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September 25, 1942
8:58 a.m.

HMJr: Hello.

James V.
Forrestal: Henry?

HMJr: Go ahead.

F: When does the President get back? Do you know?

HMJr: Gosh - on the phone?

F: Well, I mean not - not on - not by date, but roughly. Is it....

HMJr: Wait a minute. Just a second. Oh - approximately a week.

F: Yeah, well, okay. Well, it's not - not this week-end though.

HMJr: No.

F: Thank you, Henry.

HMJr: Is that all you wanted?

F: Yeah. I'll - I'm going to call you on another thing a little later in the morning.

HMJr: Oh, you are?

F: Yeah.

HMJr: And I told my girl to let you know about the wood.

F: Okay. Thank you, Henry.

HMJr: All right.

F: Goodbye.

September 25, 1942
9:10 a.m.

WAR FINANCING

Present: Mr. Bell ✓
Mr. Blough ✓
Mr. Stewart ✓
Mr. Murphy ✓
Mr. Warren ✓
Mr. White ✓

H.M.JR: Have you fellows got it all fixed?
(Laughter)

MR. BELL: I don't know whether Walter and Warren know what this is about. You see, we have not talked to them at all.

H.M.JR: I invited Stewart down and when I invited him I told him what it was about.

MR. BELL: Did you?

MR. STEWART: You told me you wanted somebody who knew something about banking, but I didn't know what the subject was.

H.M.JR: That is close enough.

MR. BELL: It is about what effect heavy borrowing over a period of four or five years would have on the banking system; what effect the huge interest burden would have on our budget; and what steps we could take to relieve the budget of that interest burden to some extent.

The Secretary wanted to confine it to a very few people in the Treasury and they are Doctor White and Murphy and Blough and myself. We have had some

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suggestions on it. I don't think we have nearly thought the problem through. We discussed it yesterday from the angle of, one, whether you would sell non-interest-bearing bonds to the banks or the Federal Reserve Banks, or whether you would put out - if you sold to the commercial banks you could put out low-interest-bearing bonds so it would have a better psychological effect on the public and everybody else. There is one suggestion.

H.M.JR: Do you mind if I interrupt you a minute? Let me just give Stewart this thing - the over-all rather than just a piece of it. May I?

MR. BELL: Yes.

H.M.JR: I have traveled this far; this is the way I see the problem. Supposing the President gets what he wants from Congress, then that leaves on us a five-year program of enormous proportions, and we all agree here we should try to get every dollar we can out of taxes - everybody agrees to that. Everybody agrees we should try to borrow as much as we can outside of the banks. Arriving at a figure - just for a figure, we might be able to do fifty percent that way, leaving fifty percent to do the other way.

As I see the thing, it gets down to two questions: One, how could you do it in the way that will have the least injurious effect on the banks - the banking structure - and the other thing, if we do find a way to agree amongst ourselves on this, then we still have the problem of what we do with the individuals who have the money either in the banks, in individual accounts, or in the savings banks, or in their pockets.

Now, I have been asking them to concentrate for the time being on what we can do to freeze or isolate the banking structure of this country from the repercussions of a four or five hundred billion dollar borrowing program.

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Now, in that one segment, the banks - the other things we will take up one at a time - that is what we have been working on.

Does that give you the over-all picture?

MR. STEWART: Yes.

MR. BELL: We could borrow directly from the Federal Reserve Banks and that would give you - that would make it necessary to take one more step and lock up the reserves of the commercial banks.

We could borrow directly from the commercial banks and eliminate that step of the Federal Reserve Banks.

We could take, possibly, one other step, and that is have a percentage or a part of the required reserves of the member banks with the Federal Reserve System deposited with the Treasury in an interest-bearing account - just an interest-bearing account, and as that money was spent it would increase reserves in the commercial banks, and we would have to raise reserve requirements. That money would come back into the Federal Reserve Bank and be redeposited as and when we need it. That is the step we discussed the last minute last night. We thought maybe it had possibilities.

Of course, there is one other thing in the picture and that is the control of the individual who has the right to draw the deposits from the banks, and that we have not done very much about.

That is about as far as we got in our discussion and we didn't approach, very much, as to how to do it - what effect it would have on the public, which seems enormous to us.

MR. STEWART: You didn't distinguish between things requiring legislation and those not?

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MR. BELL: The whole thing would require legislation, and that is one serious element in the picture. It might take months, and while you are trying to get legislation you have done a lot of damage.

Then, of course, there is a difference between banks; you have savings banks, and you have commercial banks with savings deposits. You have to study all that as to whether you differentiate between them.

That is as far as we got. I don't know whether Murphy and Roy want to add anything to it or not.

MR. BLOUGH: We got a great deal farther than that in detail, but that is the broad outline. That is about as far as we have gone: Either borrow from the Federal Reserve banks or borrow from the commercial banks, or borrow from the Federal Reserve banks in a roundabout way by having reserves deposited with the Treasury.

H.M.JR: Reserves with the Treasury?

MR. BLOUGH: That is right.

H.M.JR: That is something new.

MR. BELL: That is the simplest way to do it.

H.M.JR: That is a new one. Explain that one. Whose wrinkle is that?

MR. BELL: Murphy, do you want to explain it?

H.M.JR: That is a new wrinkle - reserves with us.

MR. MURPHY: Suppose that it were provided that one-quarter of the required reserves of commercial banks should be held with the Treasury and the Treasury says, "You pay one-eighth of one percent interest on such reserves," then the member banks of the Federal Reserve System would transfer these to the Treasury and the Treasury would be placed in funds to that extent.

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As the Treasury disbursed these funds the member banks would receive checks on the Federal Reserve banks and have their reserves in the Federal Reserve banks replenished. They would, hence, come to have excess reserves. At this point we could permit or require them to redeposit a larger proportion of their reserves in the Treasury, and the Treasury could again redispurse them. As the problem of excess reserves became embarrassing, reserve requirements would be increased.

In this way the Treasury could borrow as large a sum as it needed from the commercial banks at no interest, or a low rate of interest, which would be fixed by it. The problem of excess reserves would be automatically held in check. We either could or could not - it would be a matter of accounting - consider such deposits as part of the public debt.

There is a precedent for receiving such deposits, of course. What the British practice amounts to is the British banks received depositary receipts in exchange for the money which they turn over to the Treasury. Of course there is no structure of required reserves in Great Britain; there it is all a matter of custom. Here we have a legal structure of required reserves, and therefore the deposit of money by the commercial banks in the Treasury would have to be assimilated into the required reserve system.

If the Treasury paid a small amount of interest on these reserves - and it would probably be necessary for the banks to be placed in a small amount of funds in some way in order to enable them to make a living - the plan might be relatively palatable to them because the process of transferring a portion of their reserves from Federal to Treasury would be a process which, in itself, would permit them to secure income.

Of course we might be eating in on their income at the other end by replacing maturing open-market obligations by Treasury deposits and consequently converting higher-yielding debt into lower-yielding debt,

but the process would seem to be subject to very close control.

MR. BELL: Our rate on deposits would be flexible enough so that all the time the banks have an earning rate.

MR. MURPHY: It could be flexible, also, in order to differentiate between classes of deposits and sizes of banks. Suppose, for example, that we wanted to allow banks that had more time deposits a little more than banks that had a smaller amount of time deposits, and the smaller banks - which have a more difficult earning picture because of their higher expenses, - a little more than the larger banks.

In that case we could specify that a larger proportion of the reserve on time deposits be held in the Treasury than in the case of demand deposits and a larger proportion of the reserves, say those pertaining to the first million dollars of deposits, be held in the Treasury. Then the reserves on the larger amounts of deposits in the Treasury Department would bear a small rate of interest, while those in the Federal Reserve would bear none. It would be possible to tailor-make your system to the earning needs of the banks and still keep the banks on a tight rein, not giving them any more earnings than required by the circumstances.

MR. BLOUGH: This is not too awfully far removed by analogy from the old national bank notes of Civil War days when the Government made a market for its bonds by giving them the circulation privilege and setting up the national banks to use these bonds as the basis for circulation privilege. Here you have the same type of thing for deposit privilege.

H.M. JR: Is that Mr. Chase?

MR. MURPHY: Yes, sir. You will notice if you consider the whole range of possibilities, Mr. Secretary, that there seem to be three. First, that the Treasury borrow directly from the Federal, in which case you create a problem of excess reserves in the member banks; in the

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second place, the Treasury borrow directly from the member banks by some coercive means, in which case you have to supply the member banks with excess reserves; or third, the Treasury borrow from the member banks by some coercive means, but the instrument which is given the member banks in return for its borrowings would be itself a required reserve. This solution is along the third line.

H.M.JR: The required reserve?

MR. MURPHY: Yes, in which the instrument that we give them is a depository receipt - a deposit of the banks in the Treasury - which is, itself, a part of their reserves, and the possession of that is a reserve requirement. That is, then, the coercion which is placed upon the banks to buy them. They are told, not that they have to buy so much of this, but that they have to have a reserve of a certain proportion behind their deposits in the form of a deposit with the Treasury, which, of course, is the same coercion which the Federal Reserve System applies to member banks to keep funds in the Federal.

The Federal doesn't say, "You have to loan us" - and that is what the transaction is - "so much money." It says, "You have to maintain required reserves of so much."

MR. BELL: And in a certain form.

MR. MURPHY: And in a certain form.

H.M.JR: Which one do you think the Federal Reserve Board would like? (Laughter)

MR. BELL: They won't like taking the deposits - the required reserves - out of the Federal Reserve Banks and putting them on the books of the Treasury.

(Mr. White entered the conference.)

MR. BLOUGH: The banks might find it the least unpalatable of all, because it would give them some earnings on the reserve.

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MR. BELL: I think so. Larry Seltzer, you remember, wrote a memorandum about four years ago, Henry, in which he suggested the investment of the reserves in Treasury securities. There was a fellow, the head of the First National in Denver--

MR. MURPHY: Evans.

MR. BELL: John Evans wrote a memorandum along similar lines suggesting the Treasury pick up the required reserves by investing in low-rate Government securities. So we have had one suggestion right from the banking system somewhat along this line.

H.M.JR: Why don't we try to get Larry Seltzer back here for three months?

MR. MURPHY: He is consultant.

MR. BLOUGH: He is working on the Port of New York authority case - tax-exempt case - for us.

H.M.JR: Why don't you have him do something useful? He is good at this, isn't he?

MR. MURPHY: Yes, sir. He is very good at it.

H.M.JR: A lot of people can do that thing, can't they?

MR. BELL: Maybe he could do both.

MR. BLOUGH: I think he has probably reached the stage where he can do both. I think that is the answer. His teaching, of course, has begun, but that might be arranged.

H.M.JR: The present generation can go uneducated.
(Laughter)

MR. BLOUGH: Just like the previous generation?
(Laughter)

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H.M.JR: I would try to get Seltzer in on this.

Have you done any work on this, Warren?

MR. WARREN: Yes, sir.

H.M.JR: What was the report like from this man on bank earnings - what did that look like?

MR. MURPHY: Mr. Shields completed very preliminary figures on Wednesday afternoon. He has gone back to New York where he is checking the expense items with the comptroller of the Irving Trust Company. He is going to be back on Monday afternoon, but I can tell you very roughly what the preliminary figures are.

H.M.JR: Do that.

MR. MURPHY: He made two assumptions. The first assumption is that the increase in the debt which will be absorbed by the banks will be distributed between the bills, certificates, notes, and bonds, somewhat as given on the table that I outlined in your office last week, say about twenty percent bills, twenty percent certificates, twenty-five percent one-to-five-year notes.

On that assumption he calculated that toward the end of the five-year war - say the last, I believe, two years - the banks would be able to pay their present rate of dividends and add three-quarters of a billion dollars each year to their surplus accounts.

The other assumption was that the entire increase in the debt absorbed by the banks would be in the form of three-eighths of one percent bills, and under that assumption the banks would not be able to meet their present expenses.

H.M.JR: At three-eighths?

MR. MURPHY: Yes.

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MR. BELL: Just about their expenses, or--

MR. MURPHY: I don't know how much the deficit is. We are going to go over the whole thing on Monday afternoon.

H.M.JR: At three-eighths they couldn't meet it?

MR. MURPHY: No.

H.M.JR: Maybe their expenses are too high.

MR. MURPHY: Of course, there is one element in their expenses that will have to have our attention in this discussion, and that is the FDIC assessments.

Now, of course you notice that that three-eighths is an increment in the deposits they would receive. They would still be holding their present interest-bearing debt, but he assumes - and that is an important element - a pretty drastic decrease in the allowance which is pretty likely to occur in the course of a long war.

H.M.JR: Do they live on a half of a percent?

MR. MURPHY: I hesitate to say, offhand.

MR. BELL: Not and pay their dividends.

MR. MURPHY: Probably not, and pay their dividends. Of course, a great deal depends on what is done with respect to time deposits and a number of assumptions.

H.M.JR: What is Canada paying? They are paying three-quarters, aren't they, for six-months' money?

MR. BELL: I don't know. England is paying a one and an eighth on their certificates of deposits, which they claim is a living wage.

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H.M. JR: I think Governor Towers told me they were paying--

MR. MURPHY: Three-quarters on six-months' money is the last I have read.

MR. STEWART: The difference is the net after taxes. The bills up there on a capital-gains basis are not taxed.

H.M. JR: Incidentally, when Towers was down here - just to divert a little bit, but stay on the same subject - he asked me about having a drive, and so forth and so on, so I said, "Well, how often do you have a drive?" He said, "Well, we have one every eight months, but it is not enough; we are going to have to have one every six months."

I said, "How would you feel if we attempted to have one every other month?" and he said, "It would be impossible."

MR. BELL: Impossible?

H.M. JR: Yes, he said you couldn't whip up the whole country every other month. Then he was very much interested in war bonds. I had Tickton explain the whole thing to him.

Then the other thing which he said, they have just started putting in deduction at the source - ninety percent deduction at the source, with the result they are having a terrific turn-in on their bonds. But they deduct ninety percent at the source of a person's income.

MR. BLOUGH: They have terrifically higher taxes than ours, too.

H.M. JR: I know, but he said that the result is that the turn-in is very high - the cash-in. But they have not gone nearly as far as we have on war bonds and pay-roll deduction - I mean on the volunteer.

Well, Bell, where do you fellows go from here?

MR. BELL: We will keep on studying it, I suppose, until we think we have gotten something that is as near

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perfect as we can make it, and then we have got to decide where we go outside of the Treasury. That is the next step. Do we consult the Federal at that point?

H.M.JR: Well, we can cross that bridge when we come to it.

MR. BELL: We have got, I think, a lot more to do on it.

H.M.JR: Do you?

MR. BELL: There are a lot of bugs we have got to get out of it.

MR. BLOUGH: Someone has to work out cases.

MR. BELL: That will show up the bugs.

H.M.JR: White, what have you got to offer this morning.

MR. WHITE: Nothing. I think that there was agreement last night on what I gather is the proposal that they suggested. I am not sure, from Henry's remarks, whether he thought the banks ought to continue to get three-eighths percent earnings on securities in order to be solvent indefinitely, or whether it was up to a certain point.

MR. MURPHY: I don't think I would make a commitment on that until I had looked over the detailed figures.

MR. WHITE: I mean Shield's figures, because even if one concluded he needed three-eighths percent on the next increment, I don't think bank expenses mount proportionately to their security holdings; and if the expenses don't mount, I don't quite understand, first-hand, why it is a function of the Government to see the banks maintain their earnings at a time when

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their demand for loans is diminished. Keeping solvent is one thing; keeping their earnings up is a very different thing. Their product has declined in demand just the same as the product of a lot of other industries.

In other words, I would draw a distinction between keeping banks solvent, which I gather is a social responsibility, and keeping their earnings at pre-war levels, or early war levels.

MR. BELL: You keep the earnings at some level that you determine upon, whether you want them to pay a certain percentage of dividends on their capital or whether you just want to give them enough to keep their heads above water. I think that is the policy you have to determine.

MR. WHITE: Whether your criterion is solvency or maintenance of earnings - there may be a very narrow spread in many cases, or there may not be.

MR. MURPHY: There is an alternative there by which, if you were willing to go a little further, we could save a substantial amount of money. As we pointed out in our memorandum last week, the current earnings of member banks amounted to about seven point four percent on their capital accounts last year. Now, that is a very handsome rate of earning if it is a safe, guaranteed earning.

On the other hand, it may not be handsome if it is subject to a great many risks. The Government could guarantee, say, three percent on capital accounts of banks as they existed at some fixed date, and could also guarantee without an FDIC assessment the deposits of the banks. In that case it could cut down very drastically upon the amount of interest which it was going to pay the banks, and still have the banks quite solvent.

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H.M.JR: Has the FDIC enough reserves, now?

MR. MURPHY: No one knows what is enough.

MR. BELL: They have over five hundred million. It is a question if it is enough.

MR. MURPHY: It is like underwriting a flood of the Mississippi River. If there is a flood, no reserve is enough; and if there isn't a flood, any reserve will do. If there is no reserve the FDIC can really have insurance against a banking cataclysm, and as long as we don't have one, their reserve is almost more than enough.

MR. BELL: The reserve in the FDIC is the Treasury.

H.M.JR: Is what?

MR. BELL: The Treasury.

H.M.JR: I wish that some time when Mr. Bell had some time he would again explain to Mr. Vandenberg what the Social Security reserve means. (Laughter)

MR. BELL: He knows.

H.M.JR: He does know?

MR. BELL: Oh, he knows, but there are a lot of people who like to think, just like he does, that you are spending the money and you are going to have to tax the people again when you come to pay the Social Security benefits.

H.M.JR: Well, I have nothing to contribute this morning. You have developed another method of doing this thing. I don't think anybody here is ready to say whether they are ready for that method of depositing the reserves with the Treasury.

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MR. BELL: At least leaning that way. We may find something that will draw us to another method.

MR. WHITE: I think some of us thought - I don't know whether we discussed it very much - that that would have to be supplemented in general by very substantial non-interest borrowing from the public.

MR. BELL: Forced savings - forced lending.

MR. WHITE: Compulsory lending - otherwise the amounts might not be adequate.

MR. BELL: The Secretary prefaced his remarks by saying that we are in favor of all-out taxes and borrowing as much outside the banking system as we can possibly get before we go to the banking system.

MR. STEWART: How much would you expect this arrangement of depositing with the Treasury to yield in money? Have you made any calculations?

MR. WHITE: Some have talked in terms of ten billion a year provided there was something like twenty billion in compulsory lending. But the magnitude did not receive much attention because there was a difference of opinion as to how much they got from taxes; the more from taxes, the less would be the combined personal and bank lending.

H.M.JR: It would really be the residue, wouldn't it?

MR. MURPHY: That is correct.

MR. WHITE: It might be from commercial banks, at least.

MR. BELL: The Secretary meant the residue from commercial banks.

H.M.JR: The residue is what we have to go to the commercial banks for.

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MR. WHITE: That is right. I don't think we talked about this much, but in our own proposal in our shop we thought the residue might take the form of regular bills, bearing interest a little more generous than the bulk of the borrowing that you would do from the commercial banks.

H.M.JR: I have just been using a rough figure, that the residue will amount to fifty percent of our borrowings, in answer to your question. It is just a guess.

MR. BELL: This ties in with the other program that we are working on very definitely. I mean, what we are discussing here now is also part of that other program. You can't take it into the other picture yet, but it is part of that whole set-up.

MR. BLOUGH: You can't take it in for reasons of publicity, you mean.

MR. BELL: Yes.

H.M.JR: No, we are scared to death of publicity on this thing.

But one thing I wanted to tell Stewart is that I am changing in my thinking a little bit, on the post-war credit, at this time. I think on this withholding at the source, what we withhold, I question whether so early in the war we want to give it back. It is too early. I mean, I am just - to talk about returning them five billion dollars a year in non-interest bearing certificates, cashable when the war is over - I mean, where we have had so little success in raising the taxes--

MR. STEWART: I see.

H.M.JR: I mean, I just question whether, at this stage, whether it does not weaken our plea for more taxes. I want to say this, in all these things - I am more impressed with this than ever - that whatever we do mechanically, it has got to work smoothly.

I just asked Graves to write a letter - when a soldier has a deduction from his pay in May and does not get his bond until September--

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MR. BELL: Has he gotten it in September?

H.M.JR: Yes, he has gotten it.

MR. BELL: Then the machinery has begun to function.

H.M.JR: Well--

MR. WHITE: I don't know--

H.M.JR: Just one second; by allotment in May, and he received the bond on September 15, and the men are just kicking. I mean, here is an example - wholly inexcusable, where they set up a system that completely breaks down.

Go ahead, Harry.

MR. WHITE: A soldier was complaining to me of a matter which, I wonder, might not be taken care of. Apparently in many camps, soldiers get their cash and they have no place to keep it. They are away from town, very frequently, and they can't buy a money order, and for them it runs into considerable money if they have two or three months' pay. Is there some facility that could be placed in each camp where they could either buy a money order, or branch bank, or something? There are a good many of them that lose money; in some place somebody picked money out of their pillows; they wear money belts, but this is troublesome. It seems like a simple thing to handle.

MR. BELL: There are many things - for instance, he can allot part of his pay. I mean, he doesn't need a money order; he can allot any part of it, and it goes any place in the United States. In most camps there is a post office. It is new. We are also working on a scheme to put, not a branch bank, but, in effect, a branch bank, in about fifty-seven posts throughout the country where they will sell drafts and cash checks.

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H.M.JR: Who is going to run those?

MR. BELL: They will be run by a bank close to the camp. It will be a bank that we will pick like we did at Fort Sill. The thing is getting kind of full of politics, now.

MR. STEWART: I think there is a question - if you are going to use a private bank, I think that is a real question. The alternative would be to use the old currency depots which they had under the Federal Reserve banks. What you really want is not much more than a currency depot.

H.M.JR: What I have asked - and I asked the Treasury to do this a month ago - is that the Treasury open places up in each place to do this kind of service. Remember?

MR. BELL: We just can't do that. It is really a banking function.

H.M.JR: Well, we may have to do it.

MR. BELL: We are all right so far. We are a little slow, for very good reasons. You can't move fast because when you move fast you get into difficulty with your Congressmen and Senators. They just pile down on you in groups. I know you found a situation at Fort Sill--

H.M.JR: Were there any repercussions on that?

MR. BELL: No, because the thing had broken before.

H.M.JR: Do you know what happened at Fort Sill? There was only one bank that opened a branch, and because the bank hadn't contributed to a campaign for a United States Senator he wouldn't let them have a branch. I said, "To hell with them" and I issued an order to open a branch of this bank, and they did. Did we ever hear from them?

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MR. BELL: Sure. We were all ready to move at the time, and what I did, I wrote a letter to Senator Thomas and to Congressman Johnson - and, by the way, Congressman Johnson is on the Appropriations Committee, and is a very strong man.

H.M.JR: I would like to go to the public on that.

MR. BELL: You can't do that. We wrote a letter explaining our policy, and what we were waiting for was to see what repercussions that letter had. It had none, and in the meantime the election had passed and Johnson was renominated; so that settled the whole question. That was all he was worried about. Then we were ready to move.

H.M.JR: Anyway - well now, look--

MR. BELL: We had a little fight last week with McKellar of Tennessee and the people from Kentucky about a branch.

H.M.JR: Is it that they want them, or is it which bank should do it?

MR. BELL: They want their particular banks to have it.

H.M.JR: I see.

MR. BELL: That is what they want. Two years ago we couldn't get them to take the money; now they are all fighting for it.

MR. STEWART: I don't see how those selections are made. I don't see how you can make an impartial, impersonal, nonpolitical choice; I think you would have to give some reason for it.

MR. BELL: This is what we do: We go into a community and get the bankers together, and the secretary of the State Banking Association, and we say, "Now, we have got this problem and we would like the banks in this community to work out this problem to give this camp service." The

- 20 -

first thing you see these little individual banks fall by the wayside; they are not interested. It generally comes down to one bank that is already a designated depository in the community, and then when we get down to that point we just say to that bank, "You are designated for this purpose and authorized to go ahead." Then the others can't kick. They are eliminated, or come to some agreement between themselves.

H.M.JR: It is awfully slow, Dan.

MR. BELL: I know, but it is going to be a mess if we don't, I am afraid.

H.M.JR: I am going to ride you on it.

MR. BELL: We are working hard on it - don't think we are not - and we are making progress. One of our boys just got back from Mississippi, and I am sending another one to Missouri to a camp, today. Tom Smith is going to help us in Missouri. He is going to go with the boy out there. He doesn't want the work because it is too far away, but he knows every banker in Missouri, and knows which will help us.

H.M.JR: 'Couldn't you set up sort of a League of Nations bank, so each bank would be a consolidated bank and each bank would sort of have an interest in it?

MR. BELL: That is what we try to do. If there are several banks in the community we say, "Here is the problem, now can the banks get together?"

H.M.JR: What I can't understand is why General Loughry - is that his name - doesn't push having banks in these camps.

MR. BELL: He is working with us. We have a contact man there.

H.M.JR: It is too slow, Dan - much too slow.

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MR. BELL: Don't rush it too fast.

H.M.JR: I am going to rush you. It is much too slow.

MR. BELL: When Camp Dix was first increased to its present capacity we had quite a time even getting banking facilities up there. We just supply the finance officer with currency. I have forgotten the man's name up in Elizabeth City - I think that he was formerly with the RFC - who has a big bank. When we put out the two percent depositary bond, that got him to come around first.

H.M.JR: Well, you fellows, do you want to talk now about this War Department thing?

MR. BELL: Yes.

September 25, 1942
9:45 a.m.

OCCUPATION CURRENCIES

Present: Mr. Bell
Mr. White
Mr. Stewart

MR. BELL: General Carter called a couple of days ago and asked if he could come over and discuss with me some questions of exchange rates in countries that might be occupied by our forces.

Thursday afternoon he came over, I think - no, it was Wednesday - and Harry and Mr. Batchelder and I met him.

He didn't tell us about any particular spot, but he gave hypothetical cases and wanted to know exchange rates on, say, Belgium, France, and the colonies, such as Morocco, Algiers, Libya, and Belgian Congo. Before we had talked very long it got down to specific spots, such as Morocco, Libya, and Algiers.

After some discussion on the subject we told him we thought that the rate of exchange in those countries ought to be generous from the standpoint of local people, but yet not too generous but what, after the authorities got in and got Governmental functions going, they couldn't raise that rate.

We told him we thought if he fixed it too high that he certainly could not come down. We thought that maybe a rate of around a quarter, one and a quarter, or one and a half cents should be about right.

Harry promised to study it overnight on the basis of information that he had in his office.

- 2 -

He did that, and we called General Carter the following day and told him that we thought maybe about the best point would be one and a third cents, which is three hundred on that basis; and translating it into pounds it would be about three hundred francs to the pound. He said he thought that was about right and it would be fair to our soldiers and was something that we could raise if we found later that the rate should be a little higher.

He called me yesterday morning and asked me if we used this special currency that we devised - dollar currency - could we restrict its legal tender to that territory - the territory occupied - in which it is used.

I said that I was sure that we could not do it under the currency and coin laws, but we could probably throw restrictions around its use under the Trading with the Enemy Act, and possibly under the War Powers Act, to such an extent that, in effect, its legal tender qualities would be confined to the area occupied, but that I would discuss the matter with one of our lawyers and let him know later in the afternoon.

In about an hour he called me back again and he said, "Apparently the British are bringing a great deal of pressure to bear on our people abroad to use the rate of exchange that they would like to have," which he understood the day before was two cents, but on thinking it over, we may make it - maybe it was two hundred - don't you think that is right?

MR. WHITE: Yes, two and a quarter or one, seven, six. It was not clear.

MR. BELL: That would be about--

MR. WHITE: One, seven, six would be two and a quarter.

MR. BELL: He said that Phillips told Patterson and him that if we used the rate that we are thinking about, then the pound would depreciate. Now, we cannot see that.

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H.M. JR: The pound would depreciate?

MR. BELL: Yes.

H.M. JR: In what market?

MR. BELL: Probably in terms of dollars and all other markets. We can't see that unless they are thinking of a different rate for the dollar than the pound.

Of course, we wanted the same rate for both - or else they had it, maybe, in terms of Swiss francs - thought the relation of the Swiss francs and the French francs and the pound might draw the pound down. We couldn't even see that, but I said that Phillips - but he said that Phillips did say that if we will confine the use of these notes to the area occupied, that he will go along with our rate, and he raised his rate, even though we don't go along, to two forty instead of two hundred. I hadn't called him back on the legal question.

I tried to discuss it last night between Harry and Bernstein and myself. I tried to get him back and he had gone.

But we have come to the conclusion that the thing is getting into a Treasury bailiwick. This thing is liable, if they fix it without our approval and consent - it is liable to affect the dollar international market, and it might have a disastrous effect on the possible exchange value of the dollar.

We think we ought to be a party to it and that possibly you ought to have a conference with Patterson and Carter on it, and later call in Phillips and see what this is all about.

H.M. JR: Why can't you do it?

MR. BELL: Eisenhower has cabled--

H.M. JR: Why can't you do it with Patterson? Why do I have to do it? You are both Under Secretaries.

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MR. BELL: I can, but you dealt with him and said you would call him.

H.M.JR: Well, you are both Under Secretaries on the same level, and I don't want to take the time.

MR. BELL: Well, that is all right. I am willing to do it.

H.M.JR: Thanks for the opportunity. (Laughter) But I mean, I think it is something that you can do, certainly as well as I can, and most likely better, and as long as it is with Patterson, you and White ought to take this thing - I mean, frankly, it is new - it is new in the sense that - it is new and I just don't want to get in on it. But I would like to be kept posted. I would like to be posted as you men go along.

I don't care how forceful you are in telling Patterson that it is perfectly ridiculous to have a British Treasury official dealing with the War Department; he should be dealing with us.

MR. WHITE: Not so much a question of making the decision as it is a question of our understanding what they have in mind.

MR. BELL: We don't get the point they raise at all.

MR. WHITE: They get a British cable saying it would leave two very serious consequences. We have to get it through third-hand.

H.M.JR: Aren't you getting it from Phillips?

MR. BELL: No, Carter.

MR. WHITE: From Phillips to Patterson to Carter.

H.M.JR: I would call up - Patterson is a very direct fellow and I think Bell should call him up and say, "Look here, Bob" - if that is what you call him - "this is

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something Mr. Morgenthau has asked me to handle for him and we have just got to sit down and talk. This is not something that an Army officer or anybody you have got over there is trained to handle." Certainly Carter is not trained to handle this - a certified public accountant.

MR. WHITE: He said they have convinced Eisenhower over there that the rate ought to be something or other - I mean, that sort of business. It is really funny. It is nothing less than funny.

H.M.JR: Well, Dan, if you and Harry will take this thing on - if you will get in touch with Mr. Patterson and, as I say, keep me posted--

MR. BELL: O.K.

H.M.JR: Fair enough?

MR. BELL: Yes, sir.

H.M.JR: All right, you and Harry.

MR. BELL: I just wanted to let you know the way it was heading.

MR. WHITE: On this particular issue I thought, in the light of what you told Patterson, I don't see that this is a violation of that, because this is so obviously and clearly a matter in which, if there are discussions, we ought to participate.

H.M.JR: The worst thing in the world today is to be consistent from one day to the next. You have got to rise to the opportunities. (Laughter)

MR. BELL: The reason we put out this--

H.M.JR: How can one be consistent when you are living on quicksand? (Laughter)

MR. BELL: The reason we didn't accept the British suggestion of a British special currency note of their own which they had printed, was we didn't want to be responsible for that thing after the war, having--

H.M.JR: Listen, gentlemen, I would like to hear Stewart. This to me isn't such a difficult thing that, with all due respect to our British friends - they again have got their mind on after the war and international trade. They are going back to the economic conference in London - '32-'33, either the dollar or the pound - they are looking forward to that, don't you think so?

MR. STEWART: I think so. As we are, I hope.

H.M.JR: What?

MR. STEWART: As we are, I hope.

H.M.JR: Not too much.

MR. STEWART: The same concern you would have about their attitude, we have about our own.

H.M.JR: The only concern is I want to keep the thing liquid.

MR. STEWART: You won't be able to do that.

MR. WHITE: I think the consideration that played the main role was a question as to what would be most helpful to the Army during the invasion and occupation of a territory.

MR. STEWART: In any case, what you need is direct contact and you need to know what the crossrates are all the way around - find out what the basis of their decision is.

H.M.JR: There is somebody there - maybe if Phillips--

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MR. BELL: Yes, I think we ought to have Phillips in after we have our conference with Patterson. Then get first-hand from Phillips just what it is all about.

H.M.JR: Or before.

MR. BELL: They have been dealing over there and I think maybe--

H.M.JR: Well, Dan, I will leave it to you. You keep me posted.

September 25, 1942
10:05 a.m.

James V.
Forrestal: Hello, Henry.

HMJr: Frank?

F: No, no, Forrestal, Henry.

HMJr: Oh! They kept saying it was Knox, and I said, "Well, tell him I was a long way."

F: Well, I'm glad my voice sounds as - just as vigorous as the Colonel's.

HMJr: Good.

F: Colonel - Henry, I've got a preliminary report on that.

HMJr: Yeah.

F: That ship was taken over three days - rather, it was made available....

HMJr: Yeah.

F:to the Navy three days ago.

HMJr: Yeah.

F: King is going into it. He said that the transition from delivery to making her ship-shape had to occur simultaneously with getting the men on board.

HMJr: Yeah.

F: He said that it was - any ship under over-haul might present a very sorry spectacle.

HMJr: Yeah.

F: He seemed to feel that it was in hand. But I'm going - going into it somewhat more deeply.

HMJr: Well, Admiral Andrews was supposed to have sent people on board yesterday afternoon.

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F: Well, you - was supposed to have done what, Henry?

HMJr: I asked Admiral Andrews -- I called him up at twenty minutes of four yesterday -- and asked him to send inspectors over there....

F: Yeah.

HMJr:and he said he would.

F: Yeah.

HMJr: Now there ought to be a report from him....

F: Yes.

HMJr:available....

F: Yes.

HMJr:to you. I didn't ask him to report to me.

F: Well, I think the - I think it's - we'll wait till we get that. I think that it's - I think that the fact that it was delivered - taken over by us in that space of time will account for some of the confusion.

HMJr: Did King use any good sea-going words about my going on?

F: Oh, not a bit. No, no. No, he was - I was very much pleased with that reaction.

HMJr: He wasn't at all upset?

F: Not a bit. He said, "The more of that you have the better."

HMJr: Oh, was that his attitude?

F: Yeah.

HMJr: Oh, good.

F: Yeah. Well, I was very much pleased with that.

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HMJr: Good. Well, okay.

F: All right, Henry.

HMJr: Thank you.

September 25, 1942
10:45 a.m.

Robert
Patterson: Hello, Henry?

HMJr: Yes.

P: This is Bob.

HMJr: Good morning.

P: Have you got a few minutes this morning - if I wanted - if I came over, and....

HMJr: Definitely!

P:saw you on something that I think is of some importance?

HMJr: Definitely!

P: If I came over at eleven, could you see me?

HMJr: I can. I'll rearrange things.

P: All right.

HMJr: I'll be - I'll be at your service.

P: I won't be more than twenty minutes.

HMJr: Twenty minutes?

P: I won't be more than twenty - twenty or twenty-five minutes in telling of my troubles.

HMJr: (Laughs) Well, you - you - I - I compliment you that you have so few.

P: Well, I can compress this particular one into that time.

HMJr: Are you being serious?

P: Yeah, I - I won't take much - any longer than that. I'll come over at eleven if I may.

- 2 -

HMJr: Yeah, I'll be ready. Do you really want - do you want a half an hour? Are you serious?

P: Yeah - twenty minutes will do.

HMJr: Well, I'll allow a half an hour.

P: All right.

HMJr: Thank you.

September 25, 1942
10:55 a.m.

HMJr: Dan?

Daniel
Bell:

Uh huh.

HMJr: One other thing, on these fifty-seven camps that don't have banks, see?

B: Yeah.

HMJr: I want to give you this suggestion. If it's so much trouble to get the banks, let's ask the Federal Reserve in their capacity as fiscal agent to open branches for us. Now we can't sit around, Dan, and just let this thing go on for months and months and months.

B: Well, we're not sitting around, of course....

HMJr: No, but you - you can....

B:and, of course, Federal has no authority, you know, to open branches.

HMJr: Yes, I think you're wrong. They can open a fiscal agency for me. I think....

B: I think it's going to be worked out, and we haven't got any - very many critical situations.

HMJr: Well, Dan....

B: Yes.

HMJr:any camp that's got - any group of people that haven't got any banking facilities, it's - it's very tough on the men.

B: Well, they've got a post exchange, haven't they....

HMJr: Well, they....

B:everyone of them.

HMJr:they won't cash checks, and....

B: You mean personal checks?

HMJr: Yeah, and....

B: But soldiers are paid in currency.

HMJr: Well, it's - every time I go to one, the finance officers of these camps just complain bitterly. Now sending one man doing one camp at a time, you get over it in about five years.

B: No, we're writing letters too. It doesn't mean every man - every time we have to send a man. But some special situations....

HMJr: Well - all right.

B:where you've got a - you've got a terrible thing in Leonard Wood.

HMJr: Well, who - who's doing this for you?

B: Batchelder is handling it through the Division of Deposits.

HMJr: Well, you tell him that he's going to have to move lots faster.

B: Okay.

HMJr: And that one camp that I mentioned to you particularly....

B: Yeah.

HMJr:and will you make a note on Monday take - I want a list of the camps that haven't got them.

B: All right.

HMJr: Please.

B: Yeah.

HMJr: Thank you.

B: Okay.

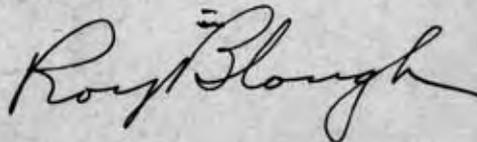
September 25, 1942

MEMORANDUM FOR THE SECRETARY

Before leaving town, Mr. Paul asked me to call your attention to the attached letter addressed to you by Mr. C. W. Hazelett, in which he requests a personal interview to discuss his incentive taxation plan.

We have discussed Mr. Hazelett's plan with him several times during the past three or four years, are fully conversant with its details, and find it wholly impracticable. He has recently advocated his plan to the Senate Finance Committee and is a determined opponent of the Treasury's spendings tax. It is Mr. Hazelett's practice to interpret one's willingness to listen to a description of his plan as endorsement of the plan. Mr. Paul feels that it would be very undesirable for you to see Mr. Hazelett. A suggested reply to Mr. Hazelett, prepared for your signature is attached.

Incidentally, Mr. Hazelett and Professor Fisher consider themselves, respectively, the originators of the spendings tax idea. Actually, Ogden Mills introduced a spendings tax bill in 1921 when he was a member of Congress from New York.



Attachments

September 25, 1942

Dear Mr. Hasclett:

Receipt is acknowledged of your letter of September 21, 1942, regarding your incentive taxation proposal and your kind offer to assist this Department in the formulation of tax plans.

I regret that my schedule precludes the possibility of discussing this matter with you. I am informed, however, that members of the Treasury staff have conferred with you several times and that they are fully conversant with the details of your plan.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. G. W. Hasclett
Greenwich, Connecticut

File taken to Room 23
9/26/42

Copy in Diary.

E-R:td
9/25/42

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C. W. HAZLETT
Greenwich, Conn.
Sept. 21, 1942.

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

Personal
Attention

Dear Mr. Morgenthau:

I have spent much time in recent years with members of the Senate Finance Committee and the Ways and Means Committee and with some members of your staff on two subjects----the "spendings tax" and the compulsory use of idle money by what I have called Incentive Taxation.

You will find a majority of both committees favor both of these proposals in principle. I do not believe that any of them favor the specific method of applying the "spendings tax" worked out by your staff.

You may know that when I learned, immediately prior to your appearance before the Finance Committee, approximately the mechanism your staff would propose, I personally and strongly recommended to Sen. George, many members of the committee, Mr. Stamm etc. that the specific proposal be defeated and that special hearings be held so that this great idea would not be lost by an unsound and intricate application of it.

If you will read the attached one page proposal, which I have been recommending for several years and which I have presented at various congressional hearings since 1936, you will note the following:

The A non-revenue device is a way to sell any quantity of bonds desired to the public, to compel reduction in debt and to get more private capital into the war effort.

The B phase is an all-out spendings tax. It is a simple and a complete real income tax. The addition of item 6 to this is all that is required to stop inflation.

I believe that I have done more work on this than anyone in the country. Prof. Irving Fisher has recently joined me in the campaign for the "spendings tax" phase of Incentive Taxation and I believe that you could induce him to give most of his time to help you if you are interested.

I shall continue my efforts in Congress where you will find my opinion and judgment in this matter stand superior to that of most members of your staff.

Mr. Henry Morgenthau Jr.

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If I can be of any assistance to you personally you may call on me at any time. I expect neither recognition nor remuneration.

I shall be in Washington on Sept. 30 and will check with Mr. Fitzgerald in the event you care to see me.

You will find my prepared statement before the Finance committee on Aug. 5th. strikes at the root of most of your financial problems in war or peace and moreover has sufficient support to get some action.

Sincerely yours,

/s/ C. W. Hanelett

PRESENTED TO SENATE FINANCE COMMITTEE
AUGUST 4, 1942
INCENTIVE TAXATION MECHANISM

A NON-REVENUE INCENTIVE TAX

All individuals and corporations having average cash balances in excess of \$300 shall pay a tax of 2% of said balance for each turnover less than 10. (If turnover rate is 10 or more this tax is 0).

TURNOVER CALCULATION

- a. Average cash balance (monthly) during year
- b. Total real disbursements during year
- c. Turnover rate (b divided by a)

DEFINITIONS

Cash is all U. S. money under control of the taxpayer on the first of each month, wherever located.

Real disbursements are all expenditures for the purchase of ORIGINAL issues of stocks, bonds (including governments) mortgages, the payment of taxes, dividends, debts, insurance premiums or benefits, for charity or the public welfare, for employment, for the purchase of any goods moving directly to consumption or any other payments on a direct course to provide employment.

B. REVENUE PHASE OF INCENTIVE TAXATION

Income for individual tax purposes is defined as all money expended by the taxpayer for his living standards. It is determined by difference as follows:

1. Add all cash received during tax year to initial cash balance.
2. Deduct from 1 all money not used for the comfort or enjoyment of the taxpayer and his family. This includes all money actually paid out for investments for profit, business expenses, interest, taxes, insurance premiums, contributions, medical care and taxpayer's final cash balance.
3. The remainder will represent taxpayer's entire living standard expenditures for the period; his spending income.
4. From 3 subtract personal exemption, credits for dependents and earned income credit as at present, giving 4 the taxable income.
5. Tax calculation—Rate for first \$1000 of taxable income ___% increasing at the rate of ___% for each additional \$1000.

Note: If declared constitutional add to 1-- Rental value of taxpayer's property not used for business purposes. In 2 include as deduction-- Principal and interest payments on such property.

6. The revenue tax rates herein shall be uniformly raised from that required for revenue, to absorb all increase in national income due to increases of the normal price level as shall be determined.

C. Wm Hazlett

SEP 25 1942

My dear Mr. President:

I have been notified by Randolph Paul that the proposal to tax outdoor advertising was presented to the Senate Finance Committee and it was rejected by a vote of 15 to 1. The Finance Committee last year rejected a similar tax which was contained in the Revenue Bill as it passed the House. In rejecting the House proposal, the Senate report stated that one of the reasons that it eliminated the tax was that it is a tax "regulatory in some degree of a matter which might preferably be left in the hands of State and local authorities." There seems to be little hope that the Finance Committee will change its attitude in the immediate future.

Faithfully yours,

(Signed) H. Morgenthau, Jr

The President,

The White House.

Del. by Sturgis 4:25
9/25/42

Copies to Thompson

File in Diary.

TNT:mlo
9/24/42

SEP 25 1942

36

Regraded Unclassified

Dear Mr. Nelson:

A disagreement between representatives of your office and the Treasury has recently occurred in the presentation of the tax bill to the Senate Finance Committee which is in sharp contrast with our earlier agreement on the subject of the appropriate rate of excess profits taxation. I am writing this letter to place the matter before you in the light in which I see it.

As you know, the Treasury has throughout the consideration of the tax bill sought the removal of certain special privileges or loopholes in existing law. One of the outstanding privileges we sought to eliminate was the percentage depletion allowance accorded natural resource industries. On August 13 in the public hearings of the Senate Finance Committee there appeared as a witness Dr. Wilbur A. Nelson of your office who expressed an opinion which, in view of his appearance in connection with Senator McCarran's testimony, was construed by some as contrary to Treasury policy. More recently, in the consideration of mining relief by a Subcommittee of the Senate Finance Committee headed by Senator Walsh, and also even more recently before the whole Committee, Dr. Nelson has appeared and taken positions inconsistent with the Treasury position.

The first of these appearances was on September 10. At that time Dr. Nelson urged before the Subcommittee a wide extension of additional tax relief and subsidy to the mining industry on the ground that it was vital to the war effort. On the day before this hearing, believing that Dr. Nelson might appear, Mr. Paul, General Counsel of the Treasury Department, called you on the telephone with respect to Dr. Nelson's appearance. You told Mr. Paul that he might say that Dr. Nelson would not present the official position of the War Production Board with respect to any matter he

had not taken up with Mr. Paul. At your suggestion Dr. Nelson called Mr. Paul on the morning of the 10th but Mr. Paul was at the Committee hearing and no contact was possible. At the Subcommittee hearing in the afternoon, Dr. Nelson purposed to present the views of the Board in favor of his own scheme of relief and against the more limited but adequate relief agreed to by the Treasury Department and Senator Johnson of Colorado, representing the interests of the mining industry.

On September 21, without any previous communication with Mr. Paul, Dr. Nelson again appeared before the full Finance Committee, apparently at the invitation of Senator McGarran. At the hearing he argued again against the mining relief proposal of the Treasury and the proposal adopted by the Finance Committee and in favor of a substantial increase in percentage depletion for the mining industry. At this hearing Mr. Paul questioned his authority to speak for the War Production Board on the ground that he had failed to discuss the matter with Mr. Paul previous to his appearance or even to advise Mr. Paul that he would appear. Dr. Nelson insisted that he spoke for the Board.

I regard this conflict of views between our Departments as extremely unfortunate. Disparities of opinion between Government Departments always create an unfortunate public impression. But, even more important, it seems to me that the views on taxation of the War Production Board, as of other Government Departments and Agencies, should be presented to Congress through the Treasury Department, which is charged with the duty of presenting tax policies to Congressional committees, and which must bear the responsibility, along with Congress, for whatever legislation is enacted. I would, therefore, like to inquire whether we may count upon the full cooperation of your office in the future, with a view to the elimination of conflicting statements and the presentation through this Department of

- 3 -

a consolidated, coherent tax policy arrived at after the submission to the Treasury of the views of all Government Departments.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Mr. Donald M. Nelson,
Chairman, War Production Board,
Washington, D. C.

Del. by Messenger Mannus
at 4:42 p.m. 9/25/42

File in Diary.

Copies to Thompson.

REP:mv

Secretary Morgenthau

September 23, 1942

Randolph Paul

Senator George did not want a reference to the Batt telegram in the letter. A few minor changes have been made since I checked the draft with you on Tuesday, September 22.

(Initialed) R.E.P.

REP:mv:s 9-23-42

September 25, 1948.

My dear Mr. Daniels:

You will remember that I told you I would attempt to have your editorial, "Has the Little Fellow a Chance?", printed in the Congressional Record. This appeared in the issue of September 25, 1948, and I am sending you a marked copy.

With cordial personal regards,

Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Josephus Daniels,
c/o The News and Observer,
Raleigh, North Carolina.

Enclosure.

GMF/dbs

File in Diary

LUNCHEON - SEPTEMBER 25

Mrs. Roosevelt

Mayor Samuel and members of his committee

Judge Edwin O. Lewis

Mrs. Stacy B. Lloyd

Raymond Pitcairn

Col. Wm. Innes Forbes

Walter E. Alessandrini

Commissioner Russell Young

Dr. John Studebaker

Dr. Frank Ballou

Mrs. Bruce Gould

Harold Graves

Peter Odegard

Orville S. Poland

Mrs. Judy Graves

Homer W. Anderson

Total to be present including Mr. and Mrs. Morgenthau 18

Also Mr. Kuhn + Mr. Gamble were present.

DRAFT OF SECRETARY MORGENTHAU'S
TALK TO THE "SCHOOLS AT WAR"
CELEBRATION ON SEPTEMBER 25th.

12th draft
42

It is fitting that bricks from Independence Hall should be chosen to symbolize the war effort of our American schools, because the "Schools at War" program is built, like a fine house, out of many different bricks. That is true, not only of this program, but of America itself.

America was not hewn from one great, solid rock. It was built of bricks: the bricks of freedom, justice, equality, opportunity -- an endless number.

Nor has this great structure called America been built hastily, over-night. It was built patiently over a period of 166 years -- and it was built to last.

Those bricks were cemented with courage and faith ever-lasting. They will never be cracked by the passage of time or by the attacks of our enemies.

Now all of us are deeply engaged in a struggle to preserve what our forefathers struggled to give us. You, the students of America, are doing your part.

With the knowledge of that fact, I accept on behalf of the Treasury this brick from Independence Hall. It will remain here in the National Capital to symbolize for future generations the unity of purpose, the determination, the faith in your country's future that you are showing in the "Schools At War".

In accepting this brick I should like to express my gratitude to the Mayor of Philadelphia, and to the people of Philadelphia, here represented by Mrs. Gould, for sharing with the people of the entire country this tangible symbol of Philadelphia's own shrine of freedom.

In a larger sense Independence Hall belongs to the whole nation. It happens to stand in Chestnut Street, but we cannot feel jealous of Philadelphia for that reason. Independence Hall has always had a place in the heart of every American. In 1776 and 1787 the people of 13 colonies looked to Independence Hall as the fountainhead of their loyalty and their devotion. In the passing years our American horizons have pushed west across the plains and across the mountains to the islands of the sea, but the traditions of Independence Hall have still been the inspiration of a liberty-loving people.

And so today I accept this brick from the people of Philadelphia with the knowledge that they are giving to the school children of America something which always has been, and is, their own.

2nd Draft
45

DRAFT OF SECRETARY MORGENTHAU'S TALK TO THE
"SCHOOLS AT WAR" CELEBRATION, SEPTEMBER 25, 1942.

This brick from Independence Hall is part of our heritage of American liberty. It reminds us of the great statesmen and fighting men who first won our freedom in the war of the Revolution.

And today it reminds us also that this freedom was not cheaply or easily won. Our forefathers had to pay a price for the liberty we are now enjoying.

That price was paid by the soldiers who died at Bunker Hill and Valley Forge. It was paid by the Colonial women who scrimped and sacrificed, and raised the children and kept the homes together, while their men were away winning our independence.

That price is being paid again today. Our soldiers on Bataan paid it. So did our marines on the Solomon

Islands, so did our sailors and our airmen at Midway and in the Coral Sea.

Yes -- and it is being paid again by the women of America and their children. Once again, our women are showing that they still know how to scrimp and to sacrifice, and to keep the homes together while the men fight or make the weapons to fight with.

For this is no cheap and easy war that we are now forced to fight. It is the greatest war the world has ever known. It is total war. And every one of us -- from the oldest worker to the youngest school child -- is in the fight.

That is why this brick from Independence Hall makes a fitting symbol for the war effort of our American schools. Through the "Schools at War" program,

the boys and the girls in our schools can do their part to preserve the liberties our forefathers created in Independence Hall.

In this spirit, I accept on behalf of the Treasury this historic brick from the Liberty Bell Tower. And I should like especially to thank the people of Philadelphia, and the Mayor of Philadelphia, for sharing with the school children of America this priceless trophy of a liberty-loving people.

It will remain here in the national capital to remind future generations that American boys and girls, as well as their fathers and mothers, have always had the courage and the strength and the will to fight for their freedom.

READING COPY OF SECRETARY'S TALK TO THE
"SCHOOLS AT WAR" CELEBRATION ON
SOUTH STEPS OF TREASURY

SEPTEMBER 25, 1942

This brick from Independence Hall is part of our heritage of American liberty. It reminds us of the great statesmen and fighting men who first won our freedom in the war of the Revolution.

And today it reminds us also that this freedom was not cheaply or easily won. Our forefathers had to pay a price for the liberty we are now enjoying.

That price was paid by the soldiers who died at Bunker Hill and Valley Forge. It was paid by the Colonial women who scrimped and sacrificed, and raised the children and kept the homes together, while their men were away winning our independence.

- 2 -

That price is being paid again today. Our soldiers on Bataan paid it. So did our marines on the Solomon Islands, so did our sailors and our airmen at Midway and in the Coral Sea.

Yes -- and it is being paid again by the women of America and their children. Once again, our women are being called upon to scrimp and to sacrifice, and to keep the homes together while the men fight or make the weapons to fight with.

For this is no cheap and easy war that we are now forced to fight. It is the greatest war the world has ever known. It is total war. And every one of us -- from the oldest worker to the youngest school child -- is in the fight.

- 3 -

That is why this brick from Independence Hall makes a fitting symbol for the war effort of our American schools. Through the "Schools at War" program, the boys and the girls in our schools can do their part to preserve the liberties our forefathers created in Independence Hall.

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- 4 -

It will remain here in the national capital to remind future generations that American boys and girls, as well as their fathers and mothers, have always had the courage and the strength and the will to fight for their freedom.



OFFICE OF THE CHIEF
U. S. SECRET SERVICE

TREASURY DEPARTMENT

WASHINGTON, D. C.

September 25, 1942.

Memorandum for the Secretary:

From: Mr. Murphy, Acting Chief, Secret Service

The attached memoranda refer to the unfortunate occurrence today at the White House gate, and is self-explanatory. I have emphatically instructed Captain Marcey, White House Police Force, to immediately have a key made available for each of the White House gates and to see that such keys are hereafter kept in a depository at the gates.

FOR DEFENSE





OFFICE OF THE CHIEF
U. S. SECRET SERVICE

White House Police

TREASURY DEPARTMENT

WASHINGTON, D. C.

September 25, 1942

Captain Herbert L. Marcey
Commanding
White House Police.

Sir:-

About 2:10 p.m. this date, while on duty at the Southeast Gate I was advised by a Secret Service Agent that Mrs. Roosevelt would come in very shortly via that gate. I immediately notified the Police switchboard that she was coming in, and started to open the gate, to have it ready, when I discovered that when changing my trousers this morning I had left the key in my other clothes.

Officer Godwin, Metropolitan Police, doing duty on number 11 post (outside), was on the East Knoll, and when I called to him he brought his key down immediately, and the gate was opened with less than a minute delay.

Respectfully

L. W. Kelly

L. W. Kelly
Private
Metropolitan Police

LWK/wh

U. S. SECRET SERVICE
INTER-OFFICE COMMUNICATION

From Captain H. L. Marcey Date September 25, 1942 File _____
To Acting Chief Murphy Subject Report

Attached hereto is the report of Officer L. W. Kelly, Metropolitan Police, relative to the incident at the Southeast Gate, concerning the entrance of Mrs. Roosevelt.

This is the first incident of this kind, to my knowledge, that has ever happened here, and I know, from the three months this officer has been detailed to the White House Police that he is a very conscientious worker and able in all respects.

It is very unfortunate, and I feel very deeply about it, and know that it is just one of those things that will happen. All officers, both White House, and detailed, are each issued a key immediately upon starting their first tour of duty here.

Herbert L. Marcey
Herbert L. Marcey
Captain

HLM/wh

TREASURY DEPARTMENT**INTER OFFICE COMMUNICATION**

DATE September 25, 1942

TO Secretary Morgenthau
FROM Ferdinand Kuhn, Jr.

Our recent press releases on silver were printed in full in the Congressional Record today.

TREASURY ORDER

Mr. William T. Hoefflinger is hereby designated Assistant to the Under Secretary of the Treasury, with the duty of assisting the Under Secretary in the supervision of the Fiscal Service, and, as Assistant to the Under Secretary, is authorized to sign generally the following classes of mail:

1. Directions and authorizations to Treasury officers concerning matters relating to the Fiscal Service.
2. Administrative approval of matters relating to the Fiscal Service which does not involve the change or waiver of Treasury regulations or which is not required to be exercised by the Secretary of the Treasury pursuant to provisions of law.
3. Correspondence relating to fiscal matters, except correspondence embodying new determination or statement of departmental policy.
4. Such other mail or classes of mail relating to the Fiscal Service as may be designated by the Under Secretary of the Treasury.

Secretary of the Treasury.

September 25, 1942.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 25,
1942

TO Secretary Morgenthau

FROM Mr. Murphy *McM*

Subject: Recent Changes in Prices and Yields of Government Securities

Prices of practically all Government securities either lost ground or showed no change during the week ended last night. The new 1-1/4 percent notes due March 1945 declined 2/32, closing yesterday at 100. The taxable 2's of December 1949-51 (offered in July) closed last night at 100-6/32, down 2/32 from a week ago, while the taxable 2-1/2's of 1967-72 remained unchanged at 101-4/32.

With three exceptions, prices of all Government securities outstanding on March 19 are now below their levels of that date. It should be noted, however, that two taxable and fifteen tax-exempt securities have lower yields than on March 19. This discrepancy is due, of course, to the amortization factor previously discussed in a number of the memoranda of this series. (See attached chart and tables.)

The average rate on the weekly offering of bills was 0.370 percent, slightly above the average rate of a week ago. Small declines occurred in the prices of the outstanding certificates of indebtedness.

Federal Open Market Account purchases during the week aggregated \$84 millions, consisting of \$64 millions of bills, \$7 millions of certificates, \$2 millions of taxable bonds, and \$11 millions of partially tax-exempt issues. Sales were confined to \$7 millions of bills and there were no maturities of market securities, so that the net increase in the Account's portfolio of such securities was \$77 millions. However, \$286 millions of special 1/4 of one percent certificates, which had been held on the preceding Thursday, had been retired by this Thursday, thereby causing a reduction of \$209 millions in total Federal Reserve holdings of Government securities (including nonmarketable securities) during the week.

Attachments

Table I 59
 Price and Yield Changes of United States Securities
 September 17, 1942 to September 24, 1942

(Based on mean of closing bid and asked quotations)

Security	Prices			Yields		
	Sept. 17, 1942	Sept. 24, 1942	Change	Sept. 17, 1942	Sept. 24, 1942	Change
	(Decimals are thirty-seconds) $\frac{1}{2}$			(Percent)		
TAXABLE SECURITIES						
<u>Bills</u>						
Average rate last issue	-	-	-	.37	.37	.00
<u>Certificates</u>						
1/2 ^a 11/1/42	100.017	100.014	-.003	.36	.36	.00
5/8 2/1/43	100.052	100.047	-.005	.48	.49	+.01
.65 5/1/43	100.011w1	100.008	-.003	.63w1	.64	+.01
7/8 8/1/43	100.100	100.085	-.015	.76	.77	+.01
<u>Taxable Notes</u>						
3/4 ^a 3/15/43	100.03	100.04	+.01	.56	.48	-.08
5/4 9/15/44	99.19	99.16	-.03	.96	1.01	+.05
1-1/4 3/15/45	100.02w1	100.00w1	-.02	1.22w1	1.25w1	+.03
3/4 12/15/45	98.31	98.29	-.02	1.07	1.10	+.03
1 3/15/46	99.05	99.03	-.02	1.25	1.27	+.02
1-1/2 12/15/46	100.04	100.03	-.01	1.47	1.48	+.01
<u>Taxable Bonds</u>						
2 ^a 3/15/48-50	101.07	101.06	-.01	1.77	1.77	.00
2 6/15/49-51	100.12	100.10	-.02	1.94	1.95	+.01
2 9/15/49-51	100.09	100.07	-.02	1.96	1.97	+.01
2 12/15/49-51	100.08	100.06	-.02	1.96	1.97	+.01
2 12/15/51-55	100.02	100.01	-.01	1.99	2.00	+.01
2-1/2 3/15/52-54	103.18	103.14	-.04	2.08	2.10	+.02
2-1/4 6/15/52-55	101.03	100.30	-.05	2.13	2.14	+.01
2-1/2 3/15/56-58	103.04	103.03	-.01	2.23	2.23	.00
2-1/2 6/15/62-67	100.14	100.14	.00	2.47	2.47	.00
2-1/2 9/15/67-72	101.04	101.04	.00	2.44	2.44	.00
TAX-EXEMPT SECURITIES						
<u>Wholly Tax-exempt Notes</u>						
1-3/4 ^a 12/15/42	100.12	100.10	-.02	.19	.34	+.15
1-1/8 6/15/43	100.19	100.17	-.02	.32	.39	+.07
1 9/15/43	100.21	100.19	-.02	.34	.39	+.05
1-1/8 12/15/43	100.31	100.30	-.01	.34	.36	+.02
1 3/15/44	100.25	100.25	.00	.47	.47	.00
3/4 6/15/44	100.15	100.15	.00	.48	.48	.00
1 9/15/44	100.31	100.31	.00	.51	.51	.00
3/4 3/15/45	100.16	100.15	-.01	.55	.56	+.01
<u>Partially Tax-exempt Bonds</u>						
3-3/8 ^a 6/15/43-47	102.03	102.02	-.01	.54	.51	-.03
3-1/4 10/15/43-45	102.23	102.23	.00	.70	.66	-.04
3-1/4 4/15/44-46	103.25	103.25	.00	.83	.80	-.03
4 12/15/44-54	106.26	106.22	-.04	.92	.95	+.03
2-3/4 9/15/45-47	105.06	105.06	.00	.99	.98	-.01
2-1/2 12/15/45	104.28	104.26	-.02	.97	.98	+.01
3-3/4 3/15/46-56	109.00	109.00	.00	1.11	1.10	-.01
3 6/15/46-48	107.00	107.00	.00	1.09	1.08	-.01
3-1/8 6/15/46-49	107.13	107.12	-.01	1.10	1.10	.00
15/47-52	114.26	114.22	-.04	1.23	1.24	+.01
15/47	104.06	104.05	-.01	1.17	1.18	+.01
15/48-51	107.13	107.13	.00	1.35	1.34	-.01
15/48	106.28	106.25	-.03	1.30	1.32	+.02
15/48-50	104.05	104.03	-.02	1.30	1.31	+.01
2-1/5/49-52	110.19	110.19	.00	1.57	1.57	.00
15/49-53	106.06	106.06	.00	1.59	1.59	.00
15/50-52	106.16	106.16	.00	1.63	1.63	.00
15/51-54	108.08	108.07	-.01	1.73	1.73	.00
15/51-55	110.10	110.10	.00	1.76	1.75	-.01
15/51-53	104.28	104.27	-.01	1.68	1.68	.00
15/53-55	103.12	103.15	+.03	1.66	1.65	-.01
15/54-56	105.07	105.07	.00	1.76	1.76	.00
15/55-60	109.26	109.24	-.02	1.98	1.99	+.01
15/56-59	109.02	109.00	-.02	2.00	2.01	+.01
15/58-63	109.09	109.05	-.04	2.06	2.07	+.01
15/60-65	109.26	109.24	-.02	2.10	2.10	.00

Department, Division of Research and Statistics.
 in prices of certificates are true decimals.

September 24, 1942.

Table II 60
Price and Yield Changes of United States Securities
March 19, 1942 to September 24, 1942

(Based on mean of closing bid and asked quotations)

Security	Prices			Yields		
	March 19, 1942	Sept. 24, 1942	Change	March 19, 1942	Sept. 24, 1942	Change
	(Decimals are thirty-seconds) 1/			(Percent)		
TAXABLE SECURITIES						
Average rate last issue	-	-	-	.20	.37	+ .17
Certificates						
11/1/42	-	100.014	-	-	.36	-
2/1/43	-	100.047	-	-	.49	-
5/1/43	-	100.008	-	-	.64	-
8/1/43	-	100.085	-	-	.77	-
Table Notes						
3/15/43	100.12	100.04	-.08	.37	.48	+ .11
9/15/44	99.32	99.16	-.15	.76	1.01	+ .25
3/15/45	-	100.00w1	-	-	1.25w1	-
12/15/45	99.21	98.29	-.24	.84	1.10	+ .26
3/15/46	99.29	99.03	-.26	1.02	1.27	+ .25
12/15/46	-	100.03	-	-	1.48	-
Table Bonds						
3/15/48-50	101.28	101.06	-.22	1.67	1.77	+ .10
6/15/49-51	101.04	100.10	-.26	1.83	1.95	+ .12
9/15/49-51	-	100.07	-	-	1.97	-
12/15/49-51	-	100.06	-	-	1.97	-
12/15/51-55	100.12	100.01	-.11	1.96	2.00	+ .04
3/15/52-54	103.23	103.14	-.09	2.09	2.10	+ .01
6/15/52-55	101.06	100.30	-.08	2.12	2.14	+ .02
3/15/56-58	103.05	103.03	-.02	2.24	2.23	-.01
6/15/62-67	-	100.14	-	-	2.47	-
9/15/67-72	100.27	101.04	+ .09	2.46	2.44	-.02
TAX-EXEMPT SECURITIES						
Fully Tax-exempt Notes						
12/15/42	101.11	100.10	-1.01	2/32*	.34	-4/32*
6/15/43	101.04	100.17	-.19	.22	.39	+ .17
9/15/43	101.03	100.19	-.16	.26	.39	+ .13
12/15/43	101.16	100.30	-.18	.26	.36	+ .10
3/15/44	101.10	100.25	-.17	.34	.47	+ .13
6/15/44	100.27	100.15	-.12	.37	.48	+ .11
9/15/44	101.16	100.31	-.17	.39	.51	+ .12
3/15/45	101.00	100.15	-.17	.41	.56	+ .15
Partially Tax-exempt Bonds						
6/15/43-47	103.21	102.02	-1.19	.41	.51	+ .10
10/15/43-45	104.06	102.23	-1.15	.57	.66	+ .09
4/15/44-46	105.06	103.25	-1.13	.72	.80	+ .08
12/15/44-54	108.11	106.22	-1.21	.91	.95	+ .04
9/15/45-47	106.06	105.06	-1.00	.94	.98	+ .04
12/15/45	105.28	104.26	-1.02	.90	.98	+ .08
3/15/46-56	110.08	109.00	-1.08	1.11	1.10	-.01
6/15/46-48	107.28	107.00	-.28	1.09	1.08	-.01
6/15/46-49	108.08	107.12	-.28	1.13	1.10	-.03
10/15/47-52	115.20	114.22	-.30	1.33	1.24	-.09
12/15/47	104.23	104.05	-.18	1.15	1.18	+ .03
3/15/48-51	107.28	107.13	-.15	1.38	1.34	-.04
9/15/48	107.07	106.25	-.14	1.33	1.32	-.01
12/15/48-50	104.21	104.03	-.18	1.28	1.31	+ .03
12/15/49-52	110.22	110.19	-.03	1.65	1.57	-.08
12/15/49-53	106.16	106.06	-.10	1.60	1.59	-.01
9/15/50-52	106.20	106.16	-.04	1.66	1.63	-.03
6/15/51-54	108.18	108.07	-.11	1.74	1.73	-.01
9/15/51-55	110.20	110.10	-.10	1.78	1.75	-.03
12/15/51-53	104.29	104.27	-.02	1.70	1.68	-.02
6/15/53-55	103.10	103.15	+ .05	1.68	1.65	-.03
6/15/54-56	104.28	105.07	+ .11	1.80	1.76	-.04
3/15/55-60	110.00	109.24	-.08	2.00	1.99	-.01
9/15/56-59	109.10	109.00	-.10	2.01	2.01	.00
6/15/58-63	109.12	109.05	-.07	2.07	2.07	.00
12/15/60-65	110.00	109.24	-.08	2.10	2.10	.00

Treasury Department, Division of Research and Statistics.

September 24, 1942.

Decimals in prices of certificates are true decimals.
Excess of price over zero yield.

Regraded Unclassified

61

Identical letter mailed to:

Mr. Philip Murray,
President,
Congress of Industrial Organizations,
Washington, D. C.

Mr. William Green,
President, American Federation of Labor,
Washington, D. C.

Mr. William P. Witherow,
President,
National Association of Manufacturers,
New York, New York

Mr. T. C. Cashen,
Chairman,
Railway Labor Executives' Association,
Washington, D. C.

Mr. John J. Pelley,
President,
Association of American Railroads,
Washington, D. C.

9/25/42

Copies to Thompson

SEP 25 1942

My dear Mr. Johnson:

As a member of the Treasury's National Committee for Pay Roll Savings you very kindly agreed, on my invitation, to sponsor a series of joint Labor-Management Conferences on the Pay Roll Savings Plan. During the period July 28 to August 31 twelve such Conferences were held, in the cities of Richmond, St. Paul, Kansas City, Dallas, Chicago, St. Louis, Los Angeles, San Francisco, New York, Seattle, Boston and Cleveland. I want you to know how much I appreciate your sponsorship of these meetings and it has occurred to me that you would like to hear more about them.

All twelve meetings were well attended and were highly satisfactory in their results. In each case invitations in the name of the National Committee for Pay Roll Savings were sent to the heads of all establishments in the Federal Reserve District employing 500 or more persons and to labor leaders who represented the workers in these establishments. Other representatives of Labor, Management and the general public were also invited. The attendance at the twelve meetings aggregated over 4,500 persons, who in turn had direct contact with some 5,000,000 workers.

At these meetings the operation of Pay Roll Savings Plans in a number of typical establishments was described by the representatives of Management and Labor most intimately concerned with the administration of the plan. Some of the firms reporting had already reached an employee participation of 100%, with allotments exceeding 10% of pay roll; others had either not installed the plan at all or had not been conspicuously successful in its operation. There was no attempt at the meetings to indulge in mutual admiration or self-congratulation; on the contrary, the difficulties and obstacles in the way of a successful program were brought out and fully discussed.

You will be glad to know that solutions for many of these problems were found during the course of these Conferences. The method of joint presentation by Management and Labor was especially effective. In case after case it was clearly shown that the best results were uniformly achieved by the wholehearted cooperation of workers and executives. This cooperation, often directed by joint committees, has developed a most effective kind of personal salesmanship by volunteers from the ranks of both Labor and Management.

Mr. Johnson

- 2 -

In no case did there appear to be any issue between Labor and Management on the War Bond Program, and both welcomed the chance to sit down together and make joint plans to insure success for this important phase of our war effort.

One important by-product of these Conferences was the stimulus they gave to other similar meetings, on a smaller scale, now being held in many cities, including Detroit, Buffalo, New York and Chicago.

I am glad to report to the National Committee for Pay Roll Savings that as of August 31 the total participation in Pay Roll Savings Plans throughout the United States aggregates 18,500,000 persons, who are buying \$225,000,000 of War Bonds per month in this way. The total number of persons exposed to existing Pay Roll Savings Plans is in the neighborhood of 25,500,000, so that present participation is approximately 72% of the maximum now possible. Actual purchases of \$225,000,000 a month through the Plan represent an average monthly allotment of only \$12.16 per person participating. This is considerably below the standard of allotment necessary to achieve our goal of 10% of gross pay rolls; but actual and percentage figures of average allotment are constantly rising. It should also be noted that, although we have 137,000 business concerns operating Pay Roll Savings Plans, there are many firms not yet participating, and there is a possibility of reaching, through this method, more than 34,000,000 persons.

Our records are encouraging in that they show a steady increase in the number of persons participating in Pay Roll Savings Plans and at the same time a steady increase in the average allotment per person. Many thousands of patriotic Americans are working enthusiastically to persuade their fellow-workers to execute Pay Roll deduction authorizations or to increase such allotments to at least 10% of wages. The Plan moves steadily forward. Much remains to be done. We are still far from our goal, but are gaining headway from experience and the splendid support of the American people. The voluntary 10% Pay Roll Savings Plan has already made an important contribution to the national war effort and I am hopeful that it will continue to be even more helpful in the days to come.

With many thanks for your help in this matter, I am

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Eric A. Johnson,
President,
Chamber of Commerce of the United States,
Washington, D. C.

*File in Diary
Copy to Thompson*

JLH:G

SEP 25 1942

Dear Henry:

I have first-hand information that the long delay on the part of the War Department in the delivery of bonds to soldiers is actually hurting the morale of the Army. I believe you will agree with me that it is inexcusable for men in the Service who purchased War Bonds last May to have to wait until September 15 to get their bonds.

I would appreciate it if you would give the matter your personal attention with a view to correcting this very bad situation.

Sincerely,

(Signed) Henry

Hon. Henry L. Stimson,
Secretary of War,
Washington, D. C.

Del. by Messenger (Simmons)
1:18 9/25/42

extra copies ret'd to Graves
office - their request

Copy to Thompson

File in Diary.

HNG:fns

Analysis of Exposure to Payroll Savings Plans
September 19, 1942

	Number exposed to payroll savings plans	Total number in the country (estimated)	Percent of total exposed
Part A - Summary by Number of Organizations Exposed			
I. Business organizations			
(1) Firms with 5,000 employees or more.....	485	488	99
(2) Firms with 500 to 4,999 employees.....	5,365	6,048	89
(3) Firms with 100 to 499 employees.....	<u>23,061</u>	<u>27,783</u>	<u>83</u>
(4) Subtotal - large firms.....	28,911	34,319	84
(5) Firms with less than 100 employees.....	<u>113,621</u>	*	*
(6) Total business organizations.....	142,532	*	*
II. Governmental organizations.....			
	*	*	*
III. Grand total.....			
	<u>142,532</u>	<u>*</u>	<u>*</u>

Part B - Summary by Number of Employees Exposed

I. Business organizations			
(1) Firms with 5,000 employees or more.....	7,859,262	*	*
(2) Firms with 500 to 4,999 employees.....	7,111,750	*	*
(3) Firms with 100 to 499 employees.....	<u>5,295,022</u>	*	*
(4) Subtotal - large firms.....	20,266,034	*	*
(5) Firms with less than 100 employees.....	<u>2,838,663</u>	*	*
(6) Total business organizations.....	23,104,697	32,000,000 ^{1/}	72
II. Governmental organizations			
(1) Federal Government.....	1,551,186	2,400,000 ^{1/}	65
(2) State and local governments.....	<u>1,218,420</u>	<u>2,700,000</u>	<u>45</u>
(3) Total governmental organizations.....	<u>2,769,606</u>	<u>5,100,000</u>	<u>54</u>
III. Grand total.....			
	<u>25,874,303</u>	<u>37,100,000 ^{1/}</u>	<u>70</u>

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

September 25, 1942.

^{1/} Excludes agricultural employees, military personnel, employees on WPA or NYA or CCC projects, proprietors, firm members, self-employed, casual workers and persons in domestic service.

* Data not available.

Firms Employing 500 Persons or More Participating in Payroll Savings Plans
(As reported by the War Savings Staff's State Administrators)

State	Number of firms with payroll savings plans			Total number of firms (estimated)	Percent of total having payroll savings plans		
	Apr. 18	Sept. 12	Sept. 19		Apr. 18	Sept. 12	Sept. 19
Alabama.....	41	65	65	85	49	78	78
Arizona.....	9	14	14	14	64	100	100
Arkansas.....	16	17	17*	20	80	85	85
Northern California.....	122	136	137	175	70	78	78
Southern California.....	121	146	146	146	83	100	100
Colorado.....	25	31	31	31	81	100	100
Connecticut.....	114	144	145	162	70	89	90
Delaware.....	15	18	18	22	68	82	82
District of Columbia.....	32	44	44	47	68	94	94
Florida.....	28	40	40	43	65	93	93
Georgia.....	86	123	123	123	70	100	100
Idaho.....	11	11	11	11	100	100	100
Illinois.....	391	463	465	559	70	83	83
Indiana.....	88	134	136	165	53	81	82
Iowa.....	22	29	29*	39	56	74	74
Kansas.....	23	25	25	25	92	100	100
Kentucky.....	38	48	48*	50	76	96	96
Louisiana.....	29	46	46	48	60	96	96
Maine.....	48	58	58	61	79	95	95
Maryland.....	84	102	105	106	80	96	99
Massachusetts.....	237	309	311	338	70	91	92
Michigan.....	265	282	282	303	87	93	93
Minnesota.....	79	81	81*	82	96	99	99
Mississippi.....	26	33	33	33	79	100	100
Missouri.....	103	128	129	142	73	90	91
Montana.....	3	4	4	4	75	100	100
Nebraska.....	23	25	25	32	72	78	78
Nevada.....	4	4	4	5	80	80	80
New Hampshire.....	29	32	32	32	91	100	100
New Jersey.....	142	183	183	211	67	87	87
New Mexico.....	5	5	5	5	100	100	100
New York.....	759	872	877	1,087	70	80	81
North Carolina.....	103	132	133	137	75	96	97
North Dakota.....	0	0	0	0	-	-	-
Ohio.....	412	454	455	498	83	91	91
Oklahoma.....	31	51	51	51	61	100	100
Oregon.....	48	54	54	54	89	100	100
Pennsylvania.....	551	595	598	629	88	95	95
Rhode Island.....	61	76	76	84	73	90	90
South Carolina.....	84	98	98	99	85	99	99
South Dakota.....	5	5	5	5	100	100	100
Tennessee.....	50	73	74	115	43	63	64
Texas.....	63	104	106	106	59	98	100
Utah.....	8	10	10	11	73	91	91
Vermont.....	12	12	12	12	100	100	100
Virginia.....	93	106	106	106	88	100	100
Washington.....	49	70	72	77	64	91	94
West Virginia.....	36	72	72	72	50	100	100
Wisconsin.....	127	143	143	154	82	93	93
Wyoming.....	1	4	4	4	25	100	100
Alaska.....	3	3	3*	3	100	100	100
Railroads.....	109	109	109	115	95	95	95
Total.....	4,864	5,823	5,850	6,536	74	89	90

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

September 25, 1942.

* Data are for September 12, inasmuch as no September 19 report was received.

Regraded Unclassified

Firms Employing 100 to 499 Persons Participating in Payroll Savings Plans
(As reported by the War Savings Staff's State Administrators)

State	Number of firms with payroll savings plans			Total number of firms (estimated)	Percent of total having payroll savings plans		
	Apr. 18	Sept. 12	Sept. 19		Apr. 18	Sept. 12	Sept. 19
Alabama.....	149	250	250	285	52	88	88
Arizona.....	43	67	67	67	64	100	100
Arkansas.....	44	55	55*	116	38	47	47
Northern California.....	512	665	672	672	76	99	100
Southern California.....	756	1,011	1,015	1,178	64	86	86
Colorado.....	113	135	135	135	84	100	100
Connecticut.....	277	472	485	709	39	67	68
Delaware.....	21	55	56	87	24	63	64
District of Columbia.....	52	139	144	191	27	73	75
Florida.....	147	200	203	203	72	99	100
Georgia.....	133	389	390	415	32	94	94
Idaho.....	31	32	32	34	91	94	94
Illinois.....	1,300	1,852	1,860	2,253	58	82	83
Indiana.....	415	631	638	638	65	99	100
Iowa.....	165	204	204*	272	61	75	75
Kansas.....	276	286	286	286	97	100	100
Kentucky.....	136	187	187*	272	50	69	69
Louisiana.....	179	273	273	321	56	85	85
Maine.....	60	169	171	187	32	90	91
Maryland.....	177	277	284	405	44	68	70
Massachusetts.....	639	1,005	1,018	1,532	42	66	66
Michigan.....	689	923	937	1,030	67	90	91
Minnesota.....	376	436	436*	436	86	100	100
Mississippi.....	59	78	79	96	61	81	82
Missouri.....	472	661	665	665	71	99	100
Montana.....	40	49	49	49	82	100	100
Nebraska.....	103	113	115	123	84	92	93
Nevada.....	14	18	19	21	67	86	90
New Hampshire.....	89	137	137	145	61	94	94
New Jersey.....	463	918	938	938	49	98	100
New Mexico.....	33	39	39	42	79	93	93
New York.....	2,060	3,517	3,555	4,257	48	83	84
North Carolina.....	282	444	447	546	52	81	82
North Dakota.....	14	19	19	19	74	100	100
Ohio.....	1,126	1,514	1,532	2,122	53	71	72
Oklahoma.....	166	289	294	349	48	83	84
Oregon.....	211	284	285	285	74	99	100
Pennsylvania.....	1,682	2,119	2,133	2,133	79	99	100
Rhode Island.....	154	253	256	331	47	76	77
South Carolina.....	71	152	152	178	40	85	85
South Dakota.....	21	25	25	25	84	100	100
Tennessee.....	199	338	341	444	44	76	77
Texas.....	326	592	604	1,378	24	43	44
Utah.....	36	44	44	44	82	100	100
Vermont.....	59	64	64	71	83	90	90
Virginia.....	281	388	392	421	67	92	93
Washington.....	234	348	349	349	67	99	100
West Virginia.....	134	205	206	272	49	75	76
Wisconsin.....	278	445	451	680	41	65	66
Wyoming.....	17	21	22	22	77	95	100
Alaska.....	2	2	2*	2	100	100	100
Railroads.....	49	49	49	52	94	94	94
Total.....	<u>15,365</u>	<u>22,838</u>	<u>23,061</u>	<u>27,783</u>	<u>55</u>	<u>82</u>	<u>83</u>

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

September 25, 1942.

* Data are for September 12, inasmuch as no September 19 report was received.

Regraded Unclassified

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	August	July	September as percent of August
September 1942					
1	\$ 11,634	\$ 11,634	\$ 14,044	\$ 15,821	82.8%
2	14,748	26,381	36,222	30,701	72.8
3	18,305	44,687	50,797	47,523	88.0
4	17,804	62,491	63,785	77,320	98.0
5	19,166	81,657	86,789	95,044	94.1
8	49,400	131,057	111,748	116,643	117.3
9	13,295	144,352	128,176	139,390	112.6
10	16,430	160,781	154,981	164,161	103.7
11	19,573	180,354	164,866	183,238	109.4
12	9,584	189,938	180,787	209,787	105.1
14	35,544	225,482	197,143	225,532	114.4
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
21	40,445	342,980	297,075	339,951	115.5
22	9,714	352,694	313,101	358,135	112.6
23	20,352	373,046	322,982	376,396	115.5
24	27,075	400,122	353,504	394,984	113.2

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

September 25, 1942.

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

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

UNITED STATES SAVINGS BONDS - SERIES 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	13,550	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
21	15,820	157,075	176,681	262,178	88.9
22	5,653	162,728	182,842	278,505	89.0
23	12,959	175,687	186,207	293,679	94.4
24	14,445	190,132	196,715	308,077	96.7

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

September 25, 1942.

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

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

UNITED STATES SAVINGS BONDS - 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		Cumulative sales by business days			September as percent of August
	daily sales	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
21	56,266	500,055	473,756	602,129		105.6
22	15,366	515,422	495,943	636,640		103.9
23	33,311	548,733	509,189	670,075		107.8
24	41,521	590,254	550,219	703,062		107.3

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

September 25, 1942.

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

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

CONFIDENTIAL

Sales of United States savings ⁷¹bonds
 September 1 through September 24, 1942
 Compared with sales quota for same period
 (At issue price in millions of dollars)

Date	Series E				Series F and G				Total			
	Actual sales		Quota	Sales	Actual sales		Quota	Sales	Actual sales		Quota	Sales
	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	17.5	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	40.4	343.0	399.6	85.8	15.8	157.1	141.0	111.4	56.3	500.1	540.6	92.5
22	9.7	352.7	415.7	84.8	5.7	162.7	147.0	110.7	15.4	515.4	562.7	91.6
23	20.4	373.0	436.2	85.5	13.0	175.7	155.2	113.2	33.3	548.7	591.4	92.8
24	27.1	400.1	457.1	87.5	14.4	190.1	163.4	116.3	41.5	590.3	620.5	95.1
25			481.4				171.0				652.4	
26			497.4				176.6				674.0	
28			532.7				183.7				721.4	
29			549.2				195.5				744.7	
30			570.0				205.0				775.0	

September 25, 1942.

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

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

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

MEMORANDUM FOR THE SECRETARY.

September 25, 1942.

Mail Report

There has been a slight retrogression in the volume of mail received, and no new subject has entered the picture during the past week.

Much of the clamor about taxes has subsided, the proportion of comment remaining much the same. A few letters express unqualified approval of the Treasury program; an equal number are cooperative but make suggestions for simplified methods of collection, and the great majority are opposed either to the entire program or to some one feature of it. The outstanding complaint is against the imposition of higher personal taxes. The Ruml Plan has one opponent to six advocates, and the withholding tax two opposed to five in favor. Opposition to the spending tax outnumbers approval by two to one. The excess profits tax for individuals continues to receive considerable approval. The same possible exemptions that have appeared in earlier mail continue to be asked from day to day.

The Sales Tax remains strongly in favor, with 3 advocates to 1 opponent. One city went on record as opposed to taxation of tax-exempt securities. There were 5 suggestions of a savings sales tax.

On the Bond front, compulsory savings have made a decided gain in favor. One of the interesting developments of the week was a "Buy 'Em and Burn 'Em" campaign in Gallatin, Missouri. (See abstract on page 5.) 312 cards were received, each containing the unburned portion of a Stamp. The total value of Stamps thus destroyed amounting to \$192.00.

Several letters raised the question of the Government's ability to redeem Bonds when they mature. Other

- 2 -

Memorandum for the Secretary.

September 25, 1942.

letters reply to the question as to why sales are lagging, and the usual causes are suggested. The unjustified cashing of Bonds has been reported in 11 letters, and 18 complaints were received--seven concerning delay in delivering Bonds under payroll deduction plans.

The threat of possible increase in Social Security taxes appears for the first time this week.

Aside from taxes and Bonds, there has been a scattered miscellaneous mail including the usual anti-labor letters, those urging Government economy, and those discussing inflation. 30 letters complaining of the shortage of silver for commercial use have been received; 28 of these having been referred to the Treasury by Members of Congress.

During the past two weeks there has been quite an increase in the abusive mail, such communications being largely anonymous, and most of them prompted by the threat of higher taxes. The past few days have brought 10 anonymous and 2 signed communications of this type.

J. G. Fortnum

- 1 -

General Comments

John Ramsey, Winnetka, Ill. Enclosed you will find a check for \$21, from the North Shore Scandinavian Male Chorus. It is their hope that this money be used toward a purchase of a bomber.

H. N. Hansen, North Weymouth, Mass. I give an exhibition of Bag Punching for the World Championship some time ago and promised the net receipt to Uncle Sam for bombers. I cleared \$15 and paid \$6.75 in taxes, and the balance of \$8.25 I am sending to the Treasurer of the United States to help build more bombers. I am sorry the amount is so small, but it might be enough to help to fire the last shot to win the war. I feel that I must do all I can to help those countries across the water, to win their freedom and live on the other side of the water as we do on this side of the United States. Although we are the youngest country in the world, we got to pay the bills for the whole world today, and also help them at any cost. I have another exhibition going on, and I will try and send you a few more dollars.

Thomas Humphris, Hod Carriers' Building and Common Laborers' Union of America, Hinsdale, Ill. * * * For the last seven years I have been the Business Representative of my Local Union. My Union has willingly granted me leave of absence so I could go back to my old job as a construction laborer and work five and one-half days for my country. I am enclosing the two checks that I earned (\$12.13 and \$42.88). It is my sincere hope that every Labor Representative in the United States will find time to go back to the job he held before his election as a Representative of Labor, and put in a few days for Uncle Sam. * * *

H. C. Durrschmidt, Marion, Va. I felt that I should write you about one of your staff, Mr. Walter Frese, who was a fellow internee at the Stanley (Hongkong) Internment Camp.

- 2 -

I believe Mr. Frese is a Treasury Department Auditor who was in Hongkong in connection with "Lend-Lease" matters, and who returned on the repatriation ship, Gripsholm. I was associated with Mr. Frese in a great deal of the work necessary to maintain our American community at the Stanley Camp, and I assure you that it was largely due to the hard and good work done by Mr. Frese and his un-failing tact and courtesy in dealing with people whose nerves were at the breaking point, that made it possible for the American section of the Camp to maintain the high morale it had all during the extremely trying conditions of the Internment Camp.

"Just a Mother", Flint, Mich. * * * Last night a propa-gandist from your Department spoke to the men at the Fisher Body Plant. He practically told them they were losing the war because they were not working twenty-four hours a day, seven days per week. Perhaps he wasn't too pleased with the apparent lack of enthusiasm of the men. Likely most of them were thinking, "Why isn't the factory open seven days per week? Why have we been idle for so long, waiting for the factory to begin production? Why were new, inexperienced men hired first and given the day work, while the older men were hired last and given night work, and the Union Committee men given sweeping jobs?" * * * "Why is there so often no material with which to work? Why are they told to continue to run their machines if there is no material? Is that economy in power and wear on the machine? * * * Why doesn't Congress spend half the energy on seeing there is production of war material as they spend on trying to regiment labor?" You hear much of huge wages. Plenty of men would like to see them. Working five days per week at the same wages they received in the auto industry doesn't increase them any. With the old taxes and the new ones coming, they will be hard put to it to make ends meet, losing around fifty percent of income. * * * See the addresses of the boys killed in action. Whose sons, brothers, friends, are in the tanks and in the infantry, in the air and on the sea? * * * It is perhaps a pity you couldn't see fathers begging for a chance to work, while

high school, inexperienced boys, clerks, teachers, etc., were put to work first. * * * Why some hundred tanks stored at the FisherBody waiting for treads, while the boys are waiting for them? * * * Why the delay in cross-country progress by the difference in tax weights and measures of permissible truck deliveries? One country -- or forty-eight? Why loads of liquor taking precedence over boat loads of munitions? The President has a large enough load to carry. Why doesn't Congress look after those things, or is it politics first? * * *

W. B. Hughes, Secretary, Nebraska Bankers Association, Omaha, Neb. Nebraska bankers are patriotically devoting their time and energy to selling War Bonds. Bankers of other States are likewise doing yeoman service. While bankers are thus engaged, the Government is permitting another of its divisions, the Production Credit workers, to aggressively seek to take from these banks in this district the best agricultural loans in their files. * * * Another instance of the same old process, an emergency agency seeking to perpetuate itself. May we ask how this inconsistent situation is viewed by your office? * * *

Samuel M. McKendree, Modern Dry Cleaners, Danville, Ill. * * * Sometime ago, possibly six weeks, there was an inspector from the U. S. Treasury Department came in to my place of business and informed me that due to the fact that I had more than eight employees, I was liable for Federal Unemployment Insurance. He checked my records and went all the way back, and as a result, I had to pay Federal Unemployment Insurance in a nice tidy sum. Since that time I have talked to several business men and manufacturers in my community who employ more than eight. I have not found a single one who is paying Federal Unemployment. Now, don't misunderstand me. I am perfectly willing to pay, and due to the fact that our Government is in need of finances from every possible source to prosecute and bring to a successful termination this war, I feel that such a law should be enforced, and every one should pay it. I do not like to feel that just because I am a Democrat, and

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that the State of Illinois has a Republican regime, that I have been singled out and such action taken simply to penalize me. I would like to hear from you relative to the contents of this letter.

Joy Elmer Morgan, National Education Association of the United States, Washington, D. C. A teacher who took part in the sugar rationing writes to suggest that since it was the most complete census ever taken at the least cost, and inconvenience, that the same machinery be used for sending out income tax blanks, so that each person over 16 or 18 who received a sugar ration book would receive a copy of the income tax blank. * * *

Favorable Comments on Bonds

Joseph J. Gaber, Gaber Dental Laboratory, Waterbury, Conn. * * * Your present effort in selling more Bonds to the white collar group and small business men would be easier if these people had a more compact way of keeping them. The past two years I have been buying Bonds (\$25 and \$50 denominations), and now have a collection of small Bonds even too bulky to keep in a safe deposit box, together with other important papers. It is risky leaving them around. Therefore, I took the matter up with my bank, and they suggested I send them to the Federal Reserve Bank and cash them, then buy larger Bonds with the money. This does not seem practical, as the receipt of a large sum or check would be a temptation to pay bills or use the money for other purposes, defeating the purpose of your program. (Suggests exchange for Bonds of larger denomination, without cashing, or large Bond-Stamps, of \$25 value, to be pasted in books.) * * * In defense areas similar to ours, where housing and rooming conditions are so bad, a small Bond book would be easier concealed at home or on the person. Whether you can use my suggestions or not, I shall continue to buy Defense Bonds, but sincerely hope something can be worked out for the small Bond purchasers.

Clarke Venable, Chairman, "Buy 'Em and Burn 'Em Committee", Gallatin, Missouri. Recently you stated that more "whoop-la" should be injected into the Stamp and Bond drives. Out here in the provinces, we have no jeeps nor tanks to aid us, and we have to get along without benefit of Hollywood. No actresses come to us to sell kisses, pooches, or sarongs. We have to invent our own "whoop-la". The enclosed post card, with the fragment of a \$1.00 War Savings Stamp attached, should tell its own story. It is our "whoop-la". Within a day or two, your Department will be seeing hundreds of these cards in the mail. Each card will bear the fragment of a War Savings Stamp, in denominations ranging from 10¢ to \$50. In every case, the other fragment of the Stamp has been publicly burned. We staged the movement at a three-day Fall Festival, and it greatly stimulated sales. * * *

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C. R. Dewey, President, Grace National Bank, Hanover Square, N.Y.C. I have received from an elderly maiden lady a letter which seems to me to be worthwhile having reproduced from the point of view of sales appeal. Certainly, if we were to attempt anything like that Liberty Bond campaign of the first war -- and I'm not at all certain that the job can be done without some such effort -- a letter of this type packs a lot of inspiration. It reads as follows: "Replying to your letter in regard to the purchase of War Savings Bonds, I shall be glad to purchase a Bond for \$25., this being all I can do at present from my Social Security payment, which is all I can spend."

Paul C. Pancake and Walker Long, Co-Chairmen, Cabell County War Bond and Stamp Committee, Huntington, W. Va. * * * For six months our War Bond and Stamp Committee has maintained a panel poster on Post Office property in Huntington. * * * The Post Office Department, through the Postmaster General, Frank C. Walker, has ordered us to take down this poster. Since the Treasury Dept. holds title to all Post Office Department property, and since all postmasters act as custodians of that property for the Treasury, we wondered whether to obey Mr. Walker's orders and take this sign down. Our Committee has done an outstanding job for War Bonds and Stamps. We have one of the best organizations in West Virginia. We have met our quotas regularly and hope to continue the good work. We cannot put enthusiasm into our work if we have to battle men who do not understand that the country is at war, and the fact that every available resource should be used to rouse the public. We submit that maintaining our sign on Government property does not mar that property, nor does it detract from the dignity of the Post Office. * * * We have had our hair ruffled over this sign for three months, and we think the Post Office Department's attitude is outrageous to say the least. We sincerely hope that you, as custodian of the property, will be able to tell us to keep the sign where it is, and to continue to put all our "pep" and zeal into selling Stamps and Bonds. * * *

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Elizabeth Jessie, Postmistress, Rawl, W. Va. In the past few months the people of this community have been buying Bonds, and as soon as the 60-days expire, they come to the Post Office to have them signed to get cashed. Today they come not with one, but several, to be signed. I have refused to sign them because the mines are operating here DAY and NIGHT, the employees get paid every two weeks, and I am sure they do not need any money. Please advise if I should sign these Bonds.

Pvt. R. J. Charles, Hospital One, Scott Field, Ill. During my convalescent period I have had more time to read and listen to radio appeals for War Bond subscriptions than an active duty soldier would normally have. I am of the profound belief that sales would be stimulated considerably if statistics of soldiers who automatically buy Bonds, were made known to the public. * * *

Unfavorable Comments on Bonds

Mrs. E. B. Newman, Hyattsville, Md. If there is any indifference on the part of the public to the demand for subscription to War Bonds, it is the fault of the Administration which should have its ear to the ground and listen to the man in the street. One hears on all sides remarks of lack of confidence in the SPENDING by the Administration; for the catering to the Union racketeers. * * * This howl for scrap, we hear 'till our ears ache. We dig down and find hundreds of pounds of scrap, big and little. We notify the Salvage Committee in the Albee Building. We harass the Salvation Army, we ask the local junk people, and what is the result? We are told to take it to the dealers. And wouldn't we look dainty, shouldering a 30-gallon galvanized boiler, which would yield many pounds of scrap iron? No one comes for it, and so there it sits, and the Administration stooges continue to yelp for scrap. What a farce! However, in the name of the glorious young men who are saving the country's honor, regardless of politicians, I am enclosing my check (\$18.75) for another War Bond, although I shall not live to reap where I sow. It is just in the name of our Marines and flyers.

J. T. Worton, Personnel Director, Michigan Malleable Iron Co., Detroit, Mich. This company and its employees have a complaint to make regarding your representatives' failure to keep an appointment at our plant for 11:30 a.m. this morning. Your Messrs. Rife and Gray called at our offices and requested that all our employees be gathered together at 11:30 a.m., Thursday, Sept. 10, in order that Mr. Isbey could address them concerning increasing their purchases of Defense Savings Bonds under the Payroll Deduction Plan instituted some months ago. At your request we purchased red, white and blue subscription cards. Our employees were taken from their jobs where they were working on war work and assembled at a point where your salesman could talk to them. They stood around and cooled their

heels for half an hour until noon, when their lunch period started. About ten or fifteen minutes after the lunch period started, one of your representatives appeared, told us that Mr. Isbey would not be able to appear, and addressed the few employees who could be brought together at that time. How in the world do you expect to sell Bonds or win a War in this manner? The production of 500 people for one-half is simply "gone with the wind", and nothing has been accomplished.

Keith H. Tustison, Advertising Dept., Defiance Crescent News, Defiance, Ohio. * * * Here is what we have experienced in the last two weeks in response to two urgent letters for War Bond ad mats. From Chicago we received a large packet of mats AFTER LABOR DAY, all of which pertained to Labor Day. At the most, a newspaper could use only one Labor Day Bond ad in the first place, and after waiting awhile, we wrote our own. From Washington today, we received a packet of mats -- all of which we have had in our files for more than two months, and most of which have appeared in our paper. Such constant incompetency and repetition of effort is amazing when this country is in a war for life or death. If the cooperative War Bond newspaper advertising program is to continue, the Treasury Department must produce the goods. After urging newspapers to sell the War Bond advertising idea, you are failing to live up to your share of the bargain. We have found our advertisers more than willing to cooperate, but GOOD ads must be supplied by your Department, if their interest is to be maintained. * * *

Wm. F. Sperling, Saginaw, Mich. After reading in the newspapers of the confusion and delay in Post Offices caused by the difficulty purchasers of U. S. Savings Bonds have in properly identifying themselves and obtaining certificates of identification when they are required to cash in their bonds, it seems to me that most of this could be eliminated if a blank space was left on the back of such bonds on which the purchaser could place his fingerprints at the time of purchase. This simple expedient should facilitate and expedite the cashing-in procedure materially.

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John W. Watling, Investment Securities, Detroit, Mich.
* * * How long will it be before the Treasury Department will wake up and realize that the business of financing this war is just as serious as the production of materials, itself? Every one who has sons in the war realizes that there has been a lot of bunk in some of the methods involved in the Bond sales program. Whether or not adequate long term financing can be provided from the public by voluntary sales, I am not prepared to answer. Up until a few months ago, the investment banking industry had adequate personnel for use in planning and organizing a job of this kind. A system for contacting thousands of investors could develop continuous sales and subscriptions. * * * I am sure that the investor and business man is not interested in a kiss from Hedy Lamarr as a reward for buying a few Government Bonds, or is he going to a booth in a movie picture theatre to transact this business. * * * It would probably be better if people who had spent their lives in the securities business were brought into this service, and the movie picture actors and actresses left to continue in their chosen occupation.

H. J. Ketchem, President, Security Bank of Rich Hill, Rich Hill, Missouri. * * * In spite of all the Bond issues that have come out, it seems to me that the Govt. has not yet issued a Bond that is what you would call flexible. During World War I, the citizens and bankers, or any one concerned, were offered a chance to buy War Bonds at 4 $\frac{1}{2}$ % interest. Bankers purchased a great many of these Bonds for their own account, and also to secure public funds. They were also used as a basis of securing loans. Perhaps 4 $\frac{1}{2}$ % is too high for the Government to pay for borrowed money, although at the present time they are paying two and three times for material and labor. I think a Government Bond which should be sold to any one for par, to draw 2 $\frac{1}{2}$ %, due in twenty years, should find an instant response over the entire United States, and as the War proceeds, the interest rate should be raised to 3%. I note with interest what you say about inflation, and would like to say that we have seen very little of it in this section of Missouri, and at the present time, it is causing us no worry whatever.

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T. S. Chadeayne, N.Y.C. I distinctly remember many pleasant talks I had with you while accompanying my father to the home of President Roosevelt at Hyde Park. * * * I have just received your telegram of Sept. 9, regarding the delay in the issuing of War Bonds to our employees. * * * It would be my suggestion to issue higher denomination Bonds, encouraging the employees to take a \$100 Bond in longer intervals, instead of a \$25 Bond. At the outset of the program, I encouraged the employee to take a lower denomination Bond, primarily to give him a piece of paper in the early stages to encourage him to add more Bonds in the future. * * * There is another very vital problem that we have. The prospectus of the Series E Bonds states that the Federal Reserve Bank will provide safekeeping for all these Bonds. I have tried to work out something with the Federal Reserve Bank so that we can send the Bonds direct to them at the time we issue them. * * * The problem of storage is so acute that they try to discourage the practice by making each individual appear at the bank with the Bond to be placed in safekeeping. This practice is all right for people who have time available to go to the bank and deliver the Bond. In our case, where all of our departments are operating on two ten-hour shifts, it does not leave any available time for a man to travel to the Federal Reserve Bank to place his Bond in safekeeping. * * * I have approached the Federal Reserve Bank, and, frankly, they do not want to handle it on this basis -- and I see their point. I think it is absolutely necessary to provide a method of safekeeping so that the issuing agent can forward the Bonds directly to the safekeeping establishment and have the safekeeping establishment verify the receipt thereof. The request for this originated with our Union, and they have been after me on a number of occasions to know what can be done on this safekeeping problem, and frankly, I would very much like to accede to their request. I think that it would very materially revert to the Government's benefit, since the employee would not have easy access for cashing the Bond before maturity date. * * *

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Lt. John Edevries, Washington, D. C. Last night I visited the newsreel where I saw the splendid Navy picture, "The Battle of Midway". It was inspirational. A bit later a short was shown, issued by the Treasury, asking people to buy Defense Bonds. It seemed to me that the timing was excellent. However, the bid was made by a man somewhere between 25 and 30. Now I have no doubt whatsoever that this young man, in civilian clothes, was perfectly legitimate. Yet, the first thought - my immediate reaction was -- why isn't he in the Army? Having this problem to solve first, mentally, I did not concentrate as much on his plea as would have been the case if the plea had been made by some older person, who obviously would not be in the Army. I am inclined to suspect that more people reacted that way. This has just been an observation, but I felt it my duty to bring it before you.

F. A. Shick, Comptroller, Bethlehem Steel Company, Bethlehem, Pa. With reference to your telegram of Sept. 9, and our reply of Sept. 12, concerning the matter of delivery of War Savings Bonds to employees of Bethlehem Steel Corporation, and Subsidiary Companies, we would like to call your attention to several bottlenecks in our procedure as Issuing Agent, which are caused by the Bond itself, and which greatly slow up our production. Placing of the Company's Imprint stamp and date in one location on the Bond, and in another location on the stubs, compels us to put each Bond through the Addressing Machines three times. We have approximately 200,000 subscribers, and to handle three separate times each Bond purchased by such a large number of employees, within the time we are expected to handle them, appears to be a physical impossibility. (Suggestions as to this, and other problems of handling follow.) * * *

Harry E. Martin, Manager, Council Bluffs Grape Growers Association, Council Bluffs, Iowa. We write you in friendship and good will for the work in which you are now engaged. All of our employees buy Defense Stamps and Bonds with a full ten percent of their salary, and have been doing so since last February. We believe this should be

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compulsory, and not hit and miss. * * * However, I do object to a setting up of a State Administrator and a War Savings Staff in each state to pass on reports to your office, and we object so seriously that if it wasn't for the War effort, we wouldn't give a dime until you quit spending money needed for the War on these useless agencies. A copy of the letter I have written to Mr. V. L. Clarke is attached. That's the way we feel, and that is the way a lot of people in Iowa feel, and make no mistake about it. (The following is the letter addressed to Mr. Clarke by Mr. Martin.) We have your note saying that we have not sent in our Payroll Allotment Report for the preceding month. That is very true. Furthermore, you are not going to get it. We started this plan in Feb. and we are one hundred percent, and we still are, and we think your office could spend their time much better by getting out and stimulating Bond sales instead of asking for reports that we are not going to make; and furthermore, this takes a lot of money that we are giving for the war effort, to pay yours and like peoples salaries.

A. L. Gephart, Pittsburgh, Pa. I am enclosing you herewith form circular, dated Oct. 1, 1941, for verification, addressed to me at 902 Huber St., Johnstown, Pa., thanking me for my patriotic cooperation in buying United States Savings Bonds. This was purchased July 22, 1941, issued in the name of Alphonse L. Gephart and Rosemarie Gephart Schelhammer, as co-owner. Rosemarie Gephart Schelhammer, the co-owner, died at Altoona, Pa., about December 22, 1941. As the surviving co-owner, and purchaser of the Bonds, I attempted to have other Bonds issued, substituting other co-owners, and I was informed at the Pittsburgh Post Office, at two windows giving information on the Bonds, that I would be unable to have the Bonds changed, as desired, unless I secured a death certificate, which would require me to make a roundtrip to Altoona, Pa., by train, of 228 miles, necessitating railroad fare expenses, secure the certificate (which would require Notary fees), and myself make a similar affidavit at additional Notary expense for the Treasury Department, to which might be added other expenses which

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I have no knowledge of at the present time. All of these costs and expenses to save the original date of issue of the Bonds, which, during the first year do not pay one cent interest. Upon further inquiry, I found that the quickest way would be to turn the Bonds in to the Reserve Bank, get them cashed, and then purchase new Bonds in this manner. I don't think that it is the intention of the Treasury Department to require the cashing in of the Bonds, or to place the owners of the Bonds to such extraordinary expenses, as above-mentioned. It is possible that some of the co-owners on other Bonds which I have purchased may be in the military service, and in case they are reported as fatalities, it would become necessary for me to attempt to secure information which I might not be able to procure. In view of the fact that the co-owners themselves do not know that they are the co-owners of the Bonds, and the Treasury does not require any written application from the co-owners at the time of the purchase of the Bonds, it does seem far-fetched and unnecessary to require the above red tape and expense to protect only the original date of issue of the Bonds. * * *

F. B. Heath, President, Dakota National Bank & Trust Co., Bismarck, N. D. I can understand why you should be misunderstood in your statements made in regard to the War Bond program. In the first place, Washington in general is inclined to say too much and make too many promises. They do not like to call a spade a spade. In reading the second sentence in the second paragraph of your letter, you state, "I have said that it must therefore be supplemented by a more drastic and comprehensive tax program, including a tax on spendings, a part of which would be treated as a debt to the taxpayer and repaid after the war". Now if any such plan is in mind, why not call it a tax and forget about the rebate following the war? The war is going to have to be paid for or this country will face repudiation. Of course, it is going to be paid for and let's pay for it through taxes and not promise the taxpayer any refund following the war. * * * Has it come to your mind that these War Bonds are practically call paper and in six months or a year the purchasers may be asking for repayment from the Government? If a large

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portion of these Bond holders should ask for repayment, is it any more reasonable to expect that the Government could meet the demand than it would be for us to say that we could pay off all depositors if they called the same day and demanded their money? We shall continue to do our share in this War Bond program, but it would be much easier if we could go to the public with a proposition so planned that it would be practical and usable during the duration.

Herman Gross, Fairhope Fabrics, Inc., Fall River, Mass. I have become increasingly concerned over the Bond selling representatives who feel that they are doing the country a real service in attempting to sell a few Bonds. As we all very well know, no American soldier has lacked equipment, or supplies, or shipping, etc., due to the fact that our Government has not had sufficient money. * * * While I recognize the absolute necessity for controlling inflation, I do not feel that your Bond selling campaign can in any way help. A great deal of money, effort, and time is being expended in trying to sell Bonds on street corners, theater lobbies, etc., when this time could be much better spent in collecting scrap rubber, metals, etc. As you know, these are the really critical items. * * * You are not reaching those who are responsible for the bidding up of services and goods, which are the primary causes of inflation. Those who are buying Bonds are either the large investors, or those of very small means, generally under the \$2,000 a year income bracket. * * * Another objectionable feature of your Bond selling campaign is the fact that you are requesting at least "10% of one's income for the purchase of War Bonds". This amount, to a person making \$18 to \$25 a week, is a definite hardship, but for individuals with incomes over \$40 weekly, this proportion should be, and must be, stepped up. * * * Please do not be afraid of the word "compulsion", because we of the "plain folks back home" will not regard it as compulsion. We feel it is our duty, and we are constantly amazed that our Government has not called on us for greater contributions to the War effort. * * *

Favorable Comments on Taxation

Margaret Bishop, N.Y.C. As a wholehearted supporter of the Administration and its win-the-war policy, I want to applaud your statement of September 17, 1942, in which you labeled the Tax Bill now pending in the Senate Finance Committee as "wholly inadequate". You are absolutely right. Your supporters only wish you had started earlier on your campaign against those who are trying to weaken the tax program. But we are very glad to see a good start made now, and we hope that you will be encouraged to make this a real campaign when you consider the success the President is having with his concerted drive for price and wage stabilization. * * *

Dr. Charles S. Bacon, Professor Emeritus, University of Ill., Chicago, Ill. On behalf of myself and members of the City Club of Chicago, I am writing to you in regard to your plan for a Spenders' Tax, which was not accepted by the Senate Committee. We would like to know more of the details of the tax. Some of us are quite sympathetic to your proposed plan, as we understand it. We therefore ask you to send us a statement of the plan if such is available. * * *

Unfavorable Comments on Taxation

Wm. D. Kizziah, Clerk, Board of County Commissioners of Rowan County, Salisbury, N.C. The people in the country believe that the House Ways and Means Committee knows more about the amount of taxes that the people can stand than you do. Your ideas would ruin millions of people who have large families and small salaries, which have not been increased. * * *

Dr. J. M. Carr, Carr Sanatorium, Stockton, Calif. Ever since you started the Tax Savings Bonds, you have changed them every year. Why? I am part of the Government. I am one of the 133,000,000 people that form this Government. I am taxed to run it. I have a right to know why the heads of our Government are so extravagant. Do you know that it costs a great deal to change these Bonds every year? Why can't one series run 5 years? You are simply too blooming extravagant with the taxpayers' money. About the time we get used to a certain Bond, you bring out a circular letter describing another Bond. O.K., we send down to the fiscal agent for a \$500 Bond, and they have none and advise us we will have to wait to such and such a day. All of this is expensive business and useless so far as I can see. * * *

September 26, 1943.

Dear Admiral Hoadly:

It was very good of you to remember our discussion of the Civil War correspondence between Major General Butler and Captain Vase, and I appreciate your sending me photostats of this correspondence. I am looking forward to reading it with a great deal of interest.

With thanks again for your thought of me,

Sincerely,

(Signed) H. Morgenthau, Jr.

Rear Admiral V. H. P. Hoadly,
Chief of the Bureau of Ordnance,
United States Navy,
Washington, D. C.

GHF/dbs

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read with
interest*
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IN REPLY ADDRESS
BUREAU OF ORDNANCE, NAVY DEPARTMENT
AND REFER TO No.

NAVY DEPARTMENT
BUREAU OF ORDNANCE

WASHINGTON, D. C.

September 22, 1942

BW

My dear Mr. Secretary:

When Under Secretary Forrestal and I were dining at your house the other evening, we quoted some Civil War correspondence between Major General Benjamin Butler and Captain Henry Wise, USN, Chief of the Bureau of Ordnance.

I am enclosing a photostat of the file copies of this correspondence, which was found last year during a move incident to expansion of the Bureau in this war. I would like to add that in defense of my Bureau, most of the correspondence in our files is of more recent origin, and that, speaking for both of the armed services, our cooperation has improved considerably since 1864.

Thanking you again for a most enjoyable dinner and evening, I am

Sincerely yours,

W. H. F. Blandy
W. H. F. Blandy,
Rear Admiral, U. S. Navy,
Chief of the Bureau of Ordnance

Hon. Henry Morgenthau,
Secretary of the Treasury.

Copy
Telegram from
Bureau of Ordnance
Navy Department
to Major General Butler. U.S.A.
Headquarters James River
Via Fortes Monroe.

Your telegram of the 11th inst.
to Navy Department has been
referred to me.

This Bureau cannot put
the gun block at the disposal
of Mr. Sawyer as you request, as
it is not considered strong enough
to be made into a rifled gun.

Signed - H. A. Wise
Chief of Bureau

12th August 1864

10⁰⁰ a.m.

Copy of ^{Endorsement on} Telegram from Genl
Butler to Navy Dept. referred to
above.

This Bureau has informed
Genl. Butler, by telegram, that it
cannot put the block at the
disposal of Mr. Sawyer, as it is
not considered strong enough to
be made into a rifled gun.

Aug. 12,
1864

Signed - H. A. Wise
Chief of Bureau

Copy,
 Adj. Quarters Dept. of
 Virginia and North Carolina
 In the Field, Va

Aug. 12th 1864.

Capt. Henry A. Wise
 Chief of Bureau of Ordnance
 Navy Department.

My dear Sir,

I have received your telegram in answer to my request. I loan me a block for a gun to be put at the disposal of Messrs Sawyer for the purpose of being rifled, saying that the block cannot be loaned me as requested "because it is not considered strong enough to be made into a rifled gun".

I take leave to suggest that I asked the Navy Department for a gun and not for an opinion - I can get the latter anywhere.

I suppose it would depend something on the size of the block and the size of the bore whether it would be "strong enough to be rifled".

To bring the opinion to the reductio ad absurdum suppose

we take a block for a 11^{inch} gun
 and rifle it to the calibre of
 a Springfield musket, $\frac{58}{100}$ of an
 inch, would the block be
 strong enough to be made into a
 rifled gun?

I may have also to add
 that in the Fall of '61, Messrs.
 Sawyer rifled for me with five
 inch bore two Navy 32's which
 I took to the Gulf and they did
 such excellent shooting that the
 Navy officers borrowed them from
 me and never returned them,
 being the only rifled guns they
 had on board two Vrats, therefore
 it was that I ventured to ask
 the loan of the block. If the
 Navy will send back my two
 guns I shall not want to
 borrow the block, besides I won't
 say anything about the Twenty
 five hundred tons of coal I
 loaned the Navy at the mouth of
 the Mississippi, which has never
 been returned or paid for.

Most truly your obliged friend
 (Not for your person)
 Wm. B. Butler
 Maj. Genl.

Copy
Bureau of Ordnance
Navy Department

Washington City 15th Aug. 1864.

My dear General,

I have this day received your letter of the 12th instant, containing your opinion - which I should find difficulty in getting anywhere else - in reply to what you think of my opinion in reference to gun blocks.

Now let me give you the facts and I think you will then admit that your argument is based upon an entire misapprehension of the real state of the case.

By way of illustration you ask if an 11th gun block were bored up to about the size of a pipe stem would it be strong enough for a rifled gun?

Certainly it would - not a doubt of it I provided, however, the gun block had not already been bored to eleven inches, and the iron was good; which is not the case with blocks at Algiers - they being already bored to 7¹/₂ inches. So that unless the present hole is filled up and a new tube of 5th/₁₀₀ inserted, your illustration

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Bureau of Ordnance
Navy Department

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not touch the question
 Again these 4 1/2 inch blocks
 of 1600 lbs each, have been found
 from the results of trial under
 the direction of Admiral Dahlgren
 who designed them - in his opinion
 to be of defective metal, and,
 consequently, of insufficient strength
 for Rifled Cannon.

You would certainly, therefore
 deem it not less than criminal
 in me to transfer to you one of
 these blocks, to be rifled by
 Messrs. Saylor, or anyone else, for
 use in the Army to the imminent
 danger of the men, without at
 least giving an opinion.

With reference to the two Saylor
 guns the Navy borrowed from you,
 both gave way under ordinary
 fire on board ship, shooting in
 different ways, which impressed
 us with such an idea of that
 species of rifled artillery that we
 did not deem it expedient to
 borrow any more of them for
 Naval purposes. The sailors did
 not seem to appreciate them.
 I send you herewith a sketch of
 one of them with a report from
 Admiral Farragut

Admiral Farragut, and the
broken guns are now at the
New York Navy Yard subject to
your orders.

Nevertheless if, with the
above facts before you, you still
wish to have one of the blocks,
a requisition for it in the usual
form, through the War Office, will
be immediately complied with.

As for the 2500 tons of coal,
that operation I have nothing to
do with; I have heard, however,
incidentally, that at the capture
of New Orleans by the Navy, there
were seized a number of valuable
Steamers, cattle and divers other
articles, but eventually taken
possession of and used by the
Army for its purposes. There,
perhaps, in the final adjustment
of the coal account, will be
considered.

All such matters, however,
I leave to wiser heads - my
business is only Ordnance, for me
sutor ultra Crepidam.

I am General with great
regard for your opinions in
everything save Gun Blocks
Your friend and Servant.
signed - H. A. Wise.
Chief of Bureau.

Wm. G. Paul
B. F. Butler, USA
Headquarters Dept
of War & N. C.

Copy

Headquarters Dept of Virginia and N. Carolina
In the Field 9th Aug. 20. 1864.

Capt.

It is a pleasure to correspond with you on any subject, because you write clearly and distinctly.

I own to a misapprehension of facts, in two particulars, in my communication.

The first was: I supposed that the Navy never had anything that was defective, until I was informed by you, that Admiral Dahlgren's guns, were defective in their casting.

Again- I supposed that Alger was still casting for you, and casting good guns, and that we could get from you a good block, such as Mr. Sawyer should choose, for a gun.

I wish to put you right, however, in regard to the gun. Of all the facts which you state, in regard to it I was aware. But, I had five guns of the Sawyer pattern in the Gulf. Two were of the forty-two pound, army pattern, bored to 5.82ⁱⁿ and rifled. These I never believed strong enough to stand the strain, for want of a proper quantity of metal, and when I loaned them to the Navy, I cautioned the Commandant of the 'Jackson', in relation

to their use, specially, as one seemed to have a slight defect. But there were two others made from blocks of the Dalgren pattern, got at Wulgers, ~~Germany~~ bored to five inches, giving a greater weight of metal at the breech, where alone it is needed in that gun, which never have burst, and never will, with fair play, and not too much shooting; and these two last, were the subjects of my former communication. The reason I decided a block at this time, was because an experimental gun, which I had fired many times, but which I concluded to see from its accuracy in shooting, at a very important point, taking care to protect my men, had burst at the tenth discharge, after we began to use it, but nearer the thousandth from all its use. I decided very much to replace it, and therefore applied to the Navy, in order to hasten the time when I should get it, an application which I do not regret as it has been the cause of a very pleasant correspondence. I adhere to the maxim "Quæ sunt ultra Cupidam", but this gun is my Cupidam.

In your information, I enclose a photographic copy of the gun that burst, and also a record of the firing. Please say, if you ever saw a better record of shots at thirty, two hundred yards, and if you will give attention to the fact, that the gun was an old one, before it was rifled, and had already two vents, parallel to each other, you will not wonder at its weakness.

I, by no means, intend to press the coal account, but I will call your attention to the fact, that for all the vessels, I got of the Navy which were taken at New Orleans, I gave an accountable receipt, so that Farragut and his men, might get what they deserved, their prize money therefor.

They leave my dear Captain, however, to set you right upon one point of history. The Navy did not capture New Orleans. When I got before it, they had attempted to put up their flag on one of the public buildings, and it was pulled down before their eyes, and they did not dare to repeat the experiment. And, the last officer that went on shore, had to run for his life, which was not the case after the city was

taken possession of, by the Army.
 The truth is this Farragut and
 his fleet, very gallantly ran by
 the forts, and after that, the
 men of the garrisons surrendered
 to the Army, and the officers to the
 Navy, and then the Confederate
 army, ran away, and we of the
 Army, did ~~what~~ what the Navy could not
 do, landed and held the City.

But I take leave to assure
 you, that between the Army and
 Navy, at New Orleans, this question
 never was a matter of discussion,
 for both, I know, had such meed
 of respect for the other, that this
 question never arose - But then
Farragut was there!

I have the honor to be
 Very truly Yours
 Signed Benj. F. Quitor
 Maj. Genl.
 J. J. Commdg.

To
 Capt. H. A. Wise.
 Chief of Ordnance Bureau of the Navy
 Washington D.C.

Copy

103 11

Office Bureau of Information

Headquarters Department of Virginia and North Carolina

In the Field, Va Aug 25th 1864.

Record of Firing at Howlett-House Battery.

With
Sawyer Gun.

<u>No. of shot.</u>	<u>Elevation.</u>	<u>Range of flight.</u>	<u>Remarks.</u>
1	95	11	Struck & burst about 50 yds short of Battery.
2	10	12	Burst in air a little short of Battery
3	10	12	Struck and burst in parapet
4	10	12	Struck and burst in embrasure
5	10	12	Burst in air about 2 yds. over parapet [cleared the ^{gun through hole}]
6	10	12	Struck & burst on crest of parapet
7	10	12	Struck & burst on crest of parapet
8	10	12	Burst in air about 3 yds. directly over battery.
9	10	12	Burst directly over battery about 6 yds. in air.
10	10	12	Sawyer gun burst, the reinforce blown off - Carriage strained - 2 center braces broken - handspike fulcrum broken off - chassis uninjured - no one injured by explosion - Projectiles took the ground splendidly - Fuzes burnt accurately

- See over -

Record of Firing with
10ⁱⁿ Sea Coast Mortar.

<u>No of shell</u>	<u>Bursting charge</u>	<u>Mortar charge</u>	<u>Time of flight</u>	<u>Remarks.</u>
1	2	7	29	Struck beyond ^{side of} left of Battery
2	6 $\frac{1}{2}$	27		Struck & burst on crest of parapet ^{beside embrasure}
3	6 $\frac{1}{2}$	26 $\frac{1}{2}$		Struck & burst on supposed magazine
4	6 $\frac{1}{2}$	26 $\frac{1}{2}$		Struck near magazine - did not burst.
5	6 $\frac{1}{2}$	26		Burst in air nearly over Battery.

signed Thomas D. Cashin
2^d Lieut 1st C. & A.
Comdg. Sawyer Battery

True copy
Signed - John S. Davenport
Lieut & A. D. C.

MEMORANDUM

To: Secretary Morgenthau

From: Huntington Cairns

September 25, 1942

The attached article on the Russian oil matter appears in this week's Nation. I am informed that Harry Hopkins is considering causing a reply to be made to it.

You are mentioned in the last paragraph.

HC

"Quickly carry your trunks and disappear like your man. Wait here; I'll see what I can do."

Somebody pulls me by the sleeve: my man! He gives me the luggage ticket. "No, Señor, I am not a thief. They are all out of work. And everyone is looking for an occasional job." He asks me whether we have rooms. No, we haven't. "Then come with me. My brother-in-law has a small boarding-house; we can reach it in a few minutes. The hotels are overcrowded. Tomorrow the Caliph of Morocco will be here, and the day after there will be the parade of the Blue Legion, just returned from Russia."

On the way he talks about his family. He is married and has four children.

"Why are you out of work?"

"I was a militia man, and since the war I cannot get a job."

"Are there still reprisals?"

"There are no more mass executions, but if a personal enemy denounces you for having done this or that, they do what they did to my brother a few months ago. They took him out of his bed, and in the morning a police car picked up his body in one of the public parks."

"Do you regret what you have done?"

"Regret it? Never! If it should begin again tomorrow, I would do exactly the same thing as in 1936."

The parade of the Blue Legion was the great event of the summer season in Madrid. In the evening when the soldiers lingered about the town, I had the opportunity to speak to one of them, a young man of twenty-five.

"It was terrible, Señor. The 1,400 boys you saw in the

parade are the remnant of 5,000 who marched out of here last fall."

"You are volunteers, aren't you?"

"Volunteers?" He laughs bitterly. "They picked us from different regiments, a company here, a company there. Nobody asked us whether we agreed or not." Suddenly, without saying a word, he turns away and disappears among the crowd. I look around; two men of the military police are watching me suspiciously.

On the way to Lisbon we have a second-class compartment together with an older couple and their daughter. He is an aristocrat and landed proprietor.

"Yes, Germany will lose this war. Not so soon, but there is no other possible outcome. You see, they are enemies of the church. And the church has always been victorious over her enemies, exactly as in our civil war. I told them, 'You may change everything you want but don't touch the church.'"

"But Russia is an irreligious country, and nevertheless it is fighting against Germany?"

"The Russian government may be irreligious, but the Russian people were always religious and still are. Germany is the Antichrist."

"But your government is helping the Antichrist?"

"We have to pay our debts, Señor. We pay them with blood and food."

And after a while: "Yes, Señor, it is a real shame."

The next day we are in Portugal, a land of abundance. For the first time in years, we can eat our fill.

Russian Lives and Oil Patents

BY I. F. STONE

Washington, September 20

I AM ashamed to report that while the Russians have been fighting heroically in defense of our country as well as their own, we have been giving them a run-around. They have been trying for more than a year to obtain the use of certain American processes and facilities in order to build new plants in the Soviet Union for the production of aviation gas and other oil products. These are especially important now after the Russians suffered in the Caucasus. While the Russians give lives, we haggle over oil patents. Months ago they picked some broken-down refineries in Texas and arranged to buy them. They wanted to dismantle them and, with some new equipment, set them up again in the Soviet Union. But many patents are involved in the refining operations of these plants, and many other complications seemed to spring up in the negotiations. The deal has

been hanging fire for months. It is "about to be concluded any day now."

The basic obstacle, in my opinion, is that the big oil companies, while ready enough to sell Russia oil, are unwilling to allow it to use their patents and processes. They fear—so narrow are their horizons in the greatest war of history—that these processes may enable the Soviet Union to sell more oil on the world market after the war is over. Most of our difficulties here arise from just this kind of post-war planning, a subject which seems to interest many sections of big business much more than the war itself. One of the principal instruments of the big oil companies in postponing and delaying this important form of aid to our Soviet ally has been the State Department.

Soviet negotiations for these oil processes began back in January, 1941. At that time the State Department and

the Board of Economic Warfare objected on the ground that the Soviet Union was Hitler's "ally." After June 22, 1941, at least three directives were issued by the President in as many months instructing subordinate officials to give the Russians all possible aid in this field. The State Department, nevertheless, continued to interpose objections. The officials who figure in this anti-Soviet episode are Max W. Thornburg, the department's adviser on international oil matters; A. A. Berle; and Loy W. Henderson. They doubted the Soviet Union's competence in oil production, a field in which it has won the respect of the American oil industry. They questioned whether we could spare the materials the Russians wanted. They suggested that an "expert" be sent to the Soviet Union to investigate. Thornburg is a State Department dollar-a-year man from Bahrein Petroleum, the Persian Gulf subsidiary of the Texas Company and Standard Oil of California.

In the meantime, I. G. Farben's past collaborators in this country and in England seem to have taken over strategic posts in the negotiations. The companies to which I refer are Standard of New Jersey, Shell, Texas, Standard of Indiana, Universal Oil Products, and the M. W. Kellogg Company. They have been slow to help the Soviet Union but quick to take advantage of its necessities. These companies figure in the patent pools dissolved by the consent decree in the I. G. Farben cartel case. On the excuse that joint action is required to do business with the Russians, these companies have pooled the same patent processes involved in that case in a new company called the International Catalytic Oil Processes Corporation. On the same excuse they got clearance from the Department of Justice last fall. In March of this year, just a few days before the I. G. Farben consent decree was filed, they obtained the blessing of Deputy Petroleum Coordinator Ralph K. Davies, a Standard of California man. The Petroleum Coordinator's Office issues "recommendations." "Recommendation No. 42" provides for "cooperative development" of processes by this pool "so that the developments and improvements" may be made available to the Soviet Union! Clever folk, these oil men.

The cast of characters is interesting. Early last fall an adviser was appointed to help the Petroleum Coordinator's Office on Russian affairs. He turned out to be Frank A. Howard, vice-president of Standard Oil of New Jersey. Howard was one of the three defendants in the cartel case. One of the counts to which he pleaded *nolo contendere*, the equivalent in New York and most jurisdictions of guilty, is relevant here. Standard, Shell, and I. G. Farben agreed that "no license for production of petroleum products from coal should be given to the Union of Soviet Socialist Republics." It would be too bad, from Hitler's point of view, if the Russians, now that the Caucasus is endangered, had a few plants

beyond the Urals for making synthetic petroleum from coal.

One of Howard's employees has obtained leave of absence to act as associate director of the foreign division of the Petroleum Coordinator's Office. He is William D. Crampton, formerly Standard's representative in France. His name appeared in the documents in the I. G. Farben case dealing with the attempt of the Germans to obtain synthetic-oil rights for occupied France from a patent company jointly owned by Standard, Shell, and I. G. The head of that foreign division is James T. Duce of the California Arabian Oil Company, also a joint enterprise of Standard of California and the Texas Company. All exports of refining facilities and processes, whether by Lend-Lease or the Board of Economic Warfare, must clear through this division. I have no evidence that this power has been abused, and Crampton has on at least one occasion helped speed an oil shipment to the Soviet Union. The one point which can fairly be made is that power over exports has been placed in the hands of men from one particular oil group.

These men, in passing on proposed exports, decide whether the materials can be spared from this country and whether they are technically sound and useful. A Standard Oil or Texas Company man might honestly think some independent process of little value. In this connection it must be noted that independent oil companies with valuable processes have complained to the anti-trust division of the Department of Justice that they could not get clearance on exports to our allies. One process mentioned was a well-known device for reclaiming aviation lubricants. The oil-trust crowd has done its best to discourage its use in this country and does not care to have it shipped abroad. It cuts down the sale of lubricating oil.

When the Senate Patents Committee went into the files of the Petroleum Coordinator's Office, it found a gap between Howard's appointment as Russian adviser and an angry letter received from Harry Hopkins in March asking why there was so much delay on the Russian request for oil facilities. Since then there has been long haggling over royalties and patent rights. The President, Hopkins, Morgenthau, Ickes, Stettinius, and Hull are the top officials involved. All but Hull have shown themselves sincerely anxious to speed aid to the Russians, but that does not seem enough. Some ten years ago H. G. Wells interviewed Stalin. In the course of the discussion, as I remember the story, Stalin said, "In my country the state controls the economy; in yours the economy controls the state." I hope the Soviets will forgive us. The same forces which impede aid to them also impede aid to ourselves. This, if they remember their Marxist primers, is how monopoly capitalism operates in war.

September 25, 1942

Dear Harry:

I am enclosing herewith a copy of a letter which I received, this week, from Harold Ickes and my reply to the same.

Unfortunately, the situation still remains as I described it in my letter.

Yours sincerely,

(Signed) Henry

Honorable Harry Hopkins,
The White House.

Marked "Strictly Confidential"
Sent by Mess. Sturgis 4:25 9/25/42
File in Diary.

SEP 25 1942

My dear Mr. President:

I am enclosing report on our exports to some selected countries for the period ending September 10, 1942.

Faithfully,

(Signed) H. Morgenthau, Jr.
Secretary of the Treasury.

The President,
The White House.

Enclosure

Del. by Sturgis 4:25 9/25/42

Extra copies to Dr. White's
office

File in Diary.

MDU/ofs
9/21/42 **FILE COPY**

September 22, 1942

Exports to Russia, Free China and selected blocked countries as reported to the Treasury Department during the ten-day period ending September 10, 1942

1. Exports to Russia

Exports to Russia as reported to the Treasury Department during the ten-day period ending September 10, 1942 amounted to \$24,339,000 as compared with \$112,492,000 during the previous eleven-day period. Among the military equipment exported were 24 light bombers, 7 fighter planes and 62 tanks. (See Appendix C.)

2. Exports to Free China

Exports to Free China as reported during the period under review amounted to \$855,000 as compared with \$2,850,000 during the previous eleven-day period. Military equipment accounted for 67%. (See Appendix D.)

3. Exports to selected blocked countries

Exports to selected blocked countries are given in Appendix A. Most important were exports to Portugal amounting to \$51,000.

ISF/efs
9/22/42

**Summary of United States Exports to Selected
Countries as Reported to the Treasury Department
From Export Declarations Received
During the Period Indicated 1/**

(In thousands of dollars)

	10-Day Period ended Sept. 10, 1942	11-Day Period ended Aug. 31, 1942	Total Domestic Exports Aug. 1, 1942 to Sept. 10, 1942	Total Domestic Exports July 28, 1941 to July 31, 1942
U.S.S.R.	\$24,339	\$112,402	\$175,126	\$742,941
Free China	855	2,890	4,105	97,720
Spain	9	227	314	2,898
Switzerland	9	124	657	11,597
Sweden	17	1,892	2,403	18,056
Portugal	51	161	218	9,743
French North Africa 2/	—	117	1,929	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.

MF:rl 9/17/42

APPENDIX B

SECRET

112

Exports from the U. S. to Free China and U. S. S. R.
as reported to the Treasury Department
July 26, 1941 - September 10, 1942 1/

(Thousands of Dollars)

	<u>Exports to Free China</u>	<u>Exports to U. S. S. R.</u>
July 26, 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	13,315
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	28,558
Mar. 20 - Mar. 31 4/	2	42,435
Apr. 1 - Apr. 10	4,836	51,698
Apr. 11 - Apr. 20	5,335	66,906
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 4/	2,533	26,180
June 1 - June 10	3,399	12,764
June 11 - June 20	2,707	53,799
June 21 - June 30	1,664	49,919
July 1 - July 10	7,900	35,657
July 11 - July 20	590	33,940
July 21 - July 31 4/	3,066	35,669
Aug. 1 - Aug. 10	208	14,970
Aug. 11 - Aug. 20	192	23,325
Aug. 21 - Aug. 31 4/	2,850	112,492
Sept. 1 - Sept. 10	855	24,339
Total	\$ 104,428	\$ 918,887

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. 11day 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 21, 1942

187/cfs 9/18/42

APPENDIX G

Principal Exports from U. S. to U. S. S. R.
as reported to the Treasury Department
during the ten-day period ending
September 10, 1942

	<u>Unit of</u>	<u>Quantity</u>	<u>Value</u> (Thousands of Dollars)
TOTAL EXPORTS			\$ 24,339
Principal Items:			
Meat products	Lb.	19,292,052	4,720
Aircraft			4,003
Light bombers (2 eng. A-20)	No.	24	
Fighters (P-40)	No.	7	
Ammunition			3,282
.30 caliber balls	No.	16,101,000	
.30 caliber tracers	No.	765,020	
.30 caliber armor piercing	No.	1,066,000	
.30 caliber incendiary	No.	429,247	
.50 caliber balls	No.	268,700	
.50 caliber tracers	No.	200,000	
.50 caliber armor piercing	No.	693,700	
.50 caliber incendiary	No.	748,520	
81 mm. mortar shells	No.	10,199	
37 mm. tank and anti-tank gun armor piercing shells	No.	105,390	
37 mm. tank and anti-tank gun high explosive shells	No.	87,292	
75 mm. and over armor piercing shot	No.	20,361	
75 mm. and over high explosive shells	No.	10,267	
20 mm. Cerlikon gun tracers	No.	32,000	
20 mm. Cerlikon gun high explosive shells	No.	190,000	
Military tanks			2,925
Medium, M-3	No.	1	
Medium, n.e.s.	No.	61	
Other foodstuffs	-	-	2,107

SECRET

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APPENDIX C

Page 2

Value
(Thousands
of Dollars)

	<u>Unit of Quantity</u>	<u>Quantity</u>	
Aircraft parts and accessories	-	-	956
Metals and manufactures, n.e.s.	-	-	942
20 mm. Oerlikon anti-aircraft guns	No.	120	871
Machinery and vehicles, n.e.s.	-	-	691
Iron and steel bars and rods	Lb.	10,132,920	580
Machine tools	-	-	544

Treasury Department, Division of Monetary Research September 21, 1942

MVF/efs
9/21/42

APPENDIX D

**Principal Exports from U. S. to Free China
as reported to the Treasury Department
during the ten-day period ending
September 10, 1942**

(Thousands of Dollars)

TOTAL EXPORTS

\$ 855

Principal Items:

Military equipment
Gas trucks
Casings and tubes
Aerial cameras, etc.

569
261
13
10

Treasury Department, Division of Monetary Research September 21, 1942

MVF/cfs 9/21/42

16
Treasury Department
Division of Monetary Research

Date Sept. 22 1942

To: Secretary Morgenthau
From: Mr. White

Original of this report appended
to prepared letter to President.

MR. WHITE
Branch 2058 - Room 214½

Handwritten notes on the right edge of the page, including the word "Home" written vertically.

September 22, 1942

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ISF/efs
9/22/42

SECRET

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Free China	855	2,850	4,105	97,720
Spain	9	227	314	2,858
Switzerland	9	124	657	11,537
Sweden	17	1,892	2,403	18,056
Portugal	51	161	216	9,743
French North Africa 2/	—	117	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.

MVF:rl 9/17/42

Regraded Unclassified

APPENDIX B

Exports from the U. S. to Free China and U. S. S. R.
as reported to the Treasury Department
July 26, 1941 - September 10, 1942 ✓

(Thousands of Dollars)

	<u>Exports to Free China</u>	<u>Exports to U. S. S. R.</u>
July 26, 1941 - Jan. 24, 1942	\$ 32,758	\$ 98,902
<u>1942</u>		
Jan. 26 - Jan. 31	6,938	9,608
Feb. 1 - Feb. 10 2/	4,689	13,315
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	28,556
Mar. 20 - Mar. 31 4/	2	42,833
Apr. 1 - Apr. 10	4,876	51,698
Apr. 11 - Apr. 20	5,338	66,906
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 4/	2,533	26,180
June 1 - June 10	3,399	12,764
June 11 - June 20	2,707	53,799
June 21 - June 30	1,664	49,919
July 1 - July 10	7,900	35,657
July 11 - July 20	590	33,940
July 21 - July 31 4/	3,066	35,669
Aug. 1 - Aug. 10	208	14,970
Aug. 11 - Aug. 20	192	23,325
Aug. 21 - Aug. 31 4/	2,850	112,492
Sept. 1 - Sept. 10	855	24,339
Total	\$ 104,428	\$ 918,687

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. 5-day period.
4. 11day 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 21, 1942

BF/efs 9/18/42

SECRET

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APPENDIX G

Principal Exports from U. S. to U. S. S. R.
as reported to the Treasury Department
during the ten-day period ending
September 10, 1942

	<u>Unit of</u> <u>Quantity</u>	<u>Quantity</u>	<u>Value</u> <u>(Thousands</u> <u>of Dollars)</u>
TOTAL EXPORTS			\$ 24,339
Principal Items:			
Meat products	Lb.	19,292,052	4,729
Aircraft			4,003
Light bombers (2 eng. A-20)	No.	24	
Fighters (P-40)	No.	7	
Ammunition			3,282
.30 caliber balls	No.	16,101,000	
.30 caliber tracers	No.	765,020	
.30 caliber armor piercing	No.	1,066,000	
.30 caliber incendiary	No.	429,247	
.50 caliber balls	No.	268,700	
.50 caliber tracers	No.	200,000	
.50 caliber armor piercing	No.	693,700	
.50 caliber incendiary	No.	748,520	
81 mm. mortar shells	No.	10,199	
37 mm. tank and anti-tank gun armor piercing shells	No.	105,390	
37 mm. tank and anti-tank gun high explosive shells	No.	87,292	
75 mm. and over armor piercing shot	No.	20,361	
75 mm. and over high explosive shells	No.	10,267	
20 mm. Oerlikon gun tracers	No.	32,000	
20 mm. Oerlikon gun high explosive shells	No.	190,000	
Military tanks			2,925
Medium, M-3	No.	1	
Medium, n.e.s.	No.	61	
Other foodstuffs	-	-	2,107

SECRET

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APPENDIX C

Page 2

	<u>Unit of</u> <u>Quantity</u>	<u>Quantity</u>	<u>Value</u> <u>(Thousands</u> <u>of Dollars)</u>
Aircraft parts and accessories	-	-	956
Metals and manufactures, n.e.s.	-	-	942
20 mm. Oerlikon anti-aircraft guns	No.	120	871
Machinery and vehicles, n.e.s.	-	-	691
Iron and steel bars and rods	Lb.	10,132,920	580
Machine tools	-	-	544

Treasury Department, Division of Monetary Research September 21, 1942

MVF/efs
9/21/42

APPENDIX B

**Principal Exports from U. S. to Free China
as reported to the Treasury Department
during the ten-day period ending
September 10, 1942**

(Thousands of Dollars)

TOTAL EXPORTS

\$ 855

Principal Items:

**Military equipment
Gas trucks
Casings and tubes
Aerial cameras, etc.**

**569
261
13
10**

Treasury Department, Division of Monetary Research September 21, 1942

MVF/ofs 9/21/42

SEP 25 1942

My dear Mr. Secretary:

I am enclosing copy of report on our exports to some selected countries for the period ending September 10, 1942.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable,

The Secretary of State,

Washington, D. C.

Enclosure

Del. by Sturgis 4:25 9/25/42

Extra copies to Dr. White's
office

File in Diary.

MDW/efs
9/21/42

MDW

FILE COPY

September 22, 1942

Exports to Russia, Free China and selected blocked countries as reported to the Treasury Department during the ten-day period ending September 10, 1942

1. Exports to Russia

Exports to Russia as reported to the Treasury Department during the ten-day period ending September 10, 1942 amounted to \$24,339,000 as compared with \$112,492,000 during the previous eleven-day period. Military equipment accounted for 52%. (See Appendix C.)

2. Exports to Free China

Exports to Free China as reported during the period under review amounted to \$855,000 as compared with \$2,850,000 during the previous eleven-day period. Military equipment accounted for 67%. (See Appendix D.)

3. Exports to selected blocked countries

Exports to selected blocked countries are given in Appendix A. Most important were exports to Portugal amounting to \$51,000.

**Summary of United States Exports to Selected
Countries as Reported to the Treasury Department
From Export Declarations Received
During the Period Indicated 1/**

(In thousands of dollars)

	10-Day Period ended Sept. 10, 1942	11-Day Period ended Aug. 31, 1942	Total Domestic Exports Aug. 1, 1942 to Sept. 10, 1942	Total Domestic Exports July 26, 1941 to July 31, 1942
U.S.S.R.	\$24,339	\$112,492	\$175,126	\$742,941
Free China	855	2,850	4,105	97,720
Spain	9	227	314	2,838
Switzerland	9	124	657	11,537
Sweden	17	1,892	2,493	18,056
Portugal	51	161	218	9,743
French North Africa 2/	—	117	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 - September 10, 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	13,315
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	28,556
Mar. 20 - Mar. 31 4/	2	42,435
Apr. 1 - Apr. 10	4,836	51,698
Apr. 11 - Apr. 20	5,335	66,906
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 4/	2,533	26,180
June 1 - June 10	3,399	12,764
June 11 - June 20	2,707	53,799
June 21 - June 30	1,664	49,919
July 1 - July 10	7,900	35,657
July 11 - July 20	590	33,940
July 21 - July 31 4/	3,066	35,669
Aug. 1 - Aug. 10	208	14,970
Aug. 11 - Aug. 20	192	23,325
Aug. 21 - Aug. 31 4/	2,850	112,492
Sept. 1 - Sept. 10	855	24,339
Total	\$ 104,428	\$ 918,887

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 21, 1942

JSF/cfs 9/22/42

APPENDIX C

**Principal Exports from U. S. to U. S. S. R.
as reported to the Treasury Department
during the ten-day period ending
September 10, 1942**

(Thousands of Dollars)

TOTAL EXPORTS	\$ 24,339
Principal Items:	
Military equipment	12,597
Meat and meat products	4,720
Grains and preparations	786
Iron and steel billets, bars and rods	737
Machinery and parts	544
Dairy products	534
Copper, brass and bronze manufactures	276
Motorcycles, trucks and parts	259
Iron and steel wire and cable	231
Cranes	205
Railroad spikes, joints, crossings, etc.	187
Vegetables and preparations	179
Sheet metal storage cabinets	164
Motor fuels, lubricating oils and greases	155
Stationary motors and starting equipment	141

Treasury Department, Division of Monetary Research September 21, 1942

MVF/cfs 9/21/42

APPENDIX B

**Principal Exports from U. S. to Free China
as reported to the Treasury Department
during the ten-day period ending
September 10, 1942**

(Thousands of Dollars)

TOTAL EXPORTS	\$ 555
Principal Items:	
Military equipment	569
Gas trucks	261
Casings and tubes	13
Aerial cameras, etc.	10

Treasury Department, Division of Monetary Research September 21, 1942

MVF/efs 9/21/42

C
O
P
YFEDERAL RESERVE BANK
OF NEW YORK

September 25, 1942

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

I am enclosing our compilation for the week ended September 16, 1942, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,

/s/ L. W. Knoke

L. W. Knoke,
Vice President.

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

Enclosure

Copy:imc:9/30/42

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

Week Ended Sept. 16, 1942

Strictly
Confidential

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT)								BANK OF FRANCE							
	DEBITS			CREDITS					Net Incr. (+) or Decr. (-) in Balance	DEBITS			CREDITS			
	Total Debits	Gov't Expenditures (a)	Other Debits	Total Credits	Proceeds of Sales of Gold	Securities (Official) (b)	Other Credits (c)	Total Debits		Gov't Expenditures (d)	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in Balance	
First year of war (8/29/39-8/28/40)*	1,793.2	605.6	1,187.6	1,828.2	1,356.1	52.0	420.1	+ 35.0	866.3 (e)	416.6 (e)	449.7	1,095.3 (e)	900.2	195.1 (e)	+229.0	
War period through December, 1940	2,792.3	1,425.6	1,366.7	2,793.1	2,109.5	108.0	575.6	+ 10.8	878.3	421.4	456.9	1,098.4	900.2	198.2	+220.1	
Second year of war (8/29/40-8/27/41)**	2,203.0	1,792.2	410.8	2,189.8	1,193.7	274.0	722.1	- 13.2	38.9	4.2	34.1	8.8	-	8.8	- 30.1	
1941																
Aug. 28 - Oct. 1	140.9	105.9	35.0	176.2	20.1	2.0	154.1	+ 35.3	0.3	-	0.3	0.5	-	0.5	+ 0.2	
Oct. 2 - Oct. 29	109.0	77.3	31.7	150.9	0.8	-	150.1	+ 41.9	0.3	-	0.3	0.3	-	0.3	-	
Oct. 30 - Dec. 3	156.1	111.6	44.5	134.6	-	1.0	133.6	- 21.5	16.1	-	16.1	0.4	-	0.4	- 15.7	
Dec. 4 - Dec. 31	88.4	69.6	18.8	51.5	-	-	51.5	- 36.9	0.8	-	0.8	0.4	-	0.4	- 0.4	
1942																
Jan. 1 - Jan. 28	102.3	73.2	29.1	69.3	-	0.5	68.8	- 33.0	0.2	-	0.2	0.4	-	0.4	+ 0.2	
Jan. 29 - Feb. 25	87.2	63.8	23.4	57.2	-	1.0	56.2	- 30.0	-	-	-	0.3	-	0.3	+ 0.3	
Feb. 26 - Apr. 1	121.4	86.4	35.0	171.4	-	-	171.4	+ 50.0	0.1	-	0.1	0.4	-	0.4	+ 0.3	
Apr. 2 - Apr. 29	98.1	64.2	33.9	70.6	-	0.5	70.1	- 27.5	0.2	-	0.2	0.4	-	0.4	+ 0.2	
Apr. 30 - June 3	104.0	81.4	22.6	165.7	-	-	165.7	+ 61.7	-	-	-	0.3	-	0.3	+ 0.3	
June 4 - July 1	89.9	72.6	17.3	113.6	-	-	113.6	+ 23.7	-	-	-	0.3	-	0.3	+ 0.3	
July 2 - July 29	66.1	45.9	20.2	24.4	-	-	24.4	+ 18.3	0.1	-	0.1	0.3	-	0.3	-	
July 30 - Sept. 2	72.2	52.9	19.3	116.1	0.9	-	115.2	+ 43.9	0.4	-	0.4	0.4	-	0.4	-	
WEEK ENDED:																
Aug. 26	10.2	7.1	3.1	13.6	-	-	13.6	+ 3.4	-	-	-	1.1	-	1.1	+ 0.2	
Sept. 2	11.7	6.1	5.6	13.1	-	-	13.1	+ 29.4	0.2	-	0.2	1.1	-	1.1	-	
9	15.5	17.7	1.8	26.9	-	0.5	26.4	+ 7.4	-	-	-	0.1	-	0.1	+ 0.2	
16	11.1	4.3	6.8	21.2	-	-	21.2 (f)	+ 10.1	-	-	-	0.1	-	0.1	+ 0.1	

Average Weekly Expenditures Since Outbreak of War
 France (through June 19, 1940) \$19.6 million
 England (through June 19, 1940) 27.6 million
 England (since June 19, 1940) 35.0 million

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

Week ended September 16, 1942 \$ - million
 Cumulation from July 6, 1940 \$ 147.9 million

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

- (a) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply, Timber Control, and Ministry of Shipping.
- (b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of our securities through December, 1940 amounted to \$334 million.
- (c) Includes about \$25 million received during October, 1939 from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts since October, 1939 apparently represent the acquisition of proceeds of exports from the sterling area and other currently accruing dollar receipts.
- (d) Includes payments for account of French Air Commission and French Purchasing Commission.
- (e) Adjusted to eliminate the effect of \$20 million paid out on June 26, 1940 and returned the following day.
- (f) Includes: \$15.0 million transferred from dollar accounts of British authorized banks.
\$ 2.7 million deposited by the British Ministry of Supply, of which \$1.9 million was deposited by British Ministry of Supply Mission.
\$ 2.4 million for credit of U. S. Army.

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

Week Ended September 16, 1942 Strictly Confidential

PERIOD	BANK OF CANADA (and Canadian Government)									COMMONWEALTH BANK OF AUSTRALIA (and Australian Government)							
	DEBITS					CREDITS				Net Incr. (+) or Decr. (-) in Balance	DEBITS			CREDITS			
	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C	For Own A/C	For French A/C	Other Credits		Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in Balance
First year of war (8/29/39-8/28/40)*	323.0	16.6	306.4	504.7	412.7	20.9	38.7	32.4	+181.7	31.2	3.9	27.3	36.1	30.0	6.1	+ 4.9	
War period through December, 1940	477.2	16.6	460.6	707.4	534.8	20.9	110.7	41.0	+230.2	57.9	14.5	43.4	62.4	50.1	12.3	+ 4.5	
Second year of war (8/29/40-8/27/41)**	460.4	-	460.4	462.0	246.2	3.4	123.9	88.5	+ 1.6	72.2	16.7	55.5	81.2	62.9	18.3	+ 9.0	
Aug. 28 - Oct. 1 1941	23.1	-	23.1	52.2	21.2	-	-	31.0	+ 29.1	10.7	0.5	10.2	2.8	2.1	0.7	- 7.9	
Oct. 2 - Oct. 29	37.4	-	37.4	19.7	11.9	-	-	7.8	- 17.7	8.2	5.5	2.7	8.0	5.9	2.1	+ 0.2	
Oct. 30 - Dec. 3	52.8	0.1	52.7	32.5	19.3	-	-	13.2	- 20.3	10.3	6.9	3.4	11.6	9.0	2.6	+ 1.3	
Dec. 4 - Dec. 31 1942	47.7	-	47.7	22.2	17.3	-	-	4.9	- 25.5	3.9	1.8	2.1	2.8	0.2	2.6	- 1.1	
Jan. 1 - Jan. 28	39.5	-	39.5	33.0	27.0	-	-	6.0	+ 6.5	4.5	-	4.5	10.8	-	10.8	+ 6.3	
Jan. 29 - Feb. 25	34.1	-	34.1	35.7	12.4	-	-	23.2	+ 1.6	8.4	5.3	3.1	1.6	-	1.6	- 6.8	
Feb. 26 - Apr. 1	46.5	-	46.5	99.3	20.5	7.7	-	71.1	+ 52.8	7.6	1.3	6.5	2.5	-	3.6	- 4.2	
Apr. 2 - Apr. 29	37.4	-	37.4	35.9	14.2	-	-	21.7	- 1.5	10.9	8.0	2.9	16.8	-	16.8	+ 5.9	
Apr. 30 - June 3	54.2	-	54.2	47.9	15.7	-	-	32.2	- 6.3	13.2	9.5	3.7	14.6	-	14.6	+ 1.4	
June 4 - July 1	47.2	-	47.2	72.9	14.7	-	-	58.2	+ 25.7	2.5	0.5	2.0	3.0	-	3.0	+ 0.5	
July 2 - July 29	40.8	-	40.8	37.7	9.0	-	-	28.7	- 3.1	18.1	15.0	3.1	19.5	-	19.5	+ 8.4	
July 30 - Sept. 2	65.1	0.2	64.9	77.3	15.4	-	-	61.9	+ 12.2	7.7	3.1	4.6	17.1	-	17.1	+ 3.4	
WEEK ENDING:																	
Aug. 26	17.8	-	17.8	3.4	0.1	-	-	3.3	- 14.4	2.1	2.1	-	1.0	-	1.0	- 3.1	
Sept. 2	11.5	-	11.5	14.7	1.6	3.2	-	9.9	+ 3.2	2.3	-	2.3	-	-	-	+ 9.5	
9	6.3	-	6.3	12.9	2.8	-	-	10.1	+ 6.6	13.8	10.0	3.8	2.6	-	2.6	- 11.2	
16	13.7(a)	-	13.7	10.9(a)	2.2	-	-	8.7(b)	- 2.8	0.5	-	0.5	0.5	-	0.5	-	

Weekly Average of Total Debits Since Outbreak of War

through Sept. 16, 1942 \$ 8.2 million

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

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

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

(b) Includes \$8.5 million representing proceeds of U. S. Government checks deposited by War Supplies, Ltd.

BRITISH MOST SECRET
U.S. SECRET

CP 42 333

Information received up to 7 A.M., 25th September, 1942.

1. NAVAL

H.M. Destroyer reported in tow in OPTEL 329 sunk yesterday while in tow. There are believed to be about fifty casualties. One of H.M. Submarines torpedoed two ships of 5,000 and 3,000 tons in the GULF OF HAMMAMET, TUNISIA, on the 22nd, and another H.M. Submarine torpedoed a southbound ship of 5,000 tons off TOBRUK. All three ships are believed to have sunk. A Vichy French vessel of 1,500 tons was intercepted by one of H.M. Destroyers off PORTUGUESE EAST AFRICA after being located by SAAF Aircraft and is being escorted to Port.

2. MILITARY

RUSSIA. Local Russian attacks continue in FINLAND and on the Leningrad, RZHEV and VORONEZH fronts, but without territorial change. The Russians continue to attack the Northern flank of the German assault forces at STALINGRAD but in the City itself the Germans appear to have gained some ground despite stubborn Russian resistance.

3. AIR OPERATIONS

WESTERN FRONT. 23rd/24th. WISMAR and DORNIER FACTORY. Weather cloudy. 48 tons H.E. and 34 tons I.B. dropped. Attack made from low altitude some aircraft going down to 60 feet. Two large fires reported and factory believed hit.

VEGESACK. Weather cloudy, results mostly unobserved. 23 tons H.E. and I.B. dropped.

FLENSBURG. Locality of shipyards could be pin pointed and most aircraft bombed from 1,500 feet. 43 tons H.E. and five of I.B. dropped. Bursts and a large explosion were seen in the shipyards and other bursts in the town. Fires from incendiary bombs seemed to be taking firm hold. 24th. 26 enemy aircraft crossed the South coast, mostly in the HASTINGS area, where 13 persons were killed and 35 seriously injured, including some R.A.F. personnel. Coastal Command aircraft destroyed 3 JU 88's off BREST. 24/25. 51 aircraft sent sea mining. 28 of them off Dutch Coast and HELIGOLAND and 23 to the BALTIC, some as far as GDYNIA. One aircraft is missing. Eight enemy aircraft were plotted over CORNWALL, one was destroyed by night fighters.

EGYPT. 22/23. Our bombers attacked TOBEUK and landing grounds near MERSA MATRUH.

MEDITERRANEAN. 22nd. Beauforts attacked a convoy consisting of a 5,000 ton tanker and 3 destroyers in the IONIAN SEA. The tanker was hit by at least one torpedo.

Treasury Department
Office of the Secretary

13

Date Sept. 25, 19 42

To: **Secretary Morgenthau**

From: **Mr. Hoflich**

Attached is the "Voice of
the Chief" broadcast of September
1, as reported by Federal Communi-
cations Commission.

PARTY GRAFT BALKS WEHRMACHT PLANS

According to the clandestine transmitter "Voice of the Chief", with "Gustav Siegfried Eins", broadcasting in German to the Reich (September 23), widespread S.S. "Kommune" corruption in occupied Norway caused the failure of two recent military undertakings by the Wehrmacht.

Oslo Pigsty--"There is probably no more awful proof of "Kommune" corruption than the scandalous happenings in the Party profiteer stronghold, Oslo," the radio says. "There, these filthy cads sit in responsible positions which are decisive for the weal and woe of the fighting front, and in which they have entrenched themselves through their connections with the ruling community clique, and they poison their work, the whole war effort and cater only to their own pleasures and their filthy profiteering business.

Party's Grand Hotel--"In the K.N.A. Hotel in Oslo, everywhere one comes across these foul, whoring, and drunken behind-the-line skunks. Every single one of them makes a business of his position, from the war profiteer to the corrupt S.S. blackmailers. And when Falkenhorst is away on an official trip, then the great celebrating really blossoms out in full. Every morning, before work can begin, the drunken and defiled street women must be dragged out of the special leaders' offices.

Corrupt Officials--"There is the special leader Puschmann and special leader Pinkanelle, whose particular special leadership consists in smuggling blue fox skins into Germany, France and Italy. There is the so-called 'Naval Lieutenant' Hoehr who, in addition to his service duty, carries on a flourishing business of importing oil for his Norwegian private customers. There is the former Goebbels valet, Endrich, who sends gift packages to the Horcher firm in Berlin by courier plane which Horcher then resells for him to his gourments. Or Chief Inspector Barschdorf, of the S.D. (Sicherheitsdienst, or Security Service), who for a 15-pound ham, releases saboteurs and traitors.

Far from the Front--"These...all enrich themselves by their daily and hourly breaches of trust, shirk their duties, betray the fighting troops, and enjoy the highest honor and unimpeachable esteem in the community which has installed them. To what catastrophic consequences this leads is best shown by the case of the special leader Bart, of the Oslo Naval Office, who is in charge of the entire coastal navigation as well as of supplies for our troops and combat squadrons in the Far North.

Cracking Supply Service--"This filthy fellow for the sake of his own Judas interests lets the supply services go completely to the dogs, and he is thus directly responsible for two grievous happenings which are both to be attributed to the lack of supplies.

Foiled Convoy Raid--"First, our combat squadrons in the most recent attacks on the Anglo-American convoys, had unnecessarily heavy losses, because owing to a lack of fuel, Lieutenant General Bruch could not use as many bombers and torpedo planes as he had planned. As a result, the extraordinarily strong anti-aircraft and pursuit protection of the convoy could not be softened up, and a disproportionately large number of our planes were shot down.

Failure of Murmansk Plan--"Second, Colonel General Ditel, because of insufficient supplies had to give up his planned offensive against Murmansk, which would have been of the greatest importance for the relief of other sectors of the front."

(Federal Communications Commission, September 24, 1942)

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9-25-42

INTELLIGENCE REPORT 42

CONFIDENTIAL

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OFFICE OF
WAR INFORMATION
BUREAU OF
INTELLIGENCE

COPY No. 7

Henry Morgenthau, Jr.

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The period covered by this report is the week of September 16 through September 22, except where otherwise specifically stated



ATTENTION FOCUS

Public interest during the past week was directed primarily to the following topics:

Fighting Fronts

Battle of Stalingrad
Fighting in the Solomons
RAF raids on Germany
Japanese advances in New Guinea
American submarine sinkings of Japanese ships
Army plane attacks on the Aleutians

The Domestic Front

Congressional action on inflation control
The drive for scrap materials
The appointment of an administrator for the rubber problem
Fuel rationing

Stalingrad dominated the news to an even greater extent than in preceding weeks; though German advances were not denied, stories stressed every hopeful aspect of the Russian defense. Reports of fighting in the Solomons and in New Guinea were also presented optimistically. The RAF raids on Germany and the American air attack on the Aleutians were dramatized as crushing blows. Domestic events received only secondary attention in the news media.



EDITORIAL ATTITUDES

Second Front

Leading editorial commentators have revived consideration of the second front problem in a new atmosphere.

Some of them are manifestly uneasy that Anglo-American failure to undertake this venture in the near future may undermine the relations between

Russia and the other members of the United Nations.

The sense of a rift between Russia and her allies was brought into the open by Prime Minister Churchill's report to Commons concerning his talk with Stalin and by the statement of a foreign diplomatic authority in London, commonly imputed to Ambassador Maisky. "It is now clear," observed Dorothy Thompson, "that there is an open conflict between the Anglo-American world and Russia." Miss Thompson asked rhetorically if Russia, during the last months, had been encouraged to think that we would open a second front. And she answered this question with an emphatic affirmative.

Over the air during the week, Raymond Gram Swing expressed uneasiness on the same account. "It is obvious," he remarked, "that the studied ambiguity of the statement issued after Mr. Molotov's visit is cause for real trouble, for it was made to mean one thing to the Russian people, and one thing only. It may have fooled and worried the Germans, but it would not be good practice to fool the enemy if it involves fooling your own side."

The heroism of the Russian resistance at Stalingrad evoked universal praise. A number of commentators noted, however, that praise is not what the Soviet Union now needs. They, too, are uneasy over the apparent friction between the allies and agree that we must make every effort to convince the Russian people that we are doing everything possible to relieve them without jeopardizing final victory.

Only a minority of the current comments openly demand a second front. But a considerable number of them discuss uneasily the consequences which may follow from a failure to attempt invasion now. The Christian Science Monitor, for example, declared: "By spring the costs of a second front could be doubled or trebled. And is it certain that it will then be the

second, rather than the first front? Admittedly, Mr. Roosevelt and Mr. Churchill must calculate carefully American and British interests, as well as Russia's. But too often in the past a self-centered lack of imagination, of courage and of willingness to fight for the welfare of all has given the Nazis victory. Today Britain and America must regard any loss of Russia's as their own. The military strength of the United Nations is one common reservoir; it should be exerted in concert."

The Canadian Government's announcement of the severe losses suffered in the Dieppe raid promoted sober analysis of the problems involved in opening a second front. The prevailing judgment appears to be that, while heavy casualties must be expected, an invasion effort is still feasible.

South Pacific

Japanese advances in New Guinea have produced a good deal of editorial shock and chagrin. There was general agreement that, if Port Moresby should fall, the Solomon Islands victory would be hollow; cries for explanations began to appear. Commentators warned their readers that the defense of Port Moresby will now be extremely difficult and that a large-scale Japanese effort to retake the Solomon Islands must be expected.

The disappointment about the situation in the Pacific was apparently intensified by Admiral Blandy's statement that the United States now holds the balance of striking power in that area. Skepticism regarding the Admiral was accompanied by the first expressions of doubt as to the infallibility of General MacArthur. The New York Herald-Tribune declared that "The only thing in doubt about Port Moresby again is the leadership of the forces which have had to surrender their strong defensive positions on

the high ridges of the Owen Stanley range, to Japanese who exhibited no new accomplishment, except their ability to keep their supplies moving up to their front lines as fast as they needed them, over all geographical obstacles." Even the Chicago Tribune, which has continually praised General MacArthur, called upon him to send reinforcements to New Guinea instead of lecturing his troops on defensive warfare.

The Anti-Inflation Program

A majority of editorial comment on the anti-inflation program gave at least qualified approval to the bill introduced by Senators Brown and Wagner in the Senate and condemned the Steagall proposal in the House. Eastern papers were united in their opposition to any upward revision of the parity standard.

Some of the leading midwestern newspapers, however, veered suddenly into the farm bloc camp, supporting the Steagall formula and expressing uneasiness over wages. Among these were the Kansas City Star and the Omaha World-Herald. They agreed with the Daily Oklahoman that "It is not the arbitrary reduction of his income that the farmer objects to.... it is the manifest injustice of the proposed program that stirs his resentment..."

The WLB decision in the General Motors case, and the testimony of WLB chairman Davis before the Senate Banking Committee, aroused a number of papers to charge that labor is still being favored as opposed to agriculture.

The Senate committee's "victory tax" proposal received a drubbing from the press, attacks coming chiefly from sales tax proponents. The proposal was considered preferable to the Treasury's "spending tax" of last week, but was generally condemned on the ground that it would not siphon off enough excess buying power.

In addition to ending the confusion as to the status of our rubber supply, the Baruch Report has virtually wiped out newspaper opposition to nation-wide gas rationing. A single well-timed and convincing statement has almost completely disposed of what was a controversial issue.



POPULAR REACTIONS

Second Front

A majority of the American people believes that the allies should attempt to invade the continent of Europe within the next two or three months, that they actually will do so within this period and that the attempt has a good possibility of success. Illustrated below are the answers given by a national sample to questions on this subject asked by the Bureau of Intelligence during the first half of September:

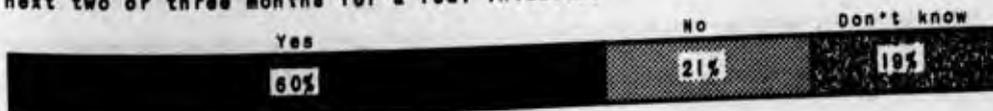
Do you think in the next two or three months the Allies should try to land an army on the continent of Europe for a real invasion?



If the Allies do try this invasion in the next two or three months, do you think our chances of winning a foothold are pretty good, about 50-50, or that we're more likely to fail than succeed?



Do you think the Allies actually will try to land an army in Europe in the next two or three months for a real invasion?



It should be noted that these questions were asked after completion of the large-scale commando raid on Dieppe, but prior to the Canadian announcement that casualties in the raid amounted to two out of every three men involved. The people who said that the invasion should be attempted were very much inclined to believe that it has a lively chance of success; Sixty-eight per cent of them rated this chance as "pretty good," while 27 per cent rated it as "50-50"; only one per cent of the proponents said they thought it would fail, 4 per cent admitting that they didn't know. Even among those opposed to opening a second front, more than half felt that it stood an even chance or better of succeeding.

Conversely, among the people who felt that the chances for success in an invasion effort were pretty good, 73 per cent believed that it should be attempted. And among those who thought that the venture represented an even gamble, 54 per cent were in favor of making a try at it. Among the people believing that an invasion effort would be likely to fail, only nine per cent said it should be undertaken.

Somewhat similar questions respecting the desirability and feasibility of an invasion effort were posed to a small national sample at the end of July. A comparison of the results secured then with the responses given to the interviewing in September indicate a slight decrease in ardor for a second front, accompanied by a slight increase in the belief that it could be opened successfully.

The desire for an allied invasion effort is motivated only in part by a conviction that the Russians need such assistance to enable them to withstand the German onslaught in the immediate future. Most Americans express confidence that the Red Army will be able to hold out against

Germany until this winter, even without relief from an allied offensive in the West. The chart below shows the answers given by the sample interviewed in September to questions on this score:

"If Russia does not get more help from the Allies than she is getting now, do you think Russia will be able to hold out against Germany until this winter?"



Asked of those who answered "No" or "Don't know"

"Do you think Russia would be saved if the Allies should land an army in Europe in the next two or three months?"

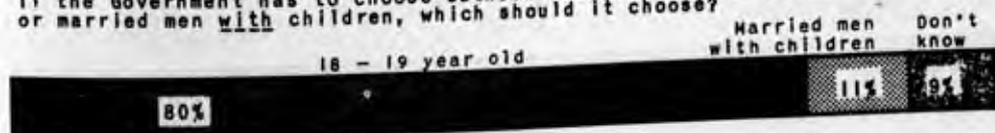


Selective Service

The public appears to be pretty well convinced that its 18- and 19-year old sons will have to be called into the armed services before the war is ended. Seventy per cent answered affirmatively when they were asked the question, "Do you think it will be necessary to draft 18- and 19-year old men before the war is over?" Sixteen per cent said "No" and 14 per cent expressed no opinion.

There is also an overwhelming belief that the drafting of 18- and 19-year old men is preferable to the drafting of married men with children. The following chart illustrates the division of opinion on this topic:

If the Government has to choose between drafting 18 and 19 year old men, or married men with children, which should it choose?



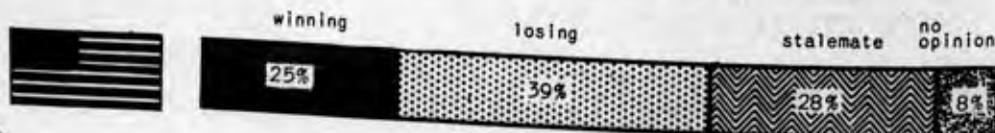
Analysis of these responses shows that women under 40 years of age are slightly more prone than women over 40 to favor the induction of 18- and 19-year old youths in preference to married men with children. Obviously, the younger women are more concerned about their husbands, while the older women tend to worry about their sons. But, in either case, preference for the drafting of the youngsters is expressed by heavy majorities.

The division of opinion shown in the chart represents virtually no change from the answers obtained a month earlier to an almost identical question posed by the American Institute of Public Opinion. As previously reported, 78 per cent expressed a preference for drafting 18- and 19-year olds at that time.

Complacent Minority

Complacency is not an easy attitude to identify and isolate. The Bureau of Intelligence has already asked a number of questions aimed at uncovering easygoing and overconfident outlooks. In late July the Princeton University Office of Public Opinion Research asked a new question which sheds additional light upon the subject of complacency. The question and the responses were as follows:

"THE WAY THINGS ARE GOING RIGHT NOW, DOES IT SEEM TO YOU THAT WE ARE WINNING THE WAR, OR LOSING IT?"



Those who feel we are winning and those who feel we are losing do not differ greatly in their beliefs about the ultimate outcome of the war. Eighty-four per cent of those who believe that we are losing the war now, responses to a second question showed, are just as confident that we will eventually be victorious as are those who think that we are winning it now. Many of those who said that we are winning the war now may have meant merely that, on the whole, things are going in such a way as to lead to victory in the end.

THOSE WHO FEEL WE ARE WINNING (■■■■) ARE MORE INCLINED THAN THOSE WHO FEEL WE ARE LOSING (▨▨▨▨) TO THINK THAT...



The group which feels that we are winning does appear to be significantly more complacent than the group which feels we are losing. People in this group are much more prone to feel that we will win the war in less than two years -- an outlook often indicative of over-optimism. And they are somewhat more willing to believe that the war can be won by the relatively bloodless method of air attacks, without the necessity of a land invasion. Finally, their views on labor suggest that they are somewhat less critical of the war effort on the domestic front.

Laborers, service people and semi-skilled workers are more likely than professional and business people, white collar workers and skilled laborers to hold this cluster of opinions. It is among these groups, toward the bottom of the income scale, that a tendency toward complacency must be combatted with particular vigor.



DEVELOPING SITUATIONS

Selective Service and Manpower

There is growing popular confusion and resentment over Government handling of policies respecting Selective Service and manpower mobilization in general. Reports received by teletype on September 21 from 28 field offices of the Bureau of Public Inquiry indicate that dissatisfaction has become widespread and has produced unhealthy effects upon morale.

In regard to Selective Service this dissatisfaction is of recent origin. Interviewing conducted in July showed that the public had adapted itself to the inevitability of conscription and was overwhelmingly convinced of the fairness of its operation. But it is now the prevailing

opinion among BPI field observers that serious public irritation has developed over the inconsistencies of local draft boards in extending the Selective Service law to married men, industrial workers and farm labor. The irritation, according to reports, has been aggravated by over-frequent and contradictory statements about manpower by federal, state and local Selective Service officials.

The uncertain situation of married men has caused particular annoyance. Despite official statements that all single men will be called first, married men are inducted in some areas, while single men remain available in others. Uncertainty is preventing many married men from getting jobs in war plants. Great numbers of them, the reports state, are not devoting their main thought to their jobs, but are spending time around recruiting offices angling for specialist ratings.

Field observers concur in the evidence of national interviewing presented elsewhere in this report that the public is overwhelmingly in favor of the induction of the 18- and 19-year old group. The general feeling is that the drafting of these young men is inevitable and is delayed only by politics. Conflicting statements by the President, General Hershey and Congressmen produced a high degree of confusion among the 18- and 19-year olds; they see little point in continuing school or seeking war industry jobs if they are going to be drafted.

Confusion over Selective Service policy in regard to skilled workers has led many of this class to seek commissions or to enlist. Inconsistencies among local draft boards in handling occupational deferments destroys the incentive of skilled workers to transfer from non-essential to

war production employment. Plant managers are alarmed by the loss of skilled workers. They complain that they train men only to lose them to the armed services. One tool plant asserts that it lost 65 men, trained at a cost of \$600 each, to the draft; the explanation it received from the Army was "We need welders too." Within a ten-day period, one of the nation's outstanding airplane factories lost 106 men by Selective Service and 110 men by enlistment.

Field reporters find the general public grossly uninformed regarding the nature of the manpower problem in general — a conclusion which is consistent with findings obtained from interviewing in July. When the public thinks of manpower, it thinks of local labor shortages. The farmer sees the problem in terms of agricultural labor, the war industry employer in terms of the scarcity of skilled help. There is little understanding of the difficulties involved in mobilizing the men and women of the nation on a balanced basis into the armed forces, war industries, agriculture and essential civilian services.

Induction into the armed forces of doctors, nurses, pharmacists, auto mechanics and others supplying essential services has created a condition regarded as harmful to public health, civilian defense and transportation.

As labor shortages become more acute, there appears to be a decrease in the prejudices against employing women in war industries. Considerable confusion exists regarding the part to be played by women. While press and radio carry numerous reports that they will be called upon to serve in war production roles, women are uncertain as to age, experience and education requirements and as to what steps they ought to take. Married women with dependant children are uneasy about the care of their children while they are at work.

With the exception of the South, Southwest and certain war plants in Michigan where large numbers of southerners are employed, there has been an improvement in attitudes toward the hiring of Negroes, aliens and other minorities in war production. Prejudices tend to disappear as the newcomers demonstrate their skill, friendliness and adaptability. But vigorous informational efforts are still needed to overcome hostility toward the employment of these groups.

The tone of current editorial comment on manpower and Selective Service policies strongly encourages popular dissatisfaction. General Hershey's forecast of an Army of 13 million occasioned a flood of criticism. On the basis of it, many newspapers renewed their assertions that industrial and farm labor supplies are being disrupted by drastic, unequal practices of local draft boards. The press, as a whole, disapproved the President's declaration on the calling up of 'teen-age men. The San Francisco Chronicle, for example, called upon him to present the facts to the public and to "tell the draft people to stop trying to drive the nation crazy."

The collective judgment of the BPI field reporters is that the public as a whole now feels dismayed and disheartened over federal failure to announce and implement a firm, consistent policy for the utilization of the nation's manpower in the war effort.

Living Conditions in War Centers

Unsatisfactory living conditions in war production centers continue to generate social tensions and to hamper war production. Frayed nerves were at least partly responsible for the recent blow-off in Mobile, Alabama, which saw 10,000 shipyard workers idle for several days in a dispute

over a five-cent ferry fare. Worker resentment over such an apparently trivial issue can be understood only when one considers the conditions under which they are living.

Many families in Mobile are huddled together in single rooms or living in tents, trailers, shacks or vacated stores. As many as seven men sometimes share one room, occupying the beds in shifts. Some incoming workers are accepting makeshift "housing" in cars and bus stations. Exorbitant rents are often charged for these miserable accommodations, and prices in general are high. Such conditions inevitably impair the morale and productivity of workers. The men who are compelled to leave their families behind them and forego many of the satisfactions of normal living are especially subject to discontent.

Unsatisfactory living conditions also give rise to community problems. In Mobile, for example, the competition for the available family accommodations is causing friction between incoming war workers and native Mobilians. People who have rented the same homes for years only to have them sold from under them to newly arrived workers are particularly resentful.

Dissatisfaction with living conditions is partly responsible for the high labor turnover in Mobile's shipyards and adds to the difficulty of recruiting additional workers. Within the past few weeks the shipyards adopted a policy of reducing overtime work and establishing eight-hour shifts. A large-scale exodus ensued. Many workers, willing to put up with the numerous inconveniences of life in Mobile so long as high earnings permitted them to save money for an anticipated rainy day, left town as soon as the possibility for a big weekly pay check disappeared. Many of those who stayed on were discontented with the new policy, arguing that not enough

workers were available for three full shifts and that there were no accommodations for newcomers.

Problems similar to Mobile's arise in all communities unable to cope with the influx of new workers. Of several war production centers surveyed early in September by the Bureau of Intelligence, there was not one which did not face a critical housing shortage. In each place, too, overcrowding gave rise to difficult problems and impaired the morale and efficiency of workers.

The situation in Detroit was discussed in Intelligence Report #37. The September survey revealed that families with children face almost insurmountable difficulties in finding living quarters in Detroit. The few places that will accept children are clustered in the poorest, most depressed part of the city, so that many incoming workers are inclined to leave their families behind them.

Inadequate transportation facilities add to the difficulty of life in Detroit. Because Detroit has been an automobile town, its transportation system has been undeveloped. Today, with the population of the city swollen, with many workers living long distances from their plants, and with fewer automobiles available, the city's transportation system is strained to the breaking point.

In Massena, New York, where approximately 6,000 workers are employed in newly erected aluminum plants, the interrelation of the housing and transportation problems is conspicuous. Massena does not appear to be as overcrowded as many war production centers because approximately 40 per cent of the aluminum workers have found living quarters in communities from ten to fifty miles away. But the cost of commuting to work, in terms of

time as well as dollars, is high. Workers complain that they have to pay "a day's wage every week" for transportation, and that they must be away from home 12 to 13 hours to work an eight-hour day. Winter weather will intensify the problem. Roads must be kept open with snow plows during almost the entire winter. The County Highway Department is worried because it does not have priorities for the repair and upkeep of its plows.

In Seattle, Washington, approximately 2,500 FHA and FPHA dwellings are going up which are not yet bought and will be available for home seekers when completed. But the Homes Registration Office, which is in touch with only part of those needing living quarters, has an active file of 3,400 families, and approximately 300 additional families make application to it each week. It is relatively easy to buy a house in Seattle, but so hard to rent accommodations of any sort that the enforcement of rent ceilings is extremely difficult: many consumers are inclined to take what they can get, pay whatever is asked, and keep their mouths shut. Opposition to rent control by apartment house operators is organized and intense.

In these war production centers, and most others, a certain amount of public and private building is going forward. But needs have expanded so tremendously and so rapidly that it would be difficult to provide for them in a short period of time under ideal circumstances. The task appears insuperable under present conditions because of the time required for surveys and for planning, the rapidity with which the situation changes, the opposition of vested interests, and the difficulty of getting construction materials. Resolution and speed are clearly needed in dealing with these obstacles. In addition, there must be well-planned and continuous informational efforts designed to reduce tension, to promote local cooperation

and to make people realize the necessity of suffering inconveniences and making sacrifices in order to win the war.

(These findings are based on preliminary results of a study of housing problems made by the Bureau of Intelligence for the NHA. Copies will be available in the near future to authorized individuals.)

Scrap Collection Complaints

Field representatives of the Office of Public Inquiry report a rising tide of criticism of the scrap collection programs. There is a widespread belief that junk dealers are profiteering. People complain that the rubber they were so urgently requested to contribute is being permitted to rot in the sun. The sight of huge and apparently unchanging graveyards of scrap make them wonder if anything is ever done with the material they gather together. They protest that they were first told to save paper and are now given to understand that paper is plentiful and that what they have saved is of little value.

Frequent complaints are also encountered about vagueness or inconsistencies in the instructions for the collection of scrap or the reasons given for collecting it. In some places, for example, people have been told that tin cans are good for steel, only to learn later that this is not so. One or two columnists and business publications have bitterly attacked the arrangement under which the WPB permitted brewers and bottlers to keep a certain percentage of the tin cans they collect as a payment for their service in collecting them.

Many of these criticisms, while apparently justified, have little real validity. Unlike the steel companies, whose role in utilizing scrap

is very favorably regarded, the junk dealers are mostly small operators, and there is little danger of their getting rich quick from their profits in connection with the salvage program.

Scrap rubber is not, in fact, "rotting in the sun." WPB salvage authorities state that although it may crack and appear to deteriorate in the sunlight, for purposes of reclaiming it remains good for a period of not less than 20 years. Piles of scrap rubber dwindle as slowly as they do, not because the scrap is not needed, but because with our present limited reclaiming capacity it will take a number of months to process the rubber collected during the recent campaign.

Some of the criticisms of the scrap collection program unquestionably emanate from sources eager to find something to attack. Others may be the rationalizations of apathetic people who want to find some excuse for not participating in the salvage campaigns. But most of the criticism, whether justified or not, comes from people who are honestly puzzled by what appear to be inconsistencies and inefficiencies in connection with scrap collection. Efforts to reduce the volume of such criticism are clearly necessary.

There appears to be a need for better coordination at the federal level of the various agencies concerned with salvage. Informational efforts are indicated to clarify the scrap program. The role of the dealer, for example, has to be explained. And people have to be told not only what they are supposed to do, but why they are asked to do it, and what happens to the material they sell or contribute after it leaves their hands.



ENEMY PROPAGANDA

Chain Letter Propaganda in the U. S.

Radio Debunk, the Nazi station which claims to broadcast from within the United States, has long resorted to more novel ways of spreading propaganda. Recognizing that the audience for Nazi broadcasts in the United States is small, it attempts to use this audience as a means of gaining a much larger one. Thus much of its propaganda is broadcast in the form of allegedly true anecdotes, — brief, sensational, and more easily and safely circulated by rumor than ordinary propaganda.

This week Debunk tries a new technique, the "chain letter." Four American girls were said to have gotten together secretly to put a letter into circulation protesting that Communists and Jews were responsible for American entry into the war. Attempting to counter the effects of the President's speech to the International Students Conference, the letter goes on to say that the future of youth is being destroyed by our participation in the war. Special appeal is made to women, girls and boys to start similar letters. An anti-semitic text is recommended.

Divide and Conquer - Anglo-American versus Russia

Churchill's recent review of the war before the House of Commons plus quotations from Russian and British papers furnish the basis for an intensification of Axis attempts to heighten the alleged conflict between the Anglo-Americans and the Russians. The Russians are portrayed as highly dissatisfied with the lack of a second front, and critical of their Allies. In addition to the discussions of this conflict in broadcasts to England

and the United States, these arguments are emphasized in broadcasts to Latin America.

The latest Nazi allegation (broadcast to the world) is: "Washington political and military circles are now presenting the view, in connection with Moscow's repeated demands for the erection of a so-called 'second front' that the U. S. and Britain would most likely be able to carry out such a plan....only in the coming Spring of 1943..."

The German Home Front

Striving to eliminate those "humanitarian" traits among the German people of which Goebbels complained a few days ago, Nazi terror propaganda reaches unprecedented heights this week. Nazi propagandists, including Dr. Otto Krieg, political theorist, heavily document the oft-stated theme that a German defeat would mean "extirpation of the German people." They allege in several broadcasts that the newspaper, Vrij Nederland (Free Dutch) presented the official British view that, in the event of an allied victory, all German children aged 2 to 6 should be sent out of Germany for 25 years. The dissemination of this proposal by Reuters is proof of its official character, claim the Nazis.

The sterilization plan of "the Jew, Kaufman," is again being extensively used in Nazi internal propaganda. To make it official, Kaufman is presented as "one of the closest collaborators of President Roosevelt." These "monstrous disclosures" are said to "completely coincide with the declaration made by...Secretary Knox..." whose Kansas City speech is misquoted as follows: "a peace will be imposed in which Germany and the Axis powers will be completely eliminated."

Recent Japanese Propaganda

Japanese broadcasters use the "bombing" of Oregon in much the same manner as they used the "shellings" of the California coast and Vancouver. The American people are told of the "tremendous shock" they received and of the "frantic strengthening" of coastal defenses. This time the Japanese can point to their previous "accomplishments" on the American West Coast and claim control of the Pacific.

Japanese propagandists now claim that the validity of their military reporting has been upheld by the delayed American announcement of the sinking of the Yorktown. Together with other Axis powers they remind Americans that they announced this sinking "after the Battle of Midway."

Referred to Mr. Mack by the Secretary. 138

Case read and return to

Mrs. Robert McHugh,
Room 287,
Treasury Dept.

W. A. ... 9/29/42

*Photostat of 9/26
memo to ...
10/7.*

...

MEMORANDUM

September 26, 1942.

TO: The Secretary
FROM: Commissioner Helvering and Mr. Sullivan

We are in accord with the recommendations in the memorandum from Mr. Gaston to you dated September 23rd, 1942, relating to the original investigation of applicants for the Internal Revenue Bureau. The memorandum referred to does not discuss personnel investigations to be made after the applicant has entered the service.

In the event that the new investigating organization proposes to extend its jurisdiction to cover investigations leading to disciplinary action, we would like an opportunity to be heard on the question.

G.P.H.
DHS

OK W.M.Jr.

TREASURY DEPARTMENT

WASHINGTON

September 23, 1942.



TO: Secretary Morgenthau
 FROM: Herbert Gaston

In your memorandum of September 22, you state that you are curious to know how many of our good income tax investigators are used for personnel work. You further suggest the thought that this class of officers should be relieved of this kind of work and that it could be thrown on to Customs and Alcohol Tax men who may have less to do.

This is a matter to which I have recently been giving considerable attention and which I have intended discussing with you.

I find that recently in an effort to fill the vacancies among revenue agents and deputy collectors as quickly as possible Commissioner Helvering detailed to the Intelligence Unit a maximum of thirty-five junior revenue agents to assist in the work of making personnel investigations. This number has now been reduced to fifteen, and it is the purpose to release these men for their regular tax work within the next few days. The Intelligence Unit now has assigned to this class of work ninety-five special agents. This figure is made up by an approximation of man-hours; some agent may be engaged principally on tax work, but because of his location or for some other good reason, may be called on to make a personnel investigation. Other agents of the Intelligence Unit who are not particularly qualified to do tax work are engaged practically all of their time on personnel investigations. To further assist in the work, there are detailed to the Intelligence Unit thirty-four Alcohol Tax agents, four Narcotic agents, and thirteen investigators of the Foreign Funds Control. It has been consistently the policy to refrain, so far as possible, from assigning good income tax investigators to personnel work.

FOR DEFENSE



BUY
 UNITED
 STATES
 SAVINGS
 BONDS
 AND STAMPS

Cases covering the investigation of applicants for appointment have been investigated by this group of agents, under the direction of the Intelligence Unit, as follows:

	<u>Internal Revenue Cases</u>	<u>Other than Internal Reve- nue Cases</u>	<u>Total Cases</u>
July 1, 1940 to June 30, 1941	5737	1305*	7042
July 1, 1941 to June 30, 1942	5274	8126*	13400
July 1, 1942 to Date	1763	985	2748
	<hr/>	<hr/>	<hr/>
Number of Cases on Hand at Present	533	680	1213

Approximately 1,100 of the 1,305 cases listed above and 4,708 of the 8,126 cases were National Defense applications. You will remember that these investigations were made at the request of the Office of Emergency Management and were discontinued some time ago. However, we are expecting a very considerable increase in the number of investigations to be made of applicants for appointment within the Bureau of Internal Revenue, as well as in other branches of the Treasury Department. Under the new tax law, it is estimated that there may be between 5,000 and 11,000 revenue appointments to be made. In addition, the War Savings Staff has been constantly making additions to its force, and the Lend-Lease section of the Procurement Division is increasing its numbers materially.

It is my thought that all of this work having to do with character investigations of appointees to the service should be performed under the direction of the Chief Coordinator. I refer not only to that work which is being done by the Intelligence Unit, but similar work being done to a less extent by other investigating agencies.

If this meets with your approval, arrangements should then be made to distribute the cost of the work among the various enforcement agencies and the bureaus of the Treasury Department who may benefit by these personal investigations.

September 26, 1942
9:32 a.m.

HM Jr: Herbert, I read last night a memorandum from Paul dated September 23rd, and I got very much excited about it.

Herbert Gaston: Yes.

HM Jr: And this goes back to a meeting in August.

G: Yes, I have that in front of me.

HM Jr: And Acheson goes on a holiday and everybody waits, and then Bernstein told me about General Strong calling him yesterday about the Swedish people misusing our pouch - their pouch.....

G: Yes.

HM Jr: In a most outrageous manner. He said they were sending complete military details. Now I just got through talking with Patterson, the Under Secretary of War, and I told him that if I were carrying the responsibility that he and Stimson are carrying, that I would shut down on all diplomatic pouches and all baggage leaving this country of diplomats, as of today. I said that it was the dammedest outrage to permit this to go on one day longer.

G: Yes.

HM Jr: He knew absolutely nothing about it and hadn't heard anything about it. He said he would send for Strong right away. He asked me who was handling it over in the State Department, and I said Acheson. He said, "He'll fight it," and I said, "Yes, he will." I said, "The Alibi will be that they are getting a lot of information out of these countries." I said, "I don't believe it and I would make them put it on the table and show you what they are getting." I said, "If they are getting something, it can't begin to compare with the danger of letting stuff leave this country."

G: Yes.

- 2 -

- HM Jr: He said he would get after it right away, and I said if he wanted to talk to one person in the Treasury today he should talk to you, and that you would have Pehle and Bernstein available, you see?
- G: Yes.
- HM Jr: Paul is out of town. But I think that you will hear about it. I told him that I thought Byron Price would be sympathetic to closing down.
- G: Yes.
- HM Jr: See?
- G: Yes. The State Department's objections are not merely as to military information, but they go back to the whole thing of the immunity of diplomatic pouches.
- HM Jr: Well, we're waging a war, and these people of the Axis - they don't - haven't they proven to the State Department that international law is dead?
- G: Yes. You know I didn't know about these recent meetings here which have been held at which the General Counsel's office was present, but we had the same question up with the State Department some months ago where we got information through Customs channels in New York that the French Line was questionable.
- HM Jr: That's in this memo.
- G: That's in this memo. And we took this up with the State Department at the time. We held a shipment of pouches off of that boat, and we opened those pouches, and we found packages that clearly did not belong in there. We finally got a ruling from the State Department that we could detain where we had reason to suspect that a pouch contained packages that were addressed to persons not officials and not from officials of the Government. They said we could open the pouch and take those packages out, but that didn't give us any right to open or

disturb any packages that were addressed from a recognized official to a recognized official.

HM Jr: I don't know why the General Counsel's office didn't advise you of these other meetings. They should have. Why didn't Bernstein tell you?

G: Well, I don't know, but that's all right.

HM Jr: But you're representing me on this thing today.

G: All right.

HM Jr: And I told Pehle to come over. He is on his way over now.

G: He's here now.

HM Jr: What?

G: He's here now and Bernstein and Cairns.

HM Jr: Well, they should have told you.

G: Well, I know about it now.

HM Jr: Let me talk to Pehle a minute.

John Pehle: Yes, sir.

HM Jr: Pehle?

P: Yes, sir.

HM Jr: What did General Strong tell you yesterday?

P: General Strong himself - I outlined to him what had happened to date, and he told me that he was satisfied in his own mind that if the pouch privilege was cut off for other countries and as a result we lost ours, that the result would be a net gain to us. He didn't seem at all sympathetic to the State Department's approach.

HM Jr: Yes.

P: Now as we were going out, Colonel Bissel, who is one of General Strong's immediate assistants, told me about this incident of opening the pouch which I take it you know about.

HM Jr: No, I - you mean on the Swedish?

P: Yes.

HM Jr: No, I don't know about it.

P: Well, apparently he said that they opened a pouch last week, and in the pouch they found complete reports with respect to our armed forces, where they were located, and extent, and so forth. Apparently they had information that that was going to be in the pouch, and there was a great deal of information in the pouch going to Sweden which clearly should not go.

HM Jr: Well, what did they do? Did they let it go?

P: Apparently they kept it, but there was no indication that they had taken it up with State.

HM Jr: Well, I've talked now with the Under Secretary and I have recommended that they shut down as of today on all pouches - Customs and everything else.

P: Well, it is about time.

HM Jr: Now is Bissel a great big tall fellow about six foot two?

P: No, he isn't.

HM Jr: Then it's somebody else.

Now please everybody who is listening - so that I can have this cleared through one channel - on this pouch business, Herbert Gaston will represent me, see?

P: Yes, sir.

HM Jr: And please everybody cooperate with him.

P: Right.

HM Jr: And I don't care how tough you fellows get - you can't get too tough to suit me on this.

P: Right.

HM Jr: And I imagine, Herbert, that you will hear from Patterson. He is sending for General Strong.

Herbert Gaston: Yes, this is Herbert talking now. What would you say to our simply clamping down on the diplomatic pouches so far as we are concerned in Customs - holding any of these to the suspected countries until we get a decision on this?

HM Jr: Well, I'll tell you what I think I would do. No, I could only do that if the War Department asked me to do it.

G: Yes.

HM Jr: If the War Department asked us to do that, then I would be willing to do it.

G: Yeah - yeah. But we will hear from Patterson today then?

HM Jr: Well, if you don't hear from him by twelve o'clock, I would call him up.

G: All right.

HM Jr: See?

G: Yes.

HM Jr: And if Patterson asks me to do that, I would do it, but I think we ought to tell the State Department that we are going to do it.

G: Oh, yes. We would have to do that. Of course, we have in the past held a pouch where we had good reason to believe that there was unauthorized material in it. We have done that, and then notified the State Department.

HM Jr: Well, I would wait until noon, and if you don't hear from Patterson by then, I would call him up.

G: Yeah.

HM Jr: And I will be in and out all morning.

G: All right. And I suppose we won't get in touch with State until we hear from Patterson.

HM Jr: No.

G: All right.

HM Jr: It is a military matter and he ought to be out in front.

G: Yes, he and the Navy and the Office of Strategic Services ought to be out in front on it.

HM Jr: Well, Strategic Services is under the Army, isn't it?

G: No, no - it's Donovan - it's independent.

HM Jr: Well, I thought they were under the Army.

G: Yes, he is - he's under the Chief of Staff.

HM Jr: Well, now let's see what Patterson says and if he says, "Now pending a decision I want you to hold them," I would be perfectly willing to do that.

- 7 -

HM Jr: You might find out if thäre are any clippers going out today.

G: Yes, yes.

HM Jr: See?

G: I will - yes, yes.

HM Jr: Okay.

G: Goodbye.

ASSISTANT SECRETARY OF THE TREASURY

September 26, 1942.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

You called me at 10:55 A.M. today, Saturday, September 26, and asked me to tell Under Secretary Patterson that if he would request it we would stop any diplomatic communications over which we have control immediately, pending later decision as to examination of their contents.

I got Judge Patterson on the phone at 11:03 A.M. He said he was at that moment in a conference on this same subject and that he would call me back later.

W.S.G.

142.0

THE UNDER SECRETARY OF THE NAVY
WASHINGTON

SO 9261033

September 26, 1942

My dear Mr. Secretary:

The transport LEEDSTOWN, which you referred to in our telephone conversation of the 25th, is a former merchant vessel recently converted for service as a Navy transport. She was placed in service, with the Navy crew on board, on September 21. It is necessary that she be used at the earliest possible date for movement of troops. Consequently, the "cleaning up" period usually allotted after a vessel has been in shipyard hands was omitted.

These circumstances and the necessity for hasty loading of the vessel resulted in considerable dirt and disorder. However, competent officers of three different commands have inspected the ship and their reports agree in stating that the ship is habitable.

If a ship in better condition were available, the LEEDSTOWN would be replaced. Unfortunately, we have no replacement at hand. I am sure that you will understand that this is a case where below-standard living conditions have to be accepted in order not to upset schedules of importance to the war effort.

Sincerely,



James Forrestal

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

P.S.

Dear Henry: I am very glad to be able to say quite honestly that there was no irritation or scurry to "cover up" when this was drawn to the Navy's attention. Quite the contrary point of view was expressed.



September 26, 1942.

Dear Frank:

Thank you very much for your letter of September 23rd letting us use the captured two-man submarine for War Bond exhibitions. As usual, you have been cooperative and helpful, and I appreciate what you have done.

Naturally we are going to see that this trophy is suitably protected. Our War Savings people will communicate with Captain Lovett's office to arrange the details.

Sincerely,

(Signed) H. Morgenthau, Jr.

Hon. Frank Knox,
Secretary of the Navy,
Washington, D. C.

FK:eg

cc to Thompson

SEP 25 1942

THE SECRETARY OF THE NAVY
WASHINGTON

SO 9231009

September 23, 1942

My dear Henry:

In pursuance to a request by your department dated January, 1942, to exhibit the captured two-man submarine, this is to inform you that the submarine has been brought back from Pearl Harbor and is now at the Navy Yard, Mare Island, California.

The Office of Public Relations, Navy Department, has been in communication with Mr. Harper of your Public Relations Office regarding the plans for a tour of the country by this Japanese submarine in connection with the sale of War Bonds.

The submarine is available to the Treasury Department immediately, and I am informing the Commandant of the Navy Yard at Mare Island of this fact.

It is requested that while the submarine is in the custody of the Treasury Department adequate steps be taken to protect this materiel. It is further requested that when the Treasury Department has no further use for this exhibit, I be notified in order that further plans may be made for its use.

Sincerely yours,

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

Frank Knox

September 26, 1942.

Dear Senator Green:

I agree with you entirely regarding the Haney article which you sent me. It is mischievous in its effect and is, of course, at variance with almost everything that we at the Treasury are trying to accomplish.

On the day the article appeared, our people brought it to the attention of the Office of War Information, since it presents a problem much broader than the Treasury's field alone. I understand that the Office of War Information is watching Haney's columns closely to see whether the offending article was an isolated case or a part of a deliberate campaign.

In the meantime, let me thank you for sending it to me and also for your friendly comments about the Treasury's part in the battle against inflation.

Sincerely,

(Signed) H. Morgenthau, Jr.

Hon. Theodore F. Green,
United States Senate,
Washington, D. C.

FK:eg

*Photostat file - Diary
Chig. File Thompson*

Spend More Freely, Don't Fear Inflation, Haney Advises

'Forced Savings' May Hit Cash Reserves, So Invest Your Money, Says Economist

By LEWIS HANEY
(Professor of Economics,
New York University)

A Baltimore reader asks: "What do I do to provide for the uncertain times ahead? To spend or not to spend? If we buy now, we may be hit by inflation. If we don't, our money will become worthless. Or we may, if we curb our wants, be able to promote trade after the war, others that we will be caught."

Answer: Don't worry about the future. During the war, there will be no unemployment, and a good way to earn an adequate income. This fact suggests that you do not worry so much about saving as you otherwise can do.

After the war, experience shows there is apt to be a very brief lull in business, followed by a longer postwar boom. On the

assumption that we are not to be defeated, I think this will happen again. If so, this is another reason for not worrying so much about the need of saving just now.

The possibility of Government "regulation" of individual savings remains, and this, together with inflation, might deprive you of a good part of what cash you have put aside. Thus it seems not only that you do not need so much of your savings as a reserve as your worry leads you to fear, but also it is quite possible that your savings would be taken away or lose a large part of their purchasing power.

Cites Morgenthau Shift

In this connection, I suggest that you reflect on Morgenthau's recent sudden shift from opposition to "forced saving" to a position favoring that policy. This results from the failure to sell enough Government bonds, and now that the Administration can say that they have tried voluntary sales, they will resort to more or less compulsion. At present this applies only to current saving out of current income. Let us hope that there won't be another shift.

The net result is the conclusion that large cash savings are not as necessary as in normal times, and certainly are not safe.

"You Won't Cause Inflation"

I wouldn't worry much about causing inflation by your spending. It is the Government spending, combined with bad financial policies, that makes the trouble. If the Government would do away with all waste, and adopt sound fiscal policies, you would not have to worry.

What I would do would be somewhat as follows:

Spend to develop or enlarge your earning capacity. This may involve spending for training, or to enlarge and improve your productive equipment.

Buy your own home, if that be at all wise.

Buy a somewhat larger reserve of nondurable consumer goods than normal, but within reason.

"Buy Durable Goods"

Buy any durable consumer goods that would contribute to efficiency—goods you would not consider rank luxuries.

Buy a farm or other productive land, if you know how to run it and are reasonable sure the product will pay.

Buy a few shares of stock in well-established companies in basic industries, on the theory that private enterprise will prevail.

Spend some money in working for sound economic principles and for the political candidates who you believe stand for such principles.

In short, spend for reasonable comforts, for increased earning power, and for protecting both your savings and your right to save.

SEP 25 1942

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ROLAND YOUNG, CLERK

United States Senate

COMMITTEE ON FOREIGN RELATIONS

September 23, 1942

My dear Mr. Secretary:

It was a surprise to read in this morning's Washington Times herald an article by Lewis Haney, Professor of Economics of New York University, urging the public to spend more freely and not to fear inflation. This is in such direct contradiction of all that the Government is urging on the people that it seems to me it should not be allowed to pass unnoticed. However, you are the best judge as to what, if anything, should be done. Enclosed is the clipping in question.

Let me take the opportunity of saying that I am heartily in favor of all I have read about your fight against inflation!

With kindest regards, I am

Yours sincerely,



Theodore Francis Green

The Secretary of the Treasury
 Washington, D. C.

September 26, 1942

In reply refer to
D 390.1115/4861

My dear Mr. Secretary:

I have for acknowledgment your letter of September 11, 1942 regarding the arrangements being made for the exchange of United States officials in the Philippine Islands. You request assurances that the Treasury personnel in the Philippine Islands, i.e., T. Maxwell Anderson, William L. Hebbard, Thomas Page Nelson, Reynolds B. North, and Albert E. Price be included among the American officials to be exchanged.

The Japanese Government has recently indicated that a small number of Americans from Manila, including the Foreign Service personnel not connected with the local administration, will be included in the forthcoming second exchange of nationals between the United States and Japan. No information has yet been received, however, concerning the basis on which the Japanese Government proposes to select such Americans for embarkation in the next exchange operation, but the Department is endeavoring to obtain their names and upon the receipt of this information I shall, of course, be pleased to inform you promptly if any of the representatives of the Treasury Department are included. I may mention, moreover, that the Department has no discretion in the selection of the Americans in the Philippines who may be designated for embarkation in the next exchange.

In view of the continued unwillingness of the Japanese Government to apply the provisions of the present exchange agreement to the Philippines, no assurance can, unfortunately, be given at this time that the persons referred to by you will be accorded the priority as

official

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

-2-

official personnel of the United States Government that might otherwise be applicable to persons in their category. While you may be sure that this Department will do whatever may be possible to effect the return to this country at the earliest feasible opportunity of the Treasury personnel, the refusal so far of the Japanese Government to permit the return to the continental United States of officials who were a part of the administrative personnel of this Government in the Philippine Islands will complicate the inclusion of these persons in any arrangements that it may be possible to make for the evacuation of Americans from the Philippine Islands.

Sincerely yours,

For the Secretary of State:

Breckinridge Long
Assistant Secretary

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Sept. 26, 1942.

TO Secretary Morgenthau
FROM Randolph E. Paul

Late Friday, Kenji Iki, a Japanese claiming to be an American citizen, was sentenced in the United States District Court at Seattle, Washington, for violating the provisions of the Freezing Control Order. Kenji Iki, the manager of a Japanese concern, United Ocean Transport Company, pleaded guilty to charges of concealing \$15,000 in United States currency and \$515,000 face value of Japanese bonds belonging to his company and failing to report such holdings in accordance with regulations issued under the Freezing Control Order. He was sentenced to nine years imprisonment and a \$5,000 fine. Kenji Iki also pleaded guilty to charges of perjury and conspiracy for which he was sentenced to five years and two years imprisonment, these sentences, however, to run concurrently with the nine year sentence.

This is the second conviction in recent weeks for violations of the Executive Order. You will recall that on August 24, Werner von Clemm was sentenced in the Federal Court in New York to two years imprisonment and a \$10,000 fine for conspiring to violate the Order by importing into the United States and here disposing of diamonds looted by the German High Command in Holland and Belgium.

REP

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE September 26, 1942

TO Secretary Morgenthau
FROM Huntington Cairns

Mr. Hopkins is worried about the Russian oil deal, from the point of view of public relations. Oscar Cox has suggested that it might be advisable from that standpoint to employ an outsider who has not been associated with the transaction up to the present time and who would have the confidence of the public and the Russians. He has suggested Whitney Seymour as a possibility. It is not clear whether Mr. Hopkins knows of this suggestion. However, as a matter of fact, the Treasury Department has just entered the situation and should be in a position to proceed with the full confidence of the public.

I. F. Stone will have another article to the same effect as his Nation article in PM, probably for Sunday, September 27th.

10c

TREASURY DEPARTMENT
OFFICE OF THE SECRETARY

September 26, 1942

CONFIDENTIAL

Received this date from the Federal Reserve Bank of New York, for the confidential information of the Secretary of the Treasury, compilation for the week ended September 16, 1942, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York and the means by which these expenditures were financed.



1mc:9/30/42

NOT TO BE RE-TRANSMITTEDCOPY NO. 13BRITISH MOST SECRET
U.S. SECRETOPTEL No. 335

Information received up to 7 A.M., 27th September, 1942.

1. NAVAL

Attacks on shipping. During the three days 23rd to 25th inclusive, 12 ships reported torpedoed and 1 presumed sunk by raider (11 between 22nd and 23rd, 1 on 10th and raider casualty 9th). 2 British and 1 U.S. ship in homeward-bound Russian convoy North of ICELAND (C), 2 British and 1 U.S. ship in homeward-bound convoy southwest of ICELAND (C), a Portuguese trawler off coast of PORTUGAL, 1 British ship in FREETOWN area, a Yugoslav and a U.S. ship in TRINIDAD area, 1 U.S. and 1 British ship in ARABIAN SEA, and 1 Dutch ship, date and position not yet known. One U.S. ship previously reported torpedoed has arrived undamaged. Greek ship reported overdue in OPTEL No. 332 has arrived, one U.S. and one British ship overdue FRIEDLAND.

2. MILITARY

MADAGASCAR. Our troops advancing from BRICEVILLE have reached MORAMANGA, a column has been sent from TANANARIVE to make contact with them. Situation at TANANARIVE normal.

RUSSIA. There have been local German attacks in the Northern and Central Sectors. There is no change in the situation at STALINGRAD, where the Russians are counter-attacking on the North and South. The Germans have made some further progress southwest of MOZDOK. There are indications that the German Air Force effort against STALINGRAD itself is being reduced in order to attack Russian rail and river communications, particularly from ASTRAKHAN.

3. AIR OPERATIONS

WESTERN FRONT. 26th/27th. 103 aircraft were despatched - sea mining off Dutch coast and East DENMARK 71, FLANSBURG 28, anti-shipping 4. Owing to deterioration in weather many aircraft were recalled. There was no attack on FLANSBURG. 2 aircraft are missing.

EGYPT. 24th/25th. Our bombers attacked landing ground southeast of MATRUH. 25th. Beaufighters damaged troop-carrying M.T. vehicles on the MATRUH-SIDI BARRANI Road. 8 enemy aircraft bombed and machine-gunned SUFRA landing ground. 4 aircraft on the ground, W/T workshops, the armoury and a quantity of stores and equipment were destroyed.

NOT TO BE RE-TRANSMITTEDBRITISH MOST SECRET
U.S. SECRETCOPY NO. 13OPTEL NO. 334

Information received up to 7 a.m. 26th September, 1942.

1. MILITARY.

Russia. The Russians continue to attack locally in the Leningrad area and in greater strength in the Rzhey area where according to the Russian General Staff operations are proceeding well. At Stalingrad there is no change. South-west of Moxdok the Germans have made some further slight progress, but Russian resistance continues strong.

2. AIR OPERATIONS.

Western Front. 25th. Four Mosquitos attacked an objective in Oslo dropping their bombs from roof top level, one of them is missing. 25th/26th. 35 aircraft were sent out, sea mining 10, anti-shipping 25. Mining was successful and five hits were reported on enemy shipping. Five enemy aircraft operated in the Penzance area causing serious damage by fire in the main shopping centre, one was shot down and another probably destroyed by night fighters.

Egypt. 23rd. Our bombers started fires and destroyed two aircraft at an enemy landing ground south of Matruh. A 10,000 ton tanker off Tobruk is believed to have been hit by torpedo.

24th. M.T. vehicles were damaged and some casualties caused among enemy troops south-east of Barrani, one of our aircraft is missing.

Eastern Front. The Russian Air Force raided the areas of Banak, Kirkenes, Petsamo and Nautsi during the night 22nd/23rd. In the Caucasus the German Air Force supported Infantry and Artillery attacks and bombed Tuapse.

3. INTELLIGENCE.

Low Countries. Recent reports show that Germany is trying to make the most efficient uses of Inland Water Transport. A marked attempt is being made to increase her pool of small self-propelled craft and lighter tonnage, and many invasion barges are now used for domestic purposes. A reliable report from Vichy states that the Germans are experimenting with armour plate for protection of locomotives.

September 28, 1942.
10:00 a.m.

GROUP

Present: Mr. Bell
Mr. Sullivan
Mr. Buffington
Mr. Gaston
Mr. Paul
Mr. Blough
Mr. Schwarz
Mr. Thompson
Mr. Haas
Mr. Kuhn
Mr. Graves
Mr. Gamble
Mrs. Klotz

MR. THOMPSON: I have four deferment cases to clear sometime.

H.M.JR: If you will stay right afterwards--

MR. THOMPSON: Yes, sir.

H.M.JR: You stay, too, Herbert.

MR. GASTON: Yes, sir.

MR. THOMPSON: And Sullivan and Paul. One of them is a General Counsel case.

H.M.JR: He can stay and make his plea.

MR. THOMPSON: We have moved up the ladder a little on our priorities. They have put most of the Treasury in Grade 4. However, the Secretary's Office, including the Under Secretary and Assistant Secretaries, is Class 2; Internal Revenue and Secret Service are in Class 2;

- 2 -

Class 3, Foreign Funds, Research and Statistics, Tax Legislative Counsel, Division of Tax Research, Division of Monetary Research. The rest of the Department is in Class 4, and it used to be in Class 5. That includes the Bureau of Accounts, War Savings Staff, Bureau of Public Debt, the Treasurer, Customs, Narcotics, the Mint, and Bureau of Engraving and Printing. We have moved up a little.

H.M.JR: The reason I am smiling at this is up at Vassar they have a chairman of War Activities Committee, and every girl has to do something, outside of her regular work, to do with the war, and then has to go before a deferment board if she claims she is too busy - if she hasn't got time. So one of the things they claimed was a war activity was singing in the choir, because it was helpful in the community, and Joan says, "You can see what is going to happen to them, all right, all right." It is a grand idea. They really - I was surprised - I mean how sensible - now, for instance, Joan takes bacteriology because she thinks it will be useful with chemistry, and in bacteriology they give them three hours on Saturday in preserving of foods - freezing, dehydration, all sorts of things in the way of foods - three hours on Saturday in preserving of foods. But they have got their own deferment board up there. I gather they are pretty hardboiled.

(Copy of "PM" handed to the Secretary by Mr. Schwarz.)

Has that got something about the State Department in it? I didn't see it, but they told me that what's-his-name had it on the air last night.

MR. PAUL: Winchell had quite a blast, if that is the one you mean.

MR. SCHWARZ: They say Thurman Arnold and you are the only ones who helped send supplies to Russia.

H.M.JR: Why include Arnold? (Laughter)

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MR. GASTON: Winchell didn't put the blame on anybody in particular.

MR. PAUL: No.

H.M.JR: I also hear he gave the country a blast for not buying more war bonds.

MR. GASTON: That was stinging, yes.

H.M.JR: Well, anyway, how far did we get?

MR. THOMPSON: I am all through.

MR. BELL: There is the letter to the Joint Staff on those estimates you were asking for. (Letter addressed to General Deane signed by the Secretary.) Is that your friend Smith that was secretary of that?

H.M.JR: No, he is Assistant Chief of Staff, now.

MR. BELL: But he was secretary. He has moved, now.

H.M.JR: He is in London; he is Assistant Chief of Staff.

MR. BELL: The directory gave him as the secretary and I called him, and that fellow Deane, now--

H.M.JR: Has succeeded him.

MR. BELL: Yes; so we will have a conference with him before this evening.

H.M.JR: Walter Smith is Assistant Chief of Staff of the AEF.

MR. BELL: Do you want to see any of the bankers this week? Tom Smith sent in a letter and wanted to know if you were going to see him because he wanted to make his plans to come to New York, anyhow.

H.M.JR: Why don't you come in about eleven o'clock and we will talk about financing, and that sort of thing?

MR. BELL: All right.

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H.M.JR: Have you got anything on at eleven?

MR. BELL: No, that is all right.

H.M.JR: I will clean up whatever else you have.

MR. BELL: All right. I have some gossip, too, that you might want to hear. It is funny gossip.

H.M.JR: I don't know if I can wait until eleven o'clock. (Laughter)

MR. PAUL: Why can't we all hear it?

H.M.JR: They can't hear it, can they?

MR. BELL: No, I am not a gossipier.

H.M.JR: Harold?

MR. GRAVES: Nothing.

H.M.JR: You are looking mad. What is your percent?

MR. GRAVES: Ninety-three point three.

MR. BELL: Without fudging? (Laughter)

MR. GRAVES: Without fudging.

H.M.JR: Are you going to make it?

MR. GRAVES: I think so.

H.M.JR: You must have something up your sleeve.

MR. BELL: I am suspicious, now, after what they had me do the other day.

H.M.JR: Well, they are just eating into October's fat. (Laughter)

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MR. BELL: That is all. We just live from month to month.

MR. GRAVES: That isn't true to say we are eating October's fat because we will have November's fat in October. (Laughter)

MR. GASTON: It is just like the Ruml Plan. (Laughter)

H.M.JR: You will eat November's fat in October?

MR. GRAVES: This thing is not doing any more than to put October sales in the October report.

MR. BELL: Just like the Ruml Plan.

MR. SULLIVAN: Including a few August sales.

MR. GRAVES: That is true. The month when you make the change you have what you called the other day a windfall; but after that you are simply on a current basis.

H.M.JR: You don't object to that, but you do object to fat, huh? (Laughter) All right, I will restate it; you are going to have a windfall from - a windfall from October in September?

MR. GRAVES: That is right, but after that we are normal again.

H.M.JR: And that is all right?

MR. GRAVES: That is all right. (Laughter)

H.M.JR: O.K. He is very sensitive this morning. Do you get the distinction? (Laughter)

MR. GASTON: It is the Ruml Plan - no distinction at all.

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MR. SCHWARZ: "Life" for artistic reasons, the way their layout comes, would like to use the other of those two photographs, if you don't mind, and then they came right back with a request to make another picture of you at your desk for a different layout.

H.M.JR: What do they want that for?

MR. SCHWARZ: I think in connection with the November third election. They are going to run, one week, Democrats in Congress and downtown, and the next week Republicans.

H.M.JR: I am not in Congress.

MR. SCHWARZ: In Congress and downtown.

H.M.JR: Let me see the other one. (Photograph handed to the Secretary.)

MR. SCHWARZ: This is a photostat. They are planning full pages of the Vice President and Secretary Hull and you, and then smaller ones of the others.

H.M.JR: You know I personally prefer that.

MR. SCHWARZ: That is fine. It is a nice background. It is clear. They promise they won't take more than ten minutes if they can have the other one, the same photographer.

H.M.JR: Well, tell Stephens nine-fifteen tomorrow morning. They are really going to run this one?

MR. SCHWARZ: I believe this week end, yes.

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H.M.JR: What is the heading underneath?

MR. SCHWARZ: How busy everybody is - they take time at their desk--

H.M.JR: I will bet it has a sting in it.

MR. SCHWARZ: It will mention Albert Gallatin probably.

H.M.JR: He is a good guy. What else?

MR. SCHWARZ: That is all.

H.M.JR: You must have a good connection with Drew Pearson these days.

MR. SCHWARZ: He is doing all right. "PM" is interested in that, Mr. Secretary. Gordon Cole is going over.

H.M.JR: He is? I will talk to you about that later. Just stay behind. I want to tell you something about that.

White?

MR. WHITE: You asked for this reminder. (Memorandum regarding Frank Southard handed to the Secretary.)

H.M.JR: Oh, yes.

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MR. WHITE: And you asked for this. (List of professors handed to the Secretary.)

I have a letter from Knowlson giving the report on those two airplane factories in Canada. Do you want the gist of it now, or do you want to take it up--

H.M.JR: Later. Can you clear that today?

MR. WHITE: It can be cleared any time you want to.

H.M.JR: How long do you want, Bell, fifteen minutes?

MR. BELL: Oh, that is plenty. Five minutes is enough for me.

H.M.JR: White, eleven-fifteen. Are you busy somewhere?

MR. WHITE: No, eleven-fifteen is all right.

H.M.JR: Haas?

MR. HAAS: I have nothing, Mr. Secretary. When do you want a financing memorandum for October?

H.M.JR: Eleven o'clock. (Laughter) How are you feeling?

MR. HAAS: Much better, thank you.

H.M.JR: Throat?

MR. HAAS: It is all cleared up, now.

H.M.JR: Good. Roy?

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MR. BLOUGH: The Senate Finance Committee passed Senator Vandenberg's amendment to freeze the social security contributions at present levels for next year. Paul McNutt and Arthur Altmeyer are very anxious to have something done about it, if possible. They would like to get the President to send a letter to George, but they would principally like at this time to get the counsel and advice of the Treasury as to what to do, and help, if possible.

H.M.JR: We ought to do something about that. Supposing you come in at eleven-thirty with a possible statement that I might give out to the press. Could you, just as a suggestion?

MR. BLOUGH: Yes.

H.M.JR: Supposing you and Kuhn come in at eleven-thirty.

MR. BLOUGH: And did you want to talk about the question of getting the President to write a letter?

H.M.JR: Have any of you heard that song "Tell it to the General, he will tell it to The President?" (Laughter)

MR. PAUL: I think I should come to that conference.

H.M.JR: O.K.

MR. BELL: Apparently Altmeyer is pushing McNutt. He has called me twice, and is very anxious to get something out.

H.M.JR: McNutt called me twice.

MR. BELL: It was switched to me.

H.M.JR: Do you want to sit in on this, too?

MR. BELL: I don't care - yes, I think I had better; they are anxious to get out either a joint statement or--

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H.M.JR: I will tell you what we do - supposing we make these social security guys eleven-fifteen so that Bell will flow into that, and White at eleven-thirty. How is that? You come in, Kuhn, and have something - I don't know, I might say something.

Kuhn?

MR. KUHN: Nothing.

MR. PAUL: I wanted to ask you who you wanted from the Treasury to be at that luncheon today. I will be there. That is the lunch with Murray.

H.M.JR: I think you and I are enough, don't you?

MR. PAUL: Well, Mr. Blough or Mr. Gaston - Mr. Blough might be there for the reason that questions may come up.

H.M.JR: You mean he knows something about it?

MR. PAUL: That is right.

H.M.JR: We had better have him. (Laughter)

MR. PAUL: I don't know anything about it.

H.M.JR: We had better have somebody there that knows.

MR. PAUL: I am just a figurehead.

MR. BLOUGH: If I am supposed to know something, I would like to know what is up. (Laughter)

MR. PAUL: That is more than any of us can tell you. You have got to know everything. The other thing is that Cooper has made an appointment with me today through my secretary with that boy friend of his from Tennessee, that lawyer he is interested in, and you said you wanted to be in on that. Do you want me to--

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H.M.JR: You interview him first and then let me know whether he is a youth or not.

MR. PAUL: All right.

H.M.JR: What else?

MR. PAUL: That is all.

H.M.JR: Ted?

MR. GAMBLE: I have nothing, Mr. Secretary. I might mention, now that it is over, that this prize fight between Joe Louis and Conn had been offered to the Treasury. Mr. Graves turned it down. I thought you might be interested to know that we stayed out of that. The admissions were to be war bonds. It was offered to us before it was offered to Army relief.

H.M.JR: He felt so confident of making this quota that he didn't need another windfall.

MR. GRAVES: That was before we knew. (Laughter)

H.M.JR: Harold, I am delighted to see you back and full of beans. Keep it up. (Laughter)

What else?

MR. GAMBLE: That is all.

H.M.JR: Will somebody - it is Odegard we are lacking - who could carry a message from me to Callahan?

MR. GAMBLE: I can.

H.M.JR: All right. This song - this ten percent--

MR. GAMBLE: "Ev'rybody Every Pay Day."

H.M.JR: What we did with Irving Berlin's song - we went to the Victor Company and had a record made and sent it to the radio stations. I would like to do the same on that.

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MR. GAMBLE: Did you hear it on the Lucky Strike Parade?

H.M.JR: I did. If you get that fellow to sing it--

MR. GAMBLE: Barry Wood.

H.M.JR: He did it very well. Then on the back - I am open to suggestions as to what to have on the back. I don't know whether you want that - they have this Army marching song which the Army has accepted. You might want to put that on the back of it.

MR. GAMBLE: That would be good.

H.M.JR: But could you get me a written report on what happens so I am not left hanging in the air on that?

MR. GAMBLE: Yes, sir. You knew that that was being published and sent out in sheet music form, didn't you?

H.M.JR: No, but Barry Wood did a swell job. You can put the song the Army has accepted - they wrote two and they accepted one - and leave this other one--

MR. GAMBLE: Mr. Hill arranged that himself when our people went to see him about pay-roll savings. He arranged it. They have finally installed the plan at the American Tobacco Company.

H.M.JR: Have they? How many does that leave?

MR. GAMBLE: That leaves two companies - both have a plan - the National Biscuit Company and Bemis Bag. Both have a stamp plan, but don't have pay-roll savings.

H.M.JR: Whenever I ask for something like this let me know what happens - all of you. A lot of things I ask for I never hear whether anything ever happens or not.

MR. BUFFINGTON: You might like to see a couple of ads that have been run in the paper about tax savings notes by some of the banks. (Advertisements handed to the Secretary.)

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H.M.JR: Was that stimulated from here?

MR. BUFFINGTON: Yes, through the different executive managers of the Victory Fund Committee.

H.M.JR: How many have you sold through Saturday?

MR. BUFFINGTON: Three hundred and thirty-one million.

H.M.JR: And for the same number of days?

MR. BUFFINGTON: About a hundred and ninety million last month. Those are tentative figures because there are some exchanges included - the old notes into the new ones.

H.M.JR: If you get crowded and want to know how Graves gets his windfall, I will be glad to tell you.
(Laughter)

MR. BUFFINGTON: We need one.

MR. BELL: No, we don't need it.

H.M.JR: Three hundred and something--

MR. BUFFINGTON: Those are tentative figures.

MR. BELL: We have no quota.

MR. SULLIVAN: That is the windfall.

H.M.JR: You are saving the fat. (Laughter)

MR. BUFFINGTON: The majority of sales come the last week of the month.

MR. BELL: There is about seventy million dollars out, I think, that are not in the figures. They begin to come in the last three or four days very fast.

H.M.JR: You are all right?

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MR. BELL: Yes - this month. For this month we are all right.

MR. BUFFINGTON: We are talking with the National Advertising Council about a publicity program.

H.M.JR: O.K.

MR. BUFFINGTON: That is all.

MR. SULLIVAN: I talked with Commissioner Helvering about that original personnel investigation, the matter you and I and Mr. Gaston discussed Friday afternoon. He is agreeable, and there is a brief memorandum from him and me approving it. I don't think you had approved Herb's original memorandum to you, which is attached thereto.

H.M.JR: Do I have to approve this?

MR. GASTON: It isn't necessary - just a matter of form. We can go right ahead on the thing.

H.M.JR: I approve it.

MR. GASTON: O.K.

MR. SULLIVAN: I had quite a satisfactory conference with Secretary Hull Saturday morning on that matter.

H.M.JR: Oh, did you?

MR. SULLIVAN: And he is sending - he is having Mr. Duggan take care of it. Duggan is to get in touch with me this morning so I can give him all the information. He is very sure - the Secretary felt very sure that we couldn't put pressure on it, but he felt it might be put up to him in such a way that it would be embarrassing for him not to comment.

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H.M.JR: Fairly soon?

MR. SULLIVAN: Well, I left there about eleven-thirty. I was with him half an hour. Then I got back here and by quarter past twelve he called me back. He had already discussed it with Duggan, so apparently he is moving right ahead.

H.M.JR: Good. And on the matter that I got the memo from the President on - Mr. Hull - did you take that up?

MR. SULLIVAN: Yes, sir. Hackworth is preparing a memorandum which should be here tomorrow, and I am going to talk with him. Roy is also doing some work on it.

H.M.JR: Good.

MR. SULLIVAN: There is to be a meeting of this Compensation Committee at WPB. You asked me to represent you on that. It is quite an important matter.

H.M.JR: Sure, that is why I asked you. (Laughter)

MR. SULLIVAN: I am forming a committee here in Treasury because it is quite an important matter. We want to have plenty of backing on this. We have our first meeting tomorrow afternoon.

H.M.JR: Sure, it is important.

Gaston?

MR. GASTON: I didn't have very much luck with the Navy yesterday on that; I will talk to you later about that.

H.M.JR: All right.

MR. GASTON: I have a nice letter from Harry Scherman. He says, "I have had several articles in mind that ought to help the Treasury efforts indirectly - by explaining

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some things that most people find it hard to understand - and will be delighted to have an opportunity to talk with you before I start on any of them. I expect to be in Washington sometime after the first of the month, and will get in touch with your office before hand so that I can make the day one convenient for you to see me."

H.M.JR: I am putting you down for eleven forty-five, and bring anybody you want to, on the Army and Navy.

MR. GASTON: Eleven forty-five, all right.

I had a letter that came over from Harry Anslinger this morning. The American Red Cross is asking release for some narcotics to go to Belgium into the hands of the Belgian Red Cross. The letter from the American National Red Cross says that the British Board of Economic Warfare has approved it. I approved it, subject to the approval of the State Department and the Board of Economic Warfare - some opium and some cocoa leaves.

H.M.JR: O.K.

MR. GASTON: George Riley called up late Saturday afternoon - I suppose not having been able to get Chick - around five o'clock Saturday evening. He said that they were canvassing all the heads of departments and agencies to find out if they would give up their limousines and take lighter cars, or bus, or trolley car, or walk. I think the answer to him is that you have already given up your official big car.

H.M.JR: Well, I have, but I don't - I mean, I have returned it to the company, but--

MR. GASTON: What I would like to tell those fellows is something different from what I think we had better tell them - The Times Herald. (Laughter) But I told him that I would pass it over to Chick, and he will call again on Tuesday or Wednesday.

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H.M.JR: Well, that was like the question, remember, the Wall Street Journal was calling up about, what kind - did I have an "X" card, and I told them not to tell them. I wasn't going to tell them.

MR. SCHWARZ: The difference between personal and official business.

H.M.JR: Yes. You remember. I mean it so happened I could have told them, I was in good shape.

MR. SCHWARZ: You might tell them about an official car and say nothing about anything else.

MR. PAUL: Involved in that question is the whole question of time, loss of time, if we don't have enough cars.

H.M.JR: They say to give up the one for a smaller car. What is the difference?

MR. GASTON: To save gas and rubber, he said. He volunteered that the Secretary of Agriculture already said that he had given up his big car and gotten a Chevrolet.

H.M.JR: Let me think that one over.

MR. GASTON: Yes, it is a little bit troublesome.

H.M.JR: You refer him to Chick if he calls.

MR. GASTON: I have referred him to Chick.

H.M.JR: If he calls you again, say you haven't gotten to me yet. Wait until he calls you again, Chick.

MR. GASTON: I have nothing else.

H.M.JR: How old is that Buick?

MR. THOMPSON: Three years.

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H.M.JR: It is three years old?

MR. THOMPSON: Three years.

H.M.JR: It is three years old. I mean, I gave back the Cadillac. I returned it; it went back to the company, so I am ahead of them. But I just don't know whether I want to give them the satisfaction, that is the point.

MR. GASTON: Yes, that is the point.

H.M.JR: O.K.

September 28, 1942
10:30 a.m.

DEFERMENTS

Present: Mr. Bell
Mr. Thompson
Mr. Gaston
Mr. Sullivan
Mrs. Klotz

H.M.JR: What is this?

MR. THOMPSON: There are three cases - all over forty years of age. They come under your more liberal policy.

H.M.JR: Moore is forty-five; he has two children. I don't think there is much question about that.

MR. SULLIVAN: No, sir, there isn't.

(The case of Joel P. Moore, Technical Advisor, New York Office; six months' deferment approved.)

H.M.JR: Incidentally, my figures came through. I don't know what I am going to do with them. I went through the induction center at Fort Dix last week. I asked them to take a hundred men, and of a hundred of them, fifty-four were under thirty-five; fifteen were thirty-five to thirty-nine; twenty-eight were from forty to forty-four and forty-five. In other words, fifty-four were under thirty-five and there were thirty-one above forty.

MR. BELL: Thirty-one above forty?

H.M.JR: Yes. It was one of the saddest sights I have ever seen - to face those men - and they had been in the Army twenty-four hours.

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MR. GASTON: Are they going to separate them and get the younger men into sharper combat troops - separate the younger and the older men?

H.M.JR: No.

MR. SULLIVAN: I think the bet they are missing, they are not taking these youngsters who go into Pratt and Whitney for two or three weeks; they are just full of youngsters.

H.M.JR: I am going to go into this.

This is Miller, Robert T., of Los Angeles, forty-four, and single. "He is an exceptionally competent Grade 12 conferee; and by reason of his qualifications and experience as a reviewing auditor and in the handling of cases involving offers in compromise, he carries an important work load of the office."

We had a similar one and I only gave him three months.

MR. THOMPSON: Yes, that is right.

H.M.JR: Do you remember?

MR. THOMPSON: That was a different type of work, however. That was a Chief Field Deputy.

H.M.JR: Which is more important?

MR. THOMPSON: I think this is more important.

MR. SULLIVAN: I refused to initial that one, and then I talked with Mr. Helvering and this fellow's record is so good that I agreed to initial it.

H.M.JR: Let's give him three months.

MR. THOMPSON: Are you speaking of this one or the one Saturday?

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H.M.JR: This one is single.

MR. SULLIVAN: That is right. I am agreeable to three months and then we can review it at that time.

H.M.JR: I want to get a chance to turn around.

(The Case of Robert T. Miller, Assistant Technical Advisor, New York Office; three months' deferment approved.)

MR. THOMPSON: The next one they are just asking for two months' deferment.

H.M.JR: This is Henry Haines, Chief Field Deputy. He is forty-three years old.

MR. GASTON: Is that Pennsylvania?

H.M.JR: Yes. First Pennsylvania Collection District. You don't get copies of these?

MR. GASTON: I hadn't seen that.

H.M.JR: Don't you fellows see this before?

MR. BELL: I don't see it, but--

H.M.JR: See that there are enough copies so they can see it.

MR. BELL: I am not on the committee, but there is one here from my office.

H.M.JR: I mean another time. You mean - does he want to get rid of Haines? That is a funny one.

MR. THOMPSON: No, the Collector apparently has a replacement, but he wants two months.

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MR. SULLIVAN: This isn't a case of just stalling, Mr. Secretary; this is a case of needing sixty days to train a man to take his place.

H.M.JR: Well, I am giving all these other fellows three who are in the same class.

MR. SULLIVAN: No, they are not in the same class.

H.M.JR: Why not?

MR. SULLIVAN: The type of work they are doing is quite different.

H.M.JR: This fellow is not so important?

MR. SULLIVAN: He is an important man in the organization, but not nearly as important or as difficult to replace as a conferee.

H.M.JR: O.K., two months.

(The case of Henry L. Haines, Chief Field Deputy, Office of the Collector, First Pennsylvania Collection District; two months' deferment approved.)

MR. GASTON: His father is the collector we fired, isn't he?

MR. SULLIVAN: I didn't think so, Herb; he may be.

MR. GASTON: His name came up in one of those political messes.

H.M.JR: That takes care of you?

MR. SULLIVAN: Yes, sir.

MR. THOMPSON: Mr. Sullivan may be interested in this; it is a revenue case.

H.M.JR: "Mr. William T. Barnes, Assistant Chief Accountant and Auditor of this office, has devoted his entire time, since 1940, to the study of claims for

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refunds of amounts paid as processing tax with respect to the processing of sugar. Claims of this character included in Mr. Barnes' studies, and totaling approximately thirty million dollars, are still pending either in an active state of litigation or in the course of settlement negotiations."

None of these things - "age twenty-eight, living with wife; wife does not work; expecting child"--

MR. THOMPSON: There are two court cases coming up, one in December and one in October, and they are asking ninety days so they can keep him over there as a witness and consultant in the cases.

MR. GASTON: They put him in 1-A?

MR. THOMPSON: Yes, he is a 1-A man.

H.M.JR: I can't give it.

MR. THOMPSON: Mr. Paul felt that the ninety days should be given so he would be available for the cases.

H.M.JR: No, I can't do it on account of his age.

MR. THOMPSON: I suppose he could be drawn out of the Army for the hearings in court if the cases come up.

H.M.JR: This is William T. Barnes. I am rejecting this.

(Case of William T. Barnes, Assistant Chief Accountant; deferment rejected.)

H.M.JR: It is one thing if a man is over forty, but if he is twenty-eight years old - I am not writing the draft regulations - I think they are terrible, but I am not writing them.

MR. THOMPSON: This one involves a question of policy on the national bank examiners over forty.

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Mr. Upham has ninety-seven, I believe, under forty who will undoubtedly be called. He is going to have to reduce from two to one examination a year, and maybe even skip the one.

Between forty and forty-five he has some sixty examiners that he would like to put up, as they come along, for exemptions under this forty-year rule.

H.M.JR: Well, three months - would that help any? Would that give them a chance to get this straightened out?

MR. BELL: That is what you are doing in every case.

MR. GASTON: Six months for some of them.

H.M.JR: Well, key positions - the original thing was key positions, but these men are--

MR. BELL: They look upon them as key positions because it takes anywhere from five to ten years to train an examiner. Now they have lost a rather high percentage of their assistant examiners; they are the younger men and they are all going. That throws the burden on the examiners, and he just can't get assistant examiners.

H.M.JR: Well, I consider Heffelfinger a key position. I consider Kane - is that his name?

MR. SULLIVAN: Cann.

H.M.JR: Tim Mooney has a key position, but I can't call this--

MR. BELL: Well, I would give him three months and let it come up again.

H.M.JR: All right, three months.

(Case of W. Leslie Sibley, National Bank Examiner, Abilene, Texas; three months' deferment approved.)

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MR. BELL: A lot of these people are being offered commissions and they don't know what to do.

H.M.JR: I expect to see these people. What is that group that we have here every once in a while with McReynolds and that group?

MR. THOMPSON: General Hershey and Under Secretary Patterson.

H.M.JR: Call a meeting for me for nine o'clock Wednesday morning. I will take it up again. The thing that I want to take up is this thing here, this thing showing - it is a funny thing, I saw one man there and I asked how old he was, and I picked the one man in the place who was forty-five; it was obvious from his face. Twenty-eight of them were from forty to forty-four. Now, maybe when they come in they may have more statistics than this. Norman, ask them before they come in if this is indicative of the whole country.

Now, the last time they were here they agreed that the thing to do was to start with the younger men.

MR. THOMPSON: That is right.

MR. BELL: I suppose the draft boards are getting short of men and calling in those.

This was an induction center?

H.M.JR: This was an induction center.

MR. BELL: If a man can't stand the rigors of Army life he will have to do something else.

H.M.JR: I maintain that a man over thirty-five without previous military training can't take it.

MR. BELL: That is right, generally speaking.

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H.M.JR: Those who haven't had previous military training just can't take it.

MR. GASTON: They are not front-line troops and never will be.

H.M.JR: The thing that bothers me on this thing is that if forty-six percent of our combat forces are going to be over forty-five, what kind of an Army are we going to have?

MR. SULLIVAN: Or if those we are going to take in from now on are going to be.

H.M.JR: You might ask them if they could give me some more statistics. I think I will have that group. They don't seem to mind coming here, do they?

MR. THOMPSON: I don't think so.

H.M.JR: Those meetings have always been worthwhile. Who else sits in on that?

MR. THOMPSON: I do.

H.M.JR: Who was here last time?

MR. THOMPSON: I was the only one from the Treasury.

MR. GASTON: No, I was here the last time.

H.M.JR: O.K., Wednesday. I will put it down.

MR. THOMPSON: That is nine o'clock?

H.M.JR: Yes, nine o'clock.

O.K.

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September 28, 1942
10:33 a.m.

James V.
Forrestal:

Henry?

HMJr:

Good morning.

F:

Henry, that question that you raised on Saturday. I've asked Admiral King to take that up with the Joint Chiefs of Staff.

HMJr:

Now....

F:

There are some - there are some angles to it - there are certain balances that we'd like to look at.

HMJr:

You mean the one that Gaston talked to you about?

F:

Yes.

HMJr:

That one?

F:

Yeah.

HMJr:

There are certain balances?

F:

Well, there are certain things - I don't want to discuss them....

HMJr:

No.

F:

....on the telephone....

HMJr:

No.

F:

....but that will - he's at it this morning.

HMJr:

He is?

F:

Yeah.

HMJr:

Well, we'll hear from you?

F:

Yeah.

HMJr: We'll hear from you.

F: That's right.

HMJr: And - okay. While I have you on the phone, did you say anything about letting the Army inspect Navy transports?

F: Well, I'm going to clear that. I haven't got the result yet.

HMJr: Yes.

F: But I - there's no sense in the other situation.

HMJr: But you have that in mind.

F: Yeah.

HMJr: I mean that the Army can go on a Navy transport....

F: Sure.

HMJr:before they sail.

F: It seems like sense to me.

HMJr: What?

F: It seems like sense to me.

HMJr: Sure, I - I - since you and I agreed, why act as though there was something to hide?

F: That's right.

HMJr: Huh?

F: That's right.

HMJr: Well, now on the other thing, the first matter that you called me about, I'll hear from you when? I mean, how fast do they operate?

F: Well, I think they have a meeting some time today.

HMJr: Good. Okay.

F: All right, Henry.

HMJr: Thank you.

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MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

SUBJECT: Diplomatic Immunities

The following is a chronology of my contacts with the above matter:

Saturday, September 26, 1942 -

9:30 A.M. - I went to your office for a conversation with you which was recorded. The others present were Bernstein, Pehle and Cairns. Before talking to you I had an opportunity to glance briefly at a memorandum to you from the General Counsel reporting conversations with State and with Censorship on the subject of leaks through the diplomatic pouches of neutral countries, which State representatives admitted were probably occurring. You regarded the problem as urgent and said we ought to get immediate action and you asked me to follow the matter for you until your return. The Foreign Funds people were to complete their data immediately for conference with the Army and Navy. I was to get information from Customs immediately as to any pouches about to go with a view possibly to stopping them.

10:25 A.M. - I called Dow, Acting Commissioner of Customs, for the above information and details as to communications going through without examination. Customs conferred with New York and began preparation of a memorandum, which was delivered to my office about 12:30 P.M.

10:55 A.M. - You called and asked me to tell Under Secretary Patterson that if he would request it we would stop any pouches now going through.

11:03 A.M. - I gave this message to Patterson, who said he was then in conference on the matter and would give me his reply later.

11:50 A.M. - Under Secretary Patterson phoned and asked me to come over to see him bringing Pehle with me.

12:01 P.M. - With Pehle and Bernstein I went to the War Department, where we conferred with Patterson and General Strong (G2) for about an hour. They agreed the problem was a serious and urgent one and that in their opinion we had much to gain and little of importance to lose from the standpoint of intelligence of strategic importance by withdrawing completely the immunity from search of diplomatic communications other than those with our allies. Patterson agreed that this was a matter for the Secretaries rather than subordinates and if necessary should be carried to the President. He approved the idea that we of the Treasury should draft a letter for the signatures of the Secretaries of War, Navy and Treasury, to be addressed to the Secretary of State, setting forth the views above and with an accompanying memorandum of known and suspected incidents of leakage of important information through these channels.

1:25 P.M. - I talked to you on the phone. You asked when we would deliver the draft letter to War and Navy. I thought we would deliver it on Monday after showing it to you. You said we ought to do it today, that the matter was more urgent than I knew and that if we got the other signatures the document could be flown to New York by special plane and Secret Service could take the messenger to the farm.

1:32 P.M. - I asked Bernstein and Pehle to make all speed possible with the draft so that we might get signatures today if possible.

1:35 P.M. - I called Patterson's office and received word he was out to lunch and would be back at 2:30.

2:45 P.M. - I called Patterson's office and was told he was in conference but would call me back.

3:00 P.M. - I called Forrestal's office and talked to Captain Gingrich, his Aide, who said Forrestal was not then available, though in the office. I told Captain Gingrich the whole story. He said he would talk to operations and that they would be ready for us if we were to come over.

3:40 P.M. - Patterson called me back and I told him of your opinion of the urgency of the matter. I asked for an appointment today. He said he would consult his chief and

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call me back. He wondered if it would be possible to get any action out of the Secretary of State over the week-end and suggested if the matter were as urgent as you believed it to be we might wish to exercise our powers to stop anything going through without consulting State.

3:45 P.M. - Bernstein and Pehle brought in the draft of a letter. We made some changes and awaited a retype.

4:25 P.M. - Patterson called me. He said not knowing what was within your knowledge forming the basis of your statement to me as to the urgency of the matter he found difficulty in reaching a decision that the matter could not wait over the week-end. He doubted that the addressee would act without considering the matter pretty carefully. He said Secretary Stimson was away and would not return until Tuesday, but if the emergency were great he of course could act. He suggested that if the situation were as urgent as you suggested it to be we might find it advisable on our own account to delay the departure of any travelers who might be carrying messages. The substance of what he was saying was that -- although he didn't express it in those words -- he didn't want to sign any letter today without having knowledge of some specific situation that he thought demanded it. He inquired whether I thought you knew of some definite danger in prospect or were merely anxious in view of the long neglect of this loophole to get something done at the earliest moment. I said I got the impression from you that you knew of something definite which you didn't wish to mention over the phone. I said also that if a letter were placed in Secretary Hull's hands over the week-end the matter would be just that much advanced in preparation for personal contacts on Monday. I asked him if we might not, in any event, bring or send him the draft this afternoon and he said he could see no objection to that and he also agreed that it would be proper for us to send a draft to Forrestal at the same time. The drafts were despatched by Bernstein. His secretary took them, using the Treasury car.

4:50 P.M. - I talked to you on the phone, reporting the result of my conversation with Patterson. You said you would talk to him and call me back.

5:00 P.M. - You called me to tell me that Patterson had said he would consult Bundy (Special Assistant to the Secretary)

as to whether Mr. Stimson could be disturbed over the week-end and that the War Department might send the draft letter to him for signature. You were astonished that the Secretary of War should not be available for three days and that the War Department should appear to have so little interest in a matter that was of so great importance to them and on which they and not we should be taking the initiative. You said I and the other two (Bernstein and Pehle) should go home and you would get us on the phone through 2626 if you wanted anything more done tonight.

5:35 P.M. - Bernstein, Pehle and I left for our homes. I left word with the operator that I would be available during the evening at my daughter's telephone number, but didn't receive any word during the evening.

Sunday, September 27 -

You called me from the farm a little before Noon and told me that you had had a further conversation with Patterson at 7:15 P.M. Saturday and that he said that he would call me. Patterson reported that he had been in touch with Secretary Stimson, that Secretary Stimson said he was very much interested in the matter and would like to go into it himself and that he would be back in Washington Sunday night or Monday morning. Further, he thought the matter ought to be taken up personally rather than by letter with the Secretary of State. You thought in the meantime that we should make some effort to pursue the matter with the Navy so that they would be prepared. After talking to you I attempted to get Forrestal on the phone in the Navy Department. I found that he was in, but he had Captain Gingrich talk to me. Gingrich said that he had discussed the matter with Captain Struble, of the office of the Chief of Operations, and that Struble thought they ought to "go slow." I reviewed the whole matter again with Gingrich and urged that they make preparations to present their side of the case. I said I should very much appreciate an opportunity to talk to the proper people in the Navy Department today (Sunday) and Gingrich said he would get in touch with Struble again and see if he could not arrange a conference. He wanted to know what time would be convenient to me and I told him three o'clock. He said he would endeavor to arrange a conference in my office for three o'clock and would call me back if

he were able to do so. I heard nothing more from him. I talked to Bernstein and asked him to stand by for such a conference. He said he would be glad to come in. He called me again about 2:45 P.M. and asked if I had heard anything further. I told him I had not and that I assumed we were not going to be able to see the Navy people. I was at home all day and had no further calls.

Monday, September 28 -

Mr. Acken, in pursuit of instructions I had given him on Saturday, called Shirley Stephens, in charge of the Enforcement Division of Customs, and told him not to grant freedom from Communications examination to any more departing diplomats without referring them to my office.

*see
next page + 1/2*

MS

September 28, 1942.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

SUBJECT: Diplomatic Immunities (Addition to Chronology)

10:40 A.M. - Under Secretary Forrestal attempted to get me on the telephone and since I was in your office he called you. You reported that he told you that the subject of canceling the immunity from examination of diplomatic communications had been referred to the joint staffs for study. On my return to the office I called him back and he came on the phone merely to tell of his conversation with you.

11:50 A.M. - Under Secretary Patterson got me on the phone in your office to tell me that he found our draft of letter O.K. in general and that they had written it up for Secretary Stimson's signature with only very slight changes. He expected to see the Secretary about it during the day.

12:00 M. - You called Patterson back to tell him what Forrestal had reported as to Navy consideration of the matter.

M.S.

September 28, 1942
12:05 p.m.

HMJr: Hello.

Operator: Mr. Patterson.

HMJr: Hello.

Robert
Patterson: Hello, Henry.

HMJr: Good morning. Bob?

P: Yeah.

HMJr: I just thought you'd like to know that Forrestal called me this morning in regard to this Joint Manifesto that we were trying to get together?

P: Yeah.

HMJr: And that - he put it this way, and I'll just repeat what he said - that he wasn't sure that on balance that they weren't getting more than what we might lose.

P: You know what the reference is to, don't you?

HMJr: No.

P: The reference is to some tool bearings, I think, that they're getting in from Bern by the Diplomatic Pouch.

HMJr: Well, that - I - I can't - I can't believe it.

P: That - that is what they're referring to, I'm pretty sure.

HMJr: Well, that's the damndest nonsense I ever heard. But this is what I wanted to tell you, Bob. He said that he had put it up to the Joint Chiefs of Staff?

P: Yeah.

HMJr: And I thought - I didn't know whether General Strong sat on that or not.

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P: No, he doesn't.

HMJr: But - well, I thought whoever does might be forewarned as to your per... - your position.

P: Yeah.

HMJr: It's a little tip.

P: Yeah.

HMJr: Okay?

P: Yeah, yeah. I'll try to see the Secretary today on it.

HMJr: Well, they - he said....

P: I - I haven't presented him the letter yet.

HMJr: No, what I was telling - he said they were going to meet today.

P: Yeah.

HMJr: Now the other thing, I sent you a little letter -- I don't know whether you got it yet or not -- a suggestion of a man, and I wondered if you'd be willing to tell me who this fellow Murphy is, because if he's who I think he is, I don't know.

P: Murphy is a man, I understand, who has been consul in that area for the State Department.

HMJr: Well, there's a Murphy....

P: I don't know the man at all.

HMJr: Would - well, could Eddie or somebody get his full name....

P: Sure.

HMJr:and send it over to me?

P: Sure, sure. I understand that he's over abroad now.

HMJr: Well, there is a Murphy in charge at Vichy - France.

P: I don't know that.

HMJr: Well, anyway....

P: His name's - the man in charge there is named Tuck,(?) isn't it?

HMJr: Well, I - I guess Murphy is over - that Murphy's in London. But, anyway, the Murphy that you have in mind - tell somebody just to stick it in an envelope and send it over to me.

P: You mean the full name of the man?

HMJr: Just the full name of the man.

P: Yeah.

HMJr: Then I can look up in the State Department of their published - you know, they get out a....

P: Yes.

HMJr:directory of their people, and I can find out who he is.

P: Yeah, all right, I'll do that.

HMJr: And - hello?

P: Yes.

HMJr: If - if you're willing to - I mean, I - I'm very curious to know who recommended him.

P: Well, I - I don't know anything about that. I - I don't - I just casually knew of the name at all. I don't know that, Henry - couldn't say.

HMJr: Well, just let me know which Murphy it is.

P: Right.

HMJr: I sent you over the name of a fellow that is tops.

P: Uh huh. All right.

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HMJr: Thank you.

P: Right. Goodbye.

September 28, 1942
12:00 m.

RE: DIPLOMATIC POUCHES: RUSSIAN OIL REFINERY PURCHASE

Present: Mr. Gaston
Mr. Paul
Mr. Cairns
Mr. B. Bernstein
Mr. Pehle
Mrs. Klotz

H.M.JR: The thing I don't think we know is - Forrestal said that he had this memorandum. He said he wasn't sure that they weren't getting enough on balance. He used the words "on balance - that this was a mistake." So he put the matter up to the Combined Chiefs of Staff.

I said, "When will we get an answer?"

He said, "Today."

MR. PAUL: That is the same as the State.

H.M.JR: But I am surprised at getting that from the Navy.

Does Strong sit on the Combined Chiefs of Staff?

MR. GASTON: Well, his superior, whoever it would be - Marshall or whomever he designated - it might not be Strong.

H.M.JR: I wonder if it wouldn't be a good thing to call Patterson and let him know about this.

MR. GASTON: Yes. I didn't think to mention it to him.

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

H.M.JR: What is all this meeting for anyway? (Laughter)

MR. PAUL: You called it.

MR. GASTON: I was just simply going to report the latest things that happened so far as I was concerned.

Yesterday afternoon after talking to you I called the Navy Department and found that both Forrestal and his aide, Captain Gingras, were in. I asked for Forrestal, and I got Gingras, and I urged that we get together to discuss the thing yesterday. He said he would try to arrange a meeting in my office at three o'clock with Struble, representing the Chief of Naval Operations.

But he said that Struble had thought we ought to go slow on the matter, but he would try to convince Struble that he should come in and talk to us at three o'clock and that if he was able to make the appointment he would let me know. Evidently he was not able to, because I did not hear from him again.

H.M.JR: While we are waiting, supposing I read this? I haven't seen this.

MR. PAUL: That has been changed slightly.

H.M.JR: Let me just get the purport.

(The Secretary read draft of letter to Secretary Hull, copy attached.)

H.M.JR: That is good.

MR. PAUL: I think we ought to tell you about the attitude we got from Under Secretary Patterson about the State Department over at that conference. It was rather refreshing.

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H.M.JR: Go ahead.

MR. BERNSTEIN: He said that in his dealings with the State Department he always had the feeling that they were completely unrealistic in their handling of problems. He never could be sure what was the reason for it. He thought, perhaps, it was because these fellows at the State Department were constantly going out with the representatives of the foreign governments and that they were good friends; and as a result of that they just couldn't refuse to do things regardless of what the national interest was.

He thought that you couldn't get anywhere on this problem dealing with any of the men down the line; you simply had to go to Hull.

MR. PAUL: Didn't he say he had that experience repeatedly?

MR. BERNSTEIN: He had had that experience in the past with them. He also commented very unfavorably on the attitude taken by the State Department in the past where the question came up about getting material out of Switzerland and furnishing material to Switzerland and to Sweden. He said he didn't think there was any chance of those countries acting against us, getting into the war against us.

H.M.JR: Who said that?

MR. BERNSTEIN: Patterson, unless they thought we would lose the war. He said what motivated the decisions of the neutral European countries was their guess as to who would win or lose the war, and anything short of that was unimportant.

He said he simply could not understand our attitude - this Government's attitude - toward Finland.

MR. PAUL: Of course so far as the Customs end of it was concerned, he pointed out that was a general order and didn't affect any particular country and no offense could legitimately be taken.

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H.M.JR: I don't know what is the matter with Oscar Cox these days. Two or three times he has been in here and always is suggesting somebody else, as though we didn't know our own business. I mean, I can't follow it. I guess he has been around with Sam Rosenman so long.

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

MR. PEHLE: That is Bob Murray who has been handling the North African thing for the State Department, who I don't think we would regard very highly. He has been part of this whole North African appeasement program.

MRS. KLOTZ: Wasn't he in France?

MR. PEHLE: He was in France, and then he operated out of Vichy, but most of the time he has been in North Africa, and he is the one who has been recommending these North African programs which involve shipment of goods to North Africa.

H.M.JR: Well, on the theory that it is this fellow, would you have your shop get me up a memorandum which I would like to have by - how long would it take you on the theory that it is this man?

MR. PAUL: It shouldn't take very long.

H.M.JR: The first thing tomorrow morning?

MR. PAUL: Easily, yes - this afternoon if you want.

H.M.JR: This afternoon would be better. And whoever gets it, actually put it in the hands of Mrs. Klotz so I will get it. I mean actually give it to her.

Now, on this thing of what's-his-name - I don't know why Oscar Cox - who told you this?

MR. CAIRNS: George Washington.

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MR. PAUL: Is that the result of that conference⁴ with me?

MR. CAIRNS: Yes. He came over Friday afternoon.

MR. PAUL: He called me and said that he wanted George Washington to talk to our boys, and I arranged to have it done.

H.M.JR: What happened on it?

MR. CAIRNS: This is the result - this is what I came to discuss, his principal point.

H.M.JR: Which in his many capacities did Oscar Cox come over?

MR. CAIRNS: Lend-Lease, I think.

H.M.JR: We don't need anybody. We are doing our job. Should I tell that to Oscar?

MR. PAUL: I didn't see any harm in Washington giving any information he had to us. That is the way it came up to us.

MR. CAIRNS: I wouldn't make any move at this time. When Washington got the full picture of procurement, which we gave him, he said he would talk to Oscar again. We will just wait and see what happens.

MR. PAUL: Oscar was telling me what dynamite there was in it.

MR. CAIRNS: He wasn't interested a month ago.

MR. GASTON: Maybe we can add a little dynamite and push it through. (Laughter) Have they cleared up those patent rights?

H.M.JR: It is in this status: The man involved - what is this fellow's name?

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MR. CAIRNS: Crampton.

H.M.JR: He has written a memorandum to Ickes in which he has said that the processes which the Russians have selected are all right and that it is all right for them to go ahead.

Now, what's his name - Cliff Mack - told me that Saturday. What Ickes does with that memorandum, I don't know.

What I was thinking of doing was, for God's sake, tell Oscar to keep his nose out of this thing. What he had better do is fix up Stettinius' memorandum in which Stettinius says everything is lovely. He wrote you (Mrs. Klotz) a memorandum. We sent a copy of this order. He wrote back saying everything was lovely.

MR. CAIRNS: I think he wrote that.

H.M.JR: From their standpoint it is very stupid. What I was going to do was this, on this oil thing, and I wish you would talk with Mack, Huntington. Mack will do a good job on this thing - send a little note, "My dear Harold: On such and such a date I wrote you a letter, and I have not heard from you. When may I expect an answer?" That is all. It is about a week, isn't it?

MR. CAIRNS: Well, I think Tuesday or Wednesday.

H.M.JR: I don't want - I will be perfectly clear. I don't want to say - just a little note like that - "I have read this thing, and I would like very much if possible to get an answer right away." Talk it over.

MR. CAIRNS: Yes.

H.M.JR: Oscar came in the other day and - it was something about the tax bill - oh, yes--

MR. PAUL: He talked to me on the telephone. He told me a lot of stuff which really had been made clear to me by Hill before.

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H.M.JR: On the tax bill, we of course weren't getting it right, and we ought to have a conference and bring in a lot of people - your tax bill.

MR. PAUL: He didn't talk to me about that.

H.M.JR: I tell you what we will do.

MR. PAUL: It is my tax bill - because it is mine - you know, when the child is bad, it is always the wife's fault. (Laughter)

H.M.JR: I tell you what we will do. I will put Cairns, and then Cliff Mack down for four-thirty. Do you want to get in on this thing?

MR. PAUL: I had better follow it because I have to keep up with these things.

H.M.JR: O.K. I am trying to save you, that is all.

MR. PAUL: I am pretty good this week, because we don't go up--

H.M.JR: You are pretty good? (Laughter)

MR. PAUL: I mean I am not so busy.

H.M.JR: That isn't what you said.

MR. PAUL: I mean pretty good this week, too. I will stick by it. (Laughter)

H.M.JR: Mack, Cairns, and Paul - the other thing - we will sit tight on this pouch business.

MR. PAUL: I think we have to wait for a couple of months. We have checked the thing.

H.M.JR: You see, I have been sending copies of my correspondence to Hopkins.

MR. CAIRNS: You told me that Friday.

DRAFT OF LETTER TO SECRETARY HULL

We have been giving careful consideration to the problem of information and material of an important military and economic character being transmitted in and out of the United States and elsewhere for the benefit of the enemy through diplomatic channels, particularly through the diplomatic pouch and the persons and baggage of diplomats. It is our considered view that vital security interests of the nation are being undermined through these channels and action must be taken immediately to deal with the situation.

At a recent conference dealing with this problem held at the State Department and attended by Assistant Secretaries Acheson and Shaw and representatives of the Treasury and Office of Censorship, the following points were developed:

1. Nothing in our statutes, treaties, or international law prevents this Government, in the furtherance of ~~its~~ war effort, from limiting the use of diplomatic facilities.
2. During the first World War the British Government announced that it reserved the right to examine the diplomatic pouch where the security of the nation required such action.
3. Our enemies are taking the fullest advantage of the diplomatic pouch of neutral countries to transmit information and material vital to their war effort.
4. This Government's policy respecting the diplomatic pouch should be determined solely on practical grounds whether on balance our war effort is helped or hurt by the maintenance of this avenue of communication.

The point was raised by representatives of the State Department that this Government was receiving vital information and materials through the diplomatic pouch, particularly from Berne. We are convinced that our enemies obtain advantages through the use of the diplomatic pouch which greatly exceed any values that we are obtaining or could hope to obtain through this channel. The information and material of military value which this Government now is transmitting through the diplomatic pouch can either be transmitted through other channels or is of little relative importance.

We cannot ignore that there are great numbers of persons in this country of enemy nationality or ancestry who are or may be working in their interests in the fields of espionage and other subversive activities. There are no large groups of Americans in enemy territory who are in a position to help this Government along similar lines.

Neutral countries, many of whom are encircled and dominated by the Axis, have permitted the use of the diplomatic pouch to transmit information and material of enormous military and economic value to the enemy. We have obtained no similar benefits from such neutral countries.

It is therefore our view that in the interests of our military and economic war effort, this Government should immediately adopt the policy for the duration of the war of examining diplomatic pouches and the mail, persons, and baggage of diplomats to insure that no information or material is being transmitted contrary to the security interests of the nation. Of course, arrangements would be made with our Allies to insure, on a reciprocal basis, continued freedom from examination of diplomatic pouches, persons and material.

We realize that there may be important political considerations involved in taking action such as here recommended. We believe that the military and economic

considerations are so fundamental and impelling that the recommendations herein suggested must be adopted in the absence of a clear showing of superior political considerations that will be adversely affected by such action.

We would appreciate receiving your views on this matter at the earliest hour. You will, of course, appreciate the urgency of the problem.

September 28, 1942
1:03 p.m.

HMJr: Hello.

Operator: Mr. Cairns.

HMJr: Huntington?

Huntington
Cairns: Yes, Mr. Secretary.

HMJr: That letter to Ickes, I think I want to do it
before four-thirty.

C: I have it right now. I can bring it right in.

HMJr: Bring it right in.

C: I'll bring it right in.

HMJr: Right in.

September 28, 1942

MEMORANDUM FOR THE SECRETARY

From: Mr. Blough

Subject: Luncheon conference with representatives of
the C.I.O., September 28, 1942.

Present at the luncheon conference, which began at 1:15 p.m., were Secretary Morgenthau, Messrs. Lee Pressman and Ross Nixon of the C.I.O. and Messrs. Paul and Blough. Mr. Philip Murray, President of the C.I.O., expected to be present but was unable to do so because his train was late.

Mr. Pressman said their reason for asking for the conference was to lay before the Secretary the problem they see with respect to the tax bill. The leadership of the C.I.O. has succeeded in persuading the membership to accept wage stabilization. If the anti-inflation bill does not contain stabilization of farm prices the workers will not accept wage stabilization. Moreover, if the tax bill is passed in its present form, wage stabilization is definitely out of the picture. The objections are directed primarily to the loopholes and the low corporation taxes which permit the receipt of increased profits.

Mr. Pressman said that what they needed was some democratic senator who could speak for the Administration and offer specific amendments on the floor of the Senate and make a fight for them. He said it would be of no value to get some maverick member who did not speak for the Administration. Likewise, it would be undesirable to have Senator LaFollette present the amendments because he would undoubtedly attack the Administration for not being more vigorous in trying to get them through. This would put the C.I.O. in the position of attacking the Administration, which it did not wish to do.

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Secretary Morgenthau asked if the Labor Cabinet continued to meet with the President. Mr. Pressman said it had been meeting from time to time and that they were about due for another meeting. The Secretary said that the only hope he could see was for the Labor Cabinet to inform the President that unless the Treasury tax program was strongly supported by the Administration, wage stabilization would be an impossibility. If the President could be persuaded to call in Congressional leadership, including the Big Four, and make a strong fight for the Treasury bill, something might be done. Otherwise, the Secretary said, nothing would likely happen. He said he had tried every way he knew how to get action, without success.

Mr. Pressman pointed to the fact that Mr. Henderson's organization is actively lobbying in Congress and left the implication that this would be an effective thing for the Treasury to do. The Secretary and Mr. Paul pointed out the dangers of this type of procedure and indicated that from the long-run point of view it was not practicable for the Treasury to work in this manner.

The Secretary pointed out that in going to the President it would be extremely desirable that there be no difference between the C.I.O. and the Treasury. Mr. Pressman said he thought there was no difference. The Secretary said it would also be highly desirable for the C.I.O. and the A. F. of L. to be agreed. Mr. Pressman said he doubted whether he could get any active support from the A. F. of L. since they had not shown much interest in the tax bill.

Mr. Pressman indicated that the C.I.O. had sent a letter to Senator George, opposing the Vandenberg amendment freezing rates of Social Security contribution. He said he would like to ask what the Treasury is going to do in this connection. The Secretary indicated that he would make a statement at the press conference this afternoon and that Mr. McNutt and the Treasury were going to confer on what more might be done. Mr. Pressman asked the Secretary if he knew whether the Administration was going to press for an additional Social Security program. The Secretary said that, frankly, he did not know what was going to happen, that thus far he had been the only person in the Administration who had followed up the President's Budget Message by recommending publicly an expanded Social Security program.

- 3 -

There was some discussion of the sales tax and the Victory tax in which Mr. Pressman and Mr. Nixon indicated their opposition to both taxes.

The Secretary asked Mr. Pressman what he thought about compulsory savings. Mr. Pressman was somewhat guarded in his remarks but indicated that he preferred voluntary savings if it could be made adequate. Mr. Nixon indicated that compulsory saving on top of voluntary saving would undoubtedly reduce the latter. They seemed surprised to know that the payroll allotment plans were yielding more and more money from month to month. At the end of the luncheon the Secretary took them to the chart room and explained the charts showing participation, amount of bonds sold, number of \$25 bonds sold, and other facts. They seemed very much surprised to learn of the continuing success of the payroll allotment plan and indicated that they thought this was the answer to those who believed we should have compulsory saving.

During the luncheon the Secretary mentioned the Josephus Daniels editorial and afterwards Mr. Paul gave a photostat copy of the cartoon and editorial to Mr. Pressman and Mr. Nixon. He also gave them copies of his speech before the Lawyers Guild, which contained a statement relating to the Ruml plan, and arranged to have some other material sent them.

RB
ASP

September 28, 1942
2:43 p.m.

HMJr: Cliff?

Clifton
Mack: Yes, sir.

HMJr: I sent that letter over to Ickes around one o'clock.

M: Yes.

HMJr: And I'll send you a copy of it for your files.

M: All right, sir.

HMJr: Now if I should hear from Ickes, how long would it take you to go into action?

M: Well, I have my letter of intent already prepared...

HMJr: Yes.

M:and - now I can - I can sign it just the moment I get word from you.

HMJr: You could? So in other words, the minute we hear from him we could sign it.

M: I'll sign the letter. I have it all ready. It's cleared the Legal Division....

HMJr: Yes.

M:and I can - it's a letter of intent telling the engineer architect to - to go ahead immediately, set up his organization, and make plans, and - and we put our man up there, and we're - we're started.

HMJr: Well, but does that mean ordering the plant too.

M: Well, ordering the plant has to be - has to be done progressively, you see, as they - they set up their office, start the blueprints....

HMJr: I see.

- 2 -

M:if we get in this piece of machinery, the next piece of machinery - it all has to be fitted into the whole thing. So just the minute we get clearance....

HMJr: Yeah.

M:that letter can be signed - it - in - immediately because it's already - already prepared.

HMJr: Good. Have you seen "P. M." today?

M: I did, yes, sir.

HMJr: Some article.

M: Indeed it was, indeed it was.

HMJr: A lot of stuff in there I knew nothing about.

M: Yes, well, I - well, I don't know whether or not some of that stuff is entirely accurate, but there's - there's a lot of that stuff that is right, and it's just too bad.

HMJr: Well, we'll see, anyway.

M: All right, sir.

HMJr: Okay.

M: Yes, sir.

September 28, 1942.

Conference in Secretary Morgenthau's Office
September 28, 1942
3:00 P.M.

Present: Secretary Morgenthau
Sir Frederick Phillips
H. D. White

Secretary Morgenthau told Sir Frederick Phillips that he had just received the check for \$9,623,569.17 which represented the remainder of the sum due on the value of the planes which had been taken over from the British pre-Lend-Lease contracts. The \$70 million payment, which had been made earlier, had been partial payment. The Secretary also gave Sir Frederick a copy of the letter the Treasury had received from General Meyers with a copy of the release which Sir Frederick Phillips was to have signed and send to General Meyers' office. Sir Frederick seemed very pleased at receiving the check.

The Secretary stated that since this was an additional payment, it might be appropriate at this time to check up to see whether the British records were the same as ours with respect to the aid which this Government had rendered to strengthen the British dollar position. The Secretary handed Sir Frederick a letter which contained the record as we had it of assistance given and assistance in the process of negotiation and asked Sir Frederick whether he would not compare the data with his records and give us a reply on the accuracy of our figures and the status of the unfinished negotiations. A copy of the letter is appended. Sir Frederick said he would be glad to do so.

Sir Frederick added that some time soon he would like to discuss some post-war monetary problems with Secretary Morgenthau and the Secretary stated that he would be glad to do so some day.

H. D. White

September 28, 1942, Secretary Morgenthau signed and handed personally to Sir Frederick Phillips (at 3:00 p.m.)

My dear Sir Frederick:

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. A preliminary payment of \$70,000,000 was made on April 25, 1942, and a check for the balance, \$9,623,569.17, is attached.

According to our records, this item brings to a total of \$430 million the aid rendered or about to be rendered to the British Treasury by this Government in order that the British Treasury might build up a gold and dollar balance and maintain that balance at a level deemed necessary for the efficient prosecution of the war. This sum includes the following:

	Cash refunds or relief from commitments (in millions)
I. Transactions Completed	
<u>Transfers of facilities</u>	
1. Tennessee Powder Company	\$21
2. Machine gun plants	24
Buffalo Arms Company	
Colts Patent Firearms Company	
High Standard Manufacturing Co.	
Kelley-Hayes Wheel Company	
3. Todd-California Shipbuilding Corp.	6
4. Curtiss-Wright Corp. - Fairlawn Plant	<u>1</u>
	\$ 52
<u>Transfers of contracts</u>	
1. Machine guns	\$28
Buffalo Arms Company	
Colts Patent Firearms Company	
High Standard Manufacturing Co.	
Kelley-Hayes Wheel Company	

- 2 -

Air Materiel

2. Tennessee Fender Company	\$ 6
The terms of this transfer called for cash refunds of \$6 million and relief from commitments of \$29 million. However, the Treasury understands that the British contract for the product of this plant was not a firm commitment and we have not, therefore, included the \$29 million.	
3. New Jersey Fender Company	19
4. Vultee Airplanes	12
5. Huntington Arms Company	33
6. Savage Arms Company	25
7. Mack Trucks, Incorporated	4
8. Pressed Steel Car Company	6
The preliminary contract for this transfer calls for payments not to exceed \$9 million. It is expected that the total payment will be about \$6 million.	
9. Ordnance contracts	55
Under the terms of this transfer the War Department has agreed to the take-over of some 44 British contracts for ammunition, explosives, and tanks, aggregating \$55 million.	
	\$ 226
<u>Payment of aircraft materials requisitioned from British contracts in December 1941.</u>	
1. Preliminary payment	\$ 70
2. Final payment	20
	\$ 90
Total	\$ 316

- 3 -

**II. Transactions Agreed upon but not
yet Completed.**

Transfers of Facilities

1. Todd-Bath Iron Shipbuilding Corporation	\$ 6
2. Other Facilities	44
New Jersey Powder Company	
Packard Motor Car Company	
Curtiss-Wright Corporation	
General Motors Corporation	
Fullman Standard Car Mfg. Co.	
Fremont Steel Car Company	
Lima Locomotive Company	
Republic Steel Corporation	
Western Cartridge Company	
Washington Iron Company	
	<hr/>
	\$ 50
Grand Total	\$ 100

I should appreciate it if you would inform us whether the figures listed under I, above, are confirmed by your records, and I should also appreciate it if you would inform us of the status of negotiations for the transactions listed under II, above.

Very sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Sir Frederick Phillips,
British Supply Council in North America,
Willard Hotel,
Washington, D. C.

September 28, 1942
3:25 p.m.

OIL REFINERY PURCHASE (RUSSIA)

Present: Mr. White
 Mr. Paul
 Mr. Cairns

H.M.JR: It is now three twenty-five, and this letter was handed to me at three-fifteen. (Letter to the Secretary from Mr. Ickes, dated September 28, copy attached.)

I had a conference with Paul and Cairns, and Mr. Cairns is now going to go back and read this letter over the phone to Mr. Cliff Mack. They will decide between them if it is all right to go ahead and sign the letter of intent.

Now, having signed the letter of intent, do we get out a press statement announcing it? Do I say anything about it in my four o'clock press conference? What will I say if I am asked at four o'clock?

MR. WHITE: They are liable to relate it to the morning's news.

H.M.JR: Yes, but--

MR. CAIRNS: If you are asked, I would say that the letter of intent has been signed.

H.M.JR: Then they will want to know what it is, and all that.

You have got from now until five minutes of four. At five minutes of four if you have any doubts you had better have Cliff Mack over here. If there is any doubt, he had better be over here.

OFFICE OF
PETROLEUM COORDINATOR FOR WAR
WASHINGTON

Sep. 28, 1942

My dear Mr. Secretary:

I have your letter of September 26 and I note that while the Soviet Government Purchasing Commission has indicated that the processes which it selected are satisfactory to it, you request advice as to whether this Office is in accord.

Our technologists are familiar with the processes selected by the Russians. They are the same processes that have been used successfully on a very large scale by a number of American refineries. If properly installed and operated, we see no reason why they would not give satisfactory service to the Russians, and hence we are in accord with their selection. I repeat, however, the statement in my letter of September 18 to the effect that it has been the policy of this Office to permit the Russians themselves to determine the particular processes and types of equipment which they desire, and to go no farther than to make available to them full information in aid of their making their own decisions.

With respect to strategic materials, both processes referred to in Mr. Walsh's letter require approximately the same amount of strategic materials. As for royalty payments, as I have already indicated to you in my letter of September 18, these are financial and legal questions involving both the amount and the necessity of such payments which, in our judgment, are matters for you and for the Lend-Lease Administration to decide.

As concerns your reference to the recommendation of this Office that the services of the Universal Oil Products Company be used in connection with the appraisal of the second-hand plants under consideration, may I point out that this recommendation was based upon the fact that both plants were Dubbs units. U.O.P. had previously inspected these plants and was more conversant with their basic design and physical condition than any other engineering concern. It was therefore reasonable to expect Universal to do a better and a quicker job than anyone else.

We were considering, of course, the technical questions and were not informed that Universal had any creditor status in relation to the plants in question. This latter is a feature which would naturally develop in negotiations with Universal looking to an arrangement with them to undertake the appraisal. Had these negotiations been our responsibility rather than Treasury Procurement's, we would doubtless have developed the creditor feature, as you did, and would have provided proper protection against the dangers which it suggests.

In any appraisal of these particular plants, and especially an appraisal where the time element is of importance, I am sure that the services of the Universal Oil Products' people in some appropriate capacity will be found to be of great assistance for the reasons that I have mentioned above, even though the private interest feature obviously requires the provision of adequate safeguards.

Sincerely yours,

(Signed) Harold L. Ickes

Petroleum Coordinator for War.

Hon. Henry Morgenthau, Jr.,

Secretary of the Treasury.

Conference in Secretary Morgenthau's Office
September 28, 1942
3:30 P. M.

Present: Secretary Morgenthau
Mr. Berle, State Department
Mr. White

In June 1942, Mr. Berle had proposed that the Secretary of the Treasury and Secretary of State appear before the appropriate committees in Congress in support of the appended Bill which would provide that the Secretary of the Treasury, after consultation with the Secretary of State and with the approval of the President, have the authority to loan or extend credit or give other financial aid to certain Governments in amounts not to exceed \$50 or \$100 millions. (The Bill was drafted by Mr. Berle, and altered by Messrs. Foley, White and B. Bernstein.)

Mr. White raised the matter with the Secretary at that time and the Secretary stated he had heard nothing of it from the President and that the matter should rest until the State Department raised the question again.

Mr. Berle raised the question again on September 22 and the Secretary arranged a meeting to discuss the matter with Mr. Berle. At the meeting on September 28, the Secretary asked Mr. Berle what the funds were to be used for. Mr. Berle stated that the President had promised Sikorsky, the Prime Minister of Poland, \$12 million financial aid to acquire arms and for other purposes to help the war effort. The President had already given \$2-1/2 million out of a special fund that he had. The funds were to be spent with the approval of the United States army forces in London. Mr. Berle thought that part of this money should be used to reimburse the President's fund and that the remainder would be employed for other similar calls that might soon be made on us by other countries, such as Greece. The Secretary replied that he was not in favor of going before a Congressional Committee to pass such a Bill without knowing a great deal more about the specific purposes for which the Fund was to be spent. He doubted the wisdom of having such a Fund made available in the manner indicated and felt that Congress would be disinclined to pass such a Bill. The Secretary thought the President had money for such purposes and that Donovan's organization also was engaged in similar activities. He said if the President needed more money for the purpose, he could speak directly to Secretary Morgenthau about it. The Secretary said that until he heard from the President directly that he wanted the Secretary to submit such a Bill, he was inclined not to pursue the matter any further.

H. D. White

DRAFT JOINT RESOLUTION TO AUTHORIZE THE PRESIDENT OF THE UNITED STATES TO RENDER FINANCIAL AID TO GOVERNMENTS OF CERTAIN OF THE UNITED NATIONS AND FOR OTHER PURPOSES

Whereas governments of certain of the United Nations, which by reason of the aggression of states with which the United States is at war, are temporarily unable to carry on their functions within their territories or a substantial part thereof or are unable to collect revenues therein adequate for the conduct of their war efforts and the carrying on of their necessary functions, and may from time to time not have resources available to them in sufficient amounts for those purposes; and

Whereas the uninterrupted and efficient conduct of the war efforts of such governments is of the greatest importance to the war effort of the United States:

Therefore be it

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That during the present war the Secretary of the Treasury, after consultation with the Secretary of State and with the approval of the President, is hereby authorized, on behalf of the United States, to loan or extend credit or give other financial aid to such governments in amounts not to exceed \$100,000,000 in the aggregate to all such governments at such time or times and upon such terms and conditions as the Secretary of the Treasury, with the approval of the President, shall deem in the interest of the United States.

SEC. 2. The Secretary of the Treasury shall transmit to Congress at the end of each fiscal year a report of arrangements made under this joint resolution in such detail as he may deem advisable.

SEC. 3. The authority herein granted shall be in addition to any other authority provided by law.

SEC. 4. There is hereby authorized to be appropriated, out of any money in the Treasury not otherwise appropriated, such sum or sums not to exceed \$100,000,000 as may be necessary to carry out the provisions of this joint resolution.

September 28, 1942
3:55 p.m.

OIL REFINERY PURCHASE (Russia)

Present: Mr. Paul
Mr. Blough
Mr. Cairns
Mr. Mack
Mrs. Klotz

MR. PAUL: We have this other letter.

H.M.JR: Cliff, you have been good. If you go up against Harold Ickes and win - what a man!

MR. MACK: He (Cairns) is the fellow that did it.

H.M.JR: No, you made the record. The record was made.

What do we do?

MR. MACK: When he called up this afternoon--

H.M.JR: Who is he?

MR. MACK: Mr. Cairns - at three-thirty, I guess it was - and we had a letter all ready and signed it right away--

MR. CAIRNS: Three thirty-three.

MR. MACK: ... authorizing the engineer-architect to go ahead with the job.

MR. PAUL: That leaves open the question of what they will be paid. It leaves that subject to the negotiation.

- 2 -

H.M.JR: Let me see if I have this thing right.
At three-thirty - we received a letter at three-fifteen--

MR. MACK: Authorized them to go ahead--

H.M.JR: Go ahead with what?

MR. MACK: To go ahead with the plans for the construction; and, as the plans develop, the materials are brought in; and as they are ready to ship to Russia, and so forth.

MR. CAIRNS: You did not get the green light until three-fifteen, that is the main point.

H.M.JR: Oh, sure.

MR. BLOUGH: At three-thirty you acted.

MR. PAUL: Three thirty-three. (Laughter)

H.M.JR: Why did I waste three minutes? (Laughter)

MR. PAUL: That is red tape here in the Department.
(Laughter)

September 28, 1942
5:07 p.m.

Charles
Schwarz:

That Dow-Jones read all right to me, but the United Press on our financing said details would be made public the first week in October instead of the second, and....

HMJr: Well, that's fine.

S: Yeah.

HMJr: How about the rest?

S: None of them so far have used the Russian story. I imagine they want to think on that a bit.

HMJr: Well, was there anybody here from "P.M." on that?

S: I didn't see a "P.M." man.

HMJr: Oh. Did you talk to Ickes' man?

S: Yes, and....

HMJr: Did you....

S:they're passing the word along.

HMJr: You told them?

S: I told them precisely, yeah.

HMJr: Uh huh.

S: And - and I'm seeing that "P.M." knows about it. They can read our transcript if - if they didn't cover it.

HMJr: Now what about the Lend-Lease Office? Who have they got over there?

S: I'll talk to Mullen. Mullen is the man in that.

HMJr: Well, I'd call him up.

S: Right away, yeah. All right, thank you.

September 28, 1942
5:25 p.m.

HMJr: Hello.

Operator: Mr. Hopkins.

HMJr: Hello.

Harry Hopkins: Hello, Henry.

HMJr: How are you?

H: Fine.

HMJr: I don't know whether you've gotten my barrage of correspondence with Ickes.

H: Yes, I did. I thought Ickes was trying to put you on the spot.

HMJr: Well, I thought....

H: It amused me a little bit.

HMJr: Well, I sent it to you because I thought it would....

H: Yes.

HMJr:amuse you.

H: Remembering something about it.

HMJr: What?

H: Remembering something about it.

HMJr: Yeah, well....

H: (Laughs)

HMJr: Yeah, we caught Harold off-base.

H: Yeah, I'll say.

HMJr: And - did you see the stuff in P.M.?

H: Yeah.

HMJr: Of course, he's got a lot of boys over there that shouldn't be there.

H: That's right.

HMJr: And....

H: I could name you a couple of them.

HMJr: Yeah, well, this fellow Stone did.

H: No.

HMJr: But, anyway, the thing is underway and, of course, it should have been done a year ago.

H: That's right. There's no question about that.

HMJr: And....

H: They've....

HMJr:it's too damn bad.

H: That's right.

HMJr: Well, I just thought that....

H: Yeah, and I read it with great interest.

HMJr:it might amuse you.

H: Yeah, all right, Henry.

HMJr: Okay.

H: So long.

September 28, 1942

Dear Harry:

In order to keep you posted, I am sending you herewith a copy of my most recent letter to Harold L. Ickes, which was delivered to him today at 2:15 p.m.

The minute we hear from Harold Ickes we are prepared to sign a Letter of Intent.

Yours sincerely,

(Signed) Henry

Honorable Harry L. Hopkins,

The White House.

Sturgis del. 5:05 9/28/42
envelope marked "Strictly Conf"

SEP 28 1942

My dear Harold:

In my letter of September 23rd on the Russian oil deal, I told you the Treasury was prepared to undertake final negotiations just as soon as we received a reply to our request to your office for technical assistance. It would be most helpful to me if I could know when a reply may be expected.

Sincerely yours,

(Signed) Henry

Secretary of the Treasury

Honorable Harold L. Ickes,
Petroleum Coordinator for War,
Department of the Interior,
Washington, D. C.

HC:ec

September 28, 1942

Dear Harry:

At 3:15 p. m., today, I received a letter from Harold Ickes, copy attached herewith.

You will be pleased to know that at 3:33 p.m. we signed Letter of Intent to go ahead with the refinery for the Russians.

Yours sincerely,

(Signed) Henry

Honorable Harry L. Hopkins,
The White House.

Sturgis del. 5:05 9/28/42
envelope marked "Strictly Conf

OFFICE OF
PETROLEUM COORDINATOR FOR WAR
WASHINGTON

SEP 28 1942

My dear Mr. Secretary:

23

I have your letter of September 25 and I note that while the Soviet Government Purchasing Commission has indicated that the processes which it selected are satisfactory to it, you request advice as to whether this Office is in accord.

Our technologists are familiar with the processes selected by the Russians. They are the same processes that have been used successfully on a very large scale by a number of American refineries. If properly installed and operated, we see no reason why they would not give satisfactory service to the Russians, and hence we are in accord with their selection. I repeat, however, the statement in my letter of September 18 to the effect that it has been the policy of this Office to permit the Russians themselves to determine the particular processes and types of equipment which they desire, and to go no farther than to make available to them full information in aid of their making their own decisions.

With respect to strategic materials, both processes referred to in Mr. Walsh's letter require approximately the same amount of strategic materials. As for royalty payments, as I have already indicated to you in my letter of September 18, these are financial and legal questions involving both the amount and the necessity of such payments which, in our judgment, are matters for you and for the Lend-Lease Administration to decide.

As concerns your reference to the recommendation of this Office that the services of the Universal Oil Products Company be used in connection with the appraisal of the second-hand plants under consideration, may I point out that this recommendation was based upon the fact that both plants were Dubbs units. U.O.P. had previously inspected these plants and was more conversant with their basic design and physical condition than any other engineering concern. It was therefore reasonable to expect Universal to do a better and a quicker job than anyone else.

We were considering, of course, the technical questions and were not informed that Universal had any creditor status in relation to the plants in question. This latter is a feature which would naturally develop in negotiations with Universal looking to an arrangement with them to undertake the appraisal. Had these negotiations been our



responsibility rather than Treasury Procurement's, we would doubtless have developed the creditor feature, as you did, and would have provided proper protection against the dangers which it suggests.

In any appraisal of these particular plants, and especially an appraisal where the time element is of importance, I am sure that the services of the Universal Oil Products' people in some appropriate capacity will be found to be of great assistance for the reasons that I have mentioned above, even though the private interest feature obviously requires the provision of adequate safeguards.

Sincerely yours,

Harold D. Pehes

Petroleum Coordinator for War.

Hon. Henry Morgenthau, Jr.,

Secretary of the Treasury.

SEP 28 1942

Dear Ed:

I am enclosing a copy of a letter of mine to Secretary Ickes with respect to the Russian oil deal, and a copy of his reply, both of today's date.

Sincerely yours,

(Signed) Henry

Secretary of the Treasury

Mr. E. R. Stettinius, Jr., Administrator,
Office of Lend-Lease Administration,
515 Twenty-second Street, N. W.,
Washington, D. C.

Enclosures

HC:ec

*del. by Sturgis 5:30
9/28/42
"Strictly Conf"*

7/28/42

My dear Harold:

In my letter of September 23rd on the Russian oil deal, I told you the Treasury was prepared to undertake final negotiations just as soon as we received a reply to our request to your office for technical assistance. It would be most helpful to me if I could know when a reply may be expected.

Sincerely yours,

(Signed) Henry

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 28 1942

My dear Mr. Secretary:

I have your letter of September 26 and I note that while the Soviet Government Purchasing Commission has indicated that the processes which it selected are satisfactory to it, you request advice as to whether this Office is in accord.

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In any appraisal of these particular plants, and especially an appraisal where the time element is of importance, I am sure that the services of the Universal Oil Products' people in some appropriate capacity will be found to be of great assistance for the reasons that I have mentioned above, even though the private interest feature obviously requires the provision of adequate safeguards.

Sincerely yours,

(Sgd.) HAROLD L. ICKES

Petroleum Coordinator for War.

Hon. Henry Morgenthau, Jr.,
Secretary of the Treasury.

SEP 28 1942

My dear Harold:

In my letter of September 23rd on the Russian oil deal, I told you the Treasury was prepared to undertake final negotiations just as soon as we received a reply to our request to your office for technical assistance. It would be most helpful to me if I could know when a reply may be expected.

Sincerely yours,

(Signed) Henry

Secretary of the Treasury

Honorable Harold L. Ickes,
Petroleum Coordinator for War,
Department of the Interior,
Washington, D. C.

HC:ec
18 9/28/42 HSA

*Transmitted by Mr. Sha
(S.S.) 2:15 10/12 Handled to
Secy Ickes.*

Photostat to Mr. Cairns per Secy's instructions.

OFFICE OF
PETROLEUM COORDINATOR FOR WAR
WASHINGTON

September 28, 1942.

Dear Henry:

I had just signed a letter to you when yours of September 28 was delivered. I believe that my letter will answer the questions that you have asked, but if not I will be glad to hear from you again.

Sincerely yours,

Harold G. Eskes

Petroleum Coordinator for War.

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

RECEIVED
2:00
OCT 1 1942
U.S. DEPT. OF THE INTERIOR
BUREAU OF OIL RESOURCES

September 28, 1942

Dear Ed:

Thank you for your letter of September 25th with which you enclosed a copy of your secret report on the status of the Soviet Aid Program as of August 31, 1942.

I was very glad to have the information contained in the report.

Yours sincerely,

(Signed) Henry

Mr. E. R. Stettinius, Jr.,
Administrator,
Office of Lend-Lease Administration,
Washington, D. C.

SECRET
215

OFFICE OF LEND-LEASE ADMINISTRATION
FIVE-FIFTEEN 22¹/₂ STREET NW.
WASHINGTON, D. C.

E. R. Stettinius, Jr.
Administrator

September 25, 1942

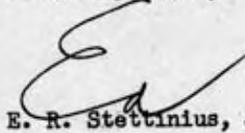
The Honorable Henry Morgenthau
Secretary of the Treasury
Washington, D. C.

Dear Mr. Secretary:

Herewith you will find your personal and private copy of the report on the status of the Soviet Aid Program, as of August 31, 1942.

Needless to say, you will recognize the extreme secrecy of the data contained therein.

Sincerely yours,



E. R. Stettinius, Jr.

Enclosure

Copy No. 4
SECRET
216

STATUS OF THE SOVIET AID PROGRAM
AS OF AUG. 31, 1942



Office of Lend-Lease Administration
Washington, D. C.

STATUS OF THE SOVIET AID PROGRAM

Developments During August 1942

1. During August no convoys were dispatched from the U. K. and Iceland to north Russia and convoy protection was instituted on a portion of the southern route. These factors were responsible for the small number of arrivals and losses.
2. Substantial quantities of non-ferrous metals, chemicals and machinery, which had formerly been shipped from the East Coast, were carried from the West Coast in Soviet ships.
3. Plans have been completed for the delivery via Alaska of all types of aircraft called for by the Second Protocol. In early September 41 planes were at Fairbanks ready for delivery. No deliveries had been made from Alaska according to latest information.

Change in Information Contained in Report

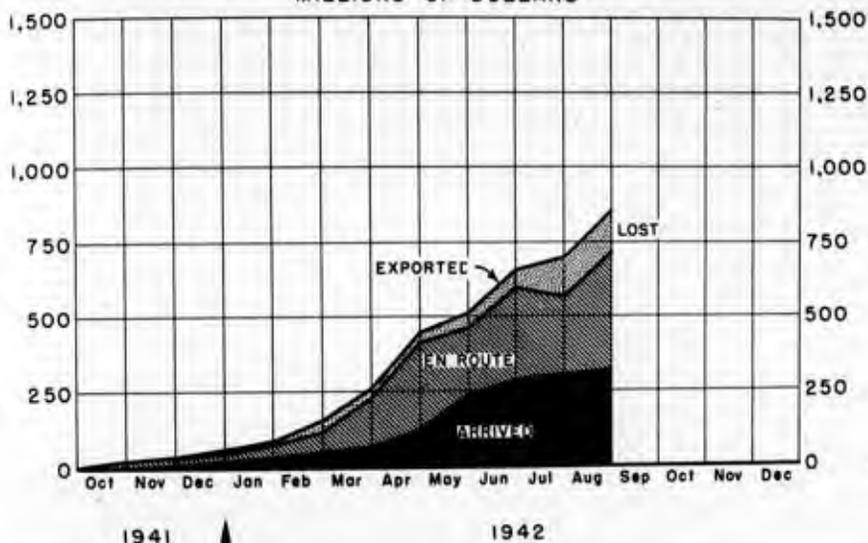
A change is now being made in the form of reporting the availability and exports of materials to conform with the Second U.S.S.R. Protocol. Information on this basis is not yet available, and statistics on selected military items only are shown herein. Details on all items will be submitted next month.

Office of Lend-Lease Administration
September 24, 1942

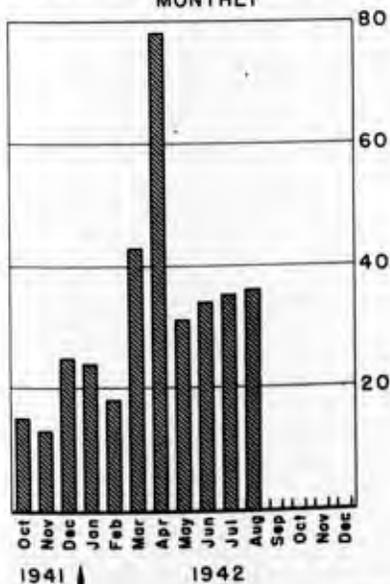
VALUE OF EXPORTS TO U.S.S.R.

CUMULATIVE SINCE OCTOBER 1, 1941

MILLIONS OF DOLLARS

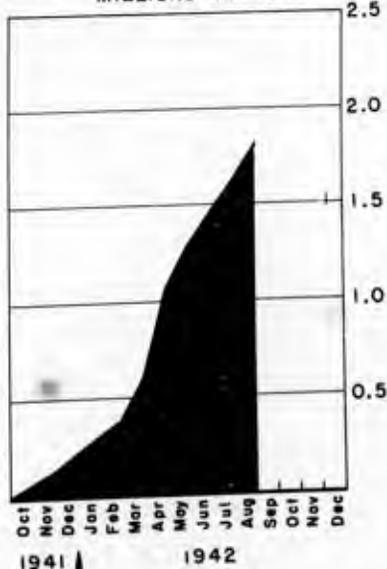


NUMBER OF SHIPS SAILING FOR U.S.S.R. MONTHLY



TONNAGE OF MATERIALS EXPORTED TO U.S.S.R. — CUMULATIVE

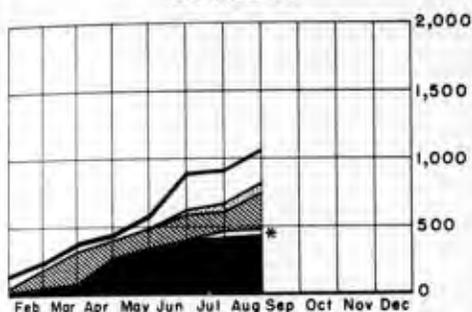
MILLIONS OF TONS



EXPORTS AND AVAILABILITY OF MATERIALS FOR U.S.S.R. CUMULATIVE SINCE OCTOBER 1, 1941


 Exported
 Lost En Route
 Arrived
 — Quantity made available at U.S. centers of production

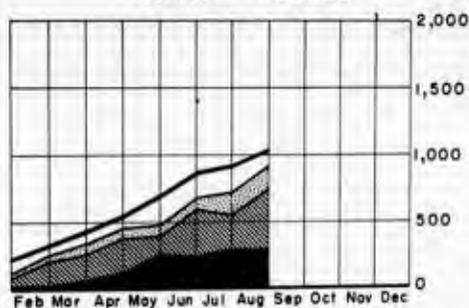
BOMBERS



1942

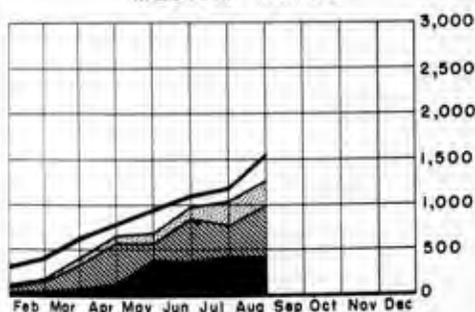
*Diverted to others

PURSUIT PLANES



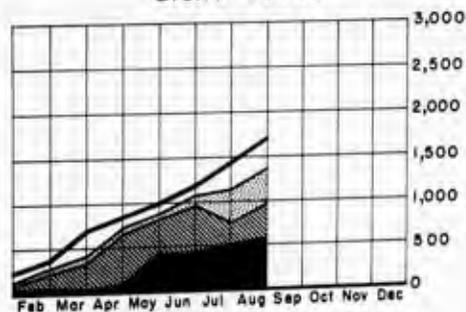
1942

MEDIUM TANKS



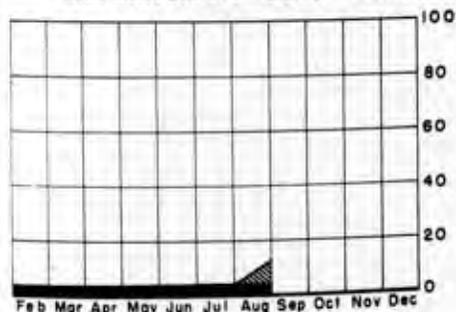
1942

LIGHT TANKS



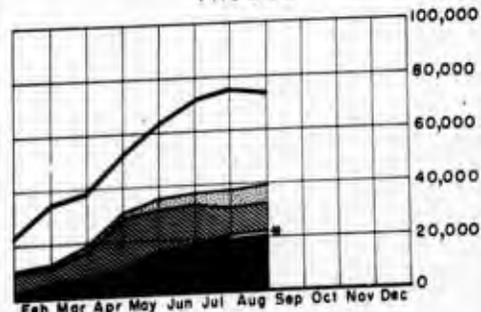
1942

ANTIAIRCRAFT GUNS 90 mm



1942

TRUCKS



1942

*Diverted to others

SECRET

AVAILABILITY AND EXPORTS OF SELECTED MILITARY ITEMS

October 1, 1941 to August 31, 1942

Item	Made Available to Aug. 31, 1942	Exported During Aug. 1942	Exported to Aug. 31, 1942	Arrived to Aug. 31, 1942	Lost to Aug. 31, 1942
Pursuit Planes ^{1/}	1,030	202	917	296	165
Light Bombers	943	141	737	364 ^{2/}	73
Medium Bombers	110	9	86	72	3
Observation Planes	30	0	30	19	0
Light Tanks	1,705*	240	1,364	574	392
Medium Tanks	1,530*	228	1,253	419	255
AA Guns 90 mm	12*	8	12	4	0
AT Guns 37 mm	63*	0	63	14	28
Submachine Guns	112,043*	30,900	106,287	11,500	10,840
81 mm Mortars	30	0	30	30	0
Scout Cars M3A1	964*	208	488	28	78
Jeeps (1/4T 4X4)	13,689	1,258	7,889	2,923	1,423
Personnel Carriers (Half Track)	329*	83	233	0	7
Trucks	73,811 ^{3/}	1,589	38,972	20,366	6,871
Welding Trucks	33*	5	20	0	0
Pneumatic Floats	3,167*	957	3,167	0	175
Field Telephones	80,309*	17,000	80,309	18,522	9,112
Field Tel. Wire (miles)	475,492*	54,876	475,492	180,986	47,699
Armor Plate (tons)	9,006	0	7,547	2,654	2,103
Toluol (tons)	20,345*	2,126	15,396	3,096	1,040
T. N. T. (tons)	21,779*	2,388	13,185	3,601	1,607
Motorcycles	5,000	1,500	3,290	0	0
Prime Movers (Tractors)	1,107	233	495	0	59
Sole Leather (tons)	15,705	553	12,780	4,517	2,822
Army Boots (1,000 prs.)	2,308	136	1,819	915	338
Army Cloth (1,000 yds.)	3,311	587	2,357	1,100	286

Notes: All tons are metric tons.

* Common items. Additional quantities available but not reported.

^{1/} Does not include 59 pursuit planes made available and exported prior to 8/1/41.^{2/} Of this amount 40 planes were diverted to British for use in Egypt.^{3/} Small quantities being diverted to others.

Regraded Unclassified

SECRET

STATEMENT OF SHIPPING TO U.S.S.R.
As of August 31, 1942

	Number of Ships Sailing					Arrived	En Route as of Aug. 31	Cargo Disch. En Route	Lost	Losses by Month
	For North Russia	For Persian Gulf	For Soviet Arctic	For Soviet Far East	Total					
Oct. 1941	10	-	-	5	15	14	-	-	1	-
Nov.	9	1	-	3	13	12	-	-	1	-
Dec.	14	7	-	4	25	22	-	-	3	1
Jan. 1942	20	-	-	4	24	19	-	1	4	2
Feb.	13	2	-	4	19	16	-	-	3	1
Mar.	31	6	-	6	43	27	5	4	7	9
Apr.	62	6	-	10	78	32	18	13	15	-
May	14	10	-	7	31	16	6	5	4	6
June	8	11	6	9	34	16	13	-	5	6
July	2	5	16	12	35	14	21	-	-	17
Aug.	18	5	1	12	36	-	36	-	-	1
Total Oct. 1 - Aug. 31	201	53	23	76	353	188	99	23	43	43

Of the 353 sailings made from October 1 to August 31, 125 were made by Soviet vessels, 14 by British, 1 by Swedish, and 213 by American ships. In addition to the 353 sailings, there were 52 ships carrying goods destined primarily for other countries which carried a total of more than 60,000 tons of goods for U.S.S.R. The 353 sailings were made by 297 ships, 35 having sailed twice, 9 three times and 1 four times. The 43 vessels listed as lost were carrying full cargoes for the U.S.S.R. In addition, a few of the vessels carrying partial cargoes have also been lost, and several ships have been sunk on their homeward voyage.

Regraded Unclassified

September 28, 1942

Dear General Deane:

In view of the statements made in the press regarding a ten to thirteen million man army, I assume that the Joint Staff is working on programs which have been projected five, six or seven years in the future. I realize that in making programs of this type you are probably more interested in men and equipment than the dollar values involved. On the other hand, the Treasury must have dollar values in order to lay out any long-term fiscal program. You appreciate, I am sure, that the Treasury in mapping its fiscal programs has no basis for projecting them into the future beyond the budgetary year. At the present time the only figures available to us are the estimates of expenditures for the fiscal year ending June 30, 1943. The estimates for the fiscal year 1944 will not be available until January 1, next, and even on January 1 we could only project our figures for eighteen months.

It seems to me that if we are to lay plans which would produce the best fiscal programs, we must coordinate our efforts with those of the Joint Staff. It means a great deal to the country as to the type of fiscal program we adopt and the magnitude of your program has a very definite bearing on the type of program that we must adopt. I shall appreciate it, therefore, if you could furnish me estimates of the probable dollar expenditures of the War and Navy Departments for the next five, six or seven years, based upon any program that you have in mind. I appreciate that any increase in prices would have a bearing on these estimates, but I believe for the purpose of the first estimates they would have to be ignored. Any price increases subsequently occurring can be taken into consideration in future adjustments of the estimates due to changes in programs or for other reasons. I should like to have these estimates

- 2 -

show the periodic increases that you think might take place because of the increasing military forces. I appreciate that this might be difficult to do on a monthly basis, but if it could be done on a quarterly basis for the next two calendar years and on an annual basis thereafter, it would be very helpful to me. You know, of course, that it will make a vital difference as to whether these expenditures are made in the United States or abroad and if these could be separated it also would be very helpful.

I suggest that this whole problem be discussed with Under Secretary Bell before proceeding with the estimates.

Any information supplied me will, of course, be held strictly confidential. If I could have these estimates within the next ten days it would be very much appreciated.

Very truly yours,

Herbert H. Morganthau

Secretary of the Treasury.

Brig. General John R. Deane
Secretary, Joint Chiefs of Staff
War Department
Washington, D. C.

By spec messenger 10:55 am

DWB:ew

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

219
39974

DATE

TO Secretary Morgenthau
FROM Davis L. Baker, Jr.

September 28, 1942

Recommendations for Treasury Financing, October 1942

1. Treasury Bills

Increase weekly offering to \$450 million on October 21, when the maturity steps up to \$350 million. This will provide \$400 million in new money in October, or \$100 million more than the present schedule.

2. Certificates of Indebtedness

Offer \$2,000 million 1-year certificates toward the end of October, furnishing funds to pay off the \$1,507 million November 1 maturity and new money of approximately \$500 million.

3. Treasury Bonds

Announce on October 5 an offering of:

\$1,250 million	1 3/4% bonds due	3/15/48
<u>2,500 million</u>	2 1/4% bonds of	9/15/55-58
<u>\$3,750 million</u>		

This, plus normal over-allotment and the new money from Treasury bills, above, should provide the \$4,000 million required. There appears to be considerable demand for a 2 1/4% bond, in which category there has been no new issue since February, 1942, and I think the market is in adequate shape to take the smaller amount of the 1 3/4% bond. With an attractive short bond available, commercial banks should be less likely to shift from outstanding 2% issues to the new 2 1/4% bond, especially in view of the term to call date of approximately 13 years of the latter.

This program would make possible a November financing of 2% bonds and 2 1/2% top bonds. Deferment until November of these two offerings appears advisable in view of the relatively light cash position of the major insurance companies at present and the fact that a 2% bond would necessarily be priced very close to the market.

The shortest section of the market has just been tapped and faces another offering of certificates in October, although the refunding nature of this operation reduces its effect, so I believe it should not be used for the main financing in October.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau

September 28, 1942

FROM Davis L. Baker, Jr.

Possible New Issues, dated October 15, 1942Treasury Bonds

<u>Coupon</u>	<u>Approx. Term</u>	<u>Due Date</u>	<u>Yield</u>	<u>Market Price</u>	<u>Premium</u>
1 3/4%	5 yrs. 2 mos.	12/15/47	1.68	100 11/32	11/32
			1.72	100 5/32	5/32
	5 yrs. 5 mos.	3/15/48	1.70	100 8/32	8/32
			1.74	100 2/32	2/32
2 %	7 yrs. 5 mos.- 9 yrs. 5 mos.	3/15/50-52	2.00	100	-0-
2 1/8%	8 yrs.-10 yrs.	10/15/50-52	2.06	100 15/32	15/32
			2.10	100 6/32	6/32
	8 yrs. 2 mos.- 10 yrs. 2 mos.	12/15/50-52	2.08	100 11/32	11/32
			2.12	100 2/32	2/32
2 1/4%	12 yrs.-15 yrs.	10/15/54-57	2.21	100 13/32	13/32
			2.23	100 6/32	6/32
	13 yrs.-16 yrs.	10/15/55-58	2.23	100 7/32	7/32
			2.25	100	-0-

Prepared by: Mrs. Wolkind
Mr. Sandelin
Mr. Tickton
Mr. Lindow
Mr. Murphy
Mr. Haas

RY DEPARTMENT
CE COMMUNICATION

221

DATE September 28,
1942

TO Secretary ~~J~~rgenthau
FROM Mr. Haas
Subject: October Financing

SUMMARY

- (1) The reopening of the 2-1/2's of 1962-67 would be heavily dependent upon insurance company subscriptions. It is suggested, therefore, that such reopening be deferred until insurance company funds have had a further opportunity to accumulate.
- (2) It is suggested that the financing consist of \$2 billions of 1 percent notes of December 15, 1943, and \$2 billions of 2 percent bonds of March 15, 1950-52. While a 2-1/4 percent bond eligible for purchase by commercial banks offered at this time would be exceedingly popular, it is not believed that it would fit in well with a long-range plan for that portion of the financing which must be done through commercial banks.
- (3) It is suggested that the 1 percent notes should be open for only two days, and the 2 percent bonds for the same period for banks but a whole week for nonbanking subscribers. Subscriptions from nonbanking subscribers and subscriptions up to \$25,000 from banks should be allotted in full for both issues.
- (4) It is suggested that a limited selling campaign directed to large-scale investors be conducted, especially in connection with the 2 percent bonds. Such a campaign would not result in any material increase in individual saving, but would help slow down the rise in bank deposits.

suggested
2 billion of 1% - Dec 15, 1943
2 billion of 2% - March 15, 1950-52

Secretary Morgenthau - 2

A \$4 billion major financing operation during October is indicated by the cash requirement estimates. The principal questions which seem to be presented in connection with this financing are as follows:

- (1) Should the 2-1/2's of 1962-67 be reopened?
- (2) What market issues should be offered?
- (3) Should there be any changes in the traditional methods of offering market securities?
- (4) Should there be a selling campaign?

I. Should the 2-1/2's of 1962-67 Be Reopened?

When the 2-1/2's of 1962-67 were first offered in May, 73 percent of all sales (exclusive of those to Government agencies and trust funds) were to insurance companies. When the issue was reopened in August, 69 percent of such sales were to insurance companies. Sales to individuals and trust accounts amounted to only 6 percent on the first offering and 5 percent on the second. It is clear, therefore, that while every effort should be made to develop other markets -- particularly that among individuals -- a reopening of the 2-1/2's at this time would still depend heavily upon insurance company participation for its success.

Total cash resources of 36 large life insurance companies holding 82 percent of the total admitted assets of all legal reserve life insurance companies in the United States amounted on August 31 to \$574 millions. This is a decline of slightly more than \$300 millions for the month of August, and is the lowest cash balance reported by these companies since January 1935.

Three months elapsed between the May and August offerings of the 2-1/2's. A reopening in October would be after a lapse of only two months. The total accumulation of cash available for investment in Government securities by all insurance companies in the United States is about \$150 millions a month. It would seem reasonable to allow this cash to accumulate for about three months between reopenings of the 2-1/2's. It is suggested, therefore, that the 2-1/2's should not be reopened in October.

Secretary Morgenthau - 3

II. What Market Issues Should Be Offered?

The following table presents a sample of what can be done at the present time in each of the principal maturity sectors of the market, except those utilized in the September financing. The indicated premiums and maturities are, of course, approximate.

	: Estimated : Yield Basis* : :	: Probable : Price :
	(Percent)	
1 percent note due December 15, 1943 (1 year, 2 months)	.95	100-2/32
1-1/8 percent note due June 15, 1944 (1 year, 8 months)	1.10	100-1/32
1-1/2 percent note due December 15, 1946 (reopening) (4 years, 2 months)	1.48	100-3/32
1-3/4 percent bond due December 15, 1947-49 (5 years, 2 months- 7 years, 2 months)	1.72	100-5/32
2 percent bond due March 15, 1950-52 (7 years, 5 months- 9 years, 5 months)	1.99	100-2/32
2-1/4 percent bond due September 15, 1954-57 (11 years, 11 months- 14 years, 11 months)	2.23	100-7/32

* Based on closing bid prices, September 26, 1942

It is suggested that the \$4 billions of financing be divided equally between the 1 percent note and the 2 percent bond listed in the preceding table.

The principal considerations which have been taken into account in arriving at this conclusion are as follows:

Secretary Morgenthau - 4

(1) The average rate of interest on the program just suggested would be 1.50 percent.

The distribution of subscriptions for the last three certificates of indebtedness, the 1-1/4 percent note issued in September, and the last two 2 percent bonds (comprising all major new-money offerings of fully negotiable securities since the first opening of the "tap" issue in May) has been approximately as follows:

	Last three certificates*	1-1/4 percent note*	Last two 2 percent bonds
(Percent of total subscriptions)			
Commercial banks	76	72	64
Mutual savings banks	1	2	6
Insurance companies	4	2	7
Other corporations	10	9	7
Individuals and trusts	1	4	7
Dealers	7	10	7
All others	1	1	2

* Figures partly estimated

If subscriptions by commercial banks to the 2 percent bonds should be in the same proportion as in the previous offerings of such securities, and subscriptions to the 1 percent notes in the same proportion as those for the 1-1/4 percent notes offered in September, the average rate of interest for the money borrowed from commercial banks would be 1.47 percent; and for that borrowed from investors other than commercial banks, 1.56 percent. This spread is not large enough, but seems to be as large as is practicable to obtain on the present offering. The over-all spread is, of course, greatly widened when the rates on other securities (bills and certificates) sold to commercial banks and on the other securities (savings bonds, tax notes, and "tap" issues) sold to other investors are taken into account.

Secretary Morgenthau - 5

(2) A 2-1/4 percent bond would undoubtedly be extremely popular at the present time. More than half of such an issue would be absorbed by commercial banks, however; and 2-1/4 percent is believed to be too high a rate to pay on money obtained from this source.

The same argument might, of course, be raised -- although with less force -- against the issuance at this time of a 2 percent bond available for commercial banks. Ultimately, this argument may be persuasive, as 2 percent may prove too high a rate to pay for commercial bank money for the long-run financing of the war.

The present time seems too early, however, to stop the issuance of 2 percent securities to banks. One indication of this is the statement of earnings for all national banks for the first half of 1942, released last Friday by the Comptroller's office. This statement shows that national bank earnings were down slightly for the first half of 1942, as compared with the corresponding period of 1941, due presumably to a run-off in high-interest loans and an increase in expenses and taxes, not fully offset by an increase in interest on Government securities. Earnings in the first half of 1942 (after taxes and all charge-offs) were at an annual rate of 6.12 percent on capital funds, however.

(3) It is recognized that the suggested program would result in a heavy concentration of maturities, particularly in the 2 percent area. This is inevitable, however, and should not be a cause for grave concern if the banking system is subject to adequate controls. It should be noted in this connection that the British have been building up for some years an extremely heavy concentration of 2-1/2 percent bonds which occupy approximately the same position in their "pattern of rates" as 2 percent bonds do in the "pattern of rates" here.

Secretary Morgenthau - 6

III. Should There Be Any Changes in the Traditional Methods of Offering Market Securities?

In our memorandum in connection with the September financing, certain "technical innovations" in the manner of offering market securities were suggested. The purpose of these innovations was to put the offering of market securities on such a basis that some pressure could be applied to their sale to nonbanking investors. This was proposed to be done by furnishing the two indispensable requisites for such pressure -- (1) time for salesmen to work, and (2) 100 percent allotment. None of these "innovations" was adopted last month because of the character of the financing you finally decided upon. It is believed that most of them should again be given consideration on the present occasion, however.

One of the "innovations" suggested last month was that only the total amount to be raised by each financing should be fixed, and that the amount of each issue should be determined by the proportion of subscriptions among them. However, it appears now that this procedure may be incompatible with the ultimate objective of the Treasury, in the event of a long war, of determining itself the proportion of its total securities which it will issue in each interest bracket and the average rate which it will pay to each class of investor.

The remaining "innovations" suggested last month are believed to be applicable to one or both of the issues suggested for this month, as follows:

- (1) It is suggested that the subscriptions for the 1 percent notes should be open for only two days, but that subscriptions from nonbanking investors and subscriptions up to \$25,000 from banks should be allotted in full.
- (2) It is suggested that subscriptions for the 2 percent bonds should be open for only two days to banks, but should be open for a full week to nonbanking subscribers. Subscriptions from nonbanking subscribers and subscriptions up to \$25,000 from banks should be allotted in full, as in the case of the 1 percent notes.

Secretary Morgenthau - 7

If the financing were carried out along the lines suggested above, the Victory Fund Committees would be able, in the case of both issues, to offer their customers firm merchandise, rather than an uncertain prospect of allotment; and, in the case of the 2 percent bonds, would have a week in which to work. The approximate amount of bank subscriptions to the 2 percent bonds might be announced as soon as possible after the issue was closed for bank subscriptions.

The element in the above suggestions most likely to meet with opposition is the proposal to close subscriptions to banks ahead of those to the general public. The reason for the suggestion is, of course, to insure the success of the issue while it is still open to the general public. If the books are kept open for bank subscriptions for the whole period, banks are likely to delay their subscriptions until the last day, thereby resulting in an unfavorable atmosphere in which to sell securities to nonbanking investors.

The main arguments against an early closing of bank subscriptions are (1) that it is "unfair" to the banks -- i.e., that they should be given as much of a "run for their money" as anyone else, and (2) that it is difficult for banks to determine the amount of their subscriptions until they know the amount of the subscriptions of their customers, and hence of the probable drain on their reserves.

The first of these objections can be met if the banks realize that the role which they are asked to play in the financing is part of their patriotic duty -- as the rest of the financial community and nonbanking investors generally look to them for leadership. The second objection has some merit, but its importance is minimized by the ability of any member bank, if it should find itself overloaded, to sell securities to Federal. It should be noted that the second objection would not exist at all if an adequate supply of excess reserves were available.

Secretary Morgenthau - 8

IV. Should There Be a Selling Campaign?

It is suggested that there should be a limited selling campaign, conducted by the Victory Fund Committees, for the October financing, particularly in connection with the 2 percent bonds. The changes in offering procedure discussed in the preceding section would make such a campaign technically feasible.

The selling campaign here contemplated would not be of a "popular" character, invading the field of savings bonds, but would be confined to large-scale investors. Such a campaign, of course, could not be expected to result in any material increase in current savings or decrease in current consumption. It would be directed merely to securing the investment of a part of the large current volume of "idle funds" in Government securities, and so to slowing down the increase in bank deposits -- an objective which is worth while in itself, although of much less importance than that of stimulating new individual savings.

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	August	July	September : percent of August
September 1942					
1	\$ 11,634	\$ 11,634	\$ 14,044	\$ 15,821	82.8%
2	14,748	26,381	36,222	30,701	72.8
3	18,305	44,687	50,797	47,523	88.0
4	17,804	62,491	63,785	77,320	98.0
5	19,166	81,657	86,789	95,044	94.1
8	49,400	131,057	111,748	116,643	117.3
9	13,295	144,352	128,176	139,390	112.6
10	16,430	160,781	154,981	164,161	103.7
11	19,573	180,354	164,866	183,238	109.4
12	9,584	189,938	180,787	209,787	105.1
14	35,544	225,482	197,143	225,532	114.4
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
21	40,445	342,980	297,075	339,951	115.5
22	9,714	352,694	313,101	358,135	112.6
23	20,352	373,046	322,982	376,396	115.5
24	27,075	400,122	353,504	394,984	113.2
25	12,368	412,490	367,195	405,679	112.3
26	22,230	434,720	383,303	438,256	113.4

September 28, 1942.

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

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

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

UNITED STATES SAVINGS BONDS - SERIES F AND G COMBINED

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

(At issue price in thousands of dollars)

Date	September daily sales	Cumulative sales by business days			
		September	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
21	15,820	157,075	176,681	262,178	88.9
22	5,653	162,728	182,842	278,505	89.0
23	12,959	175,687	186,207	293,679	94.4
24	14,445	190,132	196,715	308,077	96.7
25	5,799	195,931	202,690	316,893	96.7
26	9,108	205,038	211,968	338,137	96.7

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

September 28, 1942.

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

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

UNITED STATES SAVINGS BONDS - TOTAL

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

(At issue price in thousands of dollars)

Date	September : daily : sales :	Cumulative sales by business days			
		September	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
21	56,266	500,055	473,756	602,129	105.6
22	15,366	515,422	495,943	636,640	103.9
23	33,311	548,733	509,189	670,075	107.8
24	41,521	590,254	550,219	703,062	107.3
25	18,167	608,421	569,885	722,572	106.8
26	31,338	639,758	595,271	776,393	107.5

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

September 28, 1942.

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

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

232
Sales of United States savings bonds
September 1 through September 26, 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	40.4	343.0	399.6	85.8	15.8	157.1	141.0	111.4	56.3	500.1	540.6	92.5
22	9.7	352.7	415.7	84.8	5.7	162.7	147.0	110.7	15.4	515.4	562.7	91.6
23	20.4	373.0	436.2	85.5	13.0	175.7	155.2	113.2	33.3	548.7	591.4	92.8
24	27.1	400.1	457.1	87.5	14.4	190.1	163.4	116.3	41.5	590.3	620.5	95.1
25	12.4	412.5	481.4	85.7	5.8	195.9	171.0	114.6	18.2	608.4	652.4	93.3
26	22.2	434.7	497.4	87.4	9.1	205.0	176.6	116.1	31.3	639.8	674.0	94.9
28			532.7				188.7				721.4	
29			549.2				195.5				744.7	
30			570.0				205.0				775.0	

September 28, 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.

approved 9-28-42 ✓



TREASURY DEPARTMENT

WASHINGTON

Mr. Secretary:

The question of the taxability, for purposes of the Federal income tax, of the "monthly family allowance" payable under the Servicemen's Dependents Allowance Act of 1942, which is payable to the dependents of certain enlisted members of the armed forces of the United States, has been considered by the Bureau of Internal Revenue.

The amount of the allowance consists of a portion chargeable against the serviceman's pay and an added sum contributed by the Government. The amount chargeable to the serviceman is fixed but the Government's contribution is variable according to the class and/or number of the dependents.

It is held by the Bureau that the amount of the allowance which is a charge against the serviceman's pay is in effect an assignment thereof to his dependents and is, therefore, to be included in his gross income to the same extent as if paid directly to him and by him paid over to his dependents. The amounts of such assignments are tax free to the assignees. The amount of the Government's contribution to the serviceman's "monthly family allowance" is in the nature of a gift and is not taxable either to the serviceman or to his dependents.

Mr. Secretary.

It is further held by the Bureau that although the charges made against the enlisted man's pay under the Act are not taxable to the assignees, that conclusion should not be interpreted as affecting the income tax liability of a wife upon that portion of her husband's income which vests in her under community property laws. Thus, in a community property State, a wife will remain liable for the income tax upon her entire portion of her husband's income, but will not incur further income tax liability by virtue of receiving the allotment in question.

Amounts deducted from the pay of a member of the armed forces of the United States under the provisions of the Servicemen's Dependents Allowance Act of 1942, and paid to or for the benefit of a person whom the serviceman is legally obligated to support, are not subject to the gift tax. If such an assignment does not discharge a legal obligation of the serviceman, it must be reported for gift tax purposes, provided the amounts so allotted together with other gifts (except gifts in trust or of future interests in property), made by him to any one person during the calendar year, exceed a total of \$4,000.00. The amount of the Government's contribution is not subject to the gift tax. In the case

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Mr. Secretary.

of a voluntary allotment which is later to be returned to the serviceman who makes the allotment, the allottee will be regarded as an agent or custodian and no gift is involved.

JLS

Assistant Secretary of the Treasury

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau

September 28, 1942

FROM Randolph Paul

finished

I have just talked with Paul McNutt and read him the draft of what you plan to say about the Vandenberg amendment at your press conference this afternoon. He said he was in hearty accord and had no suggestions and that he would be happy indeed to back you up. He brought up the question of action by the President. I passed on your suggestion that he (McNutt) call a meeting, including Secretary Perkins. He said he would turn that matter over to Altmeyer who would call a meeting in the next day or two.

Attached for the press conference is the suggested statement as revised by Mr. Kuhn.

AGP

Herb Gaston approves on the ground that the present Social Security system helps in the anti-inflationary picture. He does not like our Social Security scheme; thinks it is unsound and that we made an unfortunate surrender a couple of years ago.

Enclosure

AGP

September 28, 1942

Passage of the Vandenberg amendment would jeopardize the program for financing Old Age and Survivors' Insurance. Sound financing requires that Social Security contributions be collected at the scheduled levels, especially during a period of very high incomes and employment such as this.

Passage of the amendment would also require substantial adjustment in the Government's plans for war financing. It would, in effect, reduce the flow of anti-inflationary funds into the Treasury by over \$1 1/2 billion.

Everything that we have urged and planned in the fight against the rising cost of living has been predicated upon the assumption that Social Security contributions would rise on January 1, 1943 to the new schedules adding 1% to the contributions of employees and 1% to those of employers.

The Administration's record on Social Security has been clear and consistent. Last January the President submitted a budget based on the assumption that the scheduled rate increases in Social Security contributions would go into effect on January 1, 1943, and that in addition, \$2 billion in new contributions would be raised for an

-2-

expanded Social Security program.

In my appearance before the House Ways and Means Committee on March 3rd, I recommended an expansion of the Social Security program along the same lines, and I repeated this recommendation in my letter to the Committee on May 6th.

I strongly hope that the Senate Finance Committee will reverse its tentative approval of the Vandenberg amendment, because the passage of that amendment would make our wartime task at the Treasury harder than ever.

September 28, 1942

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-2-

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When I appeared
~~In my appearance~~ before the House Ways and Means
 Committee on March 3rd, I recommended an expansion of
 the Social Security program *as outlined in the President's budget message of last January* ~~along the same lines~~, and
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 Committee on May 6th.

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 will reverse its tentative approval of the Vandenberg
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 make our ~~wartime~~ *of financing* task at the Treasury harder than ever.



TREASURY DEPARTMENT
WASHINGTON

OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

September 28, 1942.

Memorandum for SECRETARY MORGENTHAU:

In view of the continued delay in the enactment of the Revenue Act of 1942 it is of utmost importance that I acquaint you with the serious problem that the Bureau of Internal Revenue faces in connection with the drafting of return forms, the printing thereof and the distribution.

In ordinary years drafts of the first forms moved to the Printing Office starting July 1st with the objective of having the final draft of the last form with the Printer by November 1st. This schedule was maintained and permitted an orderly preparation and distribution of returns until the year 1941.

The Bureau of Internal Revenue maintains at all times a Forms Committee which is engaged in studying new provisions and preparing drafts of forms as the revenue bill proceeds to final passage. This procedure has been in effect for many years. The drafts of 1941 forms commenced moving to the Government Printing Office shortly after September 20th, the date of the enactment of the 1941 Act, with the last 1941 form being ordered on December 19th. The most important forms, consisting of the individual Form 1040, the simplified Form 1040A, the corporation Form 1120 and excess profits tax Form 1121, were ordered on October 14, 1941, that is, three weeks after the enactment of the Revenue Act of 1941. Final proofs were returned to the Government Printing Office on October 27, 1941 and distribution of the individual forms commenced on November 24, 1941, being completed on February 9, 1942. The distribution of the corporation forms was commenced December 29, 1941 and completed on February 13, 1942.



-2-

Memorandum for Secretary Morgenthau.

The speed with which 1941 forms were printed and distributed was possible only through the cooperation of Bureau employees and those of the Government Printing Office and long overtime hours. For 1941 approximately 27,000,000 individual returns were filed. To insure an adequate supply with due allowance for duplication and waste it was necessary to print and distribute 140,000,000 individual forms, or approximately 5 to 1. For 1942 it is estimated there will be approximately 35,000,000 individual taxpayers and that it will be necessary to print and distribute 175,000,000 forms. That is to say, the printing and distribution problem will be much greater for 1942 than it was for 1941. From the viewpoint of time the changes proposed in the 1942 Bill will affect the drafting of new forms to a greater extent than in previous years. As an indication, the report of the Committee on Ways and Means on the 1942 Bill comprises a book of 181 pages; whereas, the report on the 1941 Act was but 77 pages.

The 1942 Bill includes a large volume of changes of a technical nature. Necessarily, before new forms can be drafted all the changes must be analyzed as to their effect, and provisions made for instructions covering the amendments of a major character. Under existing orders all forms must be submitted to the officials of the Bureau, reviewed by the Treasury and the Statistical Division of the Bureau of the Budget. There must be, of course, several proofs made, reviewed and corrected. Regardless of the available man power only a limited number of skilled technicians can work on the drafting of the return forms. The element of time essential to the necessary distribution of return forms cannot be shortened as our plans of distribution contemplate immediate dispatch of the forms as printed to the various field offices over the country.

You will appreciate the fact that if the Bureau, working at top speed, could effect distribution of 1941 returns only by February 1942 covering a revenue bill

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Memorandum for Secretary Morgenthau.

enacted into law on September 20, 1941, it will be a much greater problem to insure the preparation, printing and distribution of proper forms if there is any further delay in enacting a much more complicated and comprehensive law.

It is well known that many qualified tax men and public accountants are now in the armed services. The public, confronted with new complex taxing provisions and needing, as never before, help which will not be available, will be further aggravated by any failure on our part to distribute return blanks well in advance of the filing date. I dislike very much the thought of any general extension to be afforded the public in the filing of returns for 1942, for when such general extension is granted it will be the natural tendency on the part of many taxpayers to further delay the filing of returns. If, however, the Revenue Bill of 1942 is to be further delayed this matter is so serious that the question of a general extension might properly be considered before final enactment of the Revenue Act of 1942.


Commissioner.

Enclosure

STATEMENT SHOWING THE QUANTITIES OF INCOME TAX FORMS FOR 1941,
DATE ORDERED, DATE PROCS RECEIVED IN BUREAU, DATE RETURNED TO GPO, O.K. PRINT
DATES DELIVERY BEGAN AND COMPLETED.

Item No.	Quantity Ordered	Date Ordered	Receipts		Delivery	
			Rec'd in Bur.	Returned GPO	Date Begun	Date Completed
1040	65,000,000	10-14-41	10-17-41	10-27-41	11-24-41	2-9-42
1040 A	75,000,000	9-24-41	10-6-41	10-15-41	11-21-41	1-2-42
1040 B	150,000	12-19-41	1-19-42	1-29-42	2-15-42	2-16-42
1040 BB	150,000	12-19-41	1-7-42	1-25-42	2-18-42	2-19-42
1040 E	50,000	11-24-41	12-12-41	12-15-41	2-6-42	2-6-42
1040 F	2,800,000	10-28-41	11-15-41	11-19-41	12-30-41	127942
1041	2,850,000	11-24-41	12-19-41	12-25-41	1-20-42	1-29-42
1042	200,000	11-24-41	12-25-41	1-6-42	2-15-42	2-15-42
1042 B	125,000	11-24-41	12-15-41	12-17-41	2-9-42	2-9-42
1065	3,650,000	11-24-41	12-17-41	1-1-42	1-16-42	2-5-42
1096	3,000,000	10-2-41	10-17-41	10-30-41	1029-41	11-7-41
1099	75,000,000	9-25-41	10-22-41	10-12-41	10-29-41	11-24-41
1099 L	1,000,000	10-2-41	10-15-41	10-16-41	1-5-42	1-5-42
1100	1,800,000	12-19-41	1-12-42	1-14-42	2-12-42	2-12-42
1100 A	60,000	12-19-41	1-1-42	1-8-42	2-9-42	2-9-42
1116	200,000	12-5-41	12-17-41	12-17-41	2-16-42	2-16-42
1117	20,000	12-5-41	12-17-41	12-17-41	2-5-42	2-5-42

Form No.	Quantity Ordered	Date Ordered	Priority		Date Shipped	Date Completed
			Inv'd in Inv.	Delivered QTY		
1118	60,000	12-3-41	12-17-41	2-6-42	2-18-42	2-19-42
1119	16,000	12-3-41	12-18-41	12-17-41	1-30-42	1-30-42
1120	4,760,000	11-3-41	11-17-41	12-6-41	12-28-41	2-6-42
1120 H	110,000	12-3-41	1-1-42	1-6-42	2-12-42	2-12-42
1120 L	20,000	12-3-41	12-20-41	1-6-42	2-6-42	2-6-42
1120 MB	20,000	12-18-41	1-6-42	1-18-42	2-12-42	2-12-42
1121	1,480,000	11-18-41	12-4-41	12-22-41	1-7-42	1-18-42
1121 PB	28,000	11-18-41	12-18-41	12-22-41	2-12-42	2-12-42
1122	16,000	11-18-41	12-6-41	12-6-41	1-6-42	1-6-42
1122 R	180,000	11-18-41	12-19-41	12-22-41	2-16-42	2-16-42
1123	2,000,000	7-17-41	(No proof requested)		12-12-41	12-27-41
7544	6,400,000	7-17-41	8-19-41	9-24-41	1-9-42	1-17-42

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September 25, 1942

Dear Bob:

~~Sp. Comm. Committee~~ box

I wish to thank you for having inserted in the Congressional Record of September 23, 1942, the editorial "Has the Little Fellow a Chance?", originally published in the Raleigh, North Carolina ~~News and Observer~~.

This is such an appropriate editorial that I am glad it is being made available in this manner for more widespread use.

Sincerely,

(Signed) Henry

~~Secretary of the Treasury~~

Honorable Robert H. LaFollette, Jr.,

United States Senate.

RB BY EB:dd
9/25/42

FILE COPY

Agent Arthur B. Wentz left the office
at 2:28 p.m., to deliver copy of Mr. Paul's
memo to Col. Greenbaum.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Sept. 28, 1942

TO Secretary Morgenthau
FROM Randolph Paul

Robert Daniel Murphy is a Foreign Service Officer of the Department of State currently holding the title of Counsellor of the Embassy at Vichy. He was born in Milwaukee, Wisconsin, October 28, 1894, being, therefore approximately 48 years old. He attended the Marquette Academy in Milwaukee, and a business school, and Marquette University. The latter is a university in Milwaukee, Wisconsin, operated by the Jesuit Order. Mr. Murphy is Catholic.

He obtained the degrees of Bachelor and Master of Law at George Washington University, and is a member of the Bar of the District of Columbia. He has been in the service of the Government of the United States since 1916, when he began as a clerk in the Post Office Department. His first foreign post was that of clerk in the American Legation at Bern, period of 1917-1919.

During 1919 to 1921 Murphy was employed in the Treasury Department. He entered the Treasury Department in September, 1919, as a clerk-stenographer at \$1400 per annum. He rose rather rapidly in the Bureau of Internal Revenue through the clerical grades and was appointed Assistant Field Supervisor in the Office of the Commissioner of Internal Revenue, Prohibition Roll, \$2500 per annum, March 1, 1920. He worked in the field on the enforcement of the prohibition laws during most of the remainder of that year. His appointment as Assistant Field Supervisor at \$2500 per annum was never confirmed by Civil Service. A letter in the file, of January 12, 1921, from the Commission directs that he be reduced to his former grade of stenographer. However, it appears that he was advanced from the position of Assistant Field Supervisor to that of Executive Assistant in the Legal Division of Internal Revenue at \$3000 per annum on July 1,

Confidential

- 2 -

1920. Evidently this advancement was never confirmed by the Civil Service Commission, judging by the above-mentioned letter of January 12, 1921. Murphy resigned from the Treasury Department effective February 28, 1921.

Since leaving the Treasury Murphy has been either in the consular service or the foreign service. His posts, without mentioning titles, have been successively as follows: Zurich, April 2 to October 7, 1921; Munich, October 7, 1921, to August 19, 1925; Seville, August 19, 1925, to March 16, 1926; State Department, March 16, 1926, to March 26, 1930; Paris, March 26, 1930, to the evacuation of Paris by the American Embassy; and since then at Vichy and in French North Africa.

Information concerning Mr. Murphy's recent activities indicates conclusively that he has played a prominent part in the determination of State Department policy with respect to American shipment of goods to French North Africa. Telegrams in our possession addressed to the State Department by Murphy from North Africa reveal very little of his activities, but they reflect a belief that French officials are not collaborating fully with the Axis. In the New York Times of September 6, 1940, it is stated that Murphy scoffed at the report that Gaston Henri-Haye is pro-Nazi. He praised Henri-Haye warmly and stated that "he is the best man for the position". In an article in the New York Herald Tribune of September 24, 1941, explaining the policy of the State Department with respect to shipments to North Africa, the following statement appears: "The State Department policy on North Africa, it is understood, was adopted on advice of Robert D. Murphy, Counsellor of the American Embassy in Vichy. During December and January he toured North Africa, conferred with General Weygand and General August Nogues, another French military leader, and in March flew home to give in person his estimate of the North African situation to Secretary of State Cordell Hull and other officials."

Murphy recently returned to the United States and is now understood to be working in the State Department.

AST

Treasury Department
Division of Monetary Research

5

Date.....September 28,.....1942

To:

Frank A. Southard Jr.
Lieut. Sr. grade, U. S. Naval Intelligence
Age - 35
Pomona B.A. 1927
Ph.D. U. of Calif. 1930
Asst. Prof. of Economics at Cornell University
7 years
7 months as Senior Econ. Analyst with Tariff
Commission
Appointed Principal Economic Analyst, Div. of
Mon. Research on June 27, 1938, to Sept. 15,
1938
Appointed Principal Economic Analyst, Div. of
Mon. Research Jan. 15, 1941. Made Assistant
Director on June 1, 1941.
Professor of Economics at Cornell University on
leave. Prior to his induction in the Navy
he was Asst. Director of Monetary Research
in Treasury. Speaks Spanish well, and reads
French easily. Has travelled extensively in
South America, and has been in Europe.

MR. WHITE
Branch 2058 - 214½

HEADQUARTERS
THE INFANTRY SCHOOL
FORT BENNING GEORGIA

September 28, 1942

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

Dear Mr. Secretary:

Thank you so much for your
thoughtfulness in sending me congratulations
on my promotion. I certainly appreciate your
thinking of me during these busy times.

Sincerely,

Leven C. Allen

LEVEN C. ALLEN,
Major General, U. S. Army.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

CONFIDENTIAL

DATE September 28, 1942

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Business Situation,
Week ending September 26, 1942.

Summary

(1) After an extended period of narrow price movements and dull trading, stock prices and trading activity improved noticeably last week. Among the factors contributing to the improvement in speculative sentiment were the strong defense of Stalingrad, the inflationary implications of the farm parity controversy, and favorable developments relating to railroad finances. In London, industrial stock prices continued to rise and reached a new high for the entire war period.

(2) Stimulated by Congressional pressure to revise parity prices upward, basic commodity prices moved sharply higher last week. The BLS index of 28 basic commodities showed the largest increase since January, and rose 1.0 point to 169.4. As a result of further advances in wholesale food prices, the BLS all-commodity index in the week ended September 19 again rose 0.1 point to 99.3, or 32.4 percent above the pre-war level of August 1939.

(3) Cash farm income rose more than seasonally in August, and is estimated to have exceeded year-earlier levels by 29 percent. The Department of Agriculture recently estimated that total cash farm income, including Government payments, will be more than \$15 billions in 1942, considerably exceeding the previous high level reached in the inflation year of 1919.

(4) Factory employment and payrolls continued to expand in August, and both reached new record high levels. Factory payrolls showed an unusually sharp gain, and at mid-August were nearly 5 percent higher than a month earlier. In reflection of longer working hours and higher wage rates, estimated average weekly earnings of factory workers continued to rise and were more than 24 percent higher than in August 1941.

- - - - -

- 2 -

Stock prices move higher as trading increases

After moving in a narrow range for about 2 months, stock prices during the past week showed definite improvement, with a noticeable expansion in trading volume. Stock transactions on the New York Stock Exchange on Thursday reached a new high for the year at 851,000 shares. In the early part of the week trading was featured by activity in low-priced stocks, particularly rails, but toward the end of the week pivotal stocks such as General Motors, U. S. Steel and Atchison took a larger part in the rise.

Stimulated in part by the first dividend payment on Southern Railway preferred since 1931, the Dow-Jones average of railroad stock prices moved up to the highest levels since last February. The average of industrial stock prices rose moderately above the recent peak touched in July, and also stood at the best levels since last February. (See Chart 1.)

The strong Russian defense of Stalingrad and the inflationary implications of Congressional action on farm parity price provisions, among other factors, were reported to have stimulated speculative sentiment. Moreover, indications of further improvement in the financial position of the railroads have brought about increased interest in both railroad stocks and bonds recently. Due largely to expansion of trading in railroad obligations, particularly those of companies in reorganization, bond trading on the New York Stock Exchange on Thursday reached the highest volume since July 3, 1941.

The improvement in stock prices on the New York Exchange last week was paralleled by further gains in the London stock market, where industrials reached a new high for the entire war period. At the end of last week, industrial stock prices in London were 12 percent higher than on the eve of the outbreak of war in Europe, whereas prices in New York were 19 percent lower.

Commodity prices move higher

Under the influence of Congressional pressure to revise parity prices upward, prices of uncontrolled farm commodities last week moved strongly higher. Wheat prices reached the highest levels since last May, while the top price on hogs at Chicago equaled the 22-year high reached in August. In consequence, Moody's spot commodity price index last week established a new high for the war period, and the Dow-Jones index of futures prices showed a rising tendency. (See Chart 2.)

- 3 -

With further advances in wholesale food prices, the BLS all-commodity index made another slight gain in the week ended September 19, rising 0.1 point to 99.3. This represents a rise of 8.5 percent since the corresponding week of last year, and 32.4 percent since the beginning of the war. Wholesale prices of foodstuffs are now 15.3 percent higher than a year ago, the latest week showing a particularly marked advance in butter and egg prices, which carried them to the highest September levels in 13 years. (The BLS index of retail food prices, as of August 15, showed a gain of 17 percent over the previous year.)

Basic commodity index sharply higher

With increased prices for all uncontrolled commodities except cotton, the BLS price index of 28 basic commodities rose a full point to 169.4 in the week ended September 25, the largest increase since last January. The index of 9 uncontrolled commodities rose steeply in response to the inflationary farm bloc action on the pending price bill. (See Chart 3.) The index of 19 controlled commodities was practically unchanged, a decline in wool top prices offsetting a rise in cottonseed oil.

Cotton prices were slightly lower last week, despite the rise in other uncontrolled prices, largely because of the heavy crop movement now under way and uncertainties over the price bill. The permissible ceiling on cotton prices would be slightly lower under the proposed Steagall bill than under the present law.

House votes inflationary price bill

The Brown^{1/} amendment to the Steagall price bill, accepted by the House last week, would raise parity prices of farm products by approximately 12.6 percent (Department of Agriculture estimate) through incorporating wages of all farm labor in the farm cost index. At the same time, it would raise the required loan level on basic crops (and on other war-essential crops) to 90 percent of the new parity, equivalent to about 101 percent of the old parity, as compared with 85 percent at present. While the final outcome of the new price legislation is uncertain, the Steagall bill would obviously make price control of farm products even more difficult than under present laws.

^{1/} Representative Brown of Georgia.

- 4 -

Indicated ceilings for selected farm products under the Steagall bill are shown in the attached Table 1, in comparison with latest published farm prices (as of August 15). Some ceilings might be even higher, in case farm prices of certain commodities should reach new 1942 highs in the September 15 compilation. It will be noted that beef cattle, hogs, lambs, veal calves, and chickens would be subject to price ceilings near very recent levels. All others in this selected group would be permitted to rise still higher, by substantial amounts in the case of grains.

A comparison of indicated ceilings under the Steagall bill with ceilings permitted under present law is shown in Table 2. It will be noted that permissible ceilings for the large majority of these selected commodities would be even higher than under present law, although on a few of the commodities -- cotton, cottonseed, chickens, and butterfat -- the ceilings would be somewhat lower than at present.

In the Senate, the proposed Thomas-Hatch amendment is designed likewise to raise parity prices by including the cost of all farm labor, and its effect on price ceilings would be similar to the effect of the Brown amendment in the House bill. Press reports, however, indicate a possible victory for the Tydings-Reed-O'Mahoney compromise amendment, which would require that maximum prices for primary and manufactured agricultural products be modified where necessary to increase production for war purposes, or where "by reason of increased labor or other costs to the producers of such agricultural commodity, the maximum prices so established will not reflect such increased costs."

Farm labor situation becomes serious

An important factor contributing to the heavy House vote for the inclusion of wage rates in parity computations is a recognition of the undoubtedly serious labor shortage that is developing in the agricultural areas, due to labor migration to defense plants and enlistments in the armed forces. Various authorities now indicate that shortages of various foods are likely next year on account of the labor shortage and other factors, particularly if weather conditions should not be as highly favorable for crop production as they were this season.

A rationing system for dairy products will be put into effect within the next few months, according to press reports, because of declining milk production due to labor shortages and other influences. The Department of Agriculture is quoted as

- 5 -

estimating that milk supplies for civilian consumers (after army and lend-lease requirements) will fall 10 percent below last year's figure.

The inclusion of wage rates in the parity index, however, obviously cannot correct the labor shortage nor contribute in any important degree toward alleviating the threat of food shortages. These problems can be met only by direct action toward maintaining an adequate supply of farm labor for the production of essential crops. At least 70 percent of man-power losses suffered thus far by farmers are attributable to the draft, according to a statement by M. W. Thatcher of the National Farmers' Union.

Farm income rose more than seasonally in August

With unusually large crops moving to market at high prices, cash farm income rose more than seasonally in August, and preliminary confidential data indicate that the gain over August 1941 was 29 percent. (See Chart 4.) The Department of Agriculture estimated recently that cash farm income, including Government payments, in 1942 would be over \$15 billions. This figure is about 28 percent higher than last year, and is substantially above the previous record of \$14.4 billions reached in the inflation year of 1919.

In contrast, the population on farms (1941 data) is 3.5 percent lower than in 1919, and the cost of goods bought by farmers for use in production and family maintenance is 25 percent lower than in 1919. The Secretary of Agriculture recently stated that net farm income this year, or the amount available to farmers for family living and savings, would amount to about \$10.5 billions. This was said to be about \$1 billion greater than net farm income in 1919.

Seasonally-adjusted rural sales of general merchandise rose during August, but were below year-earlier levels for the first time this year. It will be remembered, however, that sales in August 1941 showed an unusually sharp gain due to the wave of advance buying then in progress. Nevertheless, reference to Chart 4 will disclose that rural sales have shown a distinct tendency to fall behind the rise in farm income since the first quarter of the current year. The large mail order houses have shown a particularly noticeable lag in sales in recent months, which they have attributed largely to the adverse effects of civilian goods curtailment and credit restrictions.

- 6 -

Factory payrolls sharply higher in August

The upward swing in factory employment and payrolls to new record highs continued in August. On the basis of preliminary and confidential BLS data, factory payrolls rose 4.9 percent from mid-July to mid-August. This is an unusually sharp increase, particularly in view of the great expansion that had already taken place since the Defense program got under way. Factory employment rose less rapidly than payrolls, but showed the substantial gain of 2.2 percent. (See Chart 5.)

In reflection of the continued more rapid expansion in payrolls than employment, average weekly earnings of factory workers reached a new peak in mid-August, estimated at 2.3 percent above the previous month. As a result of the increases in working hours and wage rates during the past year, estimated average weekly earnings of factory workers last month were 24.4 percent higher than in August 1941. (Refer to Chart 5.)

Department store stocks at high levels

Department store stocks showed a further expansion of about 3 percent in August. This increase, however, was less than seasonal, and the FRB adjusted index of stocks dropped to 135 at the end of August from 140 at the end of July, according to confidential data. (See Chart 6.) This was the first decline in the index since the beginning of the year. It will be noted that department store sales in August (seasonally adjusted) ran counter to the trend of inventories, advancing to the highest levels since last January.

The gain in department store stocks over year-earlier levels narrowed to 55 percent at the end of August from 73 percent at the end of July. Details of stocks at the end of August are not yet available. Data compiled by the Federal Reserve Board as of the end of July, however, showed the largest year-to-year increases in women's and children's hosiery and women's coats and suits, with gains of 173 and 116 percent, respectively. The smallest increase was shown by furs, stocks of which showed a gain of only 3 percent as a result of the inroads on inventories caused by a sharp expansion of sales in July.

Department store sales again above 1941 levels

After dropping 3 percent below 1941 levels in the week ended September 12 due to the Labor Day holiday, department store sales in the following week recovered and ran 5 percent

- 7 -

above the corresponding period a year ago. (See Chart 7.)
All districts showed gains except New York, where poor
weather conditions reportedly had an adverse effect on
sales.

Table 1

August 15 farm prices of selected commodities compared with ceilings proposed in the Steagall bill

Commodity	Unit	Farm price, August 15 (Dollars)	Proposed ceiling		Increase over August 15 farm price (Percent)
			Highest 1942 price <u>1/</u> (Dollars)	112.6 percent of parity (Dollars)	
oats	bu.	.492	-	1.232	150.4
barley	bu.	.567	-	1.060	86.9
oats	bu.	.426	-	.682	60.1
wheat	bu.	.954	-	1.513	58.6
apples	bu.	1.16	1.66	-	43.1
corn	bu.	.834	-	1.099	31.8
flaxseed	bu.	2.26	-	2.89	27.9
cotton	lb.	.1803	-	.2123	17.7
eggs	doz.	.322	-	.357 <u>2/</u>	10.9
sweetpotatoes	bu.	1.373	-	1.503	9.5
potatoes	bu.	1.629	1.781	-	9.3
potatoes	bu.	1.154	1.258	-	9.0
utterfat	lb.	.406	-	.428 <u>2/</u>	5.4
cottonseed	ton	44.04	45.04	-	2.3
molasses	lb.	.394	.402	-	2.0
beef cattle	lb.	.1130	.1130	-	0.0
hogs	lb.	.1413	.1413	-	0.0
hogs	lb.	.1207	.1207	-	0.0
veal calves	lb.	.1291	.1291	-	0.0
chickens	lb.	.196	.196	-	0.0

To August 15. The Steagall bill provides for the highest 1942 price to September 15.
Subject to seasonal adjustment.

Source: From Department of Agriculture data.

Table 2

August 15 farm prices of selected commodities compared with present permissible ceilings and with proposed ceilings under Steagall bill

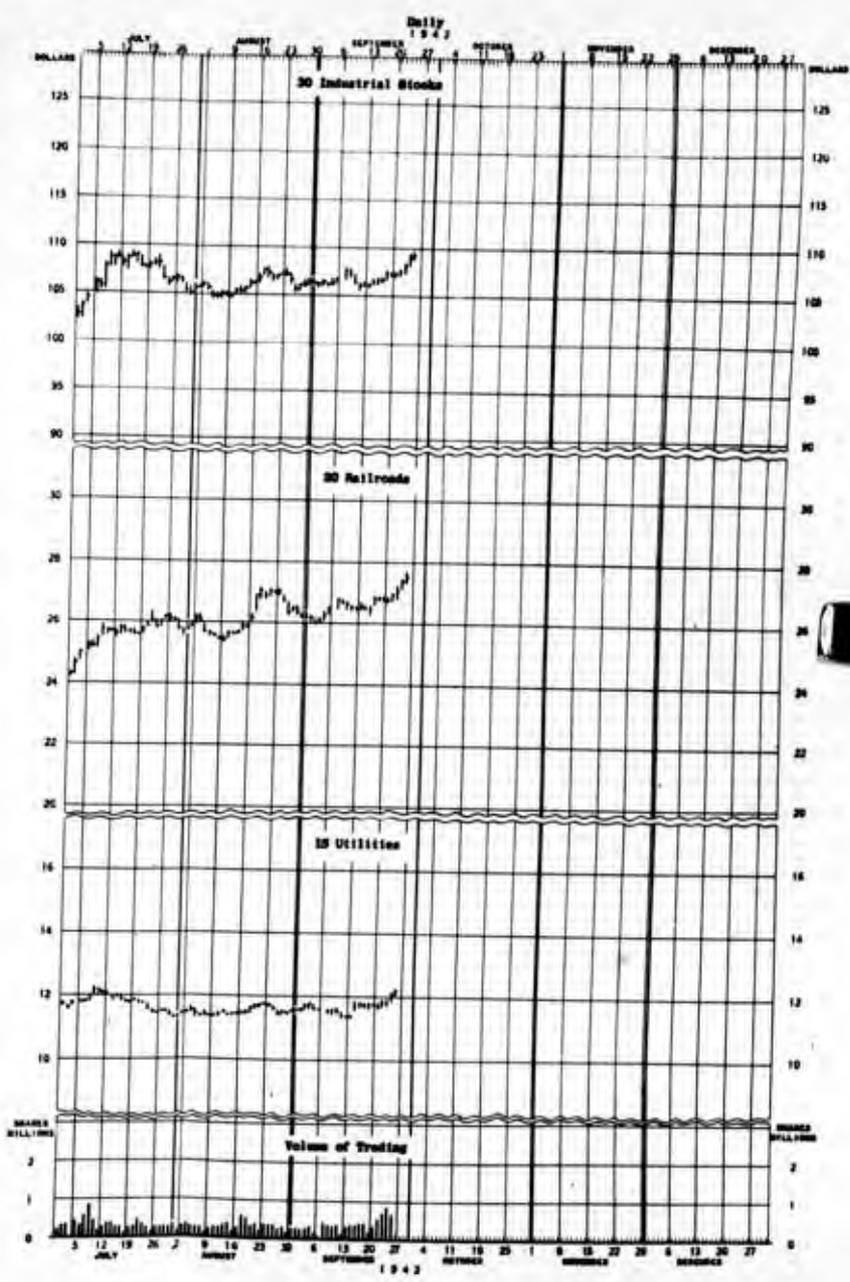
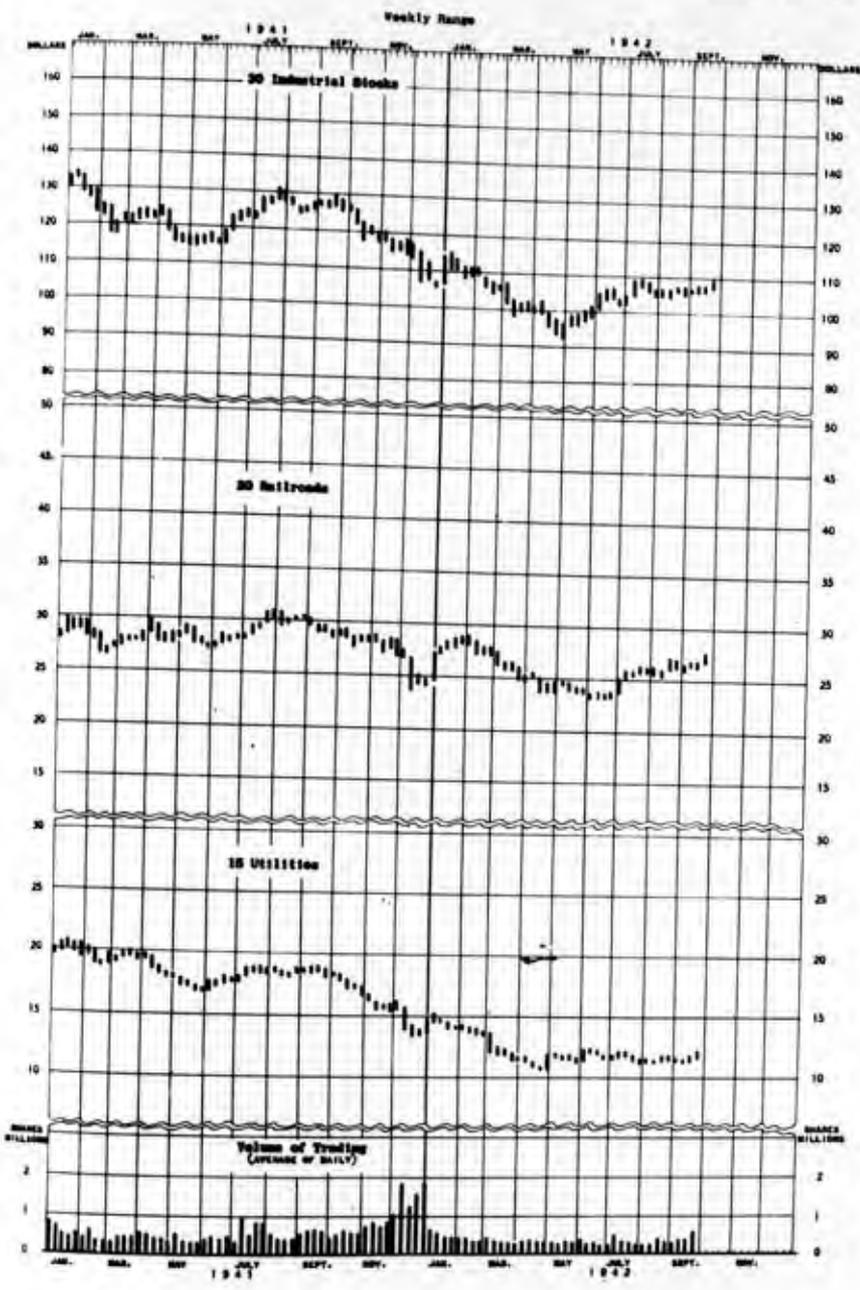
Commodity	Unit	Farm price, August 15 (Dollars)	Ceiling permitted		Increase (Percent)
			Under present law (Dollars)	Under Steagall bill 1/ (Dollars)	
ce	bu.	1.629	1.439	1.781	23.8
ef cattle	lb.	.1130	.0934	.1130	21.0
gs	lb.	.1413	.1216	.1413	16.2
al calves	lb.	.1291	.1129	.1291	14.3
bs	lb.	.1207	.1112	.1207	8.5
ol	lb.	.394	.371	.402	8.4
les	bu.	1.16	1.61	1.66	3.1
etpotatoes	bu.	1.373	1.468	1.503	2.4
e	bu.	.492	1.203	1.232	2.4
rley	bu.	.567	1.035	1.060	2.4
eat	bu.	.954	1.478	1.513	2.4
rn	bu.	.834	1.074	1.099	2.3
ge	doz.	.322	.349 2/	.357 2/	2.3
se	bu.	.426	.667	.682	2.2
axseed	bu.	2.26	2.83	2.89	2.1
atoes	bu.	1.154	1.241	1.258	1.4
ton	lb.	.1803	.2147	.2123	-1.1
terfat	lb.	.406	.440	.428 2/	-2.7
ckens	lb.	.196	.211	.196	-7.1
ttenseed	ton	44.04	50.36	45.04	-10.6

As indicated by farm price data to August 15.
As of August 15. Subject to seasonal variation.

Source: Data from the Department of Agriculture.

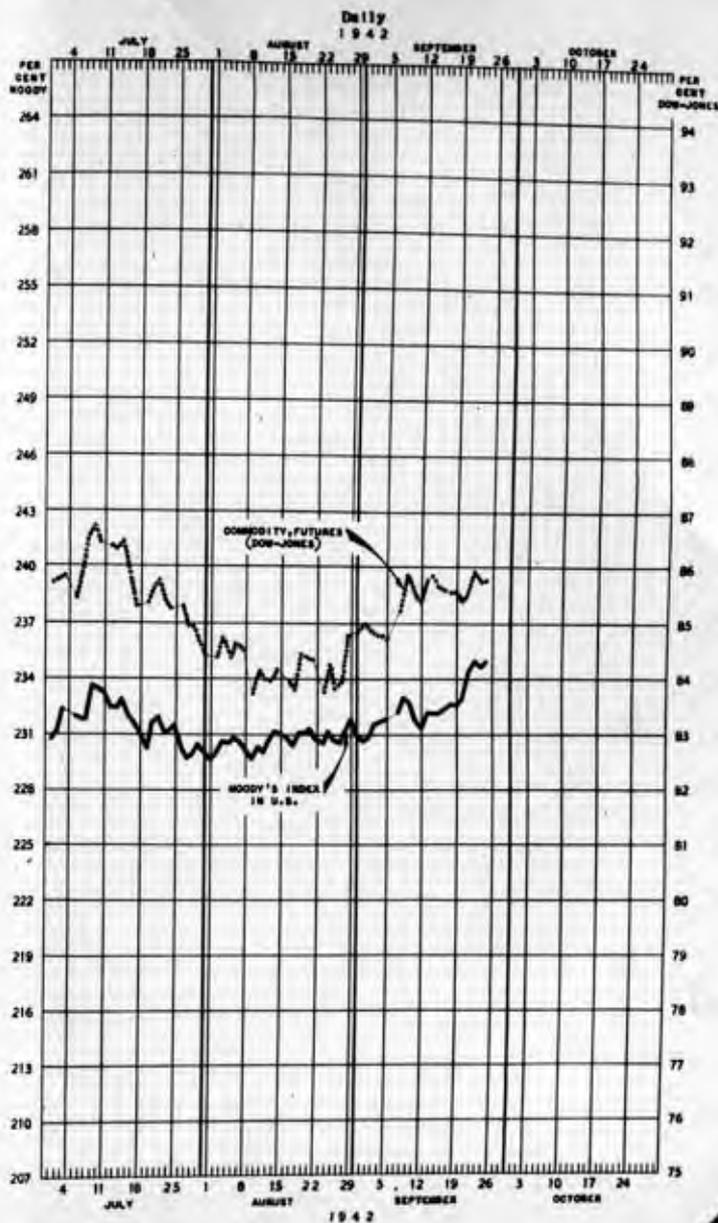
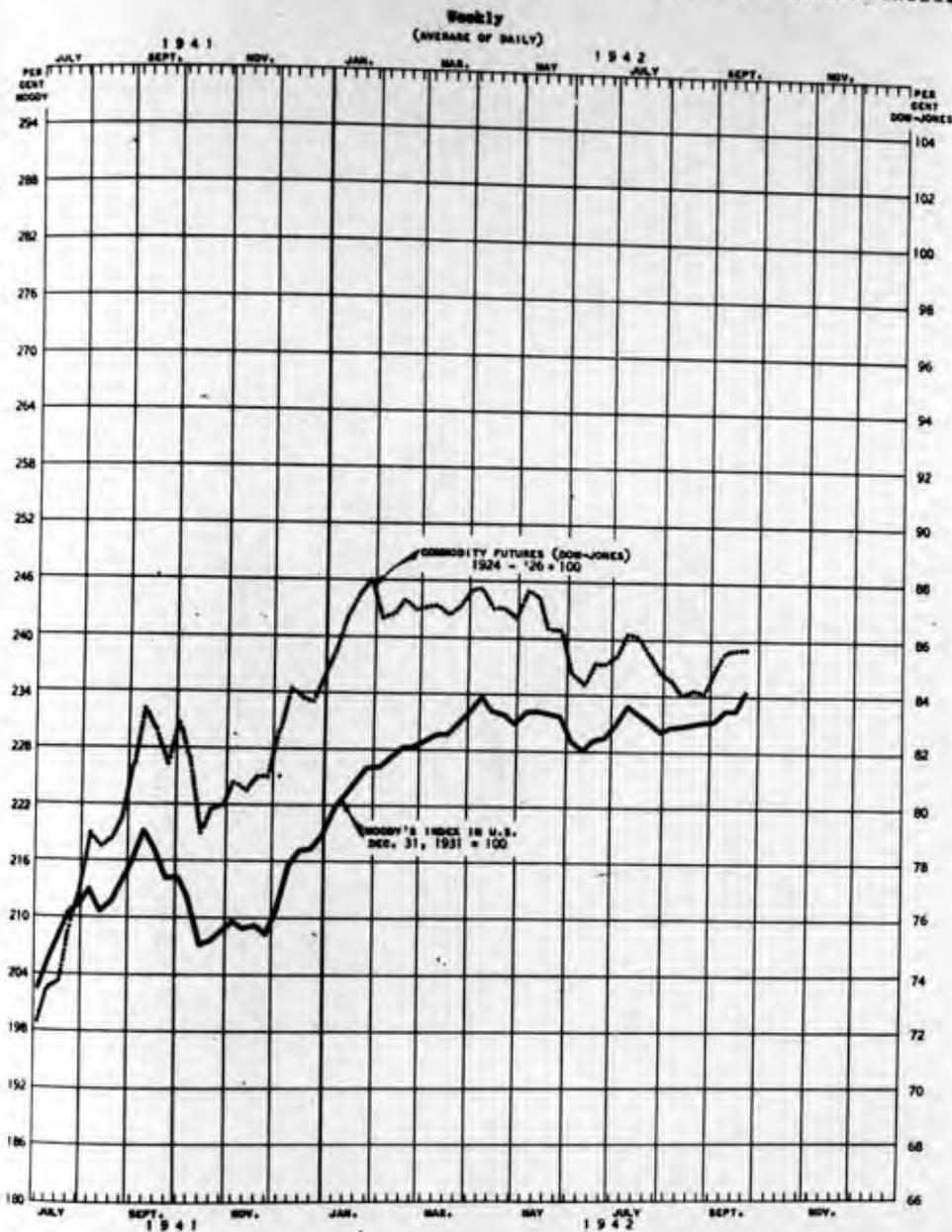
STOCK PRICES, DOW-JONES AVERAGES

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Chart J

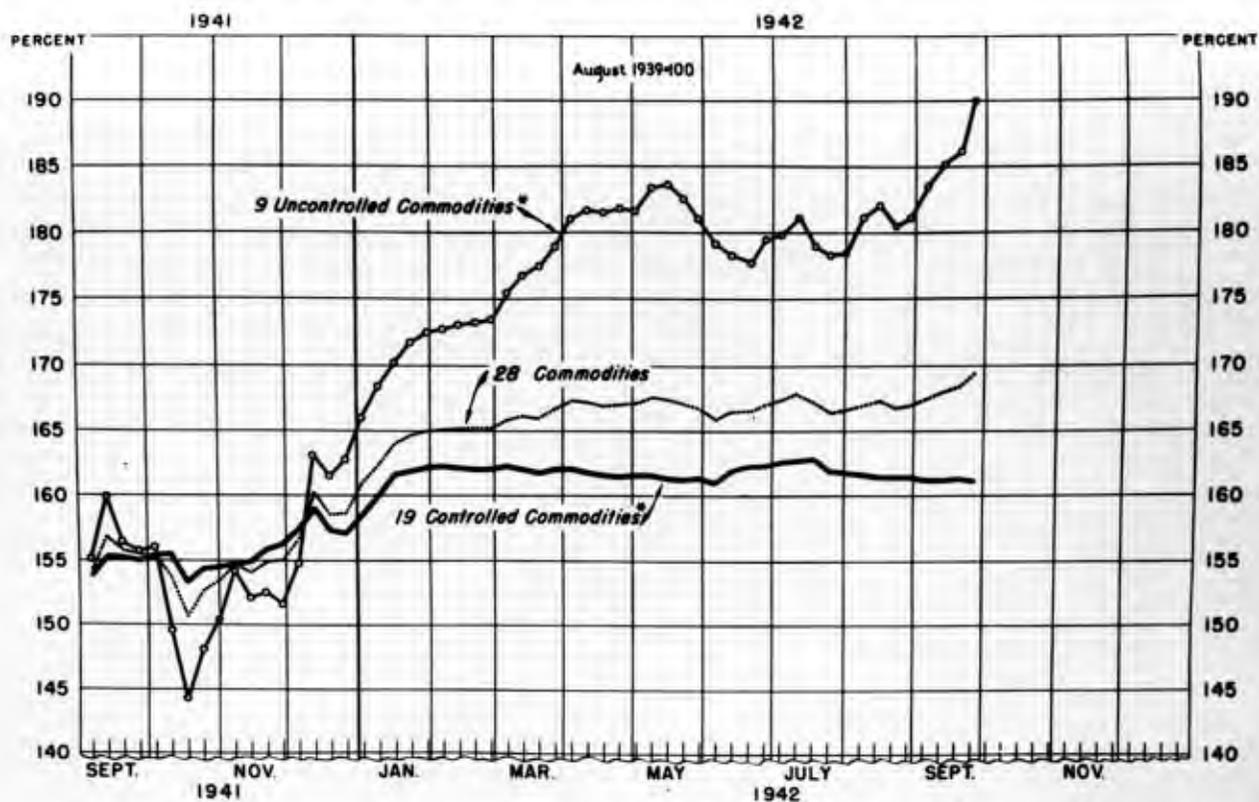


COMMODITY PRICE INDEXES IN U.S.

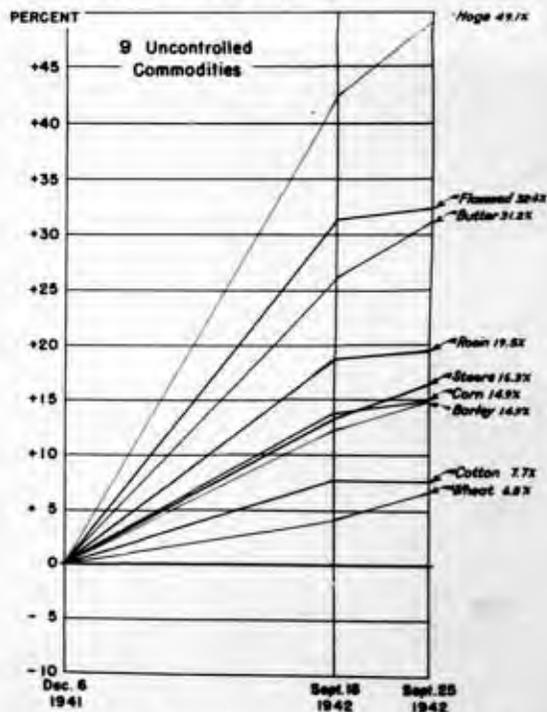
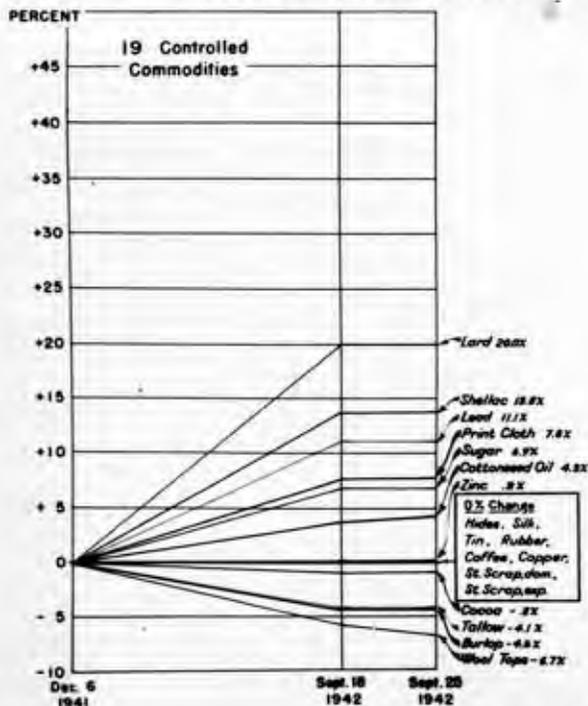
263
Chart 2



MOVEMENT OF BASIC COMMODITY PRICES

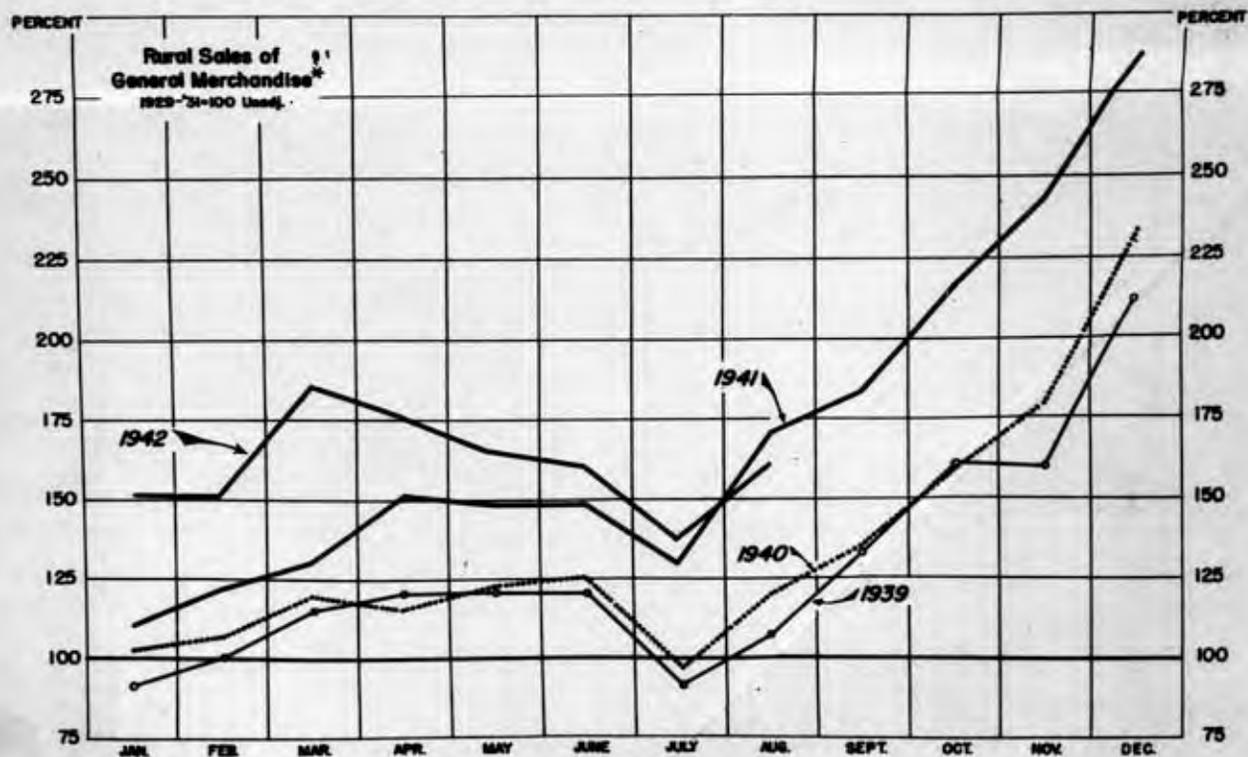
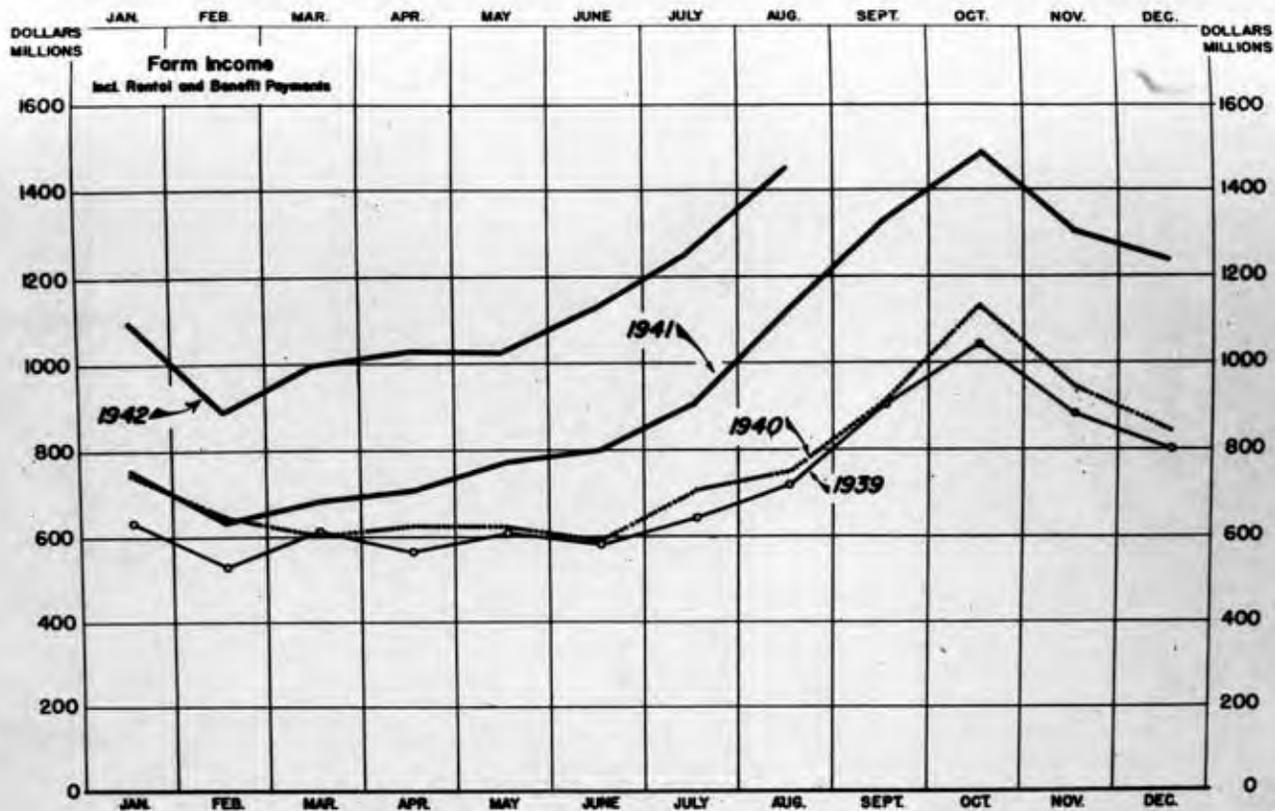


PERCENTAGE CHANGE DEC. 6, 1941 TO SEPT. 18 AND SEPT. 25, 1942



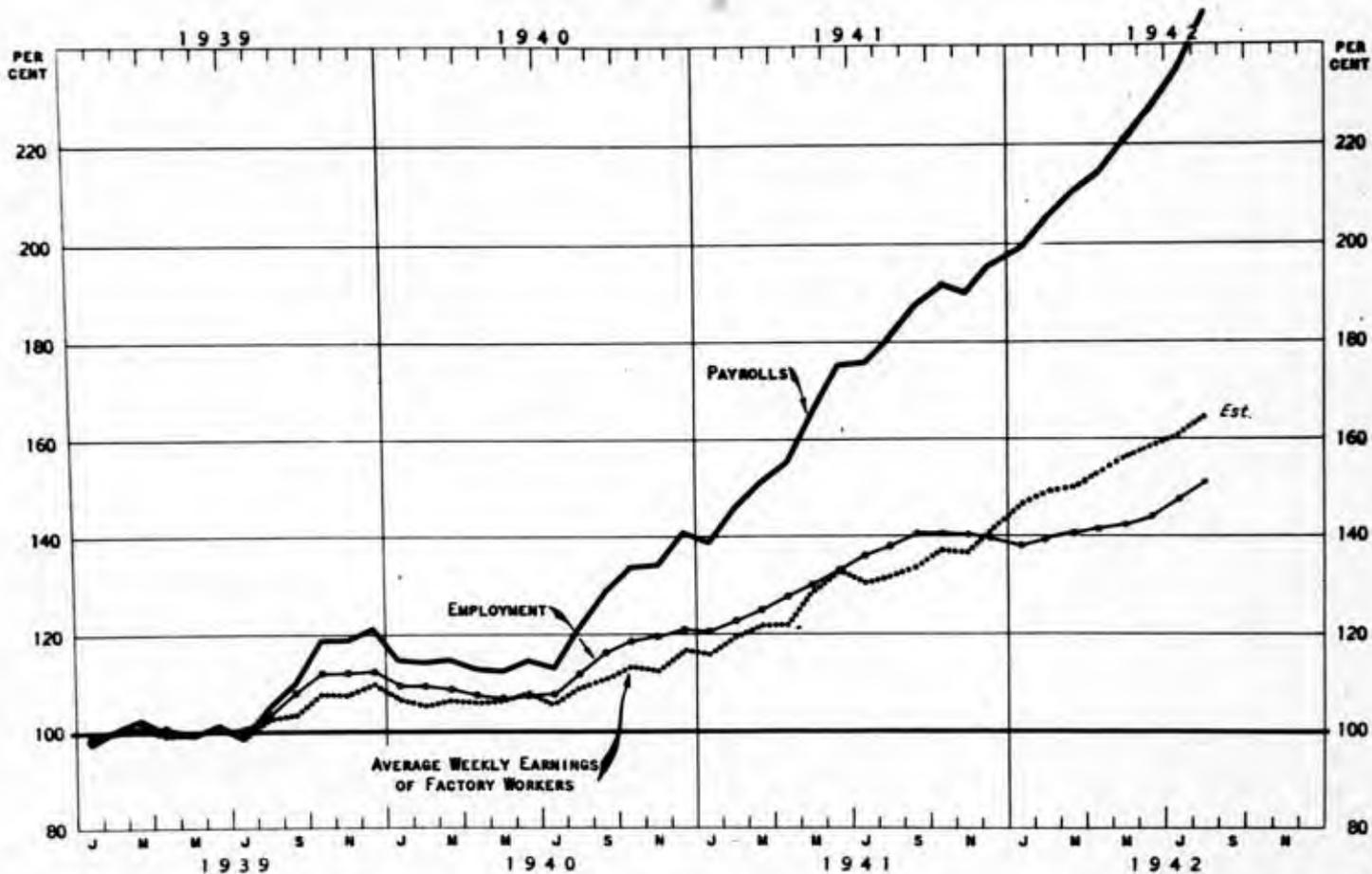
* 20 Controlled and 8 Uncontrolled previous to June 25

FARM INCOME AND RURAL SALES OF GENERAL MERCHANDISE



*Dept. of Commerce index of dollar sales of general merchandise in small towns and rural areas.

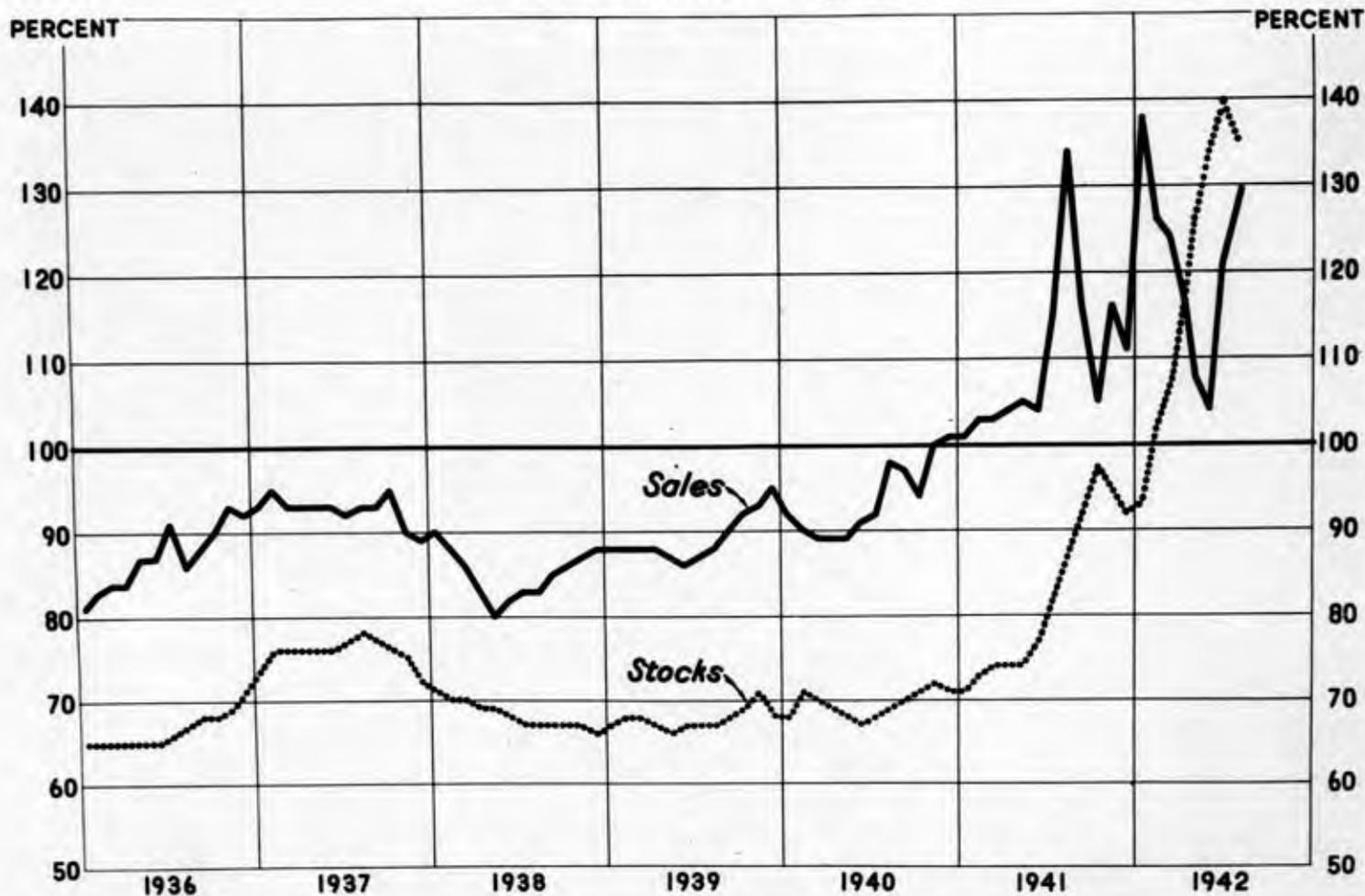
FACTORY EMPLOYMENT, PAYROLLS AND WAGES
 FIRST 6 MONTHS OF 1939 = 100, UNADJUSTED



Source: B.L.S.

DEPARTMENT STORE SALES AND STOCKS

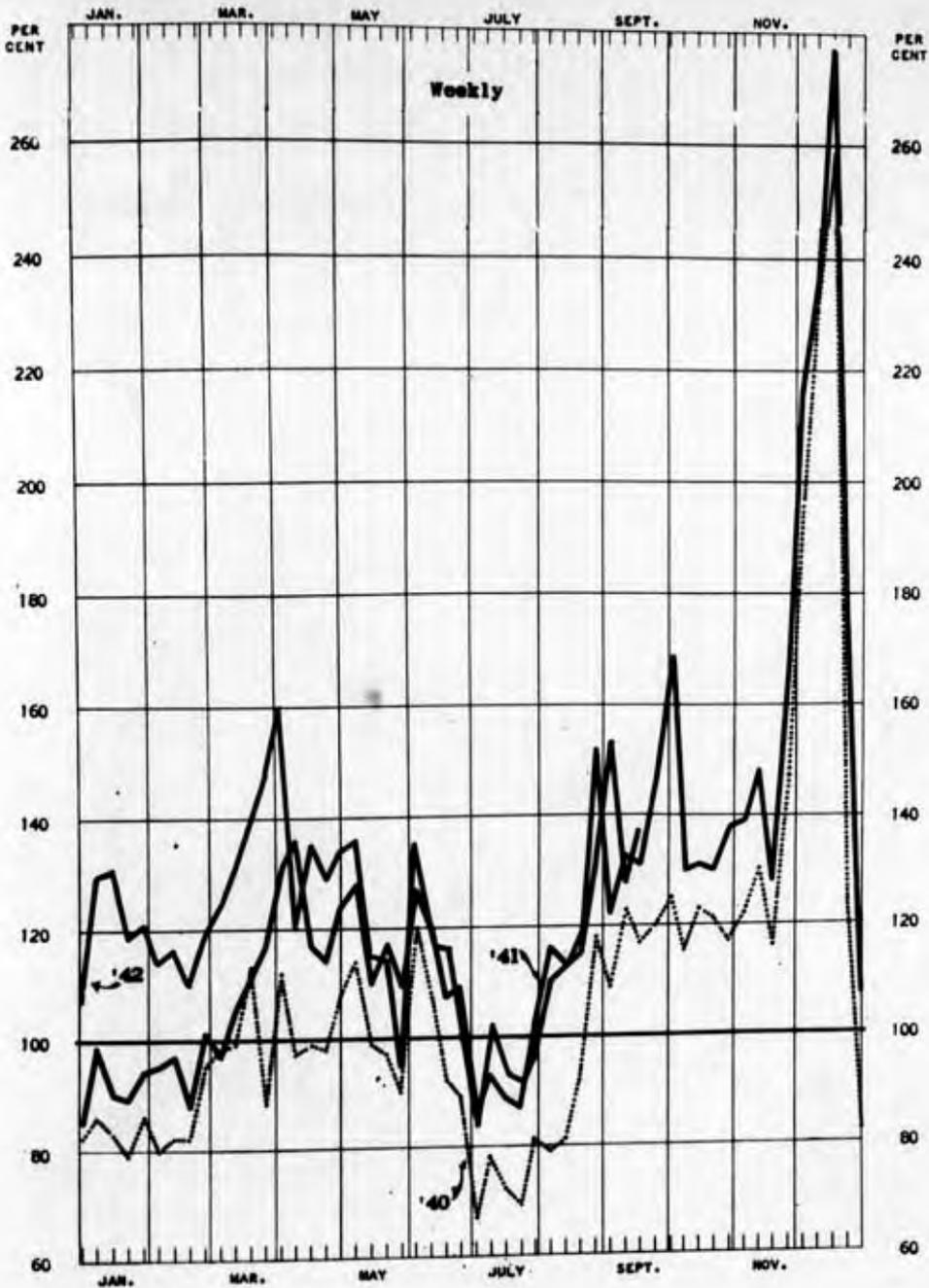
Dollar Values, 1923-25 = 100, Adjusted



Source: Federal Reserve Board

DEPARTMENT STORE SALES

1935 - '39 = 100, UNADJUSTED



**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. 52 - Aircraft Despatched
- for week ended September 22, 1942.

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

September 28, 1942.

STATEMENT NO. 52

AIRCRAFT DESPATCHED FROM THE UNITED

STATES WEEK ENDED SEPTEMBER 22nd, 1942

<u>TYPE</u>	<u>DESTINATION</u>	<u>ASSEMBLY POINT</u>	<u>BY SEA</u>	<u>BY AIR</u>	<u>FLIGHT DEL'D FOR USE IN CANA P.A.</u>
<u>CONSOLIDATED</u>					
Catalina IB	U.K.	U.K.			2
Liberator III	U.K.	Canada en route			2
<u>BREWSTER</u>					
Bermuda	U.K.	U.K.	6		
<u>DOUGLAS</u>					
(a) Boston IIIA	U.K.	Canada en route			12
<u>FAIRCHILD</u>					
Cornell PT 26	Canada	Canada			19
<u>LOCKHEED</u>					
Hudson VI	Middle East	Middle East			7
" "	U.K.	Canada en route			21
Ventura	U.K.	Canada en route			1
(b) "	" "	" " "			1
(c) "	" "	" " "			1
<u>GRUMMAN</u>					
Martlet IV	West Africa	Nombasa	30		
" "	U.K.	U.K.	6		
<u>NORTH AMERICA</u>					
Harvard II	Middle East	Middle East	16		
B 25 C	U.K.	Canada en route			1
<u>NORTHROP</u>					
Vengeance	India	Bombay	15		
<u>YOUGHT SIKORSKY</u>					
O.S. 2U	South Africa	Capetown	20		
TOTALS			93	48	19

- (a) Five exported week ended Sept. 15th but were not reported at that time.
- (b) Exported week ended Sept. 11th but was not reported at that time.
- (c) " " " " 15th " " " " " " " " " "

BRITISH AIR COMMISSION
September 26th, 1942.

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Canadian Legation
Washington

September 28, 1942.

Dear Mr. White:

I attach herewith a statement of the change in the Canadian holdings of U.S. dollars during the month of August, together with some brief observations on the causes of divergence between the actual change and the trend indicated in the most recent quarterly forecast.

You may expect to receive similar monthly statements from now on.

Yours sincerely,

s/s A. F. W. Plumptre

A.F.W. Plumptre
Financial Attache

Harry White, Esq.,
Treasury Department,
Washington, D. C.

C O P Y

Notes on the Change in Canada's U.S.
Dollar Position during August, 1942.

Change in Official U.S. Dollar Position.

During the month official dollar balances and gold holdings increased \$4.4 million. This position change was almost entirely reflected in additional dollar balances.

Factors more Favourable than the Forecast.

On the basis of incomplete data for the month of August, it would appear that -

- (1) Payments for imports were slightly lower than suggested in the forecast.
- (2) Receipts from exports were slightly higher than suggested in the forecast.

One million U.S. dollars were sold to the Foreign Exchange Control Board by a Canadian bank. This amount was not included in the forecast.

Factors less Favourable than the Forecast.

Substantially lower receipts from exports by War Supplied Limited than suggested in the forecast.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE Sept. 28, 1942

TO Mr. White

FROM Mr. Ullmann

Subject: Exports of Petroleum and Scrap Iron to Japan

1. In the five-year period ending in December 1941, the United States exported to Japan 122,166,000 barrels of petroleum products and 6,222,000 tons of scrap iron and steel.
2. Exports of scrap were virtually stopped in October, 1940, when export control over scrap shipments was made effective. (Scrap was first put under export control in July, 1940.)
3. Exports of petroleum products were maintained at a high level in the first year after export control went into effect in July, 1940. These shipments were not curtailed until the Treasury freezing order (in July, 1941) effectively stopped them.
4. Lubricating oil exports may appear small in volume. However, it is never consumed in quantities comparable to the volume of fuel products — and the quantities exported are relatively large, especially since the product is one of the more difficult ones to refine.
5. In 1940, the year in which export control went into effect, the Japanese increased their purchases of the more highly refined products; gasoline and lubricating oils.
6. Details of petroleum exports:

Product	(Thousands of Barrels)				
	<u>1937</u>	<u>1938</u>	<u>1939</u>	<u>1940</u>	<u>1941</u>
Total - All Products ^{1/}	28,376	31,349	27,993	22,796	11,652
Crude Petroleum	15,995	21,272	16,086	11,529	4,828
Gasoline	1,402	1,443	1,379	3,157	2,046
Gas and Fuel Oils	10,353	8,327	9,909	7,248	3,794
Kerosene	182	-	105	43	-
Lubricating Oils	444	307	514	819	984

^{1/} Does not include lubricating greases, asphalts.

Source: Commerce Department: Foreign Commerce and Navigation

7. Details of scrap iron and steel exports:

	(Thousands of Tons)				
	<u>1937</u>	<u>1938</u>	<u>1939</u>	<u>1940</u>	<u>1941</u>
Total - All Scrap	1,873	1,366	2,024	959	<u>1/</u>

1/ Less than 500 tons

Source: Commerce Department: Foreign Commerce and Navigation

NOT TO BE RE-TRANSMITTED

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 336

Information received up to 7 A.M., 28th September, 1942.

1. NAVAL

Another ship (5,000 tons, U.S.) in homeward convoy from RUSSIA now reported sunk. 668 of the passengers and crew of the 19,000 ton ship reported sunk by U-boat in OPTEL No. 322 have been landed from Vichy French ships at CASABLANCA.

2. AIR OPERATIONS

WESTERN FRONT. 27th. Spitfires damaged 3 armed trawlers off the Dutch coast, one of which was left in flames. 3 enemy aircraft crossed our coasts. 2 JU 88s were damaged.

EGYPT. It is now known that 2 enemy aircraft were destroyed by A.A. fire at KUFRA on 25th/26th. A heavy raid was made on TOBRUK and 75 mines were laid in the Harbour. 26th. Our fighters attacked mechanical transport in the Southern Sector and also damaged 13 vehicles west of BARDIA. 3 enemy aircraft were destroyed and 1 probably destroyed, 1 Spitfire is missing.

26th/27th. 9 JU 88s attacked HELIOPOLIS Aerodrome.

RUSSIA. 26th/27th. The German Air Force heavily attacked ASTRAKHAN where it was claimed that the railway station and oil depots were set on fire. They also attacked shipping along the East Coast of the BLACK SEA.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE: Sept. 28, 1942

TO Secretary Morgenthau
FROM Mr. Hoflich

Subject: Of possible interest: the new Chinese Ambassador

The Office of Strategic Services reports the following with respect to Hu Shih's successor in Washington:

"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 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."

(Office of Strategic Services, "The War This Week", September 17 - 24, 1942)

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE Sept. 28, 1942

TO Secretary Morgenthau
FROM Mr. Hoflich

Subject: Of Possible Interest: "Brother Rumanians" Broadcast.

The attached report of a recent broadcast by the clandestine station "Brother Rumanians" asserts that: (1) Rumanian troops are bearing the brunt of the fighting on the Russian front, (2) Hitler cannot defeat Russia, and (3) since Rumania cannot resist Russia alone, she should stop fighting the Soviets and prepare to settle her accounts with Hungary.

'BROTHER RUMANIANS'

HITLER SACRIFICES RUMANIANS IN EAST

The clandestine transmitter, "Brother Rumanians", broadcasting in Rumanian to domestic audiences (September 23), asserts that Hitler forces Rumanian troop units to bear the brunt of Russia's furious resistance. The radio says:

Nazi Propaganda's 'Value'--"Brother Rumanians, we are not trying to induce you to stuff your ears with cotton and shut off the German broadcasting stations. On the contrary, we advise you to listen as often as you can, and also to read as many of Herr Doctor Goebbels' newspapers as you can. Unfortunately, however, in our country there are not many people who speak, or understand German. We say, unfortunately, because it would be well that as many of us as possible should hear from the mouths of Herr Doctor Goebbels' Germans that things are not going as well as Herr Hitler would wish them to.

Stalingrad Stalemate--"We are not attempting any prognostications about Stalingrad. However, it is evident to us that Bock is getting nowhere fast. What surprises us even more is the fact that the German radio stations, and the German press, have started to praise the Russians, saying that they are fighting with great spirit, and that Stalin has inexhaustible reserves.

Praise Russia--"The creatures of Herr Doctor Goebbels also tell us that the Russian Army continues to give them all sorts of surprises. Herr Hitler should have thought of such an eventuality before attacking Russia.

Rumanian Cannon Fodder--"What alarms us is the fact that the Germans, owing to the lack of other reserves which they are no longer able to procure, are again forcing us to give them the last contingents of troops left in our country. We are not interested in what befalls Hitler. The sooner he collapses, the better for us. We are, however, terrified by the thought that in a desperate effort to save himself, Hitler is using up the Rumanian Army.

Antonescu's Request--"As we said a few days ago, Ion Antonescu bowed his head, and replied in the affirmative to all the requests of Hitler. He has formulated but one request, that of having all the Rumanian units thrown into action on the same sector, and not dispersed here and there, as Hitler had done with our troops until the present. It is evident that the scoundrel, Hitler, graciously replied that he would accede to this request of Ion Antonescu. However, if this is supposed to relieve our situation, it does not at all achieve its aim.

Rumanians' Mass Death--"Formerly, our youth was being killed by regiments and battalions. From now on, divisions and armies will be butchered together. Had it been any better at Odessa or Sevastopol? Then, as now, the mass of the attacking troops, the cannon fodder, had been contributed by the Rumanian Army. The Germans remained behind the front lines, and when Odessa and Sevastopol fell, they pushed themselves into the foreground of the columns triumphantly marching into these cities.

Dog's Reward--"They threw a few tin decorations our way as one throws a bone to a dog. We should have said: 'Well, we have made all these sacrifices to achieve our salvation, but where is our salvation? We are forever uselessly striving.

Nazis' Pessimism--"The Germans are now talking about a protracted war which, they say, will last 2, 3, or even 4 years longer. Can we resist that long? And why should we resist so that in the end we should be even more dreadfully punished by those who are victorious, and who will not be the Germans in any case?"

Continuing, "Brother Rumanians" warns that in case of Hitler's collapse, Rumania surely could not fight Russia alone, and that, henceforth, Rumanian troops should stop fighting the Soviets and, instead, get ready to square accounts with Hungary. The radio says:

Rumanian Impotence--"The insect Kallay, in a message to the few Hungarian whores at the Russian front, had said, listen carefully: 'The future has in store for us times even harder than the present.' If Hitler, with his formidable army, cannot conquer and liquidate the Russians, how could the Rumanian Army resist the Russian giant alone. Would it not be much wiser for us to stop, while we can honorably do so, pursuing the mad adventure into which the walking corpse, Ion Antonescu, has precipitated us? Do Generals Petrica Dumitrescu and Corneliu Dragaline imagine that, tomorrow, the victorious Stalin will deign to address them, or any of those Rumanian generals who had had a German Iron Cross hung around their necks?

Fate of the Army--"The walking corpse, Ion Antonescu, and the pander, Mihail Antonescu, will disappear. But what will happen to the officers of the Rumanian Army? Those who win the war will chuck them on their ears, and will, perhaps, proceed with the disarmament of Rumania. Finally, we must not for a moment forget that we still have a great problem to solve, that of our reckoning with the Budapest swine.

March on Budapest--"Every Rumanian officer, or soldier, killed in Russia means one less officer, or soldier, for the army which must again march on Budapest. Listen carefully, all of you who have ears to listen with. Hitler will not be able to annihilate Russia. Russia is powerful, and Stalin will conquer Hitler. A high, a very high price will be paid for having been loyal to Hitler.

Heads to Fall--"And we, who have remained faithful to the cause of the Allied Nations, will not be able to save anybody's head, even if this head belongs to Petrica Dumitrescu, or Corneliu Dragalina. To throw oneself into an abyss, head foremost, does not represent courage. It is insanity. The country, the Rumanian nation, will defend only those who had known how to defend her truly, and not the people who led her to insanity, whither Hitler tried to lead them in turn. Keep up your spirits, Brother Rumanians."

(Federal Communications Commission, September 25, 1942)