sales were reported of the sale of \$100,000 in bonds, according to J. L. Doty, WHN director.

The first order arrived at the station for bond orders. The first order was received from the WHN telephone station, with orders requesting sale of the war bonds to the amount of \$100,000. The order was placed at the time of the "big" game which will start at 7:30 p. m.

# Action Pictures In WHN's Red Barber \$100,000 War Bond Sales Broadcast



1—From left back at Elliott Hall, right, his assistant, who took Barber, left, make War Bond sales and announcements of rapidly mounting sales reported by Red Barber from WHN to Atlanta.

2—Close-up of control board of WHN during Barber broadcast. Calls reach 25 per minute.

In addition, sales were received from 18 states and territories of the United States, followed by 1000 orders, were placed at the time of the broadcast. The orders were placed at the time of the broadcast. The orders were placed at the time of the broadcast.

Orders were placed at the time of the broadcast. The orders were placed at the time of the broadcast. The orders were placed at the time of the broadcast.

# KMBC Kicks-WLNH Bond Club Has Pass Book Off In Victory Feud on Bond

Kansas City, Mo., Aug. 17.—Starting with a 10:15 a. m. "Kick Off" program Monday, Aug. 18, station KMBC staged a "Feud for Victory" show in its local effort for the direct sale of War Bonds.

The station personnel "showed their teeth" with two separate teams of bond sellers in what an information feud to be carried into all local programs.

Bonds sold by the two teams will be sent tomorrow to a special "bond holder" which will include a picture and a message from the station personally from whom the interest was purchased. The holder will also include a printed bond purchase form.

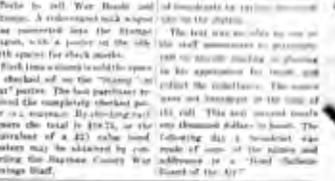
The station is currently working on plans for a contest which will be undertaken within a few weeks to reanimate the campaign. It will be in the nature of a "stamp-out" contest.



### WLNH War Bond Club

Station WLNH of Lansing, Mich., Monday night adopted a novel "stamp-out" contest in its local effort for the direct sale of War Bonds. The contest is a "stamp-out" contest in which interest may be kept a record of "stamp-out" made in the past. The contest is a "stamp-out" contest in which interest may be kept a record of "stamp-out" made in the past.

# WSAM has "Stamp 'em out" poster on converted Bond Wagon for Sales



### Open House at KGNK, Amarillo

Amarillo, Texas, Aug. 17.—KGNK has inaugurated the first in a series of "open house" programs designed especially to promote the sale of War Bonds, for which KGNK has been appointed an "open house" station.

The station there were seen to all who wished to watch the broadcast, and especially welcome were those desiring to purchase War Bonds. The station KGNK's bond wagon of the Air will be broadcast from 7:30 to 9:00 p. m. this evening every week, including such week as completely new set of popular Amadio's maintenance and general supplies. A representative of the KGNK War Bond department will be on hand at every broadcast to issue orders to those who are taking orders by mail and telephone and terms the order will be a bond book for handling.

The station is also planning to send several county fairs within its area and will erect booths for the direct sale of bonds.

# Camera Tells Story Of Radio Promotion In War Bond Drive



1—J. S. Armstrong, Jr. (center), manager of station WHP, Baton Rouge, is shown receiving a \$1000 check from David Walker of the David Walker Advertising Agency for the War Bond sold on the "Buy A Bond A Day" program. William Farnum, M. C., stands by.

2—Three wounded doughboys, veterans of the Iwo Jima, Ivin and other campaigns are shown here on KPH's drive for bond sales. Left in foreground are Sgt. Douglas E. Brown, Newkirk, Wash. He is tonight home carrying a "kickback" and recipient Wm.

Helm, of Akron, Ga. (right) Herman Vogt, also on this program, was out in the picture. All three veterans are participating at Elton.

3—Here in the role of the "Ten Percent Club" heard such familiar name WHEC, Boston. Included here are "Mentor" (right) and "Doughboy" (center), actress; Richard (center), "Mentor" (right) and "Doughboy" (center), actress; Richard (center), "Mentor" (right) and "Doughboy" (center), actress.

Margaret (left) (center) the "Ten Percent Club" (right) and the "Doughboy" (center).

4—John Jack Little, station pianist and bond leader is shown here at Washington's WMAJ selling War Bonds on the Capital station's Ten Percent Club.

5—New Orleans radio station executive (right) is seen on the bond drive at Louisiana. (left) is seen on the bond drive at Louisiana. (left) is seen on the bond drive at Louisiana.

Regraded Unclassified

BUY BONDS \* BUY BONDS \* BUY BONDS \* BUY BONDS \* BUY BONDS



# KDKA Sells WAR BONDS

The inaugural Pittsburgh program in the new series dedicated to the sale of United States War Bonds will be publicly presented

**GRANT STREET PORTALS  
CITY-COUNTY BUILDING  
Tuesday, July 28, High Noon**

PENNSYLVANIA'S OWN 104th CAVALRY BAND

Commanded by Major JOHN E. GRAY • Director of Warrant Officer MARION C. WALTER

MAJOR JAMES P. BARR, U.S. Army Air Corps  
Director of the Howard Air Depot

HON. JOHN I. KANE, Chairman  
City-County War Bonds Committee

ARTHUR E. BRAUN, President  
Federal Deposit National Bank and Building Life Insurance  
Company of Pittsburgh, Penn. Trust Company, U.S. C.

KDKA always a leader among the nation's great radio stations, which have its facilities in the great task confronting the United Nations. It has the most powerful voice in all counties in the great Tri-State Area, and to our United States Government, KDKA is proud to be a part of the great War Bonds Drive through the U. S. Mail Service.

WESTINGHOUSE **KDKA** PITTSBURGH

BUY BONDS \* BUY BONDS \* BUY BONDS \* BUY BONDS \* BUY BONDS

# CINCINNATI STATIONS OPEN WAR BOND DRIVE

Cincinnati's WLW And WSAI Open War Bond Sales Drive

WLW GIVES CREDIT TO COUNTIES

Local Promotion, Unique Selling Plans Feature Sale—New Molly Pitcher Idea Captures City's Fancy

Cincinnati, Ohio, Aug. 17.—Cincinnati radio stations are set to open the fall of Secretary Maguire's War Bonds drive by a series of promotional programs, unique and creative in their nature, and to feature the sale of War Bonds in a series of public appearances.

While some of the national programs are just getting started, locally the stations are working to set the pace in widespread promotion. WLW will begin its program at the promotional stage, but according to information received from local radio men, the War Bonds drive in western Ohio, through the Cincinnati area, will include Ohio, Indiana, Kentucky and West Virginia. According to information, the program will be through the station, public and make use of the fact that they are people and are ready to help for the family and to help the nation.

WLW is also planning to do a radio parade and to have an outdoor program for national night on August 17, the largest outdoor station and WLW will have a special radio show for the day.

**MAYOR FOR DAY, WSAI ELECTION**

W.S. AI will have a special radio show for the day on August 17, the largest outdoor station and WLW will have a special radio show for the day. The program of the "Mayor for a Day" will be a radio show for the day. The program will be a radio show for the day. The program will be a radio show for the day.



The War Bonds drive is a national program to raise money for the war effort. It is a patriotic duty for every citizen to contribute to the drive. The drive is a national program to raise money for the war effort. It is a patriotic duty for every citizen to contribute to the drive.

# Factory Maids and Molly Pitchers Feature Queen City Campaign



The campaign is a national program to raise money for the war effort. It is a patriotic duty for every citizen to contribute to the drive. The drive is a national program to raise money for the war effort. It is a patriotic duty for every citizen to contribute to the drive.

Regraded Unclassified

# WCKY WAR BOND PURCHASERS SHOP FOR OWN ORDNANCE PIECES

### DEMOLITION DEPOT DISPLAYS ARMAMENT AND MUNITIONS—WHAT BONDS ACTUALLY BUY

## Beauty Contest Is Primer In WCKY Bond Vote Drive



## Chicago Stations Shift Into High Gear Sales Roll In, WGN Team Sells \$70,000



## Cartoon Is Used At Saginaw



## Dakota Station Uses Tank As Mobile Unit Visiting Cities Over Its Broadcast Area



The station of the radio personality, WDAY's mobile unit, has been transformed into the "Tank" of a mobile broadcast unit.

## HAMMOND PUTS ZIP IN DIRECT SALES PLAN



## Two Named To Aid Stations



# RADIO ROLL OF HONOR

There is a complete roster of Radio Stations which have agreed to become issuing agents in the direct sale of War Bonds for the Treasury Department. There are 749 stations listed on the RADIO ROLL OF HONOR. Within a few hours after the call went out from the Secretary of the Treasury to address the radio industry, 811 stations had answered that call and this list was published in the War Savings Staff News of July 18, the first publication of its kind ever prepared.

Table listing radio stations across various states including ALABAMA, ALASKA, ARIZONA, ARKANSAS, CALIFORNIA, COLORADO, CONNECTICUT, DELAWARE, DISTRICT OF COLUMBIA, FLORIDA, GEORGIA, ILLINOIS, INDIANA, IOWA, KANSAS, KENTUCKY, LOUISIANA, MAINE, MARYLAND, MASSACHUSETTS, MICHIGAN, MINNESOTA, MISSISSIPPI, MISSOURI, MONTANA, NEBRASKA, NEVADA, NEW HAMPSHIRE, NEW JERSEY, NEW MEXICO, NEW YORK, NORTH CAROLINA, NORTH DAKOTA, OHIO, OKLAHOMA, OREGON, PENNSYLVANIA, RHODE ISLAND, SOUTH CAROLINA, SOUTH DAKOTA, TENNESSEE, TEXAS, UTAH, VERMONT, VIRGINIA, WASHINGTON, WEST VIRGINIA, WISCONSIN, WYOMING.

Don't Forget—Blue Network Show All-Night August 29th

Regraded Unclassified

# WNAC And Yankee Network Spurs Sale Of War Bonds

Station Fayer Remables Minister Treasury. Spectacularly Helps Appeal To Purchasers Staff Stars At War

WNAC, Boston Erects Huge Sign On Building Heralding Sale Of War Bonds

Five New Orleans Stations Participate In Joint Program To Sell War Bonds



### One Irishman To Another Sells \$2,000

Chicago (AP)—A 37-year-old Irishman sold \$2,000 worth of war bonds to another Irishman in a transaction that was described as a "friendly" one.

### A.E. Opens War Bond Drive In Busch Program

St. Louis (AP)—A.E. opened a war bond drive in the Busch program at the St. Louis Convention Center.

### Blue Network

### Tips For Stations In Building Shows For War Bond Sales Offered For Approval

Washington, D. C., Aug. 17—Radio stations are urged to build shows for war bond sales.

### Boston Stations Active In War Bond Drive



Boston (AP)—Radio stations in Boston are active in the war bond drive.

### KDKA Counts Fair Broadcast For \$17,630 Bond Sale

Pittsburgh (AP)—KDKA counts a fair broadcast for a \$17,630 bond sale.

### KSTP Reaching Untapped Sources By Appeals Featuring Staff Announcers—Many Foreign-Born Buyers Investing

St. Paul (AP)—KSTP is reaching untapped sources by appeals featuring staff announcers.

### Challenge Costs WMCA News Analyst \$7,100

New York (AP)—A challenge costs WMCA news analyst \$7,100.



### Entire Cast Of WQAM Hill-Billy Show Delivers Bond In Person At Miami

Miami (AP)—The entire cast of WQAM's hill-billy show delivered bonds in person at Miami.

### Novel Promotion For New Sponsors

Chicago (AP)—A novel promotion for new sponsors is being used.

### Queries On Procedure Answered

Washington, D. C., Aug. 17—Queries on the procedure for war bond sales are answered.

### Queries On Procedure

Washington, D. C., Aug. 17—Queries on the procedure for war bond sales are answered.

### Queries On Procedure

Washington, D. C., Aug. 17—Queries on the procedure for war bond sales are answered.

### Queries On Procedure

Washington, D. C., Aug. 17—Queries on the procedure for war bond sales are answered.

### Queries On Procedure

Washington, D. C., Aug. 17—Queries on the procedure for war bond sales are answered.

### Queries On Procedure

Washington, D. C., Aug. 17—Queries on the procedure for war bond sales are answered.

### Queries On Procedure

Washington, D. C., Aug. 17—Queries on the procedure for war bond sales are answered.

# WAR SAVINGS STAFF NEWS



## Three Points Are Stressed To Reach Treasury Objective

By CHARLES J. CALVERT  
Chief, Radio Service, War Savings Staff  
Washington, D. C., Aug. 17—Radio stations are urged to reach Treasury objectives through general cooperation and cooperation in their collaboration and cooperation with the Treasury Department in locating direct sales agents for War Bonds, it is urged to put a campaign on a single line which overclouds the rest of the overall picture.

Advertising and publicity drive should be the only objective, the more sale of War Bonds to put on a big bid at the expense of other outlets and bond sales. A primary objective should be the locating of new sales agents, the continuing of potential bond purchasers who are not now buying War Bonds in other buying agents or sales units.

The latter objective, in fact, is essential if we merely catch the sales of Bonds from the banks in order to free ourselves to reach the art as adding to the overall total of bond sales which is our main goal. It is not fair to sit in waiting for the war.

Actual operation of some stations is not beyond reach, but there is an opportunity to have more stations in the program.

## BLUE NETWORK SET FOR BOND DRIVE

### QUERIES ON PROCEDURE ANSWERED

Washington, D. C., Aug. 17—Queries on the procedure for war bond sales are answered.

### All-Night Nation-Wide Bond Sale And Round-Up To Feature Blue Network Star-Studded Show Aug. 29—Madison Square Garden Sept. 4



### REPORTS OF SUCCESSFUL SALES DRIVES POUR INTO OFFICE OF TREASURY AS MORE STATIONS QUALIFY TO SELL BONDS

Washington, D. C., Aug. 17—Reports of successful sales drives pour into the office of the Treasury as more stations qualify to sell bonds.

### BOND NIGHT ON BLUE SPARKLES WITH TOP STAR

New York (AP)—Bond night on Blue Sparkles with top star.

### WJR Detroit, Bears Down—Sells Bonds

Detroit (AP)—WJR Detroit, Bears Down—Sells Bonds.

### Let's Hear About Your Cash Sales

Let's hear about your cash sales.

STATIONS MAY GIVE INDIVIDUAL COUNTIES CREDIT FOR SALES IF DESIRED

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE Sept. 21, 1942

TO THE SECRETARY  
FROM TED R. GAMBLE

You will be interested to know that we have, at your request, placed four LET'S ALL FIGHT posters, especially framed, in different locations in the White House.

You will also be interested to know that we are making a special distribution through Admiral Conard's Committee of approximately 1000 of these posters in government buildings. This is in addition to our regular District of Columbia distribution.

TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

DATE Sept. 21, 1942

TO THE SECRETARY  
FROM TED R. GAMBLE

You recently sent me a note with regard to a skit in the New Priorities show which you read about in Leonard Lyons' column.

The information contained in Mr. Lyons' column was correct.

Mr. Patterson and a committee of four people called upon Mr. Clifford Fischer, Producer of New Priorities of 1943 and he agreed to withdraw this number from the show.

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

September 21, 1942

TO Secretary Morgenthau  
FROM Randolph Paul

We put up the subject of outdoor advertising  
but it was voted down 18 to 1.

*ASP*

22  
Sales of United States savings bonds  
September 1 through September 19, 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	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	10.7	236.2	288.2	82.0	4.9	108.9	105.0	103.7	15.6	345.1	393.2	87.8
16	21.9	258.1	307.6	83.9	12.8	121.6	112.1	108.5	34.6	379.7	419.7	90.5
17	17.6	275.7	327.2	84.3	9.9	131.6	119.2	110.4	27.5	407.2	446.4	91.2
18	16.5	292.2	350.1	83.5	6.3	137.9	125.7	109.7	22.8	430.0	475.8	90.4
19	10.4	302.5	365.4	82.8	3.4	141.3	130.5	108.3	13.7	443.8	495.9	89.5
21			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 21, 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.

## 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	August	July	September as percent of August
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
15	15,632	345,066	353,022	435,929	97.7
16	34,631	379,697	365,852	467,599	103.8
17	27,538	407,235	407,659	505,257	99.9
18	22,809	430,044	422,209	527,186	101.9
19	13,745	443,789	449,965	580,443	98.6

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	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
14	13,347	103,952	127,375	176,590	81.6
15	4,915	108,867	137,119	191,991	79.4
16	12,776	121,643	140,372	205,833	86.7
17	9,917	131,560	153,496	221,147	85.7
18	6,334	137,893	158,309	230,842	87.1
19	3,361	141,255	168,415	252,731	83.9

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	83.0
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
15	10,717	236,199	215,903	243,938	109.4
16	21,855	258,054	225,481	261,766	114.4
17	17,621	275,675	254,163	284,111	108.5
18	16,476	292,151	263,900	296,344	110.7
19	10,384	302,535	281,550	327,712	107.5

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.

September 21, 1942.

My dear Mr. Pegler:

I have noticed your column appearing in the World-Telegram of last Friday in which you discussed the subject of the credit for dependents in the income tax law. This is a matter as to which there has always been, and probably always will be, rather wide differences of opinion. Some have taken the position which you appear to take that the credits ought to be regarded as allowances adequate for the full support of the dependents. I doubt, however, that the Congress has regarded them as more than a means of lightening the tax burden in some degree for those who have others closely related to them dependent on them for support.

I have myself firmly resisted in the past efforts to minimize these credits, as well as the personal exemptions, and only the extremely urgent need for new tax revenues on a broader base to finance the war has induced me to advocate lowering them.

One paragraph in your letter, however, seems to me most serious in its implications. You write, referring to a statement of the President on tax avoidance:

"This opened up the subject and it was revealed that the Treasury itself was the master shyster of the country, skilled in a baffling repertoire of snide tricks and interpretations and operating under a fixed policy never to give the taxpayer an even break, unless he happened to be a regional king-maker of the ruling party, such as Ed Kelly of Chicago or Frank Hague of Jersey City."

I am naturally concerned about two plain implications of this statement. One is that the Treasury is

- 2 -

unfair in its treatment of the ordinary taxpayer; the other that some taxpayers get preferred treatment because of their political influence. Frankly, I don't think either of these is "fair enough" or justifiable.

In the nearly nine years that I have been Secretary of the Treasury there is no one matter to which I have given more direct personal attention than that of fair and equal treatment to all taxpayers in the administration of the law. I have repeatedly asked taxpayers who believed themselves to have been unjustly treated to bring their grievances directly to me. Examiners and investigators have been instructed to disregard completely all questions of power and influence, whether political or otherwise, in the consideration of tax cases. I believe these instructions, reinforced by the instructions and the decisions of Commissioner Helvering, in whose integrity I have the most complete confidence, have been faithfully followed. If there are any instances in which they have not been, I should most sincerely like to know about them. As you know the Treasury is forbidden by law to disclose the amount and sources of income reported by taxpayers (except for a special provision as to high salaries received from corporations) but we do welcome information of any kind that may lead to the discovery of undisclosed income or of any injustice or discourtesy to a taxpayer. I think you know from your own recent experience that this is true. In this connection I want to thank you for the data you recently supplied to one of our agents, whom I authorized to call on you in response to your letter to Mr. Irey.

Normally we expect criticism of the administration of the tax laws. The laws are intricate, they affect millions of people and there are necessarily borderline decisions that leave room for argument. Also most reviewers and investigators are, I think, continuously conscious of the fact that they are dealing with the public's money and that they can't make themselves good

- 3 -

fellows at the Government's expense, even for the sake of creating good will.

It is my hope, however, that in these times, criticism by men of your great influence will be sufficiently specific and sufficiently well based so that it will help us in correcting our mistakes and our omissions.

We shall have a terrific job ahead of us to handle collections under the new law that is now shaping up in the Senate Finance Committee. It will probably mean some 40,000,000 returns as against 27,000,000 this year and less than 3,000,000 a few years ago. We should like to be able to undertake the job in an atmosphere of cooperation rather than one of resentment and ill will. And I feel sure that we shall have to increase taxes still further. I should like to have your help with that problem, too.

I should appreciate it if you would drop in to see me some time when you are in Washington.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Westbrook Pegler,  
Ridgefield, Connecticut.

MS

*File in Diary*

## The News

SEP 19 1942

## Fair Enough

Wash. Daily News

SEP 19 1942



**N**EW YORK, Sept. 19—The present deduction allowed under the Internal Revenue Act for the support of the taxpayer's dependents is \$400 per head and it is now proposed to reduce the allowance to \$300 and even to as little as \$150. All these figures, including the existing rate, are hypocritical and inconsistent with the economic facts of life, and with the professed living standards of the New Deal, and it would be far better to have done with the fake and either abolish the allowance altogether or reduce it to a token figure of \$1 just to keep alive, for some future and honest time, the principle that the support of one individual by another in certain relationships is a human duty, and a public benefit.

Nobody ever believed that \$400 a year was a reasonable allowance for the support of dependent relatives. The figure is below the standard which the New Dealers themselves, in their anguish over one-third of the nation, regarded as wretched poverty. Now, with the cost of living risen and likely to rise still more, it is the more dishonest, and a reduction to \$300 or \$150 would be even more insulting to the people's intelligence.

This sort of doing makes people cynical and impairs their faith in their Government, and they would be better impressed if Congress were to say that the whole principle of deductions is out the window, or suspended until further notice, because the Treasury needs the money to pay for the war.

**T**HERE is no relationship between the people and the Government which has created as much nasty feeling as the operation of the income tax. President Roosevelt once made a memorable speech about deadhead passengers on the ship of state who evaded taxes by clever little schemes having the color of legality.

This opened up the subject and it was revealed that the Treasury, itself, was the master shyster of the country, skilled in a baffling repertoire of snide tricks and interpretations, and operating under a fixed policy never to give the taxpayer an even break, unless he happened to be a regional king-maker of the ruling party, such as

## By Westbrook Pegler

Ed Kelly of Chicago or Frank Hague of Jersey City.

The arbitrary figure of \$400 deductible for each dependent is reasonable only in the case of families living modestly, if not in poverty, under one roof. It is not sufficient for the support of an aged parent, for example, living in his or her own quarters.

In the case of a dependent child the allowance stops at the age of 18 which, in normal times, and again citing the New Deal's own ideas on education and youth, is just the time when the youngster's costs go up. In this there has been a dirty discrimination against the person of sufficient talent, diligence and/or luck to earn a tax-bearing income. At 18, his kids are deemed to be grown and fully educated and able to shift for themselves. But the children of citizens in the sub-taxable brackets are held to be more or less helpless and in need of public assistance for their education to the age of 25.

Again, the Revenue Act has been arbitrarily dishonest, cynical and brutal in disallowing any deduction for the support of a grown but wholly dependent relative beyond the age of 18 but short of old age, unless that individual is helpless from illness or other physical affliction. For example, an adult over 18 of sound health who is a charge on the income and conscience of a taxpayer because of unemployment is not recognized as a dependent.

**I**F THERE is anything in the principle that a well-doing individual should take care of his own people in hard luck, and in the principle that he deserves a deduction for easing to this important extent the public cost and the moral loss from mass public dependency, then the allowance should have been made in all such cases, regardless of the recipients' health.

It has been a queer idea of our Congress, and of the New Deal, that the income taxpayers, a minority but embracing that entire element known as the middle class and the most reliable producers of public revenue, deserve nothing better than the worst of it all the time and needn't be dealt with on terms of common honesty.

If we are so hard up that the allowance must be cut to \$300 or \$150, we ought to abolish the fake entirely. It would be futile to propose that, instead, we turn square, establish a rate consistent with the truth, and extend the allowable field of dependency to include all real dependents.

THE WHITE HOUSE  
WASHINGTON

September 21, 1942

Dear Mr. Paul:

Thank you very much for the detailed explanation of the Ruml plan and for the copy of your radio talk. I understand the plan, for the first time.

Very sincerely yours,

*Chas. R. Ruml*

THE WHITE HOUSE  
WASHINGTON

September 21, 1942

Dear Mr. Paul:

Thank you very much for the detailed explanation of the Ruml plan and for the copy of your radio talk. I understand the plan, for the first time.

Very sincerely yours,

*Chas. R. Ruml*

TREASURY DEPARTMENT

31

INTER OFFICE COMMUNICATION

DATE

September 21, 1942

TO Secretary Morgenthau  
FROM Randolph Paul

For your information, I am attaching  
correspondence with Mrs. Roosevelt in answer  
to a telephonic request to your office from  
the White House.

*REP.*

September 19, 1942

Dear Mrs. Roosevelt:

In response to your request to Secretary Morgenthau, I am attaching a description of the Rural plan as compared with the comparable features of the present law and the current tax bill. I am also attaching copies of my radio talk of September 1, 1942, in opposition to the Rural plan, and a further statement on the plan. This statement contains an example on page 2 which may help you to follow my explanation.

It is not easy to explain the somewhat complicated Rural plan, but please understand that if the enclosed explanation is not sufficient I shall be only too glad to supplement it in any way you may desire.

Sincerely yours,

(Signed) Randolph Paul

Randolph E. Paul  
General Counsel

Mrs. Eleanor Roosevelt,

The White House.

Attachments

RB:REP:mv

### THE PLAN

The purpose of the plan, which it accomplishes in part, is to get and keep the individual taxpayer out of debt to the Government. In brief, an individual would pay quarterly during each year a tentative tax for that year based on the previous year's income, and on the following March 15 he would make a final settlement for the year, adjusting any underpayment or overpayment.

Under the original plan the income tax on 1941 income would be forgiven. The tax paid during 1942 would be considered not a tax on 1941 income but a tentative tax on 1942 income. On March 15, 1943, the income tax return covering 1942 income would be filed and any excess of actual tax due above amounts paid in 1942 would be paid at that time. If the amount of actual tax due on 1942 income proved to be less than the payments made in 1942, the difference would be refunded to the taxpayer or offset against his tax on 1943 income.

At the same time, March 15, 1943, that this settlement of 1942 taxes was made, the taxpayer would start paying a tentative tax on 1943 income. This tentative tax would be based on his actual income for 1942, computed at whatever rates the law provided for 1943 income. The taxpayer would have the privilege

- 2 -

of paying this tentative tax in quarterly installments. On March 15, 1944, he would file a return of his actual income for 1943 and pay the balance due if his actual tax exceeded his tentative tax, or receive a refund or tax effect if his actual tax was less than the tentative tax. At the same time he would compute and start paying his tentative tax for 1944 based on 1943 income. This process would continue from year to year.

If the taxpayer's income remained the same from year to year, his payments during each year would be exactly the same as they are under the present arrangement. At his death, however, little or no tax would be owed to the Government, while under the present arrangement the tax owed at death would be approximately the tax on one year's income.

If the taxpayer had no income in any year, he would continue during that year to pay tentative tax on the basis of the prior year's income but would be allowed a refund the following March.

If a person's income remained the same from year to year, he would not owe the Government tax at the end of any year. If his income were higher than in the previous year he would, at the end of the year, owe the Government tax on the amount of the

- 3 -

increase. If his income were lower than in the previous year, the Government would, at the end of the year, owe him tax on the amount of the decrease.

It is understood that Mr. Eml has publicly revised his plan in some particulars, but no statement of these revisions has been received.

#### Revisions of the Present Law and Funding Tax Bill

Under the present law a return is filed on March 15 for the income of the previous year and the tax may be paid in four quarterly instalments if desired. The Treasury recommended that for persons receiving wages, salaries, or dividends, part of the tax be collected at source. For example, the employer would withhold part of the tax from wages and remit it to the Government as part payment of the employee's tax. This proposal was accepted by the House. The Senate Finance Committee, however, eliminated this feature. It imposed an additional tax of 5 percent on gross income, called the "Victory" tax, to be withheld at the source on wages and salaries.

September 15, 1942

ES:del

TREASURY DEPARTMENT  
Washington

FOR RELEASE, MORNING NEWSPAPERS  
Tuesday, September 1, 1942  
8/31/42

Press Service  
No. 33-2

The following address by Randolph E. Paul, General Counsel for the Treasury Department, is scheduled to be broadcast over the Mutual Network at 9:15 p. m., Eastern War Time, Monday, August 31, 1942.

Last Friday you may have heard over this network a discussion of the so-called pay-as-you-go tax plan by its sponsor, Mr. Beardsley Ruml. There is no doubt that the plan he has advanced is original and ingenious. The Treasury has considered it earnestly and with the great respect to which it is entitled, both on the merits and because of the high standing of its author. But that consideration has not led us to the conclusion that the plan should be adopted. I should like to outline to you tonight the reasons why the Treasury does not like the plan.

Mr. Ruml proposes to put all taxpayers on a current basis by skipping a year's tax. Under his plan the tax liability for the year 1941 will be simply forgiven by the Government. The payments which have been made during this year 1942 for that year's tax will instead be treated as current payments on 1942 tax liability. Of course 1942 income will not ordinarily be the same as 1941 income, so when March 1943 comes around, each taxpayer will file a return for 1942 showing what his actual 1942 income was. If it was more than the amount his payments covered, he will then pay the difference in tax. If it was in fact less, he will be entitled to a refund. And his return of 1942 income will also be treated as a tentative return for 1943 which will determine his advance or current payments of 1943 tax liability.

The description I have just given illustrates some of the Treasury's objections to the Ruml plan. In the first place it is extremely complicated. Each year's tax payments will depend upon two returns instead of one as at present. The taxpayer will first file a return of one year's income which will be the tentative return for the following year. He will pay tax according to this return, and then when the year is ended he will have to file another return showing what his income actually was, and he will then have to make a further payment or collect a refund depending on how his income varied. The administrative problems for the Government in collecting these additional payments and in making a large number of refunds would be very great, and the system would certainly be very confusing for many taxpayers.

Another objection is the fact that the Ruml plan, despite its label as the pay-as-you-go tax plan, would not in fact put taxpayers current with their tax liability to the Government. Many taxpayers experience considerable fluctuations in their annual incomes. In their cases the

- 2 -

Ruml plan would not be a pay-as-you-go plan at all. Let's take the case of a man who ordinarily makes about \$3,000 a year, but who puts through a successful deal in one year so that he makes \$10,000. Under the Ruml plan he would pay on a \$3,000 income in the year he had \$10,000, and then in the following year when he had an income of \$3,000 again, he would have to pay a deficiency on his last year's tax, and then pay currently on the basis of a \$10,000 income. His tax payments for that year would in fact exceed his total income for that year, and his problem would be a very serious if not impossible one. The Ruml plan does not in fact achieve its basic purpose to put the income tax on a current basis; its seductive allure is in fact an illusion.

Why, then, has the Ruml plan been so earnestly advanced and so assiduously pushed forward? We can find much of the reason when we turn to consider the Treasury's third objection to the scheme. It is an essential part of the Ruml plan that one year's taxes be forgiven. It is said that this treats everyone alike; everyone is given a clean slate for 1941. But let us see how this works out. In the first place several billions of dollars of tax liability are cancelled. That is a somewhat surprising way to raise tax revenue in wartime. And what is the result of treating all alike? From eighty to ninety percent of the taxpayers have incomes below \$3,000, and they would be forgiven from a few dollars up to a maximum of two or three hundred dollars each. But the wealthy men with an income of half a million dollars would save a tax liability of more than \$350,000.

If 1941 were a normal year the plan would be bad enough, but 1941 was not a normal year in any sense of the word. It was a year in which our factories made more shiny new cars, more bright gadgets of all kinds, more goods for consumer use than in any year in our history. Individuals made a great deal more money last year than they are apt to do now with the impact of rationing, growing scarcities, higher taxes, and other effects of the war. Under Mr. Ruml's plan such individuals would pay no tax on their 1941 earnings at all. The man who got huge commissions for placing war contracts in 1941 would pay no tax at all. The man who profited by manufacturing as many civilian goods as the traffic would bear would pay no tax at all. Anyone who had a large income for 1941 — and that goes for thousands, if not millions, of people — would get a wholly fortuitous tax windfall.

This hardly seems to be treating everyone alike. It is instead the passing out of huge benefits to those who need them least, and at a time when we must be getting more revenue instead of giving it away.

It is true that taxpayers would keep on paying year after year under the Ruml plan, and the loss of revenue would not actually appear until a taxpayer's income declined or until he died. But it is undeniably true that over a period of years the Ruml plan involves giving away a sum of billions of dollars, and giving it largely to the wealthy taxpayers who

- 3 -

need it least. It is not surprising, therefore, that it has been energetically pushed by those who benefited by some of 1941's better than usual incomes.

With the basic purpose of the Ruml plan the Treasury has much sympathy. It would be fine if a substantial part of our income tax liability could be put on a current basis. The easiest way to do this is to collect the basic part of the tax at the source, that is, to withhold it from wages, salaries, interest and dividends. The difficulty in the way of putting such a plan into full operation has lain in the fact that it would involve a double payment of tax liabilities in the same year, first the tax on last year's income, and second the tax on this year's income which would be withheld at the source. The Ruml plan points a way by which this difficulty can be eliminated. It would make it possible for us to introduce now a comprehensive system of collection at the source which would, in fact, put the great majority of our taxpayers on a current basis, with the tax collected week by week from their income as they receive it.

We have already suggested to the Senate Finance Committee a plan whereby the pay-as-you-go principle would be applied to all normal taxes and to the first bracket of surtaxes. This would put at least eighty percent of our taxpayers on a current basis. But the plan as Mr. Ruml proposed it, is not acceptable for the three reasons which I have outlined. It is a very complicated scheme; it would not, in fact, put the taxpayers on a current basis; and it involves forgiving a year's tax liability, with the greatest benefit going to those of the biggest incomes.

It is an attractive idea to get square with Uncle Sam; Mr. Ruml himself has made great use of that word "square" in arguing for his plan. But it is not enough to be square. In our American vocabulary, the phrase is "fair and square". It is our deep conviction at the Treasury that the Ruml plan is not fair and square. Until it can be made fair, we at the Treasury will not take the responsibility of recommending it to the Congress and to the taxpayers of America.

Statement by Randolph E. Paul  
on Ruml plan

In a press release of August 23, 1942, Mr. Beardsley Ruml criticizes the Treasury's objections to his original Pay-As-You-Go income tax plan. He directs his comments principally at two points: (1) the Treasury's statement that the plan would be unacceptable without collection at the source and (2) the modified method of tax cancellation suggested by the Treasury. Mr. Ruml's statement reveals a serious misunderstanding of the Treasury's position. Before proceeding with any changes in the income tax so revolutionary as that suggested by Mr. Ruml, it is essential that this misunderstanding be cleared up; and that the basic issues be clearly understood.

The basic objective of the "pay as you go" plan proposed by Mr. Ruml is to get taxpayers on a current basis. This objective has deservedly met widespread public approval. The present method of collecting income taxes is poorly suited to a mass tax at high rates. The amounts individuals pay in any year depend not at all on their income in that year, but rather on the income of the preceding year. The taxpayer is always in the process of catching up with himself and never succeeding.

The Ruml plan as originally proposed fails, however, to accomplish its objectives. A change in names does not change facts. Under the Ruml plan, the amount paid in 1943 would be called a "tentative tax on 1943 income." But it would be computed by assuming that 1943 income would be the same as 1942 income. Calling the amount paid in 1943 a "tentative tax on 1943 income"

- 2 -

does not make it a tax on 1943 income if, as in the original Ruml plan, the amount paid is computed as it now is on the basis of 1942 income.

In many cases the problem is made even worse than it now is, since under the Ruml plan a taxpayer will have to settle in the following year for any difference between his "tentative" tax and his actual tax.

Mr. Jones, let us say, is married with no dependents and has an income of \$3,000 in 1941 and 1942, \$10,000 in 1943, and \$3,000 in 1944. His tax liabilities at the new rates passed by the House are \$324 on \$3,000 of income and \$2,152 on \$10,000 of income. How much will Mr. Jones have to pay under the original Ruml plan?

1943: Income	\$10,000
Tax payments:	
Tentative tax on 1943 income computed on the basis of a 1942 income of \$3,000	324
Adjustment for difference between tentative tax paid in 1942 and actual tax on 1942 income	<u>0</u>
Total payments	324
1944: Income	3,000
Tax payments:	
Tentative tax on 1944 income computed on the basis of a 1943 income of \$10,000	2,152
Adjustment for the difference between tentative tax paid in 1943 and actual tax on 1943 income (\$2,152 - \$324)	<u>1,828</u>
Total	\$ 3,980

- 3 -

In 1943, Mr. Jones pays only \$324 out of a \$10,000 income--the same amount he would pay under existing methods of income tax payment. In 1944, Mr. Jones must pay almost \$4,000 out of a \$3,000 income. He has a high tentative tax because his income was high in the preceding year. In addition he has a big adjustment to pay because his income was low two years ago. This is current tax payment in name only. True, Mr. Jones will in 1945 receive credit for his overpayment in 1944. But in 1944 he must finance this extra payment out of his reduced income.

It is no answer to this example to say that most taxpayers do not experience such wild fluctuations in income. It is precisely such fluctuations that make current tax payment necessary and that the Ruml plan is designed to cure. If everybody's income stayed the same year after year, the present method of tax collection would do well enough. There would be no need of the Ruml plan or any other plan for current payment.

The best way to cure this defect in the Ruml plan is to couple the Ruml plan with collection at the source. Collecting as much of the tax as possible from income as it is earned is truly "pay as you go."

- 4 -

Collection-at-source is a practicable way by which the tax paid in any year can be computed and paid on the basis of actual income received in that year. It is "current" collection in fact as well as in name. It is for this reason that the Treasury finds the Ruml plan completely unacceptable unless it is linked with collection-at-source at the combined normal and first bracket surtax rate.

Collection-at-the-source is essential not only to serve the convenience of the taxpayer but also to make the income tax a flexible instrument to meet war-time final needs. Under the original Ruml plan as now, a change in tax rates would not affect tax collections until the following calendar year. With collection-at-the-source, a change in tax rates can be effective almost immediately. Under the original Ruml plan as now, a change in national income will not affect tax collections until the following calendar year. With collection-at-the-source, it will affect tax collections immediately.

The other major defect in the original Ruml plan is the clear and striking injustice of cancelling all 1941 liabilities. Mr. Ruml would do this in order that tax payments made in 1942 could be treated as a tentative tax on 1942 income. Once again the objective, namely to bring all taxpayers current immediately is admirable. But the results are not. Many an individual had a higher income in 1941 than in most other years of his life. Cancelling his 1941 liabilities would be a pure windfall, a windfall that would have to be made up by other taxpayers who had not been so fortunate. The man who in 1941 received \$500,000 would have a

- 5 -

tax liability of almost \$350,000 cancelled, although his income in 1942 and later years may be much lower and although the \$500,000 may be traceable directly to the war program.

Moreover, such a taxpayer is unlikely to need the cancellation in order to wipe out his debt to the Government. Few men who have such an income are so improvident as to make no provision for the tax as the income is received; or are so unfortunate as to have no substantial amount of capital with which to wipe out the debt.

To meet this obvious defect the Treasury has suggested that the Ruml plan would be greatly improved if only part of tax liabilities be cancelled, and that, for simplicity, the cancellation refer to 1942 liabilities.

The part to be cancelled would be the entire normal tax - or 4 percent at existing rates -- plus the first bracket rate of the surtax -- or 6 percent at existing rates. The cancellation would not, as Mr. Ruml erroneously stated, apply only to the first \$2,000 of net taxable income. It would apply to the entire net taxable income but at only the first bracket rate. For example, a married person with no dependents with \$500,000 income in 1942 would (ignoring, for simplicity the earned income credit) have a net taxable income of \$498,500 under existing exemptions. The amount cancelled would be 10 percent of this or \$49,850 out of a total tax at existing rates of \$345,350.

A man with \$10,000 income would have a net taxable income of \$8,500. Again ignoring the earned income credit he would have \$850 cancelled out of a total liability of \$1,305, leaving about \$450 to be paid during the next two years.

- 6 -

The Treasury's suggestion applies equally to all taxpayers; but it does not permit high income taxpayers to cancel their liabilities under higher surtax rates. As noted above, persons subject to these higher rates are most likely to make advance provision for taxes, and hence do not need to have all their liabilities cancelled.

This statement does not imply Treasury approval of the Ruml plan. Its purpose is rather to clarify the considerations that must be taken into account in judging the plan, and to indicate the modifications that should be made in it if the Senate Finance Committee should deem it an appropriate part of the 1942 tax bill.

August 24, 1942

*Sullivan to handle.*

45 ✓

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau  
FROM Randolph Paul

September 21, 1942

With reference to the President's note as follows:

"H. M. Jr.

Treasury Taxing embassies?

Let C. H. know personally.

F.D.R."

I presume the President was referring to the subject matter of correspondence between John Sullivan and the Secretary of State, February 27, 1942 and June 26, 1942. This correspondence has reference to a ruling of this Department that effective July 1, 1942 foreign diplomatic officers (members of their staffs, households, and families, etc.) and consular officers would be allowed only such exemptions from Federal excise taxes as are specifically prescribed by statute or by treaty. There are no statutory provisions allowing such officers exemption from Federal excise taxes, such as manufacturers' excises, retailers' excises, automobile use, admissions, club dues, transportation, and communications taxes.

Please note that Cordell Hull signed personally the letter of June 26. It is apparent that the Secretary of State knows of the problem. I am also attaching a copy of a letter of July 1, 1942 signed by Acting Secretary of the Treasury, John L. Sullivan, in reply to the Secretary of State's letter of June 26, and a copy of the letter of February 27.

*REP*

Attachments

THE WHITE HOUSE  
WASHINGTON

Wm J.  
Treasury Taxing  
Bureau. ?  
Lt C. H. Know  
Personally.

T. G.

Howe

C O P Y

MT:DC

FEB 27 1942

My dear Mr. Secretary:

Further reference is made to your letter of January 5, 1942 (FA), in which you request certain information concerning exemption of foreign diplomatic representatives at Washington and the members of their staffs and households and their families living with them, including clerks and servants who are not American citizens, and also exemption of certain foreign consular officers, from the Federal excise taxes imposed under the provisions of the Internal Revenue Code, as amended by the Revenue Act of 1941.

This Department has examined the tax exempt status of diplomatic and consular officers of foreign governments, and has determined that foreign diplomatic and consular officers should not be granted exemptions from Federal excise taxes, unless such exemptions are specifically provided for by statute or by treaties. The Internal Revenue Code, as amended, does not exempt foreign diplomatic and consular officers from Federal excise taxes of any character. In the absence of treaties, therefore, no exemption from Federal excise taxes may be granted to foreign diplomatic and consular officers. This ruling applies, for example, to the various manufacturers' excise taxes imposed under Chapter 29 of the Internal Revenue Code, as amended, and to the retailers' excise taxes imposed by Chapter 19 of the Internal Revenue Code, as amended, even though the products, the sale of which is taxed, are sold directly or indirectly to diplomatic and consular officers of foreign countries. Similarly, and by way of further illustration, there exists no statutory basis for granting exemptions to diplomatic and consular officers of foreign countries to such taxes as the automobile use, admissions, club dues, transportation, telegraph and telephone taxes. Notwithstanding that enforcement of these taxes may be difficult or impossible in certain cases because of sections 4063 and 4064 of the Revised Statutes, it is held that ambassadors, ministers, their families, staffs, and households, are subject to these taxes.

MT:DG

- 2 -

The Honorable,  
The Secretary of State.

You also request information respecting the applicability of Federal excise taxes to consular officers of foreign countries with which there are in force treaties containing provisions relating to the exemption of consular officers from taxation, and also to consular officers of foreign countries with which there are in force treaties involving consular relations which contain most-favored-nation clauses. This Department cannot state a general rule concerning the taxation of such consular officers. Because the exemption of consular officers depends upon treaty provisions, it is essential to know the particular treaty involved and also whether most-favored-nation treatment should be accorded.

With a view to avoiding confusion which may arise by reason of many previous rulings to the contrary, and for the purpose of promoting uniformity and equitable treatment to all persons affected, the conclusions reached herein will not, in accordance with section 3791(b) of the Internal Revenue Code, be applied with respect to transactions occurring prior to July 1, 1942.

For the time being, however, and until July 1, 1942, the position of this Department will continue to be as follows: (1) ambassadors, ministers, their families, staffs, and households, including clerks and servants who are not American citizens, are exempt from (a) such excises as the automobile use, admissions, club dues, transportation, telegraph and telephone taxes, and (b) manufacturers' and retailers' excise, provided they are a party to the transaction with respect to which the excise tax otherwise would be imposed; (2) foreign governments, their agents and officers other than diplomatic representatives, are exempt only with respect to Federal excise taxes the legal incidence of which would fall upon them, such as, for example, the automobile use, transportation, telegraph and telephone taxes, and then only with respect to transactions arising in the performance of their official functions for which payment is made by their foreign government; and (3) consular officers shall be accorded the same exemptions set forth in item (2) above, and in addition such further exemptions as may be prescribed by treaty.

If further correspondence relative to this matter is necessary, kindly refer to IR:MT:ST.

Very truly yours,

(Signed) John L. Sullivan

Acting Secretary of the Treasury.

The Honorable,

The Secretary of State,  
Washington, D. C.

Copy Attached.

C  
O  
P  
Y

July 1, 1942

My dear Mr. Secretary:

Reference is made to your letter of June 26, 1942, in which you ask that this Department reconsider its position with respect to exemptions from Federal excise taxes to be accorded on and after July 1, 1942, to diplomatic and consular officers of foreign countries.

In a letter to you dated February 27, 1942, this Department stated that it had determined that foreign diplomatic and consular officers should not be granted exemptions from Federal excise taxes unless such exemptions are specifically provided for by statute or by treaty, but that this conclusion would not be applied with respect to transactions occurring prior to July 1, 1942. You state that there would seem to be authority in international law for the exemption of foreign governments from such taxes, and you express the hope that the Treasury Department may think it expedient and proper to defer definite action until the international situation affords a more favorable opportunity for examination of the subject in all of its aspects.

These matters were carefully considered by the Treasury Department prior to the adoption of the position expressed in its letter of February 27, 1942. Inasmuch as July 1, 1942 was the effective date of this position, information concerning it already has been furnished to various corporations such as those engaged in transportation and in communication and which are responsible for the collection of Federal taxes on these activities. At this time it is impossible to postpone the effective date. To attempt to do so would only cause confusion. Accordingly, this Department will adhere to its position that

-2-

on and after July 1, 1942, foreign diplomatic and consular officers will not be granted exemptions from Federal excise taxes unless such exemptions are specifically provided for by statute or by treaty.

In the event of further correspondence refer to symbols IR:GC:A-265342.

Very truly yours,

(Signed) John L. Sullivan

Acting Secretary of the Treasury.

The Honorable  
The Secretary of State,  
Washington, D. C.

*Diplomats & Consular Officers Stationed  
in the United States*



DEPARTMENT OF STATE  
WASHINGTON

*A-265342*

RECEIVED IN

JUN 29 1942 June 26. 1942

CHIEF COUNSEL'S OFFICE  
FOR THE  
BUREAU OF INTERNAL REVENUE

reply refer to

My dear Mr. Secretary:

Reference is made to the letter of February 27, 1942 from the Acting Secretary of the Treasury stating that the Treasury Department "has determined that foreign diplomatic and consular officers should not be granted exemption from federal excise taxes, unless such exemptions are specifically provided for by statute or by treaty"; also that "with a view to avoiding confusion which may arise by reason of many previous rulings to the contrary, and for the purpose of promoting uniformity and equality of treatment to all persons affected, the conclusions reached herein will not \*\*\* be applied with respect to transactions prior to July 1, 1942".

In order to ascertain the practice of other countries with respect to the granting by them to diplomatic officers of the United States of exemptions from similar taxes a circular instruction was sent to such of the American missions abroad as could be communicated with and there are transmitted herewith copies of the replies which have thus far been received. Because of the existing international situation and consequent disruption of communications, replies have not been received from a number of the missions, but it will be observed from the enclosed reports that a number of exemptions now granted in the United States to foreign diplomatic and consular officers are already accorded to American diplomatic and consular officers in other countries.

In as much as a number of the taxes under reference would, if collected, be payable not by the diplomatic or

consular

The Honorable  
Henry Morgenthau, Jr.,  
Secretary of the Treasury.

*Special Comm. No. 20816  
Pink Slips 518*



NOT RECORDED

*80-42 M.M.B.  
20 C*

consular officers concerned but by their respective governments for governmental purposes, the collection of such taxes from foreign diplomatic and consular officers would contravene the principle of international law, to which the Government of the United States has given recognition, that one sovereign should not be taxed by another sovereign. Accordingly, since international law is recognized as a part of the law of the United States, there would seem to be legal authority for the exemption of foreign governments from such taxes and the present policy of the Treasury Department constitutes proper recognition of that fact.

While this Department believes that it would be desirable to make a comprehensive study of the question of the exemption from taxation of foreign diplomatic and consular officers with a view to the formulation of a clear and definite policy as to the specific taxes or categories of taxes to which such exemption should apply and the conditions of its application, it is clear that the present emergency does not afford a favorable opportunity to attempt such a study, which it is believed should precede any endeavor to obtain the enactment of legislation or the conclusion of international agreements if such legislation or agreements should appear to be necessary or desirable. In brief, the Department feels that any material change in the existing policy of this Government respecting the exemption from taxation of foreign diplomatic and consular representatives--a policy which is substantially reciprocated by many other governments--could hardly fail to cause resentment by the governments associated with the United States in the conduct of the war and by other friendly governments, which accord exemption to American diplomatic and consular officers, particularly those of the Western Hemisphere.

While the Department has refrained from communicating the Treasury Department's ruling to the diplomatic missions, the British Embassy has learned of it informally and there is transmitted herewith a copy of a note from the embassy referring to the effect of the ruling on exemptions now granted to various British Missions in the United States and requesting this Department's intercession with the Treasury Department "with a view to the rescission of the latter's recent decision".

I am

I am not informed as to the importance of these taxes from the point of view of the amount of revenue involved. It seems certain, however, that the burden will fall heaviest on our friends in the present struggle. I therefore express the hope that the Treasury Department may find it expedient to reconsider the matter in the light of these observations and may think it expedient and proper to defer definite action until the international situation affords a more favorable opportunity for examination of the subject in all of its aspects.

Sincerely yours,



Enclosures:

1. Copies of twenty-nine despatches from American diplomatic Missions.
2. From British Embassy, June 22, 1942.



AM. P.

54

Bedside  
Take up with  
J. M. J.

August 20, 1942.

### TAXATION OF FOREIGN DIPLOMATIC OFFICERS

Prior to July 1, 1942, the Treasury Department exempted foreign diplomatic representatives from the payment of Federal excise taxes, including taxes on the transportation of persons, telegraph, cable and radio messages and facilities, manufacturers' and retailers' taxes on commodities including gasoline, tax on the use of motor vehicles and boats, etc.

Effective July 1, 1942 the Treasury Department reversed its policy and announced that such exemption would be granted only when specifically authorized by statute or treaty.

Although none of our treaties provide specifically for the exemption of diplomatic representatives from taxation, our treaties with Argentina, Bolivia, Costa Rica and Paraguay provide that the diplomatic representatives of those governments shall receive most-favored-nation treatment with respect to exemptions and privileges and the Treasury Department has accorded the diplomatic representatives of the four governments mentioned exemption from the taxes

under

-2-

under reference on the basis of our treaty with Liberia which was not intended to apply to diplomatic representatives. The result is that the diplomatic representatives of the four governments mentioned receive the exemption which is denied to the diplomatic representatives of all other governments.

The situation is further complicated by the fact that the consular representatives of a number of governments receive, on the basis of treaty provisions, the exemption which is denied to the diplomatic representatives of the same governments.

In so far as the taxes are imposed on governmental functions and are paid by foreign governments, the collection of the tax disregards the principle of international law, which has been recognized by this Government, that one sovereign may not tax another sovereign. This principle was expressly recognized in a letter addressed to the Secretary of State by the Secretary of the Treasury in 1941 which contains the following statement:

"The General Counsel of the Treasury Department, under date of August 14, 1940, held that, as a matter of international law, one sovereign may not levy a tax on the transactions of governmental functions by a foreign government when the tax or its direct burden will fall upon that government."

This

This is the position which this Department has consistently taken with respect to taxes imposed by the several states on foreign government-owned <sup>personal</sup> property in the United States, to wit, property acquired here by the British and other Governments for public purposes.

In a letter addressed by the Secretary of State to the Secretary of the Treasury under date of June 26, 1942 the opinion was expressed that any material change in the existing policy of this Government respecting the exemption from taxes of foreign diplomatic representatives could hardly fail to cause resentment by the governments associated with the United States in the prosecution of the war and by other friendly governments which accord exemption to American diplomatic and consular representatives, particularly those of the Western Hemisphere. The hope was expressed that the Treasury Department might find it expedient and proper to defer definite action until the international situation should afford a more favorable opportunity for examination of the subject in all of its aspects.

In a letter dated July 1, 1942 Acting Secretary of the Treasury, Sullivan, stated that information concerning the Treasury Department's new policy had been furnished to various corporations concerned with the collection of the taxes; that it was impossible to postpone the effective date

date of the policy, and that the Treasury Department would adhere to its position that on and after July 1, 1942 foreign diplomatic and consular representatives would not be granted exemption from Federal excise taxes unless such exemptions were specifically provided for by statute or treaty.

The announcement of the Treasury Department's new policy has already caused strong resentment in the Diplomatic Corps and the Department has received numerous inquiries and protests from the various embassies and legations in Washington, including those of Great Britain, the Soviet Union, South Africa, Netherlands, Belgium, Spain, Portugal, Argentine Republic, Colombia, Haiti, Venezuela, and Dominican Republic. Some of the informal protests were rather bitter, particularly those of Colombia and Portugal.

The Legation of Colombia is ready to make a formal protest but prefers not to write notes of protest in these days and is delaying action in the hope that the situation will be remedied.

The Minister of Portugal referred to the fact that Portuguese ships are now carrying from the United States to Portugal large consignments of gasoline, foods and other commodities for the use of American diplomatic and consular officers not only in Portugal but in many other countries.

-5-

countries. He stated that the Portuguese Government viewed with concern such arbitrary action on the part of the Government of the United States and that reciprocal action would no doubt be taken by his Government.

There can be no doubt that the Treasury Department's new ruling is prejudicial to the relations of this Government with the Governments associated with it in the present war and with other friendly governments, particularly those of the Western Hemisphere. The taxes fall heaviest on our friends in the present struggle. They have here large numbers of officials -- diplomatic and non-diplomatic -- engaged in the common war effort, who have heretofore been given exemption from these taxes. The burden will fall upon their Governments.

Moreover, we have in most of these countries large contingents of official and enlisted personnel and the number is increasing daily. If similar taxes are imposed upon our people in those countries the result will be that we will be paying out thousands of dollars which we are not now required to pay -- a sum considerably in excess of the amounts that may be collected in the United States from foreign representatives.

But what is more important is the fact that a principle and practice of long standing is being uprooted, i.e., that the exemption is put on a treaty or statutory basis instead of on the basis of international law and comity.

Both

-6-

Both Great Britain and the Soviet Union invoke international law as a basis for exemption.

Great Britain in a note of August 18, 1942 states that --

"In accordance with the principle of the immunity of foreign governments from taxation His Majesty's Government grants exemption in the United Kingdom to foreign governments in respect of taxes (such as motor vehicle taxes, establishment licences, etc.) for which the foreign governments would be accountable themselves. The exemption from motor vehicle tax is of particular importance to the United States Government since, were it not for this exemption, the United States Army would be liable to pay very large sums in licence fees on their vehicles in the United Kingdom. . . . Further, the United States Government and other Allied governments enjoy a very valuable concession in respect of United Kingdom Purchase Tax, from which they are exempted in all their purchases from registered wholesalers."

It adds that --

". . . It will be appreciated that none of these exemptions enjoyed in the United Kingdom by governmental agencies of the United States are derived from any treaty and that they result in substantial financial concessions to the United States Government."

In a memorandum dated August 17, 1942 the Soviet Ambassador, after referring to the ruling of the Treasury Department that it will collect these taxes except where exemption is granted by virtue of treaties, states --

"But are not diplomatic representatives according to international usage exempt from all state taxation?"

A

-7-

A similar complaint, dated August 11, 1942, has been received from the Belgian Embassy, requesting that taxes collected by communications companies, and covering telephone, telegraph, cable and radio messages of this Embassy, for the month of July, be reimbursed.

We cannot overlook the effect of the new policy upon our own officials and personnel in friendly foreign countries, or its effect upon the relations with our friends. It does not adversely affect our enemies but rather it may work to their advantage. The amount of revenue involved would seem to be far outweighed by these other considerations.

It is believed that if these considerations were brought directly to the attention of the Secretary of the Treasury, he would appreciate their significance and would revert to the practice obtaining prior to July 1. The order of the Treasury Department might provide that these exemptions may be denied if the Department of State informs the Treasury Department that substantially reciprocal exemption is not accorded in any particular country.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

TO Secretary Morgenthau  
FROM Randolph Paul

DATE  
SEP 21 1942

Huntington Cairns, Bernard Bernstein  
and I worked on the draft of Price Legislation which you  
distributed to the group meeting Friday at 2:15 p. m.

We made a number of suggestions to  
Oscar at luncheon at the Occidental Saturday afternoon.

*REP*

September 18, 1942.

**PRICE LEGISLATION**

1. The Senate version -- S.J. Res. 161 -- meets the problems better than the House bill.

2. The few substantial and technical flaws in the Senate version should be corrected. The changes should be kept to a minimum. Attached is a short memorandum on the changes. It would be preferable to have these changes made by having the corrected bill reported out by the Senate Committee.

3. In so far as possible, the House bill should conform to the corrected Senate version by:

- a) The House waiting for the Senate to act on its bill first; or
- b) The House Committee reporting out the same bill as the corrected Senate version.

**Attachments**

PRICE LEGISLATION

S.J. Res. 161

What the Senate Resolution Contains Now

1) The Brown-Wagner resolution, as introduced, authorizes the President "to stabilize prices, wages, salaries, and other factors affecting the cost of living" so far as practicable around levels prevailing on August 15, 1942. Adjustments may be made to the extent necessary "to correct gross inequities or to aid in the effective prosecution of the war".

2) Farm prices: Maximum prices for agricultural commodities may not be established below a price which will reflect to the farmer either parity, or the highest price between January 1, 1942 and September 15, 1942, whichever is higher—but the President may lower the January-September price to the extent necessary to correct gross inequities.

3) Wages and Salaries: No action can be taken contrary to the Fair Labor Standards Act, or which will cut across any case pending on September 15, or which will reduce wages or salaries below the highest sum paid between January 1, 1942 and September 15, 1942—but the President may lower wages or salaries if he finds it necessary to correct gross inequities.

4) Sanctions: Wage and salary decisions are to be enforced through existing government agencies in determining costs and expenses; and price decisions through the Price Act.

5) The resolution and the Price Act are limited to expire on June 30, 1944—this extends the life of the Price Act by a year.

Suggested Changes in Senate Bill

To correct the flaws in the Senate bill, it is suggested that:

- 2 -

1) The changes shown in the attached copy of the bill be made.

2) Subsection 2 of Section 2 should be changed to read "The highest price received by farmers for such commodity between January 1, 1942 and September 15, 1942 (adjusted by the Secretary of Agriculture for grade, location and seasonal differentials). The reasons for this suggested change are: a) To eliminate "sport" prices on a particular day—which may be far higher than parity or a fair or normal market price—as a guide for ceilings on farm prices; and b) To make it consistent with the adjustment standards for parity prices—standards which have been used for more than 9 years.

3) The farm price and wage sections (Section 3 and 4) should be changed to: a) Make them consistent with Section 1 by giving the President the power to adjust prices and wages to correct gross inequities or to aid in the effective prosecution of the war. This will give more needed flexibility to adjust prices to step up production of products or otherwise aid the war; b) Give the President the power to adjust farm prices and wages. This will give the President the power to lower or raise prices or wages—rather than merely lower them—to correct gross inequities or to aid in the effective prosecution of the war.

- 3 -

4) Subsection 2 of Section 4 -- the wage section -- should be stricken out to prevent pressure being put on the War Labor Board to dispose of pending cases by granting wage increases.

5) Section 2 should be changed to make it clear that the powers and sanctions under the Emergency Price Act and similar legislation will be available for the administration and enforcement of this joint resolution.

6) A minor change should be made in Section 2 to make it consistent with Section 1. This can be done by adding the words "and other factors" to the laws relating to prices, wages and salaries.

Copy:fb  
9-22-42

## JOINT RESOLUTION

To Aid in stabilising the cost of living.

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That in order to aid in the effective prosecution of the war, the President is authorized and directed to stabilize prices, wages, salaries and other factors affecting the cost of living; and such stabilization shall so far as practicable be on the basis of the levels which existed on August 15, 1942. In exercising the authority conferred by this joint resolution, the President may provide for making adjustments with respect to such prices, wages, salaries and other factors, to the extent that he finds necessary to correct gross inequities or to aid in the effective prosecution of the war.

Sec. 2. The President may, from time to time, promulgate such regulations as may be necessary and proper to carry out any of the provisions of this joint resolution; may exercise any power or authority conferred upon him by this joint resolution through such department, agency, or officer as he shall direct; [and] may suspend any provisions of law relating to the establishment or maintenance of prices, wages [or] salaries, or other factors which are inconsistent with the purposes of this joint resolution; and may utilise such provisions of law, including the enforcement provisions thereof, for the administration and enforcement of this joint resolution.

Sec. 3. No maximum price shall be established or maintained for any agricultural commodity under authority of this joint

- 2 -

resolution [or otherwise] below a price which will reflect to producers of agricultural commodities the higher of the following prices, as determined and published by the Secretary of Agriculture;

(1) The parity price for such commodity (adjusted by the Secretary of Agriculture for grade, location, and seasonal differentials) or, in case a comparable price has been determined for such commodity under and in accordance with the provisions of section 3(b) of the Emergency Price Control Act of 1942, such comparable price (adjusted in the same manner), or

(2) The highest [market] price received by farmers for such commodity between January 1, 1942 and September 15, 1942 [:] (adjusted by the Secretary of Agriculture for grade, location, and seasonal differentials);

and no maximum price shall be established or maintained under authority of this joint resolution or otherwise for any commodity processed or manufactured in whole or substantial part from any agricultural commodity below a price which will reflect to the producers of such agricultural commodity a price therefor equal to the higher of the prices specified in clauses (1) and (2) of this section: Provided, that the President may [provide for a lower] adjust the price [than the highest market price] for any commodity between January 1, 1942 and September 15, 1942, to the extent that he finds necessary to correct gross inequities[.] or to aid in the effective prosecution of the war.

- 3 -

Sec. 4. No action shall be taken under authority of this joint resolution with respect to wages or salaries (1) which is inconsistent with the provisions of the Fair Labor Standards Act of 1938, as amended, [(2) which is inconsistent with any recommendation or order of any agency of the Federal Government affecting the wages or salaries of employees whose cases were pending before such agency on September 15, 1942, and were undetermined on the date of enactment of this joint resolution,] or [(3)] (2) for the purpose of reducing the wages or salaries for any particular work below the highest wages or salaries paid therefor between January 1, 1942 and September 15, 1942: Provided, That the President may adjust wages or salaries [below the wages or salaries referred to in clauses (2) and (3) of this section,] to the extent that he finds necessary to correct gross inequities[.], or to aid in the effective prosecution of the war.

Sec. 5. No employer shall pay, and no employee shall receive, wages or salaries in contravention of the regulations promulgated by the President under this joint resolution. The President shall also prescribe the extent to which any wage or salary payment made in contravention of such regulations shall be disregarded by the executive departments and other governmental agencies in determining the costs or expenses of any employer for the purposes of any other law or regulation.

Sec. 6. The provisions of this joint resolution, and all regulations thereunder, shall terminate on June 30, 1944, or on such earlier date as the Congress by concurrent resolution, or the President, may prescribe.

- 4 -

Sec. 7. Section 1(b) of the Emergency Price Control Act of 1942 is hereby amended by striking out "June 30, 1943" and substituting "June 30, 1944".

Copied:mn  
9/22/42

Secretary Morgenthau

Randolph Paul

Huntington Cairns, Bernard Bernstein  
and I worked on the draft of Price Legislation which you  
distributed to the group meeting Friday at 2:15 p. m.

We made a number of suggestions to  
Oscar at luncheon at the Occidental Saturday afternoon.

Kfa

September 18, 1942.

**PRICE LEGISLATION**

1. The Senate version -- S.J. Res. 161 -- meets the problems better than the House bill,

2. The few substantial and technical flaws in the Senate version should be corrected. The changes should be kept to a minimum. Attached is a short memorandum on the changes. It would be preferable to have these changes made by having the corrected bill reported out by the Senate Committee.

3. In so far as possible, the House bill should conform to the corrected Senate version by:

- a) The House waiting for the Senate to act on its bill first; or
- b) The House Committee reporting out the same bill as the corrected Senate version.

**Attachments**

PRICE LEGISLATIONS.J. Res. 161What the Senate Resolution Contains Now

1) The Brown-Wagner resolution, as introduced, authorizes the President "to stabilize prices, wages, salaries, and other factors affecting the cost of living" so far as practicable around levels prevailing on August 15, 1942. Adjustments may be made to the extent necessary "to correct gross inequities or to aid in the effective prosecution of the war".

2) Farm prices: Maximum prices for agricultural commodities may not be established below a price which will reflect to the farmer either parity, or the highest price between January 1, 1942 and September 15, 1942, whichever is higher—but the President may lower the January-September price to the extent necessary to correct gross inequities.

3) Wages and Salaries: No action can be taken contrary to the Fair Labor Standards Act, or which will cut across any case pending on September 15, or which will reduce wages or salaries below the highest sum paid between January 1, 1942 and September 15, 1942—but the President may lower wages or salaries if he finds it necessary to correct gross inequities.

4) Sanctions: Wage and salary decisions are to be enforced through existing government agencies in determining costs and expenses; and price decisions through the Price Act.

5) The resolution and the Price Act are limited to expire on June 30, 1944—this extends the life of the Price Act by a year.

Suggested Changes in Senate Bill

To correct the flaws in the Senate bill, it is suggested that:

- 2 -

1) The changes shown in the attached copy of the bill be made.

2) Subsection 2 of Section 2 should be changed to read "The highest price received by farmers for such commodity between January 1, 1942 and September 15, 1942 (adjusted by the Secretary of Agriculture for grade, location and seasonal differentials). The reasons for this suggested change are: a) To eliminate "sport" prices on a particular day—which may be far higher than parity or a fair or normal market price—as a guide for ceilings on farm prices; and b) To make it consistent with the adjustment standards for parity prices—standards which have been used for more than 9 years.

3) The farm price and wage sections (Section 3 and 4) should be changed to: a) Make them consistent with Section 1 by giving the President the power to adjust prices and wages to correct gross inequities or to aid in the effective prosecution of the war. This will give more needed flexibility to adjust prices to step up production of products or otherwise aid the war; b) Give the President the power to adjust farm prices and wages. This will give the President the power to lower or raise prices or wages—rather than merely lower them—to correct gross inequities or to aid in the effective prosecution of the war.

- 3 -

4) Subsection 2 of Section 4 -- the wage section -- should be stricken out to prevent pressure being put on the War Labor Board to dispose of pending cases by granting wage increases.

5) Section 2 should be changed to make it clear that the powers and sanctions under the Emergency Price Act and similar legislation will be available for the administration and enforcement of this joint resolution.

6) A minor change should be made in Section 2 to make it consistent with Section 1. This can be done by adding the words "and other factors" to the laws relating to prices, wages and salaries.

Copy:fb  
9-22-42

## JOINT RESOLUTION

To Aid in stabilizing the cost of living.

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That in order to aid in the effective prosecution of the war, the President is authorized and directed to stabilize prices, wages, salaries and other factors affecting the cost of living; and such stabilization shall so far as practicable be on the basis of the levels which existed on August 15, 1942. In exercising the authority conferred by this joint resolution, the President may provide for making adjustments with respect to such prices, wages, salaries and other factors, to the extent that he finds necessary to correct gross inequities or to aid in the effective prosecution of the war.

Sec. 2. The President may, from time to time, promulgate such regulations as may be necessary and proper to carry out any of the provisions of this joint resolution; may exercise any power or authority conferred upon him by this joint resolution through such department, agency, or officer as he shall direct; [and] may suspend any provisions of law relating to the establishment or maintenance of prices, wages [or] salaries, or other factors which are inconsistent with the purposes of this joint resolution; and may utilize such provisions of law, including the enforcement provisions thereof, for the administration and enforcement of this joint resolution.

Sec. 3. No maximum price shall be established or maintained for any agricultural commodity under authority of this joint

- 2 -

resolution [or otherwise] below a price which will reflect to producers of agricultural commodities the higher of the following prices, as determined and published by the Secretary of Agriculture;

(1) The parity price for such commodity (adjusted by the Secretary of Agriculture for grade, location, and seasonal differentials) or, in case a comparable price has been determined for such commodity under and in accordance with the provisions of section 3(b) of the Emergency Price Control Act of 1942, such comparable price (adjusted in the same manner), or

(2) The highest [market] price received by farmers for such commodity between January 1, 1942 and September 15, 1942 [:] (adjusted by the Secretary of Agriculture for grade, location, and seasonal differentials);

and no maximum price shall be established or maintained under authority of this joint resolution or otherwise for any commodity processed or manufactured in whole or substantial part from any agricultural commodity below a price which will reflect to the producers of such agricultural commodity a price therefor equal to the higher of the prices specified in clauses (1) and (2) of this section: Provided, that the President may [provide for a lower] adjust the price [than the highest market price] for any commodity between January 1, 1942 and September 15, 1942, to the extent that he finds necessary to correct gross inequities[.] or to aid in the effective prosecution of the war.

- 3 -

Sec. 4. No action shall be taken under authority of this joint resolution with respect to wages or salaries (1) which is inconsistent with the provisions of the Fair Labor Standards Act of 1938, as amended, [(2) which is inconsistent with any recommendation or order of any agency of the Federal Government affecting the wages or salaries of employees whose cases were pending before such agency on September 15, 1942, and were undetermined on the date of enactment of this joint resolution,] or [(3)] (2) for the purpose of reducing the wages or salaries for any particular work below the highest wages or salaries paid therefor between January 1, 1942 and September 15, 1942: Provided, That the President may adjust wages or salaries [below the wages or salaries referred to in clauses (2) and (3) of this section,] to the extent that he finds necessary to correct gross inequities[.], or to aid in the effective prosecution of the war.

Sec. 5. No employer shall pay, and no employee shall receive, wages or salaries in contravention of the regulations promulgated by the President under this joint resolution. The President shall also prescribe the extent to which any wage or salary payment made in contravention of such regulations shall be disregarded by the executive departments and other governmental agencies in determining the costs or expenses of any employer for the purposes of any other law or regulation.

Sec. 6. The provisions of this joint resolution, and all regulations thereunder, shall terminate on June 30, 1944, or on such earlier date as the Congress by concurrent resolution, or the President, may prescribe.

- 4 -

Sec. 7. Section 1(b) of the Emergency Price Control Act of 1942 is hereby amended by striking out "June 30, 1943" and substituting "June 30, 1944".

Copied:an  
9/22/42

## TREASURY DEPARTMENT

79

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE September 21, 1942

TO Secretary Morgenthau  
FROM Mr. Haas  
Subject: The Business Situation,  
Week ending September 19, 1942.

Summary

(1) Industrial production rose more than seasonally in August and the FRB adjusted index advanced to a new record high at 183 as compared with 180 in the previous month. Last November just before our entry into the war the index stood at 166. The gain in the unadjusted index in August was the sharpest recorded since June 1941.

(2) Steel ingot production increased moderately in August. However, output was still about 2 percent short of the record peak of last March and only about 3 percent higher than year-earlier levels. Steel operations during the current week are scheduled at 96.2 percent, the lowest since early August.

(3) The anti-inflation bills approved by the Senate and House Committees near the end of last week would give the President power to hold farm prices at parity or at recent levels, and a directive to stabilize wages and salaries. Among other features, the pending bills would also provide price support to farm products by mandatory Government loans at 90 percent of parity for 6 basic crops as well as for commodities which have to be produced in increased amounts to meet war needs.

(4) The BLS wholesale price index of 28 basic commodities advanced fractionally to a new high last week as 8 out of 9 uncontrolled commodities showed gains, led by an increase of nearly 3 percent in butter prices. In the week ended September 12 the BLS all-commodity index showed another advance of 0.1 point to a new high at 99.2. At this figure the index stands 32.3 percent above the pre-war level of August 1939.

(5) Department store sales in the week ended September 12 were only 3 percent below year-earlier levels, despite 1 less shopping day than in the same week last year. Retail prices of typical department store items, on the whole, were unchanged in August for the second consecutive month owing to the effect of price ceilings. On September 1, prices averaged 10.2 percent higher than on the corresponding date in 1941.

- - - - -

### Industrial production at new peak

Industrial output rose more than seasonally in August, carrying the FRB adjusted index of industrial production to a new record high of 183. This figure compares with 180 in the previous month, and with 166 last November just before our entry into the war. In August 1939, before the outbreak of war in Europe, the index stood at only 106.

### Steel operations improved moderately in August

Steel ingot output increased moderately in August, and the monthly total of 7,233,000 net tons exceeded that of August last year by 3.4 percent. Output for the month, however, was slightly below the levels attained last spring. The all-time high of 7,393,000 net tons was established last March. After reaching a recent high of 97.6 percent of capacity at the start of the month, steel operations have receded to a rate of 96.2 percent scheduled for the current week. (See Chart 1.)

More than 75 percent of finished steel output is now going into direct war use, according to a recent statement of the Iron and Steel Branch of the WPB. Indicative of the tremendous demands of the war program for steel, it was pointed out that cargo ships of the Liberty type which are now in large scale production require approximately 4,500 tons of rough steel per ship, while a medium tank takes about 38 tons and a big four engine bomber requires 15 tons. Some anti-aircraft guns use up 14 tons of steel, while 16-inch guns require no less than 576 tons of steel each.

### Steps taken to bolster lumber output

Due to the difficulties encountered in obtaining steel, a tendency to substitute lumber for steel has been on the increase and has contributed somewhat to the tight supply situation which has developed in the lumber industry. In the face of increased demand, lumber production this year has fallen moderately below year-earlier levels. Moreover, log inventories, usually at a peak in September, are at the lowest levels in 5 years, due reportedly to difficulties in maintaining the supply of labor in lumber camps.

In order to cope with the problem of labor shortage in the industry, the War Manpower Commission recently froze in their jobs all lumber workers in 12 western states. In addition the WPB recently directed the Pacific Coast lumber industry to

institute a 48-hour week, with overtime payments after 40 hours. A request to this effect had been made before, but it is reported that only about 40 percent of the firms involved actually complied with the request.

#### Construction awards declined in August

War-induced construction activity, which has been an important factor in the heavy demand for lumber, shows indications of a downturn.

Although total construction contract awards in August, as reported by the F. W. Dodge Corporation, were at the fourth highest monthly total on record, they were 24 percent lower than in July and 39 percent lower than the record high reached in June. Moreover total contract awards fell below year-earlier levels for the first time this year. (See Chart 2.) Residential construction awards dropped to the lowest levels since February 1940.

Contracts for manufacturing buildings in August declined 14 percent from the record high reached in July, but still amounted to \$261 millions, or 36 percent of total awards. In New York State, however, the State Labor Department reported that, mainly due to priorities, plans submitted for industrial building in August dropped to only 49 percent of the average for that month for the last 18 years.

#### Stability of wholesale price index may be misleading

For the second consecutive week, the BLS all-commodity wholesale price index in the week ended September 12 touched a new war-time high. A slight rise carried the index to 99.2 percent of the level in 1926, and 32.3 percent above the pre-war level of August 1939.

The all-commodity index on the whole, however, has shown very little change since the general price order became effective in May. Its stability may be deceptive, however, since the index has not been revised to take account of commodities which are no longer being sold in any significant quantity. Prices of these are merely held unchanged in the index. Moreover, deterioration in quality and ceiling violations are not being reflected in the index. On the other hand, certain price increases resulting from allowances by the OPA for special circumstances are being reported and included.

### Anti-inflation program continues to lift prices

Basic commodity markets continue to be influenced by hopes and apprehensions concerning anti-inflation action. The net effect for the week was higher prices, and the BLS index of 9 uncontrolled commodities touched a new high for the second week in succession. (See Chart 3.)

Led by an increase in butter prices of 3 percent, prices of 8 of the uncontrolled commodities increased. Grains advanced on traders' belief that their prices would be encouraged to rise to parity. The buoyancy in rye was dampened to some extent by reports that farmers might find it more advantageous to sell cash rye than to pledge it for Government loan at 60¢ a bushel.

Hog prices advanced moderately, following announcement by Secretary Wickard of a pork purchase program to be financed by the Commodity Credit Corporation "designed to relieve the 'price squeeze' on small packers and to assure continuing large supplies of pork products." Purchases of pork by the Department of Agriculture in the two weeks ended September 12 were the smallest since early March. Owing to a decline in the price of hogs in the week before last, packers' margins showed a further improvement as indicated by Department of Agriculture calculations.

Cotton prices throughout the week showed considerable uncertainty concerning the final terms of the pending price legislation. Prices for steers declined to their lowest levels since July 17.

### Canadian food prices lower

The Canadian cost-of-living index as of August 1 declined slightly from its war-time high of July 1. The decline was due chiefly to a decrease of 0.5 percent in food prices, ascribed particularly to lower prices for beef and potatoes, which had risen sharply in the preceding month. The lower level of beef prices reflected the first of the adjustments in wholesale beef prices begun by Government order. Such adjustments are being applied progressively downward until beef prices reach a level considered "normal" in relation to cattle supplies. The Government expects to maintain prices in such relationship thereafter.

Since the decline in the Canadian cost-of-living index was less than one point, there will be no decrease in the weekly bonus to employees which became payable August 15, as a result of the rise in living costs since last October 1.

The importance of full control of food prices in the United States is indicated in Chart 4, which contrasts the recent decline in Canadian living costs with the rise in living costs in this country. The increase of 0.4 percent in the cost-of-living index for the United States as of August 15 was due to a further rise in food prices, amounting to 1.2 percent since July 15. The Bureau of Labor Statistics reports that prices of uncontrolled foods have increased 10 percent since the general price regulation became effective on May 18, while prices of controlled foods have declined 0.3 percent in that period.

#### Retail food prices continue rise

Awaiting the anti-inflation legislation requested by the President, the rise in uncontrolled food costs must be viewed with increasing concern. Chart 5 (upper section) shows for retail food prices in 51 cities the steady rise which has been under way in recent months despite the ceiling regulation. Most of the recent rise has been due to increased prices of products not subject to the regulation. Eggs and butter (lower section of chart) are notable examples of the rise in uncontrolled food prices in August. On the other hand, prices of round steak, pork chops and bread, which are under ceilings, have held practically unchanged in the last four months.

#### Developments in anti-inflation legislation

The general pattern of the anti-inflation legislation requested by the President, according to present Senate and House bills, appears to be about as follows: (1) Farm price control at parity, but not below the highest prices of the period January 1 to September 15, 1942; (2) commodity loans at 90 percent of parity on basic farm commodities and some war-essential farm products; (3) Federal authority to control wages and salaries, perhaps with use of the "Little Steel" wage stabilization formula as a guide to wage increases.

The provision in both the Senate and House bills making Government loans mandatory at 90 percent of parity for the six basic crops -- wheat, corn, cotton, tobacco, rice and peanuts -- may tend to throw agricultural production out of balance by stimulating further production of unneeded wheat, while increasing feed costs to producers of livestock, poultry, and dairy products. Wheat production will be stimulated at a time when storage space is overflowing. As early as last April, Secretary Wickard suggested that parity for wheat be maintained only for the production required for domestic flour.

Despite the President's expression of "unalterable opposition" to changing the parity computation so as to include farm labor costs, there are indications that the issue may not be closed. If farm wage rates are added to the parity index and labor of both the farmer's family and hired help are included, according to Senator Bankhead, parity prices would be raised 12.5 percent. If only the cost of hired help were considered, parity prices would be increased 4.6 percent.

A comparison of the trend of farm wage rates with the trend of costs of goods bought by farmers (including interest and taxes) now used to measure the trend of parity, is shown in Chart 6. It will be noted that the inclusion of farm wage rates would have depressed parity prices in the years 1931 through 1939, but would have increased parity prices in 1941 and 1942.

#### August retail trade showed divergent trends

The greater than seasonal rise in department store sales in August was accompanied by a similar improvement in rural sales despite the adverse effects of credit restrictions and civilian goods curtailments on the sales of the leading mail order houses. Both department store and rural sales, however, fell short of the unusually high levels attained in August 1941, when heavy advance buying was in progress. (See Chart 7.)

Variety store sales, on a seasonally-adjusted basis, declined slightly in August. Since adjusted sales in July reached a record peak, this was still a relatively strong showing. Moreover, unlike department store and rural sales, variety stores showed a sales gain over August 1941, amounting to 10 percent. (Refer to Chart 7.)

Complete August retail sales data for all types of stores are not yet available, but preliminary figures of the Department of Commerce indicate that eating and drinking establishments showed the widest gains over year-earlier levels, while motor vehicle dealers, filling stations, furniture stores, and dealers in building materials and hardware showed declines.

#### Department store sales strong in September

After making an unusually good showing in the week ended September 5, department store sales in the week ended September 12 fell only 3 percent below year-earlier levels, despite the fact

- 7 -

that there was 1 less shopping day in the 1942 week due to Labor Day. (See Chart 8.)

The strong sales trend shown in the early part of the month appears to be continuing. Dun and Bradstreet, in commenting on sales last week, referred to "a strong buying movement" and estimated that general retail trade was from 2 to 5 percent above year-earlier levels.

As a result of the maximum price regulations, retail prices of typical department store items, as measured by the Fairchild index, were unchanged in August for the second consecutive month. A very slight rise in prices of men's apparel was offset by corresponding declines in prices of women's apparel and home furnishings. Although average prices on September 1 were unchanged from the previous month, they were still 10.2 percent above year-earlier levels, and 27.2 percent above the pre-war levels of August 1939.

Department store inventories in the New York Federal Reserve District increased in August, but the rise was less than seasonal and the adjusted index of inventories fell to 165 from 168 in July. The gain in inventories over year-earlier levels dropped to 59 percent at the end of August from 82 percent at the end of July.

- 7 -

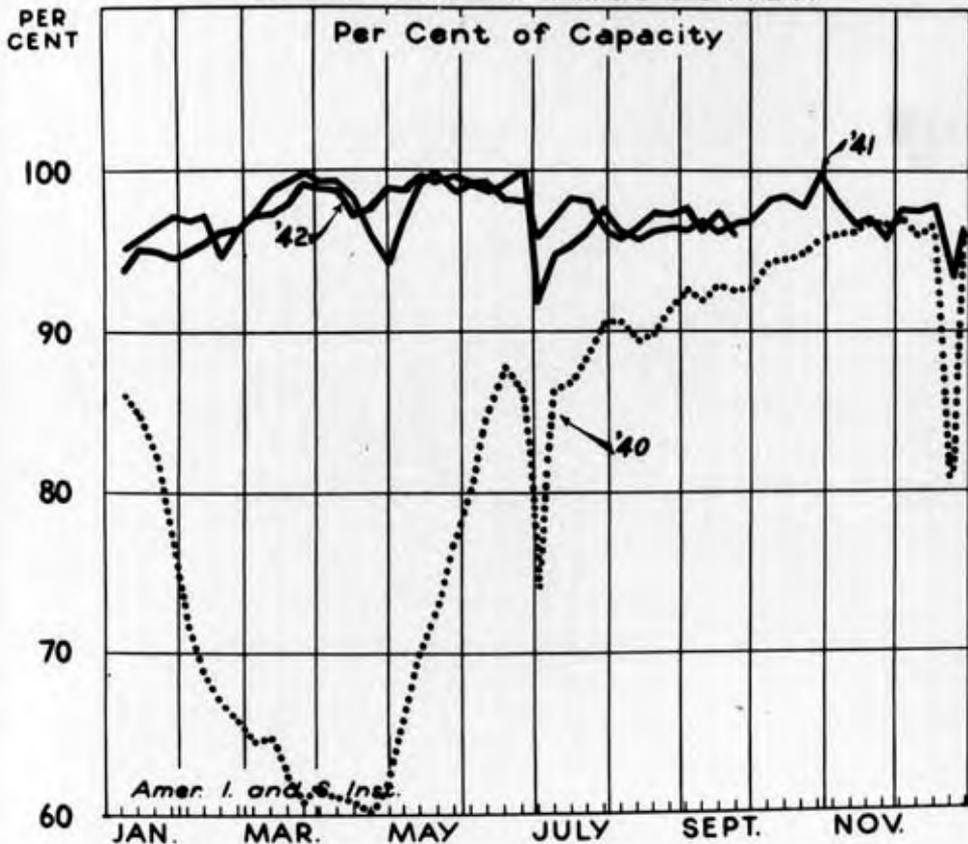
that there was 1 less shopping day in the 1942 week due to Labor Day. (See Chart 8.)

The strong sales trend shown in the early part of the month appears to be continuing. Dun and Bradstreet, in commenting on sales last week, referred to "a strong buying movement" and estimated that general retail trade was from 2 to 5 percent above year-earlier levels.

As a result of the maximum price regulations, retail prices of typical department store items, as measured by the Fairchild index, were unchanged in August for the second consecutive month. A very slight rise in prices of men's apparel was offset by corresponding declines in prices of women's apparel and home furnishings. Although average prices on September 1 were unchanged from the previous month, they were still 10.2 percent above year-earlier levels, and 27.2 percent above the pre-war levels of August 1939.

Department store inventories in the New York Federal Reserve District increased in August, but the rise was less than seasonal and the adjusted index of inventories fell to 165 from 168 in July. The gain in inventories over year-earlier levels dropped to 59 percent at the end of August from 82 percent at the end of July.

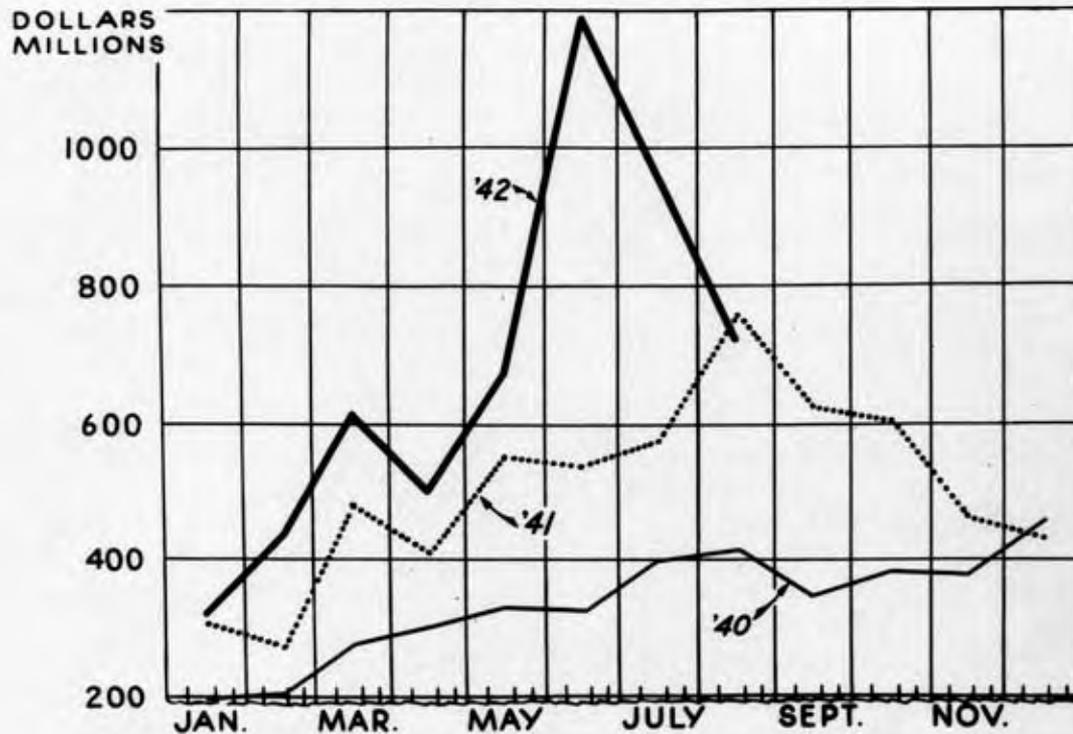
STEEL INGOT PRODUCTION



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

C-419

# TOTAL CONSTRUCTION CONTRACT AWARDS (37 States, F. W. Dodge Corp.)

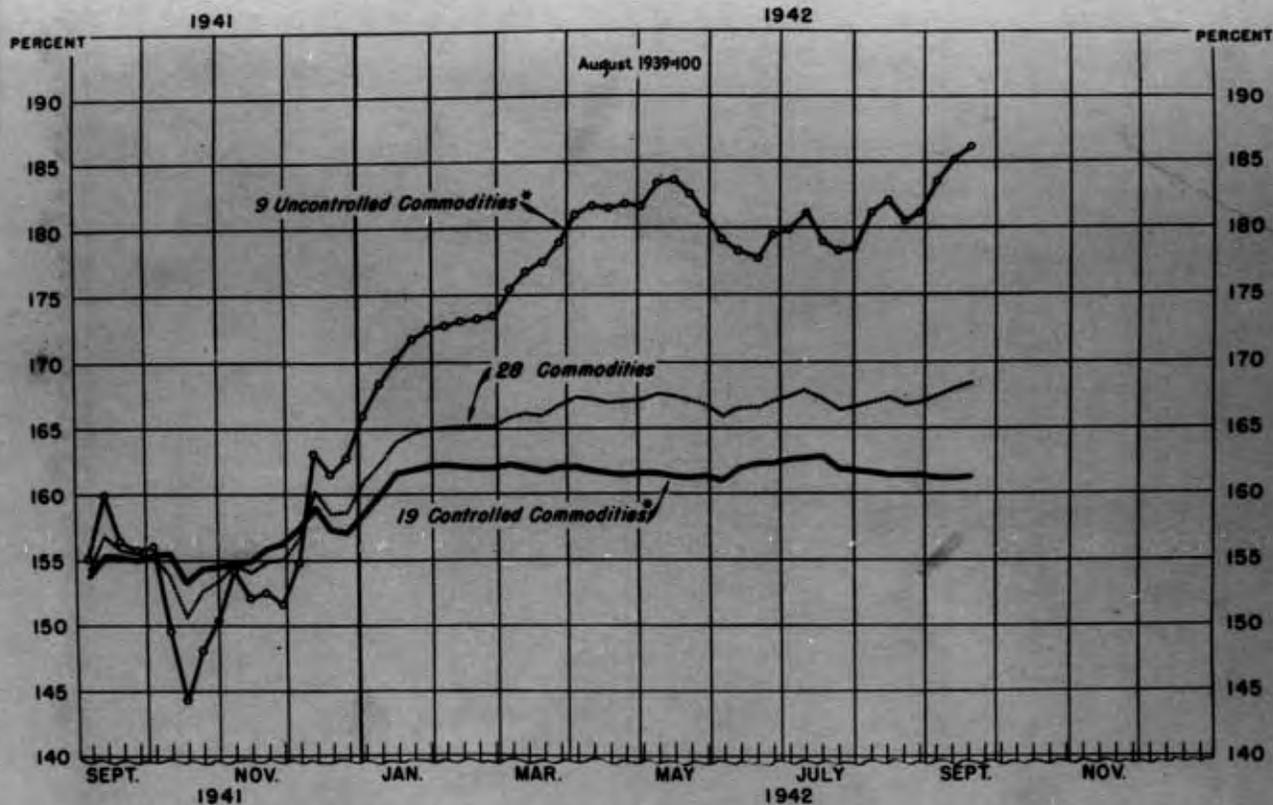


Office of the Secretary of the Treasury  
Division of Research and Statistics

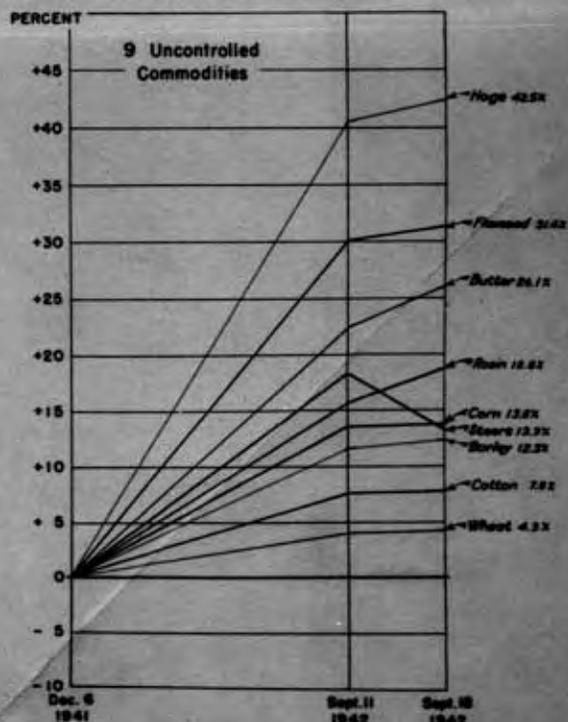
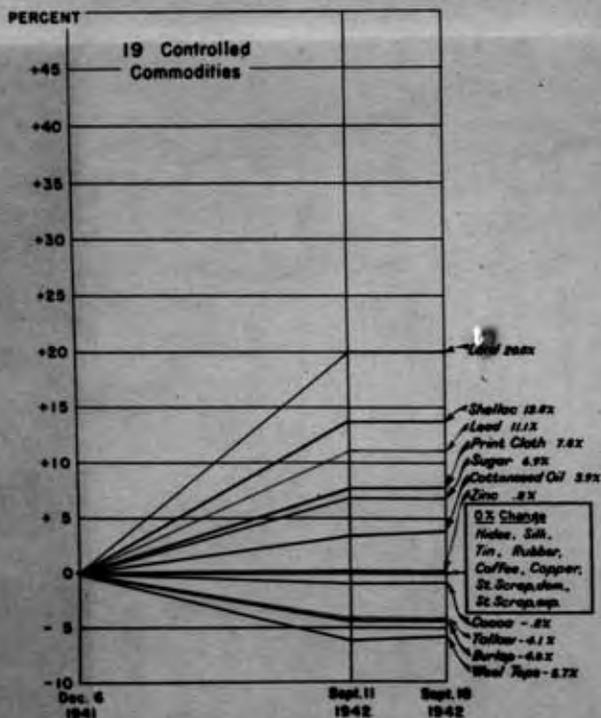
C-442

Chart 2  
87

# MOVEMENT OF BASIC COMMODITY PRICES



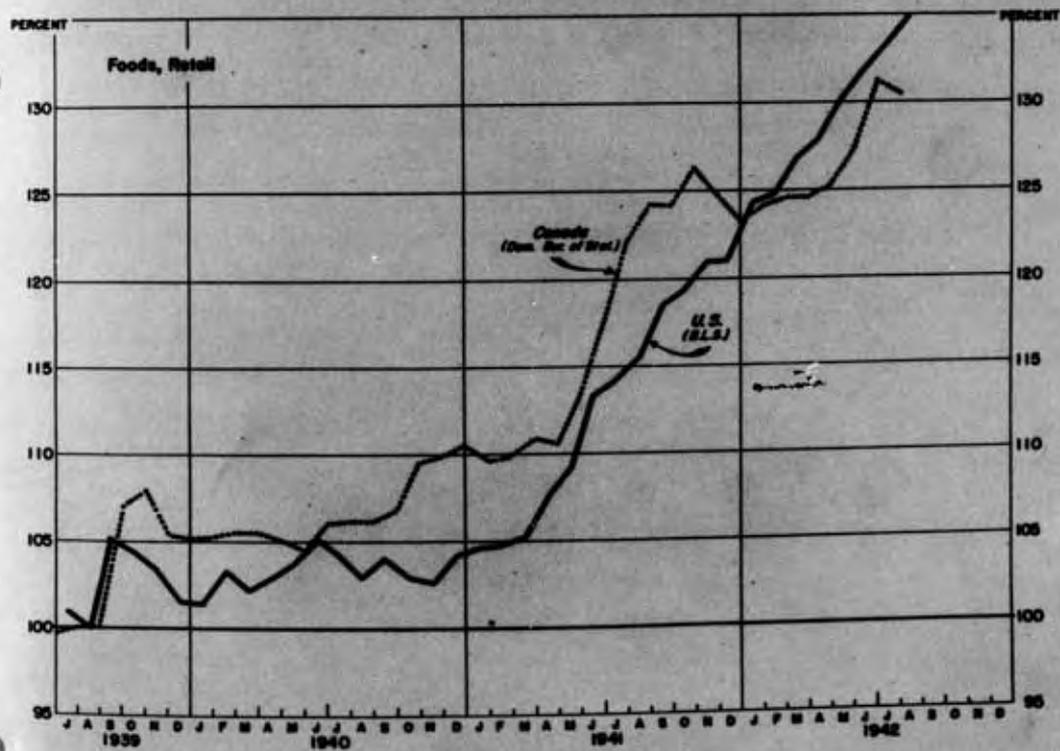
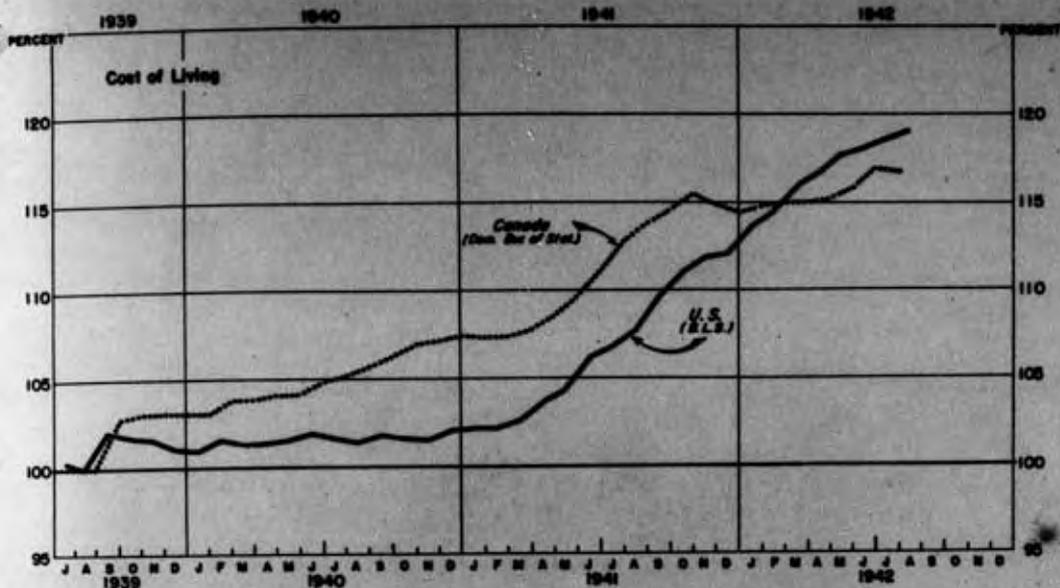
PERCENTAGE CHANGE DEC. 6, 1941 TO SEPT. 11 AND SEPT. 18, 1942



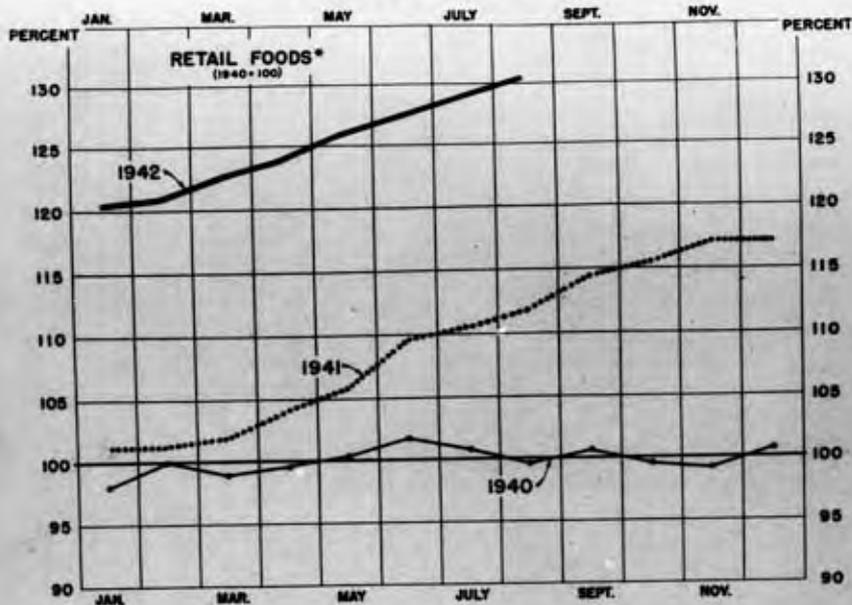
\* 20 Controlled and 9 Uncontrolled previous to June 26

# COST OF LIVING, U.S. AND CANADA

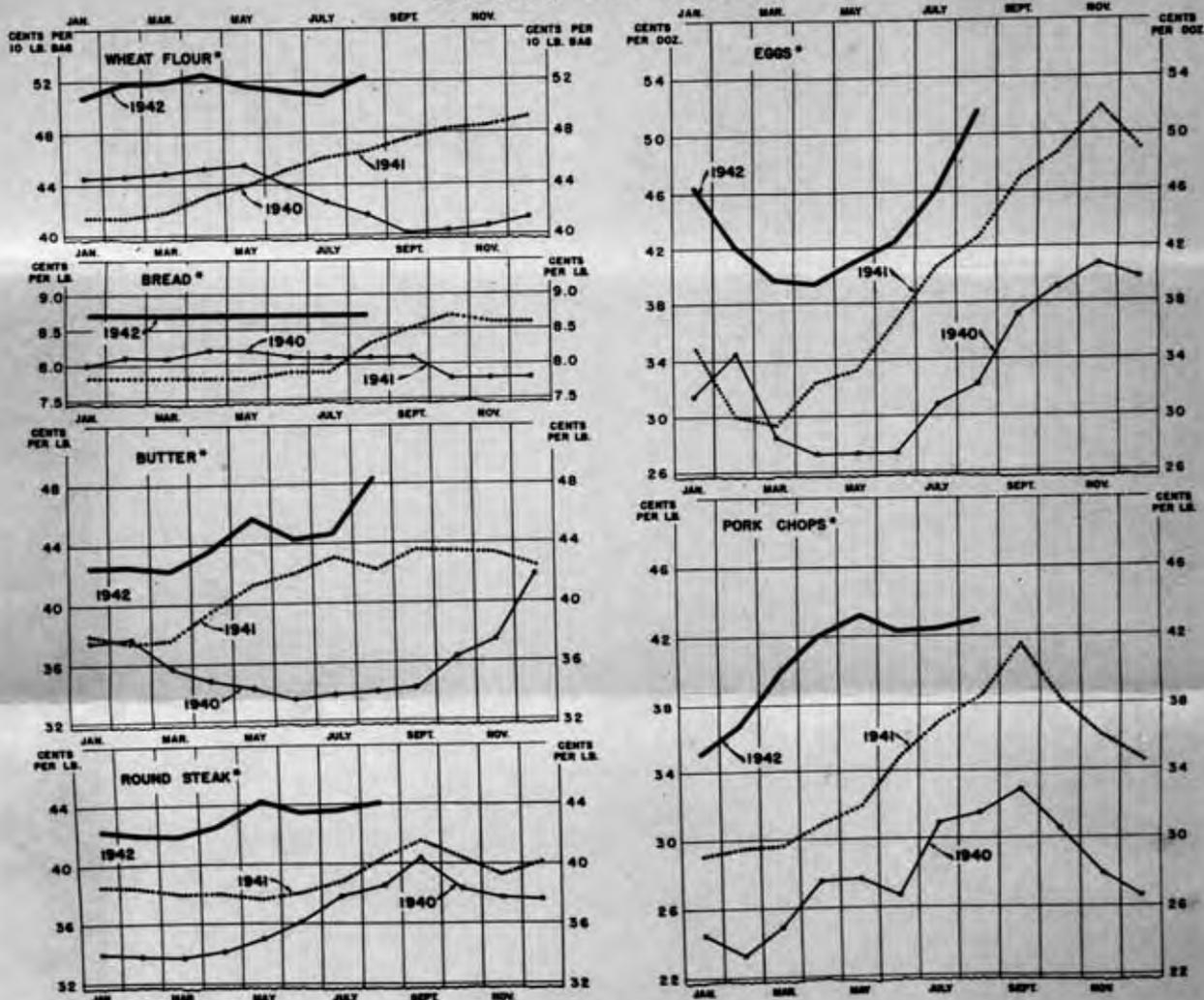
August 1939 = 100



# FOOD PRICES, RETAIL

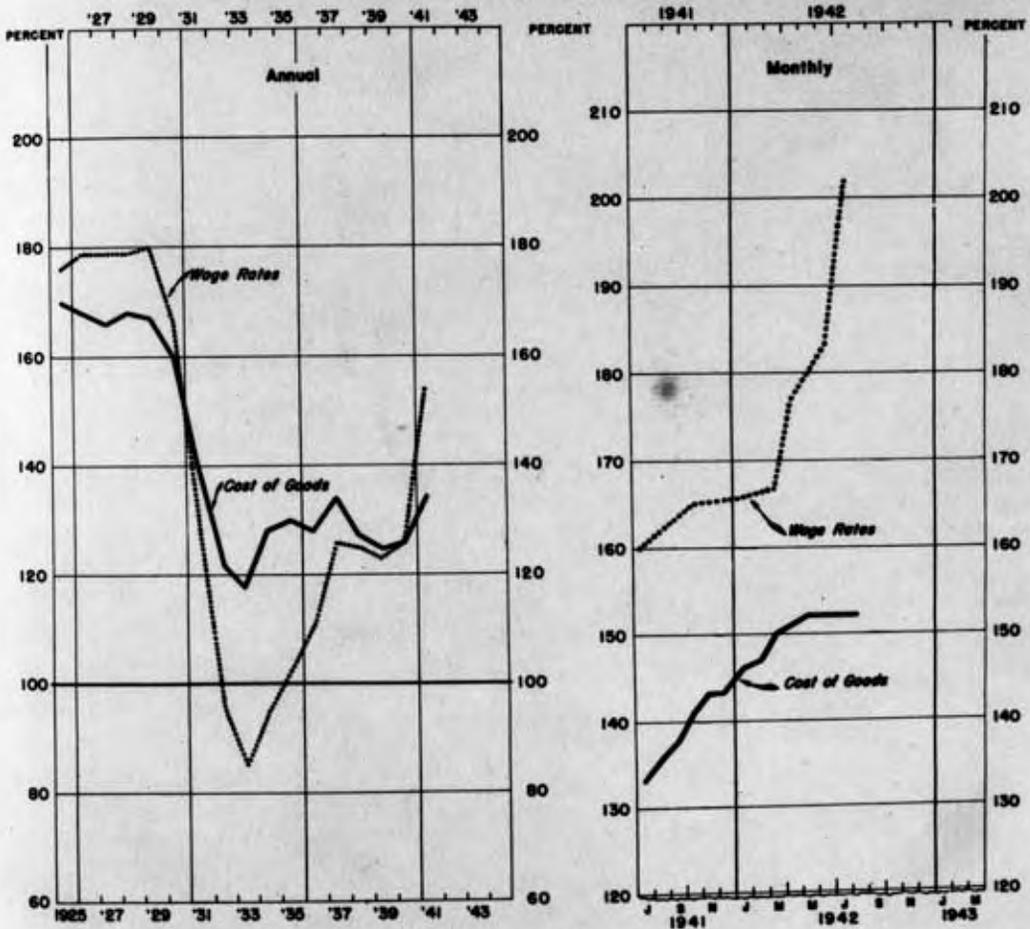


## Selected Basic Foods



Note: Latest figures are for April 26, Estimated  
\* In 5¢ Cans, B.L.S.

FARM WAGE RATES AND COST OF GOODS BOUGHT BY FARMERS\*  
1910-14=100



\*Including interest and taxes

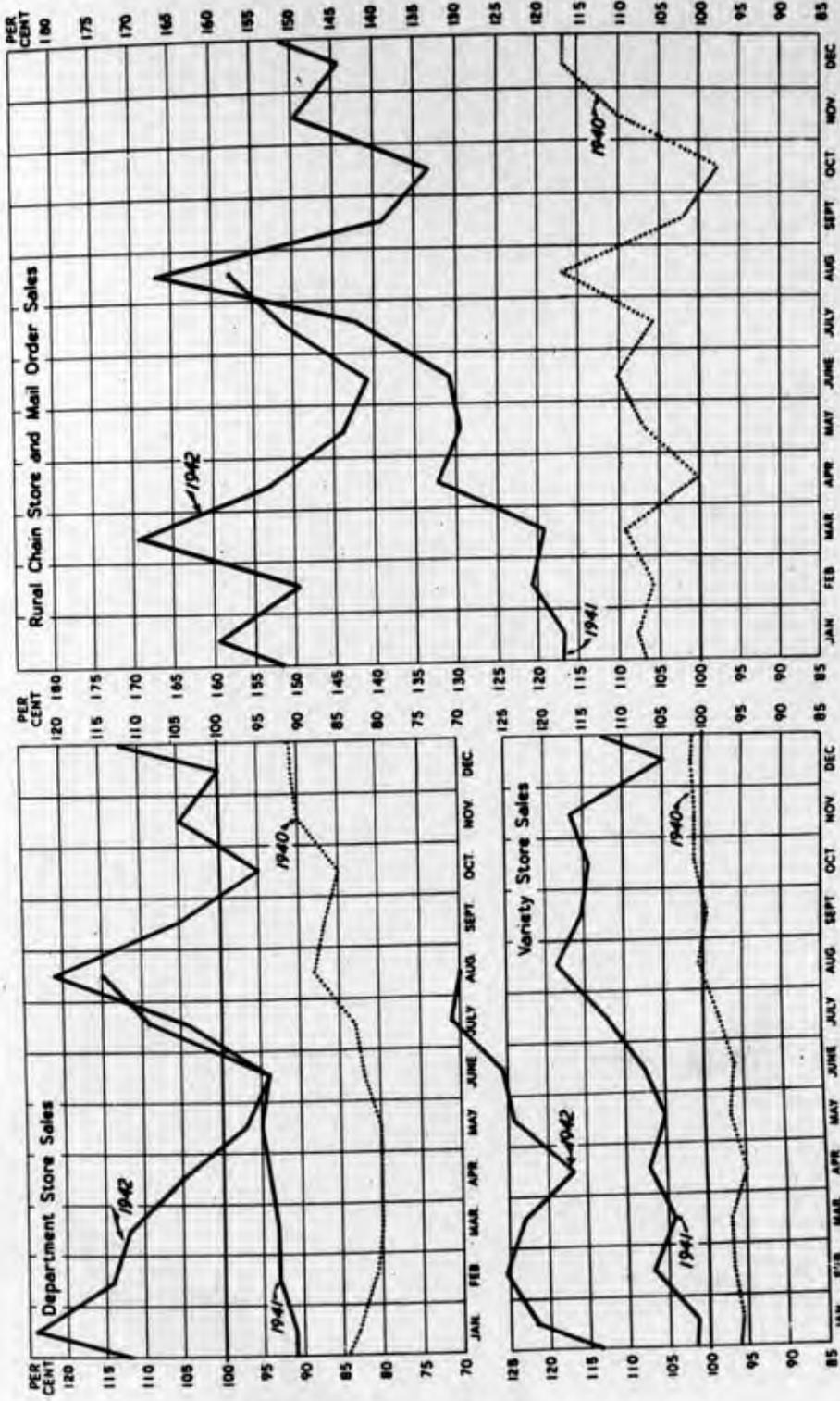
Office of the Secretary of the Treasury  
Bureau of Research and Statistics

0-441

# RETAIL TRADE

## Urban and Rural Sales of General Merchandise

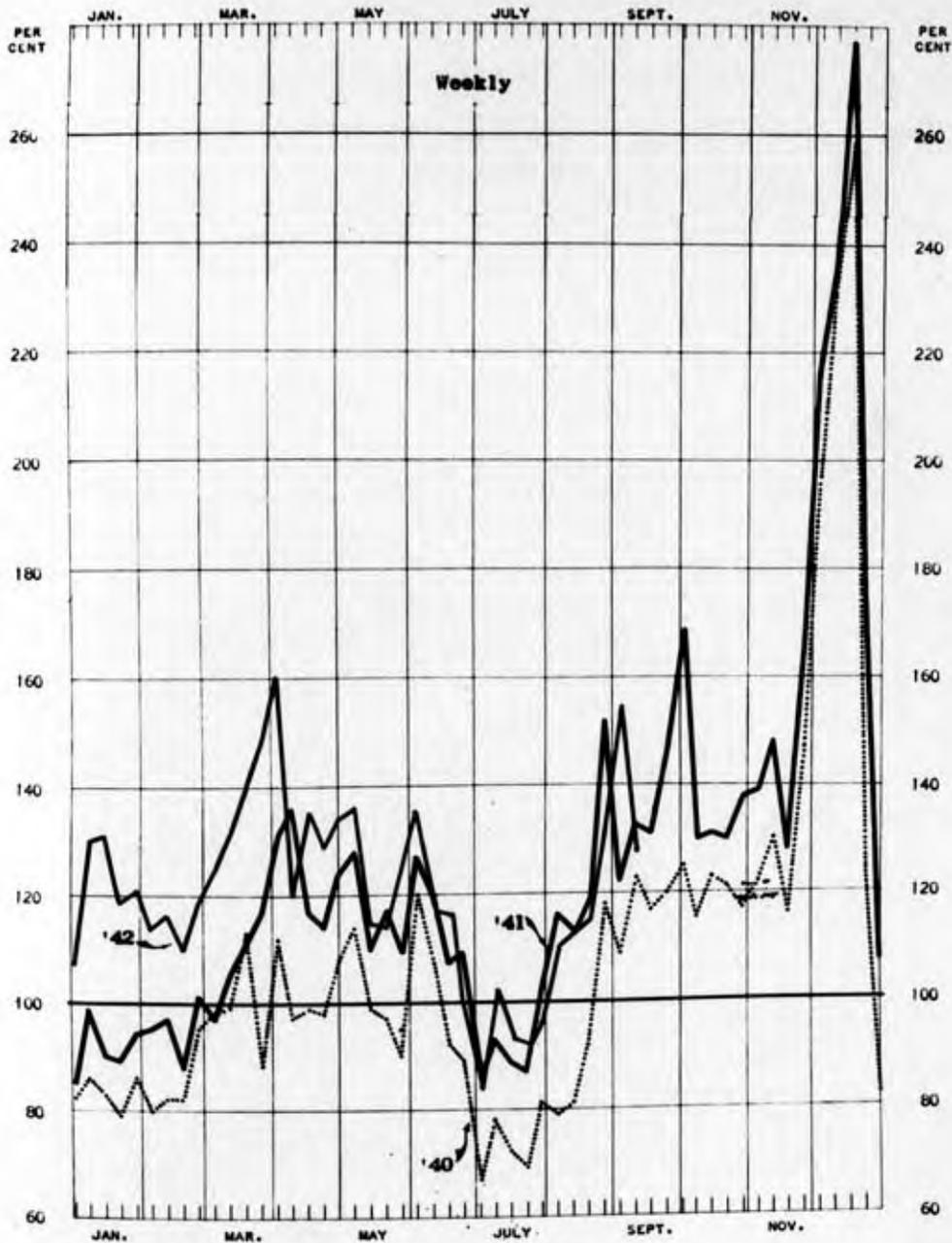
1929 = 100, ADJUSTED



Office of the Secretary of the Treasury  
Bureau of Economic and Statistics

DEPARTMENT STORE SALES

1935 - '39 = 100, UNADJUSTED



September 21, 1942

Dear General Allen:

In Secretary Morgenthau's absence from Washington I am writing to thank you for the pictures of the Parachute School which arrived this morning.

It does not matter that they were not taken on the day of the Secretary's visit. They are just the pictures he wanted to fill out the record of his tour, and I know that he will appreciate your kindness in sending them.

Sincerely,

Ferdinand Kuhn, Jr.,  
Assistant to the Secretary.

Brig. Gen. Leven C. Allen,  
The Infantry School,  
Fort Benning, Georgia.

FK/cgt



September 11, 1942

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

Dear Mr. Secretary:

Thank you for your letter of September eighth. I am glad you liked the photographs.

Unfortunately we do not have pictures taken at the parachute towers since our photographer was only on the job in the Infantry School section of the tour. I have checked with the Parachute School and except for the photograph taken with General Howell and Captain Ewell they do not have any either. That picture we included with the group we sent.

I have, however, gathered together from our file a few pictures of parachute training. I hope these will answer your needs.

With all kind regards,

Sincerely,

LEVEN C. ALLEN.

SEP 13 1942

**BRITISH AIR COMMISSION**

1785 MASSACHUSETTS AVENUE

WASHINGTON, D. C.

TELEPHONE HOBART 9000

PLEASE QUOTE

REFERENCE NO. \_\_\_\_\_

With the compliments of British Air Commission  
who enclose Statement No. 51 - Aircraft Despatched  
- for week ended September 15, 1942.

The Honourable Henry Morgenthau, Jr.  
Secretary of the Treasury  
WASHINGTON, D. C.

September 21, 1942.

MOST SECRETSTATEMENT NO. 51

AIRCRAFT DESPATCHED FROM THE UNITED STATES  
WEEK ENDED SEPTEMBER 15th, 1942

<u>TYPE</u>	<u>DESTINATION</u>	<u>ASSEMBLY POINT</u>	<u>BY SEA</u>	<u>BY AIR</u>	<u>FLIGHT DELIVERED FOR USE IN CANADA</u>
<u>Consolidated</u> Catalina 1B	U.K.	U.K.		4	
<u>Curtiss</u> Kittyhawks	Middle East	Port Sudan	127		
<u>Lockheed</u> Ventura	South Africa	South Africa		4	
"	U.K.	U.K.		7	
Hudson VI	Canada	Canada			6
"	Middle East	Middle East		2	
"	U.K.	U.K.		9	
<u>Glenn Martin</u> Marauder	Middle East	Middle East		5	
<u>North American</u> Mustang	U.K.	U.K.	12		
Harvard	Middle East	Port Sudan	6		
"	India	Bombay	30		
<u>Northrop</u> Vengeance	India	Bombay	18		
<u>Vought Sikorsky</u> O.S.2.U.	West Indies	Jamaica	6		
TOTALS -			199	31	6

BRITISH AIR COMMISSION  
 September 19, 1942.

NOT TO BE RE-TRANSMITTEDCOPY NO. 13BRITISH MOST SECRET  
U.S. SECRETOPTEL No. 328

Information received up to 7 A.M., 21st September, 1942.

1. NAVAL

The convoy to RUSSIA has arrived at ARCHANGEL. The homeward bound convoy is being shadowed by U-boats and aircraft but up to 11 A.M. 20th no ship in this convoy has been lost. One of H.M. Minesweepers one of the escort was sunk by submarine at 5:30 A.M. yesterday. The estimated position of the convoy at 6 A.M. today was 200 miles north of JAN MAYEN ISLAND.

2. MILITARY

MADAGASCAR. BRICKAVILLE was captured by our forces on the 19th without casualties. Our other columns are continuing their advance.

3. AIR OPERATIONS

WESTERN FRONT. 19th to 20th. SAARBRUCKEN. About 50 tons of H.E. and 103 tons of incendiaries were dropped in about one and a quarter hours some crews returning from MUNICH reported good fires two hours after the attack. MUNICH. 115 tons of H.E. and 47 tons of incendiaries were dropped including 33 4,000 lb. and 59 2,000 lb. bombs. Many large fires and two very large explosions. One of the last aircraft to leave circled the town and reported fires burning well.

RUSSIA. 19th. Russian aircraft sank five small naval vessels in a BLACK SEA port. German bombers attacked oil tankers on the VOLGA and railway communications east of the river.

LIBYA. 18th to 19th. TOBRUK HARBOUR bombed again.

MEDITERRANEAN. 19th. Beaufighters attacked three schooners off TRIPOLI and set one on fire.

MALTA. 19th. Two flying boats were shot down by Spitfires over SICILY.

4. LATE NEWS

73 survivors from H.M. Canadian destroyer OTTAWA have been picked up.

September 22, 1942  
9:30 a.m.

## GROUP

Present: Mr. Bell  
Mr. Buffington  
Mr. Paul  
Mr. Gaston  
Mr. White  
Mr. Blough  
Mr. Thompson  
Mr. Gamble  
Mr. Odegard  
Mr. Schwarz  
Mr. Cairns  
Mr. Kuhn  
Mr. Graves  
Miss Chauncey

H.M.JR: Where is Gaston?

MR. GASTON: Right here.

H.M.JR: Gaston, here is a curious one. Did you ever hear of a fellow named Joseph Leib?

MR. GASTON: Yes.

H.M.JR: What sort of a fellow is he? He says he has secret information that my father and I were in the shrinking business during the last World War and made a lot of money. Will you tell him that if he knows of a good shrinking business we can use it in the Treasury. I would like to know how to shrink a few things. (Laughter) He says the Army was about to investigate us and was stopped by some higher-ups.

MR. GASTON: He is the fellow who organized what he claims was the first of the Roosevelt clubs in 1932, and then he was not properly rewarded politically and he has been "off the reservation" since then.

- 2 -

H.M.JR: My father and I never had a war contract in our lives; but if he knows a good shrinking business right now I would like to know one. It would save a lot of trouble. (Laughter)

MR. BELL: The dollar shrinking?

H.M.JR: On prices, I mean. (Laughter)

MR. PAUL: Mr. Secretary, I have to go up on the Hill at ten o'clock.

H.M.JR: Is that so?

MR. PAUL: And I have got one thing here.

H.M.JR: Have you read "PM" yet about a good tax plan?

MR. PAUL: Well, I--

H.M.JR: Or did you write it? (Laughter)

MR. PAUL: No. It was submitted to me, but I did not write it.

H.M.JR: Listen, before you go on the Hill, in regard to getting this Josephus Daniels' editorial in the paper, tell him I suggest they ask La Follette to introduce it.

MR. PAUL: I can ask La Follette.

H.M.JR: Will you?

MR. PAUL: Yes.

H.M.JR: Will you do that?

MR. PAUL: Yes.

H.M.JR: And then who is looking after Mabel Newcomer?

- 3 -

MR. GASTON: I think--

H.M.JR: Who guides her, assists her?

MR. GASTON: I think probably I do as much as anybody. I talked to her originally.

MR. WHITE: Isn't she on OPA pay roll? Oh, that is Hildegarde Kneeland.

H.M.JR: They sound very much alike. (Laughter)

MR. WHITE: They both were working on the same thing. I have just learned that Hildegarde Kneeland would be available if you want her. Her staff works on cost of living.

H.M.JR: No. Mabel Newcomer is getting out a series of pamphlets, trying to sell the Treasury tax program.

MR. WHITE: Didn't Hildegarde do some work for the Treasury on the cost of living?

H.M.JR: Yes, she did. She made available her figures to George Haas.

What are we going to do about Mabel Newcomer to look after her temporarily?

MR. GASTON: She is available for part-time work.

H.M.JR: But she has been working and doing a lot. I want somebody to guide her.

MR. GASTON: I gave her the assignments that she has been working on.

H.M.JR: Will you take this letter, and have a talk with her the next time she comes to town, until we get this thing straightened out, Herbert? (Letter dated September 18, 1942, signed by Miss Newcomer, handed to Mr. Gaston.)

- 4 -

MR. GASTON: Yes.

H.M.JR: Now, one other thing - don't get restless.

MR. PAUL: I am not restless.

H.M.JR: Joseph L. Weiner, Deputy Director, Office of Civilian Supply, writes me as of September 17 - Miss Chauncey, make a note that I gave that to Gaston. We will lose it, most likely. (Laughter)

MISS CHAUNCEY: Yes, sir.

H.M.JR: He says, "Among the many problems facing the Committee is compensation to firms closed down by the War Production Board program of concentration of production. In order to deal with the compensation problem, the Committee has established a Subcommittee on Compensation. In connection with our work on compensation plans for closed-down firms under the concentration plans, we wish to have the experienced and able help of the Treasury Department. At the same time, I believe that the Treasury Department will be vitally interested in the development of any compensation plans for closed-down industries. I suggest, therefore, that you designate a representative from the Treasury Department to be a member of the Subcommittee on Compensation for Concentration of Production so that you can participate fully in this program."

Who would that be?

MR. GASTON: It is an economist's job.

MR. PAUL: Who?

MR. GASTON: I say it is an economist's job.

- 5 -

MR. WHITE: I think it is more important than appears at first blush because it may grow into compensation for closed-down plants at the end of the war - cutting down the billions of dollars of contracts. It may be an important committee.

H.M.JR: Why not John L. Sullivan?

MR. PAUL: It is more than an accounting job.

MR. WHITE: I should think it belongs mostly in Haas' shop.

MR. GASTON: That would be my guess.

H.M.JR: I don't think so. It comes down--

MR. BELL: Are there any documents attached to show what it is?

H.M.JR: It is voluminous.

MR. WHITE: It takes both a lawyer and an economist.

H.M.JR: He has been doing that kind of work for me. I think I will put John on that, and he can call on other people.

MR. THOMPSON: It sounds like George Haas' work.

MR. WHITE: I still think it belongs to the Legal Division and Haas' shop.

MR. BELL: Sullivan can consult them.

H.M.JR: Yes, I think so.

Now, Mr. Paul?

- 6 -

MR. PAUL: I want to leave with you a report - I will just leave that with you (Memorandum to the Secretary from Mr. Paul regarding Draeger Shipping Co.)

H.M.JR: What is that?

MR. PAUL: It is a report - a suggested recommendation.

H.M.JR: Crowley - oh, well now, look, on this thing - Mr. Cox and Mr. Lubin have declared themselves in on this thing, and I said when I decided it I would have them present.

MR. PAUL: Then we ought to have a conference with them and go over that.

H.M.JR: All right. Tell Cox and Lubin three o'clock this afternoon, and Pehle - and who else?

MR. PAUL: Probably Bernstein - I think Bernstein and Pehle have been working very intensely on it.

H.M.JR: All right, three o'clock.

MR. PAUL: I would like to see you for a few minutes after that about a little conflict with WPB about taxes.

H.M.JR: Just a little conflict - what could they want to do, get somebody's taxes signed off? (Laughter)

MR. PAUL: They sent somebody up for about the third time to oppose our program yesterday, and I think we ought to do something about it.

H.M.JR: Why wait so long?

MR. PAUL: I did something before but it had no effect.

H.M.JR: The whole program?

MR. PAUL: No, on depletion.

H.M.JR: WPB - who went up there?

- 7 -

MR. PAUL: A man named Nelson, not the leading Nelson, but another man by the same name.

H.M.JR: What is his name?

MR. PAUL: His name is Wilbur Nelson.

H.M.JR: Wilbur?

MR. PAUL: I would like to tell you the whole story.

H.M.JR: Why don't I just call up Donald Nelson?

MR. PAUL: That is what I did. I think we ought to go on record on it.

H.M.JR: In writing?

MR. PAUL: I want to tell you the story. It is a little more complicated than that.

H.M.JR: Write a letter for me to Donald Nelson.

MR. PAUL: Yes, I would like to do that. I would like to do that.

H.M.JR: All right.

MR. PAUL: We have got the thing licked as far as the present case is concerned, but I think it is important for the future.

H.M.JR: All right. Write me a letter. Are you going to be here at three o'clock?

MR. PAUL: I think so, unless something happens.

H.M.JR: Will you stay after that?

MR. PAUL: Unless something happens. We are up on profit limitations, today.

H.M.JR: On what?

- 8 -

MR. PAUL: Profit limitations.

H.M.JR: I see they accomplished something yesterday: The people over a million dollars don't have to pay more than ninety percent. That makes good reading.

MR. PAUL: I thought they were going to do a lot more. I was ready to leave.

MR. GASTON: The story in The Star last night says that your interview with the press has caused them to revise their ideas and increase the yield of the bill.

H.M.JR: That shows what an effective mouthpiece I was for you, Herbert.

MR. GASTON: But if they really are softening up it is pretty interesting. I don't know.

H.M.JR: Do you see any signs of softening?

MR. PAUL: No, no signs.

H.M.JR: Like softening up of the Japanese, huh?

What else?

MR. PAUL: That is all I have.

H.M.JR: All right, you are excused when you feel like going.

(Mr. Paul left the conference.)

H.M.JR: Herbert, have you got a fist full?

MR. GASTON: Well, I have here a letter you might wish to consider.

H.M.JR: (To Paul as he is leaving) Does Sammy Klaus come to this three o'clock meeting or not?

- 9 -

MR. PAUL: No, I don't think so.

H.M.JR: Poor Sammy, aren't you going to allow him to come? (Laughter)

MR. PAUL: He is on that other job now.

H.M.JR: And so he can't come to this?

MR. PAUL: No, I think not.

H.M.JR: I see. You want to close it. Don't you want to give him a chance?

MR. PAUL: It would just complicate things, don't you think?

MR. CAIRNS: I am afraid so.

H.M.JR: The boy stirred it up; aren't you going to let him have the fun of seeing me close it?

MR. PAUL: It will just clog the works.

H.M.JR: You fellows are tough. (Laughter)

MR. GASTON: I have had a number of calls from John McCormack and have been ducking calls from him about this matter of the appointment of a comptroller at Boston.- Jim Curley's brother, you know, John Curley. Jim Curley succeeded in getting the nomination in a revised district up there for Congress in defeating Tom Eliot, who is a really good friend of the Administration. He moved over into Tom Eliot's district and beat him, Jim Curley did.

H.M.JR: And Tom Eliot is defeated?

- 10 -

MR. GASTON: Yes, Tom Eliot is defeated for the nomination. Curley went out of his district to oppose Eliot and beat him. They are pressing very hard for that appointment, and they tell me that it is favorably regarded across the street. I have been stalling them for weeks on the thing.

H.M.JR: Well, keep on stalling. I would like to get Tom Eliot in the Treasury.

MR. GASTON: That is a good idea.

H.M.JR: What?

MR. GASTON: That is an idea.

MR. ODEGARD: That campaign, incidentally, reached a new low, so far as the character of it is concerned.

H.M.JR: Who knows Tom Eliot?

MR. WHITE: His brother is here, Charles, in the National Resources. I know of him.

MR. GASTON: I have met him. I don't know him at all.

H.M.JR: Do you know him?

MR. ODEGARD: Yes, I know Tom Eliot.

H.M.JR: I don't know what I would have him do, but I certainly could find a spot for him.

MR. GASTON: Of course he is still a Representative until the third of January.

H.M.JR: I will call him. Do you want to call him up and ask him what his plans are? Do you know him well?

MR. ODEGARD: I don't know as I know him well. I have been in his house, had cocktails with him, and talked with him a great deal.

H.M.JR: Talk to him because he is a good man.

- 11 -

MR. ODEGARD: He is a good man. I will call him.

H.M.JR: What else, Herbert?

MR. GASTON: Well, there are rather crucial test cases in Randolph Paul's shop on the question of the draft and commissions. There is one particular case, I think, that we would like to put up to you during the day or within a day or two.

MR. THOMPSON: I hadn't heard of it.

MR. GASTON: No, you had not had a chance to hear of it. Huntington and Joe O'Connell were talking to me about it yesterday. They are in the Procurement Division.

H.M.JR: Procurement Division?

MR. GASTON: Yes.

H.M.JR: Lawyers?

MR. GASTON: Lawyers.

H.M.JR: Lawyers do not stand well with the draft board.

MR. GASTON: There are two of them over there. They are about to go at once.

H.M.JR: Well, why don't they go to Norman?

MR. GASTON: Well, I think this is a case that you might want to look at and decide.

H.M.JR: It is very seldom that more than half a day passes when Norman calls me that I--

MR. GASTON: I asked him to write a memorandum.

H.M.JR: Could you move it into Norman's shop, and I will see the two of you?

MR. GASTON: Yes.

- 12 -

H.M.JR: I mean, I very seldom--

MR. THOMPSON: They move right along.

H.M.JR: When you say it is urgent, I see you right away.

MR. THOMPSON: Sure.

H.M.JR: What else?

MR. GASTON: Nothing else.

H.M.JR: Kuhn?

MR. KUHN: You asked about pennies and nickels. Those announcements have gone out. They were O.K.'d by Peter. I am not sure whether they are for immediate release by the radio stations or for the first of October, but I will have the announcements over this morning for you to see.

H.M.JR: Will you? O.K.

MR. ODEGARD: Did you want to see those announcements?

H.M.JR: I would like to see them, yes.

What else?

MR. KUHN: That is all I have.

MR. BUFFINGTON: We are doing a good job in distributing circulars through the banks. They will start on October first, making broad distribution through their bank statements. We have decided, with your permission, to hold up general distribution to the forty-three million people we hope to reach until nearer the time the tax bill is completed, if that is agreeable to you.

H.M.JR: I will know better after I see how much we sell this month.

- 13 -

MR. HUFFINGTON: There has not been much of an increase to date. Usually a large percentage comes in the last five or six days of the month, but there has already been good distribution to the public through these commercial bank sources.

H.M.JR: What else?

MR. HUFFINGTON: That is all.

H.M.JR: Ted?

MR. GAMBLE: On September 30, at the close of the tour of these movie stars, they are going to have a big celebration in Madison Square Garden. That is a week from Wednesday night, and they would like very much to have you present.

H.M.JR: No. Thank you very much.

MR. GAMBLE: That is all I have.

H.M.JR: No. I had my picture "took"; it was very nice; I enjoyed it.

MR. GAMBLE: They have really done a remarkable job during the month; they have worked very hard.

H.M.JR: Did you see the editorial on it in today's Washington Herald?

MR. GAMBLE: No, sir.

MR. KUHN: Very stupid - somebody having space to fill.

MR. SCHWARZ: Part of the lottery campaign.

H.M.JR: Just amusing. No, I do not think I want to go up.

MR. GAMBLE: They have been responsible for--

- 14 -

H.M.JR: Maybe you can get Bernie Baruch to go to that meeting. (Laughter)

MR. GAMBLE: We have had very fine editorial comments from all over the country. Mr. Kuhn has a series of them that I think he plans to show you.

MR. KUHN: The interesting thing is that since the movies are big advertisers and are also big people in the community - and retailers the same - the newspapers have been publishing more editorials, appreciative editorials, about the war bond campaign when they link it with the retailers' drive or the movie drive than we have ever had before.

H.M.JR: Ferdie, you surprise me! To think any editorial page could be so influenced!

MR. KUHN: Well, it just happens that way. (Laughter)

MR. ODEGARD: I was told that that was absolutely not true, Ferdie, last year, by a society newspaper editor.

H.M.JR: You made a speech to them, didn't you?

MR. ODEGARD: Yes, and they almost tore me limb from limb for saying what Ferdie has just now said.

H.M.JR: That shows what a year and a half will do for Ferdie. (Laughter)

MR. KUHN: Seriously, these people have done the greatest job that any group has done for us.

MR. GAMBLE: They have stayed right on it, Mr. Secretary. It hasn't been just a question of starting.

H.M.JR: You couldn't link up that meeting Wednesday night and make it a joint benefit affair for the governor? (Laughter)

- 15 -

MR. GAMBLE: If you would come, we might get Mr. Bennett in.

H.M.JR: Nobody said a word to me about coming out for Bennett. It is amazing, isn't it?

MR. BELL: Did you come out?

H.M.JR: Nobody has asked me to. Nobody has said anything to me. It shows how important I am - or unimportant.

What else, Ted?

MR. GAMBLE: That is all I have, Mr. Secretary.

H.M.JR: All right.

Roy?

MR. BLOUGH: Has it been brought to your attention the Groves-Gulick study is now in our hands for review?

H.M.JR: What happened was, Mr. Gulick came in here on one of my tax days and said, "Mr. Morgenthau, this is all right; this is going to be easy for you." He says, "We have got this thing absolutely condensed down, irreducible." He says, "I would like to give it to you." He said, "It is fine, we have condensed this thing for you. Why, it is just a thousand pages." And so I said, "Don't lay it on my desk because I don't want you to think you have given it to me." That is all I know.

MR. BLOUGH: It isn't quite that bad, Mr. Secretary. They do have the recommendations reduced to about seventy or eighty pages, and I think even that can be further reduced. I might put it on one page for you, sometime, if you would like it. (Laughter)

H.M.JR: What are you going to use - microfilm? When you get it down to one page I will look at it.

- 16 -

MR. GASTON: This is a straight attempt at blackmail. (Referring to Mr. Leib's letter)

H.M.JR: Is it?

MR. GASTON: Yes.

H.M.JR: What do you want to do - give it to the Secret Service?

MR. GASTON: I think it might be a good idea to trap the fellow.

H.M.JR: What?

MR. GASTON: I think it might be a good idea to hook the fellow. I will talk to Elmer about it and see what he thinks.

H.M.JR: I would love it. I haven't been in on a good blackmail case in a long time. (Laughter)

MR. GASTON: That is what it is.

H.M.JR: Let's have some fun with him. Do you think that is what it is?

MR. GASTON: Yes.

H.M.JR: Let's have some fun with him.

All right, Roy, we got by you, didn't we?

MR. BLOUGH: I assume that meeting at ten-fifteen has something to do with the other thing?

H.M.JR: Yes.

Cairns?

MR. CAIRNS: I have nothing.

H.M.JR: Odegard?

- 17 -

MR. ODEGARD: I have nothing.

H.M.JR: I sent word to one of your assistants, Vincent Callahan, I had heard such good reports on Red Barber broadcasting over WHN. I hear he has sold a half million dollars worth of bonds.

MR. ODEGARD: He is supposed to have.

H.M.JR: Broadcasting the Dodger's - that is a lot of bonds. A fellow listened to him Saturday and he said he practically never broadcast the game at all, he just read off the names of people that bought bonds.

Chick?

MR. SCHWARZ: If I could have two seconds afterward to show you two pictures.

H.M.JR: Two pictures?

MR. SCHWARZ: Yes.

H.M.JR: Where did you get them?

MR. SCHWARZ: "Life" pictures.

H.M.JR: "Life" - oh yes.

Harry?

MR. WHITE: Mr. Berle telephoned and wanted to know what had happened to that bill authorizing a hundred million dollars to be loaned to foreign governments. You remember the last time we brought it up was August, and you said that if Berle was interested he would raise it again. Well, he has raised it. I asked him how he thought it was to be handled, and he thought it would be handled the same way as the Chinese loan, that you and Mr. Hull would go up there; but he said that since it is a money bill, it ought to be handled any way you think it should be handled.

- 18 -

H.M.JR: Do you play poker? (Laughter)

MR. WHITE: I think I am pretty good. (Laughter)

H.M.JR: Well, I wouldn't see him. You said he raised--

MR. WHITE: Neither see him nor raise him?

H.M.JR: No.

MR. WHITE: And the pot is his. (Laughter)

H.M.JR: What?

MR. WHITE: And the pot is his.

H.M.JR: Well, he can have what is in the pot. No, let the thing drag. Ask him what happened to the bank for North and South America.

MR. WHITE: Well, I do not think we can let it drag because he called me especially on it. I told him I would speak to you when you returned. Now we can throw it back at him, but I think he has got to get some kind of an answer.

H.M.JR: If he wants to come over here at three-thirty this afternoon, I will see him. I am not going - and if he comes I want you (Bell) here. A hundred million dollars hush-hush money!

MR. BELL: We don't have it.

H.M.JR: No, I am not for it. I might as well tell him so.

MR. BELL: We can't afford it in these times.

H.M.JR: What else, Harry?

MR. WHITE: You might want to call up Hull and ask him whether he feels keen on it.

- 19 -

H.M.JR: I will do that when Berle is here.

MR. WHITE: There are copies of two bills repealing the Silver Purchase Act, one by Celler and one by Somers, and it was mentioned - I imagine Dan must have signed, or will have signed, about forty letters to Senators and Congressmen, at least, on the silver thing. There is a great ferment up there.

Now, the Green bill is coming up, and we are going to report on it after we have a discussion here. Do you have any interest in it at this stage of the game?

H.M.JR: Yes, I would like to put in a paragraph in all of these letters - going back to my testimony and picking out my testimony - and say that I am writing that my position - that as far as I am concerned I would like to see all silver legislation struck off the books.

MR. WHITE: You would like to say that now?

H.M.JR: Yes, quoted - "I said on such and such a date"--

MR. BELL: And then go back to what you said, and say, "I have taken the position and I have not changed."

H.M.JR: Yes. "On such and such a date I said" - somebody go through the record - "that I would like to see all silver legislation" - and I have said it on a number of occasions, and my position has not changed.

MR. WHITE: All right. You may have noticed that Senator McCarran on Saturday morning announced to the press that they were planning to present a bill raising the price of domestic silver. Now, the only interesting feature about that is that I am pretty sure, from the timing, that he did that before he got your answer to his letter. So I think it clearly constitutes a violation of the trust which he himself had proposed. I thought you would be interested.

H.M.JR: That is interesting.

- 20 -

MR. WHITE: There was a cable from Winant about Casady I wanted to speak to you about.

H.M.JR: I would let him go back.

MR. WHITE: There are a couple of things about the work that he is doing--

H.M.JR: Why don't you stay behind after Berle leaves and I will clean you up?

MR. WHITE: All right. That is all there is.

H.M.JR: How is the Mardi Gras down at New Orleans?

MR. GRAVES: It is abolished.

H.M.JR: It is abolished? Did you get us a new administrator?

MR. GRAVES: No, but I got some people interested down there who will try to do that for us. Mr. Maloney, our former administrator, who has been nominated now for Congress, is still very much interested and is going ahead with that effort to select an administrator.

H.M.JR: Harold, I have a suggestion to make to you which you can consider with your associates. I was very much impressed by Cagney reading that letter. I thought that was an awfully good way to get over a story, you see. I also was impressed when I went outside there and saw the steady increase in the number of twenty-five dollar bonds which has been made, plus the increase in the percentage of people from six up to seven percent. There are certain things there to sort of get over on the positive side, that the war bonds are not a failure, as most people think they are, I was thinking that if we could put that into the mouth of somebody like Mr. Arnold, who is president of the Motion Picture Actors, and get him

- 21 -

to read a letter or make it a little bit different - I don't know - but if, for instance, if this thing is going to be concluded on Saturday, or next Wednesday, I write a letter to these people thanking them for what they have done and then put in this straight propaganda stuff, "I think you would like to know that during the month of August we sold eight million pieces of twenty-five dollar bonds, which was the highest, and steadily increasing," and something about pay-roll deduction, how it has increased, both in dollars and percentage, you see, something on that, and then get this fellow to say it. Think about it.

MR. GRAVES: Say it on this occasion, Wednesday - a week from Wednesday?

H.M. JR: Yes. Then maybe you could get a little special short of him saying that, which would go out to the theaters, because I am impressed with the fact that Gamble says there are eighty-five million people going to the theaters, and I discount that by half, so forty million people - that is a lot of people to reach.

MR. GAMBLE: As a matter of fact, that is the exact figure your people in the Internal Revenue give you, the information on how many people are going to the theaters every month, because they are getting the percent. There is seventy percent of the business that is new business.

H.M. JR; Anyway, if it was forty million people it is a lot of people. Will you work on that?

MR. GRAVES: Yes, I think that such a letter would be very much in place on that occasion, and of course it ought to do something, too, about acknowledging the very fine work that has been done.

- 22 -

H.M.JR: I would make it an acknowledgment and then sneak this paragraph into the middle.

MR. GASTON: I think so, too.

MR. GAMBLE: You wouldn't want to go so far as to make this a subject involving yourself and one of these people?

H.M.JR: No, I am no good - a fellow like Cagney or a fellow like Arnold, or some outstanding figure in the motion picture world. Who is this - I tell you who I would like to have do it - who is this fellow that just did this baseball picture?

MR. GAMBLE: Gary Cooper.

H.M.JR: Yes.

MR. GAMBLE: I don't think he would be very good for this. He is kind of a slow and easy-going--

H.M.JR: That is all right.

MR. BELL: How about one of them in uniform?

H.M.JR: No, I don't think we want to use that.

MR. WHITE: Did you happen to see a short picture trying to recruit men for the Air Force, in which Jimmy Stewart does some talking?

H.M.JR: That was the first one we - no, we got another one.

MR. WHITE: It was, I thought, splendidly handled and kind of a new idea. If you hadn't seen it I thought it might be well to run it off on the screen.

MR. BELL: He talks very well, too.

H.M.JR: All right. Will somebody tell them downstairs?

- 23 -

MR. GAMBLE: It is an Army film.

H.M.JR: If he gives this idea of the motion picture - if he got Cagney to do it - they will get somebody to do it who is good. Anything else?

MR. GRAVES: That is all.

H.M.JR: Dan?

MR. BELL: Mr. Sproul would like to make some arrangements for regular meetings of the Executive Committee. They meet maybe two or three times a month and they would like to meet once a week during these times and set a certain date during the week.

H.M.JR: With us?

MR. BELL: No, only with you when they want it but they would like to set a certain date in the week and make that more or less fit into what you might want, whether Tuesday or Wednesday would be a better date - I think possibly Wednesday might be a better date, subject to change from time to time when we could meet. I think maybe we ought to have a meeting of the Executive Committee, say, next Wednesday, if that is all right with you.

H.M.JR: All right. Eleven o'clock, Miss Chauncey.

All right, what else?

MR. BELL: I told you Governor Towers is in town, and he would like to come in and pay his respects if you have a moment.

H.M.JR: Four o'clock, tell him I will see him.

MR. BELL: We have three tickers across the hall, I believe, one of bond, the cotton, and the grain. Miss McCathran thinks we might do away with two of them.

H.M.JR: Who thinks so?

- 24 -

MR. BELL: Miss McCathran, who runs the desk over there. We could save twenty-five dollars a month on each of them if you would be willing to take the cotton and grain quotations less often and from the regular ticker.

H.M.JR: That girl has got brains.

MR. BELL: She is good.

H.M.JR: Cut out the cotton and grain. She has got brains. She is the first girl that has ever been there that used her head.

MR. BELL: She is very good and always has good suggestions.

H.M.JR: She is the first girl that has ever been there that used her head.

MR. BELL: We ought to thank Governor Towers for that service. (Letter addressed to Governor Towers signed by the Secretary.)

H.M.JR: What else?

MR. BELL: I understand that a bill has passed - a joint resolution has passed the Senate which will cut down our revenue in October and November by two hundred and twenty million dollars. That is the postponement, I believe, of the capital stock tax, and then the new revenue act knocks it out altogether. So we are going to lose two hundred and twenty million our next quarter.

H.M.JR: Is that right?

MR. BLOUGH: I didn't realize that the new revenue bill was going to knock it out for this summer.

MR. BELL: Well, that is what--

MR. BLOUGH: It may be. I will have to check on that.

- 25 -

MR. BELL: He thinks the new tax bill will knock it out altogether, so we will lose that two hundred and twenty.

MR. BLOUGH: The situation is this, it had to be postponed because no one could intelligently file a statement of capital stock tax until he knew what this tax bill was going to be. The Senate version knocks it out; the House version has it in. And in any case, the revenue will be less because the House version calls for forecasting income only one year. But whether it will be out or in, I don't know. Mr. Doughton is very strong for the tax, and I am not at all sure that it will go out.

MR. BELL: Anyway, we will lose about two hundred million in our revenue.

The Bank of America has a number of branches that are located outside of - quite a ways outside of some city limits. It is necessary for their personnel to travel back and forth by automobile and they are thinking of temporarily closing those branches during the war; but they would like to have an understanding that they can reopen them after the war if conditions are such as to justify it. I think we ought to do it, but, on the other hand--

H.M.JR: Do you recommend it?

MR. BELL: Yes, but I think we ought to put it in such a way that you don't bind your future comptroller or your future secretary.

H.M.JR: You do it.

MR. BELL: In connection with our talk last night I think maybe you would like to read John Williams' letter - not the memorandum, just the letter. (Letter addressed to Mr. Bell by Mr. Williams handed to the Secretary.)

That is all.

MR. THOMPSON: I have nothing.

H.M.JR: Class is adjourned.

September 22, 1942  
10:35 a.m.

WAR FINANCING

Present: Mr. Bell  
Mr. White  
Mr. Blough  
Mr. Murphy

H.M.JR: What I wanted to tell you people was this, and there is no use of having a bigger group - what is the matter with George?

MR. MURPHY: He has a sore throat, Mr. Secretary. His voice is so heavy you could cut it.

H.M.JR: Did he get that on the farm?

MR. MURPHY: I don't know what causes it. It seems to be some kind of an allergy.

MR. BELL: He gets them periodically. He was all right last evening.

H.M.JR: Well, this is the way I see the problem. After all, if Henderson will do his job of over-all rationing, or increase rationing, that is all to the good, and if the President gets the bill through Congress which will set the level on prices and wages, that is all to the good. But it still leaves this twenty to thirty billion dollars, and it still leaves the job of how we are going to raise several hundred billion dollars in financing.

Now, this is the way I have got the thing in my own mind. I think that everybody agrees that we should get: one, the maximum of taxes, and that we should get it, as much as possible, from the groups that have it to spend. I mean we should get it within - well, take the way we had it, certainly as large a percentage of the money in taxes as we can.

- 2 -

Then, as I see it, having agreed on that, the question gets to - in the form of the borrowing - what are we going to do to the banks. Now, the way it is at present, if I got - I think the way it is at present, about a third of the money will be raised through revenue, of what we are going to spend - or less?

MR. BELL: That is about right.

H.M.JR: And leaving two-thirds to borrow. Going on the assumption, as I said the other day, that the thing is not going to get any better from Congress, and having great difficulty in getting up to fifty percent of pay-as-you-go, what is this thing going to do to the banks. Now, when you get to that point, this much is clear in my mind. It resolves itself down into two sections. One, how you borrow the money and the effect it has on the banking system itself, and then the other thing is - let's say we found some device whereby we could sterilize our effect on the banks - I mean, what we borrowed, we could find some way of sterilizing it so that it did not increase their excess reserves.

If we could find some way, O.K., that would be one thing. That is A. But still, if we were successful in that, it would leave the money in the hands of the owners - of the people, to spend and compete with each other for the reduced amount of goods which would be available.

Now, I mean, that is the way I have kind of got the thing regimented in my mind.

MR. BELL: A complete rationing would take care of that latter.

H.M.JR: Well, I want to come to that. As I see on that, there are two ways to do it. There is the way of having money rationing - I mean, to freeze part of the individual's account in the bank before he spends it - or a complete rationing on the part of Henderson so that he cannot use the money. Even if he wants to spend it he couldn't because everything would be rationed. Is that right? I mean, do you get it so far?

- 3 -

Now, I can see that, and I am not prepared to say whether I would rather freeze the individual's account through rationing, I mean through--

MR. MURPHY: Expenditure rationing?

H.M.JR: Expenditure rationing, or urge Henderson to go forward and have an over-all rationing. But the thing that concerns me right now is this question of what we are going to do about the banks.

Now, before I get into that, does anybody not agree, or do you think that I have painted the picture the way it is from the Treasury standpoint? Have I "covered the waterfront"? I take it you agree with me. But that is the problem, Harry, isn't it?

MR. WHITE: Yes, but with one further modification which I think needs to be made. Even though, as you say, you can take care of the excess reserves through some means, it still leaves one other problem.

H.M.JR: Well, I haven't touched on the bank thing at all, yet, but what other problem is there?

MR. WHITE: This is outside the banks, and yet it is like the banks. There is also a problem which would be handled in a different way and yet it is a problem. I merely point it out in passing, and I am sure you are familiar with it. It is that large volumes of redeemable bonds, bonds redeemable at the will of the holders, in the hands of the public, are only slightly different, but not very much different, than cash deposits which they can use, and constitute an element which you have to direct your attention toward.

H.M.JR: Well, I think we are conscious of that, but I am going to touch on that. I have been doing a lot of thinking and talking - not much talking, but thinking, over the week-end. But outside of that, describing it in this very sketchy way, I think I am covering it, am I not, Henry?

- 4 -

MR. MURPHY: Yes, sir, I think you are.

MR. BLOUGH: Yes, with a degree of emphasis.

MR. BELL: The thing that Harry raises, and also the outstanding currency which will increase in a situation of this kind, is involved.

MR. WHITE: That is right - smaller in magnitude, but it is a factor.

H.M.JR: It is more or less the problem, isn't it?

MR. BLOUGH: Sure.

H.M.JR: All right. Now, the thing - and we have got to guard this thing that we are going to talk about terribly carefully, because I cannot trust anybody outside the Treasury. I was saying to Bell last night, if this ever got out before I was ready to defend it publicly I would be on the spot; and you cannot trust the Federal Reserve because they always leak.

MR. BELL: Wreck your market, too.

H.M.JR: Now the thing we are sort of groping for - as I say, you fellows, each of you, have got to be responsible for whoever you consult in your staff on this thing, see? I mean, I hold each of you responsible.

The thing that I am sort of groping for - I talked with Haas and I talked with Bell - is something along these lines: That if we said when we reach a hundred billion dollars' worth of interest-bearing Government securities outstanding, we are not going to issue any more interest-bearing securities - and then we would have to get some kind of legislation, if I understand this thing correctly - that from then on, after a given date, on any increased deposits with the banks, they would have to put up a hundred percent reserve with the Federal Reserve System. Wouldn't they?

- 5 -

MR. BELL: Something like that - control the increased deposits.

H.M. JR: And that would leave us free to borrow without interest from the Federal Reserve System. As I say, all this is very sketchy. Then each year there would be a certain amount coming due of bonds, and if we were told - we would have a study on how much the banks need to live on and make a reasonable profit, then we would keep that much interest-bearing securities out to give the banks - well, to keep them going, to keep them solvent. This is just to throw in as a thought, the possibility of continuing to pay interest, but much less interest, to people who wanted to buy bonds on a volunteer basis. They will be the only people that will get interest, and they couldn't be purchased by banks.

Now, that is the kind of thing - have I sketched it about the way I have been talking about it?

MR. BELL: Yes.

H.M. JR: Which would, we think, take care of the excess reserve situation. It would take care of this thing which we are all worrying about, the eight-billion-dollar interest charge after the war. It would, for instance - say the banks, for a month, put on a big drive and sell six or seven billion dollars' worth of securities for October - and I have been shunning it because I have had something like this in mind, you see, for some time. I don't want to sell any more than I have to. Then, of course, the question - one other thing which I am sort of changing on is the more I study this thing the more I am disinclined towards this post-war credit or forced savings. The more I go into it the more I am leaning towards straight tax. I don't think we are ready yet - that we have to sugar-coat this thing by giving these people three to five billion dollars a year in the form of even non-interest-bearing securities.

In other words, I don't think we have yet exhausted the possibilities of what we can get in the form of

- 6 -

taxes, if we are going to keep this country solvent after the war. We are going to run up a four or five billion dollar debt to pay for the munitions, and that is enough without trying to give these people a sop by saying, "Instead of taxing you we are going to give you a post-war credit." I mean to that extent I am kind of changing my thinking. I want you to know just where I stand this morning.

Bell has listened to, and before we get through I want him to tell about it - there is this Colonel - what is his name?

MR. BELL: Sanders.

H.N.JR: Sanford or Sanders, or whatever his name is, that I heard about through Forrestal. Bell has seen him and he is, as far as we can find, the only man in Washington who has sat down and figured out graphically what a ten-million-man Army would need. I asked Bell to go over. He is seeing two generals on the Staff.

MR. BELL: Joint Staff.

H.M.JR: And quite frankly they tell Bell they have never explored this thing beyond their present needs. Is that right?

MR. BELL: They have explored it in terms of men and units and guns, but not in terms of dollars.

H.M.JR: And then, now, if I will write them a letter, they will begin to--

MR. BELL: Translate that into dollars.

H.M.JR: And furthermore, they never heard of this Colonel Sanders. We think we are going to bring them together. So if I write the secretariat of the Joint Chiefs of Staff, they will begin to study this thing in terms of dollars. In other words, until I had raised this thing, nobody had done it.

- 7 -

Now, the more I think about it the more I am convinced that we have got to plan this thing for five years; and if it is five years, what is it going to mean. You see, this Colonel Sanders has figured it, and he figured that each civilian will be able to buy one overcoat and two pairs of shoes in five years. That is how he has figured the thing. Well, if he is right and he can justify his figures, then this whole question of savings and the whole question of taxes take on an entirely new thing, because if you can't buy the stuff, what are you going to do with the money. What are you going to do with it? So we are exploring - unfortunately he is out of town this week, so I cannot - I have talked kind of long.

I would like to, this morning, just direct our thinking, because to me it is the most difficult, it is the most revolutionary part of it - about the banks, see? I mean, how can we, what is the best approach on Treasury financing, interest rates, sterilizing the excess reserves, and all the rest of that. I mean, I would like to talk about that approach. I have kind of painted the picture, over-all, don't you think? Harry, I can't see you.

MR. WHITE: Yes, that is one of the important phases of the problem.

H.M.JR: Well, the Treasury's responsibility - our end of it.

MR. WHITE: I mean this banking is one of the important phases.

H.M.JR: I mean the whole thing, from my standpoint--

MR. WHITE: Yes. You are directing attention to the banking phase this morning?

H.M.JR: I am going to this morning. The borrowing, Harry, how we are going to borrow the money - that is what I want to talk about.

- 8 -

Henry, do you want to start off the discussion on this banking business?

MR. MURPHY: I would, Mr. Secretary, yes. I am basically in agreement with you, Mr. Secretary. It does not seem to me that the banks perform any service commensurate with the interest that we would pay them if we ran up the debt substantially, and gave them interest-bearing securities in exchange for it.

Basically, the problem is merely giving the banks enough to live on - enough to perform the socially necessary functions which they have to perform; that is, the handling of the demand deposits, and if we are going to have private banking systems, the payment of a reasonable, and I should say not high, return on their capital funds.

Now, I would like to emphasize that--

H.M.JR: I am listening.

MR. MURPHY: ... that I am contrasting borrowing from banks at interest as opposed to borrowing without interest. If properly handled, I think the borrowing from banks without interest or borrowing from them at a nominal rate of interest, fixed not in accordance with any supposedly criteria of market price but in accordance with their necessities, is not inflationary any more than borrowing with interest, and inflation is involved in either case.

In other words, we have not solved our problem if we secure the means of borrowing from banks at no interest or low rates of interest. It will still be desirable and essential to get as much of the money as possible by taxation and by borrowing from individuals in such a way as to obviate that expenditure.

H.M.JR: I have prefaced my remarks that way.

MR. MURPHY: I merely wanted to emphasize that point, Mr. Secretary.

- 9 -

H.M. JR: I think we should get every dollar from taxes, and every dollar from an individual we can.

Now, after we have done that supposing we got fifty percent that way - isn't that the figure I used?

MR. BELL: Yes, I think it was.

H.M. JR: Supposing we got fifty percent that way, that would still leave this gigantic figure.

MR. MURPHY: That is correct, and to pay interest on the borrowings from banks would in no way improve the inflationary problem. Merely pounding our thumb does not make the problem any better. Therefore, it would be foolish to pay it and aggravate our fiscal problem and, as a matter of fact, make a post-war inflation more likely because one of the motivating forces of the post-war inflation might be to reduce the interest burden on the public debt.

If the burden seemed so high that it resulted in a bad fiscal problem there would be a push, conscious or unconscious, to depreciate the dollar to where the Government revenues had been increased and the interest on the public debt formed a lower proportion of the total expenditures that would otherwise be the case.

As we indicated in the memorandum presented to you over the week-end, there are the two basic ways in which you might go about borrowing from the banks - the no-interest, or at a nominal rate of interest. One is the approach of Representative Patman to sell non-interest bearing securities to the Federal Reserve banks and to prevent the commercial banks from purchasing additional interest-bearing securities in the open market. As we indicated, you would have to go considerably beyond the Patman bill; you would have to provide means of blocking the excess reserves that the banks secured, either by increasing their reserve requirements or by a direct control of their loans and investments, or both.

I feel it would be a mistake to rely exclusively on control of reserve requirements. I think we ought

- 10 -

to have some direct selective control of their loans and investments. That is one possible solution.

You will note, as we put it, it involves two middlemen, the Federal Reserve banks and the commercial banks. That is, you are borrowing from the persons who hold the deposits. You have two middlemen in between, the Federal Reserve banks and the commercial banks. It is possible to exclude one of these middlemen, namely, the Federal Reserve banks, and allocate securities directly to commercial banks; and doing that has certain advantages in the mechanical handling of the matter.

You could have, as we suggested, two security issues. We just said, for instance, say one percent and one-eighth of one percent, and you could allocate amounts of these securities to different banks in such a way as to permit them to make a living. Your large banks would have mostly one-eighth; some of your smaller banks--

H.M.JR: Look, Henry, you are getting into much too much detail.

MR. MURPHY: Pardon me.

H.M.JR: I want to talk about principles. I want to know - first I want to know how much - you have got to tell me, through Shields, how much interest do the banks need to live on. I want that. Now, I am not interested in one-eighth of one percent. I want to talk about the devices.

MR. MURPHY: Mr. Shields is down here today. He is working today and will be working tomorrow on his estimates of bank earnings. He hopes to complete his preliminary estimates tomorrow evening, and that will serve as the basis for our estimates of how much of a living the banks need.

H.M.JR: That is right, but I am afraid to talk for fear that I might tip my hand at this time.

MR. MURPHY: We have not discussed it with Mr. Shields at all, naturally.

- 11 -

H.M.JR: When you get that you can say, "All right, if it is eighty billion or a hundred billion, so much interest will keep the banks going."

MR. MURPHY: That is correct, and it is the need of the banks for a quota of earnings to provide for their expenses and a small return on their capital funds which should be our concern rather than any ideas of two percent or one percent or any other percent as a fair return. As a matter of fact, giving them such return is entirely illusory, as Professor Warren pointed out a number of times in a memorandum for Mr. Haas. Under present conditions the money market is pegged at a pattern of rates, and the additional interest that banks receive on long-term obligations as compared with short-term obligations is a return for a supposed service which, in fact, they do not perform. They are supposed to assume a certain risk on longer-term securities; actually a cushion is placed between them and the risk by the operations of the Federal Reserve System - they just receive the money without performing any functions.

H.M.JR: As I understand it, in Canada they simply say to the banks, "You can live on two percent."

MR. BELL: That is in England, I think, where they take these certificates. It is at one and an eighth.

MR. MURPHY: But in Canada they have also completely separated their borrowing from banks and borrowing from the public. When they offer issues to the public the banks are not supposed to subscribe. When they offer issues to the banks the public does not subscribe. So they determine how much they will borrow from each, and when they offer an issue of a certain amount to banks the banks are expected to take it at the interest stipulated. The most recent bank security I happen to have in my mind, and I think the most recent, was a three-quarter percent certificate due in about six months.

H.M.JR: Where?

MR. MURPHY: In Canada.

- 12 -

H.M.JR: Yes, but the point that I am getting at is where I think we have got to look ahead is - in England they say the banks can live on one and one-eighth. All right, once we find out what the banks can live on and we are satisfied that they need that, and that, as you say, they are really rendering a service, that is one thing. But this thing is so big, you see, that we have quickly passed the point of what they need for earnings.

MR. MURPHY: That is correct. Of course it would need some changes in statutes again, Mr. Secretary. For example, they pay a one-twelfth of one percent FDIC assessment.

H.M.JR: All of those are details which do not interest me. I mean, those things, for this argument, do not interest me any more than if Bell said, "Well, you do this and they can't afford to cash our checks and they can't afford to handle war bonds and all the rest of that stuff." I mean, for this discussion those are all details. All right, if they cannot do it then we will pay them.

MR. MURPHY: That is correct.

H.M.JR: You see what I mean? I mean we will pay them for the actual services they are rendering and not let them feel they are doing something for nothing.

MR. MURPHY: That is the basis it would have to be put on.

H.M.JR: Let's come back to the point. Let's say for argument's sake that a hundred million dollars - a hundred billion dollars, would be the point - we are now at what point now?

MR. BELL: About eighty-six.

H.M.JR: Let's say we have reached a hundred billion dollars and that the earnings are all right, that that would be the point where we would stop issuing.

- 13 -

MR. MURPHY: If it is not too much of a treatise, Mr. Secretary, the banks, of course, are way under a hundred billion dollars; they hold perhaps twenty-five billion dollars, or thereabouts, of securities now, and if we stopped issuing interest-bearing securities at a hundred, they could continue to accumulate for some time.

MR. BELL: That was just used as an example. You might base it on what the deposits were June 30 or December 31.

H.M.JR: Let me put it this way. Try to pin it down. Let's get down to brass tacks. Which device do you think would be the best when we get beyond a certain point? I don't care what it is, when we get beyond a certain point - there is a certain point where we have got to stop, and what device do you think would be the best to sterilize these deposits in the banks so that they won't have a potential inflationary value. That is the question.

MR. MURPHY: Good. I was going to come to that point, Mr. Secretary.

H.M.JR: Speak on that, will you? Wipe out everything else - a point from where we will have to stop.

MR. MURPHY: There is no question in my mind that the best device to do that is expenditure rationing. I believe, however, that before we can put in expenditure rationing and secure a satisfactory popular response for it we will have to have a rather intensive program of commodity rationing. I think Mr. Haas and--

H.M.JR: Henry, I have got to stop you again. If you have expenditure rationing, that is not going to do the thing. I am talking about the banks, Henry.

MR. MURPHY: Sterilizing excess reserves?

H.M.JR: I do not want to put words in your mouth. I am not talking about individuals; I am talking about banks.

- 14 -

MR. MURPHY: I thought I was answering your question.

H.M.JR: You are not.

MR. MURPHY: There are two stages to the sterilization. The first is to prevent the banks from expanding their credit by a greater amount than the amount which the Government has borrowed from them. There are two ways in which that can be handled.

H.M.JR: Now you are getting to it.

MR. MURPHY: The first is by increasing their reserve requirements in such a way that they have no more excess reserves after the Government has borrowed from the Federal Reserve banks than they did before.

The other way of doing it is by a direct selective control of their loans and investments - something like regulation "W" applied on a broader scale. You will notice that if the approach--

MR. BELL: That is the installment loan.

MR. MURPHY: You will notice that if we sold our securities to banks by the approach of direct allocation the problem of excess reserves would not occur. If we sell them through the Federal the problem of excess reserves will occur. I do not think, however, that the problem of excess reserves presents--

H.M.JR: How would it occur - if we do it how?

MR. MURPHY: If we sold the securities - non-interest-bearing securities - to Federal, the member banks will receive substantial excess reserves because for every dollar of non-interest-bearing securities we sell to Federal, the member banks will receive a dollar of additional deposits. Against that they will have, as assets, a dollar of reserve at the Federal Reserve banks, but

- 15 -

only about twenty cents of that dollar will be required reserves. The remainder will be excess reserves.

Since the banks will have these excess reserves at the same time that their earnings are being cut in two, they are losing opportunities for earning expansion; they will have every incentive to attempt to acquire assets, either open-market Government securities; or, if they are barred from those, securities other than Federal securities. To make new loans to permit them to do so would add an element of inflation to the picture in addition to the element that is involved in borrowing from the banks themselves. They can be prevented from doing that by increases in reserve requirements. Such increases, however, will have an unequal impact. Some banks will have their requirements increased to an amount that might pinch them somewhat, and other banks to a less extent. I think that can be evened out, but I believe it should be supplemented by some direct control of loans and investments.

Now, assuming that this problem can be completely solved - and I believe that it can - the problem of inflation would still continue. That is, for every dollar that we have borrowed, a dollar of deposits would be created; and it is that problem that I thought you had asked me to address myself to.

MR. BELL: That is the second phase of the whole picture that you presented this morning.

H.M.JR: Yes.

MR. MURPHY: And I think it is the much more important phase.

H.M.JR: I am not saying which is.

MR. MURPHY: And that problem can, I think, in the final analysis, be solved only by expenditure rationing.

- 16 -

H.M.JR: But I am not addressing myself to that this morning. I mean, I understand that, and having understood it, it does not seem so difficult. The other one, not understanding it thoroughly, seems more difficult.

MR. MURPHY: I am sorry. I thought you meant both of them. I thought you were interested in both.

H.M.JR: Not for the minute, no. In other words, I am not for the minute interested in what happens to the individual deposits. What I am interested in is what happens to the deposits of the banks as a whole and the banking system as a whole.

MR. MURPHY: Is my discussion of that satisfactory?

H.M.JR: No, but--

MR. MURPHY: Would you like me to pass on--

H.M.JR: No, I am working too hard. Let's you and I rest a minute. You have got too much in your head. I want to keep this down to one thing. You see too much. I only want to see a little picture. Just relax a minute. Let me take on Harry for a minute.

MR. WHITE: If I understand, you want to direct yourself to one part of the problem, that part which I gathered was involved in your last question - the bank excess reserves.

H.M.JR: Well, I will put it a little bit differently. It may be the same. Knowing that we are going to have to borrow four or five hundred billion dollars if the war continues for five years, what can we do to sterilize the inflationary impact on the banking system. Do you see? What can we do? How can we borrow?

MR. WHITE: I am afraid I am going to fall into the same difficulty that Henry did, but I will try not to. The way you phrased your question, he had to answer the last part the way he did. If you excluded, as I

- 17 -

gather you have, the individual deposits, let's forget about that; and you are going to concentrate merely on the expansibility of the banking system on the basis of the reserves, which is another way of saying you want to absorb these excess reserves, which is the question you asked.

I think that the simplest way that I would recommend is the one that has been suggested, of obtaining powers to raise reserve requirements up to a hundred percent, if necessary. You can do that in either of two ways. You can raise the average on existing so there will be none left above the level that you are seeking, or you can make it a hundred percent above - take any date or amount you want. You can do it either way. I think there is something to be said for either way, which needs a little more discussion. But it would be a question of raising reserve requirements, either the general average, or making it a hundred percent or ninety percent or eighty percent above X - take whatever level you want.

I don't know whether that answers your question--

H.M.JR: Well, the point is, this memorandum to me is not quite clear. As far as I have gone, it seems to me that the best way for us to do is, after a certain date, to borrow our money from the Federal Reserve System at no interest.

If we decide that that is the way we will do, then, as I understand it, for every thousand dollars we borrow it creates a thousand-dollar credit with the banks; and in order to keep that new thousand dollars from becoming available to them as a basis for their borrowing, we require them to redeposit an equal amount with the Federal Reserve, which, as I understand it, would be a hundred percent reserve for new deposits.

Am I stating it correctly?

MR. BELL: That would be one way, yes.

H.M.JR: Have I stated it technically correct?

- 18 -

MR. WHITE: Not quite, because for every thousand dollars that you put in the banks they already have to pay, under existing laws, a certain amount.

H.M.JR: Over and above.

MR. WHITE: Yes, over and above.

MR. BELL: Leaving out the present requirements, that is correct.

MR. WHITE: It would make it impossible for the banks to handle any of that.

H.M.JR: I want to make this very clear. I think I am technically clear, am I not? I want to get - if at present they have to deposit twenty percent after a certain date, if we borrowed a million dollars from the Federal Reserve System, non-interest-bearing securities, as I understand it they would have to create a thousand dollars' worth of deposits with the banks - member banks.

MR. WHITE: Approximately.

H.M.JR: And we would say, "For that million dollars of new deposits, you have to redeposit a million dollars' worth with the Federal Reserve System." That is, as I understand it, what is meant by a hundred percent reserve.

MR. BELL: Instead of the present required twenty.

H.M.JR: Yes. All right so far?

MR. BELL: Yes.

H.M.JR: Now, is that a better device than some suggestion that you people made of doing this borrowing directly from the banks? I mean, I want to get this thing straightened out first. I mean we could borrow from the banks and not pay any interest.

MR. WHITE: I don't think there is that difference between the problems.

- 19 -

H.M.JR: He talked about a couple of middlemen. I just wondered whether we weren't cutting out the middlemen if we borrowed directly from the Federal Reserve System rather than the banks.

MR. MURPHY: No, sir; you have the middlemen. You are at one end and the person who owns the deposits is at the other end, and any persons in between are middlemen. If you allocate securities to commercial banks, say, for the sake of argument, at no interest, there is one middleman between you, the borrower, and the holder of the deposits, the lender, that middleman being the commercial banks.

Now, if the Federal Reserve banks are also in the picture, there are two middlemen. In essence, you borrow from the Federal Reserve bank, the Federal Reserve bank reimburses itself by borrowing from the commercial bank, and the commercial bank reimburses itself by borrowing from its depositors. In any event, there will be a middleman; borrowing from the Federal Reserve banks there will be two, which is not necessarily a difficulty.

H.M.JR: What I am trying to get down to is - without committing anybody, but as of this morning, if we were going to borrow, without interest, and create a hundred percent reserve against these new additional borrowings, which do you think is the better way to do it, through the Federal Reserve System or directly from the banks?

MR. WHITE: When you speak of the Federal Reserve System do you mean the Federal Reserve banks? Do you mean from the Federal Reserve banks or from the commercial banks?

H.M.JR: I mean the Federal Reserve banks.

MR. BELL: I do not think it makes, really, a lot of difference, and I think after we get to discussing the thing we may find some reason why it ought to go one way more than another. I sort of feel now as though it would be better, psychologically, to borrow

- 20 -

from the Federal Reserve banks and let them deal with their members. But I can see Henry's point, that you eliminate one step here, going directly to the banks - it might be better. On the other hand, I would like to think the thing through.

MR. MURPHY: Could I make two points?

H.M.JR: One second - my own psychology, I think, towards the subject is, what is the Federal Reserve bank for? It is for something like this. If you went to the banks direct they would say, "Look what you are doing; you are squeezing the wall" and all the rest of that stuff - all of that publicity. But if you go to the banks - the Federal Reserve banks - and borrow this money, if that isn't what they are for, I don't know what they are for.

I mean, all this is very tentative and very new. I am just trying to think and then have all you fellows, after we get through here, go out and think and talk about it. You see?

MR. WHITE: Can I give you the other side without saying which side is more important?

H.M.JR: Henry is first.

MR. MURPHY: The point I wanted to make first is that technically your reserve problem is just the opposite in borrowing ~~from~~ the Federal Reserve Banks and borrowing directly from the commercial banks. If you borrow from the Federal Reserve banks the problem is to mop up a lot of excess reserves created in the course of the borrowing; if you borrow by direct allocation to the commercial banks, the problem is to create new excess reserves for the commercial banks, by means of which the commercial banks can support their borrowing. Neither problem, however, is insuperable, technically.

H.M.JR: You mean, then, the Federal Reserve has to buy securities in order to--

- 21 -

MR. MURPHY: That is right. You have to, in any event, do enough borrowing direct from the Fed to put the member banks in funds. I agree perfectly with Mr. Bell with respect to what would ultimately be the criterion of choosing between the systems. They work out about the same theoretically.

H.M.JR: Which one?

MR. MURPHY: The thing that would be determining would be which one, it seems, would have the best psychological effect - which one would shock Mr. Spiegel the least. (Laughter)

H.M.JR: You are getting very practical, Henry. I didn't expect that from you. (Laughter)

MR. MURPHY: I think that is a very practical question. When you say, "What are the Federal Reserve banks for," I think there is an opposite point of view to that. There is a very wide-spread feeling, particularly among the older generation - monetary theorists - that that is just what a central bank is not for, and that when a central bank is used for that purpose that is the first portent of disaster. I don't know which will prove the strongest, the aversion of commercial banks to taking non-interest-bearing securities, or the aversion of traditional thinkers to borrowing from the central banks. I think it is something that you have to try on various people and see which shocks them the least, and that is the final decision.

H.M.JR: Well, one way I would have to deal with this Executive Committee, which is a group of five people, the Open Market Committee, wouldn't I?

MR. BELL: Yes.

H.M.JR: Isn't that who I would deal with?

MR. WHITE: With new legislation.

MR. MURPHY: After five billion; and you would need new legislation, in any event, to control your reserves.

- 22 -

H.M.JR: And the other way I would have to sit here and make an offering to the banks, and the Guaranty Trust of New York will say "We don't want to buy any of that stuff." How am I going to make them buy it?

MR. BELL: It would have to be mandatory. You couldn't do it any other way.

H.M.JR: According to the capital and reserves.

MR. BELL: You would have to get legislation on that which would be really dictatorial from your standpoint. Just say, "This is allocated to you. You will have to take it."

MR. MURPHY: We are making a study of what would be the appropriate criterion to the banks.

H.M.JR: The purpose of this discussion is - I mean I have gone about so far in my thinking, and I am throwing this at you to let you know how my brains work, what is bothering me, what I think the problem is, and then you fellows have got to go out for a couple of days and study it and come back to see me.

You have been very good.

MR. BLOUGH: This isn't my problem, and I don't propose to be an expert in this field. I would like to make a very few remarks.

I very much dislike seeing non-interest-bearing debt forced on commercial banks because I feel the problem of the criteria of allocation would be very difficult to develop. It would also leave a very bad taste in the mouths of quite a number of people. It seems to me that there is no particular point in stopping at a hundred billion dollars or any other point and saying, "From now on, no more debt with interest." You could continue to issue debt with nominal interest to commercial banks - or a very low rate of interest, simply for the purpose of taking care of their--

- 23 -

(Discussion off the record.)

MR. BLOUGH: I was saying, it seemed to me a rather bad psychology to force the commercial banks to take non-interest-bearing securities. It would seem to be somewhat better to continue to give them very low-rate interest-bearing securities - much lower than now, but still with a token rate, at least, so they could feel they were getting their expenses out of it. And for the rest, frankly go to the central bank and get it from them. That would have a less undesirable effect, psychologically, which I think is the basic point here, to do that from the central banks than to do it from the commercial banks, and then make whatever adjustments were necessary to get your reserves protected against the excess reserves which were thereby accumulated. I should, at the same time, continue somewhat higher interest-bearing issues to the public, not including the banks, and I would have at least a little compulsory saving at the lower end of the income scale for people who would otherwise be taxed a great deal heavier than we would want to tax them.

I am very much pleased to see the approach you are taking, Mr. Secretary, because it seems to me perfectly obvious that facing the problem we do, very unorthodox methods of financing are going to be absolutely necessary.

H.M.JR: Roy, what I am trying to do is, and what you fellows have got to help with - and I don't care how long it takes - I think it would be a mistake to try to do it before election, I just think it would be bad, but I don't care whether it is going to take me an hour or two hours, but when the time comes - or a half a day - where it is within the realm of our responsibility - maybe Henderson and I will do it jointly, he explaining what he is going to do and we explaining what we are going to do - make a joint presentation, you see. He will say, "I will take care of this problem; the Treasury will take care of that problem" - I mean, if we could get an agreement.

(Discussion off the record.)

- 24 -

H.M.JR: I am just thinking out loud. Supposing this presentation of this Colonel Sanders is good and he shows the requirements of a ten-million-man Army, what do they need, how much is going to go into the Army and how much is going to be left - he has a visual presentation, as I understand it, hasn't he?

MR. BELL: Yes.

H.M.JR: And then we check with the General Staff. We will get what they need. And then we go out and say, "All right, gentlemen, looking ahead for five years, this is what this country has got to do. So much of the production has to go for war and so much is going to be left. We in the Treasury have got to do our part. This is the way we think we can do it," with alternatives within each group. Mr. Henderson will present his part - what he can do and how the people can spend their money, and the Fed will do its part. It will be a joint presentation to the country of what the problem is, thinking it through for five years and then, out of that, ask for legislation.

MR. BLOUGH: I have only one misgiving about the whole business, and that isn't that it won't be necessary, but that the real answer to the question is taxes, in almost every sense of the word. That is, we don't want to make it seem too easy some other way to cut down the amount of taxes we might otherwise get. We must, all the way through, from beginning to end, and in every way possible, emphasize over and over and over again, that the burden is here, and that the real way to meet it is through taxes.

H.M.JR: Roy--

MR. BELL: You can't get something for nothing. You have got to pay for it eventually.

H.M.JR: Roy, that is all very nice, but the thing is this, that nobody in this administration has presented the whole picture to the country. We still have not presented it to the civilian population, what this thing means. We don't know.

- 25 -

Mr. Henderson is working like hell doing his job. Mr. Nelson is working like hell doing his job. I am doing the best I can. Now, one of the reasons we failed on the tax thing is just because we haven't presented it to the people. They don't get the whole picture.

MR. BLOUGH: I think that is right, sir.

H.M.JR: I think that the people would say - I go on this theory that all of this thing gets down to what I call extension teaching; that is, taking the teaching to the grass roots. You have got to go to the people, and the people have not had this thing explained. They don't understand not only their own problem, but they don't understand what England's problem is. This thing is terribly complicated, and with no disrespect to the President he does not understand it because I can't even get him interested in taxes. It is the one thing he does not want to talk about; it is the one thing he won't discuss. He won't do anything about it. So if he doesn't, starting with the President, how can you expect John Doakes to understand it?

And therefore, just because you are afraid that if the thing seems so easy we will get less taxes - and I don't personally think that holds water--

MR. BLOUGH: I hope you are right.

H.M.JR: Well, the argument is in my favor, because we are not getting the taxes.

MR. BLOUGH: Yes, and don't misunderstand me. I don't mean this does not have to be done. I do think it has to be done. I simply want to stress the idea that in doing it we want to make it perfectly clear to the public - my only point is this, this has to be done and I am all for it, but it seems to me all through it we ought to make clear to the public as we go along that this is the second best thing. "What you ought to do is do this through taxes, but to the extent you won't, and it is economically not fitting - and that is true in some cases, not to do it through taxes - then we have got to do it some other way." But the stress, all the way through, ought to be on "this is the second best approach."

- 26 -

H.M.JR: Well, you are thinking taxes.

MR. BLOUGH: I am thinking of France.

H.M.JR: Of what?

MR. BLOUGH: I am thinking of France, for one thing.

H.M.JR: Well, on taxes we are pretty far removed from France.

I don't know, gentlemen, whether this thing could be done visually - the whole thing - but if it could it would be a magnificent thing. I mean if there could be a visual demonstration of what it means to this country to have ten million men under arms, and what we have got to do. That is the problem.

MR. BELL: I think some time the President has got to tell the country what ten million men mean.

H.M.JR: When we get through he may make the speech.

MR. BELL: He has to make one of them, it seems to me; that is, what you are up against when you have a ten-million-man Army - what it is going to do to industry, what each individual has to do without. Then you follow along as to how you are going to control each segment of this economy after he makes that statement.

H.M.JR: But he should not make the statement until we have the answer.

MR. BELL: Absolutely not. I think it is dangerous.

H.M.JR: Until we have the answer. You say this fellow Sanders is afraid about whom he tells this thing to?

MR. BELL: I think his time and efforts are not his own.

H.M.JR: No. But anyway I have talked myself out. I am trying to give you people the pictures. Now I want - have you talked yourself out?

- 27 -

MR. WHITE: Yes. This will bear a lot of talking. I don't think there is much disagreement with us. It is clear that this has nothing to do with inflation during the war; you are concerned with directing yourself to post-war inflation and the interest burden.

I am in thorough agreement with you on keeping the interest burden down, and I am glad to see the subject opened that way.

On the post-war inflation, so far as the bank expansibility is concerned, I am not in whole agreement on. It still leaves other areas which I take it you will explore. I am not in thorough agreement on the question of compulsory savings and taxes, but I gather that is a separate problem. You will raise that some other time?

H.M.JR: No. What I am doing, Harry, is this - in my own thinking - I don't know about anybody else - I have made a little progress. I think I see a little bit more clearly the magnitude of the thing, and I realize that certainly I, or anybody else in Washington, has not gotten the thing laid out in a way that you can explain it to a high school graduate or somebody attending high school. The President has not done it, and I know he doesn't understand it. I know Harry Hopkins doesn't understand it, and the great trouble is, it is like the time we did that job, you remember, on prices on copper. We went over to see the President. His reaction was that he sort of flushed and he said, "Well, this is a new experience. I am supposed to be the teacher and you the pupils, but this time I gather I am to be the pupil."

MR. WHITE: I remember that very clearly.

H.M.JR: That was his introductory remark, but he listened to what we had done, and I think it was Lubin - didn't he explain the thing?

MR. WHITE: There were twelve or thirteen persons there.

- 28 -

H.M.JR: Didn't Lubin do the explaining?

MR. WHITE: I don't remember.

H.M.JR: I think he did. Were you (Bell) there?

MR. BELL: No.

H.M.JR: The President--

MR. WHITE: I think he started.

H.M.JR: The President said, "I see, this is a novel experience." He was a little irritated. "I am to be the pupil and you the teachers," he said. This is the same thing over again, and I am more than willing to be the pupil now. I am the pupil.

But can you four gentlemen carry on from now, together, for a couple of days, and study this thing on an over-all basis; not just this thing, but on an over-all basis.

Dan is getting the stuff from the Army, and starting with the assumption it is ten million men, how we are going to equip them - that isn't out job, but how we are going to pay for it, and what are we going to do with the money that the civilians have left in their pockets. What are we going to do about that? How are we going to control that? How are we going to control the civilian goods that are left? That is the problem.

Now I don't want to get into how we are going to produce the munitions for the Army, because I don't think that has anything to do with this. Do any of you gentlemen think so?

MR. WHITE: No. I am glad to see what you said, and I think it is important that you set aside a couple or a few hours a week, or half a day a week, and listen to the discussion. I think that is important.

H.M.JR: I am telling you now, that I am going to start again at ten o'clock Friday on this thing.

- 29 -

MR. WHITE: What I mean is it is not only important for us to try to agree, but it seems to me - but the thing needs discussion in your presence.

H.M.JR: O.K. For the time being, I think we will just keep it to this group.

MR. BELL: And Haas. I am scared to death of this thing getting out. It is a bombshell.

H.M.JR: I mean, there is no use anybody else--

MR. MURPHY: Do you want me here if Mr. Haas is here?

H.M.JR: Yes, I do. You are all right.

MR. WHITE: I would like to extend it, if it is a question of confining it to an individual, to my assistant, Bernstein, who knows more about banking than I do.

H.M.JR: That is all right. Bring him along. Do you (Blough) want to bring somebody?

MR. BLOUGH: If I may have the privilege of bringing one - I don't know now who.

H.M.JR: Well, the only thing, can't these people discuss it with you a little bit? Don't bring them in, but keep this small like this.

MR. WHITE: Oh, yes, keep it without them. These problems, speaking for my own section, have been gone over a great deal, and I suppose the others have, too.

H.M.JR: I would rather - I would like Henry to come, and George, but keep it down to this.

MR. WHITE: O.K.

H.M.JR: You didn't mean to bring him in?

MR. WHITE: Either way you like. He knows a good deal about the technical points in banking.

- 30 -

H.M.JR: He isn't very vocal - I mean Bernstein isn't, so talk it over with him. Just as soon as the group begins to expand I don't work so well. I mean, I know you people intimately; I don't know the others. But let's keep it down to three or four fellows. We will make it nine o'clock on Friday. Now can't you, between now - today is Tuesday - between now and Friday, have discussion amongst yourselves?

MR. MURPHY: Surely.

MR. WHITE: I think we can agree on some portions of the program.

MR. BELL: We can meet Wednesday or Thursday.

MR. WHITE: Do I understand your assignment is to include not only this banking matter, but everything you have touched on today?

H.M.JR: Let me do it once more. The assignment that I am asking you people is this. They tell us they are going to have a ten-million-man Army, and I am giving you an assumption that the war is going to last for five years.

Now, how are we going to raise the money, how are we going to deal with the banks, and how are we going to deal with the civilian population in regard to the money that they have in their pockets, and to control their spending habits; and how are we, besides the borrowing from the banks, the borrowing from individuals, and the taxes - in other words--

MR. WHITE: That is the whole problem.

H.M.JR: The whole problem - looking forward to some kind of a visual demonstration on this thing.

MR. BELL: Now this is right along the lines of the big committee study, except you have thrown in the banking problem.

H.M.JR: What big committee?

- 31 -

MR. BELL: The one that you had here last Thursday on what you want to get out to the public.

MR. WHITE: I think the principles don't need a large group, but once you want to find the best method of presentation, and that sort of problem, then that does need to be extended to other persons.

MR. BELL: But this ought to be kept separate from what we have been talking to the Secretary about and the memorandum we submitted, in which there was a deadline today to get together with the group, and Thursday we were to have a meeting on it with the Secretary.

H.M.JR: What was that, Dan?

MR. BELL: That was on the approach to this whole problem.

MR. WHITE: It is the same problem.

MR. BELL: It is the same problem except you have thrown into this picture this borrowing on a non-interest-bearing basis.

H.M.JR: What I did - what I said to you people the other day when I gave you this originally was, "I don't care how radical you are," and nobody came in with anything radical enough. I was disappointed.

MR. BELL: This one is radical. (Laughter)

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

H.M.JR: But, Dan, I don't know - isn't this an overlapping of the two things?

MR. BELL: Yes, but I would keep them separate and keep the groups going ahead.

H.M.JR: If you will do the thing, and keep pushing the thing, because I never was more in earnest in

- 32 -

anything in my life, and the way to do it - I think I have traveled quite a road over the week-end. Don't you men think so?

MR. BELL: You have dropped from a conservative to a radical. (Laughter)

MR. MURPHY: Not necessarily "dropped" - changed--

MR. BELL: Oh, I see - maybe "up". I accept the modification.

H.M.JR: Listen, I was surprised at you, young fellow.

MR. BELL: I know. It shocked my conservative nature, I tell you.

H.M.JR: I was surprised at you.

MR. BELL: But so does the prospect of a five hundred billion dollar debt shock me.

MR. WHITE: The distinction between youth and old age is the ability to be flexible enough to adapt yourself to new situations. It has nothing to do with years. (Laughter)

MR. BELL: Youthful or old--

H.M.JR: You are talking intellectually now?  
(Laughter)

MR. WHITE: I think it goes all the way up and down.

H.M.JR: Well, anyway--

MR. WHITE: May I suggest this one thing - it may avoid our difficulty. The one thing that we should not talk about, and the most important new thought that you have introduced I don't think we have to talk about; that is, the suggestion that you might consider either

- 33 -

very low or no-interest borrowing from the Federal Reserve System. Anything outside of that we have talked about, and will continue to talk about, but that portion we need not talk about because it need not affect, except in our minds, the other work we are doing.

MR. MURPHY: That point should be omitted from the memoranda.

MR. BLOUGH: It has only one effect, or substantially one effect, and that is the post-war problem, so that--

MR. WHITE: The interest burden - it has some other important effects now.

H.M.JR: Roy, it isn't only post-war. I mean, it takes care of a potential real criticism of the Treasury, in the sense that we would be subsidizing a particular group during the war, the way we are not supposedly doing with the manufacture of munitions, but we would be subsidizing the manufacture of money - that is a good line.

MR. BLOUGH: What I meant to say--

H.M.JR: We are supposed not to subsidize the manufacture of munitions, but if we keep on this way we will be subsidizing the fellows manufacturing the money.

MR. WHITE: We manufacture the money and give them the subsidy - it is worse than that.

MR. BLOUGH: It won't fit in with the rest of the picture.

H.M.JR: I traveled that road with Haas.

MR. WHITE: That is a very important road, too.

H.M.JR: I traveled that road, also. Why not just print the money?

- 34 -

MR. WHITE: It is equivalent to printing money. That is one of the charges that you expect to have levied against you when you borrow from the Federal Reserve banks. It is a little more disguised when you do it from the commercial banks. But in any of the cases, it is just the equivalent to what is called by those who don't like it "resorting to the printing presses."

H.M.JR: Do you know what this radical Dan Bell suggested last night: Couldn't I get into the President's price bill just a little joker somewhere, which would permit us to do this thing. You have got to watch him, boys; a couple of you conservatives around here have to watch him. He wanted to get a little joker to permit us to go to the Fed and do this thing. I said, "Better wait."

MR. BELL: I said it would be a good thing if you could do it because in doing a job like this the discussion over a period of months is what is really going to hurt; whereas, if you could do it all at once, and explain it, you would have something.

H.M.JR: That is why - the more I am thinking here, that is why if you presented the whole thing and started in to talk about how we are going to finance a ten-million-man Army, and get into all that business, then if you, for instance, told them, "Well, now, gentlemen, you might just as well know it, you are only going to be permitted two pairs of shoes and one overcoat in the next five years," and all this stuff piled on at once - the other thing, they wouldn't get it.

MR. WHITE: You are making the package fancier and more acceptable by all that sort of thing.

H.M.JR: What you are doing is you are dumping a ton of coal on them instead of hitting them over the head with just one piece of coal. (Laughter) I mean, by the time the fellow digs himself out he won't know--

- 35 -

MR. BELL: What you really would do, you shock the American people into their senses that this war really means something to them instead of going along in their daily routine and spending their money.

MR. WHITE: There is certainly room for something. I can see you are groping for it. None of us have it. I think it is terribly important. I think, as you do, we ought to stick with it until you are satisfied you have got this problem licked. I think we can, and I think the problem of deciding what to do from a technical level is a somewhat easier problem than deciding how to present it and how to get the necessary powers. But I think that we ought to stick with it until we are completely satisfied.

H.M.JR: Once you agree on the technique, then I don't think the visual picture will be so hard.

MR. WHITE: In any case, it has to be done.

H.M.JR: And I think at a certain stage we have got to invite Henderson in.

MR. WHITE: If you are going out for this, after you decide what to do I think there might be a lot of people you will want to invite in. The more support you get on a thing like this the better.

MR. BELL: You have got to have the Federal Reserve in, somewhere along the line.

MR. WHITE: Otherwise there will be a charge of radicalism.

H.M.JR: There will be a charge of what?

MR. WHITE: Radicalism - unsound finance.

H.M.JR: No, you would have to have Henderson. I don't know whether Nelson would come into this thing or not. You would have to have the Bureau of the Budget.

- 36 -

MR. WHITE: You would have to have a united front.

H.M.JR: You would have to have everybody.

MR. BELL: And Eccles.

MR. WHITE: I don't think you would have difficulty convincing them. I know a good many of them feel that way.

MR. MURPHY: I think you are optimistic when you say that otherwise there would be a charge of unsound finance. You can strike out the "otherwise". There will be.

H.M.JR: I am glad to hear what you say because I felt everybody was groping. Nobody has thought this thing through to its final conclusion.

MR. WHITE: Nobody has thought it through to the extent that you want to think it through, or to the extent - which is the important aspect of it - of putting it into effect. Many have thought it through from the point of view of what is theoretically desirable, that is true; but no one has pushed it as far as you will want to push it.

H.M.JR: That is my job, and it is like all these things. If I don't do it, some day somebody will, but it may be too late.

MR. WHITE: I don't think others will do it so much as others will severely criticize, particularly post-war history.

H.M.JR: What?

MR. WHITE: I think if you stand out against it, I think no one will have the strength to put it over because on such matters I think you are the key - no question about it in my mind. But I do think--

H.M.JR: If I take the leadership, though--

- 37 -

MR. WHITE: Yes, but I do think if you don't do it history will criticize you for it.

H.M.JR: It is my responsibility.

MR. WHITE: It is your responsibility, more than any other single thing.

H.M.JR: That is right. O.K.

September 22, 1942  
11:42 a.m.

Operator: Go ahead.

Harold Stonier: Hello.

HMJr: Hello.

S: Hello. Mr. Morgenthau?

HMJr: Speaking.

S: This is Stonier in New York.

HMJr: How do you do, Mr. Stonier?

S: I was calling you up to see if you were able to make up your mind yet about next Tuesday.

HMJr: Oh. Now where - where - what....

S: That will be at the Waldorf Hotel at noon on Tuesday.

HMJr: Well, I - I could make up my mind now. I'm going to have to regret.

S: Oh, I see.

HMJr: I'm very sorry.

S: Well....

HMJr: But I....

S: ....we're sorry also, but we'd like very much to have you there.

HMJr: No, I won't be able to leave town.

S: I see.

HMJr: No.

S: All right.

- 2 -

HMJr: I wish - thank everybody, but I'm very sorry.  
S: Yeah, all right, fine. Thank you.  
HMJr: Thanks.

September 22, 1942  
3:00 p.m.

RE: Draeger Shipping Company

Present: Mr. Paul  
Mr. B. Bernstein  
Mr. Pehle  
Mr. Cox

H.M.JR: I don't know whether or not these gentlemen sent you this stuff.

MR. COX: I have not seen it.

H.M.JR: Well, somebody, for the benefit of Mr. Cox - for old time's sake we will let him do his homework here - give a thumbnail sketch. I have read this (indicating memorandum to the Secretary from Mr. Paul dated September 22, 1942).

MR. BERNSTEIN: This Draeger Company is a forwarding company, and it has been established here for a few years. Back in 1935 it entered into a contract with the Schenker Company, which is the leading German forwarding company, owned by the German railway system for the creation of, in effect, a joint enterprise in New York.

H.M.JR: German railway system?

MR. BERNSTEIN: Yes. In effect, the German Government owns the German railway system, for the setting up of a joint enterprise in New York to handle the business formerly done by Schenker, as well as by Draeger.

At that time they were fearful of the boycott problems. Draeger was the man to do the work. They

- 2 -

got some of the personnel from the Schenker outfit, and it was run as though it were one business. When the war broke out and Schenker was barred from the American market, Draeger was pushed forward even further.

There was a very significant letter written to the Schenker representative in B.A. advising him of this identity of relationship between Draeger and Schenker in New York and saying, "When you are dealing with Germans down there in B.A. represent yourself to be Schenker, but when you are dealing with people who do not like to do business with Germans represent yourself to be Draeger."

We have examined this fellow over a period of months. He has been very slippery. He refused to let us have or admit that there was a contract. He claims that it had been cancelled. We got the contract, believe it or not, through the British Gerhard and Hey Company, which is one of the leading British forwarding companies and is owned fifty per cent by Draeger.

We are working very closely with the British, and BEW, and the APC has been in on it.

Also, the British are anxious to know what our views are. Our views are--

H.M.JR: Excuse me. That part you have just told - it is inconceivable that the British should permit this to go on.

MR. BERNSTEIN: It is. Our conclusions in the matter are clear and simple, that this is in effect a German company and it ought to be put out of business immediately. Whether it is put out of business by denial of the license or by the APC vesting it and then putting it out of business is not as important as it is to get it out of business.

- 3 -

The information would be furnished to the British, and they also would probably do the same thing with that Gerhard firm over there. So far as we can find out they do not handle Government or Lend-Lease contracts, but it is principally in the trade between here and Latin America by private account. They can learn through that, shipping information between the two areas.

MR. COX: Don't they handle some of the stuff for the British on private account in connection with Gerhard and Hey?

MR. BERNSTEIN: I don't know about the Gerhard and Hey outfit - maybe.

MR. COX: It seems significant, to at least give them some tip-offs as to the ship movements.

MR. BERNSTEIN: So far as we have been able to ascertain, we just have not found any misuse of the information.

MR. PAUL: But that is not saying it is not done.

MR. PEHLE: It should be shut down because this is a German enterprise, regardless of whether they have vital information.

MR. COX: The Secretary raised the fundamental problem the other day in talking about the price thing. That is, you have got the problem of closing it down, and it seems to me that obviously you have got enough information for that; then you have the practical problem, is it likely or is it worth the effort to see whether these birds have been supplying dope as to ship movements, assuming that they have been tipping off already, by your investigation.

Now, if it were going to be a six months' investigation to find out whether they are tipping off,

- 4 -

that obviously won't make any sense. The practical thing to do would be to close them down.

The only question I have is whether within, say a week's deadline, you can run anything down in terms of all the techniques - the kind of things that the FBI can do.

Now, from what little I have seen about this kind of stuff there is a tendency to overrate the capacity and intelligence of the enemy, because they occasionally pull some awfully stupid stuff. Having had the investigation for some time, and having run down enough to close them, I just raise the question of whether they are using any of this information on ship movements; and, secondly, if you can run it down in a short space of time, what effect will it have on other outfits that are doing it.

MR. BERNSTEIN: Oscar, we have been in this thing now for a few months. We have been examining these people very closely, including all the personnel. We have not run across anything yet showing they are tipping off.

MR. COX: But you wouldn't ordinarily use the - I mean--

MR. PAUL: You mean should the FBI go in there for a week?

H.M.JR: The FBI has been over and, he said, up and down.

MR. COX: No, they have been over Jarka, not over Draeger. But here is the point: The kind of job you have just done FBI would not be likely to do because it involves to a degree intricate corporate relationships and all that sort of thing. That is just is not their field, and they don't know the curves on it. But when it comes to a question,

- 5 -

for example, of tapping wires and that sort of thing, that is the typical flat-foot's job.

Now, whether a week of that would turn up anything or not I don't know.

MR. PEHLE: I should say it is almost highly unlikely. I mean, this outfit has been tipped off for months. The Treasury is watching them. We have guards in there all the time.

MR. COX: I know, but if they had any sense at all and wanted to tip off as to movements they would not do it in the office; they would go back and pick up a telephone and do it orally, but that part of it--

H.M.JR: Have you ever known of FBI to break a case where they started new, and do it in a week?

MR. COX: No, but this is not starting new. This is a case where you have all the stuff for the purposes of closing the thing, and you have got the whip hand in that you can say, "We are going to close it in a week. We will give you a week to trail these fellows down and see what, if anything, can be found out."

MR. PEHLE: They have been in a position to do that all the way along, and we have other shipping companies which are in the course of investigation.

MR. COX: The fact is that they have not done it, John, and my basic point is that as far as the Germans are concerned they do not give a damn about our jurisdictional problems. Their only hope is that the proper fellows won't do their job.

H.M.JR: There are a dozen key employees in here, Oscar, and until FBI does - I wanted to shut this down last week and then the boys asked for time. I think it is a great responsibility that you are

- 6 -

taking in asking us to keep this open one extra day.

MR. COX: I agree. I mean, I am by no means clear or strong about it.

MR. PAUL: I wonder if we can't combine something of your scheme with investigations of other companies. We have got another bunch of them, five or six others that we are following up.

MR. COX: Why not do this, why not close this down immediately, give the FBI the names of the people who are the key people and let them follow them up from there on out. Then when you get the next one, before you are sure of the closing-down stage, give them the names of the key people to follow up on this flat-foot thing.

H.M.JR: They can do that now on some of the others.

In this thing here, this recommendation calls for notifying the Army, Navy, and Justice, and the individuals.

MR. COX: I agree. I mean, I was just raising it for discussion - what the alternatives were.

MR. PEHLE: Oscar, this is a subject which - I understand the FBI feels that they have got a lot of business already. We have every interest in their going ahead and doing all the work they can on the problem. This is just one spot; there are a lot more.

MR. COX: Mind you, I haven't any interest in the FBI because I am not looking at this as working for Justice. The way I originally got into this, and how I happened to talk to Klaus, was that it seemed to me, just as an off-hand reaction, that the Germans could not be popping off as many ships without some knowledge as to the movements of ships. We were interested in

- 7 -

it from the Lend-Lease standpoint. I talked to Klaus and asked him what he knew and what he could check up. Then he checked up around town and did several things. One was, for example, that we sent fellows up to take pictures of the boxes on the docks. We could see what the stuff was and to whom it was consigned. Anybody could walk in and take a picture, let alone the stevedores. They had the problem of not letting the crews know where the ships were going, but let others in.

The FBI approach is that this thing has been turned over to the Coast Guard, and therefore it is not within their bailiwick. Now, you know that you can drive a horse and cart through that division of responsibility, and it seems to me--

H.M.JR: That is something else again. That is something which FBI and ONI fought a battle on, and everything else, and I don't know - didn't Biddle actually go up to bat on it himself?

MR. COX: I think he did.

H.M.JR: That has nothing to do with this.

MR. COX: There is a larger problem here. You ought to call it to the attention of the President - that is, the implications of this divided responsibility.

H.M.JR: No, I don't think that is up to me. We here in the Treasury really have no responsibility on this thing other than this; but here the Attorney General has a very definite one and the Navy has a very definite one.

MR. PAUL: Of course the problem is much broader. It is a question of safeguarding information, even if you stopped these people.

MR. PEHLE: That is a problem that BEW has, as a result of some meetings at Justice, undertaken,

- 8 -

partly with Censorship, to handle, on which the Treasury has received a letter inviting them to serve on a committee.

MR. BERNSTEIN: Oscar, on this stuff, we know all this information isn't picked up a piece at a time; we know where it is recapitulated - every ship movement is recapitulated, where it is going, to whom, when it will leave the port, and where it will cross certain points. Every insurance company - six insurance companies that are doing re-insurance business in this country, including one Swiss, know all this.

MR. COX: There is this, without the job being the Treasury's primary responsibility except on the foreign funds control thing, you have run into a thing where there is enough evidence to close the thing; and that will to a large degree automatically shut down the corporate mechanisms, the means of communicating information. So as a practical matter you say it ought to be shut down. Now, actually, in view of the fact that the jurisdiction has been turned over to the Coast Guard and you have got other things, there ought to be a much closer tie-up in the way that information is put together for the purposes of stopping dope about ship movements.

H.M.JR: Yes, but, you see, you are talking about something - I needn't tell you times have changed, and if you told me this six months ago I would have jumped up and would tear my hair - what little there is left - and get busy. But every time we want to do, for instance - just let's talk about Justice - well, I don't know, I was going to use the word "rule" - but they rebuff the Treasury every single time we ever try to do anything. Let's call a spade a spade. We see what we can do about it, and Justice fights us tooth and nail. They fought the Coast Guard tooth and nail on this thing, and they don't do the job themselves. Let's call a spade a spade. I wish Biddle was sitting there in the chair instead of you.

- 9 -

MR. COX: That is the central problem I am trying to point out

H.M.JR: I mean, why should I - I mean I talk to you one minute as Justice and now you sit over here and you are my friend. We want to win the war.

MR. COX: That is exactly what I am interested in.

H.M.JR: But supposing that I got together a memorandum and sent this to the President, see? I know what his reaction would be. He would say, "Henry, mind your own business."

MR. COX: I am not so sure of that.

H.M.JR: I mean let's say that this thing that you can drive a horse and cart through - in one of your many capacities you are more or less of an assistant, legal adviser, to Harry Hopkins. Why shouldn't Harry do this thing? This is right down his alley.

MR. COX: I mean I am not--

H.M.JR: I am not trying to make a record. I would just as soon stop the machine.

MR. COX: That doesn't bother me.

H.M.JR: But the point I can't get, Oscar, is this--

MR. COX: All I am trying to say is this, that--

H.M.JR: Here you are, an assistant to the Attorney General and to Hopkins, and both of them are charged - certainly the Attorney General is charged with this responsibility. Hopkins is advisor,

- 10 -

or something, to the President - what is his title?

MR. COX: Special assistant.

H.M.JR: Which is it, advisor or special assistant?

MR. COX: I don't know what his titles are.

H.M.JR: To the President and doing mostly, or entirely, military matters. Now, why shouldn't one of those two men--

MR. COX: They should.

H.M.JR: Have you tried them?

MR. COX: No, but I want to talk to you first, and I was going to try both of them. But it seems to me they are not exclusive because when you present it to the President in terms of this thing, which is really a nugget and developed out of your shop, you are not saying that the Treasury ought to take over - I mean I don't think you ought to say the Treasury ought to take this over. All you do is present a concrete case which came up in a way, in terms of the division of responsibility, and they would say, "Well, how in the world did the Treasury dig this up? Why didn't Coast Guard or FBI dig it up?" They didn't, that is the fact.

Now, the only relevance to that is that there ought to be some method devised by which either Justice does not rebuff you when you offer them something or ask for their assistance, and where the thing is not off in water-tight compartments, as far as the jurisdictional stuff is concerned--

H.M.JR: Look, the Attorney General could tonight, if he wanted to, say, "I want everybody that has anything to do with protection to come to my house, and we will sit around and we will try this thing out."

- 11 -

He would be the logical person to do it. I certainly would not. But you have got to do this thing on a man-to-man basis.

MR. COX: Sure.

H.M.JR: He with FBI - with all of the subversive thing, he is the man to do it. I think the person that should be needled - I don't know, you can come right back at me - is the Attorney General.

Now, the boys did a good job on this thing - you were here in the Treasury, you know. We have become aggressive, and we become too aggressive and they try to take our authority away from us. I am reaching and groping - we just want to see the job done. But I think that the Navy can't call all these people together. The Army might do it; the Services and Supplies - General Somervell might do it. But I think we would be the last people to do it. I think if I wrote the President a letter I would rather do it when this case is through. It is in this memorandum - it says when it is through to send him a little review of the thing, but--

MR. COX: Let me ask you this. Do you have any objection if the A.G., for the purposes of calling the meeting, through the A.G., or otherwise, to get some connection between this, uses the Draeger thing as an illustration?

H.M.JR: Delighted.

MR. COX: All right, fine.

H.M.JR: Delighted. Look, I will cooperate with anybody else on this thing. That is why I invited you here. That is a demonstration - you are a visual demonstration. But I have been through this thing so much with the Attorney General and with Hopkins, and with all of them, and they are all too

- 12 -

busy to do the job which is theirs and their responsibility. This New York waterfront thing has been going on for months and months and months.

MR. PAUL: Actually the only thing done about it at all is what has been done here.

H.M.JR: Three or four years ago - maybe not that - the President said, "I am going to have a person who is going to have all the information on the subversive question." The first person he asked to do it was Jimmy Dunn.

MR. PAUL: Who?

H.M.JR: Jimmy Dunn. Then it went from Jimmy Dunn to the fellow who is ambassador--

MR. PEHLE: Breckinridge Long.

H.M.JR: Breckinridge Long, and then it went from Long to the man who is ambassador to Cuba now--

MR. PEHLE: Messersmith.

H.M.JR: He was the third man who had the job, and Gaston represented the Treasury. I don't know where it went after Messersmith left. I don't know who picked it up. But the President has had it in mind for a long time, but he has not gotten the service and the country has not. I think it is outrageous.

MR. COX: That is the feeling I have about it.

H.M.JR: You can use the Draeger case and you can use our own people and the evidence, but I just did not want to go to the front because it is useless. I mean, it is useless for me to try to battle the Department of Justice on this thing.

- 13 -

MR. COX: I was not thinking of battling the Department of Justice.

H.M.JR: That is what it amounts to.

MR. PAUL: Why don't you "load the dice" with the Department of Justice, then we will come right along with you?

MR. COX: All right. I feel so strongly about this in terms of people getting sunk out in the ocean.

H.M.JR: You don't feel it any more than I do. But, as I say, there are so many people charged with the responsibility and they don't do the jobs.

MR. COX: That is right.

H.M.JR: And, incidentally, somebody had better call up Crowley and tell him.

MR. PEHLE: I intended to walk right over.

H.M.JR: Try to get him to do it today.

MR. PEHLE: Yes, sir.

MR. COX: What you have got on the divided responsibility thing is that with the primary responsibility in other agencies you fellows have actually done the best job on this.

H.M.JR: I think so.

MR. COX: It is not a periphery thing, really, I think.

H.M.JR: I think that they have. I told you that the other day. Some other agency just wouldn't touch this.

- 14 -

MR. COX: I know on Jarka, which is another forwarding and shipping agency, FBI has been up and down, but I don't think they are equipped to do the kind of job that your fellows did on Draeger because their minds do not work that way.

MR. BERNSTEIN: We will probably have another report on Phoenix, which looks like a blood brother of this thing.

H.M.JR: Now, if you have Phoenix, ask Oscar officially to have Justice simultaneously do the wire-tapping and that kind of thing.

MR. PAUL: That is why I suggested it.

MR. COX: I can get that done.

H.M.JR: Get whatever the Phoenix case is and invite FBI in to cooperate with us.

MR. BERNSTEIN: I think we keep FBI posted, as we did in this case.

MR. PEHLE: In many cases we go in the front door at the same time, when they say, "We haven't gone in because we can't get in."

MR. COX: But you have got to remember one central thing, and that is that an investigative service is an investigative service. I mean, unless they get direction, for example, the way the Secretary will direct Ireys - he does not tell him in detail what to do but he gives him, really, a direction. The thing that impresses me in watching different investigator services is that they are not much better than their direction. I mean, they won't dig up this kind of stuff. FBI would very rarely dig up this kind of stuff unless adequately directed.

- 15 -

Now, on the other stuff, like the saboteur thing, cases of that kind, that is like the fellow that is stealing money out of a till - he doesn't need much direction.

H.M. JR: Let's stop this, because I want to talk to Oscar privately a minute.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE  
SEP 22 1942

*File  
outside*

TO Secretary Morgenthau  
FROM Randolph Paul

Re: Draeger Shipping Company

Attached is the report on the Draeger Shipping Company. It is worth reading since the conduct of this company illustrates the manner in which German interests cloak their operations to avoid our wartime controls and to preserve their markets until after the war.

Our investigation has conclusively established that Frederick Draeger, a former German citizen, and the Draeger Shipping Company, which he owns, have, since the beginning of the war in Europe and even after our entry into the war, acted as a cloak for the Schenker companies -- a world-wide system of international freight forwarders beneficially owned by the German government. The underlying relationship between Draeger and Schenker is based on a written contract of April 10, 1935, providing for management for a ten-year period of Schenker, New York, by Draeger subject to the direct supervision of Schenker, Berlin. Draeger originally denied the existence of such a contract and, when confronted with the evidence of its existence (we obtained the original of this contract from London through the offices of the British Embassy), he contended that it had been superseded by subsequent oral agreements with Berlin which were later cancelled. These contentions are in sharp conflict with his continued activities conforming in substance with the provisions of the written contract.

Although the original agreement between Schenker and Draeger may have been motivated by a desire to avoid the boycott of German enterprises, it provided, after the outbreak of war in Europe, a convenient method for preserving the German markets in the United States and South America for the Schenker interests, despite the controls established by the United Nations. This is clearly illustrated in a letter signed by Draeger as manager of the New York office of Schenker, which was sent on October 17, 1939, to a Schenker representative in Argentina.

"Report to us ... how you are progressing ... so that we can give you eventually the necessary hints how you have to conduct yourself with regard to the various customers. For your guide we inform you that we are in very close connection with the Draeger Shipping Company, Inc. and Herr F. Draeger is likewise director of Schenker and Company, Inc., New York... We should like to request you now with such receivers in Buenos Aires who have German sympathies to acquire in the name of Schenker; with other firms which have an opposite way of thinking, as English, French, etc., rather work for Draeger Shipping...

"In consequence of the war and since Argentine is so almost cut off from Germany, we assume that the USA business with Buenos Aires ... will significantly increase and you should therefore have a very good field there to work successfully for Schenker and Draeger if you proceed correctly. We repeat once more, with firms having German sympathies one must acquire as Schenker, if you see any sort of difficulties then act just as representative of Draeger Shipping Company.

The Draeger Shipping Company, which is one of seventy private freight forwarding concerns in New York City, handles the detailed work involved in forwarding shipments of merchandise abroad. In the course of normal business it obtains information concerning ship movements. While our investigation has not uncovered any evidence indicating that it has been making such information available to enemy interests, such a possibility obviously exists.

It is the policy of the Treasury Department to force the liquidation of business enterprises which are enemy owned or controlled, or which have been acting for enemy interests, unless such action would impair the war effort. The Draeger Shipping Company handles shipments going principally to South America for private concerns. We have checked with Lend-Lease and the Board of Economic Warfare and have been assured that this company does not handle any Lend-Lease shipments. As far as can be ascertained it does not handle shipments of any of the governmental agencies.

Accordingly, it is proposed to take the following action:

1. To furnish the Alien Property Custodian with a copy of the report on Draeger Shipping Company, and to advise him that the Treasury Department will not continue to license the operations of the Draeger Shipping Company and that it

should be liquidated. If the Alien Property Custodian does not act promptly, the Foreign Funds Control will revoke the operating license of the Draeger Shipping Company and permit only liquidating operations. Attached is a proposed letter to the Alien Property Custodian.

2. To furnish informally to the British Embassy a copy of our report on Draeger Shipping Company; the British Embassy is interested in this matter because of Draeger's 50 percent interest in the British freight forwarding company of Gerhard and Hey, Ltd.
3. To furnish copies of the report to the Attorney General, the Secretary of War, and the Secretary of the Navy, in order that they may inform interested offices within their respective departments.
4. To prepare, as soon as the Draeger Shipping Company has been made a "completed case," a memorandum to the President for your signature summarizing the action.

If you are in agreement, please indicate below.

*REP*

Approved:

*H. M. Smith and J.*

SEP 22 1942

My Dear Mr. Crowley:

There is enclosed herewith a report on Draeger Shipping Company, Inc., New York, which is engaged in freight forwarding business with branch offices in St. Louis, Chicago, Pittsburgh, and New Orleans. The report establishes conclusively that Draeger Shipping Company, Inc., owned and controlled by Frederick Draeger, has, since the beginning of the war in Europe, and continuously since our entrance into the war, been cloaking the Schenker interests -- international freight forwarders, owned beneficially by the German government -- to avoid wartime controls and to preserve the German markets for the Schenker interests until after the war.

We recommend that the Draeger Shipping Company, Inc., be liquidated immediately. It does no governmental nor lend-lease business; its clients are exclusively private concerns. The liquidation of this company would not impair our war effort since the facilities of the many other American firms engaged in the freight forwarding business would be available to the clients of the Draeger Shipping Company, Inc.

We are referring this matter for your attention since Draeger Shipping Company, Inc., represents enemy interests. The immediate liquidation of this enterprise is urgent and unless you propose other action, we intend to revoke the present operating license and thus compel liquidation.

Our files in this matter are available for inspection at any time.

Sincerely yours,

W. H. Morgenthau, Jr.

Esq. Leo T. Crowley,  
Alien Property Custodian,  
Room 414, National Press Building,  
Washington, D. C.

*JTB B ASA*

September 19, 1942

REPORT OF INVESTIGATION OF DRAEGER SHIPPING CO., INC.,  
AND FREDERICK DRAEGER, NEW YORK CITY.

The investigation of the Draeger Shipping Co., Inc. shows with certainty that Frederick Draeger, through the medium of Draeger Shipping Co., Inc., actively represents German interests by virtue of contractual relationship and a course of conduct. It further indicates that continued operation of Draeger Shipping Co., Inc. would be contrary to the best interests of national defense.

It is recommended, therefore, that the presently outstanding 30-day operating license of Draeger Shipping Co., Inc. be immediately revoked. The Office of the Alien Property Custodian should be consulted with respect to their views concerning vesting of Draeger Shipping Co., before action is taken pursuant to the above recommendation.

Origin of the Investigation:

Prior to June 1942, there was some evidence indicating that Draeger Shipping was in some way affiliated with Schenker Co., Inc., New York, which gave rise to suspicions concerning the status of this company. These suspicions were confirmed during the course of a foreign funds control investigation of Topken and Farley, former counsel for the German Consulate in New York City, and Schenker Co., Inc., New York. Documentary evidence revealed that there had been a wholesale transfer of the stock ownership of Schenker Co. New York, around February 1940, whereby the total outstanding shares were transferred from Schenker Holding Corporation, a Swiss corporation, the beneficial ownership of which was in Schenker & Co. G.m.b.H., Berlin, Germany, to one Johann Van Dyke of Rotterdam, formerly manager of Schenker, Germany, Berlin. Schenker, Berlin is owned fully by the Reichsbahn, I.G.; the German State Railway System. Correspondence in the files also stated flatly that the aforementioned Van Dyke and one Lorenz, an employee of Schenker Co., New York, were "confidential agents" of Schenker, Berlin. Inspection of the premises of Schenker, New York showed that it and Draeger Shipping Co., occupied joint office space.

As a result of this and other information, Draeger Shipping Co., was blocked as a national of Germany. At this time, a supervisor and guards were installed on the premises, and shortly thereafter active investigation began.

Background:

Frederick Draeger, President of Draeger Shipping Co., was born in Germany and came to the United States in 1892. He was naturalized in September 1898. His previous connections having been with the shipping business, he organized the Draeger Shipping Co., Inc. in 1922, all the outstanding stock of which has always been owned by him, and he has continued as its president to this date. Its business is that of foreign freight forwarder and customs broker, and it has branch offices in St. Louis, Chicago, Petersburg and New Orleans. Its South American correspondent is Dickinson & Co., Sao Paulo, Brazil. Draeger is also president of Merchandise Factors, Inc., New York City organized as an adjunct to Draeger's business to handle warehouse facilities. In addition, he holds a 50% interest in Gerhard & Hey, Ltd. of London, the remaining 50% being owned by a Mr. Jeffrey of Scotland. As Chairman of the board, Draeger holds the controlling vote in case of disagreement on policy. With respect to this enterprise the Ministry of Economic Warfare has indicated through the British Embassy, that although suspicious of the enterprise, it has taken no action against Gerhard & Hey because of the ostensible ownership. The Ministry is actively interested in our action in re the Draeger Shipping Co., because of the repercussions upon Gerhard & Hey, Ltd. and has expressed the view that their action should be closely co-ordinated with ours.

Schenker & Co. Inc., New York, was likewise engaged in foreign freight forwarding, but does not have a customs brokerage license. As previously stated, it is nominally owned by a Dutch national. Beneficial ownership, however, rests in Schenker, Berlin. 1/ The business of Schenker, New York, had, until 1935, been uncertain and precarious, due primarily, according to Draeger, to loose and ineffectual management. In that year, a contract was made between Frederick Draeger, individually, Draeger Shipping Co. Inc., Schenker Holding Corporation, Schenker of Berlin and Schenker of New York, which led to the active representation by Draeger of the Schenker interests in this country, which relationship has continued up to the present date. Schenker Co., New York, was recognized in 1935 as representing the German interests of Schenker, Berlin, and the inability of Schenker, New York to realize profitable operations at that time may very likely have been the fact that there was a general and effective boycott of the Reichsbahn. This being so, placing the management of Schenker, New York in the hands of an American would tend toward elimination of the boycott.

Ownership of Schenker New York Stock:

Schenker & Co., G.m.b.H., Berlin, Germany is the parent concern of a far-flung organization of freight forwarders. Its agencies, all bearing the Schenker name, are located in all continental countries, as well as the United States. There is apparently a consolidation of stock ownership of the various enterprises in the Schenker Holding Corporation of Zurich, Switzerland. However, it is evident that the parent concern is Schenker, Berlin.

---

1/ Exhibit 1, Copy of Contract.

- 3 -

In the files of Topken and Farley, various letters were found indicating this fact conclusively. In the file entitled "Holser vs. Deutsche Reichsbahn and Schenker & Co." a letter written by Karl von Lewinski at Berlin on February 14, 1936, appeared, which stated, in part:

"The Schenker Co., G.m.b.H. is owned fully by the Reichsbahn. The clients [meaning Reichsbahn and Schenker] do not want to admit this under any circumstances as it would be very harmful to their business interest in several countries where all organizations, directly dependent on the Reichsbahn, are boycotted. \* \* \* In this connection, you must avoid the words 'sale of Schenker & Co!'"

In the opinion of the New York Court of Appeals, in 277 N. Y. 474, written in the decision of this case, the statement is also made that Schenker & Co. Berlin, is controlled by the German State Railway System through stock ownership. It therefore appears that the ultimate owner of the stock of Schenker & Co. Berlin is the German Government, and hence the ultimate owner of Schenker & Co. Inc., New York, is also the German Government.

Contract:

At the inception of the investigation, it became apparent that such a contract existed. Draeger was repeatedly questioned on this point but persistently denied its existence. He finally admitted, however, that Georg Stephan, former manager of Schenker, New York, had approached him many times prior to 1935 to take over management of Schenker, New York, which Draeger consistently refused. Finally, however, he consented and in April 1935, a 10-year contract was executed between Schenker and Draeger, as previously mentioned. The foreign funds control has obtained the original of this contract from the Offices of Gerhard & Hey in London through the service of the British Embassy and it forms the prime basis for the conclusions reached herein. 1/

The essential provisions of this contract are that there would be an internal merger or a joint enterprise of Draeger Shipping Co., and Schenker, New York, but that, from a legal standpoint and for tax purposes, the exterior entities should be maintained. Separate forwarding books and a separate system of bookkeeping and financing would be maintained for this purpose. All profits accruing from the

---

1/ Exhibit 1, Copy of Contract.

- 4 -

operation of the Schenker business would be divided 75% to Draeger Shipping Co., and 25% to Schenker, New York. Out of Draeger Shipping's 75% they were to pay all expenses of the office. However, Schenker, Berlin reserved the right to give instructions for the conduct of the management of Schenker, New York, in order to conform the practices of Schenker, New York, with those of the entire Schenker organization. This included the right to negative any intended dismissal of Schenker personnel in New York. Draeger was to handle all business of Schenker, New York, from that date on, and, in the event of any dispute under the contract, it should be settled by arbitration in Hamburg, Germany.

Finally, Draeger agreed not to sell his shares during his lifetime, or at most for the duration of this contract. In the event of Draeger's death, Schenker, Berlin, parent of Schenker, New York, could demand of Draeger's heirs the continuance of the agreement or the sale to it of the shares of Draeger at an arbitrated price. Should the heirs elect to continue the contract they could not dispose of the shares without first offering them to Schenker, Berlin.

Pursuant to this contract, Draeger moved the offices of Schenker, New York into those of his own at 17 State Street, New York City. Thereafter, the business was operated as a single entity with common personnel engaged in making entries on both Schenker and Draeger records. Draeger stated, upon examination, that there was no attempt to solicit new business on behalf of Schenker, New York, but that the business was carried on only with respect to the clientele of Schenker existing at the time of the contract.

In May of 1937, disagreements arose between Schenker, Berlin and Draeger, who was manager of Schenker, New York, as to operations under the contract, and Draeger visited Germany to make exception thereto. <sup>1/</sup> He contends that at that time the written contract was cancelled and was supplanted by an oral understanding, to continue in existence until a successor could be found for Draeger, whereby the profits would be split half and half and Draeger would not be subjected to any interference by Schenker, Berlin. The written contract, however, was never cancelled and to all intents and purposes, as indicated by the course of conduct pursued by Draeger subsequent to 1937, it remains in effect.

---

1/ Page 2, Draeger Testimony.

- 5 -

An analysis of the written contract and of the oral agreement as recited by Draeger reveals a good many absurdities which reflect immeasurably on Draeger's statement that the written contract was cancelled and supplanted by a "gentleman's agreement". It is illogical that a man who considers a written contract as broken by the opposite party should place his confidence in an oral understanding never reduced to writing. Similarly, a provision for division of profits with no like provision for losses is inconceivable, yet this was stoutly maintained by Draeger. There is evidence that differences arose in 1937 and 1938 over operation of the contract, by both sides. However, the written contract itself bears no mark of cancellation, nor is there collateral evidence of its extinguishment, nor is there any documentary evidence found in Draeger's file or voluntarily produced by Draeger, which suggests the alteration of the written contract by the oral agreement. Lastly, the course of conduct to which reference will be made removes any doubt that the spirit of the contract has been observed by Draeger throughout the war years and still exists.

Draeger's Actions after May 1937:

In 1937, Schenker, New York was showing profits. They continued through 1938 and the first six months of 1939 with Draeger as manager. 1/  
A successor for Draeger had apparently not been found. The war broke out in September 1939, and its impact was felt immediately by Schenker, New York. 2/

On September 29, 1939, Draeger and Topken discussed the election of new officers for Schenker, New York and decided "in view of the political situation it was urgently advisable to have only American citizens as officials of the company for the future." 3/ Stephan, a German citizen, then president of Schenker, New York, submitted his resignation by cable, to which Draeger answered: ". . . I shall comply with your request . . . I am still waiting for . . . the shares of the Holding Company and also the share book . . . so that we can arrange our records for any eventuality." 4/

Thereupon, on October 31, 1939, Draeger was elected president of Schenker, New York by the dummy holding company in Switzerland, Schenker Holding Corporation, through Topken who held proxy of these shares. All advices concerning this election were given directly to Schenker & Co., G.m.b.H. Berlin, not Schenker Holding Corporation, Zurich, the dummy.

- 
- 1/ PP. 3, Draeger Testimony.  
2/ Exhibit #8  
3/ Exhibit #7  
4/ Exhibit #8

- 6 -

It is pertinent at this point to recall that, under the alleged oral agreement of May 1937, Dreager was to continue as manager only until a successor could be found. It is now October 1939. Dreager's explanation is that he wished merely to help out Schenker. ✓

Letters written by Dreager subsequent to his election as president demonstrate the degree of attention given by him to the administration of his office in Behnken, New York, and to the joint enterprises of Dreager and Behnken. They further show the continued assistance of the written contract and the close relationship of the two companies.

On October 17, 1939, 2/ (fourteen days before Dreager's election), Dreager, on the letterhead of Schenker, New York, and over the signature of Behnker, New York, wrote to G. Sommarlatto, a representative of Behnker, Berlin, in Buenos Aires, Argentina:

October 17, 1939

G. Sommarlatto  
s/o Casa Behnker & Cia  
Representacion Buenos Aires  
335 Sarmiento, Plaza 85  
Buenos Aires, Argentina

We receive your address from SCHENKER, HAMBURG, who inform us that you seek rates for the most important standard goods to Buenos Aires.

This is not so easily executed; but we assume rightly that your activity in Buenos Aires is requisition for Schenker. You can unquestionably obtain yourself in Buenos Aires any rates that you wish from the various steamship companies that maintain service to Buenos Aires; otherwise you must from time to time communicate to us that it is about since your inquiry is VERY General.

Report to us furthermore how you are progressing in your activity so that we can give you eventually the necessary hints how you have to conduct yourself with regard to the various customers. For your guide we inform you that we are in very close connection with the DEANSEN SHIPPING CO. INC., and Herr F. Dreager is likewise director of SCHENKER & CO. INC.,

New York. - We do not know if this is known to you. Sobenker itself has little at Buenos Aires; but the Draeger Shipping Co. has somewhat more already. - We should like to request you now, with such receivers in Buenos Aires who have German sympathies to enquire in the name of SCHENKER; with other firms which have an opposite way of thinking, as English, French, etc.; rather work for Draeger Shipping. - With the various receivers the main point is to have a forwarding agent in New York who can forward regulation shipments to Buenos Aires and is well experienced in General-Vorsehriften, etc. Draeger understands this principle very well because Draeger has already been in the South American business for years. - We shall undertake our shipments in the way that after the freight shall be paid here we shall let the expenses be taken through the bank. If it is a question of great and good firms, we should also be willing to guarantee the people the freight credit if it is not a question of too great amounts, and this so well Sobenker as also Draeger. - We do not enter into finances, that is, payments of invoices of the contractors, and then draw for the worth of the merchandise on the bill of lading. - You will have much to do to put through such affairs; please note from that in advance that neither Sobenker nor Draeger take over such affairs.

In consequence of the war and since Argentine is so almost cut off from Germany, we assume that the USA business with Buenos Aires in the shortest time will significantly increase and you should therefore have a very good field there to work successfully for Sobenker and Draeger if you proceed correctly. - We repeat once more, with firms having German sympathies one must enquire as SCHENKER; if you see any sort of difficulties, then act just as representative of DRAEGER SHIPPING CO. - We give you with the same letterhead of Draeger Shipping so that you can see with whom you are dealing. You will see from the letterhead that Draeger Shipping represents the perhaps well known to you firm GERHARD & HET Ltd. in London, which is the greatest shipping agency in Great Britain. \* \* \*

In case you wish any sort of further information, write to us directly.

We should like to mention further that the future commercial treaty with Argentina will add variously to give you opportunity to acquire customers.

Respectfully,  
SCHENKER & CO. INC.  
F. DRAEGER

DHT

This letter is of vital importance in that it shows the state of mind and intention of Draeger immediately after the outbreak of war in continental Europe. It shows, further, that Draeger was immediately concerned with the retention of those customers in South America with whom Sebenker, Berlin was accustomed to do business. In his testimony, Draeger relates that he understood that Sommerlatte was in the Argentine to solicit business for Sebenker, Berlin. When Sebenker, Berlin was cut off from this actual and prospective business, a hasty effort was made with the connivance of Draeger to preserve those gains already made and to capture the business which would result from the anticipated expansion of South American import and export business due to the outbreak of the war.

When questioned about this letter during his examination, Draeger read a prepared answer. 1/ In substance, he attempted to say that his sole purpose in writing this letter was to get the business in South America for Draeger Shipping Co. solely. The reason Draeger gave for writing as Sebenker, New York, was to identify himself to Sommerlatte, because he was afraid Sommerlatte would not recognize the Draeger Shipping Co.

The explanation is unacceptably. The unequivocal language of the letter shows beyond question - particularly considering that Draeger and Sebenker, New York was a joint enterprise, that the new James was taking over the Sebenker business in the New World, presenting the face of Draeger or the face of Sebenker as required by the political complexion of the shipper. The letter was written on the letterhead of Sebenker, New York, over the signature of Sebenker, New York, and refers to obtaining business for Sebenker, New York, using the Draeger name for firms which have an opposite way of thinking, as English, French, etc." There would have been no need for discussion of the political beliefs of shippers. Draeger himself admitted, finally, that Sommerlatte must have known of the existence of Sebenker, New York, and that, therefore, there was no purpose served in attempting to identify himself to Sommerlatte as a Sebenker man. The only conclusion that can be reached is that a Sebenker man wrote to a Sebenker man with a plan to save the Sebenker business for the duration. 2/

1/ Page 34, Draeger Testimony  
2/ Pages 33-47, Draeger Testimony.

- 9 -

Another letter of May 17, 1940, 1/ reflecting the continued cloaking of Schenker by the Draeger name, was written by Lorents for Draeger Shipping Co., to Etablissements Weigel & Cie, Paris, in which it was stated, among other things:

"The firm of W. E. Lindemann is a Schenker account, but we want to have all these shipments forwarded and consigned to the DRAEGER SHIPPING CO. for the time being."

The use of the phrase "for the time being" obviously suggests that Schenker New York was lying dormant for the duration of the war, when it would resume business, and that Draeger was doing his utmost to preserve the Schenker business and worldwide organization until that time.

As evidence that the previously mentioned letter of October 17, 1939, was not simply an idle gesture, on July 12, 1940, 2/ Lorents wrote to Manuel Vivas, Ltd., Lisbon, Portugal, with respect to a shipment of hops, giving certain instructions, and among others:

"Should you receive any shipment for Schenker & Co. New York, please consign them to us only, and not to Schenker. As you know, we are taking care of the Schenker interests and it is better not to consign any shipments to Schenker & Co. until the European situation is quiet again."

On February 3, 1940, 3/ a letter from Schenker Holding Corporation, Switzerland, addressed to Topken and Farley, requested Topken to issue a new certificate for 250 shares in the par value of \$25,000 and to issue it in the name of Johann P. Van Dijk, who would surrender the old certificate issued in Schenker Holding Corporation's name. In this letter Van Dijk was described by Schenker Holding Corporation as "our confidential agent". References had formerly been made to Van Dijk in the same terms and also as manager of the Dutch Schenker firms, in a letter by Schenker, Berlin to Topken on December 20, 1929. 4/ The total outstanding stock of Schenker, New York consisted of 250 shares, all owned beneficially prior to this time by Schenker, Berlin. The new certificate for 250 shares of Schenker Co. New York, was issued to Van Dijk and placed with Topken for safekeeping. The custody of this stock was reported by Topken on March 19, 1941, on Form TFR-100, as property of a Dutch national.

- 
- 1/ Exhibit "Z"
  - 2/ Exhibit "AA"
  - 3/ Exhibit "V" (Italics supplied).
  - 4/ Exhibit "U"

In a letter dated March 10, 1941, ✓ from Topken to the German Consulate General, New York City, written with respect to those shares, it is stated:

"Should I receive instructions from Mr. Van Dijk to deliver the certificate to him, I would be able to do so only with the consent of Schenker & Company G.m.b.H. after having ascertained that Schenker & Company G.m.b.H. can prove its rights to the certificate."

It is apparent from the last quoted letter of Topken that Schenker, Berlin has at least certain interests in this stock and probably entire beneficial ownership thereof. Further, in the letter of December 20, 1939, previously referred to, Van Dijk was described by Schenker, Berlin, as "manager of our Dutch firms". This inter-change of letters does everything but boldly state that Van Dijk holds the bare legal title to these shares to conceal the true ownership.

On April 4, 1940, Van Dijk presented himself at the offices of Schenker & Co. New York and, according to Dreager, demanded and obtained a check of Schenker & Co. New York in the amount of \$10,000 payable to Van Dijk. This represented a withdrawal of practically all of Schenker & Co. New York's available cash, and, according to Frederick Dreager, it was a liquidating dividend to which Van Dijk was entitled. The foregoing statement was made when the withdrawal first came to light during the investigation but subsequently, in his examination, Dreager simply said that Van Dijk requested the money and Dreager gave it to him. Dreager did state that Van Dijk sold, in response to Dreager's protest, that Van Dijk was the only shareholder and could sign the check himself. The check for \$10,000 was deposited in the Guaranty Trust Co., New York. After his return to Rotterdam, Van Dijk cabled the bank, on April 29, 1940, as follows:

"Charge my account \$10,000. Cable to Deutsche Reichsbank, Berlin, to the favor of Schenker & Co., Rittersgrasse, Berlin."

This is further corroboration that Van Dijk was the nominee of Schenker Berlin and was acting in its behalf in negotiations with Schenker, New York.

✓ Exhibit 93a

- 11 -

It thus appears that Schenker, New York, is still owned by Schenker, Berlin, a fact important as regards Schenker, New York, itself, but also as demonstrating that those acts committed by Draeger on behalf of Schenker, New York, were not committed on behalf of a Dutch national but for the benefit of a German enemy national.

Continuation of Schenker Representation:

It will be recalled that in May 1937, Draeger had agreed, so he says, to continue the management of Schenker's affairs until a successor could be found. From May 1937 until October 21, 1939, over two years, he continued actively as manager. During all of this time no successor apparently could be found and, contrary to any avowals on the part of Draeger as to his extreme desire to sever his relationship with Schenker, he nevertheless accepted the presidency on this date.

He continued as president until April 10, 1941, at which time Mr. Lorents became president. It is significant that during all of these years, from 1935 on, Lorents, who has been described by Schenker, Berlin, as its "confidential representative," was constantly employed by Schenker, New York, and was available as a successor to Draeger.<sup>1/</sup> Upon the resignation of Draeger as president, on April 10, 1941, Lorents succeeded to the presidency. On April 28, 1941, 18 days later, Lorents was transferred to the Draeger payroll.<sup>2/</sup> In this light, Draeger's protestations that he was extremely anxious to sever his relationships with Schenker are ridiculous. It is further significant that from 1939 on, as Draeger admits, the Schenker, New York, business showed absolutely no profit.<sup>3/</sup> This being so, there is only one conceivable reason why Draeger should continue his relationship with Schenker - a relationship on the part of Draeger to preserve the customers of Schenker, Berlin, to maintain the name of Schenker, New York, and Schenker, Berlin, in the minds of the public, and in every way to keep the Schenker flag<sup>4/</sup> flying in the Western Hemisphere.

- 
- 1/ Pages 59, 60, Draeger Testimony.
  - 2/ Page 58, Draeger Testimony.
  - 3/ Page 7, Draeger Testimony.
  - 4/ Page 28, Draeger Testimony.

- 12 -

On July 9, 1941,<sup>1/</sup> after Lorentz had become president of Schenker & Co., he wrote to Mrs. Lisl Wolff, New York City, concerning certain charges against the addressee and requesting payment, in which it was stated:

"Will you please see that we receive an additional payment, but please note that all of the payments are to be made to our customs broker, the Draeger Shipping Co., Inc., 17 State Street, New York, so please do not issue any money orders or checks to Schenker & Co., Inc., but make these payable to the Draeger Shipping Co. Inc."

At this time Schenker & Co., Inc., was blocked as a Dutch national so that this letter is a patent attempt to violate the Executive Order. There is no reason why payment should be made to Draeger for an account owing to Schenker. This also illustrates the impossibility of differentiating between Draeger and Schenker even as late as July 1941.

In a letter to the War Production Board, Washington, D. C., on April 28, 1942,<sup>2/</sup> written by Lorentz for Schenker & Co., New York, in answer to an inquiry from the War Production Board, it was stated:

"As this firm will not be active for the duration of the war, we suggest that you strike our name off the list."

This series of letters, which are illustrative of the general tone of numerous letters found in the Draeger-Schenker files, indicates clearly that it was intended that Schenker, New York, because of its national interest legally Dutch but beneficially German, remain dormant for the duration of the war, after which it was hoped reincarnation would be immediate. To effectuate this program, use of the Schenker name was to be made in South American countries, but, though the solicitation of orders was in the Schenker name, the consignment was to be made to Draeger Shipping Co. because it was obviously felt that Draeger, being 100% owned by a citizen of the United States, its existence would not be jeopardized by the controls encircling foreign national enterprises. This conclusion, based upon the written words in the afore-mentioned letters, is supported by the internal operation of the Draeger-Schenker office, particularly the activities of its personnel and handling of accounts.

---

<sup>1/</sup> Exhibit "PP"  
<sup>2/</sup> Exhibit "QQ"

- 13 -

Work of Employees:

From the period of May 1935 to May 1941, the Schenker payroll discloses that approximately 40 individuals were at one time or another employed by them. After 1938, seven employees of Schenker & Co. were transferred to the Draeger Payroll.

When the employees of Draeger Shipping Co., Inc, were interviewed, among numerous other things, their employment history was covered. Out of the seven former Schenker employees, only one advised us that she worked for Schenker & Co. Some time later, the six former Schenker employees were again interviewed. At this time, they were advised of the facts indicated by the Schenker payroll. Their reply was that it was their opinion that they were working for Draeger. Even though all were doing both Draeger and Schenker work, it was always their opinion that they were employed by Draeger and they considered the Draeger and Schenker business one and the same.

In view of the above, it is a reasonable conclusion that internally the Draeger and Schenker activities were the same, and that no distinction was made between the two concerns.

Recent Representation of Schenker by Draeger:

From 1935 to 1938, Schenker, New York, under the management of Draeger, handled the importation of shipments of Polish hams upon which excessive duty was levied. Refunds were sought by Schenker, New York, and the firm of Barnes, Richardson and Coleburn, New York City, were retained as counsel. According to license No. NY 407915, a payment of \$29,865.71 was made to the attorneys, representing 50 percent of the duty refunds recovered for Schenker, New York. The balance is held by Schenker, New York, in its blocked account at Chase National Bank for the benefit of the original importers.

The \$29,865.71 received by the attorneys was released from the blocked account of Schenker, New York, and of this amount \$2,600 has been paid up to May 7, 1942, to Draeger Shipping Company "in payment for services." A further payment is to be made in the near future, according to Barnes, Richardson and Coleburn. This appears to be the latest transaction involving the "Draeger-Schenker, N.Y." relationship.

Mr. Draeger explains these payments as usual in the relationship between custom house brokers and customs lawyers. Assuming that this is true, this transaction was, nevertheless, a violation of the Executive Order by Barnes, Richardson and Coleburn and Draeger Shipping Company.

- 14 -

From blocked funds payable to Schenker and Company, Inc., counsel received a fee with the intention at that time of paying part of that fee to Draeger Shipping Company, the unblocked alter ego of Schenker and Company. This intention was carried out and the funds were removed from our control.

#### Income Tax:

In analyzing Mr. Draeger's personal account for 1941, it was found that through various methods, Mr. Draeger withdrew approximately \$47,000 from the corporation for personal use. His 1941 tax return showed his total income as \$8,000. During this year Mr. Draeger received through petty cash approximately \$8,000. The balance was withdrawn by checks, not payable to F. Draeger but to third parties, concerns, etc., for his personal living expenses, etc.

Numerous adjustment entries appear on Mr. Draeger's personal account, which attempt to cover up some of his withdrawals. These adjustment entries involve his personal accounts in the New York and London offices. This phase of the investigation will be referred to Internal Revenue.

#### Draeger's Defense:

On his own behalf, after being apprised of the principal charges against him (August 4, 1948, before E. H. Clay), together with the evidence supporting those charges, Draeger has submitted affidavits attached hereto. They should be read.

But in considering such affidavits, the credibility of Draeger is decidedly material. At the inception of the investigation, Draeger denied that a contract had ever existed. He later admitted, when pressed, that a written contract had existed for a short period but had been cancelled. He omitted reference to an oral understanding until the evidence of a contractual relationship became so overwhelming he finally disclosed that the written contract had been supplanted by an oral understanding in May 1937.

When Heinz Herrmann, of Schenker, Paris, immigrated as a visitor, by law he was barred from taking domestic employment. Nevertheless, he was placed on the payroll of Schenker, New York, a charge being made against Schenker, Paris. Herrmann actually worked for Draeger, the charge against Schenker, Paris, being a sham to overcome his employment difficulties. He admits he worked for Draeger.

One individual, an immigrant to this country, wanted to bring his sister to the United States from Germany. Being jobless, he was prevented from doing so, unless he could certify to his ability to support the sister. Thereupon, after request, on November 25, 1939, Draeger signed a letter for him certifying that he was on Draeger Shipping Company's payroll at \$60 a week. Withn beneath Draeger's signature on the copy was a signed statement to the effect that the undersigned would not use the above letter to obtain a job with Draeger Shipping Company.

Draeger's testimony was indefinite, contradictory and evasive. He failed utterly to advance one argument or produce affirmative proof to support his contentions and counterclaims. The most that can be said is that he did have trouble under his contract to the extent that both parties threatened to break it.

Personnel:

The investigation of the Draeger Shipping Co., Inc., included a thorough examination of the 26 officers and employees. Every officer and employee was interrogated and a statement was then prepared of his answers, which was signed and sworn to. Six of the officers and employees who were interrogated appeared questionable, and therefore a brief statement concerning each is set forth below.

1. Frederick Draeger. From 1898 to 1907, Draeger was employed by various concerns located in New York City. In 1907 he travelled to England to become manager of Osward & Hoy of London, England (German firm). In 1922, he organized the firm of Draeger Shipping Co., Inc., in New York City. From 1907 to 1939, he spent approximately 10 months out of each year in London and two months in New York. While living abroad, he travelled extensively, and periodically visited every country on the continent. During these visits, he contacted numerous foreign firms. To his personal report, he attached a list of the firms which were visited. It was during this time that Draeger became acquainted with the European Bohemian organizations and through this acquaintance the present Draeger-Schreiber relationship was established.

A Mr. Freund, who formerly was associated with the European Bohemian organizations, was interviewed concerning Draeger. He stated: "It is my opinion that Mr. Draeger is very much pro-German and that in all probability Mr. Draeger is taking care of the Bohemian business of New York for the duration, and after the war will again return the business to Schreiber & Company."

During the interview of Mr. Gerzman, vice president of Draeger Shipping Co., Inc., he stated "off the record" that in his opinion Mr. Draeger was definitely pro-German. This opinion was based on Mr. Gerzman's general observations of Mr. Draeger's activities during the past 10 years. Mr. Gerzman also advised that before he was interviewed by the Treasury Representatives assigned to the Draeger concern, Mr. Draeger told him that if the Treasury Representative inquired about any contact or contacts between Draeger and Schreiber he should advise them that no contact ever existed.

2. Heinz Herrmann. Ten years prior to September 1939, Heinz Herrmann was employed by Schenker and Company, Berlin, and Schenker and Company, Paris, France. In September of 1939, he came to the United States on a visitor's visa, for the purpose of soliciting business in the United States for the Paris Schenker organization. At the time of his interview, Herrmann advised that shortly after arriving in the United States, he received a letter from the Schenker Holding Company of Switzerland advising him that his services were no longer required. A copy of this letter or the original itself was requested, but Herrmann has failed to produce the same, stating that it must have been destroyed or lost. It is questionable whether Herrmann still represents the Schenker, Paris, organization. It is indicated he had considerable influence in that he is reported to have stated verbally that he had instructions and authority from Schenker, Berlin, to cancel the Schenker contract with Draeger at his discretion.

At the time he first came to the United States on a visitor's visa, he ostensibly was employed by Schenker, Paris. Under his visa he was prohibited from working for a domestic concern. The fact is that he has been working for Draeger Shipping Company. Furthermore, there is evidence indicating quite clearly that Herrmann has falsified certain documents filed with the State Department bearing upon his application for citizenship papers. These matters have been referred to the State Department.

3. Egon Slaton-Zlotaitaki. Slaton was born January 19, 1910, in Graudenz, Germany. He lived in Berlin, Germany, from 1923 to 1937, and during 1937 he immigrated to the United States on a Polish immigration visa. His wife was also born in Germany, and at the present time her father is still living in Germany. In his affidavit, Slaton advises that he was employed by Draeger Shipping Company, Inc., in 1937 and has worked for the company since that time. In checking the payroll of Schenker and Company of New York, it is found that Mr. Slaton was employed by Schenker and Company from September 24, 1937, to December 30, 1938, at which time he was transferred to the Draeger payroll. Further investigation of Slaton is indicated.

4. Manuel Molaro. Molaro was a native of Venezuela and has been in the United States since 1924. It was only in 1940 that he applied for his first naturalization papers. He is a registered alien, and further investigation is indicated as to whether, in his association with Draeger, his work promoted German interests.

5. August Lorantz. Lorantz was born on July 16, 1896, in Mannheim, Germany. He entered the United States on December 19, 1927, and received his final naturalization papers on June 8, 1935, from the Supreme Court, Richmond County, New York. His affidavits disclose that he was active in the last war and that he also received the Iron Cross decoration. From 1925 to 1928, he was employed by various Schenker companies in Germany. In 1928 when he came to the United

States, he was employed by the German Railway Company in New York City. He held this position until 1933 when he again was employed by the Schenker organization in Schenker and Company of New York. The Schenker payroll indicates that Lorents was paid by Schenker and Company of New York until April 25, 1941, at which time he was transferred to the Draeger payroll.

6. Hermann Ettlinger. Ettlinger was born on May 5, 1902, in Zell bei Wuerzburg, Germany. He immigrated to the United States in 1938 and from that time until the present day he has held various jobs in New York and in Chicago. His affidavit shows that he applied for his first citizenship papers on January 24, 1940, and applied for his final papers in February of 1942. In reviewing his affidavit, it is also found that his mother and father and other relatives are still living in Germany at the present time.

7. Adam Benker. Benker, a naturalized citizen, was born in Germany August 5, 1900. He served in the German army from 1918 to 1919. After holding positions with several business enterprises in Germany between 1920 and 1923, he arrived in the United States. He arrived on November 11, 1923. He received his final citizenship papers on March 28, 1933. After employment for four month's duration with a New York textile firm, Benker became affiliated with Draeger Shipping Company, Inc., with which firm he has been associated ever since. Mr. Cornmann, an officer of Draeger Shipping Company, in an interview with a Treasury Department representative, expressed a belief that Mr. Benker may have pre-German tendencies. Mr. Benker is treasurer of Draeger Shipping Company, Inc.

8. Simon Ohana. Ohana was born in Lisbon, Portugal, on June 18, 1899. He came to the United States with his parents in 1904 and was naturalized by his father's papers on May 17, 1917. After working for several American firms from 1914 until 1923, he became associated with Draeger Shipping Company, Inc., and continued in their employ from 1923 until 1932. After being employed by the Metropolitan Life Insurance Company from 1932 to 1940, he returned to Draeger Shipping Company and has been employed there ever since. On October 5, 1940, he went to South America on a business trip for the Draeger Shipping Company. The purpose of this trip was to visit the various importers in several South American countries and endeavor to obtain their business in having them use Draeger Shipping Company as their freight agents in the United States. He returned from this trip, which he claimed to be unsuccessful, on March 10, 1941.

In view of the information concerning Draeger Shipping Company's activities in South America, it would seem appropriate to investigate further a man who represented Draeger in South America for the purpose of securing customers.

- 17A -

The Business of Freight Forwarding:

A person engaged in the business of foreign freight forwarder and customs broker, has direct access to information of a strategic and vital nature, the importance of which is emphasized during time of war. Generally, the forwarder is employed by manufacturers, producers and sellers throughout the world to arrange for delivery of goods and to handle the many details incident to loading and shipment of the goods and clearance through Customs of the various countries.

The work of the forwarder is best illustrated by setting out his duties incident to handling a trans-shipment of goods from Switzerland to South America. The initial step is to make the contract with the Swiss firm originating the shipment. Then arrangements are made by the forwarder for overland shipment through Europe to the point of export and space aboard a ship bound for the United States is found. The necessary documents, duties, licenses and insurance are taken care of.

Through the New York office provision is made for receiving the goods at New York and for dock space or warehouse facilities. When the goods are received the forwarder handles the clearance through Customs and arranges in advance for railroad freight space from New York to New Orleans, the point of export from the United States to the consignee in South America, and for space for the goods aboard a vessel leaving from New Orleans to the port nearest the location of the ultimate consignee in South America.

It is readily apparent that as an incident to handling of this shipment from its point of origin in Switzerland to its ultimate destination in South America, the forwarding agent knows the character of the goods shipped, the approximate date the carrying vessel leaves a particular port in Europe, the size and name of the vessel, the approximate date of arrival in New York, as well as the approximate date it will leave New Orleans, the size and name of the vessel, its ultimate destination and the approximate date of its arrival. In addition, as an incident to providing dock space and warehouse facilities at the various points of loading and unloading, from ship to train and vice versa, the employees of the forwarder have access to information concerning the general character of the entire shipment contained in any particular vessel.

It is obvious, therefore, that forwarding agents in the United States constitute an integral member of that group of individuals which have access to information of vital importance in time of war and because of which they should have the complete and utter confidence of the Government.

Conclusions:

Schenker and Company, Inc., New York, which has been dormant since the outbreak of the war, is entirely owned by Schenker and Company, Inc., Berlin, and indirectly by the German government.

Frederick Draeger and the corporation which he owns, Draeger Shipping Company, since the beginning of the war in Europe and after our entry, have acted for the benefit of the German government through Schenker, Berlin, in protecting and cloaking German interests and preserving the business of the German Schenker organization, particularly in South America.

The continued operation of the Draeger Shipping Company is highly dangerous to the national interest, particularly since it is engaged in foreign freight forwarding, and in the normal course of business has access to information with respect to ship movements and cargo and other transactions of a strategic character. Accordingly, the operations of Draeger Shipping Company should be promptly terminated.

Evidence relating to certain employees should be referred to the appropriate governmental agencies for consideration as to criminal or administrative action.

Additional Recommendations:

It is recommended that the present personnel of the Draeger-Schenker combine should be watched for future connections should Draeger and Schenker be liquidated. Certain employees listed in the body of the report, together with the information thereon, have been referred to the Federal Bureau of Investigation.

The indicated violations of the Executive Order should be referred to the Committee on Investigations and Enforcement for such action as they deem appropriate.

Information pertaining to Heins Herrmann should be referred to the State Department for their consideration with respect to the immigration status of Herrmann.

The information relating to suggested evasion of income tax payments on the part of Frederick Draeger should be referred to the Bureau of Internal Revenue.

September 22, 1942

201

Mr. Stone, Secretary Hull's secretary, phoned and said that Mr. Hull meant to say that Mr. Hackworth of State Department handles this matter, and Hackworth, not Feis, will contact Mr. Sullivan.

September 22, 1942  
4:28 p.m.

HMJr: Hello.

Operator: Secretary Hull.

HMJr: Hello.

State  
Operator: Coming right on, sir.

HMJr: Hello. Hello. Hello.

Operator: He said he'd be right on.

HMJr: Hello.

Cordell  
Hull: Hello, Henry.

HMJr: Hello, Cordell.

H: What's going on?

HMJr: Oh, nothing much. I got a note from the President in longhand, and it said, "Treasury taxing embassies? Let Cordell Hull know personally." And I didn't know just what it meant.

H: Some of my fellows and your fellows have had up that question....

HMJr: Yes.

H: ....of why there were some British - I think the recommendations were that - were such that is calculated to get us into considerable trouble and the embassies were making pretty strong complaints....

HMJr: Yeah.

H: ....along the line, and - I told the President that the Treasury and State Department were discussing it and tried to work out something, but that, in my opinion, we'd need a sort of reciprocal proposition, tax those that don't tax us abroad.

- 2 -

HMJr: Yeah.

H: And then exempt those here who exempt us.

HMJr: Yeah.

H: Now if we can do that, the thing could be made to work without - you see, we've got so many interests abroad we'd suffer more than anybody.

HMJr: Yeah. Well, who in your department looks after that?

H: Well, I - Feis.

HMJr: Feis?

H: Yeah.

HMJr: Well, could Feis talk to John L. Sullivan, Assistant Secretary?

H: Is that the prize-fighter?

HMJr: Well (laughs), no, this is known as John L. Sullivan of New Hampshire.

H: Oh, I see. Well, he can talk to him. He wouldn't want to get near the prize-fighter....

HMJr: No, this is....

H: ....if he were still living.

HMJr: No, this is a nice fellow.

H: Then it's all right.

HMJr: He's - he comes from New Hampshire.

H: Yes, all right, then, Henry.

HMJr: And I'll tell him of your interest....

H: Yes.

HMJr: ....and ask him to hold himself in readiness to hear from Feis.

- 3 -

H: All right. Thank you, Henry.

HMJr: Thank you.

H: You're welcome.

TREASURY DEPARTMENT

205

INTER OFFICE COMMUNICATION

DATE September 22, 1942

TO Secretary Morgenthau  
FROM Ferdinand Kuhn, Jr.

Your host at Fort Benning last month is now a Major General. In case you would like to congratulate him, I have prepared these few lines for your signature.

F.K.

September 22, 1942.

Dear General Allen:

I have just read in this morning's newspapers that you have been promoted to the rank of Major General. From what I saw on my all too brief stay at Fort Benning, I know that your two stars are well deserved. My heartiest congratulations to you.

Sincerely,

(Signed) H. Morgenthau, Jr.

Major General L. G. Allen,  
Fort Benning, Georgia.

FK:eg

File in Diary.

**TREASURY DEPARTMENT**  
**INTER OFFICE COMMUNICATION**

207

DATE September 22, 1942

TO Secretary Morgenthau  
FROM Ferdinand Kuhn, Jr.

These radio announcements are now being printed in Chicago and are about to be sent to all radio stations for use once a day every day throughout October, beginning October 1st.

*F.K.*

Are you saving pennies at home, or dimes, or nickels? If you are, put your coins to work, to help win the war and help yourself toward financial security. Take your coin collection to your bank, post office or retail store and swap it in for War Stamps and Bonds. Do it today! Your coins and all coins are needed in circulation, so that our businessmen and manufacturers -- the men behind the men behind the guns -- can get their jobs done more quickly and more smoothly. New metal cannot be used in minting new coins. This new metal must go into bombers and tanks and other military weapons to smash the Axis. Your coins, in circulation, will be helping to turn out those bombers and tanks. Your coins, in War Bonds, will be providing for your financial security, because your War Bond dollars will come back to you, four for every three you put in, when your Bonds mature in only ten years. And so, swap in your coin collection for another Bond ... from \$18.75 up ... and keep on saving, in Stamps and Bonds!

Today is bargain day in every bank, post office or savings and loan association in the United States! Every day is bargain day where they sell War Stamps and Bonds. And here's a swell, necessary way to add to your savings in War Stamps and Bonds. Take your collection of pennies or nickels, dimes or quarters and swap it in for Stamps and Bonds. Do it today because all coins are needed in circulation, to help our war industry handle its tens of thousands of daily business transactions ... business transactions which mean more tanks and bombers for our fighting men in the front lines. New metal cannot be used to mint new coins to do this job. New metal must go into tanks and bombers. Your idle coins must help to do the job. Today, take your coin collection to the bank, post office or retail store and swap it in for Stamps and Bonds. Today, buy another Bond ... from \$18.75 up ... and keep on saving, in Stamps and Bonds.

Here's a double-barrelled way to help win the war and help yourself toward financial security. Go today and swap in your collection of coins for War Stamps and Bonds, at your bank, post office or retail store, and then keep on saving in War Stamps and Bonds. Your coins are needed, in circulation, to help industry and business speed up their transactions, speed up the job of building and supplying our fighting men with more weapons to win the war. New metal cannot be used for coins. New metal must be used in tanks and bombers. Your coins are needed, in circulation. Turn them in for Stamps and Bonds today. As Bonds, your coin collection not only will help to win the war but it will be working for your financial security ... because your War Bond dollars will return to you, four for every three you put in, when your Bonds mature in only ten years. So, swap in your collection for War Stamps and Bonds, at your bank, post office or retail store.

If you have a collection of spare change you've been saving at home, take it to your bank, post office or retail store today (tomorrow) and exchange it for War Stamps and Bonds ... You'll be helping our war effort and you'll be helping yourself toward financial security. These coins are needed in circulation, to help keep the wheels of our war industry turning, ceaselessly and smoothly. New metal cannot be used for coins ... because new metal must go into tanks and bombers and other weapons to smash the Axis. Your coins in War Bonds will be helping you toward financial security because your War Bond dollars will return to you, in only ten years, four for every three you put in. Take your coins to the bank, post office or retail store and swap them in for Stamps and Bonds. Do it today! And keep on saving in Stamps and Bonds.

Your little collection of pennies or nickels can be put to work to help win our war! That's right ... your little collection of coins. Our expanded war industry needs every possible coin ... in circulation ... so that business transactions can be carried out more quickly, more smoothly. Our Government cannot mint new coins now to do this job. Every bit of new metal must be put to use in bombers, tanks and other weapons to fight the war. So put your coin collection into uniform, by swapping it in for War Stamps or Bonds. Keep on saving by buying Stamps and Bonds ... at your bank, post office or retail store. Buy another Bond today ... from \$18.75 up.

Building up a coin collection was a fine way to save ... before the war. It no longer is a fine way to save ... because our full-blast war industry needs every possible coin back in circulation so that business transactions can go ahead unhindered. But don't quit saving! Here's the best possible way to save and help win the war through your saving ... Swap your coin collection in for War Stamps and Bonds ... and keep on saving in War Stamps and Bonds. Swap your coin collection in today, because our Government can't mint new coins. All new metal is needed for bombers and tanks and other weapons to fight the war. Today swap your coin collection for Stamps and Bonds at your bank, post office, or retail store.

Did you ever hear of lazy money? Sure, money can be lazy. Take, for example, that box of pennies lying in the back of your bureau drawer -- or that jar half-full of nickles. That's lazy money because it isn't on the job ... making change ... taking part in the tens of thousands of business transactions which must take place every day if our war effort is to go ahead at full speed. We cannot afford lazy money in these hectic war days. There just is not enough metal to use for new coins to take the place of lazy money in coin collections, if we are going to turn out all the bombers and warships and guns our fighting men need on the fighting fronts. So empty that box of coins, that milk bottle half-full of nickles. Put your lazy money to work ... for our country's war effort and for you, personally. Turn in your coin collection for War Stamps or War Bonds ... today ... at your bank, post office or retail store. Bonds start at \$18.75!

Have you got a milk bottle half-full of pennies at home? Or a cigar box with a few dimes in it? Or are you saving nickels? Well, maybe you never thought of your coin collection as lazy money but that's just what it is. And lazy money is hindering our war effort! Our business life in these hectic war days needs tens of thousands of coins in circulation ... helping to keep transactions going which may mean more bombers for our men on the fighting fronts. We cannot use new metal for new coins. Every bit of our new metal can be used to build those bombers, or tanks. So put your lazy money back to work, to help win the war. Put your lazy money back to work in the best possible way ... by swapping it in for War Stamps and Bonds ... at your bank, post office or retail store. Buy another Bond today ... from \$18.75 up.

If you're a good, thrifty soul who saves pennies or nickels or dimes at home -- you know, in a box or jar or milk bottle -- here's something for you to think about. Your coin collection is not doing its part in our war effort. Your coin collection is needed, in circulation, so that the job of industry and business -- building tanks for and sending them to our fighting men -- can be done more smoothly and quickly. New coins cannot be minted to take the place of your idle coins because all new metal is needed in the building of tanks and bombers to smash the Axis. Turn in your coin collection for War Stamps and Bonds. Do it today! Your War Bond dollars not only will help to win the war by providing more tanks and bombers for our fighting men but will return to you, four for every three you put in, when your Bonds mature in only ten years. Today, swap in your coin collection ... buy another Bond, from \$18.75 up ... at your bank, post office or retail store.

September 22, 1942

217

On presentation of this memo,  
H. J. said he would like  
to say Hello to Red Barber  
if he came to Washington  
Friday morning and have  
him see the show on the  
Treasury steps. (2:16)

- Advised Callahan who  
requested an appointment  
at 10:30 or before because  
Mr. Barber must leave  
on a noon plane in order  
to meet his afternoon schedule.  
(2:18)

- Scig said he could not  
see Mr. Barber until  
shortly before the show.  
(2:27)

Reported to Callahan who  
said he would let us  
know if Barber could  
stay over, but he doubts  
it very seriously. (V.F.C.)  
3:05

E. J. ?

TREASURY DEPARTMENT

218

INTER OFFICE COMMUNICATION

DATE September 22, 1942

TO Secretary Morgenthau  
FROM Vincent F. Callahan

22 1 49 55 932 540  
We are carrying out your suggestion of using Red Barber's idea on other radio stations and on other sporting events.

As the baseball season is about over it will not be practical for us to use the Red Barber plan before the season ends. We plan to use the same system in connection with the broadcasting of football games.

In its allocation plan the Office of War Information has arranged for the Treasury Department to be identified with a good portion of the big league football games to be broadcast throughout the nation. In the games which are assigned to us we will ask the stations and the networks to use the Red Barber plan.

To organize this program we have invited Red Barber to come to Washington this Friday morning and are hopeful that he will consent to assist us in carrying out our plans.

Vincent F. Callahan

September 22, 1942

In order to promote the sale of War Savings Bonds, every radio broadcasting station and broadcasting company is hereby licensed to make such arrangements or adaptations of the musical composition "Jolly Molly Pitcher" by Richard R. Uhl and Thomas M. Adair, owned and copyrighted by Henry Morgenthau, Jr., Secretary of the Treasury, as it may desire and to record or perform for radio broadcasting and to radio broadcast (including television) such recordings or performances of said composition or adaptations or arrangements thereof at any time it may desire.

No fees or royalties are payable to the Secretary of the Treasury for the rights herein granted, and no other person, company or agency whatsoever has been authorized to make any charge for the rights granted by this license.

This license is revocable at will.

(Signed) H. Morgenthau, Jr.

**Henry Morgenthau, Jr.**  
**Secretary of the Treasury**

Returned to Mr. Meyers  
for mailing (thru Kuhn's  
office)

File in Diary.

BSM:fb  
9-22-42

September 22, 1942

National Newspaper Week gives me the opportunity to pay sincere tribute to the intelligent patriotism of the American press in meeting the new responsibilities of a free press in total war.

In the teeth of Axis propaganda drives, the overwhelming majority of American newspapers are keeping the public informed of the real issues of this war. By reporting the news as completely as it can be printed within the limits of national safety, they have checkmated enemy propaganda intended to demoralize and mislead our people. They are using the freedom of the press to help fight the war of the free peoples. They know that a free press cannot survive unless this war is won.

Beyond this, we at the Treasury have special reason to thank the press, as well as pay tribute to it. With a public spirit that is beyond all praise, the newspapers of the country have given invaluable help to the Treasury Department's War Savings program.

Every part of the press and all classes of newspaper workers, from apprentices to foremen and from office boys to executives, have helped the Treasury in its job of financing the war. And I should like to thank especially the newspaper boys of the nation, whose sale and delivery of nearly fifty million dollars in War Savings Stamps during the past eight months is an outstanding achievement.

Congratulations and all good wishes for the success of National Newspaper Week.

Sincerely,

(Signed) H. MORGENTHAU JR.

September 22, 1942

Dear Mr. Simpson:

I have just heard that the National Bank of Commerce has consistently led all others in Houston each month of 1942 in its total sales of War Savings Bonds and Stamps.

This is an outstanding achievement which reflects the greatest credit upon you and every member of your staff. We at the Treasury are most grateful to everyone in your bank who had a share in setting such a fine record.

Sincerely,

(Signed) H. Morgenthau, Jr

Mr. A. D. Simpson,  
President, National Bank of Commerce,  
Houston, Texas.

FK/cgk

File to Thompson.

Photo file in Diary.

*Mr. Kuhn*

SEP 21 1942



THE SECRETARY OF COMMERCE  
WASHINGTON

September 18, 1942

Dear Henry:

A nice little letter to A. D. Simpson, President, National Bank of Commerce, over your signature is suggested.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Jane", with a horizontal line underneath.

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

Enclosure



*National Bank of Commerce*

HOUSTON, TEXAS

OFFICE MEMO.

September 9, 1942

Mr. Doherty:

I attach a statement by months of our sales of U. S. Savings Bonds and Stamps.

I was informed yesterday, by the Federal Reserve Bank, that we had consistently led Houston each month in 1942 in our total sales, and I am pleased that such is the fact for we have a smaller force devoted to this work than any of the next three largest banks in Houston.

Charles Hamilton

CWH:JD

TREASURY BILLS

	<u>Sept. 23</u>	<u>Sept. 16</u>	<u>Sept. 9</u>	<u>Sept. 2</u>
Amount offered .....	\$ 400 M	\$ 400 M	\$ 350 M	\$ 350 M
Bids tendered .....	796	882	710	873
Low rate .....	.297%	.297%	.297%	.297%
High rate .....	.376	.372	.376	.372
Average rate .....	.370	.369	.368	.367
Amount in New York .....	\$ 196 M	\$ 132 M	\$ 113 M	\$ 147 M
Amount in Chicago .....	47	129	92	67
Amount in San Francisco ...	30	27	29	25
Amount in balance of country .....	127	112	116	111

---

September 22, 1942

September 23, 1942.

MEMORANDUM

TO: Secretary Morgenthau  
FROM: Mr. Gaston

The Supervising Agents of the various investigative services called in from the field to examine personnel records of the investigative services have completed their work here without finding any definite information requiring further investigation, except as to one case already under investigation. They are now about to proceed to the field to interview all Supervising Agents and Agents in Charge of all services and review the current records of all agents.

Since storekeeper-gaugers of the Alcohol Tax Unit have access to many defense plants where highly secret and critical war work is being done, the Alcohol Tax Unit has been asked to make a similar inquiry as to all these men. Steps have also been taken to obtain from the Civil Service Commission the complete personnel files of White House policemen drawn from the Metropolitan Police for critical examination. Mr. Irey is consulting with Mr. Pehle as to re-examination of the records of Foreign Funds personnel, particularly those of the considerable number of lawyers in that organization who are engaged in investigative work.

*Gaston*

September 22, 1942.

MEMORANDUM

TO: Secretary Morgenthau  
FROM: Mr. Gaston

Commissioner Helvering and Elmer Irey have spoken to me about a rather serious situation involving our relations with the Department of Justice.

Alf Oftedal, who did excellent work in the development of the Schenck case, came on to New York about a year and a half ago to cooperate with the District Attorney there in the prosecution of that case and with Commissioner Helvering's consent stayed on to work with Correa on the Browne and Bioff cases and has since been helping Correa with the matter of developing evidence against racketeers. Correa got permission from the Attorney General to develop cases involving among others a group of Chicago racketeers. He asked that Oftedal be permitted to work on these cases in Chicago. Helvering and Irey agreed, but with the understanding: (1) that we would make genuine income tax cases of them, working along our own well established lines; (2) that in his work in Chicago Oftedal would be subject to the direction of Arthur Madden, the Intelligence Unit Agent in Charge there, who has already eight agents working on the cases of the men in whom Justice is interested; and (3) that while our procedure would be the same as in any tax case we would supply Justice with all available information as it was developed.

Irey went out to Chicago so as to establish proper working relations and have a clear understanding as between Madden and Oftedal. Oftedal, however, announced to Irey, before the matter had been discussed with Madden, that he could not work under Madden since in view of his experience it would be humiliating and that he must have complete independent charge of the cases. It also developed that Oftedal proposed to make the investigations primarily from the standpoint of racketeering, using the tax angle merely as a pretext and intended to use methods which in Irey's opinion would make it impossible to develop adequate tax cases and would probably be ineffective

- 2 -

even from the racketeering standpoint. The reason for this is that Correa and his assistant, Kostalanetz, want to have evidence to present to a grand jury now sitting in New York.

The upshot was that Oftedal said he would retire from the service rather than carry on the investigation as directed by Irey and he has in fact submitted his application for retirement. He is 56 years old, has had 38 years in the Government Service, including 21 years in the Intelligence Unit, and service for a short time as Assistant Commissioner of Prohibition. He is described by Irey as a very able investigator, but highly temperamental.

Since his return from Chicago Oftedal has been in touch with Kostalanetz and Sam Clark of the Department of Justice called up Sullivan to make an appointment for a meeting here at which Clark and Correa could discuss the matter with Sullivan and Helvering.

The primary question involved appears to me to be whether we are to permit the Department of Justice to employ and direct our investigators and to use tax inquiry powers for purposes other than making tax cases.

Oftedal's own position is secondary. I think if he does not wish to work under authority he ought to be permitted to retire.

This matter will probably get up to Attorney General Biddle eventually and he will no doubt undertake to see you. You may wish to see Helvering before that happens.

Helvering and Irey took the matter up with me because of John Sullivan's absence since it may come to a head this week.

# TREASURY DEPARTMENT

228

## INTER OFFICE COMMUNICATION

DATE September 22, 1942

TO Secretary Morgenthau

FROM Mr. Thompson

Subject: Proposal for Separate Status for Foreign Funds Control

At the present time Foreign Funds Control is still administratively a part of the Office of the Secretary, despite the fact that it is larger than many other separate bureaus and offices. I recommend that Foreign Funds Control be accorded separate administrative status, subject to the usual departmental controls, in the same manner as other Treasury organizations of comparable size and importance. The principal reasons for this proposal are as follows:

1. Foreign Funds Control now has over 1,000 employees. The administrative detail for so large a force has outgrown the administrative facilities of the Secretary's Office, which actually should be confined to general rather than detailed administrative supervision.
2. Foreign Funds Control has developed an administrative division to perform these administrative functions and there is therefore no further need for Foreign Funds attachment to the Secretary's Office for detailed administrative purposes.
3. Separate status will permit elimination of extra steps and save paper work in the handling of many of the Foreign Funds administrative transactions, with resultant economy and increased operating speed.

- 2 -

4. Separate status will clarify some existing confusion growing out of the present status of administrative responsibility and authority in Foreign Funds.

There is attached for your consideration and approval if you concur a proposed departmental order establishing separate status for Foreign Funds Control, which has the approval of Mr. Paul and Mr. Pehle, whose initials appear on the carbon copy of the proposed order.

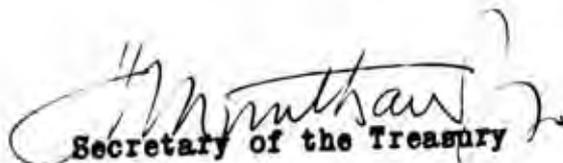


September 22, 1942.

Treasury Department Order No. 47.

By virtue of and pursuant to the authority vested in me by Executive Order No. 8389, as amended, by Executive Order No. 9095, as amended, by Section 161 of the Revised Statutes (U.S.C. title 5, sec. 22), and as Secretary of the Treasury, I hereby order that:

1. There is hereby established and created in the Treasury Department the Foreign Funds Control which shall have separate administrative status, subject to the usual departmental controls, and at the head of which shall be a Director of Foreign Funds Control. John W. Pehle, Assistant to the Secretary, is designated as Director of Foreign Funds Control.
2. The Director of Foreign Funds Control shall exercise and perform all authority, duties and functions which I am authorized or required to exercise or perform under Sections 3 and 5(b) of the Trading with the enemy Act, as amended, and any proclamations, orders, regulations or rulings that have been or may be issued thereunder.
3. The Director of Foreign Funds Control shall exercise and perform such authority, duties and functions subject to the general supervision of Randolph Paul as Acting Secretary of the Treasury.

  
Secretary of the Treasury



OFFICE OF THE DIRECTOR

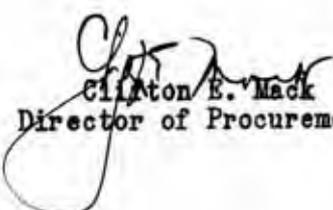
TREASURY DEPARTMENT  
PROCUREMENT DIVISION  
WASHINGTON

September 22, 1942

MEMORANDUM TO THE SECRETARY:

There is submitted herewith the operating report of Lend-Lease purchases for the week ended September 19, 1942.

A conference is scheduled for Thursday Morning of this week for a joint discussion with the Lend-Lease representatives to investigate into the methods of better coordinating material relating to the forwarding of Lend-Lease cargo for the Russians and to avoid further duplications. I will advise you as to the outcome of this meeting.

  
Clinton 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 19, 1942  
 (In Millions of Dollars)

	<u>Total</u>	<u>U. K.</u>	<u>Russia</u>	<u>China</u>	<u>Administrative Expenses</u>	<u>Undistributed and Miscellaneous</u>
Allocations	\$2100.2 (2100.2)	\$1095.3 (1086.5)	\$586.4 (558.8)	\$56.6 (56.6)	\$3.7 (3.7)	\$358.2 (394.6)
Purchase Authoriza- tions (Requisitions)	\$1563.3 (1534.0)	\$ 959.7 ( 947.3)	\$547.2 (531.2)	\$40.5 (40.5)	- -	\$ 15.9 ( 15.0)
Requisitions Cleared for Purchase	\$1513.5 (1484.4)	\$ 946.1 ( 933.6)	\$512.2 (495.9)	\$40.4 (40.4)	- -	\$ 14.8 ( 14.5)
Obligations (Pur- chases)	\$1403.8 (1383.9)	\$ 915.1 ( 906.5)	\$435.9 (425.1)	\$40.4 (40.4)	\$2.3 (2.2)	\$ 10.1 ( 9.7)
*Deliveries to For- eign Governments	\$ 582.9 ( 572.6)	\$ 465.1 ( 457.6)	\$ 94.7 ( 92.1)	\$20.1 (20.1)	- -	\$ 3.0 ( 2.8)

\* 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 12, 1942.

Treasury Department  
Division of Monetary Research

23

Date September 22, 1942 19  
To: Secretary Morgenthau  
From: Mr. Hoflich

With respect to August shipments from the United States to Russia, I understand that you wish to know (1) by what routes and means of transportation the goods were sent and (2) what proportion of the goods have actually reached their destination in the Soviet Union.

I believe that only the Lend-Lease Administration has this information, and I do not wish to make inquiries there without your approval. Shall I consult Lend-Lease about the matter?

*no.*

SEP 22 1942

My dear Mr. President:

I am enclosing report on our exports to some selected countries for the period ending August 31, 1942.

Faithfully,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The President,

The White House.

By Mess. Bundy 4:25 9/22

Diary - extra copies to  
Dr. White's  
office

Enclosure

HDW/efs  
9/19/42

HDW

FILE COPY

September 18, 1942

Exports to Russia, Free China and selected blocked countries as reported to the Treasury Department during the eleven-day period ending August 31, 1942

1. Exports to Russia

Exports to Russia as reported to the Treasury Department during the eleven-day period ending August 31, 1942 amounted to \$112,492,000. Among the military equipment exported were 108 bombers, 148 fighter planes, and 508 tanks. (See Appendix C.)

2. Exports to Free China

Exports to Free China, as reported during the period under review amounted to \$2,850,000, as compared with \$5,066,000 during the same period in July, 1942. Non-military exports accounted for the total amount. (See Appendix D.)

3. Exports to selected blocked countries

Exports to selected blocked countries are given in Appendix A. Most important were exports to Sweden amounting to \$1,892,000.

ISP/efa 9/18/42

**SUMMARY OF UNITED STATES DOMESTIC EXPORTS TO SELECTED COUNTRIES AS REPORTED TO THE TREASURY DEPARTMENT FROM EXPORT DECLARATIONS RECEIVED DURING THE PERIOD INDICATED 1/**

	<b>11-Day Period ended Aug. 31, 1942</b>	<b>10-Day Period ended Aug. 20, 1942</b>	<b>Total Domestic Exports August 1, 1942 to August 31, 1942</b>	<b>Total Domestic Exports July 28, 1941 to July 31, 1942</b>
U. S. S. R.	\$112,492	\$23,325	\$150,787	\$742,941
Free China	2,850	192	3,250	97,720
Spain	227	48	305	2,858
Switzerland	124	167	648	11,537
Sweden	1,892	324	2,476	18,056
Portugal	161	5	167	9,743
French North Africa 2/	117	1,773	1,919	6,305

Treasury Department, Division of Monetary Research

September 17, 1942

1/ Many of the export declarations are received with a lag of several days or more. Therefore this compilation does not accurately represent the actual shipment of a particular period.

2/ Includes Morocco, Algeria, and Tunisia.

## APPENDIX B

Exports from the U. S. to Free China and U.S.S.R.  
as reported to the Treasury Department  
July 28, 1941 - August 31, 1942 1/

(Thousands of Dollars)

	<u>Exports to Free China</u>	<u>Exports to U.S.S.R.</u>
July 28, 1941 - Jan. 24, 1942	\$ 32,758	\$ 98,902
<u>1942</u>		
Jan. 26 - Jan. 31	6,938	9,608
Feb. 1 - Feb. 10 2/	4,889	15,515
Feb. 10 - Feb. 20	4,855	26,174
Feb. 20 - Feb. 28 3/	2,921	28,119
Mar. 1 - Mar. 10	2,879	32,508
Mar. 10 - Mar. 20	8,058	28,558
Mar. 20 - Mar. 31 4/	2	42,455
Apr. 1 - Apr. 10	4,836	51,698
Apr. 11 - Apr. 20	5,535	66,986
Apr. 21 - Apr. 30	2,827	50,958
May 1 - May 10 5/	296	28,652
May 11 - May 20	1,872	18,000
May 21 - May 31 6/	2,533	26,189
June 1 - June 10	5,399	12,784
June 11 - June 20	2,707	55,799
June 21 - June 30	1,644	49,919
July 1 - July 10	7,900	35,657
July 11 - July 20	599	35,940
July 21 - July 31 7/	3,046	35,649
Aug. 1 - Aug. 10	208	14,970
Aug. 11 - Aug. 20	192	25,525
Aug. 21 - Aug. 31 8/	2,850	112,492
<b>Total</b>	<b>\$ 105,575</b>	<b>\$ 894,548</b>

1. These figures are in part taken from copies of shipping manifests.
2. Beginning with February 1 figures are given for 10-day period instead of week except where otherwise indicated.
3. 8-day period.
4. 11-day period.
5. Due to changes in reporting procedure by the Department of Commerce this report is incomplete for the period indicated.

Treasury Department, Division of Monetary Research September 18, 1942

TSP/cfs 9/18/42

**SECRET**

238

**APPENDIX G**

Principal Exports from U. S. to U. S. S. R.  
as reported to the Treasury Department  
during the eleven-day period ending  
August 31, 1942

	<u>Unit of</u>	<u>Quantity</u>	<u>Value</u> (Thousands of Dollars)
<b>TOTAL EXPORTS</b>			<b>\$ 112,492</b>
<b>Principal Items:</b>			
<b>Aircraft</b>			<b>25,636</b>
Medium bombers (2 eng. B-25)	No.	3	
Light bombers (2 eng. A-20)	No.	105	
Fighters (P-39)	No.	15	
Fighters (P-40)	No.	133	
<b>Military tanks</b>			<b>21,776</b>
Light, M-3	No.	78	
Light, M-3 - A1	No.	4	
Light, n.e.s.	No.	217	
Medium, M-3	No.	131	
Medium, M-3 - A1	No.	1	
Medium, n.e.s.	No.	77	
<b>Ammunition</b>			<b>15,936</b>
9 m.m. balls	Round	1,000,000	
.30 caliber	Round	72,551,580	
.32,.38 and .45 caliber balls	Round	14,724,000	
.32,.38 and .45 caliber magazines	No.	1,874,000	
.455 caliber balls	Round	3,000,000	
.50 caliber	Round	10,271,150	
Shotgun shells	No.	100,000	
2" mortar shells	No.	10,734	
81 m.m. mortar shells	No.	74,891	
Armor piercing shells	No.	248,094	
Armor piercing shot	No.	77,440	
High explosive shells	No.	161,848	
75 m.m. armor piercing shot	No.	99,166	
75 m.m. semi-armor piercing shells	No.	3,906	
75 m.m. high explosive shells	No.	86,541	
75 m.m. howitzer high explosive shells	No.	50,475	
75 m.m. howitzer shrapnel	No.	21,420	
Anti-aircraft artillery 37 m.m. armor piercing shot	Round	15,400	

**SECRET**

239

## APPENDIX C

Page 2

	<u>Unit of Quantity</u>	<u>Quantity</u>	<u>Value (Thousands of Dollars)</u>
Ammunition (con't)			
For aircraft 20 m.m. tracers	Round	50,160	
For aircraft 20 m.m. high explosive	Round	48,120	
Anti-aircraft 90 m.m. high explosive shells	No.	8,001	
20 m.m. (Oerlikon) tracers	Round	32,000	
20 m.m. (Oerlikon) high explosive shells	Round	275,720	
Aircraft parts	-	-	6,480
Sub-machine guns, .45 caliber	No.	25,000	5,675
Pork sausage and beef	Lb.	10,372,531	3,078
Steel bars and rods	Lb.	37,097,963	2,687
Rotating converters	No.	2,360	2,312
Chemicals and related products, n.e.s.	-	7,272,453	1,660
Iron and steel wire manufactures	Lb.	11,275,907	1,542

Treasury Department, Division of Monetary Research September 18, 1942

ISP/ra 9/18/42

**APPENDIX D**

**Principal Exports from U. S. to Free China  
as reported to the Treasury Department  
during the eleven-day period ending  
August 31, 1942**

**(Thousands of Dollars)**

**TOTAL EXPORTS**

**\$ 2,850**

**Principal Items:**

<b>Machinery and vehicles, n.e.s.</b>	<b>571</b>
<b>Printed matter</b>	<b>565</b>
<b>Truck, bus and automobile casings</b>	<b>476</b>
<b>Automobile parts</b>	<b>274</b>
<b>Chemicals and related products, n.e.s.</b>	<b>237</b>
<b>Lubricating oils, n.e.s.</b>	<b>130</b>

**Treasury Department, Division of Monetary Research Sept. 18, 1942**

**ISP/cfs 9/18/42**

SEP 22 1942

My dear Mr. Secretary:

I am enclosing copy of report on our exports to some selected countries for the period ending August 31, 1942.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable,  
The Secretary of State,  
Washington, D. C.

Enclosure

By Mess. Bundy 4:25 9/22/42

Diary - extra copies direct  
to Dr. White's office

HDW/efs  
9/18/42

JHW

FILE COPY

September 18, 1942

**Exports to Russia, Free China and selected blocked countries as reported to the Treasury Department during the eleven-day period ending August 31, 1942**

**1. Exports to Russia**

Exports to Russia as reported to the Treasury during the eleven-day period ending August 31, 1942 amounted to \$112,492,000. Military equipment accounted for 70% of the total. (See Appendix G.)

**2. Exports to Free China**

Exports to Free China, as reported during the period under review amounted to \$2,850,000, as compared with \$3,066,000 during the same period in July, 1942. Non-military exports accounted for the total amount. (See Appendix C.)

**3. Exports to selected blocked countries**

Exports to selected blocked countries are given in Appendix A. Most important were exports to Sweden amounting to \$1,892,000.

ISF/efs 9/18/42

**SECRET**

243

**SUMMARY OF UNITED STATES DOMESTIC EXPORTS TO SELECTED  
COUNTRIES AS REPORTED TO THE TREASURY DEPARTMENT  
FROM EXPORT DECLARATIONS RECEIVED DURING  
THE PERIOD INDICATED 1/**

	11-Day Period ended Aug. 31, 1942	10-Day Period ended Aug. 20, 1942	Total Domestic Exports August 1, 1942 to August 31, 1942	Total Domestic Exports July 20, 1942 to July 31, 1942
U. S. S. R.	8112,482	623,325	8,735,807	8742,941
Free China	2,350	192	2,542	97,720
Spain	227	48	275	2,098
Switzerland	124	167	291	11,537
Sweden	1,892	324	2,216	18,096
Portugal	161	5	166	9,743
French North Africa 2/	117	1,773	1,890	6,305

Treasury Department, Division of Monetary Research

September 17, 1942

1/ Many of the export declarations are received with a lag of several days or more. Therefore this compilation does not accurately represent the actual shipment of a particular period.

2/ Includes Morocco, Algeria, and Tunisia.

M77-af 9/27/42

Regraded Unclassified

## APPENDIX B

Exports from the U. S. to Free China and U.S.S.R.  
as reported to the Treasury Department  
July 28, 1941 - August 31, 1942 1/

(Thousands of Dollars)

	Exports to Free China	Exports to U.S.S.R.
July 28, 1941 - Jan. 24, 1942	\$ 32,758	\$ 98,902
<u>1942</u>		
Jan. 26 - Jan. 31	6,938	9,608
Feb. 1 - Feb. 10 2/	4,889	15,515
Feb. 10 - Feb. 20	4,853	26,174
Feb. 20 - Feb. 28 3/	2,921	28,119
Mar. 1 - Mar. 10	2,879	32,509
Mar. 10 - Mar. 20	8,058	28,624
Mar. 20 - Mar. 31 4/	2	42,435
Apr. 1 - Apr. 10	4,836	51,648
Apr. 11 - Apr. 20	5,535	64,904
Apr. 21 - Apr. 30	2,827	60,948
May 1 - May 10 5/	296	28,652
May 11 - May 20	1,872	18,000
May 21 - May 31 6/	2,553	26,180
June 1 - June 10	3,559	12,764
June 11 - June 20	2,707	53,799
June 21 - June 30	1,664	49,919
July 1 - July 10	7,900	35,457
July 11 - July 20	590	53,940
July 21 - July 31 7/	3,066	55,669
Aug. 1 - Aug. 10	208	14,970
Aug. 11 - Aug. 20	192	23,525
Aug. 21 - Aug. 31 8/	2,850	112,482
<b>Total</b>	<b>\$ 103,573</b>	<b>\$ 894,548</b>

1. These figures are in part taken from copies of shipping manifests.
2. Beginning with February 1 figures are given for 10-day period instead of week except where otherwise indicated.
3. 8-day period.
4. 11-day period.
5. Due to changes in reporting procedure by the Department of Commerce this report is incomplete for the period indicated.

Treasury Department, Division of Monetary Research September 18, 1942

ISF/afa 9/18/42

**SECRET**

245

## APPENDIX C

Principal Exports from U. S. to U. S. S. R.  
as reported to the Treasury Department  
during the eleven-day period ending  
August 31, 1942

(Thousands of Dollars)

TOTAL EXPORTS

\$ 112,492

## Principal Items:

Military equipment	78,280
Pork sausage and beef	3,078
Steel bars and rods	2,687
Rotating converters	2,312
Chemicals and related products, n.e.s.	1,660
Iron and steel wire manufactures	1,542
Brass and bronze plates, sheets, bars and rods	1,383
Linseed oil	1,302
Iron and steel plates, sheets and strip	1,264
Iron and steel billets	1,115
Cotton seed and soybean oil	1,088
Surgical and scientific instruments, etc.	1,005

---

Treasury Department, Division of Monetary Research September 18, 1942

ISF/efs 9/18/42

**APPENDIX D**

**Principal Exports from U. S. to Free China  
as reported to the Treasury Department  
during the eleven-day period ending  
August 31, 1942**

**(Thousands of Dollars)**

**TOTAL EXPORTS**

**\$ 2,850**

**Principal Items:**

<b>Machinery and vehicles, n.e.s.</b>	<b>571</b>
<b>Printed matter</b>	<b>565</b>
<b>Truck, bus and automobile casings</b>	<b>476</b>
<b>Automobile parts</b>	<b>274</b>
<b>Chemicals and related products, n.e.s.</b>	<b>237</b>
<b>Lubricating oils, n.e.s.</b>	<b>130</b>

FI

Treasury Department, Division of Monetary Research September 18, 1942

ISP/efs 9/18/42

SEP 22 1942

241

Dear Dr. Currie:

I am writing to acknowledge your letter of September 15, 1942, concerning the pending orders to Canada for naval aircraft and various types of naval vessels.

I note with approval that the placing of the contract with *Artine Merchant Shipping Limited* for merchant vessels of the "Victory" type is being held in abeyance for the time being.

In reference to the two pending orders for airplanes, parts, etc., to be produced by *Boeing Aircraft of Canada, Ltd.*, and *Fairchild Aircraft Limited*, my suggestion is that the Joint War Production Board make a comprehensive study of all aspects of the matter before a final decision on these contracts is made.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Dr. Leashin B. Currie,  
Administrative Assistant to  
the President,  
The White House.

By Messenger Simmons 5:30  
File direct to White's office.  
Photo file in Diary.

TKR:l 9/22/42

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,



Lauchlin Currie  
Administrative Assistant  
to the President

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

SEP 22 1942

My dear Mr. Douglas:

I am writing in reply to your letter of September 9, 1942, regarding the pending contract with Wartime Merchant Shipping Limited, for eighty-one "Victory" type merchant vessels.

I understand from a letter received from Dr. Currie, dated September 15, 1942, that by common consent of the appropriate officials concerned in both Canada and the United States, this contract is being held in abeyance for the time being.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. L. W. Douglas,  
Deputy Administrator,  
War Shipping Administration,  
Washington, D. C.

By Messenger Simmons 5:30  
File direct to White's office  
Photo file in Diary.

TK:rl 9/18/42

WAR SHIPPING ADMINISTRATION  
WASHINGTON

September 9, 1942

The Honorable  
The Secretary of the Treasury

My dear Mr. Secretary:

As you know, the War Shipping Administration has a contract with the Wartime Merchant Shipping Limited, an agency of the Dominion of Canada, for the purchase of one hundred ships being built by Canadian shipyards, the cost of such vessels to the War Shipping Administration to be the actual cost to Wartime Merchant Shipping Limited.

Enclosed herewith, as Attachment "A", is a schedule setting forth those vessels of the one hundred under contract which have been delivered, as well as the estimated delivery dates of those not yet completed. The price paid for those vessels delivered to date, all of which are of roughly 9,000 tons deadweight, has been approximately \$1,800,000 each. It is estimated that the ten 4,000 ton vessels, which are scheduled for delivery next year, will be approximately \$1,000,000 each.

The Wartime Merchant Shipping Limited now proposes to sell to the War Shipping Administration eighty-one additional ships of its "Victory" type. These vessels are to be more or less comparable, in so far as characteristics and deadweight are concerned, with the Maritime Commission's EC-2 or "Liberty" type vessel.

There is also enclosed, as Attachment "B", the estimated delivery dates of the eighty-one "Victory" ships. In the event these are purchased by the War Shipping Administration, it is contemplated that payment would be made in American dollars in accordance with contractual arrangements similar to those now in force with respect to the one hundred ships referred to above, the price per vessel to the War Shipping Administration to be the actual cost to the Merchant Shipping Limited. Based upon par exchange, it is estimated that the eighty-one vessels would cost approximately \$1,800,000 each, or a total of \$145,800,000.

Inasmuch as the Wartime Merchant Shipping Limited is desirous of obtaining the early advices of the War Shipping Administration as



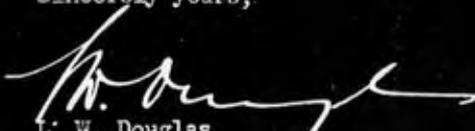
The Honorable  
The Secretary of the Treasury

Page 2.

September 9, 1942.

to whether or not it desires to purchase the eighty-one "Victory" ships in question, it will be appreciated if you will inform me at your earliest convenience as to whether or not such a contract would have your approval and, if your reply is in the affirmative, what contractual provisions you would suggest regarding rates of exchange.

Sincerely yours,



L. W. Douglas  
Deputy Administrator

Enclosures

( COPY )

WARTIME MERCHANT SHIPPING LIMITED

ESTIMATED DELIVERY DATES OF 90 NORTH SANDS SHIPS

for

UNITED STATES MARITIME COMMISSION

<u>YARD</u>	<u>HULL #</u>	<u>ESTIMATED DELIVERY DATE</u>	
	<u>W.M.S.L.</u>	<u>YARD</u>	
BURBARD	Delivered to date 9102-9114 inclusive & 9135		
	9115	144	Sept. 8/42
	9119	148	Sept. 21/42
	9116	145	Oct. 1/42
	9136	165/70	Oct. 11/42
	9120	149	Oct. 21/42
	9117	146	Oct. 31/42
	9118	147	Nov. 10/42
	9137	166/71	Nov. 20/42
	9121	150	Nov. 30/42
	9125	154	Dec. 10/42
	9122	151	Dec. 20/42
	9138	167/72	Dec. 30/42
	9126	155	Jan. 9/43
	9123	152	Jan. 19/43
	9124	153	Jan. 29/43
	9139	168/73	Feb. 8/43
	9127	156	Feb. 18/43
	9131	160	Feb. 28/43
	9128	157	Mar. 10/43
NORTH VAN	Delivered to date 9201-9206 inclusive.		
	9208	108	Sept. 10/42
	9209	109	Sept. 26/42
	9210	110	Oct. 11/42
	9211	111	Nov. 7/42
	9212	112	Nov. 19/42
	9213	113	Dec. 13/42
	9214	114	Jan. 4/43
	9215	115	Jan. 20/43
	9216	116	Jan. 30/43
	9217	117	Feb. 23/43
	9218	118	Mar. 17/43
WEST COAST	Delivered to date 9301-9303 inclusive		
	9305	105	Sept. 5/42
	9306	106	Sept. 25/42
	9307	107	Oct. 11/42

ACHMENT A)

YARD	HULL #		ESTIMATED DELIVERY DATES
	W.M.S.L.	YARD	
WEST COAST (Continued)	9308	108	Nov. 2/42
	9309	109	Nov. 20/42
	9310	110	Dec. 8/42
	9311	111	Dec. 26/42
	9312	112	Jan. 13/43
	9313	113	Jan. 31/43
	9314	114	Feb. 16/43
	9315	115	Mar. 6/43
V.M.D.	Delivered to date 9401-9402 inclusive.		
	9403	22	Sept. 12/42
	9404	23	Dec. 1/42
	9405	24	Dec. 29/42
	9406	25	Feb. 18/43
YARROWS	Delivered to date 9501-9502 inclusive.		
PRINCE RUPERT	Delivered to date 9601.		
	9602	44	Oct. 1/42
	9603	45	Dec. 15/42
	9604	46	Feb. 1/43
VICKERS	Delivered to date 9702-9704 inclusive & 9706.		
DAVIE SHIP.	Delivered to date 9901-9903 inclusive		
	9908	538	Oct. 22/42
	9909	539	Nov. 16/42
	9910	540	Dec. 22/42
UNITED	10001	1	Dec. 1/42
	10002	2	Dec. 1/42
	10003	3	Dec. 1/42
	10004	4	Dec. 10/42

September 4th 1942.

( COPY )

WARTIME MERCHANT SHIPPING LIMITED

ESTIMATED DELIVERY DATES OF 4,700 TONNERS  
FOR  
UNITED STATES MARITIME COMMISSION

<u>YARD</u>	<u>H U L L #</u>		<u>ESTIMATED DELIVERY DATE</u>
	<u>W.M.S.L.</u>	<u>YARD</u>	
ST. JOHN	4102	15	Apr. 15/43
	4103	16	Nov. 15/43
	4104	17	Feb. 15/44
PICTOU	4402	2	Feb. 28/43
	4403	3	Mar. 31/43
	4404	4	Apr. 30/43
	4405	5	Aug. 15/43
	4406	6	Sept. 30/43
GEO. T. DAVIE	4302	15	Apr. 15/43
	4303	16	May 15/43

September 3rd 1942.

( COPY )

WARREN MERCHANT SHIPPING LIMITED

ESTIMATED DELIVERY DATES OF 81 VICTORIA SHIPS

<u>YARD</u>	<u>H U L L #</u>		<u>ESTIMATED DELIVERY DATE</u>
	<u>W. J. S. L.</u>	<u>YARD</u>	
BURRAED	9114	173	June 8/43
	9116	175	June 18/43
	9112	171	June 28/43
	9113	172	July 8/43
	9117	176	July 18/43
	9118	177	July 28/43
	9119	178	Aug. 7/43
	9150	179	Aug. 17/43
	9151	180	Aug. 27/43
	9152	181	Sept. 6/43
	9153	182	Sept. 16/43
	9154	183	Sept. 26/43
	9155	184	Oct. 6/43
	9156	185	Oct. 16/43
	9157	186	Oct. 26/43
	9158	187	Nov. 5/43
	9159	188	Nov. 15/43
	9160	189	Nov. 25/43
	9161	190	Dec. 5/43
	9162	191	Dec. 15/43
9163	192	Dec. 25/43	
9164	193	Jan. 4/44	
9165	194	Jan. 14/44	
9166	195	Jan. 24/44	
9167	196	Feb. 3/44	
9168	197	Feb. 13/44	
9169	198	Feb. 23/44	
9170	199	Mar. 4/44	
9171	200	Mar. 14/44	
NORTH VAN	9222	122	May 30/43
	9223	123	June 12/43
	9224	124	June 27/43
	9225	125	July 21/43
	9226	126	Aug. 10/43
	9227	127	Aug. 23/43
	9228	128	Sept. 7/43
	9229	129	Sept. 29/43
	9230	130	Oct. 20/43
	9231	131	Nov. 1/43
	9232	132	Nov. 16/43
	9233	133	Dec. 8/43
	9234	134	Dec. 28/43
	9235	135	Jan. 9/44

(ATTACHMENT B)

ESTIMATED DELIVERY DATES OF 81 VICTORY SHIPS (CONT'D.)

YARD	HULL #		ESTIMATED DELIVERY DATES	
	W.M.S.L.	YARD		
NORTH VAN (continued)	9236	136	Jan.	24/44
	9237	137	Feb.	17/44
WEST COAST	9320	120	July	15/43
	9321	121	July	30/43
	9322	122	Aug.	16/43
	9323	123	Sept.	6/43
	9324	124	Oct.	15/43
	9325	125	Oct.	30/43
	9326	126	Nov.	16/43
	9327	127	Dec.	6/43
	9328	128	Jan.	15/44
	9329	129	Jan.	30/44
	9330	130	Feb.	16/44
	9331	131	Mar.	6/44
V.M.D.	9409	29	Aug.	29/43
	9410	30	Oct.	18/43
	9411	31	Dec.	29/43
	9412	32	Feb.	18/44
PRINCE RUPERT	9608	50	Oct.	1/43
	9609	51	Dec.	15/43
	9610	52	Feb.	1/44
MARINE	9815	120	Sept.	20/43
	9816	121	Oct.	5/43
	9817	122	Nov.	5/43
	9818	123	Dec.	10/43
DAVIE SHIPBUILDING	9918	548	Oct.	15/43
	9919	549	Oct.	20/43
	9920	550	Nov.	1/43
UNITED	10013	13	Aug.	15/43
	10014	14	Aug.	25/43
	10015	15	Aug.	31/43
	10016	16	Sept.	10/43
	10017	17	Sept.	20/43
	10018	18	Oct.	1/43
	10019	19	Nov.	15/43
	10020	20	Nov.	25/43
	10021	21	Dec.	5/43
	10022	22	Dec.	15/43

September 4th 1942.

SEP 22 1942

Mr. G. F. Towers  
Governor  
Bank of Canada  
Ottawa, Canada

My dear Mr. Towers:

Mr. Ball has informed me of the very prompt and effective service which you rendered to the Treasury in making available to us, in connection with the war effort, certain coin desired by our military forces. I am informed that the coin arrived on the morning of September 17, and that reimbursement, in accordance with your invoice, was made at the Federal Reserve Bank by the War Department on the same date.

I wish you to know that the Treasury is deeply appreciative of your cooperation in this matter.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

File in Diary.

MBB:ec 9/18/42

*MBB*

Form 222

## Stabilization Fund

September 22, 1942

Federal Reserve Bank of New York,  
New York, New York.

Attention: H. L. Sanford

Please debit Treasurer's General Account \$5,012,679.60 as transfer of funds to Treasurer of United States and credit a like amount to the account "Secretary of the Treasury, Special Account". This amount represents the deposit of United States currency by the Minister of the Treasury of the Republic of Cuba to the credit of the Treasurer of the United States in a custody account at the Havana branch of the National City Bank of New York in payment of 142,857.214 fine ounces of gold plus 1/4% and expenses sold to the Government of the Republic of Cuba on September 9, 1942. You are hereby authorized to debit the account "Secretary of the Treasury, Special Account" \$177.11 representing your expenses. **SEXT**

(Signed) D. W. BELL

Acting Secretary of the Treasury

D. W. Bell

C  
O  
P  
Y

September 22, 1942 11:35 a.m.

WES 9/6

OO NEWYORK NY SEP 22 1942 1104A

D V HELL

UNDERSECRETARY OF THE TREASURY WASHDC

HAVANA CONFIRMS \$5,022,679.60 AS AMOUNT RECEIVED  
NATIONAL CITY BANK OF NEWYORK.

1132AM

COPY 1019-22-42

C  
O  
P  
Y

1942 SEP 21 AM 11 36

WEEK TWO PAID 3

WEEK 60 NEWYORK NY SEP 21 1942 1119A

D V HILL

WEEK SENT TO TREASURER WASHDC  
HAVANA ADVISES DEPOSIT RECEIVED AND WE ASSURE FOR AMOUNT  
MENTIONED BY YOU BUT ARE REQUESTING CONFIRMATION BY CABLE  
NATIONAL CITY BANK OF NY.

1199A

Copy: 10:9/21/42

NOT TO BE RE-TRANSMITTEDCOPY NO. 13BRITISH MOST SECRET  
U.S. SECRETOPTEL No. 329

Information received up to 7 A.M., 22nd September, 1942.

1. NAVAL

The convoy to RUSSIA entered ARCHANGEL HARBOUR on 21st after some delay outside owing to weather. 27 vessels arrived safely. 13 totalling 74, 411 tons were lost. One of H.M. Destroyers was torpedoed on 20th but is in tow of another Destroyer. One of H.M. Submarines reports having sunk a heavily laden merchant ship northeast of DERNA on the 5th and having torpedoed another ship of 3,000 tons. Another of H.M. Submarines reports having sunk by gunfire and torpedoes a schooner of 200 tons and a small merchant ship in ZLITEN ROADS East of TRIPOLI (L). A third Submarine reports sinking two schooners and damaging others at wharves at BUGGERU (SARDINIA). A fourth submarine en route to MALTA is overdue and must be presumed lost.

2. MILITARY

MADAGASCAR. Our columns in the north continue to make progress in spite of heavy rain. On the Northwest coast our advanced elements are reported to be moving towards ANTSOHIHY, while on the Northeast coast we have reached SAHAMBAVA. The column approaching TANANARIVE occupied ANKAZOBE on the 20th and is continuing its advance.

RUSSIA. German penetration into SPALINGRAD continues slowly. They have made slow progress in the MOZDOK area.

3. AIR OPERATIONS

WESTERN FRONT. 21st. An A.A. ship off the Dutch coast was set on fire by Spitfires, one of which is missing. 21st/22nd. 17 aircraft were sent to lay mines. 3 are missing.

EGYPT. On the 19th and 20th enemy camps, M.T. and tanks in the coastal and southern sectors and M.T. in the northern sector were machine gunned and bombed. 2 enemy aircraft were destroyed, 2 probably destroyed and 2 damaged. 3 of our fighters were shot down but 2 pilots are safe.

MEDITERRANEAN. A Beaufighter hit a 100 foot ship off SICILY.

MARCK, Lt. Andrew M.

262

B.O.C. 72  
Field Artillery School,  
Fort Sill, Oklahoma

Until about December 1, 1942

Treasury Department  
Office of the Secretary

263

Date September 22, 1942

To: Secretary Morgenthau

From: Lieutenant Kamarck

With my compliments.

THE UNKNOWN BRITISH-AMERICAN  
VICTORY

By  
FIRST LIEUTENANT ANDREW M. KAMARCK, F.A.  
*U. S. Army*

Reprinted from the  
UNITED STATES NAVAL INSTITUTE PROCEEDINGS  
Vol. 68, No. 8, Whole No. 474  
August, 1942  
[COPYRIGHT: U. S. NAVAL INSTITUTE, ANNAPOLIS, MD.]

## THE UNKNOWN BRITISH-AMERICAN VICTORY

By FIRST LIEUTENANT ANDREW M. KAMARCK, F.A., U. S. Army

THE VICTORY gained by the British in the Battle of Britain in August and September, 1940, has been universally acclaimed. But six months later, Great Britain, with American assistance, gained just as decisively important a victory which has gone practically unrecognized. This was the defeat of the Axis all-out offensive in the spring of 1941 against British shipping, which was designed to gain a victorious peace by blockading England.

The Axis attack on shipping was much more than the guerrilla submarine campaign which is now being carried on with the present limited purpose of hampering and crippling Allied sea communications. The German offensive against shipping in the spring of 1941 was an all-out offensive, an attempt to gain a decisive victory and so win the war. The information which is now available makes it fairly clear that the British success, with American help, in turning back these attacks, forced Hitler to undertake his Russian adventure.

The progress of this campaign, except for spectacular episodic events, like the raid of the two battleships, *Scharnhorst* and *Gneisenau*, and the sinking of the *Bismarck*, went practically unnoticed, at the time, by the public. Even the attention of most of the military experts on this side of the Atlantic was absorbed by the German mop-up campaigns in the Balkans, which occurred at the same time. Yet these were merely designed, as the Germans indicated clearly, to remove a threat to their Balkan flank, and to organize their Balkan supply sources. The Balkan campaigns were important, but subsidiary to the main objective of winning the war.

The events leading up to the Axis offensive against shipping in the spring of 1941 in retrospect can be seen to fit into a sharp pattern, although they were obscure at the time. After the fall of France in June, 1940, Hitler offered peace terms to the British. The small British Army had been practically stripped of weapons. According to *The Aeroplane*, there were, for example, fewer than 100 tanks left in England after Dunkirk. Yet the British refused to make peace with Hitler. The Nazis then began to prepare in their thorough, methodical way, for an invasion of England.

At this point, a distraction arose. What happened can be best described in the words of Hitler when he reviewed Soviet-German relations on June 22, 1941, as his troops crossed the Russian frontier. His<sup>1</sup> declared:

While our soldiers from May 10, 1940, on, had been breaking Franco-British power in the west, Russian military development on our eastern frontier was being continued to a more and more menacing extent.

From August, 1940, on, I, therefore, considered it to be in the interest of the Reich no longer to permit our eastern provinces, which moreover had already been laid waste so often, to remain unprotected in the face of this tremendous concentration of Bolshevik divisions.

Thus, there resulted British-Soviet Russian co-operation, intended mainly at the tying up of such powerful forces in the East that radical conclusions of the war in the West, particularly as regards aircraft, could no longer be touched for by the German high command (Author's italic's).

Churchill's analysis of the situation is similar. He said in his speech on June 22, 1941, when Hitler was beginning his invasion of Russia:

[There is] . . . one deeper motive behind his

1942]

*The Unknown British-American Victory*

1135

[Hitler's] outrage. He wishes to destroy the Russian power because he hopes that if he succeeds in this he will be able to bring back the main strength of his army and air force from the east and hurl it upon this island, which he knows he must conquer or suffer the penalty of his crimes. His invasion of Russia is no more than a prelude to an attempted invasion of the British Isles.

A few men in the United States, like Captain W. D. Puleston, U. S. Navy (Retired), even at that time, saw clearly that Germany had a two-front war on her hands in the summer of 1940, and that the German-inspired propaganda on a Russo-German alliance covered up an actual state of inactive warfare on the Eastern Front. It is now evident to all of us that what happened in the summer of 1940 was that the concentration of Russian troops and airplanes on the German eastern frontier pinned down a large portion of the German Army and a decisively large portion of the German Air Force. Hitler, nevertheless, attempted to smash the Royal Air Force as a preliminary to invasion, with the remaining available fraction of his Luftwaffe. During the Battle of Britain in August and September, 1940, the Royal Air Force completely defeated this attempt.

The Germans in the fall and winter of 1940-41 were, therefore, confronted with two alternative plans which might win the war. With American airplanes flowing into England, even if in small numbers, and with the experience of the Battle of Britain behind them, the possibility of destroying the British Air Force with a part of the German Air Force could not be counted on. Hitler's choice then was between:

(A) An attempt to defeat England by a policy of blockade, using the German naval forces which were completely available for this purpose.

(B) An attempt to destroy the Russian threat and then, as Churchill said, "bring back the main strength of his army and air force from the east and hurl it" upon England.

Probably the decision was made to give

Plan A a good try and if it failed to adopt Plan B. The defeat of Plan A by the British with American help in the spring of 1941 left the Germans no alternative, if they wished to bring the war to an early end, but to crush the Russian military forces with a sudden surprise attack and a lightning campaign.

As is customary with German offensives, Hitler opened his Plan A, the offensive against British shipping, with a speech. He announced on February 24, 1941:

Our fight on the sea can begin only just now. [The Allies] . . . will know what has been going on. They will know shortly when our new types of submarines are going to be brought into the expanded warfare. They will find out in March and April what German-Italian submarine cooperation will mean to them.

One thing is certain. Wherever the British touch the Continent we will encounter them immediately, and where British ships cruise they will be attacked by our U-boats until a decision comes.

The Germans did give Plan A a thorough try. The offensive against shipping went all-out. Increased numbers of submarines preyed on convoys. Long-range bombers were sent out in attacks on shipping. The bulk of the German Navy was thrown into the battle. The two battleships, *Scharnhorst* and *Gneisenau*, were sent out in March. The pride of the German Navy, the battleship *Bismarck*, and a heavy cruiser, *Prinz Eugen*, were sent out in May. The only major unit of the German Navy not in action was the *Tirpitz*, which may not have been ready for operations yet.

The German offensive did meet with some successes, but, as we know, it failed. Sinkings increased from under 300,000 gross tons in January to over 500,000 tons in March and April. According to Churchill, in the four months, March-June, shipping losses totaled more than 2,000,000 tons. Note that if these losses running at a rate of 6,000,000 tons a year could be sustained, and if England

## THE UNKNOWN BRITISH-AMERICAN VICTORY

By FIRST LIEUTENANT ANDREW M. KAMARCK, F.A., U. S. Army

THE VICTORY gained by the British in the Battle of Britain in August and September, 1940, has been universally acclaimed. But six months later, Great Britain, with American assistance, gained just as decisively important a victory which has gone practically unrecognized. This was the defeat of the Axis all-out offensive in the spring of 1941 against British shipping, which was designed to gain a victorious peace by blockading England.

The Axis attack on shipping was much more than the guerrilla submarine campaign which is now being carried on with the present limited purpose of hampering and crippling Allied sea communications. The German offensive against shipping in the spring of 1941 was an all-out offensive, an attempt to gain a decisive victory and so win the war. The information which is now available makes it fairly clear that the British success, with American help, in turning back these attacks, forced Hitler to undertake his Russian adventure.

The progress of this campaign, except for spectacular episodic events, like the raid of the two battleships, *Scharnhorst* and *Gneisenau*, and the sinking of the *Bismarck*, went practically unnoticed, at the time, by the public. Even the attention of most of the military experts on this side of the Atlantic was absorbed by the German mop-up campaigns in the Balkans, which occurred at the same time. Yet these were merely designed, as the Germans indicated clearly, to remove a threat to their Balkan flank, and to organize their Balkan supply sources. The Balkan campaigns were important, but subsidiary to the main objective of winning the war.

The events leading up to the Axis offensive against shipping in the spring of 1941 in retrospect can be seen to fit into a sharp pattern, although they were obscure at the time. After the fall of France in June, 1940, Hitler offered peace terms to the British. The small British Army had been practically stripped of weapons. According to *The Aeroplane*, there were, for example, fewer than 100 tanks left in England after Dunkirk. Yet the British refused to make peace with Hitler. The Nazis then began to prepare in their thorough, methodical way, for an invasion of England.

At this point, a distraction arose. What happened can be best described in the words of Hitler when he reviewed Soviet-German relations on June 22, 1941, as his troops crossed the Russian frontier. His<sup>1</sup> declared:

While our soldiers from May 10, 1940, on, had been breaking Franco-British power in the west, Russian military development on our eastern frontier was being continued to a more and more menacing extent.

From August, 1940, on, I, therefore, considered it to be in the interest of the Reich no longer to permit our eastern provinces, which moreover had already been laid waste so often, to remain unprotected in the face of this tremendous concentration of Bolshevik divisions.

Thus, there resulted British-Soviet Russian co-operation, intended mainly at the tying up of such powerful forces in the East that radical conclusion of the war in the West, particularly as regards aircraft, could no longer be vouched for by the German high command (Author's italic's).

Churchill's analysis of the situation is similar. He said in his speech on June 22, 1941, when Hitler was beginning his invasion of Russia:

[There is] . . . one deeper motive behind his

1942]

*The Unknown British-American Victory*

1135

[Hitler's] outrage. He wishes to destroy the Russian power because he hopes that if he succeeds in this he will be able to bring back the main strength of his army and air force from the east and hurl it upon this island, which he knows he must conquer or suffer the penalty of his crimes. His invasion of Russia is no more than a prelude to an attempted invasion of the British Isles.

A few men in the United States, like Captain W. D. Puleston, U. S. Navy (Retired), even at that time, saw clearly that Germany had a two-front war on her hands in the summer of 1940, and that the German-inspired propaganda on a Russo-German alliance covered up an actual state of inactive warfare on the Eastern Front. It is now evident to all of us that what happened in the summer of 1940 was that the concentration of Russian troops and airplanes on the German eastern frontier pinned down a large portion of the German Army and a decisively large portion of the German Air Force. Hitler, nevertheless, attempted to smash the Royal Air Force as a preliminary to invasion, with the remaining available fraction of his Luftwaffe. During the Battle of Britain in August and September, 1940, the Royal Air Force completely defeated this attempt.

The Germans in the fall and winter of 1940-41 were, therefore, confronted with two alternative plans which might win the war. With American airplanes flowing into England, even if in small numbers, and with the experience of the Battle of Britain behind them, the possibility of destroying the British Air Force with a part of the German Air Force could not be counted on. Hitler's choice then was between:

(A) An attempt to defeat England by a policy of blockade, using the German naval forces which were completely available for this purpose.

(B) An attempt to destroy the Russian threat and then, as Churchill said, "bring back the main strength of his army and air force from the east and hurl it" upon England.

Probably the decision was made to give

Plan A a good try and if it failed to adopt Plan B. The defeat of Plan A by the British with American help in the spring of 1941 left the Germans no alternative, if they wished to bring the war to an early end, but to crush the Russian military forces with a sudden surprise attack and a lightning campaign.

As is customary with German offensives, Hitler opened his Plan A, the offensive against British shipping, with a speech. He announced on February 24, 1941:

Our fight on the sea can begin only just now. [The Allies] . . . will know what has been going on. They will know shortly when our new types of submarines are going to be brought into the expanded warfare. They will find out in March and April what German-Italian submarine cooperation will mean to them.

One thing is certain. Wherever the British touch the Continent we will encounter them immediately, and where British ships cruise they will be attacked by our U-boats until a decision comes.

The Germans did give Plan A a thorough try. The offensive against shipping went all-out. Increased numbers of submarines preyed on convoys. Long-range bombers were sent out in attacks on shipping. The bulk of the German Navy was thrown into the battle. The two battleships, *Scharnhorst* and *Gneisenau*, were sent out in March. The pride of the German Navy, the battleship *Bismarck*, and a heavy cruiser, *Prinz Eugen*, were sent out in May. The only major unit of the German Navy not in action was the *Tirpitz*, which may not have been ready for operations yet.

The German offensive did meet with some successes, but, as we know, it failed. Sinkings increased from under 300,000 gross tons in January to over 500,000 tons in March and April. According to Churchill, in the four months, March-June, shipping losses totaled more than 2,000,000 tons. Note that if these losses running at a rate of 6,000,000 tons a year could be sustained, and if England

were thrown on her own shipbuilding resources, publicly acknowledged to be little more than 1,000,000 tons a year; then, England must surrender. April, with over 550,000 tons in losses, according to the latest published figures at that time, represented the peak of the offensive. It is likely that later revised figures, as the reports came in, might have raised April losses still higher, but in any case, losses in April must have been considerably under the 870,000 tons of the peak month of the last war, April, 1917. Not all of the April losses were due to the German shipping offensive; a large part of them resulted from the evacuation of Greece. In May, in spite of the losses resulting from the evacuation of Crete, ship sinkings began to decrease sharply. Losses continued to decrease, and by July they had fallen to a negligible amount, well within the British shipbuilding capacity.

The German offensive was turned back, but the resources of the British were strained to the utmost to meet the threat. The Navy, of course, fought hard and well and the Royal Air Force was also called into the battle. The Air Ministry stated in a review of 1941 that for the protection of shipping, the Coastal Command was built up at the cost of the Bomber Command. Most of the heavy bombers we sent to England had to be diverted to the Coastal Command instead of being used for the bombing of German industry. The Fighter Command furnished Hurricane fighters to be catapulted off ships to drive off the long-range German Focke-Wulf Kurier bombers. The British have since announced that 40 per cent of the activities of the Bomber Command were devoted to the winning of the Battle of the Atlantic.

Perhaps the greatest service the bombers performed was keeping the battleships, *Scharnhorst* and *Gneisenau*, holed up in Brest. These two 26,000-ton ships made one foray into the Atlantic in March,

1941, were hunted into Brest, and then kept out of action for the rest of the year by the Bomber Command. The Germans claimed that the two raiders sank over 100,000 tons of shipping in their first and only sally into the Atlantic. Discounting the German statement by the usual 50 per cent, the toll they took must have been fairly large and if they had been allowed out again, they would have unquestionably caused serious losses.

The United States showed acute awareness of the British danger. Secretary Stimson said on May 6, 1941, in a radio broadcast:

The life line of Great Britain is threatened. The high-water mark of the Nazi effort is at hand in the shape of an attack on the shipping which furnishes Britain with the means and the nourishment to maintain her battle.

The government of the United States did more than extend sympathy: it helped, perhaps decisively. On March 11, Lease-Lend became law, making completely available American shipbuilding resources to the British without fear of exhausting the British supply of dollars. On March 30, several hundred thousand tons of Axis and Danish shipping immobilized in American ports were seized.

At the height of the Axis offensive, on April 9, 1941, Churchill analyzed the British position. He pointed out that to win the Battle of the Atlantic, there were two main factors: (1) The provision of adequate shipping replacements; and (2) the provision of adequate convoy escorts. The United States had taken action already to provide shipping replacements, through her shipbuilding campaign and Lease-Lend to pay for the new ships. He called upon America to help in the provision of escorts. He stated:

But, after all, everything turns upon the Battle of the Atlantic which is proceeding with growing intensity on both sides. Our losses in ships and tonnage are very heavy and, vast as are the shipping resources we control, these losses could not

continue indefinitely without seriously affecting our war effort and our means of subsistence.

But when all is said and done, the only way in which we can get through the year 1942 without a very sensible contraction of our war efforts is by another gigantic building of merchant ships in the United States similar to that prodigy of output accomplished by the Americans in 1918.

All this has been in train in the United States for many months past. There has now been a very large extension of the program and we have assurance that several million tons of American newly-built shipping will be available for the common struggle during the course of the next year.

Here, then, is the assurance upon which we may count for the staying power without which it will not be possible to save the world from the criminals who assail its future.

But the Battle of the Atlantic must be won not only in the factories and shipyards but upon the blue water.

The defeat of the U-boats and of surface raiders has been proved to be entirely a question of adequate escorts for our convoys.

It will indeed be disastrous if the great masses of weapons, munitions and instruments of war of all kinds made with the toil and skill of American hands at the cost of the United States and loans to us under the Aid to Britain Bill were to sink into the depths of the ocean and never reach the hard-pressed fighting line.

That would be lamentable to us and I cannot believe it would be found acceptable to the proud and resolute people of the United States.

The next day, April 10, the United States took a preliminary step towards providing the needed assistance in announcing that it was taking over the protection of Greenland. Then, on April 30, the United States took the step which the Nazis at once must have realized doomed their offensive to ultimate failure. The second necessary measure requested by Churchill to win the Battle of the Atlantic was provided: help in protecting shipping. President Roosevelt announced that the American Navy would patrol the sea in the American defense zones. An immense burden was lifted off the British Navy. It could concentrate on giving increased protection to shipping in the Eastern Atlantic. At the same time, the sphere of action of submarines was cut down;

Axis submarines had to abandon the western Atlantic as scene of operations, or run the risk of bringing the United States into the war. This risk Hitler was not willing, as yet, to take because of his hopes of an early victorious end to the war.

In spite of the Nazi propaganda attempts to belittle the United States as an opponent, the German High Command showed at this time an absence of desire to add us to their opponents. In 1917, Germany was willing to take the chance of bringing us into the war in pursuance of her attempt to defeat England by an unlimited submarine blockade. In the spring of 1941, confronted with a parallel choice, the Germans refused to run the risk of adding us to their enemies. Hitler, indeed, has done us the honor of stating that fear of bringing us into the war paralyzed his submarine fleet. In his speech of April 26, 1942, Hitler said:

I have already previously stated that the paralyzing of German submarine activities in the past year was solely due to our efforts to avoid any conflict one could think of with the United States.

The German High Command claimed to have destroyed over 1,000,000 tons of shipping in April, 1941, or more than at the height of the 1917 campaign, when England was rapidly going under. If the German figures were actually true, England would soon have been forced to her knees. That the Germans did not believe their own claims and had realized that their best was not good enough, is evidenced by the fact that preparations to put in effect Plan B, the invasion of Russia, began to be made.

On May 10, Hess parachuted to earth in Scotland, undoubtedly bearing peace proposals designed to take England out of the war while Russia was being finished off. The last big bombing raid on England occurred on May 11, and after that the German Air Force began to move towards

the East. Throughout May, we received reports of the movement of German troops to the Russian frontier. Even while the German parachutists were dropping on Crete to secure the Balkan flank, German troops were being moved out of Greece towards the Russian front.

In the third week of May, one last desperate attempt was made against British shipping: the strongest ship of the German Navy, the *Bismarck*, was sent out to attack commerce. The sinking of the *Bismarck* on May 27 by the British Navy must have finally convinced the Germans that Plan A had failed and that Plan B, the invasion of Russia, must be tried. Six days later, on June 2, Hitler met Mussolini at the Brenner Pass and undoubtedly informed him of the decision taken. On June 22, German troops crossed the Rus-

sian frontier, and Plan B was given its trial.

Most people remember the spring of 1941 as a time of successive allied defeats in Libya, in Yugoslavia, and in Greece. Actually, these battles must pale before the unspectacular ceaseless struggle waged at sea at that time for the mastery of the lanes to the British Isles. The failure of Hitler in these months to blockade the British Isles forced him to invade Russia in his striving for the elusive final victory. The German defeat at sea forced Germany to bring into active warfare against the Nazis the most formidable military machine outside of Germany. It appears certain that history will regard the British and American victory at sea in the spring of 1941 as one of the decisive victories of the world.



TREASURY DEPARTMENT

265

INTER OFFICE COMMUNICATION

DATE

Sept. 23, 1942

TO Secretary Morgenthau  
FROM Randolph Paul

I should like to call your attention to a release on the Dow-Jones ticker today, which is attached.

It would be pleasant for the Congressional Committees if they could write tax bills entirely in secret without anyone to criticize or condemn. I doubt if the business and taxpayer world would be so pleased. None of this attitude has been expressed in the Senate committee.

Attachment

Dow-Jones

September 23, 1942

3:00 P.M.

**CRITICIZES TREASURY ON TAXES**

Chicago - Dissatisfaction with methods employed by administration in dealing with Congress on tax legislation was expressed here by Representative Boehne (Dem. Ind.), a member of House Ways and Means Committee.

In a statement sent to annual meeting of Controller's Institute of America Mr. Boehne charged executive and particularly Treasury Department has to an increasing extent sought to arrogate to itself the determination of both amount of taxes to be imposed and manner in which burden of taxation shall be distributed.

He said he did not question the propriety of revenue recommendations from the executive branch of the government on revenue requirements and methods for meeting them but added:

"Unfortunately the participation of the executive department has not stopped with recommendation, advice, and the provision of statistical and economic information and expert technical aid."

He said, "It has become common practice in recent years for the Secretary of the Treasury after he has submitted a program during public hearings to make further recommendations to the Committee in executive session which sometimes involve fundamental changes in or addition to the prior program."

"This," Mr. Boehne said, "caused confusion and delay in the reporting of a bill and has caused doubt as to whether the Treasury itself really had a well-thought-out program."

"In face of this," Mr. Boehne continued, "the Secretary of the Treasury has not hesitated publicly to criticize the Ways and Means Committee for delay in reporting a revenue bill."

He said that in the case of the revenue bill now pending before the Senate Finance Committee the Ways and Means Committee not only was told how much revenue the Treasury thought it was

- 2 -

necessary to raise and the methods which should be followed in raising it, but has been criticized whenever it insisted upon exercising its proper functions and acting upon its independent judgement on either question.

TREASURY DEPARTMENT

268

INTER OFFICE COMMUNICATION

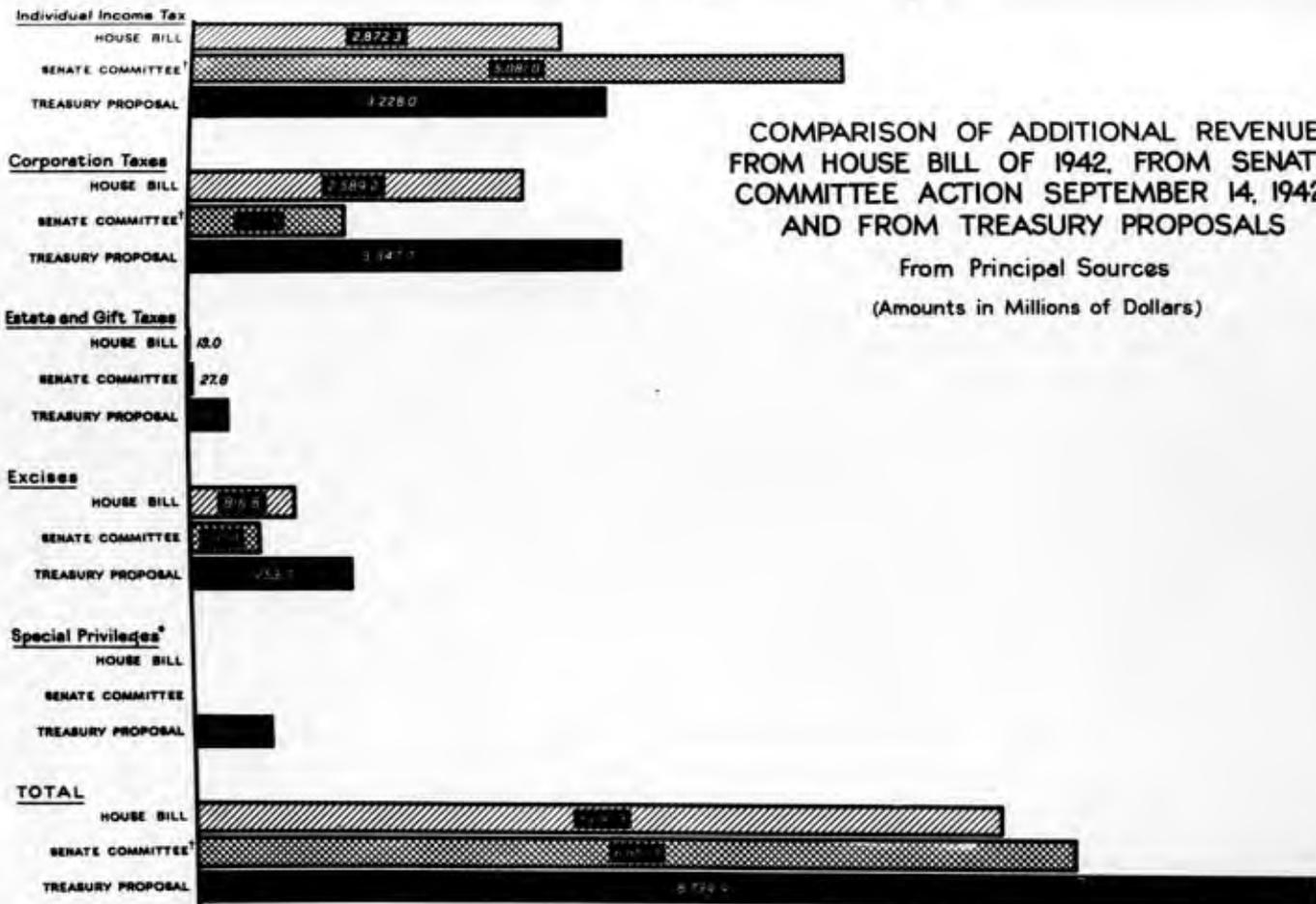
DATE  
SEP 23 1942

TO Secretary Morgenthau  
FROM Mr. Paul

There is attached for your interest  
a graphic description of revenue obtainable from  
the House proposal on the Revenue Bill of 1942,  
from Senate Committee action September 14, 1942,  
and from Treasury proposals. The amounts are in  
Millions of Dollars.

*Rep.*

Attachment



COMPARISON OF ADDITIONAL REVENUE  
FROM HOUSE BILL OF 1942, FROM SENATE  
COMMITTEE ACTION SEPTEMBER 14, 1942,  
AND FROM TREASURY PROPOSALS

From Principal Sources  
(Amounts in Millions of Dollars)

\*Joint returns; interest on State and local obligations; and percentage depletion.  
†Excludes post-war credit.

269-A

**TREASURY DEPARTMENT**

**INTER OFFICE COMMUNICATION**

**DATE SEP 23 1942**

**TO** Secretary Morgenthau  
**FROM** Randolph Paul

In my memorandum of August 24, 1942, I indicated that a meeting was to be held with the State Department on the problem of the diplomatic pouch as soon as Mr. Acheson returned to Washington. The meeting was held last week in Mr. Acheson's office and was attended by Pehle, B. Bernstein, and others from the Treasury; representatives of Censorship; and Assistant Secretaries Acheson and Shaw and several others from the State Department.

The Treasury representatives orally presented evidence of wide-spread misuse of the diplomatic pouch by various governments or their agents, particularly the French and Spanish. One of the most significant cases was obtained in our investigation of the French Line, in the course of which we discovered evidence indicating that the French diplomatic pouch has been regularly used to avoid the American and British censorship of correspondence between the United States French Line offices and Europe. Such evidence also indicated that the French diplomatic pouch has been used to carry mail into the United States from occupied France and to take information of possible military importance from the United States to Europe. In general, Treasury indicated that at present diplomatic pouches constituted a channel, presently uncontrolled, through which vital information not entitled to diplomatic immunity may pass and through which currency, securities, and other valuables may be sent in violation of Treasury financial controls. It was pointed out that the abuse of the diplomatic pouch leaves very little evidence behind it by reason of the status of the pouch and of those who are entitled to use it.

The State Department representatives agreed with Treasury that the diplomatic pouch is being used against us by our enemies, but is reluctant to take any step that would jeopardize the immunity of diplomatic pouches used by this Government between the neutral European capitals and the United States. After some discussion of the matter, State admitted that the problem should be viewed in the practical light of deciding whether we obtained more benefit from the immunities of diplomatic pouches than do

- 2 -

the enemy, and agreed that we might canvass the possibilities of taking measures which would interfere with the use of diplomatic pouches of foreign governments to transmit information and materials inimical to our interests without interfering with the ability to keep our own channels open. A subcommittee consisting of representatives of State, Treasury, Censorship, and War is being appointed to work on this problem.

In the course of the meeting the problem of the immunity of diplomats and their baggage from search by Customs was mentioned several times, and it appears that State may be willing to consider openly tightening up in this field if we can do this without publicly raising the diplomatic problem.

The meeting seemed worthwhile in that it focused the attention of the State Department and the Office of Censorship on this very significant problem. We are continuing our work on the problem and will cooperate with the other agencies to work out some intelligent plans of dealing with it. The Office of Military Intelligence has informally advised us that they are much concerned with the security aspects of the problem.

AET



TREASURY DEPARTMENT  
WASHINGTON

September 24, 1942

MEMORANDUM FOR THE SECRETARY:

The attached is intended for Mr. Nate Shapero, whose friends are putting together a book to be presented to him on the occasion of his 50th birthday.

Mr. Shapero is our retailers' chairman for Wayne County (Detroit), Michigan, and is doing an outstanding job for us.

Your signature on the attached page will be appreciated.

  
GRAVES.

*Signed Wm. H. Graves  
(9/25/42)*



MEMORANDUM

To: Secretary Morgenthau

From: Huntington Cairns

September 24, 1942

Mr. Paul asked me to tell you about a discussion he had yesterday with Stanley High, who is now associated with the Readers' Digest. Mr. High is collecting material, possibly with a view to publication of an article, on the usurpation of power by the Executive Branch of the Government. Mr. High referred to two recent events.

The first was an interview by Dr. Alvin H. Hansen, printed on June 27th in the Chicago Journal of Commerce. According to the account printed in the Congressional Record, on July 23, 1942, page 6778, Dr. Hansen outlined the New Deal aim as follows:

"Congress will surrender to the administration the power to tax, keeping to itself the right only to establish broad limits within which the administration may move.

"Congress will appropriate huge sums of money; will surrender its power of directing when and how the money shall be spent.

"Other extraordinary powers such as, for instance, to affect wholesale social reforms, will be delegated to the administration which

- 2 -

will retain most, if not all, of its present extraordinary wartime powers.

"It is folly to think we can return to normal after the war."

Mr. Paul thinks that to give public expression to such ideas is, to say the least, most unwise.

Mr. High also referred to the Supreme Court decision of U. S. v Pink, decided on February 2, 1942, opinion by Mr. Justice Douglas, concurring opinion by Mr. Justice Frankfurter, dissenting opinion by Mr. Justice Stone, in which Mr. Justice Roberts joined. The Court held that the right to property located in the United States, which had belonged to a Russian corporation later dissolved by the Soviets, became vested in the Soviet Government; that the right passed to the United States under the Litvinoff assignment (which was an Executive Agreement and not a Treaty submitted to the Senate); and that the United States is entitled to the property as against the corporation and the foreign creditors.

Mr. High made the point that there is discussion throughout the country to the effect that the Administration is preparing the way to making a peace settlement without submitting the matter to the Congress. The Administration,

- 3 -

during the progress of the war, will accomplish that through a series of International Executive Compacts which would commit the United States to a particular peace settlement before the arrival of the time of the actual peace settlement. The peace settlement itself might be made by a compact which might not be referred to the Congress, but which would be as far-reaching, or more so, than the Versailles settlement.

*Huntington Cairns*

HEADQUARTERS 1229TH RECEPTION CENTER  
FORT DIX, NEW JERSEY

HGP-JER

September 24, 1942.

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

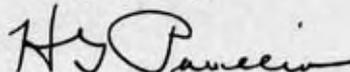
My dear Sir:-

In compliance with your request, the enclosed report, composed of information contained on the classification cards of 100 Selective Service Men, chosen at random from men received at this station, is submitted.

In the column marked "Specialist Serial Number", there are a number of blanks. This indicates that there is no Army Classification for the occupation listed.

I trust this is the information you desire, and that if there is anything further that you desire, you will not hesitate to call on us.

Respectfully,



H. G. PAULLIN,  
Colonel, Cavalry,  
Commanding.

Distribution of 100 random Selective Service Men as to age,  
marital status, and claimed dependency, partial or otherwise.

<u>AGE</u>	<u>NUMBER</u>	<u>M</u>	<u>S</u>	<u>DEPENDENTS</u>
20-24	37	5	32	10
25-29	11	8	3	12
30-34	6	2	4	2
35-39	57 15	7	8	13
40-44	28	7	21	18
45-	<u>3</u>	<u>1</u>	<u>2</u>	<u>1</u>
TOTAL	100	30	70	56

NAME	A.S.N.	AGE	MARITAL		OCCUPATION	S.S.NO
			STATUS	DEPEND.		
...y, William B.	32497762	40	M	1	Estimator	-
...wagel, Harry J.	32362126	20	M	1	Laborer, Process	-
...wig, Richard D.	32362070	24	M	2	Cashier	269
...ars, Charles P.	32362114	21	S	0	Laborer	-
...own, Theodore D.	32362081	21	S	0	Radio Announcer	-
...rtwood, William J.	32362101	22	M	1	Truck Driver, Heavy	245
...ches, Chester Jr.	32362140	21	M	1	Sales Clerk	373
...cia, Dominick A.	32362087	24	S	0	Laborer	-
...cia, Angelo J.	32362090	21	S	0	Laborer, Process	-
...ldon, James S.	32495452	36	M	1	Investigator	301
...yer, Arthur G.	32497084	45	M	1	Investigator	301
...ngelo, Joseph A.	32466934	29	M	1	Chemist	292
...ffing, Peter C.	32496215	27	M	1	Purchasing Agent or Buyer	371
...delken, Harold G.	32467506	27	S	0	Clerk, General	066
...wig, Luther E.	32362107	28	S	0	Stock Clerk	324
...nson, Edward B.	32362060	36	M	1	Manager, Sales I	-
...as, Walter	32362137	20	S	0	Student	-
...th, Earl L.	32362075	23	M	2	Sheet Metal Worker	201
...g, Albert C. W.	32497875	21	S	0	Packer	-
...ves, Evans C.	32362117	21	S	0	Electric Truck Driver	354
...vers, Walter F.	32362130	20	S	0	Truck Driver, Heavy	245
...aulay, Norman	32497742	41	M	1	Carpenter, Acoustical	-
...le, August	32497743	29	M	1	Floral Designer	-
...ssica, Peter J.	32362126	21	S	0	Sales Clerk	373
...mann, Albert A.	32498322	21	S	0	Map Clerk	-
...s, Francis	32498195	45	S	0	Salesman, Beverages	-
...en, Maroo	32497046	21	S	0	Manager, Retail	-
...us, Henry V.	32463184	41	D	0	Cook	060
...rt, Charles P.	32497908	37	S	0	Stenographer	213
...sholm, Frank E.	32467577	45	M	1	Chiropodist	422
...omon, Milton	32497750	40	S	0	Truck Driver, Light	345
...eter, Joseph C.	32362119	21	S	0	Laborer	-
...m, Benjamin	32445636	26	S	3	Laborer, Process	-
...ast, Peter G.	32463644	44	M	1	Breakman, Automobile	-
...ley, William M.	32465453	45	S	0	Laborer	-
...an, Arthur P.	32497946	36	M	1	Truck Driver, Heavy	245
...pel, Edward	32467598	24	S	0	Laborer, Process	-
...urman, Richard B.	32497827	41	S	1	Salesman, Floor Covering	-
...ft, William J.	32497827	41	S	1	Salesman, Securities	-
...stet, Harry F.	32497898	40	S	0	Chauffeur	344
...lkowitz, George P.	32497761	36	M	2	Cook, Short Order	-
...ato, Joseph	32496231	37	S	2	Truck Driver, Light	345
...patriok, Edward J.	32497937	22	S	0	Laborer	-
...erson, Harry H.	32362127	22	S	0	Clerk, Typist	406
...cense, Raymond J.	32362066	27	M	1	Sales Clerk	373
...lin, Theodore O.	32362073	26	M	1	Rotary-Shear Operator	-
...e, George J.	32362109	20	S	0	Laborer	-
...ra, George	32497748	32	S	0	Sales Clerk	373
...rs, Thomas H.	32362072	24	S	2	Stock Clerk	324

NAME	A.S.N.	AGE	MARITAL STATUS	DEPEND.	OCCUPATION	S.S.NO.
oy, William B.	32497762	40	M	1	Estimator	-
ewfel, Harry J.	32362126	20	M	1	Laborer, Process	-
wig, Richard D.	32362070	24	M	2	Cashier	269
ars, Charles P.	32362114	21	S	0	Laborer	-
own, Theodore D.	32362081	21	S	0	Radio Announcer	-
rtwood, William J.	32362101	22	M	1	Truck Driver, Heavy	245
ghes, Chester Jr.	32362140	21	M	1	Sales Clerk	373
ocia, Dominick A.	32362087	24	S	0	Laborer	-
ocia, Angelo J.	32362090	21	S	0	Laborer, Process	-
ldon, James S.	32495452	38	M	1	Investigator	301
er, Arthur G.	32497084	43	M	1	Investigator	301
ngelo, Joseph A.	32466934	29	M	1	Chemist	292
ffing, Peter C.	32496215	27	M	1	Purchasing Agent or Buyer	371
delken, Harold G.	32467505	27	S	0	Clerk, General	055
wig, Luther E.	32362107	28	S	0	Stock Clerk	324
ronson, Edward B.	32362060	36	M	1	Manager, Sales I	-
as, Walter	32362137	20	S	0	Student	-
th, Earl L.	32362075	23	M	2	Sheet Metal Worker	201
g, Albert C. W.	32497875	21	S	0	Packer	-
ves, Swans C.	32362117	21	S	0	Electric Truck Driver	354
vers, Walter F.	32362130	20	S	0	Truck Driver, Heavy	245
aulay, Norman	32497742	41	M	1	Carpenter, Acoustical	-
le, August	32497743	29	M	1	Floral Designer	-
asica, Peter J.	32362125	21	S	0	Sales Clerk	373
mann, Albert A.	32498322	21	S	0	Map Clerk	-
s, Francis	32498195	45	S	0	Salesman, Beverages	-
en, Maroo	32497046	21	S	0	Manager, Retail	-
us, Henry V.	32463184	41	D	0	Cook	060
rt, Charles P.	32497904	37	S	0	Stenographer	213
holm, Frank E.	32467577	45	M	1	Chiropracist	422
omon, Milton	32497750	40	S	0	Truck Driver, Light	345
ester, Joseph C.	32362119	21	S	0	Laborer	-
en, Benjamin	32443636	25	S	3	Laborer, Process	-
ast, Peter G.	32463644	44	M	1	Breakman, Automobile	-
ley, William M.	32465453	43	S	0	Laborer	-
an, Arthur P.	32497946	36	M	1	Truck Driver, Heavy	245
pel, Edward	32467598	24	S	0	Laborer, Process	-
urman, Richard B.	32497827	41	S	1	Salesman, Floor Covering	-
ft, William J.	32497827	41	S	1	Salesman, Securities	-
stet, Harry F.	32497898	40	S	0	Chauffeur	344
lkowitz, George P.	32497761	35	M	2	Cook, Short Order	-
nto, Joseph	32496231	37	S	2	Truck Driver, Light	345
patrick, Edward J.	32497937	22	S	0	Laborer	-
erson, Harry H.	32362127	22	S	0	Clerk, Typist	406
ncenzo, Raymond J.	32362056	27	M	1	Sales Clerk	373
lin, Theodore O.	32362073	26	M	1	Rotary-Shear Operator	-
e, George J.	32362109	20	S	0	Laborer	-
ra, George	32497748	32	S	0	Sales Clerk	373
rs, Thomas H.	32362072	24	S	2	Stock Clerk	324

NAME	A.S.N.	AGE	MARITAL STATUS	DEPEND.	OCCUPATION	S.S.NO.
Ag, Elmer J. Jr.	32362077	24	S	0	Job Pressman	169
Adberg, Harry	32496107	22	S	1	Fur-Machine Operator	-
Albach, Frank T.	32444282	40	S	0	Manager, Rec. Estab.	-
Al, Toy F.	32497345	44	S	0	Cook	060
Alodi, Frank	32497166	22	S	0	Baker	017
Alrdman, Martin	32439699	20	S	0	Paymaster	-
Ally, William P.	32497456	37	S	0	Laborer	-
Almson, Anguish W.	32362112	31	M	1	Manager, Retail Food	-
Al, Harold E.	32467575	41	S	1	Parts Clerk, Automobile	348
Benedetto, Louis A.	32498030	21	S	0	Warp-Dry-Can Man	-
Alis, Byron	32496242	39	M	1	Manager, Property	-
Alman, Apolinario G.	32497289	41	S	0	Valet I	-
Als, Gouie	32361855	22	S	0	Bellman III	-
Alsson, Karl J. V.	32444106	44	S	0	Pantryman	-
Ally, Bernard D.	32466128	43	S	0	Wholesaler	-
Alsch, William E.	32467558	36	M	1	Photographer, Commercial	152
Alfer, Herman L.	32450622	44	D	0	Janitor - I	-
Alle, Joseph B.	32362086	40	S	1	Laborer, Process	-
Alam, Carmen A.	32362085	20	S	1	Farm Hand	-
Alsquet, Joseph M.	32498090	40	S	0	Waiter, Informal	-
Aldecker, Douglas E.	32497751	40	W	0	Hairdresser - II	-
Alcia, Emilio	32496362	42	S	0	Fireman, Marine	117
Alming, Kenneth W.Sr.	32462550	43	D	0	Teller - I	-
Alde, Thomas E.	32465693	39	S	0	Inspector	-
Altson, David	32465296	43	S	0	Sales Clerk	373
Al, Charles O.	32495349	26	M	2	Truck Driver, Light	345
Alvito, James	32360217	32	S	0	Laborer, Process	-
Alba, Galliano	32467011	42	S	0	Cook	060
Al, Peter P.	32467123	20	S	0	Meat Cutter (Butcher)	037
Altenberg, Robt. M.	32441617	21	S	0	Statistical Clerk	212
Alsch, Vincent S.	32361328	31	S	0	Baker	017
Alano, Mariano J.	32467075	22	S	0	Routeaman - I	-
Alald, Otto R.	32467073	21	S	0	Laborer, Process	-
Algesanto, Philip	32360226	40	D	1	Laborer	-
Alne, Peter	32439346	37	S	1	Laborer	-
Ally, John W.	32495416	41	S	2	Truck Driver, Heavy	245
Alrancois, Alfred	32495878	41	M	4	Kitchen Helper	-
Alard, Michael J.	32496893	34	S	0	Bell Boy	-
Alge, William Jr.	32362123	43	M	1	Carpenter, Construction	060
Alrino, Joseph	32466237	21	S	0	Laborer, Process	-
Alsohi, Eugenio L.	32466236	45	S	0	Carpenter, Construction	060
Alts, George A.	32466264	42	M	2	Expeditor	-
Alanno, Paul	32444303	36	S	2	Presser, Machine - I	-
Alver, Alfred B.	32362076	21	S	1	Stock Control Clerk	374
Alber, Walter G. Sr.	32362076	21	S	0	Chemical Lab. Assistant	411
Alst, Louis	32358450	37	S	0	Cement Finisher - II	-
Al, Morris	32362132	38	S	0	Pharmacist	149
Alsch, Frank A.	32362080	38	M	1	Egg Candler	-
Alkler, Joseph T.	32362074	25	M	1	Marker	-
Alorristin, Frank J.Jr.	32362108	21	S	0	Receiving & Ship. Checker	186
Al Herman A.	32362055	34	M	1	Order Filler	-

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE September 24, 1942

TO Secretary Morgenthau  
FROM Mr. White  
Subject: Economic conditions in China.

1. I believe you will be interested in the following information received September 24, in cable from Adler, dated September 21, regarding the growing crisis in China's economic situation and the deadlock in the negotiations with the British regarding the proposed British loan.
2. The Ministry of Finance is reported to have asked the British for a loan totalling £50 million, of which £30 million would be credited to Central Bank's account with Bank of England immediately; £10 million would be used as security for bond issue, and another £10 million would be used to purchase munitions in India. Of these, the British Treasury has only agreed to the offering of £10 million to be used as security for bond issue. Adler reports that this impasse in negotiations has contributed to the deterioration of Sino-British relations.
3. The inflation in China has advanced to a stage where it might greatly impair the ability of the Central Government to maintain authority over the provincial governments and to continue its present already low-g geared war effort. Thus, wholesale price index in Chungking in August reached 5,930 (January to June 1937 = 100) -- an increase of over 17% in one month, while interest rates are about 58% per year for 15-day loans. It has been found necessary to raise the salaries of Government officials from 50% to 100% as of October 1. Moreover, the rise in prices are driving more foreigners into the black markets where the Chinese yuan is being exchanged for 2 to 3 U.S. cents as compared with the official rate of 5 1/15 cents.

C O P Y

279

AS

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

Chungking via Karachi

Dated September 21, 1942

Rec'd 1:51 a.m., 23rd

Secretary of State,

Washington.

1077, September 21, 6 p.m.

FOR SECRETARY OF THE TREASURY FROM ADLER:

TF 60 weekly economic.

One. Chungking prices August: wholesale, general 5930, food 3770, increases of over 17 and 16 per cent on July; retail, general 5640, food 4370, increases of nearly 10 and 7 per cent on July. Rise in prices beginning to cause alarm. At special meeting of Executive Yuan last week to discuss price situation it was agreed that it was desirable to extend powers of commodity administration but action was deferred until Generalissimo's return from northwest. Salaries of government officials are being raised fifty one hundred per cent from October 1.

Rising prices driving more foreigners into Black Market in which rates for United States cash are forty forty-two fapi to the United States dollar in Yunnanfu and thirty-five - thirty-eight in Chungking.

Two. Central Bank on September 16 raised official rate for fifteen day loans by Chungking native banks from cn dollars fourteen to cn dollars fifteen per cn dollars one thousand, which is equal to thirty-six per cent per annum. Reported that actual rate of cn dollars twenty - twenty-five per 1000 for fifteen day loans quite common.

Negotiations for British loan to China deadlocked. According to Chinese version, Minister of Finance asked for: (a) sterling 30,000,000 to be credited to Central Bank's account with Bank of England immediately, (b) sterling 10,000,000 to be used as security for internal allied victory bond Chinese national dollars 1,000,000,000 issue, and (c) sterling 10,000,000 for purchase of munitions in India. British Treasury agreed to (b) and offered sterling 10,000,000 with no strings attached. Impasse in negotiations has contributed to deterioration of Sino-British relations.

Four. Federal Reserve Bulletin would be useful to me in answering requests for information on economic situation at home. There is common impression here that China is in good company in suffering from inflation. Please forward Bulletin in State Department pouch.

GAUSS

EDA

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China, via

DATE: September 21, 1942, 6 p.m.

NO. : 1077, Section Two

The following is in strict confidence.

5. For the first six months of 1942, expenditures equal about Cn\$10,000,000,000 and revenues are over \$2,500,000,000 according to the preliminary fiscal returns. It is anticipated that for the whole of 1942 the revenues will be between CN\$6,000,000,000 and \$7,000,000,000 and the expenditures will be between CN\$22,000,000,000 and \$23,000,000,000. The first draft of the budget for 1942 is now being prepared by the Executive Yuan. Although a budget with expenditures of CN\$37,000,000,000 was urged by the "spending" ministries, the Minister of Finance so far in the debate has won and he is now pushing for a maximum of expenditures not to exceed CN\$30,000,000,000. It is likely that in 1943 the revenues will not exceed more than 40 per cent of the expenditures.

6. It is very obvious from the data given above that China is now in an inflationary zone of danger. Economic and social results of a currency crisis probably would not be as serious as that of Europe after 1918, but it would greatly and possibly disastrously cut the ability of the central government to maintain its authority over the provincial governments and its present low-gearred war effort.

END OF MESSAGE.

GAUSS

Copy:bj:9-24-42

281



Foreign Office,  
S.W.1.

24th September, 1942.

Dear Mr. Secretary,

Now that I am back in London I am writing to thank you very much for receiving me, and to say how greatly I was interested by our talk. I hope that we may have the opportunity of meeting again.

With kind regards,

Yours sincerely,

*Richard Cross*

The Honourable H.J. Morgenthau Jr.

Treasury Department  
Division of Monetary Research

Date Sept. 29 1942

To: Miss Chauncey

From: L. Shanahan

For your files. The original material is in Mr. White's files.

With regard to the draft copy of general release referred to in Par. 3, Sir Frederick Phillips took this with him following the meeting in the Secretary's office yesterday. He will, no doubt, prepare a release in accordance with this form and send it to us.

The check referred to was handed to Sir Frederick by the Secretary, together with original of letter addressed to Sir Frederick, as attached.

1-13-44

ARMY AIR FORCES  
HEADQUARTERS OF THE MATERIEL COMMAND  
WASHINGTON

September 24, 1942

MEMORANDUM FOR THE SECRETARY OF THE TREASURY

SUBJECT: Final payment of a fair and just compensation for the airplanes, airplane engines and other materials requisitioned from the United Kingdom on or about December 7, 1941.

1. As shown by the attached letter from the Secretary of War to the President of the United States, the President has approved the payment of \$79,623,569.17 as fair and just compensation for aircraft materials requisitioned from the United Kingdom in December 1941. On April 25, 1942 a preliminary payment of \$70,000,000 was made pending final determination of the compensation to be paid.

2. A check for the final payment of \$9,623,569.17 is attached. You will recall the check covering the preliminary payment was handed by you to Sir Frederick Phillips of the British Supply Council. It is suggested that the same procedure be followed in transmitting the present check.

3. It is suggested that you receive from Sir Frederick Phillips, or the designated British representative, a general release at the time the check is handed to the representative. Attached is a draft copy of the release. A signed copy thereof is being held by Mr. Alec Keyes of the British Supply Council and is ready for delivery to you upon presentation of the check.

Encls.

Copy of letter fr. Sec. of War

Check

Draft of release

  
B. E. MEYERS  
Brig. General, U.S.A.  
Chief of Staff, Materiel Command

WAR DEPARTMENT  
WASHINGTON

September 11, 1942

The President

The White House

My dear Mr. President:

Pursuant to authority under the Act of October 10, 1940 (54 Stat. 1090), the following described property of His Majesty's Government in the United Kingdom was requisitioned by the War Department, on or shortly after December 7, 1941:

	<u>Quantity</u>	<u>Fair and Just Compensation</u>
Airplanes (including engines propellers and equipment therewith):		
Liberator LB 30 (B24 - 4 engine bomber)	50	\$15,707,680.51
Boston III (A20A-2 engine bomber)	213	34,478,259.58
Lightning 322 (P38 - 2 engine interceptor pursuit)	20	2,383,073.62
Airacobra P400 (P39 - 1 engine pursuit)	196	<u>14,262,791.70</u>
Total 479 aircraft		\$66,831,705.41
Engines (uninstalled)	766	12,282,944.60
Propellers (uninstalled)	74	<u>508,919.16</u>
Total		<u>\$79,623,569.17</u>

As shown by the attached photostat, you approved the preliminary payment of \$70,000,000 on April 25, 1942 pending the determination of a fair and just compensation.

His Majesty's Government in the United Kingdom has agreed to the method of using costs (and \$79,623,569.17 as the total cost) in determining a fair and just compensation for the material requisitioned.

It is recommended that \$79,623,569.17 (the cost to His Majesty's Government in the United Kingdom of the material requisitioned) be determined as a fair and just compensation therefor, and that final payment on account of such compensation in the amount of \$9,623,569.17 be made.

Respectfully yours,

*Henry L. Stimson*  
Secretary of War.

Determined that the sum of \$79,623,569.17 represents just and fair compensation for material referred to above; final payment of \$9,623,569.17 on account of such compensation approved.

*Franklin D. Roosevelt*

Dated: September 11, 1943.

WAR DEPARTMENT  
ADMINISTRATIVE ASSISTANT

1942 SEP 12 PM 1:51

*Stf*

TREASURY DEPARTMENT

286

INTER OFFICE COMMUNICATION

DATE Sept. 23, 1942

TO Secretary Morgenthau

FROM Mr. Hoflich

Subject: Shipment of Planes to British Forces

1. During the week ending September 15, 1942, 236 planes (200 combat planes) were sent to British forces from the United States. This is the greatest number of planes sent to the British in any week since late in March, 1942, and is substantially higher than the average of 117 per week during the first six months of 1942.

2. Of the week's shipments, 144 planes, including 127 Curtiss Kittyhawk fighters, went to the Middle East. This is an all-time high, both for shipments of the Kittyhawk and total plane shipments to the British in the Middle East. Forty-eight planes were sent to the British Indian forces and 32 to the United Kingdom.

Table A - Shipments by Area

287

	Week Ending Sept. 15, 1942	Total Shipped in 1942 to date	Total Shipped since Jan. 1, 1941
<u>the United Kingdom</u>			
Light and medium bombers	16	576	1,737
Heavy bombers	0	142	1744
Naval patrol bombers	4	63	246
Pursuit	12	930	165
Army Cooperation	0	119	1,211
Trainers	0	0	150
Total to the United Kingdom	32	1,830	3,563
<u>the Middle East</u>			
Light and medium bombers	11	514	844
Heavy bombers	0	0	5
Naval patrol bombers	0	6	6
Pursuit	127	637	1,485
Army Cooperation	0	35	35
Trainers	6	24	166
Total to the Middle East	144	1,216	2,541
<u>the Canadian Forces</u>			
Light and medium bombers	6	66	234
Heavy bombers	0	1	1
Naval patrol bombers	0	23	31
Pursuit	0	30	72
Trainers	0	613	1,854
Total to Canadian Forces	6	733	2,192
<u>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>the British Indian Forces</u>			
Light and medium bombers	18	154	154
Pursuit	0	40	40
Trainers	30	43	43
Total to Indian Forces	48	237	237
<u>the British West Indian Forces</u>			
Army Cooperation	6	6	6
Total to West Indian Forces	6	6	6
<u>als</u>			
Light and medium bombers	51	1,455	3,214
Heavy bombers	0	143	252
Naval patrol bombers	4	92	229
Pursuit	139	1,837	3,201
Army Cooperation	6	160	191
Trainers	36	692	2,204
Grand Total	236	4,379	9,291
			7298

Table B - Shipments by Types

	Week Ending <u>Sept. 15, 1942</u>	Total Shipped in 1942 to date	Total Shipped since Jan. 1, 1941
<u>Light and medium bombers</u>			
Boeing Boston III	0	15	39
Brewster Bermuda	0	1	1
Douglas Boston I, II, III	0	16	497 498
Lockheed Hudson	17	514	1,484
A29A (AC-151)	0	1	1
Ventura I	0	12	12
Ventura Bomber	11	<del>316</del> 312	<del>316</del> 312
Martin Marauder B-26A	5	54	54
Baltimore	0	280	348
Maryland	0	0	150
North American B-25	0	110	110
Northrop Vengeance	18	122	122
Vought-Sikorsky Chesapeake	0	0	50
Vultee Vengeance	0	40	40
<u>Heavy Bombers</u>			
Boeing B-17	0	42	62
Consolidated Liberator	0	101	190
<u>Naval patrol bombers</u>			
Consolidated Catalina PBV-5B	4	92	229
<u>Reconnaissance</u>			
Bell Airacobra	0	315	469
Brewster Buffalo	0	0	168
Curtiss Kittyhawk	127	868	1,250
Tomahawk	0	0	544
Grumman Martlett II	0	57	98
Martlett IV	0	40	40
Lockheed Lightning	0	3	3
North American Mustang	12	549	629
<u>Army Cooperation</u>			
Fairchild 24 R-9	0	117	139
Pitcairn Autogiro	0	0	5
Vought-Sikorsky OS2U	6	33	33
Vultee Stinson O49	0	10	14
<u>Trainers</u>			
Cessna-Crane I-A (AT-17)	0	97	97
T-50	0	86	700
Fairchild PT-26 Cornell	0	87	87
North American Harvard II	36	125	1,022
Stearman PT-27	0	297	298
Total	236	<del>4,379</del> 4386	<del>9,291</del> 1298

289

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	<del>30</del> 31	0	13	11	0	6	<del>60</del> 61
September 15, 1942	<del>51</del> 57	0	4	139	6	36	<del>236</del> 242
Total shipments since January 1, 1941 to date <sup>1/</sup>	<del>3,214</del> 3121	252	229	3,201	191	2,204	<del>9,291</del> 9298

<sup>1/</sup> Total includes planes shipped in 1942 prior to March 17 which are not included in the weekly totals up to that date.

SEP 23 1942

My dear Mr. Secretary:

I am in receipt of your letter of September 18, 1942, with respect to the pending negotiations for the construction and operation of oil refineries in the Soviet Union.

Your letter indicates anxiety as to whether arrangements between the Procurement Division and Lend-Lease authorities will be consummated with sufficient speed, and urges that the Russian requirements should be satisfied at once. In that connection, I think it appropriate to point out to you something of the chronology of the development of this program.

In August, 1941 the President approved preliminary lists of required refinery equipment to be furnished to Russia, and on April 6, 1942, Lend-Lease solicited the advice of your office by submitting a tentative program to meet the Russian requirements to Mr. Davies.

An extensive study of the problem was apparently undertaken by your office, and on July 28, 1942, the Procurement Division was informed by letter from Acting Lend-Lease Administrator McCabe that a program in this field was being prepared.

At that time Lend-Lease suggested that the Procurement Division could proceed with negotiations involving the acquisition of two refineries in Texas (a relatively small portion of the entire program), and their letter included advice that your office had suggested the retention of Universal Oil Products Company for the purpose of making an inspection and appraisal of these properties. In view of the fact that Universal was a creditor of the owners of the plants to be acquired, and was therefore an interested

Del. by Messenger (Dixon) 9:40 9/23 (a.m.)  
Copy " " " (Manus) 10:25 9/23 "

to Mr. Stettinius.

- 2 -

party, they could not properly be used and another firm of engineers was employed. By August 24, 1942, options had been obtained from the owners of the properties and the engineers retained to make the necessary inspection and appraisal were at work.

On September 14, 1942, we were presented by your office with a draft of the detailed specifications for the processes proposed to be used and the materials proposed to be acquired. At that time, representatives of the Soviet Government Purchasing Commission expressed some doubt as to the desirability of using one of the patented processes involved and Mr. Crampton was asked for advice on the point by letter from Deputy Director of Procurement Walsh on September 15, 1942. On September 21, 1942, we received advice, through Mr. Crampton, that the processes described to us on September 14th were satisfactory to the Russians, but have not yet been advised whether your office is in accord.

I need scarcely add that I am as anxious as you to consummate this arrangement as expeditiously as possible, and am prepared to undertake final negotiations just as soon as we receive a reply to the request for technical assistance contained in Mr. Walsh's letter of September 15th.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Honorable Harold L. Ickes,  
Petroleum Coordinator for War,  
Department of the Interior,  
Washington, D. C.

HC:ec

OFFICE OF  
PETROLEUM COORDINATOR FOR WAR  
WASHINGTON

SEP 18 1942

My dear Mr. Secretary:

In view of the various questions which have recently arisen relating to the efforts of my Office to assist the Russians in securing equipment and processes for the construction and operation of refineries in the Soviet Union, I wish to make clear for your information the functions and responsibilities of my Office in connection with these negotiations.

From the outset, we have endeavored to have made available to the Russians all the technical information possessed by American companies which might assist the Russians in any way in selecting those processes and equipment most suitable to meet their needs. We have assumed no responsibility whatsoever for the selection of any particular equipment or process since we have believed that these were matters for the Russians themselves to decide. Such selections have been made solely by the Russians and not by us, as our files show and as I know they themselves will confirm.

With respect to the cost of acquiring either the rights to use, or the engineering and technical data and assistance necessary to construct the refineries and operate the processes selected by the Russians, these are financial and legal questions for Lend Lease and Treasury Procurement in which my Office has no interest. We are only anxious that whatever arrangements you and Lend Lease may decide upon be consummated as quickly as possible in order that the Russian requirements shall be satisfied at once.

We shall be happy, of course, to continue to provide you and the representatives of the Soviet Government with any technical assistance which may be needed.

Sincerely yours,

(Sgd.) HAROLD L. ICKES  
Petroleum Coordinator for War.

Hon. Henry Morgenthau, Jr.,  
Secretary of the Treasury.



Treasury Department  
Office of the Secretary

93

Date September 24, 1942

To: Secretary Morgenthau

From: Mr. Hoflich

Attached is the "Voice of the  
Chief" broadcast of September 22,  
as reported by Federal Communications  
Commission.

## 'KOMMUNE' PERILS REICH'S RACE PURITY

The clandestine transmitter, "Voice of the Chief", with "Gustav Siegfried Eins" broadcasting in German to the Reich (Sept. 22), warns that the Nazi Party 'Kommune' has falsified the original National Socialist doctrine to an extent where it has become practical Bolshevism, and a danger to the racial purity of the Germanic people.

'Homeland Bolsheviks'--"I am often asked, not without a tone of reproach, why I refer to a certain portion of the leadership of the German people with the unflattering term 'Kommune', why in my last report, I referred to the influence of Karl Brandt in Der Fuehrer's headquarters as 'dangerous Kommune influences', why I refer to the Black Organization of the country as the S.S. 'Kommune' and why I call its members, which are fighting along with other Germans against Bolshevism, 'homeland Bolsheviks', the "Chief" says.

Untiring Fight--"I have fought too long against the 'Kommune' not to be able to recognize it, regardless of what form or what patriotic appearances it may assume. And as long as I can still utter a sound, I will call the Kommune 'Kommune', even when it occupies the highest posts in the state, even when it acts as leader and misleader of the nation.

Ex-Red Leaders--"Not all of them are former Communists, as are Ley, Koch, (Nuerall) Sauckel whose Red past is well-known. Many of them have been good patriotic fighters, but they are now engaged in struggling for the same Bolshevik goal, the 'Kommune' state.

Nazi Bolsheviks--"When a band of adventurers nationalize other people's property and then take it over themselves, calling themselves representatives of the State and people, that is nothing but Bolshevism, and that's what I call it. When they remove honest judges, and replace them with their own...who dictate their own 'healthy national sentiments' to the people, then that is Bolshevism, and that is what I call it.

Destroyed Traditions--"When they do away with the faith, traditions, ideals of the people in order to favor the cynical materialistic aims of these state-fakers who have become stockholders and dividend-takers of the nation's property, then I call it Bolshevism, and who ever calls it anything else is a scoundrel. The state, so they say, is he who exercises state power. That is the way the slacker class sets up the curve of values of its so-called 'new ethics', through its patented apparatus of popular enlightenment. Values which yesterday were praised to the skies are not worth anything today.

Propaganda Fakes--"The propaganda 'Kommune' used to praise the German peasant class, and demand its right to its paternal soil. And now for other opportunistic reasons, they have torn away South German and Westphalian peasants from their soil, and sent them off into the wild, unknown steppes of the East, just as the Moscow Bolsheviks one day took the peasants of the Ukraine from their homeland, and sent them off into Asia, in order to replace their land with others favored by the system. The propaganda 'Kommune' preached to us, because it appeared opportune to do so, about the maintenance of our pure blood. And what now appears opportune to the... 'Kommune'?

Race in Danger--"Now, when the sons of the best and oldest families, the real bearers of our race, are falling one after the other, and whole clans are dying out, these homeland Bolsheviks have the crust to declare to the nation that they will see to it that ersatz (replacement) will be provided from the East for the German blood that is lost in the East. It is not enough that they bring into the Reich the Slavs and Tartar mongrels, and then try to Germanize them as 'racial Germans'.

Racial Mixture Camps--"Now at (Annanovo) near Litzmannstadt, they have opened special 'race mixture camps' where, under the veterinary supervision of S.S. Oberfuehrer Dr. Meyer, of the Reich Commissariat for the strengthening of the German Folkdom, Polack whores are being serviced by...S.S. studs. And these monstrosities and mongoloids who won't even know who bumped them together are to become the first-class citizens of the future. They are to fill out the spaces which have appeared in the ranks of those who are falling in the struggle against Bolshevism, and then they want to tie my mouth when I speak about the 'homeland Bolsheviks.'

Party Nihilists--"They have always jeered at Germanism, from the very beginning. These noble Socialists and Bolsheviks who have no interest but the furtherance of their own filthy plans--a horde that really is suited to carry on their deadly perverted business.

Beckoning at Home--"The number of men is daily growing who understand that they have to fight Bolshevism, not only at the front--but also in the homeland. And the ringleaders of the 'Kommune' will not be the last ones to learn that these men know how to handle their weapons, and, if need be, even to die for the purity and the ideals of their fatherland."

(Federal Communications Commission, September 23, 1942)

TREASURY DEPARTMENT

296

INTER OFFICE COMMUNICATION

DATE Sept. 24, 1942

TO Secretary Morgenthau

FROM Mr. Hoflich

Subject: Summary of Intelligence Reports

Russian Convoy

The convoy to Russia entered Archangel Harbor on September 21st. Attacks by German submarines and bombers had resulted in the loss of 13 ships, and 27 vessels arrived safely. One British destroyer was torpedoed on the 20th but was towed in by another destroyer. The homeward-bound convoy of 18 ships from Archangel has been attacked by submarines, and three ships are reported sunk.

The convoy to Archangel, consisting of 40 cargo vessels and one rescue ship, left England at the end of the first week in September. It is probable that at least a part of the cargo originated in the United States, since British reports indicate that one of the lost cargo vessels was American. The nationality of the other cargo vessels is not revealed. Escort was furnished by more than 70 British ships, including oilers, minesweepers, etc.

(U.K. Operations Reports, September 10-17, 20,  
22, 23, 1942)

Japanese Air Strength

Military and naval observers estimate that the Japanese had 3,688 planes on August 31, 1942. At the beginning of the war, Japanese air strength was estimated at 5,200 planes. This indicates a decline of about 1,500 planes - if the two estimates are based on comparable data.

(Office of Strategic Services, "The War This Week",  
September 10 - 17, 1942)

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE Sept. 23, 1942

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

Dakar

Reports from Dakar "indicate a general expectation of some major impending development". The anxiety of the Germans to have Stuka planes stationed at Dakar is mentioned as evidence of the Nazi interest in that area. It is now reported that the Germans have sent only one official observer to Dakar, and that Governor-General Boisson withdrew his resignation on condition that this observer will remain only temporarily. General Falvy, new commander of the land forces in French West Africa is reported to be a pro-Nazi collaborationist.

(O.S.S., "The War This Week", Sept. 10-17, 1942)

British-Fighting French Relations

A crisis in Anglo-Fighting French relations in the Near East seems to have been averted -- at least for the present. Shortly before the opening of the current British offensive in Madagascar, the British informed the Fighting French in London that they could hardly allow the De Gaullists to take over the civil administration in Madagascar unless De Gaulle returned to London and settled the Syrian difficulty. The French National Committee then sent a telegram to De Gaulle, urging that the civil administration of Madagascar was infinitely more important than the administration of Syria, which is simply mandated territory. It is reported that De Gaulle has notified the British that he is hopeful of a settlement, and that he will return this week to London.

(O.S.S., "The War This Week", Sept. 10-17, 1942)

298

NUMBER 50

SECRET

OFFICE OF STRATEGIC SERVICES

# THE WAR THIS WEEK

September 17-24, 1942

*Printed for the Board of Analysts*

Copy No. 6

*The Secretary of the Treasury*

SEPTEMBER 17-24, 1942

SECRET

Office of Strategic Services

## THE WAR THIS WEEK

While the Germans are fighting their way into Stalingrad street by street, military observers incline increasingly to the view that the season is too far advanced to invite a large scale attack in the Moscow area. They emphasize rather the possibility of early liquidation of the war in the North Caucasus and attacks on Leningrad and Murmansk. A drive on Trans-Caucasia—practicable during the entire winter—is a more remote possibility but one which would yield large returns to the Germans.

In the west, the Germans continue to press Laval on the labor and shipping fronts, and his problems are now reported to have become so acute that he may soon renounce French obligations under international law and proceed to more complete collaboration with the Germans. In the east meanwhile the Egyptian campaign has settled once more into a stalemate. Despite the current comfortable position of the British, a German decision to reinforce on a notable scale might rapidly alter the whole complexion of the war in this area. To the south, British forces have entered the capital of Madagascar and have virtually ended the threat of Axis influence on the island.

With the convening of the Indian Central Legislature, it is evident that the Government's policy commands the support of virtually none of the native Indian members of that body, despite the fact that no representatives of the Congress Party are present. Earlier activity in the Solomons and New Guinea has been succeeded by comparative quiet, with evidences of vigorous development of air bases by the

Japanese in those areas. In the absence of fresh intelligence from the Manchurian theater, observers are divided as to whether the Japanese may await a further anticipated weakening of Russia in the coming months or will strike a preventive blow now in the belief that no equally favorable opportunity will recur.

#### *Stalingrad's Agony*

In the city of Stalingrad the Soviet defenders are apparently fighting stubbornly from street to street and from building to building. Their tenacious resistance has obliged the attackers to intensify their assault with the help of heavy artillery. Yet Russian efforts to break through from the north to relieve Stalingrad have been unsuccessful, and the Soviet diversionary attack at Voronezh, while making gains above and below the city, has failed to reduce the German bridgehead. Although Stalingrad's resistance may be prolonged for some time to come, its fall appears to be inevitable.

South of Novorossiisk on the Black Sea Coastal Highway, the Germans are progressing only slowly against strongly held positions in the foothills of the mountains. To the east, the Nazi pincers on Groznyi have made more substantial progress. The southern column, headed for Ordzhonikidze, has taken the towns of Terek and Deiskoye, and is within 17 miles of Darg-Kokh, at the northern end of the Ossetian Military Highway. The northern column beyond Mozdok, advancing slowly against strong Russian resistance, now threatens to encircle the Groznyi oil field area from the north and east.

#### *After Stalingrad What?*

With the approaching fall of Stalingrad, the pattern of events on the Eastern Front is beginning to grow clearer.

Since its inception, the German southern offensive has taken approximately three months. Little more than two months of good fighting weather on the central and northern fronts are now left to the Nazis. It is very possible that the Stalingrad campaign has consumed a longer time than the attackers had at first envisaged. In any case, limitations of time, transport, and available equipment cannot fail to be decisive factors in German planning for the rest of 1942.

The clearest limitation is air power. Current estimates suggest that with a total of about 2,500 planes on the Eastern Front, the Nazis have been using about 1,000 before Stalingrad. This concentration has left inadequate air strength available for major operations elsewhere. In the past few weeks, the Germans have bombed Murmansk only spasmodically, they have husbanded their plane strength in the Rzhev sector, and around Mozdok in the North Caucasus their reduced momentum seems to be largely attributable to a lack of air power. Hence large-scale plane transfers from the Stalingrad area must necessarily precede the launching of any major new offensive.

If it should be necessary to build advance fields and install new ground equipment, these transfers would probably take anywhere from 10 days to two weeks. In one fairly clear case of such a transfer—from Sevastopol to the Slavyansk area at the end of last June—it was not until 10 days after the fall of the Crimean city that the Germans launched a major drive from Slavyansk to Lisichansk. On the other hand, if new fields and equipment were already prepared, the delay would be shorter. For example, facilities for several hundred additional Nazi planes may now be ready before Moscow.

#### *The Threat to Russia's Supply Lines*

At the extremities of the Eastern Front, however, the Germans will probably be able to make clear-cut local gains

SECRET

with only minor transfers of planes or mechanized equipment. In the North Caucasus, where the Russians, favored by the terrain, have been fighting successful rear guard actions, the arrival of 100 or more additional planes might be enough to turn the balance of air power in favor of the Nazis. It seems likely that within the next few weeks the invaders will reach Tuapse, Groznyi, Astrakhan, and Makhach-Kala. The control of key points on the Caspian shore would give the Germans bases from which to bomb Soviet shipping on the Caspian and to interfere with the Baku-Gurieff supply route to the north.

At the other end of the line, the invaders probably have enough forces available to capture Murmansk whenever they feel it is worth the sacrifice. The Germans have now apparently taken over the whole north Finnish sector, where they have 10 divisions—half of them mountain divisions—already stationed. Furthermore, they have been keeping a substantial air force in the Arctic for operations against Murmansk, Archangel, and Allied convoys in the Barents Sea. United Nations losses on last June's convoy in these waters were staggering. Last week's convoy, although its losses were not comparable to those of its predecessor, still suffered heavily. With these sinkings in mind, some observers suggest that the Germans may not feel that an attack on Murmansk is a matter of immediate necessity.

On the other hand, the convoys of last winter—protected by the long northern nights—suffered far smaller losses than the last two. And in the future the Allies will doubtless do everything possible to ensure the safe arrival of these critically important cargoes. On balance, it seems probable that the Nazis will launch an attack on Murmansk and the Kola Peninsula this autumn. Whether they will try to control the whole western shore of the White Sea by the occupation of Sorokka will be dependent on the aid they receive from the Finns, who hold this sector of the line. To date the Finns—

SECRET

war-weary and loath to arouse the anger of the United States—have refused to take part in further offensive actions. Recent reports from Helsinki suggest, however, that the Finnish Cabinet may now have changed its mind.

#### *The Moscow Venture*

Such operations in the extreme north and the extreme south would be essentially local offensives—executed primarily with the troops and equipment already in those theaters. An attack on Moscow, however, would be a major venture, greater even than the Stalingrad campaign. Around Moscow the Russians have concentrated perhaps 40 percent of their fighting forces. Here they would be operating on interior lines, with strategic railways radiating from the capital—a situation in sharp contrast to the logistic disadvantages from which they suffered at Stalingrad. Without doubt, the defense of Moscow would be much bloodier and much more stubborn than the defense of Stalingrad.

The Germans, on the other hand, have about 10 Panzer divisions and between 500 and 700 planes before Moscow. According to Russian accounts, 14 German divisions have received a severe mauling in the Soviet offensive around Rzhev. Of the three main railways from the west, the attackers could use the line Smolensk-Moscow up to and beyond Vyazma and the line Gomel-Moscow up to and beyond Bryansk. The lateral Smolensk-Roslavl-Bryansk line is also in German hands. But the line Velikie Luki-Rzhev-Moscow has probably been cut west of Rzhev.

Over these barely adequate rail communications the Nazis would be obliged to commit large quantities of men and equipment brought up from the central front reserve or from the southern front. Furthermore—to judge by the Stalingrad experience—at least 500 additional planes would

SECRET

have to be transferred from the south, plus several Panzer divisions. These operations would probably consume about two weeks from the termination of the mop-up around Stalingrad (even if some additional air facilities before Moscow were already prepared). If we set the end of the Stalingrad operation at October 1, then it would be the middle of October before the Germans would be in a position to launch a full-scale offensive against Moscow. This would leave them only about seven weeks of good fighting weather in which to complete the campaign. One can conclude that seven weeks is too short a period and that the Germans will probably not attempt to reduce Moscow this year.

#### *Leningrad; the Winter Line*

A more likely possibility would be an attack on Leningrad. Since the ice went out of Lake Ladoga last spring, Leningrad has been cut off from supplies from free Russia except for some boat traffic and probably some air traffic across the Lake. Civilian conditions within the city are no doubt appalling, with the starvation reported last winter probably on the increase. Ammunition may be running low. Reports suggest that the Germans are emplacing around Leningrad the heavy siege guns used against Sevastopol, and that the Finns have agreed to help in the reduction of the city. In short, an assault on Leningrad seems likely this autumn. While it would entail substantial transfers of planes and heavy equipment from other sectors, it would be far less difficult than an offensive against Moscow. If the Nazis should succeed in capturing Leningrad, they might try to drive east from the Schlüsselburg to cut the Archangel-Moscow Railway at Vologda. But the establishment of this 250-mile salient along a single-track railway would probably prove too arduous a project for so late in the season.

6

SECRET

It seems more likely that the Nazis will try to establish a winter line shorter and straighter than the one they are holding at the present time. They may develop the arc Sorokka-Valdai Hills-Rzhev-Orel-Voronezh-Stalingrad-Astrakhan into an "Eastwall" for another winter of "offensive defense". The Caucasus front can wait. Although the passes are already filling with snow, the Black Sea Coastal Highway and railway and the Caspian shore from Makhach-Kala to Derbent, will be open for operations all winter long. It is always possible that the Germans, after establishing a tenable winter line, will throw all their available offensive strength into a drive for the Trans-Caucasus around the flanks of the mountains. Nor is it impossible that they will merely hold through the winter in Russia while concentrating on reinforcing Rommel for a knockout blow in the Middle East.

Finally, and perhaps most important, one can conclude that the prolonged defense of Stalingrad has been the principal factor in preserving Russia's fighting strength for next year. Its fall will probably force what remains of Timoshenko's army back on the arc Saratov-Uralsk-Guriev. But its defense has preserved to Russia the industrial and military resources of the Moscow area, the upper Volga, and the Urals. When next spring comes, the Soviet Union, though critically weakened by the defeats of this summer and by the threat to her supply lines with her Allies, will still have a powerful army ready to take the field for a third year of resistance.

#### *The Policy of Finland*

German plans for further offensive action in the North will depend to a considerable extent on the attitude of Finland. The recent statement of the Finnish Legation in Washington that Finland "wants to cease fighting as soon as the threat

7

to her existence has been averted and guarantees obtained for her lasting security" brings to the fore once again the ambiguity of her position. The American press has interpreted this utterance as a statement of the conditions under which Finland would be prepared to withdraw from the war. To the British Government, according to United States press reports, it was simply "another effort to retain American good will." The Ankara radio described it as possibly part of an Axis peace offensive. To Finnish editors in the United States, the statement meant that Finland would cease fighting if the Allies would guarantee her security—which, the editors insist, they have not done up to the present time; one editor added that "Procope had not stated anything new."

The Finnish Foreign Minister was quick to deny that Finland was seeking a separate peace. According to Swedish press despatches, Witting described such reports as "without foundation". Meantime Toivola, Counsellor of Legation in Washington, declared in a private conversation that the Finnish Government had repudiated not the Legation's statement but only the "false imaginary conclusions drawn by the foreign (American) press." He added that the "Helsinki Government had not authorized the Legation statement, and knew nothing about it".

In any case, the Legation's statement is at variance with the recent official declaration by Vaino Tanner, Finnish Finance Minister, that Finland will "shut her ears" to all Soviet peace proposals, now that "the enemy is in distress." Nor is it in line with recent annexationist demands for Soviet Karelia—at least one of which has emanated from the Finnish Legation in Washington. The statement implies—in contradiction to the facts—that Finland remains a free agent and can withdraw from the war against Russia whenever she decides to, regardless of German pressure. In brief, the Legation seems to have pursued a line independent of

that of the home government—but perhaps with the tacit consent of the latter—in an effort to offset official American coolness by an appeal to the American people, among whom, it feels, Finland still enjoys much good will.

#### *German Food Ration Increased*

General increases in bread, meat, and potato rations, effective October 19, were announced this week by German authorities. For bread, the measure restores completely the reductions made in April, 1942. The new meat rations are still somewhat below the pre-April level. Potatoes are rationed at 10 pounds per person weekly—well above previous allotments this summer. There has been no increase, however, in the fat rations. In terms of calories, the German diet under the new measure will stand at about 90 percent of the pre-war level.

There are still differing estimates, however, of the ability of the German food economy to meet the demands of a long war. After the April reductions, there was considerable opinion that the food situation in the Reich was very tight and that further decreases in meat, bread, and fat rations were likely. However, even if this view is maintained, it can still be argued that for reasons of morale and productive efficiency, an increase in rations might be made as a momentary measure of relief, despite the longer-run implications of such a policy.

Food experts in the Economics Division of the Office of Strategic Services, after investigating the situation in April, took the view that the reductions were made in an effort to bring the Reich's food economy into a balance which would be sufficiently stable to stand up even against extreme circumstances. Weather reports at that time suggested the possibility of poor crops, and the Germans were obliged to take into account Russia's unexpected resistance, America's

SECRET

entry into the war, and a deteriorating agricultural situation in the conquered countries. The April level, according to this view, was somewhat unsatisfactory, but tolerable, and adequate from a nutritional standpoint. With this basic estimate in mind, these food experts now believe that the increases in rations probably reflect merely a more bounteous harvest than had been anticipated. No definitive statement is possible, however, until further analysis has been completed.

#### *Laval's Gravitation Toward the Axis*

Accumulated reports indicate that Laval's problems are becoming so acute that, according to a well-placed observer, he may shortly undertake more complete collaboration with Germany and repudiate France's obligations under international law. To accomplish his goal, Laval has gained control of the administrative machine, placing his henchmen in the important posts in North Africa as well as in France. This infiltration policy, our observer believes, has included a number of high-ranking Army officers who are believed to be willing to command French troops against any United Nations invasion.

Doriot's continual pressure has apparently produced an agreement whereby Laval will give important posts, especially in Occupied France, to members of Doriot's *Parti Populaire Français*. At any event, Doriot's opposition has been quieted, at least until the October meeting of his followers.

Laval may also have come to believe that his position with the Germans would be strengthened if Vichy and the United States were to sever relations. He will probably avoid taking any such action himself, but he may be attempting to place the United States in a position where it will appear "responsible" for such a development. Our observer feels that American representatives cannot influence Laval's policy to

SECRET

any extent, and that nothing favorable to the United Nations can be expected from Pétain, whose influence is less every day.

Important officials in Rome are also reported to be anxious to have Germany force a break in Franco-American relations. Such a rupture, it is felt, would deprive France of United States' support at the peace table, thus assuring Italy of domination of the Mediterranean.

#### *Laval Negotiates Over Labor and Shipping*

The two most pressing immediate issues in Vichy's relations with the Nazis are the latter's demands for labor and merchant tonnage.

The French people apparently do not generally understand the full significance of the plan for mobilizing French workers. The German demand is now reported to have risen to 600,000 workers, of whom 150,000 must be skilled. Upon "delivery" of these French laborers, the Nazis have promised to free 50,000 prisoners—an overall ratio of 1-12. Laval is expected to send the first contingent as soon as a method can be arranged that will not cause too much public protest, but Vichy observers feel that he can not approach the required number unless he is willing to face the consequences of forcing skilled labor to go to the Reich.

German pressure for shipping persists. Vichy is apparently resisting any surrender of French tonnage proper, but is reported to be negotiating with Germany with regard to the surrender of tonnage belonging to occupied states that is now under French control. A large percentage of the coal-burning vessels of the latter category—which is reported to total 127,000 tons—is now carrying ores and foodstuffs from North Africa. About half of this cargo goes to Germany, but the balance is important to the French economy. The State Department has protested that the surrender of either foreign or French shipping would be a violation of French neutrality.

SECRET

#### *Nazi Influence in North Africa*

In changes that are unfavorable to the United Nations, four high-ranking army officers are being transferred from Oran to other duties. The Nazis are also reported to dominate the port of Casablanca completely, military matters alone excepted. The Germans supervise police, customs, cargoes, manifests, passengers, and transports. German representatives are showing increased apprehension about the possibility of Allied invasion, and are indicating that they may request a share in the defense of French colonies, on the grounds that the French have failed.

Although Boisson's resistance has apparently forced the Germans to back down on the question of military observers at Dakar, Berlin may insist on a consulate there, inasmuch as the United States has one.

#### *Axis Defensive Stand in Egypt*

In Egypt the enemy is establishing strong defensive positions along the line to which he withdrew after the abortive offensive of early September. Axis forces have lately been regrouped, probably for purposes of rest, supply, and the organization of a defense in depth. Except in the north, no full German division is now in the front line, but the Italian forces there have been stiffened by smaller German units. Rommel has received some additional fighter planes, and his situation in fuel and ammunition may be easier; but as yet no large scale reinforcements have appeared. A serious curtailment of German operations in Russia might alter this picture, especially in terms of air power. At present, however, the British enjoy superior strength in all departments.

Allied air forces continue their heavy attacks on enemy shipping and enemy ports. Tobruk has been bombed almost nightly. Since the fall of the port three months ago, British and American planes have dropped more than 3,000 tons of

SECRET

bombs on Tobruk, now referred to by Allied fliers as the "milk route."

A mobile British raiding party also struck deep in the Axis rear on September 13-14, attacking Bengazi, the nearby road junction of Barce, and Gialo Oasis to the southwest. Press reports assert that more than 30 parked Axis planes were destroyed, in addition to losses inflicted on enemy personnel, motor transport, and supplies.

#### *Friction Continues in Syria*

Although De Gaulle is reported to have left the Levant for Brazzaville, friction continues in Syria, and there are indications that previous good relations between French and British field officers are deteriorating. Nevertheless, it is claimed that De Gaulle is no longer pressing his demand that the forces in Syria be placed under French command. In general, the two British officers commanding forces in the Levant and in Iraq and Iran are reported to feel that only the removal of both Catroux and Spears can prepare the way for better working relations.

#### *Japanese Visitors to Turkey*

The Turkish press announces the arrival in Istanbul of Admirals Nomura and Abe, Japanese Naval Attachés at Berlin and Rome, respectively. Although the latter firmly denied that they came at German behest, unofficial local observers suggested that their visit might be intended to offset the Willkie mission. Mr. Willkie is reported to have made a very favorable impression in Iraq and Iran, as well as in Turkey.

Meanwhile five prominent Turkish editors are on their way to the United States via Great Britain, to view for themselves the United Nations' war potential.

SECRET

### *Operations in Madagascar*

The reported capture of Tananarive, on the 14th day after the resumption of operations, closes the most essential phase of the campaign and virtually ends the threat of Axis influence in Madagascar. The occupying forces now control the colony's most important towns—Diégo Suarez, Majunga, Tamatave, and Tananarive—and the roads connecting them. Possession of Tananarive gives access to the main highway and railroad line southward, and will facilitate occupation of Antsirabe, Fianarantsoa, and Ihosy, key points in the southern half of the Island.

It is not yet certain whether French resistance will continue. Tananarive itself seems to have been left undefended, but Governor-General Annet, having announced his intention to "mark by my absence (!) . . . our determination not to accede to the aggressor," is believed to have withdrawn a considerable portion of his small forces to the south. Though there is nothing to indicate that the latter are strong enough to face a pitched engagement with the British, they can continue to interfere with road and rail communications, and the varied mountain jungle and the prairie terrain would facilitate a campaign of evasion. The British and South African forces, numbering perhaps one man for every 10 square miles of territory, will face a difficult mopping-up problem unless they succeed in winning native cooperation. Time is limited by the proximity of the winter rainy season, which halts all wheeled traffic off the main highways from November until May.

### *The Indian Legislature Meets*

The current session of the Indian Central Legislature has revealed that practically none of its native Indian members supports the Government's present policy—despite the fact

SECRET

that no adherents of the Congress Party were in attendance—according to reports from New Delhi. For the Government, Sir Reginald Maxwell, Home Member of the Viceroy's Executive Council, has outlined the events of the last month and a half, characterizing them as "an orgy of destruction", especially in the strategically-located industrial province of Bihar. Nationalist papers have bitterly criticized this address as unstatesmanlike and symptomatic of a police constable's mentality.

All members representing any substantial constituency—including adherents of the Moslem League—have insisted that the Government compromise with the Congress. In the words of one Moslem League member, "To ignore the Congress is a folly of the first magnitude." Furthermore, they have concurred in expressing their resolve to defend the country against the Japanese and in demanding the immediate formation of a national government. The chief Moslem League member has emphasized again and again that his party would give full support to the war effort of a provisional administration, provided that both the Government and the chief Indian parties agreed in advance to the creation of a separate Moslem State.

Representatives have concurred in stating that India distrusts British intentions about the country's future. The deputy leader of the European group has answered these complaints with the assertion that: "If any . . . government goes back upon the promise [to give India self-government immediately after the war], I will be the first to lead a movement against that government." Yet the Administration shows no signs of taking any positive action to resolve the current impasse. In the upper house, the Council of State, General Sir Alan Hartley, Deputy Commander-in-Chief, has revealed that on July 1 the ratio of Indian to British officers in the Indian Army was still about 1 to 4%. Moreover, the

SECRET

Viceroy has apparently rejected the request of the Hindu Mahasabha's leader for permission to sound out the imprisoned Congress chiefs on the compromise proposals formulated at New Delhi (*The War This Week*, September 10-17, pp. 14-15).

#### *Quiet on the Middle Melanesian Front*

After a preliminary skirmish last week with heavy Army bombers, the Japanese naval task force operating east of Guadalcanal (in the vicinity of Santa Cruz Island) apparently has withdrawn outside the range of our reconnaissance planes. Ship sightings in the past week indicate a lower level of Japanese activity in the southeastern Solomons than formerly, and no new landings on Guadalcanal have been reported. On New Guinea, the Japanese have been held at relatively stable positions between Efogi and Ioribaiwa.

This comparative lull may be attributed in part at least to the work of Allied aircraft. Of the force sighted near Santa Cruz (2 battleships, 4 heavy cruisers, 3 light cruisers, 6 destroyers, and 2 cargo ships), possible hits were claimed on both battleships. On New Guinea, the track from Efogi to Buna (see map accompanying Appendix III) was repeatedly strafed and bombed, Buna airdrome was rendered unusable, and heavy attacks were made on Japanese bases throughout New Guinea, the Bismarck Archipelago, and the Solomons. In the latter area, Japanese installations on Gizo Island and at Rekata Bay on Santa Isabel Island (the nearest important enemy bases to our own positions centering on Tulagi) were kept under fairly heavy attack.

The Japanese, however, are actively developing their own air bases. In the Solomons, construction activity has been noticed especially at Buin, a village at the southern extremity of Bougainville Island, and on Buka Island, farther to the north. On New Guinea, new landing strips are apparently

SECRET

under construction near Lae, and some new fighter aircraft appear to have been transferred to the New Guinea theater.

#### *The Debate on Siberia*

The debate on Japan's next move continues meanwhile unabated, with Siberia still the center of attention. Generalissimo Chiang Kai-shek is reported to believe that an attack either on India or Australia is unlikely, since the Japanese do not have sufficient transport facilities, but regarding Siberia he is non-committal. Somewhat enigmatically, he declared that Japanese plans will become manifest "in November." At about the time Chiang was making this statement in Chungking, Chinese officials in Washington were reported to have abandoned entirely the view that Siberia will be the next scene of attack.

Whether or not the Siberian attack has now become less probable (in view largely of Russia's remarkable stand on the Eastern Front) remains open to speculation. Berlin has found it necessary, however, to insist upon the "unswerving" nature of Japan's loyalty to the Axis, and to attribute any talk of improved Soviet-Japanese relations to the machinations of the United Nations. A Wilhelmstrasse spokesman, quoted in despatches to Bern, declares that the new wave of such reports, touched off by Emperor Hirohito's reception of the Soviet Ambassador, were simply intended to "sound out" Japanese policy. Assertions that this policy may include a Japanese attempt to negotiate a Russo-German peace, he adds, are idle talk.

#### *Anticlimax at Sian*

The negotiations which were supposed to take place at Sian between General Chiang Kai-shek and the Chinese Communists have fizzled out without really beginning.

SECRET

Chiang was present in Sian and a conference was held at which the Communist question presumably was discussed. A strict censorship, imposed by the Central Government, seemed to indicate that important negotiations were in progress. But it now transpires that no one was present at the meeting to represent the Communists. General Lin, who had been designated for the purpose, received notice so late that he could not reach Sian until after Chiang had left. The Communist representative in Chungking believes that the difficulties between the Kuomintang and the Communists will continue and that there will be neither conflict nor agreement.

Meanwhile there has been continued quiet on the military fronts. Chungking has repeatedly announced that its forces are nearing Chin-hua, in Chekiang, but the Japanese continue to hold the town and as yet there are no signs that they intend to withdraw.

#### *The New Chinese Ambassador*

Wei Tao-ming, successor to Hu Shih as Chinese Ambassador to Washington, is an influential member of the Kuomintang Party who has, at various times, held positions as Minister of Justice, Mayor of Nanking, Secretary General of the Executive Yuan, and Member of the Supreme National Defense Council. In the summer of 1941, he was appointed Ambassador to France, but did not proceed to his post because of unsettled relations between Chungking and Vichy. Madame Wei is one of the few Chinese women jurists and a close friend of Madame Chiang, having been associated with her as the only other woman member of the first Legislative Yuan. Both Ambassador and Madame Wei were educated in Paris and have been counted as members of the pro-European clique in Chungking.

The contrast between the new Ambassador and his predecessor indicates at least some of the factors which impelled

SECRET

Chungking to make the change. Wei Tao-ming's connections have been French rather than American; he is known as a practical administrator, and is a Party member with important political backing. On the other hand, Hu Shih's connections have been with this country, he has filled the function of persuasive advocate rather than administrator, and is not a member of the Kuomintang. Hu Shih has been notably successful in mobilizing popular American sympathy for China. Chungking, it is thought, may well feel that it now requires a representative who will press China's case through official rather than popular channels, who can be trusted to represent a purely Chinese point of view, and who will have the practical experience and political support in China to administer effectively the affairs of the Washington Embassy.

#### *Mass Protests Continue in Argentina*

Political riots and mass demonstrations continue to hold the public spotlight in Buenos Aires. Clashes between pro-Allied and pro-Axis students, resulting in more than 80 arrests, led to the temporary closing of the law school of the University of Buenos Aires. On the 20th of September, 30,000 people gathered in Luna Park to express their solidarity with Brazil, making this the largest anti-Axis meeting since January, when the present "state of siege" was imposed by the Castillo government.

This meeting marks the high point of open resistance to the government's international policy in more than one way. Endorsed by labor unions, by the mildly leftist *Acción Argentina*, the *Junta de la Victoria* (a women's organization especially active in Russian war relief), and by prominent political figures of decidedly conservative leanings, it was more nearly a demonstration of national anti-Axis unity than any previous public meeting.

SECRET

Special significance also must be attached to the active participation in the meeting of Adolfo Bioy, prominent corporation lawyer, ex-Cabinet Minister and now President of the *Sociedad Rural Argentina* (an association of the most powerful land owners in the country), and to the message of solidarity sent by the Nobel Peace Prize winner and former Minister of Foreign Affairs, Carlos Saavedra Lamas, who had been unfriendly toward the United States during his term of office. The fact that Señor Lamas is now Rector of the University of Buenos Aires and thus a federal appointee makes his pro-Brazilian stand an act of open defiance of President Castillo. Added to the recent offer of General Justo to serve in the Brazilian Army, the Luna Park meeting indicates that a showdown for the Argentine Government is approaching with increasing momentum.

#### *German Arms for Argentina*

The Argentine Army may not lack military supplies to the extent generally supposed. Statistics recently released by the Argentine Ministry of the Treasury reveal that during the first seven months of 1942 German exports to Argentina amounted to more than six and a half million pesos (approximately \$1,660,000), nearly double the figure for the corresponding period of 1941. War materials may make up as much as 90 percent of this increase. Previously most of the shipments were granted British navicerts, under a special agreement with Argentina permitting the movement of military supplies contracted for in Germany prior to the outbreak of hostilities. The British have now stopped issuing navicerts for this traffic.

20

SECRET

#### APPENDIX I

### THE POLITICAL AND MILITARY SITUATION IN OCCUPIED YUGOSLAVIA

Like Czechoslovakia, the other Versailles-created conglomerate Slav state, Yugoslavia has been splintered by its conquerors into regional fragments which have been variously reassembled and occupied. The Germans have annexed most of Slovenia, leaving the rest to the Italians. The Italians have annexed Dalmatia and Montenegro. Croatia has been made a puppet state, and has theoretically annexed Bosnia and Herzegovina. Serbia is ruled by a German-dominated Quisling Government. Hungarian troops have overrun the Bačka, and Bulgarian troops Macedonia, while native Germans control the Banat. Everywhere there are Germans in varying numbers, and everywhere resistance continues (see accompanying map).

Guerrillas of various kinds have sabotaged large parts of native industry, and fought some major military actions. Their most important activity, however, is the destruction of railroads. The Belgrade-Niš-Salonika line, important for supplying Rommel, has suffered especially, so much so that last spring the Germans ordered that all trees and brush be cleared from either side of all railroad tracks in the country, to prevent saboteurs from finding cover.

These guerrillas keep a growing number of Axis troops active in Yugoslavia. A recent estimate places this number at 4 German, 17 Italian, and 7 Bulgar divisions, in addition to 4 Croat army divisions and 15 battalions of Ustaša. Ten of the Italian divisions are reported in Dalmatia, and 5 in Montenegro.

Germans, Croats, and Magyars may so far have killed as many as 1,000,000 of an estimated 8,000,000 Serbs, and have virtually exterminated the country's 75,000 Jews, besides uncounted refugees. In spite of this, the Yugoslav resistance—stimulated by Pan-Slavic attachment to Russia—is by far the most effective in Axis Europe, and, if given outside aid, should impose an increasing burden on Axis forces of occupation.

#### I. THE POLITICAL SITUATION

##### *Slovenia, Dalmatia, Montenegro*

Here siege conditions prevail, with the Slovene capital, Ljubljana, surrounded by barbed wire and blockaded. The chief aim of the Italian garrison seems to be to impress upon the Germans the rebellious state of the region, so that they may not be sent off to Russia. Mass executions and recent large scale forced migrations of the population have cut down resistance, and have come close to exterminating the native population in the area. The Italians are said to have deported this summer 20,000 Slovenes and 7,000 Dalmatians to Italy, the women and children handcuffed together and packed into trains.

The Dalmatian and Montenegrin coastal region is under the command of General Mario Roatta's second Italian army.

21

SECRET

*Puppet Croatia, Bosnia, and Herzegovina*

An "independent" state, with full membership in the Axis, Croatia has a little Fuehrer (the "Poglavnik", Dr. Ante Pavelic); solemn treaties with other Axis satellites, a corrupt and privileged SS organization (the Ustaši) which massacres Serbs and Jews; and an Italian king, the Duke of Aosta. The latter has never yet dared to appear in his kingdom, and the Vatican reportedly will not allow him to be crowned. The Croats have in theory been allowed to annex the old Bosnia and Herzegovina, but in practice the German and Italian occupying forces are in control of this whole area.

The Vice Premier in the Pavelic government, D. Kulenovic, has added to Serbia's massacres by causing the Moslems against the Serbs. In command of the new Croat army is a former colonel on the Austro-Hungarian general staff, Field Marshal Slavko Kvaternik.

The population is reported to be 80 percent opposed to the regime, remaining loyal to its traditional leader, Maček, with whom the Germans have repeatedly tried and failed to make a deal. The war with the U. S. S. R. has further depressed the peasants because of their deep-rooted Pan-Slav affection for Russia, which persists despite their Roman Catholic religion and distrust of Communism. The Germans demanded of Kvaternik, who went to Berlin in March 1943, 300,000 Croats for the Eastern Front.

In spite of Kvaternik's desperate attempt to build a national army (theoretically 5 divisions), popular distrust, Italian opposition, and rivalry of the 20,000 well-paid Ustaši have combined to make the task virtually impossible.

Economic conditions are deplorable: the cost of the armies of occupation is enormously heavy; there are about 150,000 Croat laborers in German factories; there is a general food shortage which is without remedy because Germany takes the timber and 90 percent of the bauxite, leaving nothing with which Croatia can barter for wheat elsewhere. No trade relations with Serbia are permitted except through German intermediaries. And yet, since Germany finds it necessary to feed and clothe her Croatian ally, Croatia stands as the only country in Europe "in debt" to the Germans.

*Quitting Serbia*

In practice, Serbia is ruled by the German Army, but in theory by General Milan Nedic's German-dominated Government at Belgrade. His leading fellow-puppets are former anti-democratic agitators and hangers on from the pro-Axis Stojadinovic regime: Ljotic (brother-in-law of the Minister to America, Folid), Adimovic, who is starting a Serb Gestapo, and Bishop Venjamin of the Orthodox Church. On the radio Nedic has frequently urged his fellow Serbs to collaborate with the Germans and has helped the Nazis fight the guerrillas.

*Hungarian and Bulgarian Areas, and the Native Germans*

Hungary has occupied part of Bačka, and is known to control the cities of Subotica and Novi Sad. Large Bulgarian armies have been given the task of wiping out the Serbs in the Macedonian areas of Yugoslavia and Greece. The Bulgar territorial gains have not yet been officially delimited, but are reported to include the town of Skoplje and a strip of land which gives them a frontier



with Albania. This the Italians naturally oppose, and rumors of Italo-Bulgar clashes in this region are current.

Throughout the country, especially in the Banat (the only region where they are numerous), the native Germans have been welcomed as *Volksdeutsche*, given special courts, administration and schools, put in uniform, and urged to fight side by side with their blood brothers. Uniformed German girls were seen in January 1942 by an Argentine diplomat, dictating prices in village market places.

Thus, by playing Croat against Serb, Roman Catholic against Greek Orthodox, Moslem against both, and emphasizing all the other hatreds which exist in profusion, the Axis has created political chaos. Yet everywhere the German and Italian armies are meeting fierce resistance.

## II. THE MILITARY SITUATION

Contrary to the general opinion, the fight against the occupying forces is not limited to the Četniks, nor are the Četniks, strictly speaking, Mihailović's men. From region to region there are many distinguishable varieties of guerrilla in Yugoslavia, most of whom have only slight connection with Mihailović, who does, however, provide the core of resistance. The following are the chief types, arranged in order of importance.

### *General Mihailović's Men*

(1) Many of General Mihailović's troops are remnants of the trained Yugoslav conscript army. The General and his staff train recruits from the irregulars, coordinating and regularizing volunteer detachments, and working out a planned campaign. Mihailović's staff includes Vasić, a lawyer, author, and World War I officer; and Mahin, an ex-Tsarist officer and White Russian intellectual, both of whom are reported to be anti-Communist. The most recent available estimate of the forces of Mihailović puts them at 10,000 or fewer. One of Mihailović's subordinates, Captain Jordan Kimić, commands a virtually independent army in the region of Skoplje. Perhaps 90,000 more are scattered in the other groups with whom Mihailović has contact, and whom he can order to perform assigned tasks.

Mihailović himself has reportedly moved his headquarters to Bosnia because the terrible German rate of executions (100 Serbs for every German) threatened to exterminate the population. The guerrillas seem to be threatened with an ammunition shortage for their 7.9 rifles. In accepting a position as Minister of War in the Government-in-Exile, Mihailović, who had formerly been a national hero, alienated large groups who are disgusted with the shoddy politics of the exiled regime. Among the many current conflicting reports, one charges that Mihailović is at present neglecting the fight against the Axis in favor of the internal struggle with the Communists, and that he has reached a tacit understanding with Nedić, and possibly even with the Italians.

### *The Četniks and Partisans*

Most important of the irregular outfits are the Četniks and the Partisans. (2) The Četniks important during World War I and supporters of the dictatorship in Yugoslavia, were deserted by their leader, Kosta Pećanac, who joined

SECRET

Nedić's government and who has a force of Fascist Četniks helping the Germans. His deserted men have since reorganized and added new members, have associated themselves with Mihailović, and have undertaken larger military operations than any other guerrilla group. It was they who attacked the Kragujevac arsenal, and they who have destroyed numerous factories. They operate chiefly in Serbia and in Western Bosnia.

(3) The Partisans, some of whom are Communists, are strongest in Montenegro, the Bosnian Krajina, Lika, and Slovenia. In Montenegro they have attacked, and considerably weakened the Italian garrisons in Cetinje and Nikšić. Early in the days of the movement, they nearly captured Belgrade, but have since, in Serbia, been defeated and pushed back by the Germans and the troops of the puppet government. Their ranks are being swelled by escaped prisoners and by deserters from the Serbian police, Nedić's men, and even the Nazis.

No reliable estimate of the strength of the Partisans is available. Mihailović and the other Nationalist groups,—having long regarded them with suspicion and cooperated with them only under necessity—have now broken completely with them, and are reported actually to have engaged them in combat when a British officer, sent to make peace, arrived too late. The Partisans' practice of carrying on class warfare along with their guerrilla activities has caused dismay among conservatives. Partisan practice has been to set up local government immediately upon winning a victory, and occasionally to execute those opposed to their political beliefs. The Germans recently inflicted a defeat upon them, which is reported to have overjoyed conservatives and landowners. Although no actual contact with Moscow has yet been proved, Pan-Slav feeling is strong and is shared even by those who are not Communists.

In the future the Partisans will probably oppose any government which gives power to any of their enemies,—the clericals (mostly Croat), the conservative peasants (Maček's Croat party), or the Nationalists (Mihailović or anyone else who favors the regime in exile). All these are held in nearly as great hatred as Prince Paul, Nedić, and the Nazis.

#### *Other Guerrilla Groups*

Five minor groups of guerrillas deserve consideration:

(1) The Haiduks (an old Balkan word for outlaws operating in small bands of three to five men) are active guerrillas, including men respected in their villages. They have operated most successfully in Eastern Serbia, and have damaged or put out of commission industrial and mine installations, especially the Bor copper mine, important to Germany's war economy. They have also sunk freighters on the Danube, and demolished the Germans' supply buildings in Pozarevac and Smederevo—the latter, a town of 25,000 people, was completely blown up.

(2) The "Ukoks", a term dating from the Turkish domination, operate largely in Central Dalmatia, and are still weak despite successful raids on various towns, including Split.

(3) Members of the Soko, a physical culture organization, have joined the Četniks. They operate in Northern Herzegovina, under the leadership of Čedo Milić, a veteran organizer of underground movements against Austria in the First World War, and a leader of the opposition to the Pact with the Axis. These three groups—the Haiduks, Ukoks, and Soko—are often loosely called Četniks.

24

SECRET

(4) The Croatian peasant "Green Cadre", rapidly becoming effective, has taken to the woods and engages in sabotage and passive resistance. Its members are mostly followers of Maček, and concentrate their hatred against the Ustaši stormtroopers.

(5) The Slovenian Patriot Army has recently launched effective attacks on Italian troops and on local steel mills.

## APPENDIX II

### RAF DAYTIME HOME OPERATIONS

May 1 to August 12, 1942

RAF daylight operations this summer were conducted with relatively limited objectives in view, and the results achieved were commensurate only with these objectives, according to a report of the Economics Division of the Office of Strategic Services. Major bomber operations were undertaken at night, reflecting the British belief that large-scale daytime raids on Germany are too costly for the results achieved.

As a result, while numerous daylight attacks have been made on German cities and towns, not more than 21 planes were dispatched on any one raid, with the single exception of a 44-plane attack on Danzig. Daytime fighter and bomber sweeps over the coast of France, Holland, and Belgium have employed many more planes, largely in an unavailing effort to draw out Nazi fighter opposition. An account of RAF daytime activities during the period May 1 to August 12, 1942, follows:

#### *Daylight Attacks on Targets in Germany*

1. The average number of planes dispatched in daylight bombing attacks on German towns and cities was 10. The principal planes used on these raids were the large, four-motor Lancaster and Sterling bombers and the smaller Wellingtons, Hampdens, and Halifaxes. Of the total of 150 sorties<sup>1</sup> during the period, only 47 planes actually succeeded in reaching and dropping bombs upon the assigned target area. This result is explained largely by weather conditions—premature return when clouds were not sufficiently dense to provide adequate cover from ground flak and failure to locate the target by reason of dense clouds. There were six plane casualties, representing four percent of the total planes dispatched, a rate approximately the same as that experienced by the RAF in night bomber operations.

The small number of planes dispatched indicates that such raids are considered to be of little more than nuisance value. They are useful mainly in keeping the enemy anti-aircraft and civil defenses active, and in bringing enemy fighters into the air. The industrial damage resulting is thought to be comparatively slight. While direct hits on industrial objectives have been claimed in some cases, bombing accuracy in general is impaired by the need to release the bombs rapidly before taking evasion action against anti-aircraft fire.

<sup>1</sup> One operational flight by one plane.

25

2. The only other RAF daytime activity of note over Germany was that of the British Mosquito planes. These fast, high altitude planes are dispatched individually on most occasions and never in groups of more than six. They are used generally for photographic reconnaissance, and are frequently employed to study the damage resulting from bombing raids. The Mosquitoes occasionally drop 250 and 500 pound bombs, usually 1½ to 2 tons per plane. Attacks are made from either a very low altitude (50-100 feet) or from a ceiling of 23,000 to 27,000 feet.

These planes have also experienced difficulty in locating the German cities assigned. Insufficient cloud cover, fighter opposition, and technical difficulties have been the chief operational obstacles encountered. Seventy-five planes were dispatched during the period May 1 to August 12. Of these, seven are missing, making a casualty rate of more than nine percent.

#### *Daylight Bombing of France, Belgium, and Holland*

3. One of the principal daytime activities of the RAF has been the bombing of objectives in Occupied France, Belgium, and Holland. The plane employed in these attacks is the Boston (American-built Douglas A-20), a speedy, twin-engine attack bomber. The shallow penetration on these raids permits a fighter escort, which has been impossible on the long-distance missions to Germany. The Bostons are dispatched in groups of 6 or 12, and are always accompanied by an escort of Spitfires. This escort has varied in size from 36 to 264 planes.

In contrast to the area, or blitz, bombing strategy of the night attacks, the Bostons do precision bombing against specific military or industrial targets in occupied territory. Typical objectives are: the airdrome at Abbeville, the power stations at Lille and Ostend, a parachute factory at Calais, coke ovens at Zeebrugge, the Phillips radio and electric works at Eindhoven, the railroad station and yards at Boulogne and St. Omer, and the docks at Rotterdam, Dunkirk, Flushing, and St. Malo. The attacks are carried out either at a minimum altitude of 50-200 feet or, more frequently, at a level of between 8,000 and 14,000 feet. When cloud conditions are favorable, the pilots generally claim to have observed their hits. The customary bomb load is four 500-lb. bombs; incendiaries are rarely employed.

Bostons were dispatched on an average of 11 days each month, and were also hampered by insufficient cloud cover. In the medium altitude attacks, anti-aircraft fire, rather than fighter opposition, appears to have been the chief cause of casualties. Of 401 Bostons dispatched during the period, only nine were missing. This low casualty rate, 2½ percent, was increased somewhat by losses among the escort of Spitfires.

4. The Hurricane bomber (a converted fighter plane) is also used for daylight attacks similar in nature to those of the Bostons. The Hurricanes fly with a fighter escort against shipping, railroad and industrial targets, and airdromes in France, Belgium, and Holland. It is possible that one of the main objects of these bombing missions, as well as of the sorties of Bostons, is to bring into combat the enemy fighter screen located in the West. Seventy-six planes were dispatched, of which seven (or nine per cent) were lost.

#### *Fighter Escorts for Bombers*

5. The British Spitfires were kept active in providing escorts for the Boston and Hurricane bombers, engaging in harassing and diversionary operations in France, and in fighter sweeps across the Channel. Ninety-three Spitfires were lost in providing escorts for bomber missions and in diversionary operations designed to draw enemy fighters away from the principal scene of attack. This figure represents roughly two percent of the number of sorties on these operations.

Fifty-seven enemy fighter planes were destroyed, 27 probably destroyed, and 77 others damaged. Following the conservative procedure of considering as lost 50 percent of planes reported as probably destroyed, German losses were 71 planes. On this basis, the ratio between British and German casualties was 1½:1. In the event that some of the damaged planes failed to return safely to their bases the German losses would be correspondingly higher.

These figures, however, do not provide a basis for establishing the relative merits of the British and German fighter planes. The attacks of Nazi planes were frequently directed against the bombers rather than their escort, and anti-aircraft fire may have accounted for some of the RAF plane casualties. The German planes, fighting close to their bases, are also at a distinct tactical advantage.

#### *Fighter Sweeps Across the Channel*

6. In nine fighter sweeps over occupied territory, more than 1,000 Spitfires were dispatched. The purpose of these sweeps, similar to that of some of the bombing missions, was to draw out the Nazi fighter planes. The RAF was apparently willing to exchange plane losses with the Germans, in the interests of reducing the enemy fighter strength in the West. German aircraft, however, were reluctant to engage in combat. Instead, German fighter bases were withdrawn inland from the French coast, obliging the RAF fighter planes to fly greater distances.

In the direct combats between British and German fighter planes during fighter sweeps, 10 Spitfires were shot down, and 20 Focke-Wulf 190's were destroyed. Thirteen F. W. 190's and Me. 109's were probably destroyed, and 10 damaged. Following the procedure given above, the ratio between RAF and GAF casualties is ¾ to 1. This ratio differs markedly from that on escort operations. The RAF losses were only one percent of Spitfires dispatched.

#### *Other Daylight Operations*

There were numerous operations of a varied nature which are not included in the above description. The Coastal Command dispatched Catalinas, Sunderlands, and Lancasters on anti-submarine patrol. Spitfires and Hurricanes engaged in the shipping patrol. Weather reconnaissance, attacks on enemy convoys and naval vessels (The *Prince Eugen* and the *Tirpitz*), and covering operations for the Commando raids were others of the varied daylight activities of the RAF.

## APPENDIX III

## THE GEOGRAPHY OF THE PORT MORESBY REGION

Japanese troops are now less than 40 miles from Port Moresby, evidently preparing for the critical phases of an attack on this important Allied base. Geography already has played a very important role in the fighting in this rugged and primitive country, about which there is relatively little recorded knowledge, according to a memorandum prepared in the Far Eastern Section of the Office of Strategic Services. The accompanying map is based on the best available cartographical data, and is believed to include considerable information on the sketchy system of trails and roads not published heretofore. The topographical features are defined as closely as available data and the scale will permit.

From their base at Buna, Japanese troops first occupied the village of Kokoda, then pushed through the Gap to their present positions between Efogi and Ioribaiwa. They now face country which is drier and more open than that which they have recently traversed, and consequently less adapted to their skillful jungle tactics. Their supply line is under constant aerial attack, and since the occupation of Milne Bay by Allied troops, their chances of bringing naval support to their land troops have diminished considerably. For this reason, renewed operations against Milne Bay may actually precede a final attempt to take Port Moresby. Japanese naval units, sighted at various times recently in the Trobriands, at Normanby Island, and in Goodenough Bay, might be preparing for such a task. The strategy of land attack meanwhile is dominated by the trails and airports of the Port Moresby region itself.

*Trails and Roads*

Two trails cross the Owen Stanley Range northeast of New Guinea (see map). Japanese troops so far appear to have used only the trail which crosses the main range at the Gap (6,170 feet above sea-level) and then drops to Efogi (about 3,600 feet). Traversing ridges and streams, the trail drops to Naoro (2,380 feet), Ioribaiwa (2,705 feet), and Sogeri (1,590 feet), each a native village. Branching off from the Buna-Kokoda trail, however, is an alternate track which crosses the range about 35 miles southeast of the Gap over a pass about 9,000 feet high, and joins the main trail at Sogeri. From Sogeri the trail continues to Rouna (Rona) Falls, where it joins a motor road to Port Moresby (21 miles).

The first section of the road from Rouna Falls winds rather steeply down the Laloki Gorge, and in 1940 it was for the most part only wide enough for one-way traffic. From Sapphire Creek (which branches off the Laloki River just east of Rouna Falls), a two-way road turns southwest across fairly open hilly country to enter Port Moresby from the east. About four miles east of Port Moresby, near Kila Kila, the road passes the Port Moresby airdrome, the main airbase in this area.

*The Town of Port Moresby*

Port Moresby itself is situated largely on a promontory which forms the east shore of Fairfax Harbor. The town divides in two parts—Granville West and Granville East. The buildings are largely perched on hill slopes, as building space

is at a premium. The town includes Government offices, hospitals, hotels, stores, a library, tennis courts, a race course, and other sports facilities. But all civilians other than males of military age were evacuated by military order early in the year, so that the town is now wholly a garrison post. (Even civilian Government officials, including the Administrator, were included in the order. The Territories of Papua and New Guinea are now administered as a unit by the military authorities under martial law.) The waterfront area of the Port has been the principal target for Japanese bombers. Its facilities include a main Government wharf, which was enlarged and improved by dredging shortly before the war, and two smaller wharves.

In the defense of Port Moresby, the security of the Laloki River will be of unusual importance. The water supply of Port Moresby has always been a serious problem, and just before the war a pumping and pipeline system was completed to bring water from the Laloki about 10 miles to the town reservoir. A former rain catchment, located on a hill above the town, was recently dismantled, presumably because it formed an unduly prominent landmark in war time. Loss of the Laloki River waterworks would be very serious in case of a prolonged siege.

*Areas Flanking Port Moresby*

If Japanese operations are intensified, two areas flanking Port Moresby will doubtless come into prominence. To the southeast is the Rigo District around the Kemp Welch River. The Japanese can reach the headwaters of this river by way of the alternative pass from the Buna side, already mentioned. They might then follow a branch trail down to the coast at Rigo with the purpose of striking west from there at the same time that they used the more direct approach through Sogeri. In the Rigo area, as elsewhere along the south coast of Papua, there are a few commercial plantations (coconut and rubber) and some mission stations. The Rigo area also has some partially exploited manganese deposits. This situation accounts for the trails from Rigo to Port Moresby across the hills from Bootless Inlet. There is no continuous trail system elsewhere along this coast.

A second area of some strategic importance is the Yule region northwest of Port Moresby. The principal settlement here is Kairuku, on Yule Island. On the adjacent mainland a mule trail, sometimes called the "Yule Road," strikes inland for more than 120 miles. The trail was built by French Catholic Fathers to open up mission stations in villages high up on the interior plateaus and slopes. It is possible that the Japanese may try to reach this trail from Kokoda via the Mambare River headwaters, and thence penetrate to the south coast. They might also try to make their way overland across very rugged country from Yodda to the Vanapa River trail, in order to approach Port Moresby from the northwest.

NOT TO BE RE-TRANSMITTEDCOPY NO. 13BRITISH MOST SECRET  
U.S. SECRETOPTTEL No. 331

Information received up to 7 A.M., 23rd September, 1942

1. NAVAL

NORTHERN WATERS. The convoy which arrived at ARCHANGEL on 21st was unsuccessfully attacked that day by JU 88's. The home-ward bound convoy of 18 ships from ARCHANGEL has been attacked by U-boats and shadowed by aircraft. Three ships are reported sunk.

2. MILITARY

RUSSIA. Fierce fighting continues in STALINGRAD as well as Russian attacks in the Northern and Central sectors and at VORONEZH.

3. AIR OPERATIONS

WESTERN FRONT. 22nd. Bostons, of which 2 are missing, obtained hits on 6 power stations in Northern FRANCE. Mosquitos attacked iron and steel works at IJMUIDEN. One Spitfire lost off BREST and a JU 88 destroyed by U.S.A.A.F. Spitfires off SELSEY BILL. 6 enemy aircraft crossed the south coast, some damage and casualties being caused at RYE.

EGYPT. 20th/21st. TOBRUK HARBOUR and a landing ground near EL DARA were bombed.

4. LATE NEWS

LIBYA. Our forces have been operating from KUFRA against JALO (GIALO) Oasis and towards BENGHAZI. They are now being withdrawn. No details are available but losses are believed small.

NOT TO BE RE-TRANSMITTEDCOPY NO. 15BRITISH MOST SECRET  
U.S. SECRETOPTEL No. 332

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

1. NAVAL

Attacks on trade. Losses in Russian convoy already reported. Between 19 and 22 September 10 ships were reported torpedoed, including 2 belated reports. One British and one Norwegian ship in the NEWFOUNDLAND area, one British in Western Atlantic, one British, 3 U.S. and one Spanish in the TRINIDAD area, one Dutch in the FREETOWN area, one British in the GULF OF ADEN. Following have reached port, one British ship reported torpedoed in outward convoy in GULF OF ST. LAWRENCE and one Dutch ship previously reported torpedoed in TRINIDAD area. One Greek ship has been overdue at LOURENCO MARQUES since 13 September.

2. MILITARY

MADAGASCAR. On 23rd, TANANARIVE was occupied by East African troops, supported by South African armoured cars and British artillery, cheered up by populace on entry. Garrisons of ANDRIBA and IVATO surrendered unconditionally. Patrols have occupied ANTISOHIHY.

RUSSIA. Little change at STALINGRAD. On night 17/18, Russians carried out raid across MOIHOVSKI GULF, West of KOLA BAY, and destroyed a number of fortified positions before withdrawing. There have been further Russian attacks in the Northern sector and at VORONEZH.

3. AIR OPERATIONS

WESTERN FRONT. 23/24. Aircraft were despatched - WISMAR 63, Dornier factory northwest of WISMAR 20, FLANSBURG Shipbuilding Yards 28, VEGESACK Shipbuilding Yards 24, sea mining 23, shipping 13. Direct hits made on ships of 6,000 and 4,000 tons and another 4,000 ton ship believed hit. 12 bombers missing. Preliminary reports indicate weather conditions unfavourable. 2 enemy aircraft overland in YORKSHIRE area. One shot down. Damage negligible.

EGYPT. 21/22. 38 bombers attacked enemy landing grounds at EL DABA. Night 22/23. U.S.A. and P.A.F. Liberators bombed BENGHAZI HARBOUR and hit two ships.

NOT TO BE RE-TRANSMITTEDCOPY NO. 3BRITISH MOST SECRETU.S. SECRETOPTCL No. 334

Following is supplementary resume of operational events covering the period 17th to 24th September, 1942.

## 1. NAVAL

Of the twelve ships lost out of the recent convoy to RUSSIA six were U.S., three British, two Russian and one Panamanian. Out of the convoy just returned from RUSSIA one destroyer, one mine-sweeper and five ships were sunk by U-boats. It is believed that SCHARNHORST is now working up and the cruiser PRINZ EUGEN with a new stern fitted is ready for trials - both ships are in the BALTIC. British submarines in the MEDITERRANEAN have reported in the last week sinking two ships of 5,000 tons, two of 3,000 tons, one of 2,000 tons, another small merchant ship and four schooners. The eight inch cruiser BOLZANO has arrived at NAPLES with damage to the starboard side extending from the upper deck to the waterline and with one funnel displaced. The two CAVOUR class battleships were exercising during the week and have now returned to TARANTO. There was an increase during the week of almost 100 per cent in the traffic to NORTH AFRICA and an increased use of TRIPOLI (L) has been noted.

Submarine Warfare. Ninety U-boats are estimated to be operating in the ATLANTIC. Their activity was still concentrated against convoys in North Atlantic and in TRINIDAD-South American Coast area.

Week ending 24th September. Six attacks by British surface craft, eleven by British aircraft, at least one of each kind promising. These figures exclude operations covering Russian convoys. Four promising attacks by U.S. surface and aircraft in same period.

Week ending 20th September. Sixty attacks by U.S. surface and aircraft in all. Provisional figures for the week ending 20th September give twelve ships sunk by U-boat, eleven of them in the Atlantic. Two Russian submarines have been operating in the GULF OF BOTHNIA and by 12th September had claimed two Finnish ships sunk and possibly a third.

Trade. Five ocean convoys totalling 139 ships arrived in the United Kingdom without loss. Three outward bound convoys reached their destinations without loss. Imports into the United Kingdom in convoy for the week ending 19th - 910,000 tons including 239,000 tons of oil.

## 2. MILITARY

EGYPT. Activity on the main front was again confined to patrols on both sides. Our Desert Forces carried out successful operations 500 miles behind the enemy's front. BENGHAZI and BARCE were raided over thirty aircraft being damaged or destroyed on the ground while others were shot down by our attacking troops. JALO DAFIS now also temporarily occupied. Although our forces who have now returned to MUSA suffered some casualties in personnel and vehicles the casualties inflicted on the enemy were much heavier and in addition many dumps of ammunition and supplies were destroyed.

FAR EAST. CHINA. Fighting around KINSHA continuing.

There are now believed to be 179 German Divisions on the Russian front, 34 in FRANCE and the Low Countries and 8 in FINLAND, including the KIRKENES area of NORWAY.

## AIR OPERATIONS

WESTERN FRONT. Night bombing could only be done on two nights. WUPPERTAL, SAARBRUCKEN, WISMAR and FLENSBURG were the main objectives. Coastal Command sent out 242 sorties on anti-U-boat operations augmented by 38 sorties of Bomber Command on BISCAY patrols. It is estimated that about 18,000 tons of enemy shipping was sunk or seriously damaged in home waters by our aircraft during the week. A total of 446 mines were laid for the loss of 12 aircraft in operations which extended as far east as KONIGSBERG. In the MIDDLE EAST our bombers concentrated mainly upon enemy harbours and shipping. TOBRUK was heavily attacked on five nights, a large ship was completely destroyed by bombs in BENGHAZI HARBOUR. Heavy attacks were also made on enemy landing grounds. Enemy shipping on the African supply route was constantly harassed in the IONIAN SEA by our aircraft, as well as in the vicinity of the African Coast. At least four ships were hit.

Regraded Unclassified

- 2 -

RUSSIA. Russian bombers attacked aerodromes in Northern NORWAY, troops and communications in the STALINGRAD sector, troops, aerodromes and the TEREK Bridges on the CAUCASUS Front and enemy shipping in the BLACK SEA Ports and in the CRIMEA. The main Axis activity was on the STALINGRAD Front against railway communications, fuel dumps and oil tankers on the VOLGA. Their Air Force also operated fairly strongly against supply depots, aerodromes and railways in the Northern, Central and Caucasus Sectors.

4. EXTRACTS FROM PHOTOGRAPHIC AND INTELLIGENCE REPORTS ON RESULTS OF AIR ATTACKS ON ENEMY TERRITORY IN EUROPE.

DUSSELDORF. Photographs 11th and 12th cover the whole city and show over 100 acres devastated in the centre. Industrial damage is heavy, at least 30 factories or industrial premises having been hit. Nearly seven acres of the main buildings of a steel tube factory are wrecked. These works had already been damaged and repairs were in progress. At a machine tool factory already damaged and under repair about half an acre of sheds is burnt out. Eight buildings of an iron foundry are destroyed and three more badly damaged. A factory making insulating materials is almost entirely destroyed and a chemical works received a direct hit on the main structure. The main railway station had a direct hit evidently from a large bomb. There is also damage at two other stations, among rolling stock in a goods yard and to the permanent way at an important junction. The total area of destruction in recent attacks apart from isolated incidents is about 380 acres.

DUISBURG. Additional damage shown by photographs 10th includes a large building burnt out entirely in a factory making iron and bicycles, four or five buildings of a tobacco factory burnt, three or four buildings of a small chemical works badly damaged by fire and seventeen other industrial buildings destroyed or damaged. It is reported that at the railway wagon repair shops in spite of 24 hour shifts 68 wagons come in for repair every 30 sent out.

KARLSRUHE. Newspaper reports containing appeals to the inhabitants to clear debris from the streets and to carry out their own minor repairs are evidence of the severity of the recent attack.

5. OPERATIONAL AIRCRAFT BATTLE CASUALTIES

METROPOLITAN AREA

<u>BRITISH AND ALLIED</u>		<u>ENEMY</u>			
	<u>In the Air</u>		Des.	Prob.	<u>Damaged</u>
				Dest.	
Bombers	35	Bombers	6	2	7
Fighters	6	Fighters	3	Nil	2
Coastal	4	Miscellaneous	1	Nil	1
Army Co-Operation	1	Total	10	2	10
Total	46				

MIDDLE EAST  
(Including MALTA)

<u>BRITISH AND ALLIED</u>		<u>ENEMY</u>			
	<u>In the Air</u>		Des.	Prob.	<u>Damaged</u>
				Dest.	
Bombers	3	Bombers	Nil	Nil	2
Fighters	8	Fighters	8	8	15
Others	1	Miscellaneous	4	Nil	3
Total	12	Total	12	8	20
Three pilots are safe.		Amendment week ending 17th September. Delete 4 enemy bombers probably destroyed. Add 4 destroyed.			

Note: No account is taken of enemy aircraft destroyed on the ground in any theatre or of British naval aircraft casualties.

6. HOME SECURITY

Estimated civilian casualties for the week ending 6 A.M., 23rd. Killed 33, seriously wounded 49.

302-A

COMMANDER EASTERN SEA FRONTIER  
90 CHURCH STREET  
NEW YORK

PERSONAL & CONFIDENTIAL

September 24, 1942.

My dear Mr. Secretary:

I have inquired about the LEEDSTON, regarding which you phoned me this afternoon.

I find that she was formerly the SANTA LUCIA of the Grace Line and was originally used as an Army Transport. About a month ago she was taken over by the Navy and sent to the Tietjen and Lang Company here in Brooklyn for overhaul and conversion to fit her for a combat loaded transport. I understand further that the work was rushed on her and she came out of the Tietjen and Lang Yard last Monday and tied up at Pier 12 Staten Island.

She is commanded by Lieutenant Commander Cook, Merchant Marine Reserve, with a Navy crew on board. She has just been assigned to Transport Division Eleven of the Amphibious Force of the U.S. Atlantic Fleet. I have just discussed the matter with Captain Edgar, U.S. Navy, who is in command of Transport Division Eleven, which includes the LEEDSTON. He has reported to me that as this ship just came out of overhaul last Monday she was dirty and disarranged, that the officers and crew are doing everything possible to clean her up and make her ready for service. As I stated to you over the phone, she is not under my jurisdiction but has been recently assigned to the Amphibious Force of the U.S. Atlantic Fleet.

I have reported this matter a few minutes ago to the Commander in Chief, U.S. Fleet and I am

302-B

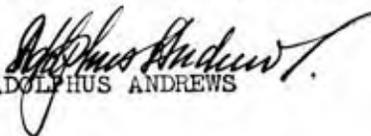
COMMANDER EASTERN SEA FRONTIER  
90 CHURCH STREET  
NEW YORK

PERSONAL & CONFIDENTIAL

sure that every effort will be made to get this  
ship clean and in condition as soon as possible.

With assurances of my high regard, I am,

Very respectfully yours,

  
ADOLPHUS ANDREWS

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