

DIARY

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October 1 and 2, 1942

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October 1, 1942
9:20 a.m.

HMJr: Hello.

Operator: Mr. Secretary, the White House operator is trying to locate Mr. Hopkins. She said she'll call you back.

HMJr: Thank you.

Operator: You're welcome.

9:41 a.m.

HMJr: Hello. Hello.

Operator: Go ahead.

HMJr: Hello.

Harry
Hopkins: Hello, Henry.

HMJr: Good morning.

H: Good morning, Henry.

HMJr: The man that I saw yesterday was Colonel Lewis Sanders - S-a-n-d-e-r-s.

H: S-a-n-d-e-r-s - Colonel Lewis?

HMJr: Yeah, and he's in the office of General Hershey.

H: Yeah.

HMJr: And he's got the answers to most of the questions that you were asking me yesterday about this Man Power.

H: And he knows what he's talking about?

HMJr: He knows what he's talking about, and he's done more original thinking on it than anybody I've met in this town.

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H: And he - he's got ideas of what ought to be done?

HMJr: And he has ideas what ought to be done.

H: I'm going to see him today.

HMJr: He's - he's worth - well, I gave him an hour and three-quarters..

H: Well, I'll give him plenty of time.

HMJr: He's worth seeing, Harry.

H: I won't do it unless I've got plenty of time.

HMJr: No, and....

H: Yeah.

HMJr: Harry?

H: Yeah.

HMJr: I wondered if you knew that O. W. I. used your name on this Russian refinery business?

H: No.

HMJr: And called us up and said we shouldn't get out any more statements unless they were first okay'd by you?

H: Never heard of it. Never even heard of it.

HMJr: Well, I didn't think....

H: I don't know anything about it. Elmer Davis was trying to get me yesterday, but when I called him he was busy.

HMJr: Well, I was....

H: I don't know a damn thing about it, and they got no business saying things like that.

HMJr: Will you tell that....

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H: Oh, yes, I'll tell Davis. I'll call - who - who did - who called who, do you know? I suppose some of their fellows called some of your fellows.

HMJr: Some - wait a minute, I'll ask Schwarz. Abe Feller.

H: Abe Feller?

HMJr: Yes.

H: He's in O.W.I.

HMJr: Yeah.

H: Called up who?

HMJr: Called up Schwarz.

H: In your office?

HMJr: In my office.

H: Sure, I'll tell them to mind their own damn business.

HMJr: What?

H: I'll tell them to mind their own damn business.

HMJr: Okay.

H: Yeah, all right.

HMJr: Thank you.

H: Goodbye.

October 1, 1942
9:30 a.m.

GROUP

Present: Mr. Sullivan
Mr. Graves
Mr. Buffington
Mr. Gamble
Mr. Cairns
Mr. Gaston
Mr. Schwarz
Mr. Thompson
Mr. Kuhn
Mr. White
Mr. Blough
Mr. Odegard
Mrs. Klotz

H.M.JR: Herbert, on that complaint that we had from General Strong on Tampa, I never heard from it - about having it investigated.

MR. GASTON: We wrote many letters. First we wrote a letter after receiving it, asking to have it investigated, and another after we had investigated it, telling him that the examinations - the searches were made on the specific, direct request of Military Intelligence. We sent him a copy of the report, showing that it was only done by Customs after Military Intelligence had made a definite request that it be done.

H.M.JR: You never heard from it?

MR. GASTON: No.

H.M.JR: Here is one from Sumner Welles. (Letter from Mr. Sumner Welles dated September 26, 1942, handed to Mr. Gaston.)

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MR. GASTON: That will be another of the same kind - a request of the investigative agencies, I don't have any doubt.

H.M.JR: You certainly did some job on him.

MR. GASTON: I will look into that. I had a letter this morning from the head of the Special Defense Unit in Justice, asking if we will agree to make searches on request of any one of the three investigative agencies - make body searches for any one of the three investigative agencies.

H.M.JR: You know how I feel. I would play safe and keep the bodies here, if there is any doubt. Do we do it the way they used to do in the World War, scrub their bodies to see if there is invisible ink on their bodies?

MR. GASTON: I don't think we have gone that far.

H.M.JR: They can write it right on your body.

MR. GASTON: We probably would if the Intelligence Unit had a genuine curiosity.

H.M.JR: Ask them. You could write this on your body with invisible ink; and unless you scrub it, it stays there.

MR. GASTON: We had a case two weeks ago of a Portuguese ship in Baltimore where the FBI men wanted the Customs to make a body search of every member of the crew before permitting them to go ashore. The Customs people told the FBI men they would do that if they would put it in writing. They refused to put it in writing, and they did not do it.

H.M.JR: Have you got anything, Herbert?

MR. GASTON: No, I haven't anything except here are a couple of memoranda on those Seattle investigations.

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There is just about a final clean-up on that. I thought you might be interested.

H.M.JR: You stay behind a minute.

MR. GASTON: Yes.

H.M.JR: Sullivan?

MR. SULLIVAN: There is a consulting management engineering company in New York that has written to several companies suggesting that now that the tax rates are up this is the time to have the new things in their business that they need, and let the Government pay the freight.

One of these people who got such a letter sent it to you and wrote back to this company saying that they thought it was most unpatriotic. We are going after that engineering company.

I have here for your signature a letter to Nelson pointing out the situation and enclosing the correspondence and saying that he might want to look after the priorities that were granted to this engineering company.

MR. GASTON: They just didn't know how to phrase their letter, John.

MR. SULLIVAN: It is a beaut. (Letter addressed to Mr. Nelson signed by the Secretary.)

We had the first meeting of the sub-committee on compensation for concentrated industries, and there is to be another meeting Friday. I rather suspect that almost everybody in WPB has gone all out for this.

The talks were in the preliminary stages, but it looks to me as though what they expect to do is to set

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up a national pool out of which all industries that are closed are to be compensated from the profits of those industries in whom the orders are concentrated. There were quite some implications. I will keep you posted as it goes along.

H.M.JR: Please.

Anything else?

MR. SULLIVAN: That is all, sir.

H.M.JR: Roy?

MR. BLOUGH: May I have, say, five minutes some time this morning to take up with you the letter we are asking the President - drafting for the President on the Vandenberg amendment?

H.M.JR: What letter is that? I am all tied up.

MR. BLOUGH: The letter which McNutt and Madam Perkins - Secretary Perkins--

H.M.JR: On what?

MR. BLOUGH: The Vandenberg amendment. We are trying to get the President to take some action on that, you know, Social Security freezing.

H.M.JR: You come in at quarter of three. That is the only time I have.

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MR. BUFFINGTON: I have nothing.

MR. GAMBLE: Mr. Secretary, at the close of the day, if we have gone over our quota for September we would like to have you talk to Mr. James Cagney, the president of the Screen Actors Guild, on the phone for about two or three minutes.

H.M.JR: I won't do it. Listen, Ted - look, you fellows, there is something else in the world. Now, look, that is what was put on my desk this morning for you fellows. (Indicating letters to be signed.) I just can't raise - I have got to try to study how to raise four billion dollars. I mean, there is a limit and I can't do it. I am willing to write - look at that.

MR. GAMBLE: I understand, sir.

H.M.JR: I can't do it, I am sorry. I mean, I am so tied up now that - there is two days' mail waiting to be signed there.

MR. GAMBLE: Our interest is that we are trying to sell the program for January. He is the president of all these actors and actresses.

H.M.JR: I thought Arnold was.

MR. GAMBLE: Cagney is the new president, and they are having a big meeting out in Hollywood tonight, following his trip. Unfortunately, we had an incident, too, that did not set so well with Mr. Cagney. He is highly temperamental, perhaps the most temperamental man on the tour, and we thought just a "hello" from you and an expression of thanks to him for all these people--

H.M.JR: You will have to get along. I am going to try to sign all these (indicating letters). I mean, there must be twenty-five letters here, and I signed five for you yesterday. You stopped me in the middle of the day to sign five so you could get them out. I did that. I don't charge you for Veronica Lake. If you want me to call up Veronica Lake, I have the time. (Laughter)

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MR. KUHN: I have nothing.

H.M.JR: Cairns?

MR. CAIRNS: I have nothing.

H.M.JR: Where is Randolph?

MR. CAIRNS: He went to a meeting at the Labor Department.

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

H.M.JR: He says he doesn't know anything about it and we should tell them to mind their own damned business.

MR. SCHWARZ: That is interesting.

H.M.JR: I debated all night whether I should go to Davis. I said, "Why go to Davis? I will go right to Hopkins." I feel pretty good now. You know this town; it is awfully hard to breathe in it. (Laughter)

What did they tell you?

MR. SCHWARZ: That nothing further should be said on the Russian gasoline situation without first clearing with Harry Hopkins.

H.M.JR: He said he never heard anything about it, that it was perfectly ridiculous, and we should tell them it was none of their damned business.

MR. SCHWARZ: We will be all right with our story in this afternoon's Post.

H.M.JR: My own thinking is to follow the usual Treasury policy of cooperating and go ahead and do as we think best. (Laughter) What do you think, Herbert?

MR. GASTON: I think that is good policy.

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H.M.JR: I don't think, Herbert, that I should call up - should I call up Elmer Davis and give him hell? I think the thing for us to do is go ahead and pay no attention. If he calls up and gives us hell, I will say, "I spoke to Harry Hopkins and he told us to tell you to mind your own business."

MR. SCHWARZ: "We have checked on your request."

MR. CAIRNS: We have a clearance from him.

H.M.JR: Sure, but I mean there is no use in calling back Elmer Davis.

MR. CAIRNS: No, they said to check with Harry Hopkins.

MRS. KLOTZ: Cairns said you have a clearance with Harry Hopkins to do it.

MR. GASTON: Consider that you have a blanket clearance.

H.M.JR: Would anybody have me call back Davis?

MR. WHITE: I think he is having a pretty hard time as it is. You will only make it more difficult.
(Laughter)

H.M.JR: Don't feel sorry for him. Have you met him?

MR. WHITE: Yes, I met him.

H.M.JR: The best way I can describe him, in the words of Peter Odegard, he has a Jehovah complex, having addressed so many million people over the air for so long.

Was it you, Huntington, that said we got a clearance?

MR. CAIRNS: Yes, you followed their instructions, you checked with Hopkins and he has given you a blanket clearance.

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H.M.JR: I get quite a kick out of this. I am not a baby, but I get quite a kick out of it.

All right, where were we when that happened?

MR. CAIRNS: Paul is at the Labor Department. I have nothing to report.

H.M.JR: Incidentally, I want to say that Cairns did a perfectly swell job for us on this Russian oil refinery thing. He did a swell job.

MR. CAIRNS: It was under your guidance, Mr. Secretary.

H.M.JR: It is all under my guidance, but that does not mean I always get results.

MR. ODEGARD: You asked the other day about having two of these numbers that were on the Lucky Strike Star Parade put on platters.

H.M.JR: Platters? (Laughter)

MR. ODEGARD: Have records made of them. I didn't know whether you wanted to know what we had done about that or not.

H.M.JR: Yes, sir.

MR. ODEGARD: We find that we cannot get those made by Victor because Petrillo refuses to allow the musicians to make the records for commercial distribution. We are completely stymied.

H.M.JR: How did we - we did the Irving Berlin record.

MR. ODEGARD: We can do this by having a radio recording made; put this on a record with the infantry song on one side, and "Ev'rybody Every Payday" on the other, and distribute it. We cannot do it commercially; it would cost us about twenty-five hundred dollars to do that.

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Now, this song, "Ev'rybody Every Pay Day" actually has gone out. We have done that. We have a radio recording of it with Dinah Shore singing it on one side and Milton Douglas singing it on the other side of the record - the same song. We don't have the infantry song.

H.M.JR: But that record has gone?

MR. ODEGARD: Yes, we have that record.

H.M.JR: Is it in the hands of every radio station?

MR. ODEGARD: Well, I would have to check to see whether it is in every radio station, but we have done that.

H.M.JR: That is all I was trying to get.

MR. ODEGARD: You were not so concerned about the commercial distribution of it?

H.M.JR: Well, what the Victor did for me, they made a black record of Berlin's two songs - the ordnance song and the "High Hat" bond song. Wouldn't they do that?

MR. ODEGARD: No.

H.M.JR: Why not?

MR. ODEGARD: The Union refuses to allow it.

H.M.JR: Why?

MR. ODEGARD: They refuse because it would be a commercial operation.

H.M.JR: I mean, supposing Victor wants to do it and sell it.

MR. ODEGARD: They can't do it.

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H.M.JR: But they make other records.

MR. ODEGARD: There is difficulty there, too, about Victor getting permission to make the records.

H.M.JR: Do you mean Victor has stopped making all records?

MR. ODEGARD: No, they have not stopped making all records, but Vince told me he talked to the Victor people and they preferred not to go ahead. I will read you the memorandum.

He says, "I have been unable to carry out the Secretary's request because of a dispute now existing between the American Federation of Musicians and Victor and other recording companies. The Musicians Union will not give permission to make such a record for commercial purposes. Consequently, it is impossible for Victor to make the record."

H.M.JR: Read that again; I don't understand it.

MR. ODEGARD: It says there is "a dispute now existing between the American Federation of Musicians and Victor and other recording companies. The Musicians Union will not give permission to make such a record for commercial purposes. Consequently, it is impossible for Victor to make the record."

H.M.JR: Well, that man sitting on your left is the expert on this. Will you turn it over to him?

MR. ODEGARD: Huntington?

H.M.JR: Yes. Huntington, will you take this up with Victor for me? I wanted what they call the black records, which sell for fifty cents, and they did this for me - I mean for them to sell. You see, not for the radio stations because that is a different kind, but to sell on the market. I want the regular black record with "Every Payday, Ten Percent" on one side, and the infantry song on the other.

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MR. KUHN: That dispute arose since we had the Berlin record made. That is why there is a difficulty.

H.M.JR: I know. Let Huntington get in on this. After all, he got us our stuff on the radio. I mean, you steered us all through that thing with ASCAP, didn't you?

MR. CAIRNS: Yes, I did.

H.M.JR: You did a good job; see what you can do on this. I mean, it just doesn't make sense.

MR. GASTON: If Huntington can settle the row between Petrillo and the recording companies he would be doing something, because Elmer Davis and Fly and everybody else has been trying to.

H.M.JR: He did it for us on the whole thing on ASCAP. We were, as far as I know, the only agency permitted to go ahead and use all copyrighted songs.

MR. KUHN: We are permitted to do all our work with recordings. Petrillo says his dispute does not affect Government recordings, but this that we are proposing to do is a commercial proposition, and that is why it comes under his ban. He has been very good about the Government's program.

H.M.JR: Well, it is like I put this thing up to Hopkins; Hopkins says, "I never heard of it." Petrillo may say, "Of course, if Mr. Morgenthau says he wants a record made to sell his bonds, and an infantry song on the other side, he can have it."

MR. ODEGARD: Mr. Callahan has been in direct touch with Petrillo on this.

H.M.JR: Well, let's turn it over to Huntington. You pick up the pieces, will you, Huntington?

MR. CAIRNS: I will do my best.

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H.M.JR: I know I am asking you to do something tough, but it is like the session I had here with the plate printers. I mean, they were all ready - the Bureau of Engraving - weren't they, to fly through the ceiling, and they said, "Why don't you give us a chance, Mr. Morgenthau? What you want is production, don't you?" I mean, Green brought them in. I said, "Yes".

He said, "Just tell us that you want all the bonds and money printed, and you give us - you say that it is our responsibility; we accept it; we don't care how many hours we work. But we don't want any of that stuff done down in the cellar that they are doing down in the Bureau." They are trying to teach apprentices - make "quickie" apprentices. That is a new word; I just learned it.

So he said, "If you put the responsibility on us to give you the bonds and the money that you need, we will do it. Just say it is our responsibility."

Is that right?

MR. THOMPSON: That is right.

H.M.JR: What about that fellow Slattery over there? They don't seem to like him.

MR. THOMPSON: Slattery is all right, but he is not a plate printer. He came up with the electrolytic--

H.M.JR: Neither is Hall.

MR. THOMPSON: They always wanted a plate printer. He was a little too rough with them.

H.M.JR: I tried to get Gaston to come in because he has a Plate Printers Union card in his pocket. Did you know that?

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MR. THOMPSON: I didn't know that.

MR. GASTON: Were they here today?

H.M.JR: That day I tried to get you. I thought you would like to sit in on it. How many men knew that Herbert was a member of the Printers Union?

MR. GASTON: My publicity is only about fifty percent effective. (Laughter)

H.M.JR: All right now, we fixed you with Petrillo, Huntington. Have you got something else?

MR. CAIRNS: No.

MR. ODEGARD: No, that is all.

H.M.JR: Chick?

MR. SCHWARZ: I have nothing

H.M.JR: What do we look for today, a story in the Post?

MR. SCHWARZ: That is right.

H.M.JR: Anything more in today's "PM"?

MR. SCHWARZ: I sent it down earlier. He has rubber today.

MR. WHITE: I called Duggan last night. He said that Donnelly of Rio de Janeiro had been on the telephone with him a couple of hours previously, and had gotten their assistants to send some currency by Army plane from Florida. He thought it was a very excellent thing, what you did, to call the ambassador. He highly approves.

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The Canadian contract matter is still unsettled and awaiting your attention - the airplane contract.

H.M.JR: That is awaiting my attention?

MR. WHITE: Yes, that is right.

H.M.JR: You get it. I want to talk to Gaston for one minute, and we will do it right after. They will have to wait. We will fix it up.

MR. WHITE: All right. I don't think we have any definite, direct responsibility with respect to the allocating of lend-lease or the granting of lend-lease. You may consider, however, that you have an indirect responsibility. Lend-lease is going to South Africa, and there is considerable doubt as to whether South Africa has not more than abundant assets to pay for it. They have never informed us of their total assets on the ground that that is a confidential matter. We have never pressed them very hard.

I don't know whether you want to take any action or step into that picture.

H.M.JR: Yes. Sure, I haven't enough to do.
(Laughter)

MR. WHITE: Well then, I imagine the appropriate thing might be to ask Stettinius about it.

H.M.JR: Somebody said the other day, "What is happening to all the South African gold?"

MR. WHITE: We don't know. We have some guesses, but we don't know. Is that something you want to take up with Mr. Stettinius yourself, to begin with?

H.M.JR: No. Would you mind?

MR. WHITE: All right.

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H.M.JR: Anything else?

MR. WHITE: I am wondering whether you would want to call another meeting of that informal committee on the International Stabilization Fund, to report what progress has been made and where you want to go from there.

H.M.JR: Talk to me when you stay behind. We will do Canada, and I will talk to you about that.

Harold?

MR. GRAVES: Would you have as much as fifteen minutes' time to see Mr. Odegard, Mr. Gamble, Mr. Kuhn, and me this week?

H.M.JR: The last time you came in was the time that you stacked the cards on me. (Laughter)

MRS. KLOTZ: He brought them in to protect him. (Laughter)

H.M.JR: What was that about?

MR. GRAVES: That statement you signed on September 11 about the failure of the voluntary plan. That was it.

H.M.JR: I will see you fellows at three-thirty. By that time you will know whether you have made your quota. If you have, while you are here I will call that fellow up.

MR. GRAVES: Wonderful. We know now that we have made our quota. We may not have the exact figures by three-thirty.

H.M.JR: Well, anyway, come in at three-thirty. Do you have to bring all that gang with you? (Laughter)

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MR. GRAVES: I want to, very much, because they know a lot more about the subject than I do. This is to discuss the agenda of our proposed meeting.

H.M.JR: Harold Graves and company. (Laughter)

MR. THOMPSON: That is the promotion of the girl over in the ticker room. (Reclassification sheet of Miss Frances McCathran signed by the Secretary.)

H.M.JR: Anything else?

MR. THOMPSON: That is all.

Oct. 1, 1942 20

TENTATIVE AGENDA,

PROPOSED MEETING OF STATE ADMINISTRATORS.

(Oct. 15 - 17, at either Kansas City or Chicago)

I - In General Meeting

Opening statement by Mr. Graves (to be prepared in advance and read)

- (1) Review of progress.
- (2) Program for the future.
- (3) Statement of Secretary's policy.
(See attached rough outline.)

II - In Group Meetings conducted by Messrs. Gamble, Odegard, and Coyne, and participated in by various members of the Staff according to subject.

Discussion leaders indicated.

- (1) Payroll Savings (Engelsman)
 - (a) Objectives: All remaining companies to install plans.
90% employee participation
10% of gross payroll
Expedited delivery of bonds
 - (b) Methods of promotion
- (2) F and G Bond promotion (Gamble)
 - (a) Prospect lists
 - (b) Direct mail and other advertising
 - (c) Canvassers
 - (d) Follow-up
- (3) Farm Program (Myers, Partain)
- (4) Women's Program (Odegard)
- (5) Schools at War (Odegard, Anderson)
- (6) Labor (Houghteling)
- (7) Negro Activities (Houghteling)
- (8) Special Events (Gamble, Duffus, Welch)

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- (9) Retailers Activities (Gamble, Mahan)
- (10) Sales Outlets (Gamble)
- (11) Advertising, Publicity, and Promotion (Odegard,
Callahan, Thomas)
- (12) Miscellaneous (Odegard, Coyne, Gamble)

October 1, 1942
10:26 a.m.

HMJr: Hello.

Operator: Mr. Forrestal is over at the Capitol, but his aide is there, Captain Gingrich.

HMJr: Captain who?

Operator: G-i-n-g-r-i-c-h.

HMJr: Put him on.

Operator: All right.

HMJr: Hello. Hello. Hello.

Operator: Captain Gingrich.

HMJr: Hello.

Captain
Gingrich: Good morning, Mr. Secretary.

HMJr: How are you?

G: Fine, thank you, sir. This is Captain Gingrich. I'm sorry the Under Secretary isn't here. He had to go over on the Hill.

HMJr: That's all right. I think you can help me out. I've been fussing around here with an order that the Navy Department wants to place for PBY boats in Canada. My interest is in the dollar position of Canada. We had a meeting a week or two ago at which Commander Lewis Strauss represented you?

G: Yes, sir.

HMJr: Now I'm not satisfied with the explanation that I've been given, and I used - I knew Admiral Towers very well. I don't know who has taken his place.

G: Admiral McCain is going to take it. He has not arrived yet. I think he is coming in possibly tomorrow.

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HMJr: Well, do you suppose that Admiral Towers, as long as Commander Strauss represented you, could come over and see me maybe at four o'clock?

G: I think they would be delighted to do that, sir.

HMJr: Now here's the point.

G: If - if there's any - if - if they're not able to, I'll tell your secretary. Otherwise, it's - the appointment stands.

HMJr: Yeah, now let me tell you what I want to know. They say that they're placing an order up there for two hundred planes, which are -- well, I don't know, I wouldn't call them obsolete but older planes....

G: Yeah.

HMJr:of an older design....

G: Yeah, I know what the PBX is.

HMJr:to be lend-leased to England, do you see?

G: Yes, sir.

HMJr: Well, in the first place, it's never been established that we're going to lend-lease materiel that we buy in Canada to England, but that - that's one point. But the one I want to ask Admiral Towers about is, why place an order in Canada for a flying boat that isn't the best flying boat? Why do we place an order up there for a second or third-rate flying boat? Do you see?

G: Right.

HMJr: Hello?

G: Yes, sir, right.

HMJr: Because by the time you get into production and everything else, it won't be any good, and if they're going to - the time might come, and they say, "Well, it's going to go to England. It's good enough for England," - well, you have them....

G: Oh, no.

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HMJr:up there - it seems to me that you might want to take fifty of them some day if you needed them badly....

G: That's right, sir.

HMJr:and then if you did you'd - why not give - why not give them the very best designs. It doesn't....

G: Well, we're - we're all fighting the war.

HMJr: Pardon.

G: I say, we're - both England and ourselves are fighting the war.

HMJr: Well, I - I know that, and I....

G: And - and - and we've got to give them the best we can.

HMJr: Well, that's the way I feel. So why give them the second-best?

G: But....

HMJr: And that's what I wanted Admiral Towers to explain to me.

G: Right, sir. I'll - I'll tell them, and - and I'm sure they'll be delighted to come over, sir.

HMJr: You - you get the point?

G: Yes, indeed I do, sir.

HMJr: And, as I say, it's just like you might - might say - well, Admiral King might say, "Gee, I've got to get me twenty or thirty flying boats. Can I get them in Canada?" Then they turn out that they're out of date.

G: Yes, right. The - the point that they may bring up is that we have the specifications for these planes. We can go into production on these planes, and we'd rather have them now than to be delayed for six months or a year in getting planes which would be better. I don't know about that.

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HMJr: I don't know, but as I understand it, they're starting in Canada from scratch.

G: Yes, sir. Well, I - I think Admiral Towers will have the answer to it.

HMJr: I'm sure he will, and I've got great confidence in him.

G: Right, sir.

HMJr: Will you arrange it?

G: Yes, I will, sir.

HMJr: Thank you.

G: Yes, sir.

October 1, 1942
11:10 a.m.

FINANCING

Present: Mr. Bell
Mr. Harrison
Mr. Burgess
Mr. Brown
Mr. Spencer
Mr. Edwards

H.M.JR: Have you fellows had time to solve your problems?

MR. HARRISON: Not yet.

H.M.JR: I guess you know we have got to borrow four billion dollars. We would like to borrow as much as we could outside the commercial banks, and we would like to borrow it as cheaply as possible.

MR. HARRISON: That is a good program. (Laughter)

H.M.JR: There is the formula.

MR. HARRISON: May I ask what you estimate you would have to raise again in November, if it is four billion in October?

MR. BELL: It will be equally that in November, and possibly four and a half, unless the tax notes come in heavily. That would be borrowing, too, but I am talking about a major one.

MR. BURGESS: In figuring four billion for October, you are figuring some addition to the tax notes, a half a billion or something like that.

MR. BELL: We figured that we would get four hundred million in September, and we probably will get five hundred

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and fifty or six hundred; and three hundred and fifty million dollars, we figured, each month thereafter. That may be low, but we had to be conservative in our estimates.

MR. BURGESS: That is in addition to the roll-over of present taxes?

MR. BELL: There is no roll-over, except in a tax-payment month. That is net cash from the tax notes.

MR. BURGESS: We have just had a kind of a quick look at this memo that Dan put up. We are trying to look around it. The thing that, of course, is most important is what you mentioned: methods of raising money outside the banks. Charley and B.M. and I have just been meeting with the Bankers Association in New York for three days and getting a sample there. I think the bankers are in very good spirits about doing their job. I think they are all very anxious to see additional steps taken to sell bonds outside the banks. We were talking about that, B.M. and I, and wondering whether more definite plans along that line could be made, and wondering whether one way of approaching it would be to say December 1 might be a good time. The Community Chest that Tom Smith is worried about will be out of the way - and the war chests.

H.M.JR: How much does the Community Chest raise in the country, anyway?

MR. BURGESS: A hundred and fifty million.

MR. SPENCER: Yes, and they are folding in on top of that seventy-five million on the war drives for the various countries.

MR. BURGESS: I think December 1 might be a pretty good date for a drive because you could say, "Give a bond for Christmas."

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H.M.JR: What kind of a drive do you mean?

MR. BURGESS: I mean a public drive, all out, with the Savings group and the Victory Fund group and everybody, the kind they are doing in Canada.

While this motion picture thing and the other attacks are attacks by single units, I think if you had everybody working at once, at one time, for a two-week shot so that everybody in the country was approached about getting bonds on that date, about once every three or four months, it would be just twice as effective.

H.M.JR: I had a talk with Governor Towers about this drive business of his. When I told him something of my problem, he seemed to think that the drive thing was more or less out of the question. He said that they did it every eight months; now they are going to have to do it every six months. He just questioned whether you worked everybody up to the peak of enthusiasm and then came back in two months and hit them again. He doubted whether they would like it.

MR. BURGESS: You can't do it oftener than once every three or four months.

H.M.JR: But the month of December would hit me better than any suggestion that has been made yet.

MR. BURGESS: You really need the time between now and December to work it up. It takes just about two months to work it up. In some ways that is almost the first decision to make, because then you want to adapt your financing prior to that time to it, so you don't cover the same ground, perhaps, that you would then.

H.M.JR: I don't think - at least I don't see how it would affect this next financing very much.

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MR. BURGESS: I don't think it would very much.

H.M.JR: It would the November.

MR. BURGESS: Yes, that is right.

H.M.JR: I am just thinking out loud.

MR. BURGESS: You would want to keep a big public drive away in November.

MR. BELL: It might also have some effect on your choice of securities in November. In other words, you wouldn't want to choose the same kind of securities you are going to put the drive on in December.

H.M.JR: I talked to Brown about this drive business. I have been very skeptical of it. I don't think I want to set any quota.

MR. BURGESS: I wouldn't set any quota, no.

H.M.JR: We are doing so much better on the payroll deduction plan, the E bonds, and the public knows - just because we have not made our quota, people think it is a failure.

MR. BURGESS: I was just showing some figures to these fellows in the other room. I made some remarks to the Economic Policy Commission at the Bankers Association, and the figures - the percentage of the national income that we are raising on selling bonds outside the banks now, compared to the World War - and the percentages are almost identical.

H.M.JR: I have never seen those.

(Mr. Burgess handed paper to the Secretary.)

MR. BURGESS: Keep that copy. The lower half of the table gives the figures. The third line of the lower half of the table shows the percentage of the

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national income that is absorbed by non-banking purchases of Government securities. In 1917 it was two percent. In 1918 - that is the fiscal year - it was fourteen point three; 1919, eighteen point eight. Now if you jump over here (indicating), forty-one point three, forty-two point nine, just a little better than 1918. Then the estimates for '43, that is, estimated on the basis of getting pretty close to a billion of Series E, F, and G, will be nineteen point six, compared with eighteen point eight.

MR. BELL: That is non-banking?

MR. BURGESS: That is non-banking purchases of Government securities - corporations and so on. So we are absorbing as large a proportion of the national income - now the national income is twice what it was then.

MR. BELL: The borrowing is about three times.

MR. BURGESS: The only trouble is that the expenditures are twice what they were then in proportion to the national income. It would be a pretty good job if we were financing World War I, but we are financing a war that is twice as big.

MR. BELL: Sure, expenditures are four times.

MR. BURGESS: Yes. In terms of national income, though, it is twice as large a part of the national income. This coming year--

H.M.JR: This receipts - what do you mean?

MR. BURGESS: That is tax receipts. That, of course, is way better. We are raising as good a proportion of bonds as during the last war in spite of the fact that our taxes are very much heavier. So from that point of view it is a very good achievement.

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MR. HARRISON: But it has to be a lot better.

MR. BURGESS: It has to be better. If anybody says we are not doing a job now, a real job, he has not looked at the figures, that is all.

H.M.JR: Well, the August figures on the pay-roll deduction - the percentage of deduction of those that have the plans is up to seven and a half percent.

MR. BURGESS: That is darned good.

MR. EDWARDS: Do those figures include the tax notes?

MR. BURGESS: Yes.

H.M.JR: It has been rising steadily.

MR. HARRISON: Have you any modern figures on the redemptions?

MR. BELL: We have daily figures.

MR. HARRISON: Are they going up?

MR. BELL: They are going up a little because of the increase in the outstandings.

MR. BURGESS: The percentage of outstandings.

H.M.JR: But the percentage, as I understand it, is constantly going up.

MR. BELL: The percentage, yes, it went up a little last month.

H.M.JR: Based on the outstanding?

MR. BELL: No, not based on the outstanding, but based on your issues. It went up from about three to

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three and a half - close to four percent of the amount issued. The amount that we have redeemed up to the 29th of September for that month was thirty-three million dollars; last month it was around thirty-two million dollars, the month of August.

H.M.JR: And this was an income tax month. I think that is - in an income tax month, I think it is very low.

MR. HARRISON: What I have been a little fearful of, and I have asked the Federal to check up on my own company. - we are an issuing agent, and each subscriber gets a bond, say, once every month or once every two months. Query, whether as we put more pressure on them to increase the percentage of pay roll a number of them aren't turning around and cashing in the bond they get the previous month. The Federal thinks there is evidence of that.

MR. BELL: That is right.

MR. HARRISON: So I have told them to make a guinea pig out of my own concern - not sicking them on anybody else - to see what dope they can give us on that.

Now he thinks there is an increasing amount of that.

MR. BELL: I think you will find that a large part of the redemptions in any given month is composed of sixty-day bonds. People have just held them sixty days and turned them in. If they get rid of those, the redemptions will go down much further.

H.M.JR: Say that again.

MR. BELL: I think a large percentage of the redemptions in any given month is composed of bonds that have only been out sixty days.

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MR. HARRISON: That rather supports the theory that I have got.

MR. BELL: Yes.

H.M.JR: Well, how do you people want to work today? How do you want to do this thing? Do you want to ask me anything? Do you want to go over and see the Fed?

Unfortunately both Haas and Murphy are home sick, but there must be somebody available.

MR. BELL: Lindow went with us yesterday - if you want to get into statistics or anything--

H.M.JR: When would you like to see me again?

MR. BROWN: There is one thing that I think we would like to suggest that we suggested last time, and that is that if a bond is issued as part of the financing, I think - we think it is necessary that allotment in full be made to others than non-banking subscribers, coupled with some limitations on sixty-day deferred delivery, and that allotments to the banks be then prorated on the balance. We think that on that basis possibly the Treasury could afford to be slightly more generous in the matter of interest rates, because it would tend to get a larger percentage of the issue than it would otherwise be the case out of the banks hands. You are virtually making underwriters out of the banks in that case.

We made that suggestion last time, but we all feel, I think, strongly, that in the case of a bond issue, which will have to be underwritten and a large part of which will have to be taken in the banks at preferential allotment, it be made outside the banking system.

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H.M.JR: How much? What amount, twenty-five thousand, you mean?

MR. BROWN: No, total amount.

MR. BELL: Anybody outside of the banking system comes in for, say, a million dollars subscription instead of on a percentage basis, and he gets a million dollars.

MR. BURGESS: Whereas with the tap issue now, it is extending the principle of the tap issue to another bond, say a two and a quarter. Say that if you are not a bank and come in and get a full allotment, and you get your interest from the day you buy it, perhaps, and then the bank subscriptions would only be allotted for the balance of your total and in proportion after you had taken care of all the other fellows.

H.M.JR: You mean a fellow - say he has got an insurance company or a manufacturing - say anybody outside the banks subscribes to a million dollars, then he will get a million dollars, then the banks will be allotted on a prorata basis what is left?

MR. SPENCER: Allocation only to the banks.

MR. BURGESS: So they are really underwriters, rather than--

H.M.JR: Would that satisfy the banks?

MR. BURGESS: I think so.

H.M.JR: Do you think they would like it?

MR. BURGESS: I think they would go along.

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MR. HARRISON: I think they would on a bond.

MR. BURGESS: I don't think on a short--

MR. BROWN: Not a note or certificate.

MR. SPENCER: You could sell a great many short issues.

MR. BELL: We didn't think it was necessary on the last issue because they were both strictly banking securities.

H.M.JR: What is the matter with that, Dan?

MR. BELL: There is nothing the matter with it. There is only one thing I think the banks might kick on. They wouldn't know what their customers were subscribing to until after the thing was pretty well along. They wouldn't put in their subscriptions, I take it, until they found out what the allotments were going to be.

Would they object to that, Randolph?

MR. BURGESS: I don't think so, not on a two and a quarter percent bond which they regard as out at the fringe of their taking.

MR. BELL: How about a two-percent bond?

MR. BURGESS: I think that would be another question, because that is a bank bond. I am not sure but what they would object a little on that.

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MR. HARRISON: I think it is a matter of fiscal policy that is pretty well accepted throughout the country, that we want to finance as much of this as possible outside the banks.

Now, if you are issuing a bond in a lot of, say, four billions and supposing you had all one bond for these four billions and you had three billions of subscriptions direct from customers other than banks, then you would give them the full three billions and the banks would then get only the remaining billion. Whereas, if you don't do that, you might end up with each crowd getting just two billions and the banks getting more than you want them to get.

I think that the fiscal policy for the good of the country is worth the risk that you run of making a few banks relatively unhappy - but they shouldn't be unhappy.

MR. BURGESS: I think that is all right.

MR. EDWARDS: Danny, I think that if the - if you and the Secretary decide about this big program in December - of course, I am strongly of the opinion that there is a very definite place in this picture for this two percent bond, but my opinion is that that ought to be reserved to do your November financing - a substantial part of your November financing, in order to do just what you said a while ago, to offer a different security in December. In other words, this two percent bond in November would largely go into the banks - a great deal of it.

Now, if you sell, say, a four or five year note and a two and a quarter percent bond, you will get some private money in that two and a quarter percent bond, and then you will have this two percent bond left as a vehicle to largely do your November job.

How does that sound to you?

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MR. BURGESS: In November you could do your tap issue, which is insurance companies, largely; and your two percent bond for the banks; and your certificate - taking up some more money with the certificate.

MR. BROWN: I think there is a great amount of private money, Mr. Secretary, to take your two and a quarter percent, fully-negotiable bond, as against taking a two and a half percent registered bond. I think it makes it much easier to get those subscriptions if they can be allotted in full. It would give something for the Victory Loan Committee to work on.

MR. SPENCER: I think that is rather important - to give them something to do now.

MR. BROWN: If you had, say, a two and a quarter percent bond issue - I have no question at all that you will get underwriters from the banks for much more than the two billion. Whatever was taken by allotments in full, which would have to be coupled with some sort of a deferred delivery of sixty days, or something of the sort, would keep just that amount of long-term bonds - held to be long-term bonds - out of the banking system - that much from the public.

MR. HARRISON: You are talking about the commercial, not the mutual savings. There is an exception there.

MR. BROWN: I would except the mutual savings but not the savings departments in commercial banks. In the Middle West, at least, the savings account is primarily the poor man's checking account. He puts his money in there when he has got it, and when he has a necessity he takes it out. It is not a thrift account. They will have plenty of opportunity to get the two and a quarter percent bonds by underwriting; they will go for those. A great many of the smaller banks will try to get the longest term Government bonds that they can if they bear a high coupon rate. It is somewhat dangerous for them to get too many of them.

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MR. HARRISON: If that were true, I would see great advantage in a note - four or five years - and a two and a quarter percent bond, subscriptions to be allotted in full to other than banks. Then I think you have got a pretty good ticket for October.

MR. BURGESS: To think about what bond you would use for the December 1 drive - I think you would use your whole category, your savings bonds; but presumably that ought to be a two and a half percent bond with a coupon, wouldn't you think, Ned, a regular bond - the one you are going to try to sell widely to individuals?

MR. BROWN: I think that is a minimum rate. You ought to make it somewhat longer maturity than the tap issue. In other words, not to--

MR. BELL: You would have to put them between the 67-72's, selling for a hundred and one, plus. You would have to put it pretty close to that one.

MR. BROWN: You would have to put it--

MR. BELL: If it is negotiable it would probably depress that a little.

H.M.JR: Couldn't you men take some of these things under consideration? Do you want to talk with the Fed?

MR. BURGESS: The only problem about talking with the Fed is that the Open Market Committee isn't here - Allan isn't here, or the others. Is Marriner here?

H.M.JR: Yes.

MR. BURGESS: I think there would be some point, then.

H.M.JR: He has very definite ideas.

MR. BURGESS: I am surprised. (Laughter)

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H.M.JR: On this, very definite.

MR. BURGESS: I think we ought to see him, then.

H.M.JR: Have you people allowed time for tomorrow - to stay over?

MR. BURGESS: We had not planned to.

H.M.JR: You only allowed one day?

MR. HARRISON: We did that only because we have been getting through in one day.

MR. EDWARDS: Most of us have been away for about a week, now.

MR. BELL: I told them I thought we could get through in a day because I knew some of them had been away, and--

MR. BURGESS: We can go to lunch at the Fed and come back with you after lunch.

MR. BELL: ...the hotel accomodations here are so bad.

H.M.JR: Unfortunately, I have such a bad-- if you are going back - if you want to go back, O.K. What is that train to Chicago?

MR. BROWN: Five forty-five; I am prepared to stay over, however.

H.M.JR: Would four-thirty be too late?

MR. EDWARDS: My train leaves at six o'clock.

MR. SPENCER: Mine doesn't leave until later in the evening.

MR. HARRISON: Four-thirty is all right with me.

H.M.JR: I will be ready at four-thirty.

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MR. EDWARDS: I can make my train.

MR. BROWN: Perhaps Dan can get me a priority on the evening train. I could take that so that I won't be hurried for the train.

MR. EDWARDS: Some of us have been away for about a week, but Doctor Burgess, up in New York, told me that he thought that the business of the Treasury Department was the most important thing in this country, so I will do anything you say.

MR. BURGESS: So it must be true.

H.M.JR: He is right, isn't he?

MR. EDWARDS: That is what he told me - that I "had better get on down there; that is the most important thing I know of."

MR. HARRISON: I think he is right.

H.M.JR: Would that be all right with you - four-thirty?

MR. SPENCER: Four-thirty is all right with me. I will stay over tomorrow if it is necessary.

H.M.JR: Will you talk with them - fix them up? If they are bashful about calling Eccles, could you do that for them?

MR. BELL: Sure. They are not bashful about that, but I will be glad to.

H.M.JR: And maybe you could tell them - take them into your room and tell them how Eccles feels, before you go over.

MR. HARRISON: Mr. Secretary, is there any fundamental objection to our appealing to Danny for a priority when we come down? I can never get a night train any more from New York to Washington.

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H.M.JR: That is perfectly proper.

MR. EDWARDS: I came down on a day coach.

MR. HARRISON: It is just impossible to get it.

MR. BROWN: I have an upper going back.

MR. HARRISON: Even a week in advance - they won't let me know until the night the train goes.

MR. BROWN: I came down all right; as far as I know I have got an upper going home.

H.M.JR: Charlie Bell looks after this?

MR. BELL: We have some arrangement - it does not always work one hundred percent, but we can do something on that, I think.

MR. EDWARDS: I came down on a day coach, and I have got to go home from here on a day coach.

MR. BELL: We will see what we can do.

H.M.JR: Fix them up.

October 1, 1942
3:28 p.m.

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HMJr: Hello.

Operator: Mr. Cox is on a special assignment at the White House, but his secretary said she can have him call you in just a couple of minutes.

HMJr: Well, that's all right.

Operator: Right.

HMJr: Thanks.

3:30 p.m.

HMJr: Mr. Cox?

Oscar Cox: Yes, Mr. Secretary.

HMJr: Cliff Mack is sitting here....

G: Yeah.

HMJr:and was telling me that if you decide - or the President decides that you go over to Lend-Lease, he'd like very much to sit down with you and with me.

G: Right.

HMJr: Because he thinks there's tremendous opportunity for improvement over there.

G: I think so too.

HMJr: He's got cases here now where things - where the Russians have been trying to get some boilers since 1940.

G: Yeah.

HMJr: And there are all kinds of examples that he's given me where they've been months and months and months, and he thinks the thing could be shortened up tremendously.

C: Well, that would be perfectly swell if he'd be willing to do that.

HMJr: And I've told him to again do this job which we did once before, showing how many days a thing is held in each place.

C: Yeah.

HMJr: Do you remember that job?

C: Yes, I do.

HMJr: That started something.

C: Right.

HMJr: But I think if you go over with the help of - the material that Cliff Mack could give you, I think you could - we could help you make quite a record in the first thirty days.

C: Well, that's swell. I appreciate that. I'd like to talk to him even if I don't go over.

HMJr: Well, I - I think even if you don't, there should be a little meeting because why do we have to wait for a newspaper....

C: That's right.

HMJr:to stir this up and wash the dirty linen in public?

C: Yeah, I agree with you.

HMJr: Check?

C: Yes, sir.

HMJr: Thank you.

C: All right.

October 1, 1942
4:00 p.m.

CANADIAN DOLLAR POSITION

Present: Admiral Towers
Commander Strauss
Mr. White
Mrs. Klotz

H.M.JR: Admiral, just for old-time's sake if you will put me on the right track - I get in on the dollar situation, and your people want to buy thirty million dollars worth of planes in Canada, PBV boats, and I raised the question, two questions, which have not been answered to my satisfaction.

One, why place an order in Canada for PBV boats to go to England, which I don't expect you to answer, but you may want to. But the other thing which I can't understand is - they say that these are only our second best planes; and if they are only the second best planes, why place an order for second best anything. I asked them to prepare you.

ADMIRAL TOWERS: I got the word. I actually have been in a meeting of the Joint Aircraft Committee ever since I got your message, but I have had officers looking into the situation.

As to the first, there was a Presidential directive that the resources of Canada should be considered as part of our general pool. Replying in rather a negative way, there was an attempt on the part of the farm bloc in Congress to amend the Lease-Lend bill, which amendment, if passed, would have prohibited the buying of farm products from outside the United States for Lease-Lend purposes, which amendment was defeated. We found

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out that there were Canadian manufacturing facilities that were not going to be usefully employed, and we went into it very carefully with the Canadian Government. Boeing, Vancouver, had a contract from the Canadian Government - with the Canadian Government to manufacture - or, rather, to assemble PBY airplanes from parts manufactured by Consolidated, San Diego. Therefore, that company was in a position to go into the actual production of PBY-5 aircraft.

I can find nothing that in any way seems to even infer that there was any prohibition against our placing orders in Canada. I do know that the Bureau of Ships bought some two dozen corvettes for the British - bought them from Canada. I have the contract numbers if you would be interested in them.

H.M.JR: You mean they placed it in Canada for Great Britain - Lend-Lease?

ADMIRAL TOWERS: Lend-Lease, yes, ten screw and fifteen single-screw purchased by the Bureau of Ships from War Supplies, Limited, against U.K. requisition No. 11244, contract No. DA-NOBS-273 and 274, dated July 11, 1942.

MR. WHITE: I can comment on that. Those corvettes which I think the Admiral is referring to now are the same corvettes about which we raised the question on this very same issue. The answer, if I remember correctly, was that they thought that U. K. was not going to get those corvettes, that the United States was going to use them. They, therefore, became what in effect was an American order placed in Canada, against which, I take it, there is absolutely no objection, and every desire to do; whereas these planes in question, if our understanding is correct - and I am not entirely certain from the statement - are intended for U.K.

COMMANDER STRAUSS: There may have been reverse English here. These planes may have been placed with the idea that we would use them and then they become

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Lease-Lend, whereas the corvettes are moving just the opposite direction.

ADMIRAL TOWERS: There is more to this. Actually we have placed a contract through War Supplies, Limited, for one thousand SP-2-C airplanes, Curtiss dive bombers. We have regarded Canadian production facilities as being in the common pool, and we are required in our set-up, which was prepared by WPB, the eight series, to indicate where the planes being produced by the several companies will go, but that shifts from month to month. Actually, it was only recently that we decided just when we would discontinue the production of PBV's in the Consolidated plant. We wanted to make space in Consolidated for heavier production of B-24's, Liberators, and of our four-engine boats.

When we set up this plan to procure these two hundred PBV's from Boeing, I could not have said definitely back in those days whether they would come to us or come to the British. The British want a continuing supply of these PBV's, and Consolidated is going out of production on them.

Now, we don't want a continuing supply. We propose to discontinue them with Consolidated next June - about June. And there would be no other source of supply after we made that arrangement. There was no other source of supply to meet the needs of the British.

H.M.JR: This is PBV-5?

ADMIRAL TOWERS: Yes, they are all PBV-5's. There may be some A's; that A is an amphibian.

Now then, as to the quality of the PBV-5 - I am sorry I did not have time to pick up a clipping taken from the New York Times of a week ago last Sunday concerning statements made by one of the most eminent British air authorities, a civilian named Masfield, on the qualities of planes being produced throughout

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the world in the different categories. That statement was made, as I said before - was published a week ago last Sunday and made just previously. Among the planes listed as being the - the plane listed as being the finest of flying boat types, patrol plane, was this same plane, the PBV-5, and no others were mentioned.

H.M.JR: I saw a criticism of Masfield's report in another paper.

ADMIRAL TOWERS: Yes, you will always see criticisms. The British like it very much. The Dutch are still buying them. The Australians have some and want them. They are very useful planes for special purposes.

H.M.JR: Let me just - I would rather know what Admiral Towers thinks than anybody else on this subject. That is why I asked to see you. Just let me ask you this question. How long would it be before these PBV-5's would be coming off the line in Canada - approximately how long would it take?

ADMIRAL TOWERS: My recollection is that they produce at the rate of about twenty a month, and that production begins about March 1943. That could be checked with the A.K. schedules.

H.M.JR: Roughly.

ADMIRAL TOWERS: Yes, roughly twenty a month.

H.M.JR: Well now, supposing you needed some planes, would these PBV-5's fit into your program anywhere in the Atlantic or the Pacific, wherever we are - I mean, is the plane up to the standards that you will require from '43 on? That is the thing I want to know.

ADMIRAL TOWERS: At the present time Consolidated is producing them at the rate of sixty a month, most of which are going into our service; some of them are

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going to the British - an average of about twenty a month, I think, and the British desire to continue to get this type of plane at the rate of about twenty a month.

H.M.JR: Let me put it another way. What is going to take the place of this PBV-5 for ourselves?

ADMIRAL TOWERS: Nothing is going to take the place of it for a long time, and by that I mean we will have scores of squadrons which will be operating the PBV-5. We are just getting into production now on the four-engine flying boat, also by Consolidated, and a slightly larger two-engine flying boat than the PBV-5 is being produced by Martin. But they supplement our PBV-5's rather than replace them.

Now, years from now they will be replacing them, but at the present moment they are merely supplementing.

H.M.JR: But the Martin two-engine flyer is an improvement over the PBV-5?

ADMIRAL TOWERS: Yes, it is a better plane.

H.M.JR: Now why couldn't you place an order in Canada, say, for the Martin?

ADMIRAL TOWERS: We could, but we could not get them in time to meet the needs of the British.

H.M.JR: You mean it would be postponed delivery?

ADMIRAL TOWERS: The Boeing Vancouver Company knows all about building this type of plane. They have been building them for a year and a half now from parts, fabricated by Consolidated, but I don't mean by that that they have just been doing an assembly job. It is forgings and extrusions, and so forth, that they have been getting through Consolidated.

H.M.JR: And it would take them longer to put together a Martin?

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ADMIRAL TOWERS: Oh, very much longer. They are going to really build planes completely. They are not going to get any parts from Consolidated for these planes.

H.M.JR: Let me ask - could they build a four-engine Consolidated?

ADMIRAL TOWERS: Eventually, yes, but the first one would probably come out of the door some eighteen months from now, whereas the British want these planes to come out early next spring.

COMMANDER STRAUSS: Our people say they could not build a four-engine job without substantial additions to facilities, which they don't propose to do under this contract.

ADMIRAL TOWERS: I imagine that is true. They could build one there presuming they could get those facilities.

H.M.JR: Could they begin to make a delivery of twenty a month beginning approximately in March?

ADMIRAL TOWERS: Of the PBV-5's?

H.M.JR: Yes.

ADMIRAL TOWERS: That is their schedule, and I have not heard anything indicating they are not going to come close to meeting it.

H.M.JR: And knowing all this you recommend this?

ADMIRAL TOWERS: I do.

H.M.JR: You do?

ADMIRAL TOWERS: I do. I know of no other source of supply of the flying boats to the British that they

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indicate they need, and we believe they need them. I went over it very thoroughly with both the Air Minister and the Admiralty when I was in London. We went over this very matter in the latter part of May.

H.M.JR: Would the occasion possibly arise that you might need fifty or a hundred of these for ourselves?

ADMIRAL TOWERS: It might possibly arise, but I will say this, that when we were discussing the question of just when we would discontinue the production of PBV-5's in Consolidated I went over the figures of the estimated needs and deliberately added one hundred more, because the demands always increase, so we have got to use up that hundred before--

H.M.JR: At San Diego, you mean?

ADMIRAL TOWERS: Yes, sir, so I have a hundred in excess of currently indicated needs, but I am sure those needs will be confronting us before we get the boats, because that is always the case.

H.M.JR: In view of what you say, I approve it now.

ADMIRAL TOWERS: Thank you.

H.M.JR: You have my approval as of now.

ADMIRAL TOWERS: Our plans envisage having thousands of aircraft manufactured in Canadian plants.

H.M.JR: That is all right. Nobody that I can find in Washington will say to me that it is an Administration policy that we place orders in Canada, knowing before hand that they are going to go to England. Am I right, Harry?

MR. WHITE: That is my understanding, and paid for by the United States.

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H.M.JR: That is what I mean, paid for by the United States.

ADMIRAL TOWERS: Well, I can't find any such document, either, but I can find in the records of Congress where they tried to amend a bill to prevent purchases from foreign countries being delivered directly to England, and the amendment was defeated. It clearly indicates the desire of Congress.

H.M.JR: My only responsibility is the so-called Hyde Park Agreement, which happened to be my brain child. Is it growing too large, you see; are they going to have too many dollars; and if so, should the thing be reviewed? That is what we are watching, asking the various departments to let us know before they have put orders, which they have done, and they have cooperated extremely well.

Now this other thing that I stepped into, I did as an American citizen - is this good for the general effort? I knew that if I could see you for fifteen minutes I could satisfy myself one way or the other, and I have.

COMMANDER STRAUSS: Is the Canadian dollar balance growing very rapidly?

MR. WHITE: Not rapidly, but it is growing. It will grow more rapidly next year probably.

H.M.JR: And very much in the room - Sir Frederick Phillips said he might have to go up. The relationship between the Canadian and English Treasuries seems to be rather critical. But it is our job to watch all of them, and what I am trying to do is to keep all of the United Nations' Treasuries going as long as possible against the day that I will have to go to Congress and ask for direct appropriations to finance their governments. I think the longer I can put that day off, the better, because that is going to be a hard day for me. I mean, to pay their running expenses of their governments.

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COMMANDER STRAUSS: Then some Congressman is going to want to know why they have to have champagne in the embassies. (Laughter)

H.M.JR: Yes, as well as I do to ours.

ADMIRAL TOWERS: May I call attention to the fact that by utilizing these existing facilities in Canada we have saved our own Government many millions of dollars, because had we not used them we would have had to create those facilities in this country.

October 1, 1942
4:50 p.m.

FINANCING

Present: Mr. Bell
Mr. Burgess
Mr. Brown
Mr. Harrison
Mr. Edwards
Mr. Spencer

H.M.JR: What have you all been doing?

MR. HARRISON: B.M. is the reporter today.

H.M.JR: "PM"? (Laughter)

MR. HARRISON: B.M.

MR. EDWARDS: I wrote it and nobody else can read it.

Mr. Secretary, this is what I wrote - if I can read it.

We recommend the sale of two billion two-percent bonds, maturing in March, 1950.

MR. HARRISON: Fixed maturity.

MR. EDWARDS: Fixed maturity - or two billion, two and a quarter-percent bonds, '53-'56; and two billion, one and a half percent notes, September, 1946.

H.M.JR: Say that last over.

MR. EDWARDS: Two billion, one and a half-percent notes, September, 1946.

H.M.JR: September '47?

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MR. EDWARDS: September '46. These are right in line with the prevailing rates. We suggest that the allotment of subscriptions of bonds, not the notes, other than banks, be made in full; subscriptions by banks to be prorated for any balance not taken by the others.

MR. BELL: Regardless of the issue?

MR. EDWARDS: Yes.

MR. BURGESS: Whether a two or a two and a quarter.

MR. EDWARDS: With respect to the two and a half percent tap issue, we recommend that it not be reopened at this time; but if it is decided to have the sales campaign in December, we recommend that this issue be reopened not later than November 1, possibly as early as October 20.

H.M.JR: If we don't have a sales campaign?

MR. EDWARDS: If we do.

H.M.JR: If we do have one in December?

MR. EDWARDS: If you wanted to open it and sell some of them and get way ahead of your campaign.

H.M.JR: You don't want to use in your campaign - not exactly that issue.

MR. BELL: They have something else there.

MR. EDWARDS: Increase the weekly bill offering to four hundred and fifty million per week, beginning October 21. That is when your present turn-over takes place. We think it is all right to sell an additional five hundred million of the certificates on November 1, when that turn-over takes place.

And there is a recommendation that plans be started now for an intensive campaign beginning December 1 to reach the current income of individuals. For this

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purpose there should be used the united efforts of the War Savings Staff organization, the Victory Fund Committees, and others.

The individuals should be offered a choice of E, F, and G bonds, and one or more market issues. That is in place of this tap issue. One of these issues should bear a two and a half percent coupon and should be a fully-negotiable bond with restrictions as to bank ownership.

This program will require extensive organization, leadership, and some expenditure of funds. We would think it advisable to secure the services of some outstanding organizer for a period of a month or six weeks before and during the campaign, to coordinate and direct the effort.

We recommend the selling of series F bonds to commercial banks receiving savings deposits; maximum, one hundred thousand per year, and an aggregate holdings not to exceed twenty-five percent of the savings deposits of the subscribing institutions.

In other words, a bank that had five hundred thousand savings deposits, we think they ought to be limited to an aggregate purchase of one-fourth of that amount, and we recommend that F bonds, instead of the G bonds, for this reason; that the F bond is a registered bond paying interest every six months, and if the small bank that gets that bond - or buys that bond when you get that income the first thing they do with it will probably be put it in income, and at the end of five years, if they have to sell that bond, they will have a bond that is only worth ninety-four eighty, and they will be hollering about you causing them a loss.

MR. BURGESS: That is the G bond?

MR. EDWARDS: If they buy the G bond. Furthermore, it will involve quite a complicated tax situation for these little banks who do not operate on an accrual

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basis, but instead, operate on a cash receipts and disbursement basis, and it would complicate their situation about making income tax returns. Furthermore, we are quite certain that the Federal Reserve bank and the Comptroller of the Currency would require - at least require the National banks, and the supervisory authority would probably require State banks, not to take all of that income - not to take all of that coupon in the income, but instead to take only that portion as would keep the bond redeemable for its face value. And that also would bring about a very complicated situation, and might cause dissatisfaction among the banks.

We think it would be much more preferable to sell the F bonds, which is on a discount basis.

MR. BELL: It is on a current earning basis.

MR. EDWARDS: It is on an earning basis, but they would not have to write that increment up, but instead, could carry it until maturity, or could carry it until such time as they sold it, and then whatever interest they received they could take it into their earnings.

MR. BELL: But they carry the F bonds in what you think the supervising authorities would require them to carry G bonds?

MR. EDWARDS: That is right. In other words, the F bond would make a much easier transaction for them to carry. It wouldn't be nearly so involved a situation.

MR. BELL: I understand you have done this, thinking that it will make the country banks happy.

MR. EDWARDS: Yes, we know it to be a fact - in fact, Mr. Eccles brought that matter up today in the discussion on it; that there are a great number of small country banks who, although they are cooperating in your war savings bond sales, and all of that, nevertheless, they have - they feel now, and they always

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have felt that they have been somewhat discriminated against with respect to building and loan associations and mutual savings banks, who are permitted to buy these bonds; and these commercial banks are not. Yet they have in their bank the same type and character of deposit in their savings deposits that you find in these other institutions.

MR. BELL: Particularly the building and loan associations, I suppose; if they were classed that way.

MR. EDWARDS: Some of them will buy them. You will sell them some bonds.

H.M.JR: B.M., if you have time before you leave, could you dictate that?

MR. BELL: If he will give me that, I will dictate it. I can read it.

MR. EDWARDS: Then the only other thing we have here is that we are opposed, at the present time, to the sale of long-term two and a half percent bonds to banks.

H.M.JR: I think this is a very interesting program. Have you fellows talked with Eccles?

MR. BURGESS: At some length.

MR. EDWARDS: I think Mr. Eccles will probably not be so bitterly opposed to this.

H.M.JR: He wants a two percent bond this time.

MR. HARRISON: Yes, he would be opposed to our alternative. He wants, definitely, the two percent. We don't feel so very strongly about it.

H.M.JR: Are there any dissenting views from this?

MR. HARRISON: Not at all.

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MR. EDWARDS: Only this, Mr. Morgenthau, in behalf of myself, I am not so strong on this drive business - this campaign business.

H.M.JR: Why?

MR. EDWARDS: I think you have one going on here practically twenty-four hours every day, now, and I just don't know - there are just certain things - of course, I spent some time up here, and I know how this War Savings Staff crowd feels; and regardless of how much I love my dear associates and banker friends here, I just can't permit myself to take any stand or get involved in anything that is going to bring about any disunion in the household.

MR. BROWN: I think that represents, Mr. Secretary, a sort of compromise point of view in which we could all agree. I think some of the members of the group feel that there ought to be a merger of the Victory Fund and the War Savings Committee.

I think that Mr. Edwards - and I know I felt that you needed a continuous pressure to sell bonds to be paid for out of income, to which the others all agreed. But the only organization doing that, today, is the War Savings organization, and we felt there was a danger that if it was supervised or put under the direction of any other organization, it would lose its punch; and that what was needed was continuous pressure rather than a succession of drives. But I feel, and the rest felt, I think, that just as the Red Cross got Cole to come down here to run its drive, and this year it is getting Walter Gifford to come down here and do it, we were thinking of John Stevens, the president of the Prudential, or Micky Cleary, president of the Northwestern, or somebody with organizing ability, and driving ability, to try and run this one month's bond sales, which would be of a type designed to get money primarily out of individuals. That would not mean any superseding or loss of efficiency on the part of the War Savings organization.

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I don't know - I think that states the view of all of us, with the possible exception of Mr. Edwards, who perhaps knows more about it - or does know more about it - than the rest of us, who feel they are so damned independent that they would resent any temporary assistance, even from - direction from anybody outside, even if he was only going to be here a maximum period of sixty days or ninety days.

H.M.JR: I don't think a man coming in for sixty days would learn it.

MR. BROWN: I don't know - I think he could do a good deal.

H.M.JR: I, personally, don't see how they can do any more on the pay-roll deduction than they are. I think they are doing a swell job, and the thing is growing by leaps and bounds.

MR. HARRISON: Still weak on the F and G's, though.

H.M.JR: What?

MR. HARRISON: We are still a little weak on the F and G's, aren't we?

H.M.JR: True, but that is not the kind of money we want.

MR. BELL: As I understand it, this campaign would not interfere with the pay-roll deduction plan, but combine all forces in this campaign to sell all kinds of securities that we have on the shelf at that time; but the pay-roll savings program would go right along in the groove that it is now going.

MR. BURGESS: This would even attempt to step it up further.

MR. BELL: You might sell a lot of Series E bonds to individuals, even though they were buying them through pay-roll savings - sell them under this campaign.

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MR. HARRISON: And it would add one more thing, that is, the long-term two and a half negotiable market bond.

MR. BELL: I say, everything you had on the shelf at that time would be in the program.

MR. SPENCER: Would be on sale in that program.

H.M.JR: The kind of man who knows this thing - there was this man from the Manufacturers in New York - what is his name?

MR. HARRISON: Madden.

H.M.JR: He did a beautiful job in New York City on the house-to-house campaign.

MR. HARRISON: Yes.

MR. EDWARDS: Don't misunderstand me, Mr. Secretary, I think it would be fine, and if everybody works together and pulls together - but this Savings Staff is a big thing, and it took a long time to build it up, and I--

H.M.JR: I think they are pretty good.

MR. EDWARDS: I would be very hesitant to take any attitude, myself, that was going to in any way upset that.

H.M.JR: You and I feel, to be frank, somewhat the same way, and I don't--

MR. EDWARDS: Somehow or other we have not been very successful in mixing water and gasoline with this thing.

H.M.JR: No.

MR. HARRISON: I wouldn't think - at least it wasn't meant in suggesting such a person to come

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down here, that he would have to change the chemical composition of either one of these committees at all, but rather it is a question of trying to coordinate and lead both groups in a coordinated direction in selling everything you have got on your shelf.

Now, it is a little bit better to be able to do that if you can. In my insurance business I can't send an agent out to sell ordinary life insurance and tell him he can't sell term insurance. If he has to turn around and say, "I am sorry, I can't sell you that; you have got to go to my friend Bill Jones," - there has got to be some place there where, if a salesman goes out and you are trying to cover every kind of thing you have got on your shelf - where a salesman goes out, he won't have to say no to somebody. That is what I am afraid of with the present setup.

If a man says, "No, I don't want G bonds, but I do want two and a half percent long-term," an agent would have to say, "Sorry, I belong to the War Savings Committee; you have to go to the Victory Fund Committee," or vice versa.

Now, the thought that we had - at least, that I had, and the suggestion about some man to coordinate it, was to see how best to overcome that kind of difficulty.

H.M.JR: Well, anyway, give it serious consideration.

MR. BURGESS: You don't - on your savings bonds you don't go on a dead level. One month you have Madden's campaign in New York, another month you have the motion picture fellows to high-light it. You have got to fill the imagination of the people.

Now, what we are suggesting is that in December, when people are buying Christmas gifts for each other, that you get the whole thing together and make a fresh drive with a new point of view on it at that time.

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H.M.JR: I have already had the war bond people in this afternoon and passed this idea on and asked them to think about it; so I have already passed this thought along to them.

MR. BURGESS: We discussed it a little at the Board and they liked it.

H.M.JR: There is this conflict--

MR. BURGESS: I may say that these bankers met, and this sort of thing came up, and there are a great many people who feel very strongly that there are a lot of people that are not buying bonds now, who could be reached by such a campaign - who just aren't being reached.

H.M.JR: Well--

MR. HARRISON: Just wait until the War Savings Staff takes my insurance agents and puts them to work. They are all ready for you as soon as you want them.

H.M.JR: Haven't we taken them?

MR. HARRISON: They haven't begun yet. I talked to Gamble this afternoon. They had a plan in mind and hoped to talk with me next week.

MR. BURGESS: This would be a plan by which those one hundred and fifty thousand people could join in a big effort.

H.M.JR: As I say, I did pass it on to four of them that were in this afternoon, and asked them to begin studying it. And then Bell and the Victory Fund people get together on it. Will I be able to have that in the morning?

MR. BELL: Yes, tonight.

H.M.JR: Anyway, for your time and effort, my thanks.

Agenda for Secretary's Advisory Group

October 1, 1942

OCTOBER FINANCING

Total amount of offering four billion dollars.

- I. What type or types of securities should the Secretary offer.
- II. If more than one issue, should he offer, say, two issues combined for an aggregate of four billion dollars and allot each issue on a basis of subscriptions received. If we had adopted this procedure in September we would have allotted approximately one billion dollars on the certificates and approximately two billion on the notes instead of approximately 1-1/2 billion each.
- III. Should the Secretary make it an open-end issue by making allotments as the subscriptions are received, interest to start to run the day following the date of announcement, permitting the Secretary to close the books at any time after the total subscriptions reach four billion dollars, or should he take all over-subscriptions.
- IV. Should we reopen the 2-1/2 percent tap issue or have another issue of that character for others than banks.

NOVEMBER AND FUTURE FINANCING

- I. Should we increase the weekly bill offering, say on October 21st, from \$400 million to \$450 or \$500 million?
- II. In rolling over the certificates maturing November 1st in the amount of \$1,500 million, should an attempt be made to raise some additional cash by offering, say \$2 billion and possibly \$3 billion of certificates maturing one year hence.
- III. Should there be a large issue for \$5 or \$6 billion, with a nation-wide drive beginning say, around December 1st.
- IV. Should the 2-1/2 percent "G" Savings bonds be sold to banks for savings deposits investments.
- V. Should the 2-1/2 percent tap, when reopened, be sold to banks up to a certain percentage of savings deposits.



THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

October 1, 1942.

RECOMMENDATIONS OF THE BANKERS' GROUP

- I. To raise the 4 billion dollars, offer 2 billion dollars of 2% bonds with a definite maturity on March 15, 1950, or 2 billion dollars of 2-1/4% bonds of 1953-56 and 2 billion dollars of 1-1/2% notes of September 15, 1946.

Allot subscriptions of the bonds other than to banks in full; subscriptions by banks pro-rated for any balance not taken by others.

- II. 2-1/2% tap issue not to be reopened at this time, but if it is decided to have the sales campaign in December we recommend this issue be reopened not later than November 1st, and possibly as early as October 20. This is in order to get it out of the way before the December drive.
- III. Increase weekly bill offerings to \$450 million beginning October 21st.
- IV. O.K. to sell an additional \$500 million on the certificate of indebtedness for November 1, making a total issue at that time of \$2 billion.
- V. No objection to selling Series F bonds to commercial banks receiving savings deposits, provided of course that the maximum holdings of such bonds is confined to \$100,000 per year and not to exceed 25% of savings deposits of subscribing institution. This recommendation is in order to satisfy the country banks which appear to be dissatisfied with the present arrangements whereby their competitors, mutual savings banks and building and loan associations, can buy all savings bonds.
- VI. Opposed at the present time to the sale of long-term 2-1/2% bonds to banks.



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- VII. Recommend that plans be started now for an intensive sales campaign beginning December 1st to reach the current income of individuals. For this purpose there should be used the united efforts of the War Savings Staff organization, the Victory Fund Committees and others, and the individuals should be offered a chance to acquire E, F and G bonds and one or more marketable issues. One of these issues should bear a 2-1/2% coupon and should be a fully negotiable bond with restrictions as to bank ownership. This campaign program will require extensive organization leadership and some expenditure of funds. We think it advisable to secure the services of some outstanding organizer for the period of a month or six weeks before and during the campaign to coordinate and direct the effort.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE Oct. 1, 1942

TO THE SECRETARY
FROM PETER H. ODEGARD

Mr. Cairns is to get in touch with Mr. Pettrillo today, if possible, concerning the recording of the song EVERYBODY EVERY PAYDAY.

Your suggestion that the other side of the record carry the infantry song heard over the Lucky Strike Star Parade last week creates a complication. This infantry song has been rejected by the War Department and is, therefore, in no sense official.

Moreover, there may be some criticism of the Treasury plugging a song having no immediate relation to War Bonds or taxes.

At a meeting in Mr. Cairns' office this morning it was agreed that we would be in a stronger position if, instead of the infantry song, we could re-issue ANY BONDS TODAY on the reverse side of a record carrying EVERYBODY EVERY PAYDAY.

We should like to carry on our negotiations in these terms if agreeable to you.

Identical letters mailed to: (all California)

Miss Frances Dee, Route #1, Camarillo,
Miss Joan Leslie, 222 North Rose, Burbank
Miss Lynn Bari, 9245 Doheny Road, Los Angeles
Mr. Walter Pidgeon, 710 North Walden Drive,
Beverly Hills
Mr. Adolph Menjou, 722 North Bedford Drive,
Beverly Hills
Miss Hedy Lamarr, 723 North Rexford Drive,
Beverly Hills
Mr. Basil Rathbone, 10728 Bellagio Road, Bel Air
Mr. Robert Stack, 411 South Ardmore Avenue,
Los Angeles
Miss Janet Gaynor, 10424 Valley Spring Lane,
North Hollywood
Miss Bette Davis, 1705 Rancho Avenue, Glendale
Mr. Chester Morris, 906 No. Beverly Drive,
Beverly Hills
Mr. Hugh Herbert, 12321 Moorpark Street,
Studio City,
Miss Llona Massey, 120 Medio Drive, Los Angeles
Mr. Fred Astaire, 1121 Summit Drive, Beverly
Hills
Mr. John Payne, 8800 Evansview Drive, Hollywood
Miss Jane Wyman, 4326 Londonerry View, Hollywood
Mr. Lynne Overman, 909 Tiverton, Brentwood,
West Los Angeles
Miss Claire Trevor, 8426 De Longpre, Hollywood
Miss Ginger Rogers, 1605 Gilcrest Drive,
Beverly Hills
Mr. Andy Devine, 6947 Kester Avenue, Van Nuys
Miss Lorraine Day, 250 Cliffwood Drive,
Brentwood Heights
Miss Vera Zorina, 9614 Wilshire Boulevard,
Beverly Hills
Miss Dinah Shore, 1402 Havenhurst Drive,
Hollywood
Mr. Bing Crosby, 10500 Camarillo Drive,
North Hollywood
Miss Ginny Simms, 3875 Alomar Drive, Van Nuys
Miss Gene Tierney, 2200 Bowmont Drive,
Beverly Hills
Miss Martha Scott, c/o Walter O. Heinze, 8511
Sunset Blvd., Los Angeles

(cont.)

Mr. Nigel Bruce, 701 North Alpine Drive,
Beverly Hills
Mr. Ralph Bellamy, 609 North Canon Drive,
Beverly Hills
Miss Virginia Gilmore, 520 Kelton Drive,
Westwood
Mr. Dick Arlen, 9514 Wilshire Boulevard,
Beverly Hills
Mr. Walter Abel, 267 Conway, West Los Angeles
Miss Irene Dunne, 461 North Faring Road, Holmby
Hills, Los Angeles
Mr. Charles Laughton, 14954 Carona Del Mar,
Santa Monica
Miss Peggy Diggins, 520 Gilcrest Drive,
Beverly Hills

OCT 1 - 1942

Dear Mr. Cagney:

Now that your September tour for the Treasury is ending, I should like you to know how much I appreciate all the devoted effort which you have given to the War Savings campaign in the past month.

It was a strenuous assignment, and I know that it must have been tiring for you at times. Yet you showed untiring zeal and unflagging good humor throughout the tour, and your spirit was an example to the people who saw and heard you.

I should like you to know that your work for us in September has been a real contribution toward the winning of the war and that all of us at the Treasury are deeply grateful.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. James Cagney,
2043 Coldwater Canyon,
Beverly Hills, California.

Del. to Ben Franklin 3:00
10/1/42 - Sent "Air Mail"
Copy and list - Diary
Copies to Thompson

TRG:eh

UNITED STATES SAVINGS BONDS - SERIES B

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

(At issue price in thousands of dollars)

Date	September :	Cumulative sales by business days			
	daily : sales :	September :	August :	July :	September as percent of August
September 1942					
1	\$ 11,634	\$ 11,634	\$ 14,044	\$ 15,821	82.86
2	14,748	26,382	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	160,782	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
28	41,530	476,250	398,234	455,706	119.6
29	17,874	494,124	415,563	473,962	118.9
30	15,731	509,855	427,740	488,173	119.2
Month	-	509,855	453,967	508,118	112.3

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

October 1, 1942.

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

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

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UNITED STATES SAVINGS BONDS - SERIES F AND G COMBINED

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

(At issue price in thousands of dollars)

Date	September	Cumulative sales by business days			
	daily sales	September	August	July	September as per cent of August
September 1942					
1	\$ 7,528	\$ 7,528	\$ 12,222	\$ 12,597	61.66
2	9,811	17,339	28,810	21,986	60.2
3	9,397	26,735	41,238	32,441	64.8
4	10,678	37,414	54,105	49,175	69.2
5	10,713	48,127	71,952	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
28	18,735	223,773	220,311	350,522	101.6
29	9,603	233,376	226,844	365,305	102.9
30	11,453	244,829	232,698	381,036	105.2
Month	-	244,829	243,878	392,744	100.4

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

October 1, 1942.

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

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

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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			
	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	92,095	79,964	77.6
4	28,482	99,904	117,890	126,495	84.7
5	29,880	129,784	154,341	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	107.6
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
28	60,265	700,023	618,546	806,228	113.2
29	27,477	727,500	642,406	839,266	113.2
30	27,184	754,684	660,438	869,209	114.3
Month	-	754,684	697,255	900,861	108.2

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

October 1, 1942.

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

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

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Sales of United States savings bonds
September 1 through September 30, 1942
Compared with sales quota for same period
(At issue price in millions of dollars)

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Date	Series B				Series F and G				Total			
	Actual sales		Quota	Sales	Actual sales		Quota	Sales	Actual sales		Quota	Sales
	Sept. 1	Sept. 1	Sept. 1	to date	Sept. 1	Sept. 1	Sept. 1	to date	Sept. 1	Sept. 1	Sept. 1	to date
	Daily	to	to	as % of	Daily	to	to	as % of	Daily	to	to	as % of
	date	date	date	quota	date	date	date	quota	date	date	date	quota
1	\$ 11.6	\$ 11.6	\$ 14.9	77.9%	\$ 7.5	\$ 7.5	\$ 6.9	108.7%	\$ 19.2	\$ 19.2	\$ 21.8	88.1%
2	14.7	26.4	34.5	76.5	9.8	17.3	16.6	104.2	24.6	43.7	51.1	85.5
3	18.3	44.7	55.5	80.5	9.4	26.7	26.4	101.1	27.7	71.4	81.9	87.2
4	17.8	62.5	81.0	77.2	10.7	37.4	35.6	105.1	28.5	99.9	116.6	85.7
5	19.2	81.7	98.3	83.1	10.7	48.1	42.2	114.0	29.9	129.8	140.5	92.4
6	49.4	131.1	143.3	91.5	18.6	66.7	58.1	114.8	67.9	197.7	201.4	98.2
7	13.3	144.4	168.8	85.5	6.1	72.7	67.8	107.2	19.4	217.1	236.6	91.8
8	16.4	160.8	193.4	83.1	6.3	79.0	76.7	103.0	22.7	239.8	270.1	88.8
9	19.6	180.4	220.6	81.8	7.2	86.3	84.4	102.3	26.8	266.6	305.0	87.4
10	9.6	189.9	239.2	79.4	4.3	90.6	90.1	100.6	13.9	280.5	329.3	85.2
11	35.5	225.5	272.7	82.7	13.3	104.0	99.7	104.3	48.9	329.4	372.4	88.5
12	10.7	236.2	288.2	82.0	4.9	108.9	105.0	103.7	15.6	345.1	393.2	87.8
13	21.9	258.1	307.6	83.9	12.8	121.6	112.1	108.5	34.6	379.7	419.7	90.5
14	17.6	275.7	327.2	84.3	9.9	131.6	119.2	110.4	27.5	407.2	446.4	91.2
15	16.5	292.2	350.1	83.5	6.3	137.9	125.7	109.7	22.8	430.0	475.8	90.4
16	10.4	302.5	365.4	82.8	3.4	141.3	130.5	108.3	13.7	443.8	495.9	89.5
17	40.4	343.0	399.6	85.8	15.8	157.1	141.0	111.4	56.3	500.1	540.6	92.5
18	9.7	352.7	415.7	84.8	5.7	162.7	147.0	110.7	15.4	515.4	562.7	91.6
19	20.4	373.0	436.2	85.5	13.0	175.7	155.2	113.2	33.3	548.7	591.4	92.8
20	27.1	400.1	457.1	87.5	14.4	190.1	163.4	116.3	41.5	590.3	620.5	95.1
21	12.4	412.5	481.4	85.7	5.8	195.9	171.0	114.6	18.2	608.4	652.4	93.3
22	22.2	434.7	497.4	87.4	9.1	205.0	176.6	116.1	31.3	639.8	674.0	94.9
23	41.5	476.3	532.7	89.4	18.7	223.8	188.7	118.6	60.3	700.0	721.4	97.0
24	17.9	494.1	549.2	90.0	9.6	233.4	195.5	119.4	27.5	727.5	744.7	97.7
25	15.7	509.9	570.0	89.5	11.5	244.8	205.0	119.4	27.2	754.7	775.0	97.4

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

October 1, 1942.

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

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

Note:

The Secretary sent this letter and document to the President the evening of October 1. The next morning, after thinking the matter over, he asked Mrs. Brady, in the absence of Miss Tully, to let him have the material back, as he had decided to withdraw it.

With drew

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THE SECRETARY OF THE TREASURY
WASHINGTON

October 1, 1942

My dear Mr. President:

I thought you might be interested in reading the enclosed document which shows those instances in which you have communicated directly with the Congress or its committees during the consideration of tax bills.

Yours sincerely,

W. M. G. Smith

The President,
The White House.

PRESIDENTIAL COMMUNICATIONS

ON

TAX BILLS

REVENUE ACT OF 1938

REVENUE ACT OF 1938
(H.R. 9682, 75th Cong., 3rd Sess.)

January 14-25, 1938	Ways and Means hearings.
March 17-22, 1938	Finance Committee hearings.
April 13, 1938	President's letter to Senator Harrison and Representative Doughton on pending revenue bill recommends against repeal of undistributed profits tax and reduction of capital gains tax.
April 14, 1938	Message to Congress on relief and unemployment. Refers to President's prior recommendation for legislation to remove inequities in undistributed profits tax then pending in Congress.
April 25, 1938	Message to Congress recommending legislation to terminate reciprocal tax exemptions as to public securities and official salaries.
April 29, 1938	Message to Congress on monopolies recommends attention to increasing intercorporate dividend tax, to further graduating corporate income tax according to size, and to retention of modified undistributed profits tax.
May 28, 1938	Bill became law without the approval of the President.

THE PRESIDENT DISCUSSES
THE PENDING TAX BILL.

April 13, 1938

"Dear Mr. Chairman:

The Revenue Bill as it passed the House and the Revenue Bill just adopted by the Senate differ in many particulars. While differences in detail can, I am confident, be ironed out in conference committee without sacrifice of fundamental principles, in two major respects important principles of fairness in taxation are in issue. I wish to bring these two matters briefly to your attention at this time.

"1. Capital Gains.--For many years the country has accepted without question the principle of taxation in accordance with ability to pay. This principle applies to all forms of additional wealth accruing to individuals. There is no fairness in taxing the salaried man and the merchant upon their incomes and taxing at far lower rates the profits on the capital of the speculator. Nor is it fair to subject the salaried man and the merchant to progressive surtaxes upon their earnings and at the same time to tax capital gains, large or small, at the same flat rate, to the particular advantage of the taxpayer who otherwise would pay much higher surtax rates. In other words, as a matter of principle, if additional wealth in the form of earnings from business, such as dividends, interest, or wages, is taxed at progressive rates then capital gains should also be taxed at progressive rates.

"The present law treats capital gains very favorably--more favorably than dividends, interest, or salaries earned over similar periods of time. The advantage given to capital gains under the present law, as compared to ordinary income, in many cases runs as high as 50 per cent. Under the Senate Bill this preferential advantage is further increased by reducing the tax to a flat rate, no matter how large are the taxpayer's capital gains or how large his other income. For example, a man who makes a capital gain in a given year amounting to \$5000 would have to pay a tax

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of not more than 15 per cent; while at the same time the man who makes capital gains of \$500,000 in a given year will also pay a tax of not more than 15 per cent. Desirable as it is to foster business recovery, we should not do so by creating injustices in the tax system, particularly injustices at the expense of the man who earns his income--injustices to the advantage of the man who does not.

"2. Corporation Taxes.--For many years the Congress has sought to devise a fair system for taxing incomes from business, whether received by individual proprietors, by partnerships, or by corporations. Legally the corporation is a separate entity from the individuals who own it. Hence, while individual proprietors and partners are taxable at the usual normal tax and surtax rates upon the entire incomes of their businesses, whether taken out of the business or left in it, the corporate charter sets up a Chinese wall which prevents the earnings from being taxed to the shareholders who really own them, unless those earnings are actually distributed to the shareholders in the form of dividends. Thus a wide and basically unfair disparity between the taxation of individual proprietors and partnerships on the one hand, and of corporations on the other is created, unless some provision for taxing undistributed corporation earnings appears in the law.

"At present, corporations are taxable on their earnings at a normal rate of from 8 to 15 per cent, whether the earnings are paid out in dividends or not. If dividends are declared, the individual stockholders who get the earnings pay an additional normal personal income tax. If their incomes are large enough, they pay progressive surtaxes also. Consequently, the Treasury stands to lose where the corporation does not distribute earnings, whereas if earnings were distributed, the Treasury would collect additional taxes on the personal income tax returns of the stockholders. Moreover, with no undistributed profits tax, the partnership or individual proprietor is discriminated against as compared to the corporation. Finally, with no undistributed profits tax, the avoidance of surtaxes through the use of the corporation becomes a readily available device, for those persons in the higher surtax brackets, who seek legally to keep their net personal incomes down for taxpaying purposes, and to hide their actual profits by leaving them in the corporations they own.

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"For these reasons and others, I recommended the undistributed profits tax in 1936, and the Congress adopted it. Modifications shown by experience to be desirable, in particular the exemption of small corporations, should be made, but the principle of the tax is sound, and it should be retained in our tax system. Otherwise we grant a definite incentive to the avoidance of personal income tax payments through methods which are legal, but which are contrary to the spirit of the principle that every citizen should pay taxes in accordance with his means. It would be particularly undesirable to eliminate the undistributed profits tax at this time, in favor of a flat rate of tax, representing an increase in the tax burden on many small corporations, and on all corporations which follow established American practices of dividend distribution; and a decrease in the tax burden of many large corporations, which have hoarded their earnings in the past, and would be encouraged to resume the practice in the future.

"The Bill as passed by the House gives a flat exemption from the undistributed profits tax to those smaller corporations which make net earnings up to \$25,000 per year. Out of the total of 200,000 taxpaying corporations, approximately 176,000 are exempted from the undistributed profits tax under this provision. This means that any young and growing corporation earning up to \$25,000 per year can in the discretion of its directors set aside all its earnings for growth and expansion. Moreover, under the House Bill, corporations with incomes in excess of \$25,000 can also accumulate reserves for legitimate purposes by paying an additional tax of only from 1 to 4 per cent on undistributed earnings.

"There are many other provisions in the two bills which will improve the equity of the tax system, and the efficiency of its administration. Some pending amendments grant unjustifiable exemptions from a fair general rule, complicate the law, and should be eliminated. It is most important, however, to hold fast to that which is good in the tax system. Equal taxation of incomes of similar size

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and equal taxation of corporations and individual taxpayers are axiomatic. The repeal of the undistributed profits tax and the reduction of the tax on capital gains to a fraction of the tax on other forms of income strike at the root of fundamental principles of taxation.

"Business will be helped, not hurt, by these suggestions.

"Faithfully,

"Honorable Robert L. Doughton,
Chairman, Ways and Means Committee,
House of Representatives,
Washington, D. C.

"(An identical letter was sent to Honorable Pat Harrison,
Chairman, Finance Committee, United States Senate,
Washington, D. C.)"

(The Public Papers and Addresses of Franklin D. Roosevelt,
1938 Vol., p. 214-217.)

RECOMMENDATIONS TO THE CONGRESS
DESIGNED TO STIMULATE FURTHER RECOVERY.

April 14, 1938

"It should be noted in fairness that since January 1, 1937, the President has recommended to the Congress only four measures of major importance to the business of the country.

"1. Legislation to stabilize agriculture. A comprehensive law was approved by me two months ago.

"2. Legislation to end serious loopholes in our personal income tax laws. This was enacted last summer.

"3. Legislation to put a floor under wages and a ceiling over hours of labor in industry, and

"4. Tax legislation to remove inequities from the undistributed profits tax, especially as they affect the smaller type of business. Both this measure and the third are still under consideration by the Congress:

"The record speaks for itself. No other measures affecting business have been proposed.

"All the energies of Government and business must be directed to increasing the national income; to putting more people into private jobs; to giving security and the feeling of security to all people in all walks of life.

"I believe that improvement in Government and business practices must go hand in hand with recovery - that they should be, and will be, a definite aid to recovery. While I do not wish in this message to over-emphasize some of the needs, I do want to say that I believe that we must be definitely aware of certain of them - the elimination of future tax-exempt bonds of all

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kinds of Government agencies; the subjecting of Government salaries and wages of all kinds to Federal and State income taxes; a serious undertaking to solve the railroad problem and the problems of monopolistic practices and price fixing. These are no new subjects; nor have I anything to add to them except the statement that their solution will help and not hurt business."

* * * * *

(The Public Papers and Addresses of Franklin D. Roosevelt, 1938 Vol., p.221 at pp. 224,225.)

A RECOMMENDATION TO THE CONGRESS
TO TERMINATE TAX EXEMPTIONS FOR THE FUTURE.

April 25, 1938

"The Sixteenth Amendment to the Constitution of the United States, approved in 1913, expressly authorized the Congress 'to lay and collect taxes on incomes, from whatever source derived.' That is plain language. Fairly construed, this language would seem to authorize taxation of income derived from state and municipal, as well as federal bonds, and also income derived from state and municipal as well as federal offices.

"This seemingly obvious construction of the Sixteenth Amendment, however, was not followed in judicial decisions by the courts. Instead, a policy of reciprocal tax immunity was read into the Sixteenth Amendment. This resulted in exempting the income from federal bonds from state taxation and exempting the income from State bonds from federal taxation.

"Whatever advantages this reciprocal immunity may have had in the early days of this nation have long ago disappeared. Today it has created a vast reservoir of tax exempt securities in the hands of the very persons who equitably should not be relieved of taxes on their income. This reservoir now constitutes a serious menace to the fiscal systems of both the states and the nation because for years both the federal government and the states have come to rely increasingly upon graduated income taxes for their revenues.

"Both the states and the nation are deprived of revenues which could be raised from those best able to supply them. Neither the federal government nor the states receive any adequate, compensating advantage for the reciprocal tax-immunity accorded to income derived from their respective obligations and offices.

"A similar problem is created by the exemption from state or federal taxation of a great army of state and federal officers and employees. The number of persons on the pay rolls of both state and federal government has

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increased in recent years. Tax exemptions claimed by such officers and employees - once an inequity of relatively slight importance - has become a most serious defect in the fiscal systems of the States and the nation, for they rely increasingly upon graduated income taxes for their revenues.

"It is difficult to defend today the continuation of either of these rapidly expanding areas of tax exemption. Fundamentally our tax laws are intended to apply to all citizens equally. That does not mean that the same rate of income tax should apply to the very rich man and to the very poor man. Long ago the United States, through the Congress, accepted the principle that citizens should pay in accordance with their ability to pay, and that identical tax rates on the rich and on the poor actually worked on injustice to the poor. Hence the origin of progressive surtaxes on personal income as the individual personal income increases.

"Tax exemptions through the ownership of government securities of many kinds - federal, state and local - have operated against the fair or effective collection of progressive surtaxes. Indeed, I think it is fair to say that these exemptions have violated the spirit of the tax law itself by actually giving a greater advantage to those with large incomes than to those with small incomes.

"Men with great means best able to assume business risks have been encouraged to lock up substantial portions of their funds in tax-exempt securities. Men with little means who should be encouraged to hold the secure obligations of the federal and state governments have been obliged to pay a relatively higher price for those securities than the very rich because the tax-immunity is of much less value to them than to those whose incomes fall in the higher brackets.

"For more than twenty years Secretaries of the Treasury have reported to the Congress the growing evils

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of these tax exemptions. Economists generally have regarded them as wholly inconsistent with any rational system of progressive taxation.

"Therefore, I lay before the Congress the statement that a fair and effective progressive income tax and a huge perpetual reserve of tax-exempt bonds cannot exist side by side.

"The desirability of this recommendation has been apparent for some time but heretofore it has been assumed that the Congress was obliged to wait upon that cumbersome and uncertain remedy - a constitutional amendment - before taking action. Today, however, expressions in recent judicial opinions lead us to hope that the assumptions underlying these doctrines are being questioned by the court itself and that these tax immunities are not inexorable requirements under the Constitution itself but are the result of judicial decision. Therefore, it is not unreasonable to hope that judicial decision may find it possible to correct it. The doctrine was originally evolved out of a totally different set of economic circumstances from those which now exist. It is a familiar principle of law that decisions lose their binding force when the reasons supporting them no longer are pertinent.

"I, therefore, recommend to the Congress that effective action be promptly taken to terminate these tax-exemptions for the future. The legislation should confer the same powers on the states with respect to the taxation of federal bonds hereafter issued as is granted to the federal government with respect to state and municipal bonds hereafter issued.

"The same principles of just taxation apply to tax exemptions of official salaries. The federal government does not now levy income taxes on the hundreds of thousands of state, county and municipal employees. Nor do the states, under existing decisions, levy income taxes on the salaries of the hundreds of thousands of federal

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employees. Justice in a great democracy should treat those who earn their livelihood from government in the same way as it treats those who earn their livelihood in private employ.

"I recommend, therefore, that the Congress enact legislation ending tax exemption on government salaries of all kinds, conferring powers on the states with respect to federal salaries and powers to the federal government with respect to state and local government salaries.

"Such legislation can, I believe, be enacted by a short and simple statute. It would subject all future state and local bonds to existing federal taxes; and it would confer similar powers on states in relation to future federal issues.

"At the same time, such a statute would subject state and local employees to existing federal income taxes; and confer on the states the equivalent power to tax the salaries of federal employees.

"The ending of tax exemption, be it of government securities or of government salaries, is a matter, not of politics, but of principle."

(The Public Papers and Addresses of Franklin D. Roosevelt, 1938 Vol., pp. 295 - 299.)

RECOMMENDATIONS TO THE CONGRESS
TO CURB MONOPOLIES AND THE
CONCENTRATION OF ECONOMIC POWER.

April 29, 1938

* * * * *

"(6) TAX CORRECTIVES. Tax policies should be devised to give affirmative encouragement to competitive enterprise.

"Attention might be directed to increasing the inter-corporate dividend tax to discourage holding companies and to further graduating the corporation income tax according to size. The graduated tax need not be so high as to make bigness impracticable, but might be high enough to make bigness demonstrate its alleged superior efficiency.

"We have heard much about the undistributed profits tax. When it was enacted two years ago, its objective was known to be closely related to the problem of concentrated economic power and a free capital market.

"Its purpose was not only to prevent individuals whose incomes were taxable in the higher surtax brackets from escaping personal income taxes by letting their profits be accumulated as corporate surplus. Its purpose was also to encourage the distribution of corporate profits so that the individual recipients could freely determine where they would reinvest in a free capital market.

"It is true that the form of the 1936 tax worked a hardship on many of the smaller corporations. Many months ago I recommended that these inequities be removed.

"But in the process of the removal of inequities, we must not lose sight of original objectives. Obviously the nation must have some deterrent against special privileges enjoyed by an exceedingly small group of

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individuals under the form of the laws prior to 1936, whether such deterrent take the form of an undistributed profits tax or some other equally or more efficient method. And obviously an undistributed profits tax has a real value in working against a further concentration of economic power and in favor of a freer capital market."

* * * * *

(The Public Papers and Addresses of Franklin D. Roosevelt, 1938 Vol., p. 305 at pp. 318-319.)

REVENUE ACT OF 1941

REVENUE ACT OF 1941
(H.R. 5417, 77th Cong., 1st Sess.)

April 24-30,
May 1-9, 12-28,
1941

Ways and Means hearings.

May 1, 1941

Letter to Representative Doughton from the President recommending additional taxes of \$3,500,000,000 to be based upon ability to pay.

July 31, 1941

In a letter to Chairman Doughton the President stated that he favored the Treasury's suggestions, as explained in a memorandum from Secretary Morgenthau, that the pending revenue bill include a provision requiring the filing of mandatory joint returns and an equitable excess profits tax. The President also suggested lower income tax exemptions, and the making of simplified low-income returns through post offices.

August 8-23, 1941

Finance Committee hearings.

September 20, 1941
(12:00 p.m.)

Bill approved by the President.

"THE WHITE HOUSE,
Washington, May 1, 1941.

"Hon. R. L. Doughton,
Chairman, Ways and Means Committee,
House of Representatives,
Washington, D. C.

"My Dear Mr. Chairman:

"Secretary Morgenthau has recommended that three and one-half billion of additional taxes should be levied during the coming year to defray in part the extraordinary defense expenditures.

"This total represents the minimum of our revenue requirements. I hope that you and the other members of your committee will act favorably on his goal.

"You will recall that in my Budget message this year, I suggested a financial policy aimed at collecting progressive taxes out of a higher level of national income. I urged that additional tax measures should be based on the principle of ability to pay. This still is my view.

"I am confident that your committee will recommend legislation specifically aimed at making the Federal revenue system evasion-proof and so devised that every individual and every corporation will bear its fair share of the tax burden. The income tax cannot fix the tax liability of individuals and corporations with equity as long as the tax base is defined to exclude substantial and significant elements of income.

"I hope your committee, with the help of the Treasury, will formulate a tax bill which will convince the country that a national-defense program intended to protect our democracy is not going to make the rich richer and the poor poorer.

"I am sure that you and I are agreed that defense is a national task to which every American must contribute in accordance with his talents and treasure and that the people of the United States are gladly willing to make whatever sacrifices may be necessary to strengthen the common defense.

"Very sincerely yours,

FRANKLIN D. ROOSEVELT"

(Ways and Means Hearings on Revenue Revision of 1941, Vol.1, p.477)

"THE WHITE HOUSE,
Washington, July 31, 1941.

"My dear Bob:

"Because of some uncertainties which seem to have developed in regard to the position of the Treasury Department in regard to some provisions in the tax bill as reported out by the Ways and Means Committee, I asked the Treasury Department for a clarifying letter, and I think it is only fair to send this to you. I enclose a copy of Secretary Morgenthau's letter to me and also an appendix showing examples of corporations which would largely escape excess-profits taxes under the bill.

"I am sure that I make it clear that the Treasury Department does not approve of mandatory joint tax returns except on the condition of granting substantial relief to earned income of the husband and wife. In this I heartily concur. But the committee draft leaves out the proviso altogether.

"You and Jere Cooper have talked over the problem of the excess-profits tax in its relationship to the omission in the bill of application of this tax to certain types of corporations. These corporations may be making 20 or 30 or 50 per cent on their equity capital. It is my definite opinion that they ought to contribute to the cost of our great defense program far more heavily this year than last year or the year before. But just because they happened to have made equally large profits in recent years, they are called on to contribute no more to the national defense under the proposed bill than they did before. That seems to me clearly a discrimination in their favor.

"There is one other subject which I did not have a chance to talk with you about. It relates to lowering the exemptions in the lower brackets. I know that very few tax experts agree with me, but I still think that some way ought to be found by which the exemption of a single person should be reduced to \$750, with a provision for a straight simple payment of some small contribution to the national tax income through some simple agency and on some simple form.

"In the same way I think that the married exemption should be reduced to \$1,500, again with a simple method of paying the tax through a simple agency and on a simple form.

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"Further, I am convinced that the overwhelming majority of our citizens want to contribute something directly to our defense, and that most of them would rather do it with their eyes open than do it through a general sales tax or through a multiplication of what we have known as nuisance taxes. In other words, most Americans who are in the lowest income brackets are willing and proud to chip in directly, even if their individual contributions are very small in terms of dollars. After all, the majority of all Americans are in these lowest brackets.

"One other thought: Perhaps your committee will think it worth while to study the filing of low-income returns through the machinery of the post offices. This will undoubtedly save a good deal of the cost of collection under the present system. These simple returns could be sworn to before the local postmaster, who, of course, would have to be authorized to administer the necessary oath.

Very sincerely yours,

Franklin D. Roosevelt.

Hon. Robert L. Doughton,
Chairman, Ways and Means Committee,
House of Representatives,
Washington, D. C."

(Cong. Rec., August 4, 1941, p. A4004)

"THE SECRETARY OF THE TREASURY,
Washington, July 31, 1941.

"My dear Mr. President:

"You have asked me to indicate the position taken by the Treasury Department during the consideration of the present tax bill with regard to (1) the mandatory joint-tax-returns provision, and (2) the excess-profits-tax provision.

"1. Mandatory joint-tax returns: The Treasury indicated to the Ways and Means Committee its conditional approval of mandatory joint-tax returns, the condition being that substantial relief is simultaneously granted to earned income of both husband and wife. No substantial relief is afforded by the provisions of the pending bill from the resulting increased tax in those cases where husband and wife contribute through their labor to the family income. Therefore, in this important respect the pending bill is inconsistent with the Treasury's suggestion.

"2. Excess-profits tax: The Treasury has consistently adhered to the position that the excess-profits tax should apply to profits in excess of a reasonable return on invested capital. Many corporations between 1936 and 1939 (the base period) earned average profits far in excess of a reasonable normal return. Nevertheless, the pending bill exempts all such earnings from excess-profits taxation unless they are more than 95 percent of the average profits earned in the 1936 to 1939 period. Therefore, in another important respect the pending bill is inconsistent with the Treasury's clearly announced purpose.

"Some of the reasons for the Treasury's position are:

"(a) The highly prosperous, well-established corporation which has been making 30, 40, 50 percent or more on its invested capital has a greater ability to pay taxes than a corporation which has been earning only 3, 4, or 5 percent on its invested capital, even though the dollar incomes of the two companies are the same. Congress has established the principle of taxation in accordance with ability to pay so far as individual income, estate, and gift taxes are concerned. The Treasury advocates the application of this principle to corporations as well as to individuals. Taxation of corporations in accordance with ability to pay calls

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for higher taxes on the profits of those corporations which have the higher rates of return on invested capital.

"(b) The corporation which has been making a high rate of return in the period from 1936 to 1939 is given, by the existing law, a competitive advantage over newly organized concerns or those struggling to establish themselves. The older corporations which have been earning high profits are given a much greater rate of return free of excess-profits tax than are their newer competitors. The effect is to confirm monopolies and to protect well-established prosperous businesses against competition.

"(c) If we are to expect all classes of society, including laborers and farmers, to accept the sacrifices of the emergency period and not to press for every possible dollar of advantage, they must be convinced that burdens are being distributed according to ability to bear them and that no one is making unreasonably large profits. The imposition and enforcement of a true excess-profits tax will thus help to prevent inflation.

Faithfully yours,

Henry Morgenthau, Jr.,
Secretary of the Treasury.

The President,
The White House"

(Cong. Rec., August 4, 1941, pp. A4004-A4005)

"EXAMPLES OF CORPORATIONS ESCAPING EXCESS-PROFITS TAXES

"The way in which the present law and the committee's tentative plan leave exempt large amounts of excess profits is illustrated by the following actual examples:

"A. After paying all taxes an automobile company made during the base-period years of 1936 through 1939 approximately 25 percent. Practically all (95 percent) of this amount can be earned and yet be free from excess-profits

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tax under the present law and under the committee plan. In 1940 the earnings of this concern, after the payment of taxes, will be approximately 26 percent of its invested capital under the present law.

"B. The earnings of a manufacturer of tractors with nearly \$50,000,000 of invested capital averaged, after all taxes, approximately 18 percent of invested capital during 1936-39, which amount will be free of excess-profits tax under the present law and the committee's tentative plan.

"C. Similarly, a company which has practically a monopoly on one of the important defense materials had earnings, after taxes, during the base period years averaging approximately 19 percent of its 1940 invested capital, which it can continue to earn free of excess-profits tax.

"D. A large manufacturer of beverages can continue to earn free of excess-profits tax over 25 percent of its 1940 reported equity capital.

"Thus large amounts of the kind of profits which are commonly defined as excess profits and were taxed as such under the 1918 act are free from excess-profits tax under the present law and the committee plan. July 30, 1941."

(Cong. Rec., August 4, 1941, p. A4005)

REVENUE ACT OF 1942

REVENUE ACT OF 1942
(H.R. 7378, 77th Cong., 2nd Sess.)

March 3-31;
April 1-17, 1942

Ways and Means hearings.

April 27, 1942

Message to Congress urging heavy taxes and the limitation of incomes to \$25,000 net after taxes, in order to curb inflation.

July 23-31;
August 3-7,
10-14, 1942

Finance Committee hearings.

September 7, 1942

The President sent a message to Congress on the rise in the cost of living and referred to his seven point program. He stated that point 1, a fair tax program, still waits upon Congressional action. The President requested Congress to take action to stabilize the cost of living by the first of October. On the same date the President explained his message in a radio talk to the nation.

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MESSAGE TO CONGRESS ON THE
CONTROL OF THE COST OF LIVING.

April 27, 1942.

* * * * *

"Relying on past and present experience, and leaving out masses of details which relate more to questions of method than to the objective itself, I list for the Congress the following points, which, taken together, may well be called our present national economic policy:

"First. To keep the cost of living from spiraling upward, we must tax heavily, and in that process keep personal and corporate profits at a reasonable rate, the word 'reasonable' being defined at a low level.

* * * * *

"In the first item, legislation is necessary, and the subject is now under consideration in the House of Representatives. Its purpose is to keep excess profits down and, at the same time, raise further large sums for the financing of the war.

"On this subject, I believe that the objective can be attained through tax processes. We are now spending, solely for war purposes, the sum of about \$100,000,000 every day of the week. But before this year is over that rate of expenditure will be doubled. This means that a sum equal to more than half of the entire national income will be spent in the war effort. Almost the whole of these billions is being and will be spent within the United States itself.

"Profits must be taxed to the utmost limit consistent with continued production. This means all business profits--not only in making munitions but in making or selling anything else. Under the proposed new tax law we seek to take by taxation all undue or excess profits. It is incumbent upon the Congress to define undue or excess profits; and anything in excess of that specific figure should go to the Government.

"One of our difficulties is to write a law in which some clever people will not find loopholes, or in which some businesses will not be equitably included. I have

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suggested to the chairman of the Committee on Ways and Means in the House of Representatives that some blanket clause could well cover, by a special tax, all profits of any kind of business which exceed the expressed definition of the legal profit figure.

"At the same time, while the number of individual Americans affected is small, discrepancies between low personal incomes and very high personal incomes should be lessened; and I therefore believe that in time of this grave national danger, when all excess income should go to win the war, no American citizen ought to have a net income, after he has paid his taxes, of more than \$25,000 a year. It is indefensible that those who enjoy large incomes from State and local securities should be immune from taxation while we are at war. Interest on such securities should be subject at least to surtaxes.

"I earnestly hope that the Congress will pass a new tax bill at the earliest moment possible. Such action is imperative in the comprehensive all-out effort to keep the cost of living down--and time is of the essence."

(Cong. Rec., April 27, 1942, p.3806)

MESSAGE TO CONGRESS ON INFLATION CONTROL.

September 7, 1942.

"I reiterate the seven-point program which I presented April 27, 1942:

"1. To keep the cost of living from spiraling upward, we must tax heavily, and in that process keep personal and corporate profits at a reasonable rate, the word 'reasonable' being defined at a low level.

"In my message of 4 months ago, I pointed out that in order to succeed in our objective of stabilization it was necessary to move on all seven fronts at the same time; but that two of them called for legislation by the Congress before action could be taken. It was obvious then, and it is obvious now, that unless those two are realized, the whole objective must fail. These are points numbered one and four; namely, an adequate tax program, and a law permitting the fixing of price ceilings on farm products at parity prices.

"I regret to have to call to your attention the fact that neither of these two essential pieces of legislation has as yet been enacted into law. That delay has now reached the point of danger to our whole economy.

"However, we are carrying out, by executive action, the other parts of the seven-point program which did not require congressional action.

"A recent study by the Bureau of Labor Statistics has shown very strikingly how much the incomes of the average of families have gone up during the first quarter of 1942. If we assume that the income for the first quarter of 1942 is a fair basis for estimating what the family income will

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be for the entire year, the results of the study show that whereas less than one-fourth of all families in the United States received as much as \$2,500 in 1941, more than one-third will have \$2,500 or more in 1942. This shows how much the purchasing power of the average American family has gone up as a result of war production and how essential it is to control that purchasing power by taxation and by investment in War bonds.

* * * * *

"The cost of all food used by wage earners--controlled and uncontrolled--has been going up at the rate of 1 1/4 percent per month since the price ceilings were set in May 1942. If this rise should be permitted to continue, the increased cost of food to wage earners next May would be more than 15 percent over the level which existed when the ceilings were set.

"This would be equal to imposing a 15-percent sales tax on all food purchased by wage earners. Obviously no one would consider imposing such a tax.

* * * * *

"But with respect to point one--a fair tax program--that still waits upon the Congress to act.

"One of the most powerful weapons in our fight to stabilize living costs is taxation. It is a powerful weapon because it reduces the competition for consumers' goods--especially scarce foods.

"The cooperation and self-restraint of the whole Nation will be required to stabilize the cost of living. The stabilization of the cost of living cannot be maintained without heavy taxes on everyone except persons with very low incomes. With such increases in the tax load, unfair tax distribution becomes less and less tolerable. We can rightfully expect the fullest cooperation and self-restraint only if the tax burden is being fairly levied in accordance with ability to pay.

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"This means that we must eliminate the tax exemption of interest on State and local securities, and other special privileges or loopholes in our tax law.

"It means that in the higher income brackets the tax rate should be such as to give the practical equivalent of a top limit on an individual's net income after taxes, approximating \$25,000. It means that we must recapture through taxation all wartime profits that are not necessary to maintain efficient all-out war production. Such provisions will give assurance that the sacrifices required by war are being equitably shared."

(Cong. Rec., Sept. 7, 1942, pp. 7283, 7284, 7285.)

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE October 1, 1942

TO Secretary Morgenthau
FROM Mr. Paul

You will be interested to know that yesterday the Dow-Jones ticker carried a report that at a luncheon of the National Retail Dry Goods Association Senator George predicted that the Ruml Plan will have the full and sympathetic consideration of Congress next January.

The Senator is also reported to have stated that an effective compulsory savings plan will necessitate the incorporation of some adaptation of the pay-as-you-go plan.

hsp

TREASURY DEPARTMENT

108

INTER OFFICE COMMUNICATION**DATE**

October 1, 1942

TO Secretary Morgenthau
FROM Randolph Paul

You may be interested to know that Senators Lee and O'Mahoney and Congressman Gore called today and requested material on the spendings tax. They exhibited great interest in the Treasury proposal and stated that they would like to study up on it.

Senator O'Mahoney was out of Washington at the time our statment was presented to the Senate Finance Committee. Senator Lee, however, is an advocate of compulsory savings and wants to convince himself that our spendings tax would gain that end.

REP

MEMORANDUM

TO: Secretary Morgenthau
FROM: Randolph Paul

October 1, 1942.

I conferred this morning with Chairman Davis of the War Labor Board with respect to the extent to which the Treasury Department should participate in the enforcement of orders under the Price Stabilization Act respecting wage increases. It was assumed by Chairman Davis that the President would direct that wage or salary payments in violation of the orders under that Act should not be allowed by the Treasury Department as deductible expenses for income tax purposes.

Chairman Davis was interested in the manner in which the Treasury Department would administer such a direction by the President. We discussed in general terms the problems that would confront the Bureau of Internal Revenue. These problems involve the question of inspection to ascertain if the wage increase orders were being violated, consideration of the extent to which the Bureau of Internal Revenue would be involved in the interpretation of such orders, etc.

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It was indicated by Chairman Davis that the War Labor Board would confine its attention to wages and would not attempt to deal with salaries, the latter being defined as payments in excess of a certain figure, say \$3,500 or \$5,000. Thus, in the case of wages an agency would exist to make the various policy decisions necessarily present in the administration of a wage stabilization program. The Treasury Department would be carrying out the policies of such agency through the sanction of disallowing as deductions payments in violation of such policies. In the case of salaries, however, the additional problem is presented of determining which agency should perform the policy functions similar to those to be undertaken in the case of wages by the War Labor Board. Unless some agency undertakes to perform such policy functions, the Treasury Department might find itself faced in the salary field with the job of determining these difficult questions, and not merely with the job of carrying out stabilization policies already determined by another agency.

- 3 -

Chairman Davis thought it desirable that the Treasury Department cooperate with the War Labor Board and the other interested agencies in drawing an Executive Order to be issued under the Price Stabilization Act. The problem is one of immediate concern in view of the necessity of issuing the Executive Order at least before November 1. I should like to discuss with you the problems involved in this matter insofar as they affect the Treasury Department and the Bureau of Internal Revenue.

REP

TREASURY DEPARTMENT

112

INTER OFFICE COMMUNICATION

DATE

October 1, 1942

TO Secretary Morgenthau
FROM Randolph Paul

In connection with a Procurement Division matter having to do with rubber tire manufacturing equipment being purchased for the Russians, Mr. O'Connell attended a conference with various Procurement people and some WPB engineers. Certain information came to Mr. O'Connell's attention which he has forwarded to me and which I think is so shocking that I feel that I must forward it to you.

The story in respect to the acquisition of tire making facilities for the Russians seems in many respects to parallel the recent oil refinery disclosures.

The President decided in July 1941 that certain tire making facilities should be provided for the Russians. In spite of the lapse of considerably more than a year, such preliminary questions as the precise scope of the project, the extent to which new equipment will be manufactured and the extent to which existing equipment will be utilized, and other major questions, have not yet been decided. It is needless to add that nothing has been done.

Apparently the program has been kicked around from pillar to post for the past year. It is not possible to say to whom the fault should be attributed. However, among the things that have happened are the following:

1. The War Production Board apparently decided at some point (we don't know just when) that the Russians were not entitled to have a plant capable of producing 1 million tires in a 16-hour day, which is what they asked for, and decided to redesign the program so as to give them one capable of producing 1 million tires in a 24-hour day. The Russians are still not completely reconciled to this change. The reason given us for this major change was to produce a saving in critical materials.

- 2 -

2. After the Procurement Division had let a contract to National Rubber Machinery Manufacturing Company for some items (the contract was let in March of this year and involved around \$1 million worth of equipment) the War Production Board put a stop order on production by the contractor. This was done although the War Production Board had, prior to our contract, cleared the lend-lease requisition for this equipment. The reason assigned for the stop order was that they did not realize until later that the requisition was for a part of a program (costing \$7 million or more) and they thought it necessary to re-examine the situation in the light of that fact. (Presumably the decision to cut down the size of the project must have been subsequent to this contract, since WPB did not know there was a program at the time it cleared this particular requisition.) Some of the items covered by this contract have not been released for production yet.

3. The War Production Board has apparently been working on the program with a view to utilizing existing equipment to the extent possible, and this is one of the reasons for holding up production. In that connection, we are informed that the War Production Board has not as yet contacted the owners of the used equipment it is contemplated be acquired, although the decision to acquire it was apparently made several months ago. We are informed that letters have been drafted addressed to the owners of such equipment but have not yet gone out. Apparently it took some time to decide whether to ask owners of the equipment "nicely" or whether to insert in the letter an indication that the Government possesses the power to requisition (the decision to use the "nice" approach may have been made prior to the recently indicated intention of the Chairman of the War Production Board to "get tough"). We do not know how long this matter has been held in WPB. We do know that the letter has not gone out yet, the last delay apparently having been caused by the appointment of Mr. Jeffers as rubber czar and the decision to have the letter clear his office before going out.

- 3 -

4. It will not be possible to assemble the needed facilities to send to Russia before July 1, 1943, even though a portion of the program may be made up of existing facilities. We are not informed how many of the items comprising the program are under contract, but production of many of them has not been permitted to proceed pending the determination of how much in the way of used facilities may be required. We are also informed that there will have to be a certain additional amount of redesigning and re-adjusting in the entire program after the total amount of used facilities to be acquired has been definitely determined.

It seems to me that the above story is another illustration of the shameful way in which lend-lease aid to the Russians has been undercut.

AEP

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ASSISTANT SECRETARY OF THE TREASURY

October 1, 1942.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

I went to a luncheon at the Army and Navy Club today and sat across the table from Bob Patterson. He asked me how we were coming on our communications project and I told him that we appeared before the Joint Communications Committee and got an apparent brush-off. He said he didn't think this was final, that the matter had been referred to the Joint Committee by Navy, but that his boss (Stimson) had talked directly to the Acting Secretary of the Navy and he believed also with Secretary Hull himself on the matter. He thought the thing would be gone into pretty carefully no matter what report the Joint Committee may make.

W.S.G.

OCT 1 - 1942

My dear Senator:

Reference is made to your letter of September 22, 1942, relating to a bill which you introduced in the Senate to authorize the use for war purposes of silver held or owned by the United States (S. 2768).

The Treasury Department is studying this bill and has not as yet submitted any report thereon. However, the following comments may be made with respect to your questions.

As indicated in your letter, the question as to whether or not appropriate arrangements could be made so that the silver which is being lend-leased for use in war plants could be used under the provisions of this bill as a reserve against silver certificates depends primarily upon the meaning of the words "possession or control" as used in the bill. Of course, any discussion of the meaning of these words in the committee reports on this bill, or in committee hearings, or in debates on the floor, would be relevant in construing the meaning of these words as used in any bill which was finally enacted. For your information in this connection, you are advised that the silver now being made available for war purposes is being lend-leased under provisions whereby title to the silver remains at all times in the United States and whereby the silver is required to be returned upon written notice by the Secretary to the effect that the redelivery of any part or all of such silver is necessary for reasons connected with the monetary requirements of the United States.

With respect to your second question, if arrangements could be made so that lend-leased silver could be used as a reserve for silver certificates, the amount of silver which could be made available for consumptive war purposes pursuant to the provisions of the bill, if now enacted, would be in excess of 1,000,000,000 ounces.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Honorable Theodore Francis Green,

United States Senate.

JED:BB/ma - 9/24/42

Del. by messenger, Sturgis 3:47

Photo file: NMC

Orig. file: direct to Dr. White

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 JAMES M. TUNNELL, DEL.

ROBERT YOUNG, CLARK

United States Senate

COMMITTEE ON FOREIGN RELATIONS

September 22, 1942

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

My dear Mr. Secretary:

About a week ago I introduced in the Senate a bill to authorize the use for war purposes, of silver held or owned by the United States. It is S. 2768, a copy of which is enclosed herewith.

The Manufacturing Jewelers and Silversmiths in whose interest the bill was introduced are fearful lest even if passed it may not accomplish the desired purposes. The President of the New England Manufacturing Jewelers' and Silversmiths' Association, Mr. Ballou, has written me a letter, dated yesterday, a copy of which I also enclose herewith.

There are two questions to which I would be glad to have your reply:

1. The Treasury is now lending from its stock of free silver, uncoined metal not backing up paper money, to war industries for nonconsumptive uses. Under the provisions of this bill if passed, could the Treasury substitute for this silver other silver now held solely to secure the silver certificates and thus release for consumptive war purposes the silver now lent?

It seems to come down to the question whether on page 2, line 9, the words "or control" apply to the silver so lent. In other words after passage of the bill could silver now used solely as security for silver certificates be used for the double purposes of this security and nonconsumptive war purposes, so that the silver now used for the latter nonconsumptive purposes, under the conditions stated in the bill, could be used for consumptive purposes?

The Secretary of the Treasury

-2- September 22, 1942

2. Assuming this bill were already passed, how much silver would now be available under the conditions stated in the bill for consumptive war purposes?

As appears from Mr. Ballou's letter the silver-smiths are anxious for an early reply to these questions and I hope that you can give them to me without inconvenience.

Yours very truly,



Theodore Francis Green

TFG:mo
Enc. (2)

77TH CONGRESS
2d Session

S. 2768

IN THE SENATE OF THE UNITED STATES

SEPTEMBER 14, 1942

Mr. GREEN introduced the following bill; which was read twice and referred to the Committee on Banking and Currency

A BILL

To authorize the use for war purposes of silver held or owned by the United States.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled.*
3 That notwithstanding any other provision of law, the Presi-
4 dent is authorized, through the Secretary of the Treasury,
5 to sell, lease, or otherwise dispose of, upon such terms as
6 the Secretary of the Treasury shall deem expedient, to any
7 person, partnership, association, or corporation, or any
8 department of the Government, or to the government of any
9 country whose defense the President deems vital to the
10 defense of the United States, for use in connection with the

1 war effort, including but not limited to the making of muni-
2 tions of war and the supplying of civilian needs contributing
3 to the war effort, and the converting of existing plants to
4 those purposes, any silver held or owned by the United
5 States: *Provided*, That no silver shall be sold under this
6 Act at less than its cost to the United States or at less than
7 the then current market price for silver, whichever is the
8 higher: *Provided further*, That at all times the ownership
9 and the possession or control of an amount of silver of a
10 monetary value equal to the face amount of all outstanding
11 silver certificates heretofore or hereafter issued by the Secre-
12 tary of the Treasury shall be maintained by the Treasury.
13 SEC. 2. Authority to sell silver under this Act shall
14 expire on January 1, 1944.

77TH CONGRESS
2d Session

S. 2768

A BILL

To authorize the use for war purposes of silver
held or owned by the United States.

By Mr. GALEN

SEPTEMBER 14, 1942

Read twice and referred to the Committee on
Banking and Currency

NEW ENGLAND MANUFACTURING JEWELERS'
AND SILVERSMITHS' ASSOCIATION

COPY

Providence Biltmore Hotel
Providence, Rhode Island

September 21, 1942

Senator Theodore Francis Green
Senate Office Building
Washington, D. C.

Dear Senator Green:

As I informed you when in Providence, we are anxious to ascertain at the earliest possible moment whether the Secretary of the Treasury is satisfied that your silver bill as drawn gives him authority to use the silver already loaned or ear-marked for lease-lend war use as backing for the silver certificates. Also whether the bill permits him to sell the so-called allocated silver to industry for consumptive purposes in the interest of the war effort.

If you are able to obtain the amount of silver the Secretary of the Treasury believes your bill would make available for such purposes, this would give us the information desired.

Will you be kind enough to advise me by wire of his reply?

Thank you most sincerely for your efforts on our behalf.

Sincerely,

F. A. Ballou, Jr.
President

OCT 1 - 1942

Dear Eleanor:

I suggest a reply to the enclosed letter from Mrs. E. Goold somewhat as follows:

"I have your letter of September 22, 1942, and its enclosures. I regret that, since the matter mentioned therein is wholly outside the jurisdiction of any Federal agency, I cannot be of assistance to you."

If you desire me to do anything further about this matter, please let me know.

Affectionately,

(Signed) Henry

Mrs. Franklin D. Roosevelt,
The White House.

Delivered by Sturgis - 11:40

File in Diary

BS

Memorandum for Mrs. Roosevelt

Dear Eleanor:

I suggest a reply to the enclosed letter from

Mrs. E. Gould somewhat as follows:

"I have your letter of September 22, 1942, and its enclosures. I regret that, since the matter mentioned therein is wholly outside the jurisdiction of any Federal agency, I cannot be of assistance to you."

If you desire me to do anything further about this matter, please let me know.

Enclosure

W

BSM:mb
9/30/42

12

THE WHITE HOUSE
WASHINGTON

Mr. Gaston

September 28, 1942

Memorandum for Secretary of the Treasury

Dear Henry:

Do you know anything about this?

E.R.

ALL INFORMATION CONTAINED
HEREIN IS UNCLASSIFIED
DATE 12-15-83 BY 1043
EX-104

September 28, 1942

420 Beach 143 Street
Neponsit, Long Island
New York City

Mrs. Franklin D. Roosevelt,
29 Washington Square West,
New York City.

Dear Mrs. Roosevelt,

The man described in the enclosed publication by Mr. Morgenthau, Secretary of the Treasury, has caused my husband and other husbands to forsake their wives and children and to follow him.

This he accomplished with the aid of his wife, wielding uncanny and sinister influences over them, made possible by his uninterrupted successes at large-scale swindling enterprises, including the one described by Mr. Morgenthau in his publication, and his unerring success at evasion of the law, resulting in his acquisition of great wealth and strong, but subversive political ties.

By continually employing such tactics, and through using the American Labor party as a smokescreen, he landed himself recently a 14-year, \$25,000 job in the State Supreme Court, with the aid and backing of his sponsor, the Mayor, who enjoys a third term mainly through the American Labor party of which this man was a leading light.

Now, when my sons and I seek justice and adequate support for ourselves, we are blocked even in the Domestic Relations Court, by the machinations of this man, to whose interest it is to keep us crushed.

It is he who has absorbed my husband's energies and productivity, and has brought about the present estrangement in order to further his own ends. I am sure my husband loves me still, but is too hopelessly involved to be able to help himself.

I cannot get a hearing anywhere, because of this man's power and influence. If I could be heard, I am sure, the fetters would fall away from my husband, and this dangerous criminal would get his just deserts.

The letters from my husband written to me over the years and the court records would substantiate my claims.

Knowing as much about this man as I do, I have good reason to hold the opinion that the odd similarity of the names, Samuel Null, the Supreme Court judge, who swindled the farmers 1920-1924, and 'Samuel Nuzzo', which, in my estimation, is only the assumed name of the business agent of the Hod Carriers' Union, now for the third time under investigation at Newburgh, is by no means coincidental.

to ascertain the real facts, however, great restraint should be exercised against allowing even a hint of suspicion to escape, and nothing should be disturbed or attempted without careful preliminary planning.

Although Mr. Null's past record was dark enough to disqualify him, yet the Bar Association who were familiar with the facts about Mr. Null and with Mr. Morgenthau's publication of those facts, kept them well under their hats when they endorsed his nomination last fall.

It seems to me, however, that he could be brought up on the following charges, any one of which would probably bring an indictment and disqualify him for office, since prosecution for his past crimes appears now to be outlawed by the Statute of Limitations.

1. Giving false information concerning his credentials and personal data.

2. Protecting and sheltering a fugitive from justice (another of the seduced husbands, now living under an assumed name)

3. Alienation (I doubt if such legislation exists, but in a case such as this where a man seduces another man, from his wife and children, I believe it should).

I feel sure that a possible 4th charge would develop, if the credentials of 'Samuel Nuzzo' business agent, were thoroughly and conscientiously investigated, and tracked down.

Although it is true that the Statute of Limitations is now Mr. Null's protection from prosecution on the strength of his old swindles;-- the Farmers' Standard Carbide Swindle, the Mexican Petroleum swindle and the 'bucket shops' he conducted on Wall Street, the Statute of Limitations cannot wipe out his past record, or the blemish on his character which make him ineligible for his present position.

Can we, above all, in times like these, afford to keep in office, men we know to have bad records? Aren't there enough honest men with clean records to fill these important posts?

The fugitive from justice, whose real name is Paul Moskow, but who has been known as Paul Gendel since 1920, when Mr. Null's Mexican Petroleum swindle took place, may now be the business agent, 'Samuel Nuzzo'. I remember having seen this man once, dressed like a prosperous business man, although supposedly in the employ of a large dress concern, run by another member of the 'group' controlled by Mr. Null.

Although Governor Lehman himself ordered the retrial of the Hod Carriers' case, no solution has been reached and no indictments have been made. Perhaps the following quotation from the N.Y. Post of Oct. 29th, 1941, just before Mr. Null's election, will explain this:

"He (meaning Mr. Null) aroused in Arthur S. Meyer, formerly vice-president of Schulte tobacco stores, such an interest in labor problems, that Meyer has since become chairman of the State Mediation Board of appointment of Governor Lehman.

3.
with Mr. Null's protégé, Arthur S. Meyer entrenched in Albany, close to the Governor, it is to be expected that the procedure in the Hod Carriers' Union's case will follow the pattern laid down by the Governor in handling Kern's charges against Mr. Null's sponsor, the Mayor, in the Flynn-brick affair, in which no indictments were made in spite of the repeated appeals of the Citizens' Union, private citizens and other organizations, to the Governor, for a fair and unprejudiced trial.

Such a procedure could only mean an additional feather in Mr. Null's cap, to my husband, and the rest of the 'group' he holds in just this way under his hypnotic influence.

Moreover, it would serve again, inevitably, to bolster his confidence in his own ability to always "get away with it," as he has done heretofore, and thus encourage him to tackle bigger and better crimes in the future, while aiming for correspondingly higher promotions still, or barring that, greater power.

After all, the habits of a life-time are not easily shaken off, and after all, why should Mr. Null want to shake them off? He has gotten what he wants out of life with those habits. They have served him well and have yielded him a very rich harvest, for no one has thus far caught up with him, and judging from the exposures now being made of our highest governmental officials in Washington, it is probable that no one will, until our goose is cooked.

How did the unscrupulous saboteurs recently exposed in Congress, reach their high positions, except through the same procedure pursued by Mr. Null? because no restraint has ever been brought by this government to check them on their way up; because we, the people, have trusted our Bar Associations and other supposedly ethical organizations to keep us informed on the integrity of the candidates for high offices and they have failed us, not always because of indulging in our easy-going American custom of closing an eye and gambling, at the risk of our prized, democratic institutions, with the speculation and smug self-hypnosis that these criminals, simply because the kindly statute of Limitations had descended upon them, like a beneficent cloak, had left to themselves, undergone a change of heart and metamorphosed into honest men, now that they had what they wanted, even though, they very well knew that it was nothing but their very dishonesty and unscrupulousness, and the protection this indulgence afforded them here, which had, in the first place, made it possible for them to attain to their present powerful positions, but also because of their own political involvements and of placing their own personal interests before their country's or the common good.

It seems to me that by letting such felons grow like mushrooms in the night, we are courting a crop of frankensteins, and bringing about our own doom. And what else have we a right to expect, unless something is done about it and done quickly.

Knowing Mr. Null as I do for over 25 years, I can tell you that Mr. Null is as much concerned with American ideals or democratic principles as he was with the farmers or with me while he was engaged in promoting his own personal interests at our expense. He is by nature and

4.
and habit, incapable of cherishing such ideals and such principles, and is even more to be feared for his cameleon characteristics, than his unconscionable performances.

Can we then afford to have such men in high and critical positions, especially in times like these? Aren't we already reaping in a rich harvest of poisonous weeds, in the sabotage and other foul practices of our Benedict Arnolds, for our failure to properly safeguard our precious privileges from such marauders as these?

Yours truly,

(Mrs.) E. Gould.

420 Beach 143 Street,
Neponsit, Long Island,
New York City.

September 22, 1942.

Mrs. Franklin D. Roosevelt,
29 Washington Square west,
New York City.

Dear Mrs. Roosevelt,

In my letter of September 14th, I neglected to enclose Mr. Morgenthau's publication. Here it is now with a second letter which is the same as the first, only in the first half, but very much revised in the latter half, in which I express myself much more completely.

I hope you will find time to read it through.

Very truly yours,

Wm. E. Gould.

Farmers' Standard Carbide Exposed

(Continued from page 57)

at \$25.00 a share, corresponding figure on the latter statement is \$7,055.00. We would like you to be good enough to explain this.

4.—Former statement shows plant, real estate and water power carried at \$341,000.00. The latter statement \$200,000.00. Will you kindly also explain this difference?

5.—On the figures referred to above mean that the plant is free and clear and that there is no mortgage, or other indebtedness against it?

6.—In both statements, under the heading of liabilities, your outstanding common stock is carried at about \$25 a share. We believe that this was sold for \$100 a share and would thank you to advise us why it is only carried for \$25 a share.

7.—Both statements include in the assets securities and investments. We understand the bulk of these are subsidiary companies. Will you kindly advise us what is the actual value of these securities and investments in the event of dissolution of these subsidiary companies?

"We would appreciate it if you would give this matter your prompt attention as we feel that the foregoing items call for some explanation on your part. Naturally, these matters are of vital interest to our subscribers who are stockholders of your company. We would be pleased to receive a statement from you, at your very earliest convenience, enlightening us on the foregoing and giving us any additional information which you care to concerning the present status of your company.

"Please be assured that we wish to be entirely fair to you in every respect and to get your statement before advising our subscribers as to our opinion of the facts.

We received no answer to this letter and on December 1st we wrote another letter to this company reading as follows:

"We beg to remind you that we have received no reply to our letter of November 20.

"Please be assured that we wish to be perfectly fair-minded and to hear two sides of every question. As we have advised you, we have received numerous complaints about your company, and therefore, wish again to give you this opportunity of stating your side of the case. Please give this your prompt attention."

On December 30th, Mr. Samuel Null,

President of the Farmers' Standard Carbide Company, wrote us as follows:

"We beg to advise you in respect of your letter of November 20th that instead of replying to your letter in any extended correspondence we would be pleased to meet with you in person and take up matters referred to by you in your communication.

"If you will let us know when it is convenient for the writer to meet you he will be glad to make an appointment with you. Thanking you, we remain:

After receipt of this letter we made two appointments with Mr. Null so that we could get the facts from him, but he failed to keep both of them and we are still waiting to hear from this gentleman.

We are, therefore, obliged to draw our own conclusions from the company's statement. Some of the significant things as shown by this statement are as follows: The balance sheet of December 31, 1922, was very illuminating. Among the assets which appeared there is the item, "Securities and Investments \$571,500." Now, this would be a very valuable asset if it consisted of Liberty Bonds or other multi-edge securities. We find, however, that these securities and investments consist principally of stock which the Farmers' Standard Carbide Company holds in its own subsidiaries—namely—500 shares in the Standard Carbide Sales Company, 1,000 shares in the National Generator Company and 40,000 shares in the Standard Acetylene Company.

The President of the Farmers' Standard Carbide Company, Mr. Samuel Null, is also President of the Standard Acetylene Company. According to statements made by him several months ago, this company has not yet begun operations, and as far as we can learn, none of the other companies have passed beyond the promotion stage. In other words, money that has passed from the right hand into the left is considered an asset of the company and carried on the books as an "investment."

This statement of December 31, 1922, also shows that the company carries "patents, trademarks and goodwill" at \$200,000. This is carried as an asset. The statement also shows as an asset "organization expenses" that is, money that it long ago spent at a man over \$249,000. "The total of these assets," together with the securities referred to above, is nearly \$800,000. Ask your local banker how much he thinks the company could realize on this \$800,000 in case it was liquidated, or selling out, and a stockholder wanted to get his pro-rata share of the company's capital. The statements of December 31, 1921 and 1922, show that the company carries as a liability its common stock at \$25 a share. Mr. Null has written that this stock was sold at \$100 a share and that this price has "neither been increased or decreased." Why then is it carried on the books of the company only at \$25 a share? What became of \$75 from over \$100 that was paid for this stock? This is a question that its stockholders are very anxious to learn. Apparently only \$25 actually went into the treasury of the company from over \$100 which the stockholder paid.

Read the following articles about this company and we think you will see what became of this money. We will also show you how the company paid its dividends, how and why someone made personal calls to deliver dividend checks of \$1.75; how and why dividends were declared in stock of the Standard Acetylene Company; why the company has stopped doing business in the State of Ohio, how the company declines to buy back its stock; how in certain instances stockholders have paid for the stock and not even received their certificates, and many other interesting facts in regard to this most interesting company.

I could not get along without the AMERICAN AGRICULTURIST—W. L. FAYEN, R. D. No. 43, West Danby, N. Y.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Mrs. Klatz
132

This closes
This case, I believe
DATE OCT 1 - 1942

swg

TO Under Secretary Bell
FROM J. W. Pehle

I am returning herewith the material which you forwarded Mr. Paul on the JDC matter.

For your information, I am attaching copies of a memorandum, dated September 1, which was sent to the Secretary by Mr. Paul and a memorandum, dated September 3, which was sent by me to Mr. Paul.

J. W. Pehle

COPY

September 3, 1942

To: Mr. Paul

From: J. W. Pehle

Reference is made to your memorandum of September 1, 1942, to the Secretary with reference to the request of the JDC for permission to authorize its Shanghai representative to obtain locally funds for relief purposes in Shanghai.

Mrs. Klotz called me on September 3, 1942, and asked me to notify the JDC and the State Department of your decision not to permit this transaction. The JDC and the State Department have been informally advised accordingly.

(Signed) J. W. Pehle

Sept. 1, 1942.

Secretary Morgenthau

Randolph Paul

The American Jewish Joint Distribution Committee, Inc. has asked for permission to authorize its Shanghai representative to obtain locally the equivalent of \$240,000 to be expended for relief purposes among the 22,000 German, Austrian, Polish, Czech and Dutch refugees there resident. Foreign Funds has jurisdiction over all financial communications with the enemy and enemy-occupied territories. The Committee would remit no funds from the United States, but would guarantee the repayment of the \$240,000 borrowed in Shanghai, the loan to be repaid at the end of the war or at such time as it would be legal to do so.

It is the policy of Foreign Funds not to authorize the transmission of financial communications to any occupied territory unless there is a clear benefit to the war effort of the United States. It is also the present policy of the United States not to permit the extension of relief to the inhabitants of enemy-occupied territories. As exceptions to this policy, some food and other supplies have been sent to Greece and, I believe, some milk has been sent to the children of France. All exceptions have been considered on the basis of their own merits and have been permitted only for the most weighty reasons.

Under Secretary Welles has stated that the Government would find it difficult to make an exception to the general policy in the case of the Shanghai refugees. However, he has indicated a willingness to be of help provided the method used does not constitute an exception.

If the Committee were granted permission to communicate its guarantee to Shanghai, it would require a modification of the general rule of Foreign Funds and the Office of Censorship against permitting communications relating to financial or commercial transactions unless they would be of advantage to the United States. A strong argument, putting entirely to one side humanitarian considerations, for failing to follow the general rule in case, is that there would be no transmission of funds from the United States. The argument, however, is not conclusive since the guarantee if communicated may be utilized as a basis for drawing funds from neutral or other sources to the sphere of Japanese control, which funds might not otherwise be transmitted. Furthermore, aside from the fact that the authorization would not further the war effort, it would be a grave source of embarrassment to Foreign Funds in the future.

The policy of this Government in regard to communications with enemy and enemy-occupied areas is so strict that we are not allowing American citizens to provide funds for their alien mothers, brothers, sisters, wives and children in such areas. You may recall that General Knudsen had a plan similar to the J.D.C. proposal to provide funds to his sisters in Denmark through the General Motors establishment there and the Treasury refused to allow the transaction, even though no remittance from the United States was involved. The American

- 2 -

public has accepted completely the Government's policy against communication with enemy and enemy-occupied areas. This acceptance has undoubtedly been due in part at least to the uniformity with which the rule has been enforced. Any exceptions would undermine the Government's position in this important field.

It would be difficult, if not impossible, treating the case as a precedent, to deny permission to other relief organizations to make similar arrangements in other enemy or enemy-occupied territories where the humanitarian claims are equal to or greater than those which prevail in the case of Shanghai.

It is clear that the proposed method would constitute an exception to the general policy of the Government. On January 27, 1942, the State Department issued the following press release which has not been modified to date:

"The following statement has been made today, with the approval of the American Government, by Dr. Hugh Dalton, British Minister of Economic Warfare in the British House of Commons:

"The two governments, nevertheless, continue to maintain in the most categorical manner that it is incumbent upon the enemy to feed the countries occupied by him and their policy in this respect remains unaffected by the exception which it has been found necessary to make in the special circumstances obtaining in Greece."

Accordingly, far from being of advantage to the United States, the authorization of the communication would be a part of a plan that might result in relieving Japan of a duty which the spokesman of the United States has said is incumbent upon Japan.

Finally Foreign Funds is bound by the last quoted statement of policy, and, until the statement is modified, Foreign Funds should not authorize the communication of the guarantee, entirely apart from the question of its own rule.

It is my opinion, therefore, that the request of the Committee to communicate a guarantee to its Shanghai representative be denied. Needless to add, I come to this conclusion most reluctantly.

(initialed) R.E.P.

THE UNDER SECRETARY OF STATE
WASHINGTON

September 23, 1942

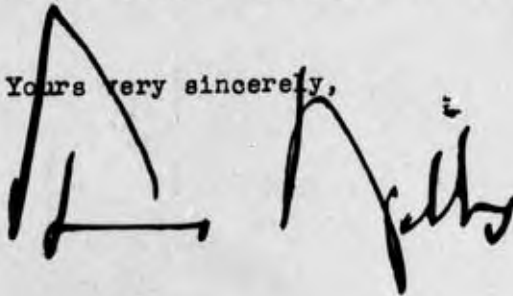
PERSONAL

Dear Dan:

With reference to our telephone conversation of day before yesterday, the feeling of the Department of State with regard to the question of assistance to the Jewish Distribution Committee in Shanghai is similar to that of the Treasury Department. For the moment, therefore, it seems to me that there is nothing further that we can do in the matter, much as I regret the inability of this Government to be of assistance under the tragic circumstances involved.

Believe me

Yours very sincerely,

A handwritten signature in dark ink, appearing to read 'D. W. Bell', written in a cursive style.

The Honorable
Daniel W. Bell,
Under Secretary of the Treasury,
Washington, D. C.

Secretary Morgenthau
H. Foley, Jr.

FOREIGN FUNDS CONTROL

JUL 16 1942

JDC - communications with enemy territory

ACTION TAKEN:

will recall that on Mar. 3 Pehle and I submitted a memo. to you setting forth the reasons for denying request of JDC to pay funds to person U.S. who would in turn make funds available to in Shanghai for relief. In May JDC asked would authorize them to transmit message to Shanghai. discussed with Green of State and he agreed with al. July 13 meeting with State. Denial of JDC request reaffirmed, would result in breach in established policy concern. trade and com. with enemy ter.

Date

MLH
OAS
BB
EHF
7-16

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM E. H. Foley, Jr.

You will recall that on March 3 Pehle and I submitted a memorandum to you, setting forth the reasons for denying the request of the JDC to pay funds to a person in the United States who would in turn make funds available to the JDC in Shanghai for relief purposes. As was pointed out in that memorandum, the refusal to authorize such a transaction was based on the fact that numerous individuals and organizations desire to make remittances to enemy (and enemy-occupied) areas or to work out special arrangements for aiding persons in such areas. To permit such remittances or communications in connection with such special arrangements would make impossible the effective control of transactions with enemy territory. Our general policy in this respect has frequently been discussed with representatives of the State Department and the British Ministry of Economic Warfare, and it has always been agreed that communications with enemy territory for these purposes should not be permitted.

In May the JDC asked whether we would authorize them to transmit a message to Shanghai advising their representative there that the JDC would continue to stand back of any commitments which the Shanghai representatives might make in order to raise funds for relief purposes. This proposal was discussed with Mr. Joseph C. Green of the Department of State and he expressed the view that the communication should not be permitted. When we advised him that we had not authorized the transmittal of a cable containing such instructions, Mr. Green expressed approval of the Treasury's position.

On July 13th, at your request, members of Pehle's staff again discussed the matter with Mr. Green to determine whether the State Department's position had changed as a result of your conversation with Mr. Welles. Green was asked whether the State Department was prepared to recommend that the communication be transmitted. We were advised that the position of the State Department had not changed, but that Mr. Welles had suggested the possibility of discovering alternative methods, consistent with this Government's policy, of achieving the JDC's objective. Mr. Green said that he could not think of any alternative means and asked whether we could suggest such an alternative.

- 2 -

Consideration of the matter led to the conclusion that the only alternative means of accomplishing the end envisaged by the JDC would be the remittance of funds from this country or some other non-enemy area which would be even more undesirable than the method proposed by JDC. It was agreed that on the basis of established policy the denial of the JDC request would have to be reaffirmed. We can assume, of course, that even in the absence of any new instructions the JDC representatives in Shanghai will make every effort to carry on with their relief activities and will use all available resources to alleviate suffering.

Our discussions do not indicate that the State Department has altered its previous position, namely, that the request of the JDC should be denied. It continues to be our view also that to have allowed the communication in this case would have obligated us to give favorable consideration to many similar and equally worthy requests as a result of which a serious breach would be made in our established policy concerning trade and communication with enemy territory.

Miller -

July 22, 1942

MEMORANDUM FOR THE FILES

Subject: Meeting with representatives of the JDC concerning their request for authorization to communicate with Shanghai in connection with their activities in that area.

JDC members present: Messrs. J. C. Ryan and Moses A. Leavitt.

Treasury representatives: Messrs. Daniel Bell, Foley, B. Bernstein, and Schmidt.

The members of the JDC called to discuss their request for authorization to communicate with their representatives in Shanghai in order to instruct such representatives to continue to raise whatever funds could be raised locally for relief purposes, and to assure them that the JDC would stand back of any commitments made by the Shanghai representatives. Before the occupation of Shanghai, the JDC had passed upon the Shanghai representatives' budget for a 6-month period and had approved the activities outlined for the period which expired some time in May of this year. The JDC now wants to instruct their Shanghai representatives to proceed on the same basis for another 6-month period.

In giving a brief account of their efforts to date to obtain the requested authorization the representatives of the JDC indicated that in their recent discussions with Joe Green of the State Department they had obtained the impression that the Department of State was willing to approve and that it was only the Treasury Department that objected to the communication. The representatives of the JDC also pointed out that recently a representative of the International Red Cross had offered to supervise the relief activities of the JDC in Shanghai should the JDC be able to carry on. Mr. Ryan pointed out that this was a new element in the picture and they wanted to bring the matter before us in the light of this new development. After emphasizing the fact that they were not asking to remit any new funds to Shanghai but merely to communicate with their representatives in that area, the JDC representatives indicated that they did not understand the reasons for our refusal of their request.

In response to a question, the JDC members explained that they hoped their representatives would be able to borrow locally from several wealthy Jews located in Shanghai. When questioned as to why their representatives would not continue their welfare activities in the absence of any additional instructions, Mr. Ryan indicated that they had considered this possibility but that they felt that a wealthy person in Shanghai would be more likely to turn over funds to their representatives for relief purposes if their representatives were able to assure such persons that the JDC would repay them after the war is over.

-3-

After pointing out to the representatives of the JBC that the State Department had also felt that the JBC's request should be denied and that Joe Green had, within the last few days, reaffirmed the Department of State's concurrence with the Treasury's position in this respect, Treasury representatives explained to Messrs. Hyman and Leavitt the basic policies underlying the Treasury's decision. It was pointed out: that this Government had publically announced that it would not authorize communication with enemy territory except in those rare cases in which such communication would result in a positive contribution to our war effort; that numerous organizations and business enterprises and many individuals desire to communicate with enemy territory, but that applications for Treasury licenses authorizing such communications have been denied in all except three instances in which the communication did contribute to the war effort; and, accordingly, that the request of the JBC could not be approved unless the Treasury would be prepared to approve other similar requests, thereby seriously reducing the effectiveness of our trading with the Enemy Act policy. The attention of the JBC representatives also was directed to some of the basic considerations relating to the fundamental policy of this Government concerning relief activities in occupied territories.

After listening to the analysis of the Treasury's position, Mr. Hyman stated that he did not wish to challenge the Government's position with respect to these basic issues and that the JBC would not further question the Treasury Department's decision. He further indicated his understanding of the necessity for adopting these policies and indicating that should he be sitting on our side of the table he would probably share our point of view.

Thereupon Messrs. Hyman and Leavitt indicated that they had an appointment to discuss the matter with Welles later in the afternoon but that in view of this discussion they would not want to waste Mr. Welles' time. Treasury representatives expressed the opinion that Hyman and Leavitt should discuss their problem further with Mr. Welles, since the basic policies were policies not of the Treasury Department alone but of the United States Government, and that the Treasury Department would reconsider its position should the State Department request the Treasury to do so.

(Initialed) O.A.B.

cc: Mr. Bell
Mr. Foley
Mr. E. Bernstein
Mr. Hoffman
Mr. Finkle

O.A.SCHMIDT:des 7/23/42

THE UNDER SECRETARY OF STATE
WASHINGTON

July 17, 1942

Dear Henry:

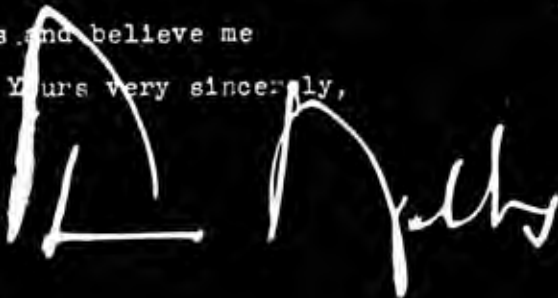
With reference to our several recent conversations in regard to the proposal of the American Jewish Joint Distribution Committee, Inc., for the financing of its relief work in Shanghai, I am returning herewith Mr. Leavitt's memorandum and the letter addressed to Judge Lehman by Mr. Baerwald.

After our last talk, officials of this Department conferred, in Mr. Pehle's absence, with Mr. Hoffman and Mr. Schmidt in Mr. Pehle's office. I am informed that these officers of your Department have sent you a memorandum setting forth their views with regard to the problem involved which, in summary, represents the considered opinion that the proposal of the Joint Distribution Committee could not be approved without violating the established policy of the Treasury Department, which policy they regard as wise and necessary.

I feel very strongly that every effort should still be made to try and help these unfortunate people in Shanghai. If there is any way which occurs to you in which I personally can be helpful in the matter, please let me know.

My best regards and believe me

Yours very sincerely,



Enclosures:

Memorandum from
Mr. Leavitt;
To Judge Lehman,
June 25, 1942, from
Mr. Baerwald.

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

MEMORANDUM ON THE SITUATION

Flight of 12,000,000

Since December 10, 1941.

There were 11,000,000

and medical in the

of other have been

are carried out by

American representative

1941 (Miss Laura L.

M. Warren, our

in November, 1941.

have learned that our American representatives in Shanghai were able to secure the equivalent of \$120,000 for the month of December, 1941. The request has been made from our American representatives that the same procedure be followed for the next six months on the basis of \$120,000 a month. The funds would be advanced by individuals in Shanghai who are in a position to make such advances, and the repayment in American dollars would not be made to them until after the war. In the first instance, we wish to point out that this procedure brings aid or comfort to the enemy. The funds in Shanghai are in the hands of private individuals, presumably Russian nationals, who are prepared to advance against the hope of eventual reimbursement.

Refugees are for the most part German and Austrian nationals, now stateless by the German Government, and consequently there is no one who can intercede in their behalf. There are also about 1,000 Polish and some Dutch and Czech nationals among the refugees. The aid we have thus far been able to extend to them is on a minimal basis. They are in a desperate position unless it is possible for our American representatives to secure funds locally in order to carry on the program of relief.

It is possible to send a cable to our American representatives in Shanghai, through the Swiss Embassy, to the effect that the J.D.C. would be prepared to authorize for another six months on the same basis as the first six months. It should be sufficient for the relief activities to be carried on. The sending of such a cable through the Swiss Embassy was first presented to the Hon. H. H. Hoffman of the Foreign Funds Control Office of the

120 BROADWAY
NEW YORK

June 25, 1942.

Hon. Irving Lehman
36 West 44th Street
New York.

Dear Judge Lehman:

I take the liberty of enclosing a memorandum with regard to Shanghai which explains itself.

You will understand that we are most anxious not to let this matter rest. On the other hand, we do not want to approach the Secretary of the Treasury direct, and I was wondering whether it would be possible for you to approach him in an entirely unofficial manner.

The fact that I am writing you is not known to my colleagues. If at your own time you can find an opportunity to discuss the matter with our friend, who is so very sympathetic toward our difficulties, I would consider it a great favor.

Hoping you are well,

Sincerely yours,

Paul H. Newhall

TREASURY DEPARTMENT

146

INTER OFFICE COMMUNICATION

DATE

SEP 30 1942

TO Secretary Morgenthau
FROM Randolph Paul

Submitted herewith are a report and summary thereof of an investigation of Eastern Provinces Administration, Limited, and Colonel Georges F. Doriot, Q.M.C., its president and stockholder-of-record, which I believe merit transmission to the Secretary of War for his information and for such action as he may deem proper. A proposed letter of transmittal is annexed.

REA

Summary of the Report with Respect to
Eastern Provinces Administration, Limited
and Colonel Georges F. Doriot

147

Georges F. Doriot, a colonel in the Quartermaster Corps of the United States army, now stationed at Washington, D.C., has been president of Eastern Provinces Administration, Limited, a Canadian corporation, since April 13, 1939. Since in or about May, 1940, he has been its sole stockholder of record. The company has \$3,000,000 in assets in the United States which it holds for a large number of clients.

In civilian life Colonel Doriot is an industrial engineer and a professor at the Harvard Graduate School of Business Administration. A native of France residing in this country since the 1920's, Colonel Doriot was naturalized in 1939 or 1940. He had been accustomed for many years to spend his summers in France and in the 1930's he developed close business and personal relationships with Worms & Cie., a leading French banking house. These relations became so close that prior to becoming a citizen of the United States Colonel Doriot asked Gabriel Le Roy Ladurie, one of Worms & Cie.'s more important figures, to release him from a promise not to change his nationality. Upon becoming a citizen, Colonel Doriot explained to Le Roy Ladurie that he was glad that he had done so because, among other reasons, he believed his change of nationality would benefit Worms & Cie.'s interests in this country.

A number of Worms & Cie.'s partners and associates are in the forefront of the French collaborationist movement. Thus Le Roy Ladurie's brother Jacques was until about two weeks ago Minister of Agriculture in the Laval cabinet while Jacques Barraud, a partner of Worms & Cie. is Delegate-General for French-German Economic Relations. Pierre Pucheu, who managed Japy, a manufacturing concern, for Worms & Cie. has served Laval as Minister of the Interior and Minister of Industrial Production. A report of the Office of the Coordinator of Information (now Office of Strategic Services) names other Worms & Cie. associates who are or were in, or connected with, the Laval government.

Colonel Doriot is merely the nominal holder of the stock of Eastern Provinces Administration and it clearly appears that the beneficial owners, as Colonel Doriot has at all times known, are Worms & Cie. or Inafiza, its

Dutch subsidiary. In his TFR-300 report with respect to this stock, Colonel Doriot admitted that he was merely its nominal owner but failed to disclose that Worms & Cie. or Imafisa were its beneficial owners. He stated that the beneficial owners were anonymous "representatives of a very numerous group" who were engaged in "banking largely in France, Holland and Switzerland." Colonel Doriot also concealed Worms & Cie.'s connection with Eastern Provinces Administration in the TFR-300 report he filed in connection with that company's assets. Thus, although he disclosed that between April 1939 and March 1940 Pierre Courtot, Baron F. Louis and Paul van Ogtrop had been among the company's directors, he reported that their other business affiliations were unknown to him. The evidence is clear that Colonel Doriot was well aware of the fact that Courtot was associated with Worms & Cie. and that Louis and van Ogtrop were associated with Imafisa. They are the only persons formally connected with Worms & Cie. ever to have been directors of the company. Colonel Doriot similarly failed to disclose in his TFR-300 reports the identities of any of the persons for whom Eastern Provinces Administration holds its assets, although he was in possession of documents, transmitted to him by Imafisa which, in large measure, had supplied him with that information. After formal demand, Colonel Doriot filed TFR-300 reports with respect to the accounts held for the persons named in such documents.

A memorandum written by Colonel Doriot on the day that he verified his two TFR-300 reports demonstrates that in preparing them as he did he consciously subordinated the government's requirement of full disclosure to Worms & Cie.'s desire for secrecy. Whatever may have been his motive, there can be little doubt that Colonel Doriot willfully concealed in his TFR-300 reports that Eastern Provinces Administration, Limited, was essentially a Worms & Cie. enterprise.

C
O
P
YFEDERAL RESERVE BANK
OF NEW YORK

October 1, 1942

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

I am enclosing our compilation for the week ended September 23, 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:10/5/42

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

Week Ended September 23, 1942

Strictly
Confidential

PERIOD	NAME OF ENGLAND (BRITISH GOVERNMENT)								NAME OF FRANCE							
	DEBITS			CREDITS				Net Incr. (+) or Deer. (-) in Balance	DEBITS			CREDITS				Net Incr. (+) or Deer. (-) in Balance
	Total Debits	Gov't Expendi- tures (a)	Other Debits	Total Credits	Proceeds of Sales of Gold	Securities (Official) (b)	Other Credits		Total Debits	Gov't Expendi- tures (d)	Other Debits	Total Credits	Proceeds of Sales of Gold	Other Credits		
First year of war (8/29/39-8/28/40)*	1,793.2	605.6	1,187.6	1,828.2	1,356.1	52.0	420.1	+ 35.0	866.3(e)	416.6(e)	449.7	1,095.3	900.2	195.1(e)	+229.0	
War period through December, 1940	2,792.3	1,425.6	1,356.7	2,793.1	2,109.5	108.0	575.6	+ 10.8	878.3	421.4	456.9	1,098.4	900.2	198.2	+220.1	
Second year of war (8/29/40-8/27/41)**	2,203.0	1,792.2	410.8	2,189.8	1,193.7	274.0	722.1	- 13.2	38.9	4.8	34.1	8.8	-	8.8	- 30.1	
1941																
Aug. 28 - Oct. 1	140.9	105.9	35.0	176.2	20.1	2.0	154.1	+ 35.3	0.3	-	0.3	0.5	-	0.5	+ 0.2	
Oct. 2 - Oct. 29	109.0	77.3	31.7	150.9	0.8	-	150.1	+ 41.9	0.3	-	0.3	0.3	-	0.3	-	
Oct. 30 - Dec. 3	156.1	111.6	44.5	134.6	-	1.0	133.6	- 21.5	16.1	-	16.1	0.4	-	0.4	- 15.7	
Dec. 4 - Dec. 31	88.4	69.6	18.8	51.5	-	-	51.5	- 36.9	0.8	-	0.8	0.4	-	0.4	- 0.4	
1942																
Jan. 1 - Jan. 28	102.3	73.2	29.1	69.3	-	0.5	68.8	- 33.0	0.2	-	0.2	0.4	-	0.4	+ 0.2	
Jan. 29 - Feb. 25	87.2	63.8	23.4	57.2	-	1.0	56.2	- 30.0	-	-	-	0.3	-	0.3	+ 0.3	
Feb. 26 - Apr. 1	121.4	86.4	35.0	171.4	-	-	171.4	+ 50.0	0.1	-	0.1	0.4	-	0.4	+ 0.3	
Apr. 2 - Apr. 29	98.1	64.2	33.9	70.6	-	0.5	70.1	- 27.5	0.2	-	0.2	0.4	-	0.4	+ 0.2	
Apr. 30 - June 3	104.0	81.4	22.6	165.2	-	-	165.2	+ 61.7	-	-	-	0.3	-	0.3	+ 0.3	
June 4 - July 1	89.9	72.6	17.3	113.6	-	0.5	113.1	+ 23.2	-	-	-	0.3	-	0.3	+ 0.3	
July 2 - July 29	66.1	45.5	20.2	84.4	-	-	84.4	+ 18.3	0.1	-	0.1	0.3	-	0.3	+ 0.2	
July 30 - Sept. 2	72.2	52.9	19.3	116.1	0.9	-	115.2	+ 43.9	0.4	-	0.4	0.4	-	0.4	-	
WEEK ENDED:																
Sept. 2	13.7	9.1	7.6	43.1	-	-	43.1	+ 29.4	0.1	-	0.1	0.1	-	0.1	-	
9	19.5	17.7	1.8	26.9	-	0.5	26.4	+ 7.4	-	-	-	0.1	-	0.1	+ 0.1	
16	11.1	4.3	6.8	21.2	-	-	21.2	+ 10.1	-	-	-	0.1	-	0.1	+ 0.1	
23	11.8	7.2	4.6	11.1	-	-	11.1(f)	+ 0.7	-	-	-	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) 34.8 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)

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

Week ended September 23, 1942 \$ -

Cumulation from July 6, 1940 \$ 162.7

million

million

Regraded Unclassified

- (a) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply Timber Control, and Ministry of Shipping.
- (b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of our securities through December, 1940 amounted to \$334 million.
- (c) Includes about \$85 million received during October, 1939 from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts since October, 1939 apparently represent the acquisition of proceeds of exports from the sterling area and other currently accruing dollar receipts.
- (d) Includes payments for account of French Air Commission and French Purchasing Commission.
- (e) Adjusted to eliminate the effect of \$20 million paid out on June 26, 1940 and returned the following day.
- (f) Includes: \$8.0 million deposited by the British Ministry of Supply
\$0.5 million for credit of U. S. Army.

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

Week Ended Sept. 23, 1942

Strictly Confidential

PERIOD	BANK OF CANADA (and Canadian Government)									COMMONWEALTH BANK OF AUSTRALIA (and Australian Government)							
	DEBITS				CREDITS					DEBITS				CREDITS			
	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C		Other Credits	Net Incr. (+) or Decr. (-) in Balance	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in Balance	
First year of war (8/29/39-8/28/40)*	323.0	16.6	306.4	504.7	412.7	20.9	38.7	32.4	+181.7	31.2	3.9	27.3	36.1	30.0	6.1	+ 4.9	
War period through December, 1940	477.2	16.6	460.6	707.4	534.6	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	6.2	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	5.9	3.4	11.6	9.0	2.6	+ 1.3	
Dec. 4 - Dec. 31	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	
1942																	
Jan. 1 - Jan. 28	39.5	-	39.5	33.0	22.0	-	-	6.0	+ 6.5	4.5	-	4.5	10.8	-	10.8	+ 6.3	
Jan. 29 - Feb. 25	34.1	-	34.1	35.7	12.4	-	-	23.3	+ 1.6	8.4	5.3	3.1	1.6	-	1.6	- 6.8	
Feb. 26 - Apr. 1	46.5	-	46.5	99.3	20.5	7.7	-	71.1	+ 52.8	7.8	1.3	6.5	3.6	-	3.6	- 4.2	
Apr. 2 - Apr. 29	37.4	-	37.4	35.9	14.2	-	-	21.7	+ 1.5	10.9	8.0	2.9	16.8	-	16.8	+ 5.9	
Apr. 30 - June 1	54.4	-	54.4	67.9	15.7	-	-	32.2	+ 6.3	13.2	9.5	3.7	14.6	-	14.6	+ 1.4	
June 4 - July 1	47.2	-	47.2	72.9	14.7	-	-	58.2	+ 25.7	2.5	0.5	2.0	3.0	-	3.0	+ 0.5	
July 2 - July 29	40.8	-	40.8	37.7	9.0	-	-	28.7	+ 3.1	19.1	15.0	4.1	19.5	-	19.5	+ 0.4	
July 30 - Sept. 2	65.1	0.2	64.9	77.3	15.4	-	-	61.9	+ 12.2	7.7	3.1	4.6	17.1	-	17.1	+ 9.4	
WEEK ENDED:																	
Sept. 2	11.5	-	11.5	14.7	1.6	3.2	-	9.9	+ 3.2	2.3	-	2.3	11.8	-	11.8	+ 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	-	13.7	10.9	2.2	-	-	8.7	- 2.8	0.5	-	0.5	0.5	-	0.5	-	
23	9.3(a)	-	9.3	9.8(a)	3.6	-	-	6.2(b)	+ 0.5	0.7	-	0.7	0.5	-	0.5	- 0.2	

Weekly Average of Total Debits Since Outbreak of War

through September 23, 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 \$4.3 million representing proceeds of U. S. Government checks deposited by War Supplies, Ltd.

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Oct. 1, 1942.

TO

Secretary Morgenthau

FROM

H. D. White

The Brazilian Ambassador telephoned me at noon today to report that he had telephoned to President Vargas and had communicated the message which you had asked him to communicate to the Minister of Finance.

President Vargas stated over the telephone that he wished to thank you very much for your proffered assistance. He said the Minister of Finance has taken all the necessary measures which he hoped would be adequate. However, President Vargas went on to say, if the measures already undertaken by the Minister of Finance did not prove adequate in the future, he would feel free to call upon Secretary Morgenthau and would do so through the Ambassador.

The President asked specifically that the Ambassador convey his thanks to Secretary Morgenthau for his kindness.

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Treasury Department
Division of Monetary Research

Date 10/1/42 19

From: Mr. deBeers

To: ~~Mr. Glasser~~
Mr. White
~~Mr. Bernstein~~Mexico

A break in the friendship between Ramon Beteta and Ambassador Francisco Castillo Najera has occurred at a meeting in Mexico City, according to the Mexico City Press.

Apparently the break in this friendship has resulted from their having different points of view with regard to relations with the United States. Although the newspaper article does not specify the exact topic of disagreement, it may be the pending reciprocal trade agreement between the United States and Mexico.

Apparently both Dr. Beteta and Dr. Castillo Najera returned to Mexico about 10 days ago for the national holidays there, and the Ambassador has insisted on the necessity for Beteta to remain in Mexico. On September 22 Beteta went to the Ministry of Foreign Relations to give an account of his work to Minister Padilla and to give his viewpoint on various matters in opposition to the views of Dr. Castillo Najera. On leaving the building Beteta encountered Dr. Castillo Najera and there began an argument, the violence of which amazed the onlookers.

It seems likely that as a result of this disagreement, Dr. Beteta will not return to Washington to have charge of Mexico's economic relations with the United States.

Source: Excelsior, Mexico City, Sept. 24, 1942.

OCT 1 1942

reply refer to
740.0011 Pacific War/2821

My dear Mr. Secretary:

I have received your letter of September 18, 1942 enclosing a memorandum prepared by Mr. William H. Taylor, Alternate American member of the Stabilization Board of China, regarding conditions at Hong Kong after its occupation by the Japanese.

This memorandum has been read with great interest and the valuable information contained therein has been added to that already on file in the Department pertaining to conditions in areas now under Japanese occupation.

Sincerely yours,

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

NOT TO BE RE-TRANSMITTEDCOPY NO. 13BRITISH MOST SECRET
U.S. SECRETOPTTEL No. 340

Information received up to 7 A.M., 1st October, 1942.

1. NAVAL

Our light forces attacked an enemy convoy off the Dutch Coast last night. Full details have not yet been received but one hit is claimed. One of our motor gunboats was abandoned on fire and the C.O. of another was killed.

Attacks on shipping. From 26th to 29th September inclusive 12 ships were reported torpedoed (3 of them belated reports). One U.S. ship sunk in home-bound Russian convoy (in addition to 3 ships already reported lost). A Panamanian and 3 British ships (2 of them in convoy) sunk in Northwest Approaches. 3 ships (British, Norwegian and Panamanian) in West Atlantic, a Swedish ship in WEST INDIES, 2 Brazilian ships off North coast of BRAZIL and a British ship in South Atlantic. One British and one U.S. ship are overdue and a British ship previously reported overdue is now believed sunk by surface craft.

2. MILITARY

MADAGASCAR. Leading elements of our forces from TANANARIVE are now about 50 miles south of the Capital. Road blocks, demolitions and now rain are slowing up the advance. In the TULEAR Area our patrols have advanced about 55 miles along the road running North-East from the town.

RUSSIA. The Russians continue to attack the Northern and Southern flanks of the German assault forces at STALINGRAD. There is little change in the Eastern Caucasus but in the Western Sector north of TUAPSE the Germans are making some progress.

3. AIR OPERATIONS

WESTERN FRONT. 30th. 15 enemy aircraft crossed our coasts. Two were destroyed and two damaged. Some bomb damage was done to saw mills at ASHFORD, Electricity works at WORTHING and railway property at ASHFORD, LANCING and CHICHESTER. At two places in Kent troops were attacked by machine gun fire. Two Whitleys are missing from BISCAY anti-submarine patrol. 31st. 27 aircraft were sent to lay mines. Two are missing.

EGYPT. 28th/29th. Our bombers attacked TOBRUK and enemy landing grounds. One of them is missing. 29th. Beaufighters destroyed or damaged 20 crates between SIDI BARGANI and MERSA MATRUH.

RUSSIA. 30th. Russian aircraft raided several enemy aerodromes in the KARELIA Area.

Regraded Unclassified

NOT TO BE RE-TRANSMITTEDCOPY NO. 13BRITISH MOST SECRET
U.S. SECRETOpil. No. 346

Following is supplementary resume of operational events covering period 24th September to 1st October, 1942.

1. NAVAL

Damage and dislocation of traffic by Allied submarine and air attack caused a marked decrease in the number of ships reaching LIBYA. 6 French submarines passed GIBRALTAR westwards on 29th. The French ships AMIRAL PIERRE, 4400 tons, and MARCHEL GALLIENI were intercepted in the Southern INDIAN OCEAN, the former scuttled herself but the latter has been brought into port. It is possible that the Axis announcement of Naval collaboration with the Japanese in the Atlantic may actually herald sending German U-boats to the INDIAN OCEAN where the Japanese already have some four or more submarines operating between the GULF OF ADEN and the approaches to the PERSIAN GULF. The half dozen U-boats believed in South Atlantic have not been in evidence lately and may be bound for the Southern INDIAN OCEAN. One destroyer and 3 ships were lost out of a convoy of U.S. river steamers on 25th and 26th. This is believed to be the origin of the recent extravagant German claims to have sunk a troop convoy. All ships were under 5,000 tons and none contained troops. A special submarine hunting force available for the first time, with a recent trans-Atlantic convoy, in addition to the normal escorts, proved its value against the concentration of U-boats attacking the convoy. This convoy was also the occasion of an attack on a U-boat by a Liberator flying 720 miles to the point of attack. The number of U-boats operating in the ATLANTIC is still increasing. Provisional figures for the week ending 27th give 13 ships sunk by U-boat, all in the ATLANTIC. 3 homeward convoys totalling 167 ships arrived without loss and 3 outward bound totalling 73 ships arrived without loss. In the same week 16 attacks upon enemy submarines were made by British surface ships and 20 by aircraft. It is now reported that four promising attacks were made during the passage of the recent convoy to RUSSIA and two during the passage of the returning convoy. Imports in convoy into UNITED KINGDOM for week ending 30th were 759,000 tons including 276,000 tons of oil. Imports for August - 1,957,800 tons including food 709,400 tons, Ministry of Supply 1,179,600.

2. MILITARY

GERMAN ARMY. Present distribution of German Divisions - NORTH AFRICA 4, BALKANS and AEGEAN 7, FRANCE and LOW COUNTRIES 36 (including 1 newly formed Infantry division), GERMANY 45, DENMARK 2, NORWAY 7, POLAND 9, FINLAND 8, RUSSIA 178, total 296.

3. AIR OPERATIONS

WESTERN FRONT. No night bombing operations were possible but over 300 sea mines were laid. Out of 223 sorties on anti-submarine operations 3 aircraft were lost. Bomber Command flew 40 sorties on BISCAY patrols. Several attacks by night were made on enemy shipping off the Dutch Coast, one vessel of about 10,000 tons was hit.

MEDITERRANEAN. Our air operations were well up to average in number of sorties flown, although there was no special activity over the battle area the enemy was constantly harassed. Heavy night attacks on TORON continued in conjunction with mining of the harbour. Axis landing grounds were also subjected to night bombing. A 10,000 ton tanker is believed to have been hit by a Wellington off COLOM and a Naval aircraft torpedoed an enemy destroyer.

RUSSIA. There was no marked Russian activity in the far North or in the Leningrad area, although air support was given to Russian tank attacks at BELZOV. The Russian Air Force raided enemy occupied ports in the CRIMEA and bombed LAMANGRAYA six times on 24th.

4. EXTRACTS FROM PHOTOGRAPHIC AND INTELLIGENCE REPORTS ON RESULTS OF AIR ATTACKS ON ENEMY TERRITORY IN EUROPE

MUNICH. Casualties reported heavy and particularly severe damage near the main railway station.

- 2 -

RUHR AREA. Coal production for the RUHR, SAAR and AACHEN areas has fallen from 440,000 tons to 360,000 tons per day. At the Rhein Proussen mines output fell 3,000 tons per day mainly on account of damage to workers dwellings. Because of damage to blast furnaces in GERMANY the Germans have ordered blast furnaces at LONGWY and PONT A MOUSSON in Occupied FRANCE to resume full capacity working though majority have been out of action for two years. When DUSSALDORF station was hit an Express had just arrived. 50 passengers including some leading industrialists were killed.

COLOGNE. The depot at BRIMEN has received no spare parts for Diesel engines from the Humboldt Duxis works since the big raid. Over 1,000 spare engines for lorries were destroyed or damaged at an Army depot during this attack.

SAARBRUCKEN. Damage to ventilation shafts has caused a complete suspension of work temporarily at some mines, repairs in certain cases will take some time.

OSLO. Loyal Norwegians were greatly encouraged by the daylight raid on Gostaga Headquarters.

SEA-MINING. In August a German transport believed 7,000 tons was sunk in the KATISGAT. She was carrying 500 G.A.F. mechanics, 1,000 other personnel and equipment. At least 100 persons were lost and 400 casualties landed. On 20th September, 16 German southbound ships were held up north of GOTHENBURG on account of mines.

4. OPERATIONAL AIRCRAFT BATTLE CASUALTIES

METROPOLITAN AREA

<u>British and Allied</u>			<u>Enemy</u>		
	<u>In the Air</u>		<u>Dest.</u>	<u>Prob. Dest.</u>	<u>Damaged</u>
Bombers	8	Bombers	3	2	3
Fighters	13	Fighters	1	0	3
Coastal	3				
Total	24	Total	9	2	6

MIDDLE EAST

(Including MALTA)

<u>British and Allied</u>			<u>Enemy</u>		
	<u>In the Air</u>	<u>On the Ground</u>	<u>Dest.</u>	<u>Prob. Dest.</u>	<u>Damaged</u>
Bombers	8	2	Bombers	6	0
Fighters	6	0	Fighters	6	4
Others	3	3	Miscellaneous	3	0
Total	17	5	Total	15	4

3 crews and 1 pilot are safe.

FAR EAST

No Allied casualties reported

	<u>Enemy</u>	<u>Probably Destroyed</u>
Bombers	27	0
Fighters	7	2
Miscellaneous	7	0
Total	41	2

Note: No account is taken of enemy aircraft destroyed on the ground in any theatre or of British Naval aircraft casualties.

6. HOME SECURITY

Estimated civilian casualties for week ending 6 A.M., 30th. Killed, 60, including 19 at HASTINGS and 23 at PETWORTH; 82 seriously wounded, including 30 at PETWORTH.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE October 1, 1942

TO Secretary Morgenthau
FROM Mr. Hoflich
Subject: R.A.F. "Mosquito" Bombing Raids.

The attached report of a B.B.C. broadcast refers to the recent R.A.F. bombing of Oslo Gestapo headquarters as an historic raid because of the new aircraft and the technique used. The planes used were the new small and speedy Mosquito bombers, which were flown at roof and tree-top level, and at high speed, rendering them relatively safe from enemy fighter attacks. The R.A.F. has been experimenting with small-scale Mosquito raids over the continent for some time.

AVIATION PASSES TWO MORE MILESTONES

Military aviation wrote history in the recent bombing of an Oslo target and in the defense of the last convoy to Russia, Oliver Stewart, editor of AERONAUTICS in London, asserts on BBC (Sept. 28, 6:30 p.m. EDT).

'Mosquito' Stings--On the bombing of Oslo Gestapo headquarters, he comments: "The four 'Mosquitoes' used flew low all the way out and back. They were skimming the roofs and tree tops as Blenheim raiders did when they bombed the power stations near Cologne late in 1941. But we may assume they were much faster. So the defense for our four machines was speed and lowness."

No Room--"Enemy fighters could find no room between the 'Mosquitoes' and the ground to get into the fighter's favorite position, just below the tail of the machine attacked. And they had little time to do anything else because the machines were moving so fast. The Focke-Wulf 190 fighters contacted one 'Mosquito' when its bomb doors were open and shot it down."

Hard Navigating--"In low-level attack, navigation calls for the highest skill in airmanship. Instead of being able to take a leisurely view of a wide expanse of ground, the navigator merely sees trees and chimneys rushing past."

Delayed Action--"With these ultra-low-level attacks there's the danger of the aircraft being hit by fragments of their own bombs. That's why delayed-action bombs are almost invariably used. If they happen to hit a hard surface, they may bounce quite a long way after leaving a low fast flying machine. They don't have time to cleave over into the nearly vertical fall that you get from high-level bombing."

Historic Raid--"Small as it was, the Oslo raid was undoubtedly a historic one because of the technique used, and the new aircraft. I have little doubt we shall see more of the high-speed daylight raid in the future."

More History--The expert turns his attention to defense of the convoy by carrier borne hurricanes: "This operation also has its place in air war history because it marks final abandonment of the idea that fighting aircraft which worked with fleet at sea must be entirely different from fighting aircraft which work on land."

U.S. Pioneers--"The U.S. Navy has for a long time been using land types of single-seat fighters. It uses what they call the Wildcat for this work, and is bringing into service the Corsair which ought to be the fastest flying fighter flying with any fleet in the world."

Treasury Department
Office of the Secretary 161

Date October 1 19 42

To: Secretary Morgenthau

From: Mr. Hoflich

Attached is the "Voice of the
Chief" broadcast of September 29,
as reported by Federal Communications
Commission.

'VOICE OF THE CHIEF'

S.S. GUNMEN KILL REICH RAIL OFFICIAL

The clandestine transmitter "Voice of the Chief" with "Gustav Siegfried Eins" broadcasting in German to the Reich (Sept. 29) describes how a high Reich railway official in the Ukraine was murdered by S.S. gunmen because he had tried to stop the systematic plundering of supplies by party functionaries. Also, the Chief hits at the acceptance by the Nazis of the Kolchoz system.

Murdered by S.S.--"On September 16, Reich Railway Operations Chief Alfred Gerstmeier was murdered not far from Zhitomir in the Ukraine, while attending to his duties," says the "Chief". "I am publicizing this case because it casts light on the mismanagement and lack of discipline of the 'Kommune' in the Reich Commissariat, which most seriously threatens the supply situation of the front. "Gerstmeier was not murdered, as might be assumed in the homeland, by Russian guerrillas. He was wiped out by the automatic pistols of S.S. assassins while trying to prevent the plundering of a Reichsbahn freight car. Here are the facts.

Requisitioning Party--"On September 16, five trucks of the S.S. Security Police pulled up in front of freight depot 14 along the Eastern Railway terrain, outside of Zhitomir. The leader of the column, according to the rank insignia, was an S.S. Obersturmfuehrer. He displayed to Freight superintendent Wollmann a requisition form and demanded that the meat packed in the shed be handed over. Wollmann, who had heard of similar requisitioning campaigns of the S.S. and knew that the meat and other victuals were Army property, called an employee to fetch Gerstmeier who just happened to be on an inspection tour of the area. The S.S. plunderers apparently had not reckoned with Gerstmeier's presence.

Refused Request--"Gerstmeier not only refused to give up the goods, but declared the requisition form to be inadequate and suspicious, and said that he would get in touch with the proper S.S. official to call this to his attention and put an end once and for all to similar excesses. At this declaration of Gerstmeier, shots rang out at once. Gerstmeier was hit by five bullets in the chest and abdomen and died soon afterwards from his wounds. An employee named Erich Scarbati, who wanted to help, was likewise shot.

Tragic Results--"Wollmann was brought to the military hospital in Zhitomir with a head wound. The S.S. murdering thieves escaped in their trucks. All facts contained in the requisition form, as learned from Wollmann, proved to be the purest swindle. The names of the perpetrators could not be learned. What

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other result could be expected, if the investigation is in the hands of the S.S. Railway Police and the S.S. Security Service.

Wide-Spread Food Raids--"This is not an individual case. Everybody knows about the food trains that are stopped and emptied, and about food depots that are confiscated by the S.S. Everywhere the thieving commandos of the S.S. appear in their trucks and obtain, by means of bribery, threats, or violence, food and other supplies that they are not entitled to. On September 8, S.S. thieves cleaned out an entire flour mill near Dniepropetrovsk, and the night of August 25-26, according to a report of (Colonel von Weggener), the S.S. made a night-raid on the slaughterhouse in (Zhartunka). They seized all the meat and in the course of their action seriously wounded Corporal Leininger and Private Arthur Wittich.

S.S. War Effort--"Such are the special contributions of the S.S. to the supply struggle in the Ukraine, the products of which are already so sparse that the various civil and military authorities fight each other for every scrap that is produced. And that in a country which, if rationally administered, could supply the fighting front as well as its own population. But thanks to the mismanagement of the Rosenbergs and Kochs and Oppermanns and (Schoenes) and Co., the Ukraine has produced such a skimpy harvest that it has become necessary to bring food supplies from the outside with the greatest transport difficulties and sacrifices.

Faulty Kolkhoz System--"The reason for this is to be found in the basic error of mismanagement by the Reichcommissariat: It lies in the Kolkhoz economy, against which the experts of the Wehrmacht warned from the very beginning. But Rosenberg, that 'Kommune' Viceroy of the East with his Bolshevist ideas, carries on precisely the same murderous Kolkhoz business, which previously under Moscow robbed the peasants of all personal initiative, and renders impossible any agricultural upswing.

Same Bolshevist--"Even if Rosenberg calls his Kolkhozes 'agricultural communities' a thousand times, and assures us a thousand times that this is only a transitional period, it is still the same Bolshevist...that he is carrying on. The only difference is that instead of Russian Commissars, 'Kommune' Commissars are ruining the land. Stop it! Stop the Kolkhoz economy, and the S.S. thieving commandos, otherwise we will have a still...harvest in 1943 and a... supply set-up in the east, than we have now.

Homefront Bolsheviks--"The Gerstmeyer case and the whole swinish business in the Reichcommissariat prove once again that if we want to beat the Bolsheviks out there on the front, we have to get rid of the slackers and homeland Bolsheviks in the rear, and that will happen only when the administration and security of the conquered territories and the homeland is taken out of the hands of the 'Kommune'... and is placed in the hands of those men who administer, protect, and keep order."

(Federal Communications Commission, September 30, 1942)

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE October 1, 194

TO Secretary Morgenthau
FROM Mr. Hoflich

Subject: Japanese and United States Pacific Naval Losses

1. U.S. Naval communiques dated September 22-30 reveal the following additional Japanese and U.S. naval losses in the Pacific:

a. Japanese:

- (1) Aleutians - one transport or cargo ship sunk, two submarines damaged.
- (2) Solomons - three cruisers damaged, one transport probably sunk, and several damaged, one seaplane tender damaged.

b. United States: Solomons - one destroyer and three transports sunk.

2. Losses announced in U.S. Naval communiques since Pearl Harbor total:

- a. Japanese - 153 vessels sunk, 26 probably sunk, 116 damaged.
- b. United States - 45 vessels lost, 12 damaged.

Table I

Total Japanese Vessels Sunk and Damaged to Oct. 1, 1942

Combatant Vessels

Type	<u>Sunk</u>	<u>Probably Sunk</u>	<u>Damaged</u>	<u>Total</u>
attleships	0	0	5	5
ircraft carriers	6	1	4	11
uisers	11	3	24 *	38
estroyers	26	8	13	47
marines	6	0	7	13
nders	0	1	4	5
hers	<u>13</u>	<u>2</u>	<u>14</u>	<u>29</u>
Totals	62	15	71	148

Non-Combatant Vessels

et tankers	10	0	4	14
ansports	25	6	13 *	44
rgo and supply	44 *	3	12	59
scellaneous	<u>12</u>	<u>2</u>	<u>10 *</u>	<u>24</u>
Totals	91	11	39	141

TOTAL ALL TYPES	153	26	110	289
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Also several additional vessels.

Table II

Japanese Vessels Sunk and Damaged in Major Strategic Areas

I. Aleutian Islands (June 15 - Sept. 30, 1942)

Type	<u>Sunk</u>	<u>Probably Sunk</u>	<u>Damaged</u>	<u>Total</u>
cruisers	1	0	5	6
destroyers	6	1	2	9
submarines	0	0	5	5
transports	2	0	4	6
argo and Supply	1	0	5	6
minesweepers	2	0	0	2
miscellaneous	<u>1</u>	<u>0</u>	<u>1</u> *	<u>2</u>
Total	13	1	22	36

II. Solomon Islands (August 7 - Sept. 30, 1942)

battleships	0	0	1	1
aircraft Carriers	0	0	2	2
cruisers	0	0	7 *	7
destroyers	1	1	3	5
submarines	1	0	0	1
tenders	0	0	1	1
miners	0	0	1	1
transports	1	1	*	2
argo and Supply	0	0	0	0
miscellaneous	<u>4</u> *	<u>0</u>	<u>5</u> *	<u>9</u>
Total	7	2	20	29

Also several additional vessels.

Table III

American Naval Vessels Sunk and Damaged to Oct. 1 - 1942

<u>Type</u>	<u>Lost</u>	<u>Demolished to Prevent Capture</u>	<u>Damaged</u>	<u>Total</u>
Battleships	1	0	1	2
Aircraft Carriers	2	0	0	2
Cruisers	1	0	2	3
Destroyers	11	1	6	18
Submarines	2	1	0	3
Torpedo Boats	2	1	0	3
Submarine Tender	0	1	0	1
Ex. Seaplane Tender	1	0	1	2
Mine Craft	5	2	0	7
Miniboats	3	1	0	4
Miners	3	0	0	3
Gas	0	1	0	1
Transports	4	0	2	6
Target Ship	1	0	0	1
Coasting Drydock	<u>0</u>	<u>1</u>	<u>0</u>	<u>1</u>
Total	36	9	12	57

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NUMBER 51

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OFFICE OF STRATEGIC SERVICES

THE WAR THIS WEEK

September 24-October 1, 1942

Printed for the Board of Analysts

Copy No. 6

The Secretary of the Treasury

SEPTEMBER 24—OCTOBER 1, 1942

SECRET

Office of Strategic Services

THE WAR THIS WEEK

While the Germans continue to hew their way slowly into Stalingrad, both the Russian public and, especially, high Soviet officials are asking insistently for the early creation of a second front. Hitler's speech of Wednesday lends itself to the interpretation that, with the fall of Stalingrad, the Germans intend no further large scale operations on the eastern front this autumn. The Nazis have, however, made preparations for an attack on Leningrad, and the Finns are reported to be debating as to whether they shall cooperate.

As Laval ousted from his cabinet the notorious collaborationist Benoist-Méchin (presumably for an intrigue with the Germans and the Doriotists), it became evident that Nazi pressure was increasing and that the position of Laval is highly precarious. The latter is reluctant to conscript French workers and his campaign for labor volunteers has failed to approach German demands; as a sop to the Germans, it is reported that Vichy is now releasing to them a considerable number of interned foreign ships.

While the British are mopping up in Madagascar, General de Gaulle has arrived in London, presumably to discuss the future administration of the island as well as current difficulties in Syria. The lull in Egypt continues. The enemy has clearly assumed defensive positions and there is no great likelihood of his renewing the offensive in the immediate future.

With a return to relative normalcy in the urban centers of India, left wing peasant leaders are apparently organizing a rural movement in behalf of the Congress Party which may well produce considerable violence.

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Meanwhile in New Guinea the Australians have forced the Japanese back toward Efogi, but reinforcements and the enemy's rapid development of the supply route from Buna will doubtless make him difficult to dislodge from this mountainous and jungle-clad area. Current Japanese expansion in the Gilbert Islands will give the enemy bases from which he could harass the Allied trans-Pacific supply line to Australia.

Street Fighting in Stalingrad

The tenacious defense of Stalingrad has continued for another week, although the Soviet forces are now probably split into two or three disconnected groups. Masses of wreckage have impeded the German attack and have aided the Russians in their street-to-street defense. The latter have even been able to bring in some reinforcements and to counterattack from the north. In the last few days, however, the Germans have bettered their positions in the center of Stalingrad and are now advancing into the northern part of the city. Meantime, the German air force has bombed Astrakhan, Saratov, and Soviet communications along the Volga.

To the south, the Nazis, while noting progress in the Grozny area, have failed to claim any concrete gains. Reports suggest that they are now sending reinforcements to this area. In the Circassian Mountains, they have apparently penetrated the Goitkh Pass and are approaching Tuapse, the last Black Sea port remaining to the Russians in the North Caucasus.

On the center and northern fronts, the Germans have counterattacked in the Rzhev sector, while before Leningrad, Soviet attempts to relieve the city have thus far failed to break through the narrow German-held strip east of the Neva and south of Lake Ladoga. In the Moscow area, the autumn

rains have started. American military observers predict that the condition of the roads in this sector will become increasingly worse until the first hard freeze in November.

Mr. Willkie and the Second Front

Mr. Willkie's reception at Kuibyshev was extremely cordial. But nearly everyone he saw, even down to the workers of an aircraft factory which he visited, asked him when the Allies would establish a second front. Mr. Willkie's adroit parries included such statements as that the American public desired such a front, that he himself expected it would be established shortly, that such a front should be opened "at the earliest possible moment our military leaders will approve," and that he personally would do his best to advocate "active" aid for Russia when he returned to this country.

Meantime, public Soviet appeals for a second front have continued to be of a temperate and persuasive character. The *Information Bulletin* of the Russian Embassy in Washington points out the significance of Russian offensives on the Eastern Front in 1914 and 1916 in easing German pressure on the Western Allies, and concludes: "The experience of the first World War indicates that one of the decisive factors in the defeat of Germany was the unity of effort of the Allied powers." The Soviet radio has similarly tried to convince its English-language listeners by the reasonableness of its arguments rather than by threats or warnings of imminent Russian collapse—asserting that the Soviet forces are fighting the battle not only of their own country, but of "all mankind."

Furthermore, Russian broadcasts have claimed that the "overwhelming majority of the men and women of the United States and of the freedom-loving people everywhere" are convinced of the need "for immediate offensive action in Western Europe, which is now long overdue. . . ." Now is the time, the Russian radio insists: "Never was it more

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auspicious or more necessary than now to launch a powerful offensive against Hitler in the west, while 90 percent of his horde are tied down in the gigantic and desperate battle on the distant Soviet front." Quoting a press despatch from Ottawa, the Russian radio criticizes "the defeatist attitude of those who argue the impossibility of a continental invasion."

In contrast to the comparative temperance of these radio appeals, a high-ranking Soviet official, speaking off the record, has presented the Russian position in unvarnished terms. A second front, he asserts, is an immediate necessity, first, to maintain popular morale and trust of the Government in the Soviet Union; second, to bolster morale in the occupied countries; third, to shorten the duration of the war. The Egyptian campaign, he adds, is definitely not enough. But an "additional African Front" would be satisfactory if it diverted a sufficient number of German troops to enable the Russians to take the offensive. After enumerating the British, American, and Canadian troops in Britain, this Soviet official has concluded that all that is lacking is determination.

Soviet Desperation

In conversing with Mr. Willkie, Foreign Minister Molotov assured him that the Russians would hold the Caucasus and that they did not plan to give up Stalingrad. Stalin was evidently a good deal less optimistic. Furthermore, other important Soviet officials have recently prophesied the loss of Stalingrad and the Caucasus and the reduction of Moscow to a condition of siege similar to that of Leningrad. This prospect, they declared, was causing a slump in Soviet morale extending even to the armed forces.

One official has added that Molotov's trip to Britain and the United States was a terrible mistake, since it aroused in Russia false hopes of a second front. In December, he

declared, the removal of 20 Nazi divisions from the Eastern Front to ward off an Allied invasion would have given adequate relief to the Soviet Union; in June, the departure of 50 divisions would have been sufficient. But now, the withdrawal of at least 100 divisions would be necessary. At least one high-ranking army officer has gone still further—asserting that large elements in the Anglo-Saxon countries would like to see Russia and Germany fight it out until they were both exhausted, when Britain would be able to seize control of the Reich. British official reluctance to talk of the current status of Rudolf Hess, he offered as evidence of such a plan.

The Finns Debate Their Strategy

For two weeks now the Finns have been actively debating whether to take part in a Nazi offensive against Leningrad, according to advices from Helsinki. The General Staff apparently favors the scheme, while President Ryti and Marshal Mannerheim oppose it—evidently fearing the political consequences, especially as regards Finnish relations with the United States. According to the same source, the siege guns from Sevastopol were moved up to the Leningrad area about August 17, while the railroad between Narva and the Leningrad front is now closed to civilian traffic.

In a speech to the Diet on September 25, Premier Rangell, after referring to the Finnish "brotherhood in arms" with Germany, declared that "the changes in the attitude to Finland of certain foreign powers . . . have not induced us to adopt a different line of foreign policy than the one . . . dictated by our country's vital interests." Similarly, President Ryti has declared privately that the United States is primarily responsible for any deterioration in relations between the two countries and is willing to see Finland overcome by the Soviet Union. Meantime, an official statement that Marshal Mannerheim will no longer see military at-

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tachés of the United Nations has added to the coolness of Finnish-American relations. Toward the British the Finns are still more unfriendly; Finnish seamen apparently believe that the Soviet submarines which, they say, have sunk as many as 20 ships in the Baltic, are under the command of British officers. Further evidence of increasing Finnish dependence on the Nazis appears in the report that the Finnish Secret Police is now under the control of the German Gestapo.

Intrigue against Laval

From all quarters the present Vichy regime is the object of attacks and pressures. Laval has ousted from office Benoist-Méchin, an active and ambitious collaborationist, who had apparently been dealing behind the scenes with German officials and with members of Doriot's *Parti Populaire Française*.

The danger of the latter combination has apparently been sufficient to warrant summoning Noguès to Vichy for a general discussion with Laval regarding the suspension of all Doriotist activities both in France and Morocco. One report from Casablanca claims that, although they realize that they may be obliged to flee to North Africa, Pétain and Laval have decided to oppose any further attempts by the *Parti Populaire Française* to plot their overthrow with German aid.

The Benoist-Méchin-Doriot threat has also appeared in North Africa. An attempt to kill Noguès in a plane crash is reported, in which an active member of the *Parti Populaire Française* (who recently arrived in Morocco with a special travel order from Benoist-Méchin) has admitted complicity. After a telephone conversation with Laval, Noguès has been ordered to ship this agent back to Vichy. And in this connection, Admiral Darlan is said to be going to Casablanca

on October 10, with the ostensible intention of inspecting the troops.

Informants at Vichy agree that the immediate future of the Laval Government is uncertain, but in general they feel that the Germans are probably not yet ready to install a *Gauleiter*. The Nazis may rather temporize with Laval, keeping him politically alive on a day to day basis, even if the labor returns are below demands. Pétain is reported to have refused to consider Doriot, but one informant questions whether the Marshal could not be softened on this point.

French Shipping and Labor

At the same time German pressure for French shipping and labor persists. Thirty-six foreign ships, totalling approximately 127,000 tons, are at present being turned over to the Axis, according to a reliable report from Vichy. These include former Norwegian, Dutch, Danish, and Greek vessels held by the French.

On the labor front Laval has published three decrees supplementing the new labor law, but he appears to be reluctant actually to apply the labor mobilization measure. He has stated that he has reached no agreement with the Germans to use force in executing the decree, and that he would resign rather than try to conscript French workers. Although admitting that thus far not more than 18,000 skilled workers have gone to Germany (compared with demands for 150,000), Laval still hopes to raise a considerable number by promises and threats, without use of actual force. In a clever press campaign he presents the problem under the headline, "The organization of labor and the relief of prisoners," and cites the "new and substantial advantages" that will accrue to the families of volunteers. Late reports indicate that the Nazis may be content with fewer than 150,000 skilled workers, and may waive the mid-October deadline tentatively established.

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The British Mop Up in Madagascar

Events in Madagascar continue to progress toward the establishment of full Allied control. The purposes for which the occupation was undertaken may now be considered substantially achieved. The British, despite determined resistance between Tananarive and Antsirabe, are steadily pursuing their drive to secure all vital lines of communication. Meanwhile the transition to military government, based on cooperation with the local authorities, seems to be proceeding favorably. The volatile population of the capital received the occupying troops with cheers, and the tricolor still flies in conformity with Anglo-American declarations that Madagascar's status as French territory is unaltered.

Meanwhile Fighting French headquarters announced that General de Gaulle had arrived in London from Brazzaville. Observers assumed that the future administration of Madagascar, as well as the situation in Syria, would be central in his conferences with the British. It remains to be seen how far London will accede to the Fighting French demand for control of Madagascar's civil affairs.

Axis Defensive in Egypt

In Egypt and Libya action has been limited to patrols and artillery exchanges. Recent British raids and reconnaissance indicate further regrouping of Axis forces in clearly defensive positions. The Afrika Korps has been divided and is now being used to support the Italian motorized and armored divisions that occupy most of the forward positions. The enemy also appears to have established strong points to resist British raids on his rear communications. Meanwhile Allied planes and submarines have taken a steady toll of Axis shipping in the Mediterranean.

The determined resistance of the Russians may have had an important effect on the Egyptian campaign. At a time

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when the battered British Eighth Army and the Allied air arm were being reinforced on a very considerable scale, Rommel was denied any large land or air reinforcements. Observers suggest that this must be explained either by the extent of German commitments in Russia, or by deliberate German policy of maintaining Rommel in North Africa primarily to cause the diversion of Allied strength and Allied shipping around Africa to the Near East.

Syrian Imbroglia

On his visit to Beirut Mr. Willkie was immediately ensnared in the Anglo-French rivalries in the area. The British had hoped to present a sort of Anglo-American demonstration of unity, and the French made every effort to enlist Willkie support of the De Gaullist position. Mr. Willkie himself appeared to be most interested in meeting the local Syrian and Lebanese leaders, and was much impressed with President Naccacche of the Lebanon.

Rural Agitation in India

Events in India still reveal a contrast between the comparative quiet of the cities and continued agitation in the rural areas. Although many textile mills in Madras and Ahmedabad are still closed, most of the mills in Bombay, Nagpur, and Calcutta are now in operation. The Tata steel works at Jamshedpur are working at near capacity. In an effort to keep manufacturing establishments open during possible further disturbances, the Government has raised its "dearness allowances" for railroad workers, and increased allowances for other laborers are expected. New Delhi observers also expect an increase in Army privates' pay from 23 to 30 rupees a month.

In the countryside, signs of a developing Congress move-

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ment paralleling irresponsible outbreaks of violence have been apparent during the past month, according to an observer on the spot. With the regular Congress leadership in jail, left-wing peasant leaders are organizing the movement. Many of them believe that only violence can drive out the British, our observer continues, and that Gandhi's statement just before his imprisonment that he was launching his "greatest" campaign, a "do or die" effort, constituted a tacit permission to his followers to use violence. Rural blacksmiths are now fabricating crude, home-made weapons. One peasant leader has stated in confidence that the planned movement may not break out until December, but that then it will be irresistible.

Meantime, the Indian press is carrying an increasing number of stories about the current civil disturbances. Although the Council of State in its final session at New Delhi refused to lift the censorship, the Government has apparently relaxed press restrictions on its own initiative—probably in an effort to convince opinion of the gravity of the situation. Already it has told the Central Legislature that stronger police forces than those now available will be necessary to keep the disturbances in hand.

Japanese Reverses in the Southwest Pacific

In the Port Moresby region, the tenuous Japanese supply line has been steadily battered, and in one 3-day period over Guadalcanal, American Army, Navy, and Marine fighters destroyed 42 enemy aircraft and damaged 3 others without loss of a single plane in combat. The chief reverse of the Japanese, however, appeared to be developing in the Port Moresby region, where for the first time since the Japanese landed at Buna on July 21-22, Allied troops were assuming the initiative.

Here, the fire of British 25-pounders (about the same

caliber as our 105-mm. field guns) was apparently instrumental in halting an enemy movement south of Ioribaiwa Ridge late last week, and in opening the way for an Australian attack later which has dislodged the Japanese from their positions on the Ridge and driven them back toward Efogi.

The disadvantages under which the Japanese are operating in this area are tremendous. Their supplies must be packed in on a track which traverses almost the width of the Owen Stanley Range, and it is constantly subjected to bombing and strafing attack. The Japanese nonetheless have succeeded in transporting some light artillery pieces of their own across the range, as well as the light mortars ordinarily carried by their jungle and mountain fighters. They are reported now to be in process of constructing a corduroy road from Kokoda, their advance base, toward Efogi. Japanese troops in the area are estimated to number some 5,500 men, complete with units of cavalry, engineers, and mountain artillery. As the fighting again returns to the dense jungles and high mountains of the interior, these troops will not be easily defeated.

Movements in the Solomons, Gilberts, and Aleutians

Aside from air activity, the Solomon area was relatively quiet. Fairly sizeable naval units were sighted in the northwest, centering on the Japanese base at the southern tip of Bougainville Island, but neither battleships nor aircraft carriers have been reported in this sector for some time. Gizo, a small Japanese-held island in the New Georgia group, has apparently been evacuated. Within easy range of our aircraft on Guadalcanal, Gizo had been attacked regularly since the Japanese first began developing it as a forward base against our own newly-won positions in the Solomons.

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In the Gilberts, however, Japanese expansion continues. From bases in this island group, which lies not far south of the heavily fortified Marshall Islands of the Japanese Mandate, the Japanese might hope both to secure their own line of communications from the Marshalls to the Solomons and to interfere with the Allied supply line from Hawaii to Australia and New Zealand. Makin, the northernmost of the Gilbert Islands (which are British possessions), was seized at the outbreak of the war and since that time has been twice raided by American naval forces—the first time on the occasion of our first offensive naval action in the Pacific on February 1, and again on August 17 when Marines landed and destroyed all installations. The island has since been reoccupied, and Japanese control is known to have been extended in the past six weeks to other islands in the group. The Japanese have been busily engaged meantime constructing defenses. So far these efforts appear to have proceeded without significant opposition.

In the Aleutians, the Japanese apparently have evacuated their garrison from Attu Island, consolidating these troops with others on Kiska, their main base (200 miles to the east). Ships and shore installations at the latter base were bombed this week by a combined force of Canadian and American aircraft—the first of such operations. Of ten float planes sighted in the harbor, six were destroyed, and another was shot down in air combat.

Supplies for China through Russia

The U. S. S. R. has agreed in principle to permit shipment of supplies for China over the Trans-Caspian and Turk-Sib Railroads, and a conference will soon be convened to work out procedures, according to a highly placed observer. Chungking's representative in Russia expects that the Soviets will agree to permit movement of 19,000 tons of goods a

year by rail from Ashkhabad (on the Iranian border) to Alma Ata or Sergiopol, and that the Soviets will supply 4,000 tons of gasoline and 1,000 tons of lubricating oil a year to maintain truck service through Chinese Turkestan. In return the Russians will expect annual Chinese deliveries of 4,000 tons of strategic materials (tin, tungsten, tung oil).

Russian permission for the use of Soviet railroads provides the necessary link in a supply line which will run from Karachi to Zahidan (Iran) by rail; Zahidan to Ashkhabad by Iranian highway; Ashkhabad to Alma Ata or Sergiopol by Trans-Caspian and Turk-Sib Railroads; Alma Ata or Sergiopol to Lanchow and Chungking by Sino-Soviet Highway (*The War This Week*, July 23-30, pp. 21-23).

The distances involved and the difficulties of fuel supply make it doubtful that this route can be sufficiently expanded to provide a complete solution to the problem of regular and substantial deliveries of supplies to China. However, the some 1,500 tons a month of materials which are to be moved under the prospective agreement will be a timely and important contribution to Chinese needs. The India-to-China air transport service has not as yet approached this rate of delivery. Moreover, the Soviet agreement to permit passage of supplies for China through its territory is not without significance. Presumably, the Soviets are no more desirous of provoking the Japanese than they have formerly been, and the Russian gesture seems to indicate some Russian concern over the Chinese need for supplies, and some belief that the delivery of these goods is worth the sacrifice of transport facilities entailed.

Politics in Turkestan

Meanwhile, Chungking has run into difficulties in its attempts to secure complete control of Sinkiang, the hitherto autonomous and Russian-influenced province through which

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the new supply line runs. Sheng Shih-ts'ai, long-time provincial war lord, has not been unwilling to cooperate with Chungking in ridding himself of some Chinese Communist rivals. These Communists have now been ousted from the local administration, according to a reliable source. But Sheng gives no signs of abdicating his own power, and Chungking does not feel that it can rely on him.

General Ho Yao-tsu, chief aide-de-camp to the Generalissimo, has been proffered the governorship of the province by Chungking. General Ho refuses the honor unless all provincial armies are placed under his control. The question as to the command of Sheng's army, which includes the White Russian brigade he recruited some years ago, thus remains the chief stumbling block to complete Kuomintang control. And Sheng Shih-ts'ai, who has long managed to combine use of White Russian troops and reliance on Soviet political support, is not likely to yield without a good bargain.

Continued Speculations on Japanese Intentions

Reports still indicate a wide variety of opinion as to probable Japanese intentions. General Wavell has stated that it is unlikely the Japanese will tackle anything so formidable as India or Australia under present circumstances but that sooner or later they will attempt to "remove the Russian menace" and "settle up the China business." A high Finnish official has warned of Japanese preparations for a "major land and sea campaign" directed against either Russia or the United States. Madrid's envoy to Japan is responsible for a report that the Japanese have already failed in an attempt to mediate the Russo-German conflict and are not likely to make another move.

General Chennault, on the other hand, believes that the next Japanese drives will be designed to strengthen Japan's two exposed flanks, the Solomons and Burma. As if to

underline the prediction of impending Japanese action from the Burma base, United States Army Air Forces in China have renewed their raids on Japanese lines of communication west of the Salween River.

Brazil Continues Drive against Axis Agents

The police drive against the widespread and deeply-imbedded fifth column in Brazil resulted in the arrest last week of members of an Italian espionage ring in Rio de Janeiro and a number of German priests and nuns in the southern State of Santa Catarina. The German clergymen are accused of operating secret radio transmitters hidden under the altars of cemetery chapels. Their arrest corroborates reports, long current, that the Nazi overseas organization utilized certain members of German Catholic religious communities and the ministry of German Protestant congregations for propaganda and espionage purposes.

The Italian prisoners, headed by Papal Count Edmondo di Robilant, socially prominent official of the former Italian trans-Atlantic Lati airline, transmitted news of ship movements in the South Atlantic through a short-wave sender hidden in a rabbit and guinea pig farm. These prisoners are believed to be the agents from whom the Axis radio received news last March that the Queen Mary had docked at Rio de Janeiro.

Toward National Unity in Mexico?

Recent trends in Mexico indicate that President Ávila Camacho is gradually developing a basis on which to build a government of national unity capable of fulfilling Mexico's war commitments to the United Nations. After appointing ex-President Cárdenas as Minister of Defense, he has named General Abelardo Rodríguez, also an ex-President and one

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of Mexico's most important business leaders, to the new post of Coordinator of War Economy and Production. Far apart on domestic issues, Cárdenas and Abelardo Rodríguez fully support the government's international policy. Together they symbolize something approaching national unity, with Cárdenas representing organized labor and the peasantry and Abelardo Rodríguez representing Mexican industry, particularly that part associated with United States capital. In this connection, the appearance of all six living ex-Presidents with Ávila Camacho on the balcony of the Presidential Palace at a recent patriotic celebration was dramatic evidence that the Party of the Mexican Revolution has become broad enough, with Mexico at war, to embrace bitterly opposed rightist and leftist leaders of the past two decades. It was a display of internal harmony unprecedented in Mexican history.

Nevertheless, outside the "revolutionary family", President Ávila Camacho appears to be receiving considerably less than complete support in his plea for national unity. The term, to be sure, is widely used by intransigent ultra-reactionary and "New Christian Order" groups, such as *Acción Nacional* and the *Unión Nacional Sinarquista*. They also call for national unity, not for support of the war (about which they make demoralizing or at best ambiguous statements), but for the preservation of the family, the restoration of religious education in public schools, the destruction of trade unions, and the annihilation of communism. Actually, their program is creating an atmosphere of civil war, with full support of the less cautious pro-Nazi and Falange press such as *Hombre Libre* and *Omega*. However, with both the conservative and radical wings of the Revolution more firmly united behind his war policies, Ávila Camacho may soon be in a position to move with vigor against what is in effect a native fifth column of considerable strength, which still holds important positions within the government.

APPENDIX I

THE GERMAN TEXTILE POSITION, AUGUST 1, 1942-
JULY 31, 1943

As the result of a large expansion in the output of synthetic fibers, Germany will produce a sufficient quantity of textile supplies during the coming year to cover essential military and industrial needs, but at the same time her textile position will impose severe burdens upon the civilian economy, according to a study of the Economics Division of the Office of Strategic Services.¹ The quality of fabrics will decline to a marked degree, both for military and civilian uses, and civilians probably will be rationed at much less than 70 percent of the 1937 consumption level. This decline in quality of both civilian clothing and textile goods in general, coupled with a situation in other consumer goods which is less satisfactory than that of previous years, may very well mean that civilian morale will become a problem of outstanding importance during the coming winter, the report declares.

Germany has now exhausted not only her own reserves of textiles and textile fibers, but also those of the occupied countries. There is, moreover, no prospect of improvement in the German textile position, unless the Nazis conquer Egypt and obtain full economic collaboration from Turkey. Indeed, progressive deterioration of the German position is more likely, although minimum military and industrial needs will be met.

Supplies Available to Germany

Table I presents estimated prospective German supplies available from current production. The figures are broken down by type of fiber and, where possible, by source. A brief discussion of each estimate follows:

¹ This presentation is a summary of a larger study which analyzes in detail German sources of textile supply, and the probable pattern of consumption.

TABLE 1.—German Prospective Supplies of Textile Fibers—Aug. 1, 1942–July 31, 1943

[In metric tons]

	New wool and animal hair (scoured basis)	Recovered wool	Cotton ¹	Rayon and staple fiber ²	Flax, jute	Hemp, etc. ³
German Domestic Production ⁴	10,000	47,000		500,000		
Turkey.....	1,000		3,500			
Bulgaria.....	3,000		5,000			
Greece.....	1,000		3,000			
Rumania.....	2,500		1,000			
French North Africa.....	10,000		5,000			
Italy.....			2,000			
France.....						
Hungary.....	6,000	2,500				
Yugoslavia.....	2,750					
Czechoslovakia, Poland, Estonia, Latvia and Lithuania.....						
Spain.....	1,000					
Portugal.....	2,000					
Russia.....	2,000	10,000				
Total.....	42,000	59,500	19,500	500,000		430,000

¹ Recovered cotton and rayon have not been included in available textile supplies, since it is unlikely that any appreciable amount of such materials will be gathered and used for textile purposes; such materials will be used for paper-making, mattress stuffing, etc.

² Not including paper substitution.

³ Including the Old Reich, Austria, the Sudetenland, Alsace, Lorraine, and Luxembourg.

⁴ Total only; no attempt at country breakdown.

1. *New Wool and Animal Hair.* German supplies of wool can be increased above the total given (42,000 metric tons) only if the Germans gain command of the resources of Turkey. If, on the other hand, Germany were to lose all supplies of wool currently imported from North Africa, the new wool available to her in 1942-1943 would be decreased by 25 percent. Otherwise, the German situation has reached a relatively stable position and is not likely to change significantly during the next two or three years.

2. *Recovered Wool.* The total tonnage in recovered wool likely to be available to Germany is difficult to estimate, but the largest amount will be salvaged from the armed forces themselves. If we take into account the number of men under arms, the amount of textile equipment issued (with allowances for organizational and regional differences), and the thoroughness with which the Germans salvage textile materials on the battlefield, 37,000 tons of wool can probably be recovered from this source. The civilian population has already been deprived of great quantities of its woolen clothing and blankets, and probably no more than 10,000 tons can be added from this source. If we assume that there will be a decline in the number of Russians taken prisoner in the coming year, and that the Russian salvage and reclamation corps will itself leave less for the Germans to pick up, the increment of recovered wool from this source may also be placed at about 10,000 tons.

3. *Cotton.* Germany can increase her supplies of cotton above the estimate in Table 1 only if she gains control of the resources of Turkey and Egypt. Turkish cotton would not be so necessary if Germany were able to conquer Egypt, where as much as 100,000 tons might be available from the current crop, and considerably more if accumulated stocks (estimated at 200,000 tons as of October 1, 1942) were not removed or destroyed in time to avoid capture. As with wool, however, the cessation of imports from North Africa would reduce the German cotton supply by some 25 percent. (It is improbable that the Germans could obtain control of Uzbekistan and Turkmenistan, the chief Russian cotton producing centers, during the period under discussion; hence this source has been excluded.)

4. *Rayon and Staple Fiber.*¹ German output of synthetic fibers is adequate to meet essential needs. In this connection, Germany has encouraged the expansion of synthetic fiber production in the occupied countries, especially in France and Belgium, so that these countries may meet part of their textile requirements while the Nazis continue to strip them of their more valuable natural fibers (e. g., wool, hemp, and flax).

5. *Industrial Fibers.* The estimate of 300,000 tons of industrial fibers is based on a study of prospective 1942 European production of flax, hemp, jute, and other industrial fibers, and of the part of total production that is likely to come into German hands. Of the total estimate, 20,000 tons represent prospective imports of palm fiber and alfalfa grass from French North Africa.

The Allocation of Available Supplies

1. *Military Consumption.* From the available supplies, military needs will be met first. Table 2 presents a breakdown of estimated military consumption for the coming year, based on the assumption that military, police, and other uni-

¹ Staple fiber is rayon filament which has been cut into short pieces so that it can be spun, like cotton or wool.

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formed forces of approximately 11,240,000 persons will be maintained throughout the year. Total requirements of textile goods for one year for these forces amount to about 157,700 tons (79,600 tons of wool and 78,100 tons of cotton and staple fiber).

TABLE 2.—Estimated German Military and Semi-Military Textile Requirements—Aug. 1, 1942–July 31, 1943

Organization	Number of men	Initial issue ¹ (metric tons)		Annual maintenance ¹ (metric tons)	
		Wool	Cotton and staple fiber	Wool	Cotton and staple fiber
Army.....	6,990,000	90,200	89,600	62,200	61,000
Paratroops.....	50,000	4,500	4,500	2,300	2,300
Air Force.....	1,500,000	13,600	13,600	5,400	5,400
Navy.....	200,000	1,800	900	700	700
New call-ups.....	500,000	6,800	6,800	6,800	6,800
Uniformed non-military personnel ⁴	2,000,000	6,300	2,700	2,200	1,000
	11,240,000	123,200	118,100	79,600	78,100

¹ Because of geographical and organizational differences, the estimates range from 7 to 35 pounds of wool per man, and from 3 to 35 pounds of cotton per man.

² Because of geographical and organizational differences, the estimates of annual maintenance range from 35 to 80 percent of initial issue.

³ Counted as annual maintenance for 1942-43.

⁴ Policemen, firemen, postal workers, railway workers, women's corps, etc.

If events on the Russian front should allow Germany to demobilize large numbers of men and put them to work on farms and in factories, military requirements would of course be reduced. The demobilization of 3,000,000 men for an average period of six months between now and the end of July 1943, would reduce military consumption by 25,000 to 30,000 tons. These men would require civilian clothing, however, so that the net gain would not be great.

It is apparent that Germany has neither enough cotton nor new wool to meet her present military requirements. All of the 42,000 tons of new wool and animal hair probably will be used for military purposes, the deficit of nearly 38,000 tons being met by using recovered wool and synthetic fibers in about equal quantities—about 19,000 tons of either. Less than 20,000 tons of cotton will be available and all this, too, probably will go to the army, for use in clothing, bandages, canvas, and other such items. The deficit of more than 58,000 tons will be met by the use of synthetics.

After a deduction for military requirements there remain available for other purposes some 764,000 tons, as follows:

	Tons
Staple fiber.....	423,000
Recovered wool.....	41,000
Flax, hemp, etc.....	300,000
	<hr/> 764,000

2. *Industrial Consumption.* In 1937, Germany had net imports of 275,210 tons of industrial fibers, of which hemp, jute, and flax comprised the chief categories, although fairly large amounts of sisal and coir were also imported. Total consumption of industrial fibers in that year amounted to 315,810 tons. Despite the great changes which war has imposed upon the pattern of industrial consumption in Germany, wartime needs probably are higher than in peacetime. In addition, Germany must now supply Austria and the Sudetenland. An estimate of 400,000 tons of fibers for industrial purposes probably is not excessive. To meet this, German supplies of flax, hemp, and similar fibers will not exceed 300,000 tons in 1942-1943.

Of this latter amount, some 280,000 tons will come from European production of flax and hemp, while 20,000 tons of palm fiber and esparto can be imported from North Africa through France. The remaining 100,000 tons will be obtained by the use of rayon and staple fiber.

3. *Civilian Consumption.* After essential military and industrial requirements are met, at most only 40,500 tons of recovered wool and 323,000 tons of staple fiber remain for civilian use. If we assume a civilian population figure of 70,000,000 (including Austria and the Sudetenland) and also assume that every pound is actually made available to the civilian population, this supply would amount to an average of about 11.5 pounds per capita. Average prewar utilization per person was about 17 pounds.

This supply must cover not only clothing, but blankets, sheets, towels, blackout cloth, carpets, and all other textile products. In all probability, however, Germany will be obliged to export some staple fiber in return for necessary imports and, in the case of the occupied countries, in order to maintain output at the desired level. Moreover, if Allied bombings continue on an increasing scale, the destruction of wardrobes and household textile furnishings which must be replenished will cut significantly into the stock of supplies normally available. Civilian consumption consequently will be reduced to a figure well below the average of 11.5 pounds per person.

The situation created is actually worse than the comparative consumption figures would indicate, since virtually all of the textile materials available to civilians will consist of rayon and staple fiber, which are inferior both in warmth and wearing qualities to the cotton and wool available in 1937. Moreover, these synthetic fabrics disintegrate when laundered with the soap now available to German civilians. Replacement is required more frequently than in previous years. Hence mere quantitative comparisons understate the present civilian situation.

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APPENDIX II
THE GERMAN SUBMARINE FLEET¹
(Revised Estimate)

1. June Estimates

Recent information necessitates a downward revision of the estimates of German U-boat strength presented in *The War This Week*, June 25-July 2, 1942. The schedule of completions in German shipyards as calculated at that time called for an increase in the total number of ocean-going U-boats to about 235 at the end of August. Operational intelligence for August 25, 1942 places the total number at 312. If the operational estimate is accepted and if the assumption of a present sinking rate of 5 per month, rather than the former 4, and of a wastage rate of one per quarter holds true, the discrepancy would suggest a delay of 25 scheduled completions. Factors which may have contributed to these delays, according to British sources, include the unusually harsh winter, and bombing attacks on shipyards. Part of the discrepancy may be due to the inapplicability of the assumed building times to all yards, rather than to actual delays.

2. New Completions, September-December, 1942

Some of the boats whose completion was held up in the June-September period probably will become ready during the period September-December, 1942. Others scheduled for the same period will not come off the ways, since the earlier delays will have prevented the laying of some of the keels scheduled for launching during this fall. Under the assumption that the effects of the two factors will cancel over the latter period, total new completions during September-December will still be in the vicinity of the number predicted in June: 100.

In short, the delays in completion which were suffered in the months preceding August will not have been made up. While the estimated September-December schedule of launchings might be, on balance, fulfilled, the total production program for 1942 would still be lagging as the year closed.

3. Reduction in Rate of Commissioning

Even the assumed increment of 100 ships to the U-boat fleet between September 1 and December 31 will not, however, add that number to its actual, immediate operating strength. A considerable fraction of the fleet will always be "on trial"—new ships making their practice runs, old ships re-trialing and refitting. Operational intelligence indicates, in fact, that the proportion of U-boats on trial is rising markedly. At the end of August, 124 boats were placed in this category. Of these, about 35 had probably been completed during July and August and were doubtless undergoing their first trials. About 45 more are believed to have been refitting and retriailing—on the assumption that some of the May completions were then in service, and that about one-fifth of the total fleet is on trial at any one time.

Subtracting these 80 which would "normally" be expected to be on trial from the total of 124 given by operational intelligence, we find that some 44 ships

¹ This study was prepared in the Economics Division of the Office of Strategic Services.

appear to have been completed before July but were still uncommissioned as late as September. The accumulation of this back-log of U-boats is probably due not only to a shortage of trained crews, but also to operational factors and to the Nazis' failure to construct enough harbor installations on the French coast to shelter safely the increased output of boats.

4. Present Estimate—December, 1942

In tabular form, the predicted German U-boat position at the end of this year can be summarized as follows:

Total strength, end of August, 1942.....	312
New construction.....	100
Ships commissioned from backlog.....	44
	<hr/>
Losses due to enemy action:	456
5 per month.....	20
Wastage:	
1 per quarter.....	2
	<hr/>
Maximum total.....	434

5. Present Estimate of Nazi Atlantic Patrol

Of this estimated maximum of approximately 434 U-boats, about 50 should be undergoing their first trials in December. Boats retrailing and refitting should increase to approximately 65. Accordingly, the Nazis should be able to deploy a maximum of nearly 320 submarines in all areas toward the end of December—as against 190 at the end of August.

If the proportion of the total Nazi submarine fleet assigned to the Atlantic in August should remain reasonably constant, we can expect two-thirds of the German U-boat increase to appear at Atlantic and French ports. This would bring the commissioned strength of the Atlantic submarine fleet from about 140 in August to 220 in December. If the same ratio is maintained between submarines in port and those on patrol (including boats in transit to and from their stations), the total number operating in the Atlantic would jump from about 90 at the end of August to nearly 130 in the last days of December, 1942.

Whether this rise in the size of the Atlantic sub-packs will actually take place is another matter. British bombing raids since April have put a demonstrable crimp in U-boat output, and the Nazis' apparent inability to commission all completed craft may indicate a serious bottleneck in skilled manpower. If Allied air bombardment can be stepped up appreciably, and if the backlog of "non-commissionable" submarines continues its gratifying rise, the German U-boat schedule may fall well short of even our revised prediction.

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APPENDIX III

PUBLIC OPINION IN CANADA: MANPOWER, CONSCRIPTION, AND PARTY ALIGNMENTS

Canada's growing manpower shortage and the continued opposition in Quebec to overseas conscription are symptomatic of significant internal tension—in the view of an OSS observer recently returned from Canada—despite the fact that Canada is outwardly far more tranquil than last Spring.

The Manpower Shortage

The gravest Canadian problem at present is the increasing shortage of manpower brought on by the rival demands of war industry and the armed forces. Women already form about 10 percent of the total of Canada's war workers. Unless women can fill the needs of war industry to a much greater extent than has hitherto been anticipated, it will probably prove impossible to apply the conscription law even in case of need. Should the Canadian forces overseas sustain heavy losses, the enrollment of replacements at home might prove a serious problem. Although Canada is proceeding with plans for the increased use of women in war industry, there are signs of concerted opposition from Catholic leaders, especially in Quebec, who fear that placing women in factories will mean a serious dislocation of home life.

Sentiment in Quebec

The opposition to overseas conscription, expressed in an overwhelming fashion by Quebec in the plebiscite of April 1942 and by Quebec's vote against the conscription bill in the Parliament at Ottawa last summer, is now crystallising into a so-called "political movement" which threatens to become a French Canadian "third party." Its leaders are Maxime Raymond, M. P., long time opponent of Canadian war participation, and René Chaloult, member of the Quebec Legislative Assembly, only recently acquitted of a charge of seditious utterance. Reliable reports suggest that the new party will attempt to wrest control of the Provincial Government and Legislature from the Liberals—whose support of the conscription bill has discredited them with the Quebec electorate. Later on, the new party hopes to gain control of the Quebec delegation in the federal Parliament.

The party platform, not yet formally announced, will probably sponsor unceasing opposition to overseas conscription and a limitation of Canadian participation in the war. Furthermore, the party will doubtless make a determined effort to wrest control of the natural resources of Quebec from the Anglo-Canadian and American interests which now control them. Continued labor troubles at the American-controlled Aluminum Company of Canada's great plant at Arvida, Quebec, might well play into the hands of such a nationalist movement.

The bitterness and discontent of French Canadians which underlie the formation of a third party movement appear in recent Gallup polls taken in Quebec. To a question as to whether they believed that Canada would participate in the present war if the Dominion were not part of the Empire, 33 per cent of the French Canadians asked replied "yes," 59 per cent answered "no," while 8 per

cent were undecided (Anglo-Canadians: 81 per cent "yes," 14 per cent "no," and 5 per cent undecided). To a question as to whether Canada could be considered as a nation independent of Great Britain, only 25 per cent of the French Canadians asked replied "yes" and 70 per cent "no," with 5 per cent undecided. Among English-speaking Canadians the proportions were 52 per cent "yes," 42 per cent "no," and 6 per cent undecided.

More significant still was the answer given by French Canadians to the question whether a Hitler offer of peace based on the status quo should be accepted. Thirty-one per cent of the French Canadians replied that they would approve such a peace, while 59 percent expressed disapproval and 10 per cent were undecided. Among English-speaking Canadians the percentages were 86 per cent disapproving, 9 per cent approving, and 5 per cent undecided. In another poll in which people were asked to state their preference for or against conscription, the percentage of French Canadians voting against conscription increased from 88 per cent in a poll taken in April to 90 per cent at the present time. On the other hand, the percentage of English-speaking Canadians approving conscription increased from 68 per cent in April to 78 percent in August of this year.

The Anglo-Canadians

Anglo-Canadian tempers are rising at Quebec's continued lukewarmness about the war and her continued refusal to accept overseas conscription in a war in which they are convinced the very existence of Canada is at stake. Even among those English-speaking Canadians who are usually tolerant of the French Canadian point of view, the demand is growing that Quebec's extremist press be curbed and that any evasion of military service by French Canadians be dealt with in the sternest possible fashion. Irresponsible elements even go so far as to say that Quebec opposition should be "cleaned up" by force of arms. On the other hand, French Canadian extremists state that since the plebiscite scarcely more than 25 percent of the French Canadians summoned for military service for home defense have answered the draft call. And in Quebec one hears exaggerated stories of insults and threats of violence to the French Canadian population by English-speaking soldiers passing through the province on troop trains.

The C. C. F. Party and Quebec

The two major Canadian parties—Liberal and Conservative—are alarmed at the rising influence of the C. C. F. Party (Cooperative Commonwealth Federation), especially in the west and among the younger generation. In the event of a provincial election in Saskatchewan, prominent Liberals concede that the C. C. F. may well carry the province.

Last summer, the C. C. F. made a decided bid for French Canadian support by throwing its Parliamentary vote against the overseas conscription bill. Anglo-Canadian partisans of an all-out war effort have denounced this maneuver as a repudiation of the party's previous position. Actually, however, the stand of the C. C. F. on the conscription bill was on the whole consistent with its demands—dating back to September 1939—that there should be no conscription of men without a conscription of wealth.

The C. C. F. is now attempting to capitalize on its anti-conscription stand by sending French-speaking political organizers into Quebec for the first time in the

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Party's history. Although the C. C. F.'s brand of mild socialism is not popular with the Catholic clergy, many nationalistically-inclined priests might support the C. C. F. to get revenge on the Liberals for what they consider the "sell out" of Quebec on the conscription issue. If the present trend to the C. C. F. should continue, it is possible that its parliamentary delegation at Ottawa may supplant the Conservatives as the official opposition.

The Dieppe Raid; Canadians and the United States

Canadian reactions to the Dieppe raid were on the whole very favorable. Although distressed by their large losses, Canadians were proud that their troops at long last had figured so prominently in a hazardous operation. Some Canadians resented the exaggerated claims of certain American newspapers that United States Rangers had played an important part in the raid, when they well knew that scarcely more than a handful had been actually involved. Only in nationalistic French Canadian circles was the criticism expressed that Canadians rather than British troops had been chosen for so dangerous an enterprise.

Canadian public opinion, which has been extremely favorable to the United States since the fall of France and the Battle of Britain, seems once again to be veering towards greater dependence on the mother country. While the United States was not a belligerent, it was possible for Canadians to feel that, while cooperating with the United States in defense of this continent, the Dominion was nonetheless playing a superior role as the only North American power which had aided Britain in her hour of need. With the American war effort taking on vast proportions, Canadians are returning to their habitual feeling that their own efforts are overshadowed by those of the United States. Moreover, Quebec's uncooperative attitude towards the war effort is increasing the uneasiness of the Anglo-Canadians and making them more conscious than ever that they themselves today constitute a bare majority of the Dominion's population. The result is a resurgence of colonial-mindedness on the part of Anglo-Canadians throughout the Dominion and a consequent inclination to seek refuge in the age-old ties of Empire.

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