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October 10, 1942
10:02 a.m.

HMJr:had a talk with McCormack....

Herbert
Gaston: I see.

HMJr:and they got one of these New Hampshire-
Massachusetts deals which you and I just can't
understand, you know.

G: I know.

HMJr: Well, anyway the result is for us children that
we're to wait to make this appointment until after
election.

G: Well of - oh.

HMJr: And John will see you during the morning and tell
you about his conversation with McCormack.

G: Uh huh.

HMJr: They're going to telegraph or somebody is from up
there and ask us to hold it up until after -
and McCormack is satisfied.

G: McCormack is satisfied to hold it up?

HMJr: Until after election.

G: And I wonder how - how that'll be with - well, I
suppose whatever is satisfactory to McCormack
will be satisfactory to Flynn then.

HMJr: That's right.

G: All right, all right, I'll talk to John then.

HMJr: Okay.

G: Right.

1-A

October 10, 1942

Last night I called Gaston at nine o'clock, and told him in couched language that inasmuch as the State Department was fore-warned as to what was going on, I thought it was a mistake to seize any State Department pouches. Gaston agreed.

Then we discussed whether we would ask the President about it first, and we thought we would see what pouches turned up before we discussed it with the President. It seems silly to me to unnecessarily irritate the State Department at this time.

October 10, 1942
10:10 a.m.

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HMJr: Hello.

Operator: Mr. Sproul. Go ahead.

HMJr: Hello.

Allan
Sproul: Good morning.

HMJr: Hello, Allan.

S: Yeah.

HMJr: How does it look with the sunshine out?

S: Well, it looks as if we might scrape by.

HMJr: You think so?

S: Well, there's a possibility. It doesn't look too bright, but there's a possibility. We have a billion six twenty here.

HMJr: I don't know what - now wait a minute - a billion - just a minute now, I'm getting a pencil - a - you - a total?

S: Yeah.

HMJr: Total, a billion six twenty. Now is that after you've opened the mail?

S: Well, that's after some of the morning mail. There's still some to come in though. We won't have all the mail till about eleven o'clock here.

HMJr: I see. Well, how much is that an increase? What was it last night?

S: Well, the last night's figure at six forty-five was thirteen thirty-one.

HMJr: Thirteen thirty-one. I see. I see. And then by eleven o'clock you'll know?

S: By eleven o'clock we'll have everything except a few small, scattered ones which wouldn't amount to anything.

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HMJr: Will you call me?

S: I'll do that.

HMJr: Now I didn't call you back last night. I don't know whether Eccles told you.

S: Yeah, he - he did tell me.

HMJr: Because I said that if you wanted to speak to me, I was here.

S: Right.

HMJr: But I - I don't know whether you agreed with me, but I felt there was nothing to be gained by calling up the banks last night.

S: I agreed with you. I think if we wanted to do it, think it's the thing to do, we could do it better this morning.

HMJr: Yeah.

S: And we can - we can move our subscription around anyway or eliminate it.

HMJr: Yeah. Well, you call me just as soon as you think you've got all the mail, will you?

S: I'll do that.

HMJr: Thank you.

S: All right.

HMJr: Thank you.

October 10, 1942

Mr. Morgenthau spoke to the President about 10:45 this morning, and the following is HM Jr's end of the conversation:

"How are you?"

"I have this suggestion to make. Inasmuch as the man you saw after me (Welles) most likely has a pretty good idea what it is all about, our thought was not to examine the State Department's mail because they are fore-warned and it would only irritate them unnecessarily.

"Do you agree?"

"Those pouches were put back yesterday, and I sent you that message through Grace. They are on the boat and the Navy released the boat, and I suppose it has sailed. We haven't heard definitely.

"For the next two days, we will watch the diplomatic pouches of other countries, and perhaps you can give me the final yes or no when I see you at supper tomorrow night.

"I had a terrible migrain headache last night and that is why I asked to be excused. I went to bed right after supper and I thought you would understand."

HM Jr then said the following to Gaston, who was present during the above conversation:

"The President said, 'I think that is okay,' so I would get out orders not to examine any State Department pouches. We will leave it now for the diplomatic pouches coming in and going out of the United States."

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October 10, 1942
11:12 a.m.

HMJr: Hello.

Operator: Mr. Sproul.

HMJr: Hello.

Allan
Sproul: Hello, Mr. Secretary.

HMJr: How does it look now?

S: Well, our scattered mail through the morning hasn't been heavy. The eleven o'clock mail's a little late, but it doesn't look as if there'll be a great deal in that. Our figure now is a billion six two eight.

HMJr: It's just up eight million, eh?

S: Huh?

HMJr: The last was sixteen twenty.

S: Yeah.

HMJr: I see.

S: Do you have any figures from the rest of the country yet?

HMJr: No, but as soon as I have I - I want to - will be talking with Eccles and with you.

S: Yeah. Well, that - on the basis of our figures, we still lack three five if the rest of the country comes up to scratch.

HMJr: Yes. Does that include the hundred million?

S: Yes, it does.

HMJr: For the Postal and M.G.I.C.?

S: Yes, it does.

HMJr: It does. I see. Okay.

S: Well, then I'll hear from you later.

HMJr: Yes, sir.

S: All right.

HMJr: Right.

October 10, 1942
11:43 a.m.

HMJr: Hello.

Operator: President Young.

HMJr: Hello.

2nd
Operator:by President Young.

HMJr: Right. Hello.

C. S.
Young: Hello, Mr. Secretary.

HMJr: How are you?

Y: All right.

HMJr: Mr. Young, how much has come in in your mail this morning?

Y: Well, they're just - the mail was late this morning and they're starting it now, and - a - we're going to get the figures in a few minutes. We actually got in and tallied four hundred million so far.

HMJr: Four hundred?

Y: Four hundred million, and at the - hundred and - two hundred and sixty million of the notes and a hundred and forty million of the bonds.

HMJr: Yeah.

Y: And, of course, their mail was just arrived a few minutes ago, and it will be coming in all day on account of the late trains.

HMJr: I see.

Y: And I think that we'll get Detroit and Milwaukee and all those later on in the day.

HMJr: You haven't got those yet?

Y: And so I think in another hour, why - they're bringing the figures in every ten minutes to me, and in another hour I think we'll have - we'll have the - the - the big subscription in.

HMJr: Good.

Y: And I'll - I'll wire you as soon as - in another hour just exactly how much we have.

HMJr: Good.

Y: But the - we had - we got four hundred million -- four hundred and one to be exact -- up to about nine o'clock this morning.

HMJr: I see. How much?

Y: Four hundred and one million.

HMJr: That was up to nine o'clock?

Y: Yes, and, of course, the mail is just arriving.

HMJr: No, I don't understand. How much - does that mean that that's all that you've got?

Y: That's all that we have in the bank that we've tallied yet. The - the mail is just arriving, you know.

HMJr: No, let me put it to you, how much did you have last night when you went home?

Y: Three hundred and forty-one million.

HMJr: Oh.

Y: And this morning at nine o'clock we have four hundred and one million.

HMJr: I see.

Y: And now, of course, the - the mails are - from Michigan and Wisconsin and Iowa, why, it hasn't been counted yet.

HMJr: I see.

- 3 -

Y: The - it's just arriving.
HMJr: Okay.
Y: And we'll have that in another hour.
HMJr: Right. Thank you.
Y: All right.
HMJr: Thank you.

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October 10, 1942
12:19 p.m.

Allan
Sproul: ...practically complete for us.

HMJr: Yeah.

S: A billion six thirty-two million.

HMJr: Oh-oh. A billion six thirty-two.

S: That's nine sixty-six on the bonds....

HMJr: Nine sixty-six on the bonds....

S:and six sixty-six on the notes.

HMJr: Six sixty-six on the notes.

S: Now that's just - well, that's about forty and seven-tenths per cent of a four billion issue, which is about what our subscriptions and allotments have run on recent previous issues.

HMJr: Yeah.

S: So that on that basis we might scrape by if the rest of the country has come along on the - as - as we have.

HMJr: Well, I talked to Chicago but they said their mail was late, they didn't have it in, and so forth and so on, and so I - I just don't know. Hello?

S: As I see it, I don't think there's anything more to be done, certainly not now, on the banks.

HMJr: Yeah.

S: I think we have to wait and see what the total is and then decide how to make it fit if we have to.

HMJr: Well, supposing by this afternoon we find for the country we don't have four billion. What have you got in mind?

S: Well, then there's two things in mind. We could either get something more from the banks on a - as of last night basis....

- 2 -

HMJr: Yeah.

S:or we could make the purchase direct.

HMJr: Yeah, yeah.

S: And my own inclination now is to make the purchase direct.

HMJr: Uh huh. That's your own inclination?

S: Yeah.

HMJr: Of course, if everybody else does as well as New York, you won't be shy very much.

S: No, then if they - everyone does as well as we are, we'll just scrape by.

HMJr: Yeah, yeah.

S: And I think if that's the case that that would be the way to leave it, not to fix it up in any way but to take it as it came.

HMJr: I'm inclined to agree with you.

S: Yeah.

HMJr: Well, are you - how long are you going to stay at your office?

S: I'll be here as long as you want me, until we have some final report.

HMJr: I wish - I - I would appreciate it if you would stay.

S: I'll be here.

HMJr: Thank you.

S: All right.

October 10, 1942
12:30 p.m.

HMJr: Hello.

Operator: Chairman Eccles is busy on a long-distance call,
and Mrs. Morgenthau is calling you.

HMJr: Okay.

Operator: Right.

Operator: Go ahead.

HMJr: Hello.

Operator: Chairman Eccles.

HMJr: Hello.

Marriner
Eccles: Hello, Henry.

HMJr: Hello, Marriner. Bell and I are sitting here.
We've got the final figures in from New York....

E: Yeah, I've talked to Allan.

HMJr:which - they've got their forty per cent of
the issue....

E: Yeah.

HMJr:but I don't know whether the rest of the
country will do as well.

E: Well, it's going to be - it's going to be close. I -
I would doubt it. I - I think that you're going
to get three and a half - between three and a half
and four.

HMJr: Yeah.

E: Three and a half will be your minimum.

HMJr: Yeah.

E: Now in talking to two or three of them this morning, they - they, of course, have complained about the question of time. Matt Fleming just - see, Cleveland fell down badly.

HMJr: Yeah.

E: And he said that - that they just didn't get the stuff out in time, that for - for Cincinnati and Pittsburgh and Columbus and these other points, and they had only one day, and they just didn't get a chance.

HMJr: Yes.

E: And I said, "Well, you've fallen down badly, Matt, on your stuff, and I was just telling you," so he told me. Well, I said, "You write in to Dan, and you tell him just what happened," and - and Al Williams has complained and every one of them have said that - that they - we - we just didn't give them enough notice; they had no chance to get set and ready to go; and they did the best they could with the time that they had.

HMJr: Yeah.

E: That they had to overcome the propoganda by the dealers and I - throughout the country - that the dealers had really done a disservice on this thing. They - well, practically all of them indicated that.

HMJr: Yeah.

E: And they had to try to overcome a disappointment because the dealers had - had built them up and had indicated that if they all stood that they'd get two and a quarter.

HMJr: Yeah.

E: Al Williams gave me some stories on that picture this morning, and which was rather disconcerting, and I told him to call Dan - Dan up....

HMJr: Yes, he did.

E:and to give Dan just what - what he'd run into in Philadelphia.

HMJr: He did.

E: Now - so when I consider the whole thing, the - the organized effort that these boys have made beforehand and the very short time that - that we've given our own fellows in the Victory Fund Committee to really - to do anything and get the circulars out, I'm - I'm somewhat amazed to - to think we're getting as much as we are.

HMJr: Yeah.

E: It - it shows that - that - that it's the largest issue that's ever been put out without any preparation and - and an issue that the - that the market just didn't want and had organized against, I think it's a pretty good result.

HMJr: Yeah.

E: What I would do if I were you, on Monday....

HMJr: Yeah.

E:when we find out what the score is....

HMJr: Yeah.

E:if it is short I wouldn't hesitate a minute - I think it's - I think it's a good thing and that sooner or later they - we've got to face that with the volume of financing that we've got to do, is to - is to - is to say that the subscriptions were whatever they are, say, they're three and a half, three seven, three eight, and that the Fed took so much, two hundred, or two fifty, or five or whatever the case is on it, that considering the time, the short time, that - that the thing was open and the short time the committees had and the large amount - the very large amount of financing that it was that you figure that you're very well satisfied with the result, and the fact that Fed took what they took is merely a notice and they might just as well get to know that sooner or later that Fed will take whatever they don't take. Now I - I - I think that - we went to Congress months ago, we got the

(cont.)

- 4 -

- E: (cont.) authority to buy directly knowing that we would have to or feeling that we would have to, and we got it as a war measure, and - and I wouldn't hesitate a minute to let them know that we used it. I don't - I think to tell them frankly the situation is better than to - than to - to not tell them.
- HMJr: Well, I haven't talked that over here. I - I always - I don't - my policy is - is never to cover anything up.
- E: Well, I - I know that, and I - and I think in this situation that we've got a perfectly good story on it, and I - and I haven't the - and I haven't the slightest concern; I'm not a bit worried; and I don't think that you have any reason to be.
- HMJr: Well, we'll know more by sunset tonight. But - and I'll be talking it over with the men.
- E: Yes, and then on Monday morning I'd - in talking to Dan he indicated that you're not going to decide the thing anyway, make any allotment before Tuesday, and that on Monday we could - we could decide what amount of the Fed subscription it would be advisable to withdraw.
- HMJr: That's right.
- E: What is it?
- HMJr: That's right.
- E: And - well, I - I - it's just my guess that we'll be - we may get the four but it'll be quite a scratch. Now we could, of course, if - if it was advisable, we could get out - we could have gotten out today - Allan could get whatever is necessary and other banks - we could get out and we could get an underwriting of the difference. But I just don't believe it's advisable to.
- HMJr: Well, I wouldn't urge you to do it.
- E: We could. I'm sure we could - if we'd have had another day on this, it would have been no problem.

(cont.)

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E: But - but the time element was just - just against
(cont.) us. The - both the time element and trying to overcome an opposition that these damn dealers had built up.

HMJr: Yeah. Well, okay. I'll be talking to you again.

E: Yeah, okay then. Goodbye.

October 10, 1942
12:47 p.m.

HMJr: Hello.

Operator: Chairman Eccles.

HMJr: Hello.

Marriner
Eccles: Hello.

HMJr: I've just been talking with Gaston and Kuhn and Bell....

E: Yeah.

HMJr:about this thing - about Monday morning publicity....

E: Yeah.

HMJr:and they are unanimous in their recommendation that we say nothing.

E: Well, I don't think we should say anything Monday morning....

HMJr: No.

E:and I think that we ought to determine what the - what we're going to do, and what I was saying to you was - what I thought that after we've decided, if it did appear necessary for Fed to take some of these bonds....

HMJr: Yes.

E:that they're - they're going to naturally - you're going to want to - you're - you've always told them after an issue about the subscription, haven't you?

HMJr: No, no, just told them the total.

E: Uh huh.

HMJr: I - I haven't told them. I - I haven't told them. For instance, I wouldn't tell them that the day before the issue - I did when - when we were at

(cont.)

HMJr: peace, but I wouldn't tell them that on the day
(cont.) before the issue you bought a hundred million
dollars worth of securities. I used to do that,
a - a year ago - two years - I haven't done that
in a couple - oh, that must be a couple of years
since I've done that.

E: Uh huh. Well....

HMJr: I've stopped that since we've - since there's
been a war going on.

E: Well, it seems to me that....

HMJr: I tell you, Marriner - is there anybody there
with you?

E: No, I'm in a - I'm in a booth.

HMJr: Oh.

E: Yeah.

HMJr: Well, here's the point, this - this might have
very bad political repercussions just before
election, and I....

E: Well, rumors sometime have worse - worse reper-
cussions sometime than the fact though if they....

HMJr: Well, I understand you bought three hundred
million.

E: Well, we bought - we bought three hundred million
about, I think, yesterday and the day before and
the day before, but that - that's - it's between
two and three it'll run.

HMJr: Well....

E: But that isn't - that isn't - that isn't out of
line. We've bought a lot more than that in the
past, and, of course - well, let's do this,
before you make up your mind on it definitely....

HMJr: Yeah.

E:let's wait until Monday and see what the
story - what the story is and what the discussion

(cont.)

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E: (cont.) is, and I'd like to talk it over with Allan, and before you make up your mind on it - before you give anything out if you'd give anything - well, let's talk it over Monday.

HMJr: Yeah, and I'm - I'm certainly going to tell the President about it so that he knows, when I know - I mean, what the final figures are.

E: Well, sure. Yeah, that's - that's perfectly all right.

HMJr: And I'd like....

E: But I do think the President ought to get this - this view of it too that - the attitude on the part of these dealers and some of these people trying to run the rate up.

HMJr: Yeah.

E: Don't you?

HMJr: Yeah, he knows that. I told him that.

E: And I think further that - I think we, in fairness to the - to our banks I think we should - the President should know that - that we didn't have much time to work on this.

HMJr: I expect to tell him that.

E: That - that if we'd have had - I'm sure if we'd have had another day or two days where our Victory Fund Committees and the fellows could have gotten to work, we'd have - in spite of the opposition, we'd have gotten it.

HMJr: Maybe.

E: But - well, if you get three and a half as it is, another day would have made a lot of difference.

HMJr: Yeah. Well....

E: So I - I - I think that - I think that if the President got that - got that....

- HMJr: The trouble was we were heading into Monday.
That was a holiday.
- E: Well, that's right, that's right. Well, of course,
if we could have decided the darn thing last -
on Tuesday or a little earlier, but that's water
over the dam.
- HMJr: Well, we couldn't because there was this difference
of opinion.
- E: Well, (laughs) that's right. There still was when
we did decide it.
- HMJr: That's right, and there still is now.
- E: And that - that'll always be - that'll - that may
always be true, but I - I - I don't think the
President should - should feel at all badly when
you think of getting three and a half billion in
almost twenty-four hours here with - with the -
the opposition that there was to a two per cent.
I - I - I think it's - it's pretty good.
- HMJr: Okay.
- E: And I think it - I'd try to give him that impres-
sion if I were you.
- HMJr: Yeah, okay.
- E: All right. Goodbye.

October 10, 1942
1:05 p.m.

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Edwin
Kilby: Yes.

HMJr: The last figures I had were three billion two,
exclusive of the Fed.

K: Yup.

HMJr: What are they now?

K: I've just gotten a hundred and fifty million from
San Francisco and that brings us up to three
billion three ninety.

HMJr: Three billion three ninety.

K: Yes, sir.

HMJr: How much of that was the - the Bank of America?

K: I can't tell from the wire.

HMJr: It's right within three ninety.

K: Yes, sir.

HMJr: I see, I see. Well, how many more districts have
you got to hear from?

K: Well, these are all preliminary figures, you know,
sir, from all of them and I will get in the course
of the afternoon a - a firm figure from each
district.

HMJr: Well, Mr. Bell's coming out to the house when?
(Talks aside) At five o'clock - he can bring the
figures with him or he can have them out there,
can't he?

K: Yes, sir. He will - he will have the figures then.

HMJr: All right.

K: Fine.

October 10, 1942
1:28 p.m.

HMJr: Hello.

Operator: Mr. Sproul. Go ahead.

HMJr: Hello.

Allan
Sproul: Hello, Mr. Secretary.

HMJr: Allan, I don't see any use, as far as I'm concerned -- I don't know what Eccles has in mind -- to have you hang around.

S: We won't know finally anything till Monday morning.

HMJr: No.

S: Well, I think that's - I think that's the answer, and there's nothing more to do today.

HMJr: No. Now let me ask you one thing, when we do announce it - I think I asked you this before, I'd like to ask you again - what would your advice be about saying the part that the System has played in the buying?

S: I think the best thing to do would be to say just what had been done.

HMJr: Oh. Well....

S: I don't think we want to cover up anything.

HMJr: Well, where do you think the criticism is going to fall? Who's going to get it? Who's going to get the criticism? What's your honest opinion?

S: Well, my honest opinion is that the criticism is going to fall two ways, one, that the offering wasn't gauged right to the market, and two, that with these large amounts and the work that has to be done to sell such large amounts that more time is needed to - to do the selling job.

HMJr: Well, who's going to get the criticism on number one? They're going to criticize me, aren't they?

- 2 -

S: What?

HMJr: I'll get it, won't I?

S: I think so.

HMJr: Yeah, well, that's what I've said right along.

S: Yes, I think the Secretary of the Treasury gets the criticism.

HMJr: Well, that's what I've said right along in these arguments with the Fed Board. If something goes wrong, I'll get it.

S: We share responsibility, but I think you get the criticism.

HMJr: Yeah. Well, once it's announced you can do a lot down there to - to - on the attitude that the press takes.

S: Well, we certainly will do all we can on it.

HMJr: Yeah.

S: They've - they've been quite good on it - on this issue so far, but, of course, they don't know now what the situation is.

HMJr: No, I don't think they do.

S: They don't know a thing.

HMJr: No.

S: Up - right up to this morning they were talking about it's going all right, so....

HMJr: No, I mean the Open Market Committee always said they share the responsibility, but now that something's gone wrong I'm afraid that I'll be the fellow that they're going to criticize.

S: I think that's right. I think, as I say, we do share responsibility, but you'll get the criticism.

- 3 -

HMJr: Yeah. Okay. Well, as far as I'm concerned,
there's no need of your standing by.

S: All right. I'll be in touch with you Monday
morning then.

HMJr: Yeah.

S: All right. Thank you for calling.

HMJr: Yes.

Meeting at Secretary Morgenthau's Home
October 10, 1942
5:00 P.M.

Present: Secretary Morgenthau
Senator McCarran
Mr. White of the Silver Committee
Mr. D. W. Bell
Mr. H. D. White

(During the Conference Mr. Bell was busy telephoning on some bond matters.)

The conference was called at Senator McCarran's request. Senator McCarran stated that in view of his understanding with the Secretary on the existence of a truce on silver legislation, he wanted to submit to the Secretary a Bill which Senator McCarran contemplated submitting. The Bill, he stated, consisted of three parts. (A copy of the contemplated Bill is appended.)

Part I was to provide that the silver now behind silver certificates could be lend-leased for non-consumptive uses, the silver to be returned to the Treasury after the war. This provision would make it possible to use silver behind silver certificates in the defense plants to which the free silver has been allocated. In this manner the free silver would be liberated for other uses.

Part II would grant authority to make available at 71.11 cents an ounce the free silver to the market for war production purposes.

Part III would provide that the Treasury purchase all newly-mined domestic silver at its monetary price of \$1.29 an ounce. Purchases are to be made at this price during the war, and after the war to the extent that Treasury silver, made available for consumptive uses, has not been returned.

Senator McCarran said that the higher price for newly-mined silver would assure an increased production of copper and other strategic metals. Senator McCarran said he hoped that the Secretary would favor the Bill.

Secretary Morgenthau responded that the question of obtaining increased supplies of copper, lead and other strategic metals was the responsibility of other agencies. He suspected that the best way to obtain increased supplies of those metals was to pay prices for that portion of the ores that cost more to produce. He reminded the Senator that was already being done in the case of Michigan copper. The Secretary went on to say that so far as the

- 2 -

Treasury is concerned, he was opposed to the proposal. The Secretary stated: "I know you would like me to be frank, so I am expressing my opinion which is that I don't think you can get away with it."

Senator McCarran said he was disappointed as he hoped to find the Secretary sympathetic with the idea. Senator McCarran said he had also hoped that no silver legislation would be presented but that Senator Green had presented a Bill which in his opinion does not help the silver jewelers because it does not add to the stock of silver available for either non-war or war purposes. Mr. H.D. White pointed out that Green's Bill seemed to provide for the identical arrangement which he was suggesting in his Bill, namely the use of silver behind silver certificates for lend-leasing for non-consumptive uses if the Secretary of the Treasury so saw fit. Both Senator McCarran and White of the Silver Committee did not think Green's Bill as it was written gave any authority for the Secretary to utilize silver behind the silver certificates. Senator McCarran said they would have to reexamine the Bill to see whether it did so.

Senator McCarran said he also hoped the Treasury would disapprove of the Green Bill. The Secretary indicated that he could not do that.

The meeting was very friendly in spirit.

H. D. White

C O P Y

A BILL

To aid in the prosecution of the war by stimulating the production of war essential minerals, and authorizing the use for war purposes of certain silver held in the Treasury.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That in order to aid in the prosecution of the war by encouraging the production of silver, copper, lead, zinc, and other minerals which are essential to the war effort, each United States mint shall, during the present war, receive any silver which such mint, subject to regulations prescribed by the Secretary of the Treasury, is satisfied has been mined from natural deposits in the United States or any place subject to the jurisdiction thereof. The silver so received shall be added to the monetary stocks of the United States; and there shall be returned therefor silver certificates in an amount equal to the monetary value of the silver so delivered, less deductions for brassage, coinage, or other mint charges (but not for seignorage).

Sec. 2. (a) During the present war, the Secretary of the Treasury, in accordance with and subject to recommendations of the Chairman of the War Production Board, is authorized to lease for non-consumptive uses for a period not extending beyond one year after the end of the present war, upon such terms as the said Secretary deems reasonable and in the public interest, any silver bullion now or hereafter held in the Treasury, including silver acquired under the first section of this Act and other silver held as security for outstanding silver certificates and silver not held as such security; Provided, That the Secretary may, in his discretion, hold in the Treasury any portion of such silver

- 2 -

which may from time to time be required for coinage purposes or the redemption of outstanding silver certificates.

(b) Full and unconditional title to any silver leased under this section shall remain at all times in the United States and no interest therein adverse to the United States may be acquired by any means whatsoever.

(c) Any silver leased under this section (1) shall be used under the supervision and direction of the Chairman of the War Production Board or such officer or agency as he may designate solely for non-consumptive purposes to aid in the prosecution of the war, and (2) shall be returned to the Treasury within one year after the end of the present war; except that if for any reason it is impossible for any lessee of such silver to return the identical silver leased to him, he may be permitted by the Secretary of the Treasury to return silver of equivalent quantity, form, and fineness or make payment therefor in an amount equal to the monetary value of such silver.

(d) During any period that any such silver bullion is being used for non-consumptive industrial purposes as provided in this section, the Secretary of the Treasury, with the approval of the President, is authorized to suspend the provisions of law requiring the redemption of silver certificates in standard silver dollars if the Secretary of the Treasury determines that such suspension is necessary in the public interest.

(e) The lease of silver pursuant to this section shall not require the withdrawal or retirement from circulation of any silver certificates now or hereafter outstanding.

Sec. 3. (a) During the present war, the Secretary of the Treasury, in accordance with and subject to recommendations of the Chairman of the War Production Board, is authorized to make available for consumptive uses

- 3 -

to aid in the prosecution of the war any silver bullion now or hereafter held in the Treasury which is not required to be held as security for outstanding silver certificates.

(b) Such silver shall be made available for such uses subject to the following terms and conditions and such other terms and conditions as the said Secretary deems reasonable and in the public interest:

(1) Such silver shall be used under the supervision and direction of the Chairman of the War Production Board or such officer or agency as he may designate solely for purposes which aid in the war effort.

(2) Any silver made available for such use which is not so used, and any such silver so used which it is practicable to salvage, shall be returned to the Treasury within six months after the end of the present war.

(3) Any silver made available under this section for such uses which is not so returned to the Treasury shall be paid for at such rate as the Secretary may determine, but not less than 71.11 cents per fine ounce.

(c) After the expiration of six months after the end of the present war, each United States mint shall receive any silver which such mint, subject to regulations prescribed by the Secretary of the Treasury, is satisfied has been mined from natural deposits in the United States or any place subject to the jurisdiction thereof, until the amount of silver so received is equal to the amount of silver made available for consumptive uses under this section and not returned to the Treasury. The silver so received shall be added to the monetary

- 4 -

stocks of the United States: and there shall be returned therefor silver certificates in an amount equal to the monetary value of the silver so delivered, less deductions for brassage, coinage, or other mint charges (but not for seignorage).

Sec. 4 For the purposes of this Act --

(1) The term "monetary value" means a value calculated on the basis of one dollar for an amount of silver equal to the amount contained at the time in the standard silver dollar.

(2) The present war shall be deemed to end on such date as may be specified by proclamation of the President or by concurrent resolution of the Congress as the date on which hostilities cease in the wars in which the United States is now engaged.

Copy:rl

10/12/42

October 10, 1942.

Dear Senator Brown:

This is just to tell you how much I appreciate and admire your fight on the Senate floor for the taxation of future issues of State and local bonds.

The fact that you, and we, were beaten does not reflect in the slightest upon the rightness of your case. The ethical, moral and practical arguments were overwhelmingly on your side, and they are still there regardless of the vote on the floor.

I feel deeply that millions upon millions of taxpayers are in your debt for the effort you made on their behalf.

Sincerely,

(Signed) H. Morgenthau, Jr.

Hon. Prentiss M. Brown,
United States Senate,
Washington, D. C.

FK:eg

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Copies to Thompson

By Mess. Manus 9:18 10/12/42

31

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE OCT 10 1942

TO Secretary Morgenthau

FROM Randolph Paul

I have just received the attached copy of
letter from Senator Brown.

RSP.

c
o
p
y

United States Senate
Committee on Claims

October 9, 1942

Mr. Randolph E. Paul, General Counsel,
Treasury Department
Washington, D. C.

Re: Taxation of State, etc., bonds

Dear Randolph:

While we lost yesterday by a vote of 52 to 34, I want you to know that there is some encouragement. Assuming that we will not lose any of the 34, the following Senators are, to my knowledge, not beyond further persuasion. I give first the Senators who voted against us who I think might go the other way next time:

Senator Bailey
Senator Bone
Senator Chavis
Senator Gillette
Senator Hill
Senator Johnson (Colorado)
Senator Lodge
Senator Lucas
Senator O'Mahoney
Senator Radcliffe
Senator Swartz
Senator Walsh

The absentees who I think would vote with us are Senators Andrews, Glass, Russell, Smathers, Tydings and Wheeler. There are possibly others who would come over. These would total 52.

I thought that since I may not be here, the compilation would do you some good.

Yours truly,

s/ Prentiss Brown

October 10, 1942.

Dear Alben:

I am writing these few lines because I appreciate so deeply the fight you made for the Treasury on the floor of the Senate yesterday.

The fact that your amendment was beaten so overwhelmingly does not reflect in the least on the way you handled a difficult matter.

You did all that I could have wished, not only to protect the Treasury but to protect the committees of Congress from a course that will involve us all in endless inconvenience and difficulty. I am most grateful to you.

Sincerely,

(Signed) Henry

Hon. Alben W. Barkley,
United States Senate,
Washington, D. C.

FK:eg

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Copies to Thompson

By Mess. Manus 9:18 10/12

OCT 10 1942

Dear Senator LaFollette:

Mr. Paul tells me of the splendid support you are giving the Treasury tax proposals on the floor of the Senate, particularly this morning. Mr. Paul heard your eloquent plea against special privileges, particularly percentage depletion, and he tells me that it was one of the finest speeches he ever heard. I would like to add my personal appreciation of your efforts on behalf of a sound and equitable tax program which after the war will stand the scrutiny of those who will come back from making a sacrifice greater than any that have to be made on the economic front.

I feel deeply that millions of taxpayers are in your debt for the effort you have made on their behalf.

Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Robert M. LaFollette, Jr.,
United States Senate.

Copy in Diary

Copy to Thompson

By Mess. Manus 9:18 10/12/42

REP:mv

October 10, 1942.

My dear Mr. Pegler:

I have your letter of October 3 telling of your experiences with a revenue agent or agents several years ago, and I have ordered an investigation. I said in my recent letter to you that revenue agents could not make themselves good fellows with the Government's money, but that is no excuse for arrogance or discourtesy and these I hope to eradicate from the service. The only way I can do it is by having specific examples, and of course the sooner I hear about them, the better chance I have of learning the facts. That is the chief reason why I have asked taxpayers to write to me directly and have followed up all such cases that I have heard about.

Whatever may have been your conclusion based on a feeling of personal wrong, we do not sanction and we do not knowingly permit, any political or personal discrimination, favoritism or vengeance whatever in tax cases. Of course I can't convince you of that if you want to believe otherwise, because I can't show you our records, but I can assure you that my conscience is wholly clear on that score.

If you can add anything that will help us in checking up on your case, please do so.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Westbrook Pegler,
Ridgefield, Connecticut.

Photo file in Diary
File direct to Gaston



TREASURY DEPARTMENT

INTERNAL REVENUE SERVICE

INTELLIGENCE UNIT

P. O. Box 4144, Atlanta, Georgia

March 18, 1942

Treasury District No. 6

(Name of Division)

RCP:CB

Chief, Intelligence Unit
Bureau of Internal Revenue
Washington, D. C.

In re: Westbrook Pegler
Westchester County
New York

In response to your instructions, I have inquired into the subject matter of a letter addressed to you by Mr. Westbrook Pegler on February 23, 1942, which was in the nature of a complaint concerning methods used by internal revenue agents in examination of his income tax returns. Mr. Pegler seems to feel that the agents of the Bureau have been influenced to subject his returns to meticulous verification because of criticism that he has publicly voiced of certain policies of the administration.

The immediate cause of Mr. Pegler's complaint probably had to do with a recent examination of his 1940 income tax return, which is now pending in the Review Section of the office of Mr. C. B. Allen, Internal Revenue Agent in Charge for the Upper New York Division. Mr. Pegler resides in Westchester County, New York, and his returns have been examined by revenue agents operating under the immediate direction of a squad leader at Yonkers, New York.

The adjustments made in Mr. Pegler's income tax returns for the years 1937 to 1940, inclusive, were as follows:

1937
Income Tax
Return.

Mr. and Mrs. Pegler filed a joint timely return for the year 1937, on which they reported net income of \$48,272.92 and total tax of \$8,333.60. This return was examined by Internal Revenue Agent J. W. K. Glynn, who submitted a report thereon as of June 16, 1938, recommending the assessment of additional tax of \$248.09. The adjustments which gave rise to this deficiency are tabulated next below:

FOR DEFENSE



To Chief - (In re: Westbrook Pegler) - Cont'd.

Disallowance of cost of accident insurance-	\$327.50
Disallowance of a portion of automobile expense -	172.77
Disallowance of unsupported travel and entertainment expense -	<u>300.00</u>
Total adjustments -	\$800.27

Mr. and Mrs. Pegler signed an agreement on June 15, 1938, consenting to the assessment and collection of the deficiency determined.

Upon review in the Bureau of the revenue agent's report for the year 1937, it was found that depreciation on automobiles had been overstated by \$149.96; and that contributions made to an indigent family of \$25, the Trinity Property Owners Association of \$2, and the Pound Ridge Fire Department of \$18 were not deductible. The file was returned to the Internal Revenue Agent in Charge on December 27, 1938, and additional adjustments made in accordance with the Bureau's letter, resulting in a further deficiency of \$57.96 for the year 1937. Mr. and Mrs. Pegler signed an agreement on February 7, 1939, consenting to the assessment and collection of the second deficiency.

1938
Income Tax
Return. Mr. and Mrs. Pegler filed a joint timely return for the year 1938, reporting net income of \$52,500.47, and total tax of \$9,222.53. This return was examined by Internal Revenue Agent W. C. Canon, who submitted a report thereon as of April 27, 1940, recommending the assessment of additional tax of \$56.52. The adjustments which gave rise to this deficiency are tabulated as follows:

Disallowance of portion of depreciation on automobile -	\$75.00
Disallowance of portion of loss sustained on stolen camera -	25.00
Loss on damaged automobile increased -	<u>11.03</u>
Net adjustments to income -	\$ 88.97

To Chief - (In re: Westbrook Pegler) - Cont'd.

A portion of the credit claimed for a dependent aunt was reduced in the amount of \$93.33.

Mr. Pegler signed an agreement on April 26, 1940, consenting to the assessment and collection of the deficiency determined in the amount of \$56.52.

1 9 3 9

Income Tax
Return.

Mr. and Mrs. Pegler filed a joint timely return for the year 1939, reporting a net income of \$51,819.07 and total tax of \$8,937.17. A partial examination of this return was made by Internal Revenue Agent H. W. Goodison, who submitted a report thereon as of August 4, 1941, recommending that the return be accepted as filed, and expressing the belief that no material change would result from an intensive audit.

1 9 4 0

Income Tax
Return.

Net income of \$51,160.54 was reported on the taxpayer's return for the year 1940, and total tax of \$13,915.69 was computed thereon. This return was recently examined by an internal revenue agent, who made total adjustments of \$294.19, resulting in the determination of a deficiency of \$142.40. The adjustments which gave rise to the deficiency are tabulated as follows:

Purchase of a typewriter disallowed as a capital expenditure -	\$88.56
Depreciation allowed on typewriter -	<u>29.52</u>
Net adjustment -	\$ 59.04
Depreciation on building reduced from 5% to 3% -	86.33
Disallowance of fee paid for the preparation of individual income tax return -	<u>150.00</u>
Total adjustments to income -	\$295.37
Depreciation on Automobile increased -	<u>1.18</u>
Net adjustments to income -	\$294.19

To Chief - (In re: Westbrook Pegler) - Cont'd.

Mr. and Mrs. Pegler signed an agreement on December 29, 1941, consenting to the assessment and collection of the deficiency of \$142.40, determined for the year 1940.

Conclusion. While the findings of the revenue agents have been technically correct, the methods used in developing minor adjustments on technical items are thought to have been ill advised in the case of a taxpayer like Mr. Pegler who consistently reports large income on returns, well supported by detail schedules. Mr. C. B. Allen, Internal Revenue Agent in Charge for the Upper New York Division, with whom I discussed the matter, was in accord with this conclusion. The time required for examinations of this type could be more productively devoted to returns prepared with less accuracy of detail.

Mr. Allen indicated that the future returns of Mr. Pegler would be assigned to revenue agents who would be able to reach the proper result without causing undue irritation of the taxpayer.

Mr. Pegler's letter and original income tax returns filed by him for the years 1937, 1938, and 1939 are inclosed.

SIGNED: E. C. Palmer

(E. C. Palmer)
Special Agent in Charge

October 1954
16

The Secretary of the Board
Washington, D. C.

Dear Mr. Morganthau:

With reference to your letter of September 31st, I will say that I have a conviction that I have been singled out for especially searching and unreasonable treatment by the agents of the Internal Bureau. I believe this was done under political orders from Albany and I am sure it is discriminatory.

Several years ago, when Mrs. Pegler was convalescing from a dangerous heart illness, a reviewer named Smith insisted on seeing a lot of papers which I would have refused to show him if I had known as much then as I do now. He knew that it was necessary for Mrs. Pegler to go into New York in hot weather and into the bank vault to obtain these papers and he deliberately asked for them singly, knowing that this would necessitate several trips to town and into the vault. He acted like a cheap fly-cop. He would leave a conference and then burst back into the room on the pretext of having forgotten something. After the final conference at my apartment, when this man had left, the secretary of my lawyer said, "He will be back in a couple of seconds; he is listening outside the door." In a few seconds, sure enough, he rang the bell and said he had forgotten his rubbers or some damn thing.

After all this trouble, it developed that this man had been tipped off, probably by some malicious Communist informer in the Newspaper Guild, that I had been receiving dividends on stock of the Scripps-Howard Newspapers. He wouldn't have the forthright honesty to tell me this and when I finally got it out of him, I was able to explain that there was no such corporation and that the dividends apparently referred to were dividends on corporations known as investment companies which had been duly declared in my return.

Last year the reviewer arbitrarily insisted that the life of a wooden dwelling house, a rental property of ours, had been extended from twenty to twenty-five years and that depreciation must be charged accordingly. A previous reviewer had said

The Secretary of War - Page 27

that the life of such a house, in calculating depreciation, was twenty years. This decision was intended only to wackle the first fault with my return.

Another time, some years ago, a reviewer in Washington whom I know personally, showed me a clipping of a column of mine concerning the practices of reviewing agents which had been signed by a number of reviewers in the Bureau in Washington as a round-robin. When it came to his desk he seized it and refused to let it go any further and I believe he still has it. He said one of the reviewers, on reading the story, exclaimed that he would like to get a chance to examine my return.

I believe I told you of the case of the reviewer who arbitrarily socked Lee Wood, editor of the World-Telegram, \$19, although he could find no fault with the return, and said, when Wood protested, that it would be cheaper for Wood to pay the money than to carry the case to appeal.

The Smith referred to ruled, also, by the way, that although I was then making about \$40,000 a year, he could not presume that I gave as much as \$5 a week to the Catholic Church, of which I am a member, without proof. I suppose he expected me to stop the guy and get a receipt.

I know many friends whose returns are never reviewed at all and this is proof to me that the administration of the law is not even.

A few years ago I discovered that a very old relative of mine was in poverty and on relief. This shocked me and I at once arranged to pay this person \$80 a month, starting about October of that year. I had paid, therefore, about \$240 that year and when the return came up for review, your lint-picking catch-poll said I could not deduct the \$240, but only 3/12th of \$400, which I submit is sheer carping nastiness and evidence that the Internal Revenue is a master shyster, skilled in snide tricks.

I understand the Ed Kelly thing was settled in Hoover's time but it is my understanding that the Hague thing has been dealt with under your administration. If I had been caught as either of these men was, or as Jimmy Walker was, the New Deal would have had me in the can for life, and you know it.

The Secretary of the Treasury - Page #3

I agree with you that we face terrible times and I hope the Treasury will be equal to its task of financing the war. I think one step toward this would be to create an understanding that citizens will receive equal and fair treatment under the law, whatever their politics.

Sincerely,

Westbrook Pegler

WP/nmh

OCT 10 1942

Dear Mr. Nelson:

Labor and management, working through joint committees, are making the Payroll War Savings Campaign a success. At regional conferences held recently in each of the twelve Federal Reserve Districts and attended by labor and management representatives from more than 4,500 companies, spokesmen from every branch of American industry testified to this effect.

In many instances high praise was given the War Bond drives initiated by the labor-management committees previously established at the suggestion of the War Production Board. A notable example of this cooperation was in the rubber industry, where labor and management jointly planned and carried through the first successful nationwide industry drive.

I am pleased to tell you that firms with functioning labor-management committees have been in the forefront of this necessary war financing effort. Will you convey to the thousands of committee members my sincere appreciation for their splendid and loyal cooperation. I am sure that their achievements will be gratifying to you and to the millions of workers in the plants where these committees have been established to promote the War Production Drive.

More than 19,500,000 workers are now setting aside an average of 8 percent of their pay regularly for the purchase of War Bonds through Payroll Savings Plans. Our goal is to achieve a 10 percent average for 30,000,000 wage earners. In this continuing drive I am confident that we will have the vigorous support of those committees

- 2 -

which have been active in the past. In plants which have not yet reached the 10 percent mark the labor-management committees should redouble their efforts to qualify for the Treasury's 10 percent Minute Man flag.

I know that you will agree with me that the country can expect each plant to meet its goal.

With best personal regards,

Sincerely yours,

(Signed) H. Morgenthau, Jr.

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

Copy in Diary

Copies to Thompson

By Mess. Manus 9:18 10/12/42

Analysis of Exposure to Payroll Savings Plans

October 10, 1942

	Number exposed to payroll savings plans	Total number in the country (estimated)	Percent of total exposed
Part A - Summary by Number of Organizations Exposed			
I. Business organizations			
(1) Firms with 5,000 employees or more.....	487	490	99
(2) Firms with 500 to 4,999 employees.....	5,445	5,888	92
(3) Firms with 100 to 499 employees.....	<u>23,796</u>	<u>28,139</u>	<u>85</u>
(4) Subtotal - large firms.....	29,728	34,517	86
(5) Firms with less than 100 employees.....	<u>118,823</u>	*	*
(6) Total business organizations.....	148,551	*	*
II. Governmental organizations.....			
	*	*	*
III. Grand total.....			
	<u>148,551</u>	<u>*</u>	<u>*</u>

Part B - Summary by Number of Employees Exposed

I. Business organizations			
(1) Firms with 5,000 employees or more.....	7,871,731	*	*
(2) Firms with 500 to 4,999 employees.....	7,198,103	*	*
(3) Firms with 100 to 499 employees.....	<u>5,440,833</u>	*	*
(4) Subtotal - large firms.....	20,510,667	*	*
(5) Firms with less than 100 employees.....	<u>2,943,207</u>	*	*
(6) Total business organizations.....	23,453,874	32,400,000 1/	72
II. Governmental organizations			
(1) Federal Government.....	2,181,131	2,600,000 1/	84
(2) State and local governments.....	<u>1,386,523</u>	<u>2,700,000</u>	<u>51</u>
(3) Total governmental organizations.....	<u>3,567,654</u>	<u>5,300,000</u>	<u>67</u>
III. Grand total.....			
	<u>27,021,528</u>	<u>37,700,000 1/</u>	<u>72</u>

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

October 16, 1942.

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

* Data not available.

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

State	Number of firms with payroll savings plans			Total number of firms (estimated)	Percent of total having payroll savings plans		
	Apr. 18	Oct. 3	Oct. 10		Apr. 18	Oct. 3	Oct. 10
Alabama.....	41	65	65*	83	49	78	78
Arizona.....	9	14	14	14	64	100	100
Arkansas.....	16	17	17*	20	80	85	85
Northern California.....	122	138	140	175	70	79	80
Southern California.....	121	146	147	147	82	99	100
Colorado.....	25	31	31	31	81	100	100
Connecticut.....	114	146	151	167	68	87	90
Delaware.....	15	18	18*	22	68	82	82
District of Columbia.....	32	44	44	47	68	94	94
Florida.....	28	40	41	43	65	93	95
Georgia.....	86	123	123*	123	70	100	100
Idaho.....	11	11	11	11	100	100	100
Illinois.....	391	466	470	559	70	83	84
Indiana.....	88	139	139	165	53	84	84
Iowa.....	22	29	29*	43	51	67	67
Kansas.....	23	25	25	25	92	100	100
Kentucky.....	38	48	48*	50	76	96	96
Louisiana.....	29	47	47	49	59	96	96
Maine.....	48	58	58	61	79	95	95
Maryland.....	84	107	108	108	78	99	100
Massachusetts.....	237	313	313	338	70	93	93
Michigan.....	265	283	283	283	94	100	100
Minnesota.....	79	81	81	81	98	100	100
Mississippi.....	26	33	33	33	79	100	100
Missouri.....	103	129	130	142	73	91	92
Montana.....	3	4	4	4	75	100	100
Nebraska.....	23	25	26	28	82	89	93
Nevada.....	4	4	4	4	100	100	100
New Hampshire.....	29	32	32	32	91	100	100
New Jersey.....	142	185	189	211	67	88	90
New Mexico.....	5	5	5	5	100	100	100
New York.....	759	884	887	943	80	94	94
North Carolina.....	103	136	136	140	74	97	97
North Dakota.....	0	0	0	0	-	-	-
Ohio.....	412	459	463	500	82	92	93
Oklahoma.....	31	51	51	51	61	100	100
Oregon.....	48	55	55	55	87	100	100
Pennsylvania.....	551	606	609	629	88	96	97
Rhode Island.....	61	76	76	84	73	90	90
South Carolina.....	84	98	98	99	85	99	99
South Dakota.....	5	5	5	5	100	100	100
Tennessee.....	50	79	80	90	56	88	89
Texas.....	63	106	108	116	54	91	93
Utah.....	8	10	10	11	73	91	91
Vermont.....	12	12	12	12	100	100	100
Virginia.....	93	106	106	106	88	100	100
Washington.....	49	72	73	79	62	91	92
West Virginia.....	36	74	75	78	46	95	96
Wisconsin.....	127	146	146	154	82	95	95
Wyoming.....	1	4	4	4	25	100	100
Alaska.....	3	3	3*	3	100	100	100
Railroads.....	109	109	109	115	95	95	95
Total.....	<u>4,864</u>	<u>5,897</u>	<u>5,932</u>	<u>6,378</u>	<u>76</u>	<u>92</u>	<u>93</u>

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

October 16, 1942.

* Data are for October 3, inasmuch as no October 10 report was received.

Regraded Unclassified

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

State	Number of firms with payroll savings plans			Total number of firms (estimated)	Percent of total having payroll savings plans		
	Apr. 18	Oct. 3	Oct. 10		Apr. 18	Oct. 3	Oct. 10
Alabama.....	149	250	250*	285	52	88	88
Arizona.....	43	67	68	68	63	99	100
Arkansas.....	44	55	55*	116	38	47	47
Northern California.....	512	688	696*	696	74	99	100
Southern California.....	756	1,022	1,025	1,178	64	87	87
Colorado.....	113	135	135	140	81	96	96
Connecticut.....	277	519	527	719	39	72	73
Delaware.....	21	56	56*	87	24	64	64
District of Columbia.....	52	145	145	192	27	76	76
Florida.....	147	206	209	209	70	99	100
Georgia.....	133	391	391*	416	32	94	94
Idaho.....	31	32	33	33	94	97	100
Illinois.....	1,300	1,888	1,909	2,253	58	84	85
Indiana.....	415	643	643	643	65	100	100
Iowa.....	165	204	204*	302	55	68	68
Kansas.....	276	286	286	286	97	100	100
Kentucky.....	136	189	189*	273	50	69	69
Louisiana.....	179	273	274	322	56	85	85
Maine.....	60	171	172	188	32	91	91
Maryland.....	177	303	327	405	44	75	81
Massachusetts.....	639	1,041	1,064	1,532	42	68	69
Michigan.....	689	962	968	1,030	67	93	94
Minnesota.....	376	439	440	441	85	99	99
Mississippi.....	59	80	81	98	60	82	83
Missouri.....	472	669	672	672	70	99	100
Montana.....	40	49	49	49	82	100	100
Nebraska.....	103	123	124	133	77	92	93
Nevada.....	14	19	20	28	50	68	71
New Hampshire.....	89	139	139	145	61	96	96
New Jersey.....	463	953	957	957	48	99	100
New Mexico.....	33	39	39	40	83	98	98
New York.....	2,060	3,630	3,702	4,257	48	85	87
North Carolina.....	282	459	461	551	51	83	84
North Dakota.....	14	19	20	20	70	95	100
Ohio.....	1,126	1,567	1,620	2,171	52	72	75
Oklahoma.....	166	294	294	349	48	84	84
Oregon.....	211	288	288	288	73	100	100
Pennsylvania.....	1,682	2,186	2,194	2,194	77	99	100
Rhode Island.....	154	261	265	335	46	78	79
South Carolina.....	71	154	154	177	40	87	87
South Dakota.....	21	25	25	25	84	100	100
Tennessee.....	199	361	374	497	40	73	75
Texas.....	326	618	636	1,378	24	45	46
Utah.....	36	44	44	44	82	100	100
Vermont.....	59	66	67	74	80	89	91
Virginia.....	281	396	397	426	66	93	93
Washington.....	234	350	352	352	66	99	100
West Virginia.....	134	213	214	308	44	69	69
Wisconsin.....	278	467	468	680	41	69	69
Wyoming.....	17	23	23	23	74	100	100
Alaska.....	2	2	2*	2	100	100	100
Railroads.....	49	49	49	52	94	94	94
Total.....	<u>15,365</u>	<u>23,508</u>	<u>23,796</u>	<u>28,139</u>	<u>55</u>	<u>84</u>	<u>85</u>

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

October 16, 1942.

* Data are for October 3, inasmuch as no October 10 report was received.

Regraded Unclassified

Analysis of Exposure to Payroll Savings Plans

October 17, 1942

	Number exposed to payroll savings plans	Total number in the country (estimated)	Percent of total exposed
Part A - Summary by Number of Organizations Exposed			
I. Business organizations			
(1) Firms with 5,000 employees or more.....	488	491	99
(2) Firms with 500 to 4,999 employees.....	5,478	5,909	93
(3) Firms with 100 to 499 employees.....	<u>24,021</u>	<u>28,212</u>	<u>85</u>
(4) Subtotal - large firms.....	29,987	34,612	87
(5) Firms with less than 100 employees.....	<u>120,756</u>	*	*
(6) Total business organizations.....	150,743	*	*
II. Governmental organizations.....	*	*	*
III. Grand total.....	<u>150,743</u>	<u>*</u>	<u>*</u>

Part B - Summary by Number of Employees Exposed

I. Business organizations			
(1) Firms with 5,000 employees or more.....	7,877,131	*	*
(2) Firms with 500 to 4,999 employees.....	7,242,898	*	*
(3) Firms with 100 to 499 employees.....	<u>5,485,174</u>	*	*
(4) Subtotal - large firms.....	20,605,203	*	*
(5) Firms with less than 100 employees.....	<u>2,985,248</u>	*	*
(6) Total business organizations.....	23,590,451	32,400,000 ^{1/}	73
II. Governmental organizations			
(1) Federal Government.....	2,181,131	2,600,000 ^{1/}	84
(2) State and local governments.....	<u>1,395,423</u>	<u>2,700,000</u>	<u>52</u>
(3) Total governmental organizations.....	<u>3,576,554</u>	<u>5,300,000</u>	<u>67</u>
III. Grand total.....	<u>27,167,005</u>	<u>37,700,000 ^{1/}</u>	<u>72</u>

Treasury Department

October 23, 1942.

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

* Data not available.

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

State	Number of firms with payroll savings plans			Total number of firms (estimated)	Percent of total having payroll savings plans		
	Apr. 18	Oct. 10	Oct. 17		Apr. 18	Oct. 10	Oct. 17
Alabama.....	149	250	250*	285	52	88	88
Arizona.....	43	68	68	68	63	100	100
Arkansas.....	44	55	55*	116	38	47	47
Northern California.....	512	696	702	702	73	99	100
Southern California.....	756	1,025	1,029	1,178	64	87	87
Colorado.....	113	135	136.	140	81	96	97
Connecticut.....	277	527	530	719	39	75	74
Delaware.....	21	56	58	87	24	64	67
District of Columbia.....	52	145	149	192	27	76	78
Florida.....	147	209	209	209	70	100	100
Georgia.....	133	391	391*	416	32	94	94
Idaho.....	31	33	33	33	94	100	100
Illinois.....	1,300	1,909	1,922	2,253	58	85	85
Indiana.....	415	643	660	660	63	97	100
Iowa.....	165	204	204*	302	55	68	68
Kansas.....	276	286	286	286	97	100	100
Kentucky.....	136	189	206	284	48	67	73
Louisiana.....	179	274	275	322	56	85	85
Maine.....	60	172	173	189	32	91	92
Maryland.....	177	327	330	405	44	81	81
Massachusetts.....	639	1,064	1,085	1,532	42	69	71
Michigan.....	689	968	980	1,030	67	94	95
Minnesota.....	376	440	440	441	85	99	99
Mississippi.....	59	81	81	98	60	83	83
Missouri.....	472	672	674	674	70	99	100
Montana.....	40	49	49	49	82	100	100
Nebraska.....	103	124	125	134	77	93	93
Nevada.....	14	20	20	28	50	71	71
New Hampshire.....	89	139	140	145	61	96	97
New Jersey.....	463	957	960	960	48	99	100
New Mexico.....	33	39	39	40	83	98	98
New York.....	2,060	3,702	3,765	4,257	48	87	88
North Carolina.....	282	461	462	552	51	84	84
North Dakota.....	14	20	20	20	70	100	100
Ohio.....	1,126	1,620	1,624	2,173	52	75	75
Oklahoma.....	166	294	295	349	48	84	85
Oregon.....	211	288	288	288	73	100	100
Pennsylvania.....	1,682	2,194	2,210	2,210	76	99	100
Rhode Island.....	154	265	265	335	46	79	79
South Carolina.....	71	154	154	177	40	87	87
South Dakota.....	21	25	25	25	84	100	100
Tennessee.....	199	374	386	508	39	74	76
Texas.....	326	636	648	1,378	24	46	47
Utah.....	36	44	44	44	82	100	100
Vermont.....	59	67	67	74	80	91	91
Virginia.....	281	397	400	428	66	93	93
Washington.....	234	352	352	352	66	100	100
West Virginia.....	134	214	214	308	44	69	69
Wisconsin.....	278	468	469	680	41	69	69
Wyoming.....	17	23	23	23	74	100	100
Alaska.....	2	2	2*	2	100	100	100
Railroads.....	49	49	49	52	94	94	94
Total.....	<u>15,365</u>	<u>23,796</u>	<u>24,021</u>	<u>28,212</u>	<u>54</u>	<u>84</u>	<u>85</u>

Treasury Department

October 23, 1942.

* Data are for October 10, inasmuch as no October 17 report was received.

Regraded Unclassified

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

State	Number of firms with payroll savings plans			Total number of firms (estimated)	Percent of total having payroll savings plans		
	Apr. 18	Oct. 10	Oct. 17		Apr. 18	Oct. 10	Oct. 17
Alabama.....	41	65	65*	83	49	78	78
Arizona.....	9	14	14	14	64	100	100
Arkansas.....	16	17	17*	20	80	85	85
Northern California.....	122	140	141	175	70	80	81
Southern California.....	121	147	147	147	82	100	100
Colorado.....	25	31	31	31	81	100	100
Connecticut.....	114	151	151	167	68	90	90
Delaware.....	15	18	18	22	68	82	82
District of Columbia.....	32	44	45	48	67	92	94
Florida.....	28	41	43	43	65	95	100
Georgia.....	86	123	123*	123	70	100	100
Idaho.....	11	11	11	11	100	100	100
Illinois.....	391	470	473	559	70	84	85
Indiana.....	88	139	141	165	53	84	85
Iowa.....	22	29	29*	43	51	67	67
Kansas.....	23	25	25	25	92	100	100
Kentucky.....	38	48	48	50	76	96	96
Louisiana.....	29	47	49	50	58	94	98
Maine.....	48	58	58	61	79	95	95
Maryland.....	84	108	109	109	77	99	100
Massachusetts.....	237	313	314	338	70	93	93
Michigan.....	265	283	284	284	93	99	100
Minnesota.....	79	81	81	81	98	100	100
Mississippi.....	26	33	33	33	79	100	100
Missouri.....	103	130	131	142	73	92	92
Montana.....	3	4	4	4	75	100	100
Nebraska.....	23	26	26	28	82	93	93
Nevada.....	4	4	4	4	100	100	100
New Hampshire.....	29	32	32	32	91	100	100
New Jersey.....	142	189	190	212	67	89	90
New Mexico.....	5	5	5	5	100	100	100
New York.....	759	887	892	948	80	94	94
North Carolina.....	103	136	136	140	74	97	97
North Dakota.....	0	0	0	0	-	-	-
Ohio.....	412	463	463	500	82	93	93
Oklahoma.....	31	51	51	51	61	100	100
Oregon.....	48	55	55	55	87	100	100
Pennsylvania.....	551	609	611	631	87	97	97
Rhode Island.....	61	76	76	84	73	90	90
South Carolina.....	84	98	98	99	85	99	99
South Dakota.....	5	5	5	5	100	100	100
Tennessee.....	50	80	83	92	54	87	90
Texas.....	63	108	113	121	52	89	93
Utah.....	8	10	10	11	73	91	91
Vermont.....	12	12	12	12	100	100	100
Virginia.....	93	106	109	109	85	97	100
Washington.....	49	73	73	79	62	92	92
West Virginia.....	36	75	75	78	46	96	96
Wisconsin.....	127	146	146	154	82	95	95
Wyoming.....	1	4	4	4	25	100	100
Alaska.....	3	3	3*	3	100	100	100
Railroads.....	109	109	109	115	95	95	95
Total.....	<u>4,864</u>	<u>5,932</u>	<u>5,966</u>	<u>6,400</u>	<u>76</u>	<u>93</u>	<u>93</u>

Treasury Department

October 23, 1942.

* Data are for October 10, inasmuch as no October 17 report was received.

Regraded Unclassified

CHIEF OF STAFF TO THE COMMANDER IN CHIEF
THE WHITE HOUSE
WASHINGTON

October 10, 1942.

SECRET

The Honorable,

The Secretary of the Treasury.

Dear Mr. Secretary:

Submitted herewith are the estimates of expenditures for the War and Navy Departments for the calendar years 1943 to 1947, inclusive, which were requested in your letter of September 28, 1942.

A special committee appointed by the Joint U. S. Chiefs of Staff, in collaboration with other appropriate agencies, has prepared these estimates which include the estimates of the Lend-Lease Administration. You, of course, realize that, whereas the figures given are the best estimate available at this time, they are subject to considerable revision in the course of the next five years, due to unforeseeable circumstances. It is recommended that expenditures for shipping be obtained from the Maritime Commission. I trust that the information furnished will be suitable to meet your requirements.

Very truly yours,

For the Joint U. S. Chiefs of Staff:

William D. Leahy
WILLIAM D. LEAHY,
Admiral, U. S. Navy.

SECRET

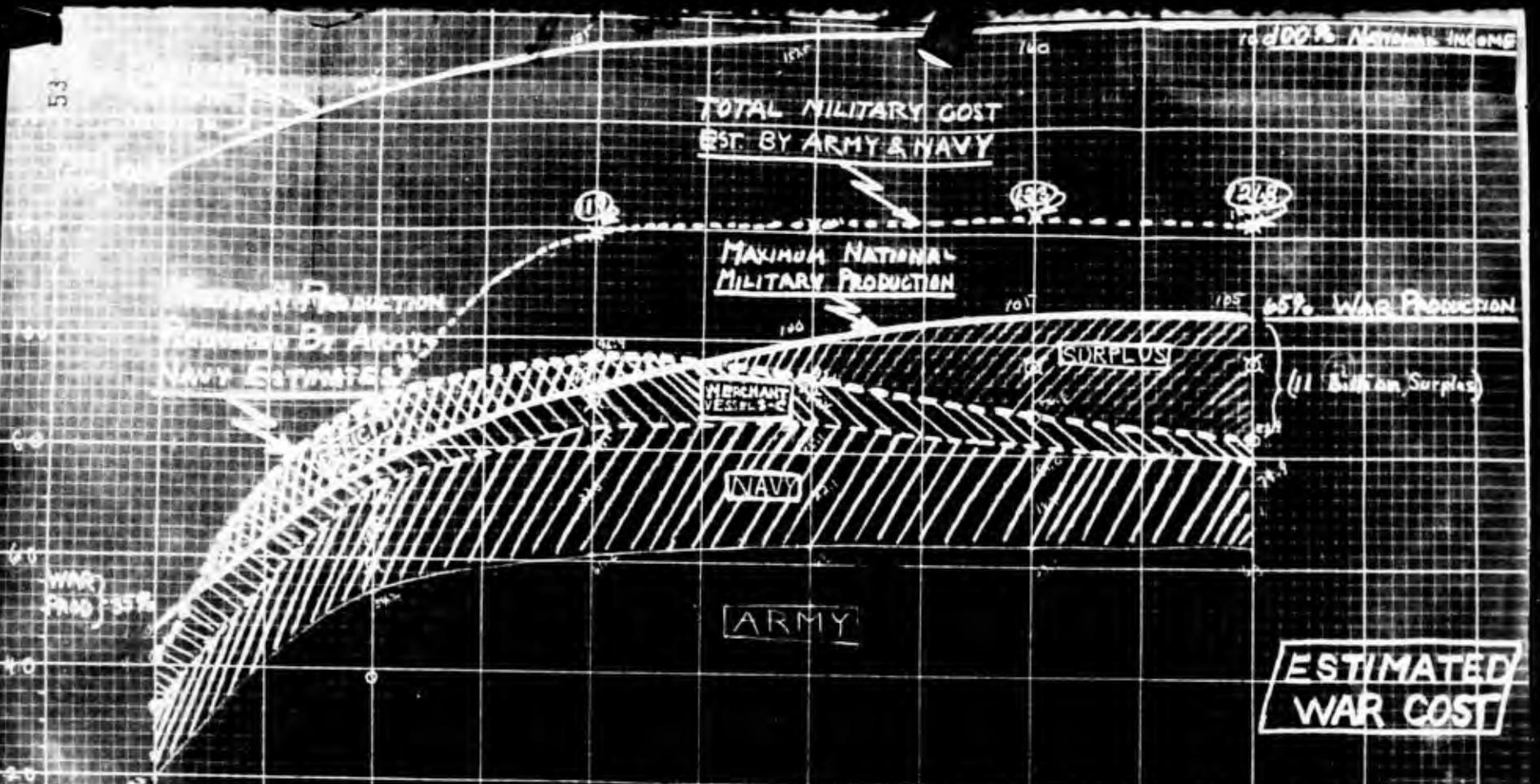
ESTIMATE OF ARMY AND NAVY EXPENDITURES (Calendar Years - 1943 through 1947)

	WAR DEPARTMENT ESTIMATED EXPENDITURES (In millions of dollars)			NAVY DEPT. ESTIMATED EXPEND. (In millions of dollars)		CONSOLIDATED ARMY AND NAVY ESTIMATED EXPENDITURES (In millions of dollars)
YEAR	UNITED STATES	OVERSEAS#	TOTALS*	TOTAL**	TOTAL	
1943						
1st Quarter	\$ 13,222	\$ 228	\$13,450	\$ 6,450	\$ 19,900	
2nd Quarter	13,672	278	13,950	7,170	21,120	
3rd Quarter	14,671	329	15,000	7,563	22,563	
4th Quarter	16,220	380	16,600	7,771	24,371	
Total	57,785	1,215	59,000	28,954	87,954	
1944						
1st Quarter	20,570	430	21,000	7,825	28,825	
2nd Quarter	21,519	481	22,000	7,955	29,955	
3rd Quarter	21,488	532	22,020	7,552	29,572	
4th Quarter	22,398	582	22,980	7,764	30,744	
Total	85,975	2,025	88,000	31,096	119,096	
1945						
1st Quarter	22,389	591	22,980	7,855	30,835	
2nd Quarter	22,380	620	23,000	7,910	30,910	
3rd Quarter	22,362	648	23,010	7,026	30,036	
4th Quarter	22,334	676	23,010	7,026	30,036	
Total	89,465	2,535	92,000	29,817	121,817	
1946	93,015	2,985	96,000	27,332	123,332	
1947	92,565	3,435	96,000	25,833	121,833	

(The amounts shown on this statement to be expended overseas are relatively small because it is anticipated that due to lack of consumer's goods, military personnel will be unable to spend advantageously a considerable portion of their pay overseas.)

(Includes Army, Air, & Ground plus Lend Lease.)

(Includes Lend Lease, but does not include Maritime Commission expenditures for shipping.)



SECRET

CONTAINS ONLY THE MANUFACTURING PORTION OF FIGURES SUBMITTED BY ARMY NAVY (PAY AND SUBSISTENCE EXCLUDED)

Regraded Unclassified

TREASURY DEPARTMENT

54

INTER OFFICE COMMUNICATION

DATE
October 10, 1942

TO Secretary Morgenthau
FROM Ferdinand Kuhn, Jr.

Here are a few impressions of Sir Kingsley Wood which may be helpful to you.

As Chancellor of the Exchequer since May 1940 he has been entirely negative. He does exactly what Keynes and the civil servants at the Treasury tell him to do -- and some of them are pretty good people. He is said to have no financial ideas of his own. In spite of this, he is regarded as a good wartime Chancellor.

As a self-made man he is a rarity among Conservative ministers. His father was a Methodist parson, he never went to a fancy school, and his background is thus entirely different from that of the conventional Church of England, Eton-and-Oxford Tory leader. He started as a solicitor (a solicitor being the lawyer who prepares cases, a barrister the lawyer who argues them in Court and earns the fancy fees.) He had a long and humdrum career as a member of the London County Council before entering national politics.

As a Munich-man and friend of Neville Chamberlain he has been under attack for the past two years as one of the crowd whom Labor would like to see pushed out of all wartime and post-war power. His record on Munich, on German rearmament, on relations with Russia, is bad so far as it is publicly known. He really believed in Munich and defended it with apparent conviction. As Air Minister from 1938 to 1940 his record probably is better than it seemed at the time, for he believed in having planes of top quality, and this belief was vindicated in the Battle of Britain in August and September 1940.

As party boss of the Conservative machine he has his greatest influence, even today, when there is a party truce and no likelihood of a General Election. He is the man above all others who keeps the local Conservative associations in line.

He knows that the Conservative Party has to produce social legislation from time to time to keep itself in power, and his record on this is as good as Neville Chamberlain's was. He is a middle-class person with a real hold on the little Conservative leaders and with a real understanding of the middle-class voters who still form the backbone of the Conservative party's strength.

As a personality he is unimpressive. He is short and dumpy, with a high-pitched voice and a rather obsequious, oily manner. He is precise in his manner, careful in his choice of words, probably tidy and competent as an administrator. My guess is that Churchill has no liking for him; the Labor people dislike and distrust him; Americans seldom get on with him, because he has few ties with this country and very little knowledge of it.

F.K.

Willard Hotel,
Washington, D.C.,
October 8, 1942.

Dear Mr. Secretary,

We have now completed checking the figures in your letter of September 28 and while there are a number of differences in detail, the result of the check is to show a difference of \$6 millions only.

Not a great deal of progress has been made on the negotiations for the transactions listed under heading "II". We are hopeful that the Todd-Bath sale will be accomplished in the near future. While the terms of sale of the New Jersey Powder Company (for approximately nine millions) have been agreed in general with Defense Plant, the latter has, for some time, been preparing the closing documents necessary to complete the transaction.

Negotiations for the transfer of Packard, Curtiss-Wright and General Motors facilities have been delayed pending the preparation of reports by the Defense Plant Engineers, while negotiations for the other facilities have been held up pending the completion of final inventories by the Contractors (except for Remington Arms whose inventory has been submitted to, and is being considered by, the Ordnance Department).

As you will recall there have been some transfers of aircraft and associated material in addition to those defined in your letter as having been requisitioned in December 1941. Spare parts for these aircraft, valued at a total of some sixteen millions, of which probably one half came from British pre-Lend Lease Contracts, were transferred. I understand that progress in evaluating these by our representatives, in concert with representatives of the Air Corps, has been so slow that payment for them has been deferred for the time being. Certain transfers of aircraft arose out of the Arnold-Portal agreements. The problems raised by these are outlined in my letter of July 30, 1942. In addition to the aircraft mentioned in that letter I believe some twenty-four million dollars worth of airplane engines has been taken off British pre-Lend-Lease contracts for incorporation in those aircraft.

As I have mentioned to you the centre of gravity of our financial problem has decidedly shifted and unless something unexpected happens the old worry about our balance in gold and U.S. dollars ought not to trouble us. This does not mean that our financial position is sound, as indeed it could not possibly be considering the length of time for which we have been fighting and our heavy expenditure overseas, particularly in the Near East.

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

-2-

If, in fact, we were meeting our obligations as we went along we should have a heavy adverse balance. One of my objects in going to London is to clear up this position. Roughly speaking we make out that our unpaid obligations for which payment in gold could be demanded now or within a short period, amounted at the end of March to about \$125 millions, of which Portugal accounted for nearly \$100 millions. These figures do not include the \$105 millions we borrowed from Belgium for the period of the war. The heavy gold obligation in Portugal rises in the main from our heavy preemptive purchases there - for example, to prevent tungsten going to Germany we have to buy the Portuguese production at perhaps five times world price. We are discussing, at present, with the State Department, the question of financing preemptive purchases in Portugal, Spain and Turkey. Apart from specific gold liabilities, we had liquid liabilities to foreign countries, not including the United States, and not including the Empire, of over \$1,200 millions on the 31st of March. Nearly half this sum was in respect of Egypt and the Sudan, and is the result simply of having kept large forces there for a very long time.

There are also very large sterling balances outstanding in London owing to the rest of the Empire, particularly India, but these are a separate problem.

I have told the motion picture companies that we cannot make any promises at all about next year but we are willing to release them from the special rules relating to motion picture companies as regards the funds they have accumulated in London down to the present. This is practically equivalent to telling them that they can turn their present sterling balances into dollars, though of course they will not be allowed to transfer money arising from sale of capital assets any more than other American citizens or companies would be.

Yours sincerely,

J Phillips

Willard Hotel,
Washington, D.C.,
October 8, 1942.

I. TRANSACTIONS COMPLETED

Transfer of Facilities

	<u>Try. Figure</u>	<u>Our Figure</u>	
1. Tennessee Powder Co.	21	22	(incl. .4 still to come)
2. Machine Gun Plants	24	20	(incl. 3.8 " " ")
3. Todd California	6	6	-
4. Curtiss Wright-Fair-lawn.	<u>1</u>	<u>1</u>	-
	<u>52</u>	<u>49</u>	(incl. 4.2 still to come)

Transfer of Contracts

1. Machine Guns	28	30	
2. Tennessee Powder Co.	6	4	(incl. 1.2 to come)
3. New Jersey Powder	49	38	(incl. 36 to come)
4. Vultee	12	12	
5. Remington Arms	33	32	
6. Savage Arms	25	24	(incl. 2 to come)
7. Mack Trucks	4	4	
8. Pressed Steel Car	6	6	
9. Ordnance Contracts	85	85	(incl. 17 to come)
10. Oerlikon	-	<u>11</u>	(incl. 5 to come)
	<u>248</u>	<u>246</u>	(incl. 61.2 to come)
<u>Aircraft Material</u>	<u>80</u>	<u>80</u>	

II. TRANSACTIONS AGREED UPON BUT NOT YET COMPLETED

1. Todd Bath	6	9
2. Other facilities	<u>44</u>	<u>40</u>
	<u>50</u>	<u>49</u>

**BRITISH AIR COMMISSION**

1785 MASSACHUSETTS AVENUE

WASHINGTON, D. C.

TELEPHONE HOBART 9000

PLEASE QUOTE

REFERENCE NO. _____

With the compliments of British Air Commission
who enclose weekly Statement No. 72, covering
Aircraft Flight Delivery as at October 6, 1942.

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

October 10, 1942.

CONFIDENTIAL REPORT
REF. NO. D-55

LOCATIONS OF OCEANIC FLIGHT DELIVERY AIRCRAFT - WEEKLY REPORT NO. 72
 (Covering Movements through October 6, 1942)

1. FORTRESS 1 (B17C) off Boeing Contract A-5077

20 DELIVERED TO U.K.

2. LIBERATOR TYPES Off B.A.C. Contracts

(A) LB30A(B24) Off Consolidated Contract A-5068

6 DELIVERED TO U.K. (assigned to Ferry Service)

(B) LIBERATOR 1 (B24A) Off Consolidated Contract F-677

19 DELIVERED TO U.K.

1 under repair

20

(C) LIBERATOR 11 (B24B) Off Consolidated Contract F-677

(a) Never taken by U.S.A.A.F.

56 DELIVERED TO U.K.

5 DELIVERED TO W.B. (1 crashed in Africa)

2 DELIVERED TO MONTREAL

2 IN FERRY SERVICE (Delivered to Montreal)

65

(b) Taken by U.S.A.A.F. and returned or kept

1 DELIVERED TO U.K.

6 IN FERRY SERVICE (delivered to Montreal)

1 at Montreal

1 at Detroit

2 on special duty

6 RETAKEN BY U.S.A.A.F.

44 KEPT BY U.S.A.A.F.

74

3. HUDSON V (LONG RANGE) off Lockheed Contract A-1749

174 DELIVERED TO U.K.

42 DELIVERED TO DEBERT

1 LOST AT SEA (in flight)

1 IN R.A.F.F.C. TRAINING (at North Bay)

1 at Montreal

2 CRASHED AFTER EXPORT

2 CRASHED IN U.S.

2 under repair

225/

/ Excluding one crash written off by
 contract amendment.

SUPPLEMENTARY (not included in table at end of report)

SHORT RANGE HUDSON V off A-1749

168 DELIVERED TO U.K. (by sea)

6 DELIVERED TO NEW ZEALAND (by sea)

1 FLIGHT DELIVERED TO DEBERT

1 CRASHED AFTER EXPORT

6 LOST AT SEA

182

/ Crashed in Canada; returned to Lockheed
 and written off.

/ Excluding one crash written off by
 contract amendment.

CONFIDENTIAL REPORT
REF. NO. D-55

BRITISH **MOST SECRET** WEEKLY REPORT NO. 72
LOCATIONS OF OCEANIC FLIGHT DELIVERY AIRCRAFT
 (Covering Movements through October 6, 1942)

4. HUDSON 111 - B.A.C. Contracts

(A) Lockheed Contract A-67 (LONG RANGE)

46 DELIVERED TO U.K.
 4 CRASHED AFTER EXPORT
 450

✓ Including "Gift Plane"

SUPPLEMENTARY (not included in table at end of report)

SHORT RANGE HUDSON 111 off A-67

29 DELIVERED TO U.K. (by sea)
 1 Resident at Lockheed plant
 30

(B) Lockheed Contract A-68 (LONG RANGE)

211 DELIVERED TO U.K.
 3 DELIVERED TO DEBERT
 5 LOST AT SEA (IN FLIGHT)
 5 CRASHED AFTER EXPORT
 1 at Detroit
 20 DIVERTED TO U.S.A.A.F.
 2454

✓ Excluding two crashes written off by contract amendment.

SUPPLEMENTARY (not included in table at end of report)

30 (LONG RANGE) DELIVERED TO NEW ZEALAND (by sea)
 71 (SHORT RANGE) DELIVERED TO U.K. (by sea)

5. VENTURA (B3A)

(A) Off Vega Contract A-344

(a) LONG RANGE

102 DELIVERED TO U.K.
 74 DELIVERED TO SOUTH AFRICA
 37 DELIVERED TO PENNFIELD RIDGE
 1 LOST AT SEA (IN FLIGHT)
 1 in Iceland
 1 en route South Africa
 1 at Gander
 13 at Montreal
 12 CRASHED AFTER EXPORT
 4 at Detroit (including 3 for Miami or West Palm Beach)
 1 at Miami or West Palm Beach
 9 en route Miami or West Palm Beach
 1 on special duty (Wright Field)
 8 taken by U.S.A.A.F.
 1 CRASHED IN U.S.
 268

(b) SHORT RANGE

11 DELIVERED TO PENNFIELD RIDGE
 4 at Montreal
 2 on special duty (Pan-Am. Training)
 1 at Detroit (transition)
 18

SUPPLEMENTARY (not included in table at end of report)

10 (SHORT RANGE) DELIVERED TO U.K. (by sea)

CONFIDENTIAL REPORT
REF. NO. D-44

BRITISH

MOST SECRET

LOCATIONS OF OCEANIC FLIGHT DELIVERY AIRCRAFT - WEEKLY REPORT NO. 72
 (Covering Movements through October 6, 1942)

5. VENTURA (B34)(B) Off Vega Contract A-1748 (LONG RANGE)

32 DELIVERED TO U.K.
 5 DELIVERED TO PENNFIELD RIDGE
 1 in Eire (force-landed)
 1 in Iceland
 1 en route South Africa
 5 at Gander
 1 en route Gander
 5 at Montreal
 1 CRASHED AFTER EXPORT
 9 at Miami or West Palm Beach
 18 en route Miami
 10 at Detroit
 1 en route Detroit
 11 at Dallas
 1 CRASHED IN U.S. (for So. Africa)
 26 DIVERTED TO U.S. NAVY
 245 TAKEN BY U.S.A.A.F.
 373

6. FLYING BOATS(A) Off B.A.C. Contracts(a) CATALINA 1 (28-5NE) off Consolidated Contract A-2587

7 DELIVERED TO U.K.

(b) CATALINA 1 (28-5NE) off Consolidated Contract F-210

38 DELIVERED TO U.K.

1 DELIVERED TO AUSTRALIA

1 DELIVERED TO SINGAPORE

40

(c) CATALINA 1 (28-5NE) off Consolidated Contract A-27

42 DELIVERED TO U.K.

5 DELIVERED TO SINGAPORE

8 At Dartmouth

1 at Bermuda

59

(d) CATALINA 1 (28-5NE) Off Consolidated Contract AUS-38

17 DELIVERED TO AUSTRALIA

1 DELIVERED TO U.K.

18

(e) CATALINA 11A (28-5NC) off Consolidated Contract CAN-78

17 DELIVERED TO U.K.

9 DELIVERED TO AUSTRALIA

1 in Bermuda

2 CRASHED AFTER EXPORT

29

SUPPLEMENTARY (not included in table at end of report)

7 DELIVERED TO CANADA

(B) Off Lend-Lease Contracts, B.S.C. Requisitions(a) CATALINA 111 (PEY3A) Off B.S.C. Req. 10772

10 DELIVERED TO U.K.

2 at Montreal

12

(b) CATALINA 1B (PEY5B) off B.S.C. Req. 148

64 DELIVERED TO U.K.

6 at Montreal

4 in Bermuda

1 CRASHED AFTER EXPORT

27 at Elizabeth City

102

LOCATIONS OF OCEANIC FLIGHT DELIVERY
(Covering Movements through October 6, 1942)

7. HUDSONS OFF LEND-LEASE CONTRACTS

(A) HUDSON 111A (A29) off AC-1

- 130 DELIVERED TO DEBERT
 - 2 IN R.A.F.F.C. TRAINING (at North Bay or Montreal)
 - 2 at Montreal for Debert
 - 2 at Ottawa
 - 1 CRASHED AFTER EXPORT
 - 1 at Detroit for Debert
 - 1 at Nashville (transition)
 - 3 under repair
 - 1 at Long Beach
 - 33 for China
 - 20 DIVERTED TO U.S. NAVY
 - 154 TAKEN BY U.S.A.A.F.
 - 5 CRASHED IN U.S.
- 356

SUPPLEMENTARY (not included in table at end of report)

- 49 DELIVERED TO AUSTRALIA (by sea)
 - 12 DELIVERED TO NEW ZEALAND (by sea)
- 61

(B) HUDSON 111A (A29) Off AC-151

- 185 DELIVERED TO U.K.
 - 1 DELIVERED TO DEBERT
 - 4 LOST AT SEA (IN FLIGHT)
 - 1 at Gander
 - 4 IN R.A.F.F.C. TRAINING (at North Bay or Montreal)
 - 7 CRASHED AFTER EXPORT
 - 1 at Detroit (transition)
 - 1 en route Detroit
 - 1 at Nashville (transition)
 - 2 FOR CHINA
 - 1 TAKEN BY U.S.A.A.F.
 - 1 CRASHED IN U.S.
- 211

SUPPLEMENTARY (not included in table at end of report)

- 45 DELIVERED TO AUSTRALIA (by sea)
 - 42 DELIVERED TO NEW ZEALAND (by sea)
 - 1 CRASHED (on acceptance flight)
- 88

(C) HUDSON V1 (A28A) off AC-471

- 31 DELIVERED TO U.K.
 - 42 DELIVERED TO MIDDLE EAST
 - 2 DELIVERED TO DEBERT
 - 7 IN R.A.F.F.C. TRAINING (at North Bay or Montreal)
 - 1 en route Middle East
 - 3 CRASHED AFTER EXPORT
 - 8 for special duty (training; Pan-American)
 - 1 TAKEN BY U.S.A.A.F.
- 95

SUPPLEMENTARY (not included in table at end of report)

- 4 DELIVERED TO NEW ZEALAND (by sea)

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LOCATIONS OF OCEANIC FLIGHT DELIVERY AIRCRAFT - WEEKLY REPORT NO. 72
 (Covering Movements through October 6, 1942)

8. BOSTON 111A (A20C) off L/L Contract AC-934

- 3 en route U.K. from Montreal (U.S. Air Transport Command pilots)
- 20 at Montreal
- 33 at Detroit
- 8 en route Detroit
- 1 at Long Beach
- 85

9. BALTIMORE 111A (A30) off L/L Contract AC-19. E.S.C. Reg. 144

- 5 at Montreal
- 39 at Nashville or Memphis
- 1 en route Nashville or Memphis
- 35 at Newcastle, Del.
- 1 diverted to U.S. (for tests)
- 83

10. FORTRESS (B17)

(A) FORTRESS 11A (B17E). Army Release

- 41 DELIVERED TO U.K. (modified)
- 1 at Montreal (modified)
- 1 at Detroit (modified)
- 2 on special duty (modified)
- 12 TAKEN BACK BY U.S.A.A.F. (in April)
- 4 TAKEN BACK BY U.S.A.A.F. (in June)
- 81

(B) FORTRESS 11 (B17F)

(a) OFF LEASE-LEASE CONTRACT AC-16

- 6 at Cheyenne (modification center)

(b) ARMY RELEASE

- 6 at Cheyenne (modification center)

11. LIBERATOR 111 (B24D). Army Release

- 11 DELIVERED TO U.K. (unmodified)
- 57 DELIVERED TO U.K. (modified)
- 1 (unmodified) LOST AT SEA (IN FLIGHT)
- 4 in temporary South Atlantic Ferry Service (modified)
- 1 at Gander (modified)
- 4 at Montreal (modified)
- 1 (modified) CRASHED AFTER EXPORT
- 1 at LaGuardia Field (modification center)
- 14 at Fort Worth (modification center)
- 2 en route Fort Worth
- 3 TAKEN BACK BY U.S.A.A.F. (2 in June; 1 in September)
- 2 CRASHED IN U.S. (en route modification centers)

101

12. MITCHELL 1 (B25B). Army Release

- 3 DELIVERED TO U.K. (modified)
- 5 at Montreal (modified); 1 for U.K.; 4 to return to U.S. for re-modification.
- 15 at Minneapolis (for re-modification)
- 23

13. MITCHELL 11 (B25C). Army Release

- 87 DELIVERED TO U.K. (modified)
- 4 at Montreal
- 19 at Detroit (modified)
- 8 at Kansas City (modification center)
- 37 TAKEN BACK BY U.S.A.A.F. (June)
- 29 TAKEN BACK BY U.S.A.A.F. (April)

184

CONFIDENTIAL REPORT
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BRITISH

MOST SECRET

LOCATIONS OF OCEANIC FLIGHT DELIVERY AIRCRAFT - WEEKLY REPORT NO. 72
 (Covering Movements through October 6, 1942)

14. MARAUDER 1 (B26A). ARMY Release

- 2 DELIVERED TO U.K. (modified)
- 3 at Montreal (modified)
- 37 DELIVERED TO MIDDLE EAST (modified)
- 9 en route Middle East (modified)
- 6 (modified) CRASHED AFTER EXPORT (en route Middle East)
- 5 at Miami or West Palm Beach (modified)
- 2 at Nashville (modified)
- 1 under repair (Mobile)
- 6 CRASHED IN U.S. 2 en route modification center; 4 after modification

71

15. TRANSPORTS

(A) DOUGLAS

(a) DAKOTA 11 (C-53) off BSC Reg. 1050

- 9 DELIVERED TO MIDDLE EAST
- 2 TAKEN BY U.S.

11

(b) DAKOTA 1 (C-47) of L/L Contract AC-53. BSC Reg. 2649

- 1 DELIVERED TO MIDDLE EAST

(B) LOCKHEED LODESTAR Off L/L Contract AC-53. BSC Reg. 1049

(a) LODESTAR 1A (C-59)

- 6 DELIVERED TO MIDDLE EAST
- 1 en route Middle East
- 3 TAKEN BY U.S.A.A.F.

10

(b) LODESTAR 11 (C-60)

- 13 DELIVERED TO MIDDLE EAST

AIRFRAMES DIVISION
 PLANNING AND PRODUCTION DEPT.
 BRITISH AIR COMMISSION
 WASHINGTON, D.C.

Treasury Department
Office of the Secretary

66

Date October 10 1942

To: **Secretary Morgenthau**
From: **Mr. Hoflich**

Attached is the "Voice of the Chief" broadcast of October 7, as reported by Federal Communications Commission.

Stop Sending

Told Hoflich 10/12/42-

'VOICE OF THE CHIEF'

ROMMEL LETS ITALIANS CHASTISE NAZIS

The clandestine transmitter, "Voice of the Chief", with "Gustav Siegfried Eins" broadcasting in German to the Reich (Oct. 7), castigates Rommel for upholding draconian punishment meted out by the Italians to their German comrades in arms for disciplinary breaches.

Nazis' Crimes--"Thus, a German soldier who allegedly tried to rape an Italian girl, was given 18 months," the "Chief" says, "although the evidence was flimsy, and he should have received 3 days of solitary confinement, at the most. In another case, involving a barroom brawl between three Nazi members of the Afrika Korps and 16 Italians, the victorious Germans got 6 months in jail each, with Rommel again refusing to intercede in their behalf.

(Federal Communications Commission, October 9, 1942)

NOT TO BE RE-TRANSMITTED

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL NO. 350.

Information received up to 7 a.m. 10th October, 1942.

1. MILITARY.

Madagascar. Our forces have continued their advance some 20 miles south of Antsirabe.

2. AIR OPERATIONS.

Western Front. 9th. 108 U.S. Bombers (Fortresses and Liberators) were sent to attack the Fives-Lille Steel and Locomotive Works at Lille. Many bursts were seen on the objective. As a result of encounters with enemy aircraft a large number are claimed but definite figures have not been received. Three bombers are missing and one crashed, crew safe. 36 Squadrons of fighters provided escort and diversions for the bombers. Five enemy fighters were shot down, one probably destroyed and three damaged. One Spitfire is missing. Six U.S. Fortresses attacked aerodromes at St. Omer and Courtrai and three Mosquitos bombed objectives in Germany. One Mosquito is missing. 9/10. 14 aircraft were sent mine laying off the Dutch coast. Crete. 7th. U.S. Liberators bombed shipping in Suda Bay and obtained several direct hits. Halifaxes renewed the attack at night. Madagascar. 7th. French aircraft were bombed and machine gunned at Ihoisy. Two were destroyed and two damaged.

NOT TO BE RE-TRANSMITTEDCOPY NO. 13BRITISH MOST SECRET
U.S. SECRETOPTAL No. 351

Information received up to 7 A.M., 11th October, 1942.

1. NAVAL

An enemy ship of 2,000 tons was sighted and attacked by aircraft yesterday northwest of CAPE FINISTERRE. The ship was hit by machine gun fire. One Whitley has failed to return. Three homeward-bound transports with service personnel have been attacked by U-boats in South Atlantic.

2. AIR OPERATIONS

WESTERN FRONT. 9th. United States bombers claim to have destroyed 48 enemy aircraft, probably destroyed 38 and damaged 19 during the attack at LILLE. 10th. One enemy aircraft was shot down over ENGLAND by anti-aircraft fire. 10th/11th 66 aircraft were sent mine-laying off the FRISIAN ISLANDS and the French North and West Coasts. Two are missing and one crashed.

EGYPT. 9th. Our light and fighter bombers made 6 attacks on landing grounds near EL DABA. Two were carried out by 188 and 169 aircraft respectively. Ten enemy aircraft were destroyed and eighteen damaged on the ground. In addition, two dumps and several lorries were destroyed. Our Fighters shot down ten enemy aircraft and probably destroyed five. We lost one bomber and 13 fighters. Light bombers and Beaufighters severely damaged a railway train carrying ammunition and guns south of SIDI BARRANI. United States Liberators bombed BENGHAZI HARBOUR.

BURMA. 9th. Eighteen Blenheims bombed PAKKOKU aerodrome 60 miles southwest of MANDALAY, and the railway southwest of MANDALAY.

October 11, 1942

I called on the President today at 11:00 a.m. I asked him if he was going to discontinue our examining the diplomatic pouches whether it wouldn't be just as sensible to do it now. He agreed. I asked him about Sumner Welles and his attitude, and he said that Sumner had been fine, and that he had explained to Sumner that if the Spanish proved to be at all difficult, Sumner should write a letter to Franco and he, as President of the United States, would be glad to sign it. The President said that the story would be that we had lost an important document which we were looking for, and that some of the subordinates, through overzealousness, had opened too many pouches.

He seemed to think there was something very funny about Admiral Leahy bringing him a letter signed by all four members of the Joint Chiefs of Staff recommending that we do not examine the pouches. It also seems that A. A. Berle had been Acting Secretary of State for three days while this was going on, and he had called the President at midnight about it, and the President refused to talk to him about it. The President seemed to be very much amused at Berle's excitement over this matter.

We then got on to Bill Bullitt, and the President said he had talked entirely too much when he was in London the last time, and he approached people whom he thought knew certain things about our military plans. The President also said that Bullitt wanted to be one of the political or civilian governors of whatever territory we were proposing to go into. The President didn't like that at all. He said he was recommending a man by the name of Murphy who was entirely familiar with the area rather than Bullitt.

In regard to my trip abroad, when I came in the President said right away that he was very glad I was going, and wanted me to find out certain things which he thought should be observed in England. He said he had heard that the English would not let other Nationals trade in certain territories, and he wished that I would find out about it. He said I should ask some questions as to what they propose to do about the various oil possessions and whether they would let the United States and other countries in there after the war.

The President wants all of these Colonies, etc., open to all the world. I asked him if he wanted me to give any message to Churchill, and he said, "Yes. Tell him that my trip around the United States was very successful, that I found production good, and that the whole question is probably one of shipping." He told me I should also try to find out how the English are doing their financing. He said, "My hunch is that they do it by printing a lot of paper."

I told the President all about my troubles on the financing, and how we finally got over the four billion dollars. I asked him whether he wouldn't say something about the Treasury and its work, and he said he would, and that he could give out a little statement about financing the war at 2% and how important it was and how much it would save the people in years to come in interest rates.

We then got on to the tax bill, and to my amazement he told me that on Friday he had seen Speaker Rayburn and Chairman McCormack and they were very anxious not to have the Senate pass the tax bill last week in order to give the House a chance to stall the bill because they don't want to pass it before election. The President said he had agreed and that Barkley had not cooperated. He said it was a mistake to have the bill passed and sent to him just one week before election.

I then suggested to the President that we prepare a radio talk for him on the question of taxes and inflation, and the 20 to 30 billion dollar gap, and cover the whole field. I told him that he should give it after election. He said he would be glad to, and I said we would have the speech cleared by the Director of the Budget, Leon Henderson, Eccles and everybody else, and have it all ready for him, and he thought that would be fine.

The President asked me about his sending up a letter on tax-exempts, and I said, "No," that he should hold his fire until he could cover the whole subject, and he agreed that he would.

I was with the President 55 minutes. I tried to tease him about not having said anything about our tax bill, so he said, "Well, you know I don't generally say anything about the tax bill while it is in the process of going through Congress." I mentioned the attacks on me which have been made in the Scripps Howard papers, and told him that I hoped he would say something to offset them. He thought that he would.

October 12, 1942
9:45 a.m.

GROUP

Present: Mr. Bell
Mr. Paul
Mr. Sullivan
Mr. Buffington
Mr. Gamble
Mr. Haas
Mr. Charles Bell
Mr. Gaston
Mr. Graves
Mr. White
Mr. Kuhn
Mr. Schwarz
Mrs. Klotz

H.M.JR: I would just like to say this, that this last financing was the most difficult and, of course, it was the largest, with the lowest interest rate in the history of the country. It went over and we got our four billion. If anybody asks any questions about it, before you interpret it in any way whatsoever I wish you would please speak to Mr. Bell about it.

I think we have every reason to be more than pleased that we did get it, and there were certain technical difficulties. We didn't allow enough time; notice didn't get out in time; and the reserves weren't high enough - this, that and the other thing; but it is over - finished. I have not seen any criticism in the paper about it one way or another. As I say, if anybody does raise the question - I mean, I think we have every reason to feel pleased, but you, particularly, Schwarz--

MR. SCHWARZ: Check with him?

H.M.JR: Yes.

MR. SCHWARZ: I saw Sylvia Porter at the Press Club. She apologized and said she was merely reporting - that she has every confidence in us.

- 2 -

H.M.JR: That is a wonderful way to show it.

MR. SCHWARZ: She was sorry afterwards that she had printed it.

H.M.JR: She ought to write a story now from the standpoint - she wrote a story yesterday from the standpoint of the Government bond dealers, and now why doesn't she write one from the standpoint of the Government?

MR. SCHWARZ: I told her I was sure that the results would be--

H.M.JR: I mean, having now reported what the Government bond dealers think--

MR. SCHWARZ: I think she will write the other story.

H.M.JR: I doubt it.

MR. SCHWARZ: She had better not come back to town if she doesn't.

H.M.JR: The first time she admitted that we here had sold a lot of issues successfully, and just because we didn't do what some of the dealers wanted - give them two and a quarter percent - she had to report that.

MR. PAUL: Anderson made a--

H.M.JR: What?

MR. PAUL: Anderson made a hot speech the other night that the interest rates were terribly low and they had to get them up.

MR. WHITE: Benjamin?

MR. PAUL: The Chase National Bank.

H.M.JR: He is not with them any more.

- 3 -

MR. PAUL: It was a very hostile attack on our financing, particularly stressing that point, saying how good it was in the last war and how bad in this.

H.M.JR: He is at some university in California.

MR. WHITE: He notoriously would take that position. He sold out completely to the bankers in the last fifteen years. Everything he has ever written has been bad. If you want to know whether you are right just find out whether you agree with Anderson; if you do, then worry. (Laughter)

H.M.JR: Give Winthrop Aldrich credit for having shipped him.

MR. PAUL: It is interesting that Donald Woodward of the Mutual Life, Douglas' personal assistant, was there, and came back against Anderson.

H.M.JR: I think one of the few occasions since I have been here of my having lost my temper when somebody came in to see me was with Anderson. So that Mr. Aldrich would get the story straight, you see, because he had sent him down to see me, I called Aldrich up on the telephone and told him word for word what had happened in this office. I wanted him to get it straight, and not very long after that Aldrich let him go.

MR. WHITE: He is the worst of the lot.

H.M.JR: One of the very rare times that somebody has come in here and sat here - I don't know whether anybody was here or not.

MR. HAAS: I was here.

H.M.JR: What happened, George?

MR. HAAS: Just as you say, that his remarks were entirely unwarranted.

H.M.JR: And I got angry; then I called up Aldrich.

- 4 -

MR. KUHN: An article on the opposite side by Alvin Hansen in the "Atlantic Monthly" for October is very encouraging and very optimistic about the whole financing of the war and the inflation problem, and so on. It was somewhat along the lines of Jack Viner's piece in the "Yale Review."

H.M.JR: In October?

MR. KUHN: Yes. It is a good piece.

H.M.JR: We subscribe to it. I have not seen it.

MR. KUHN: The heading was "We Can Pay the War Bill."

H.M.JR: Would you give it to Mrs. Klotz this morning?

MR. KUHN: Yes. I think it could be photostated. I will show it to Harry and see if Harry thinks it ought to be photostated and distributed.

H.M.JR: Be sure and give it to me this morning.

MR. KUHN: Did you see it?

MR. WHITE: No, I didn't, but it should be, anyway.

H.M.JR: Harry will take it blind - or straight.
(Laughter)

MR. PAUL: Don't take all Hansen says.

MR. WHITE: No.

H.M.JR: How is "priority" Bell?

MR. CHARLES BELL: I have one priority - a man in the Procurement Division. He is forty-two years old. He has only been with us since June, and it is not such a strong case.

MR. GASTON: He is the man that is buying munitions, isn't he?

MR. CHARLES BELL: Yes, sir.

- 5 -

H.M.JR: Munitions? What are we buying munitions for?

MR. CHARLES BELL: That is for the Russian purchases.

H.M.JR: I didn't know we bought any munitions; I thought we only bought nonmilitary. Let's see what he buys: nonfabricated steel, iron, aluminum, zinc - he doesn't buy munitions. He has metallurgical training and experience. We will give him three months. (Deferment case of Robert Tarshes approved by the Secretary for three months.)

He is single, isn't he?

MR. CHARLES BELL: Yes, he is single - 1-A.

That is all.

MR. BELL: Nothing.

H.M.JR: You told the boys what I wanted at lunch?

MR. BELL: I haven't yet, but I will.

H.M.JR: Harold?

MR. GRAVES: I have nothing.

H.M.JR: One of the things I would like to talk with you about is the time deposits - the National banks.

MR. BELL: Type?

H.M.JR: Time - savings accounts - at lunch.

MR. BELL: Give them a special security - something like that?

H.M.JR: Something like that.

Nothing, Harold?

MR. GRAVES: Nothing.

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MR. WHITE: We have several bills regarding the Silver Purchase--

H.M.JR: Excuse me. I had a very nice letter from O'Connor and I would like it if you would answer it, you see-- (Referring to letter from J.F.T. O'Connor, postmarked October 10, 1942.)

MR. GRAVES: Me?

H.M.JR: Yes, for my signature - some suggestions. I didn't know he was a judge now.

MR. GASTON: Yes.

MR. GRAVES: He has been for a couple of years.

H.M.JR: All of his total salary goes into war bonds. He is quite a war-bond enthusiast.

MR. GRAVES: That is right, he helped us.

H.M.JR: He has written a two-page letter. Harry?

MR. WHITE: We received several bills which are being submitted to repeal the Silver Purchase Act and the domestic silver provision. We are called upon to report on two of them. It will mean that the Treasury will have to take a position on them, although the lawyers tell us that we can stall. I would be inclined not to answer them, if you don't have to, at this time. We already have commented on the Green bill.

MR. BELL: We took a position on the Green bill, didn't we, which is the same thing?

MR. WHITE: What?

MR. BELL: We took a definite position on the Green bill.

MR. WHITE: These others call for more than that. The repeal of the Silver Purchase Act and also the repeal of the domestic purchase - we did not take a position on those two items.

Oct. 12, 1942

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MR. BELL: I see.

MR. WHITE: In light of McCarran's conversation you might want to just postpone the matter, if that is all right.

H.M.JR: Here is a letter, Mr. Bell, that needs a little thought and the help of everybody. It is from Justice Byrnes.

"I have been thinking over our talk at lunch yesterday and" - I told him if there was anything we could do to help him we stood ready to do it, on any front - "it occurred to me that it would help me a great deal in grappling with the problem of the control of civilian purchasing power if you could have a report prepared which would consider the extent to which the control of civilian purchasing power could be effectuated by (a) compulsory savings and (b) the rationing of spending. I am sure that you have given a great deal of thought to the potentialities of both of these techniques which connect closely with the Treasury's fiscal policies.

"I hope that you will also give me the benefits of your thoughts on the question of the considerations which should guide me in directing or refraining from directing the use of subsidies to insure maximum production and distribution and to prevent a rise in the cost of living."

There is a mouthful in that letter.

(Letter dated October 9, 1942, from Justice Byrnes handed to Mr. Bell.)

MR. PAUL: Did you get that this morning?

MR. WHITE: Signed by Ben Cohen? (Laughter)

H.M.JR: Ben Cohen is busy. Anyway, I am sure Mr. Graves will write the part on compulsory savings for you.

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MR. GRAVES: I would at least like to see what is written.

H.M.JR: If Bell will consult everybody--

MR. BELL: I will let you (Graves) peak at it.

H.M.JR: Got anything else, Harry?

MR. WHITE: No, sir.

H.M.JR: Chick?

MR. SCHWARZ: Nothing.

H.M.JR: George?

MR. HAAS: I have nothing except this, that during each night we are making up another table so that it will be available to you at nine o'clock in the morning, showing what the Fed did in the market and also the effect on the price. It will be in the black book, the first sheet.

H.M.JR: Better show it to me - nine o'clock?

MR. HAAS: I have the first one here.

H.M.JR: Do you want to stay behind and show it to me?

MR. HAAS: Yes. That is all.

H.M.JR: Roy?

MR. BLOUGH: Nothing this morning.

H.M.JR: Ted?

MR. GAMBLE: I have nothing, sir.

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H.M.JR: Kuhn?

MR. KUHN: Nothing.

MR. BUFFINGTON: Nothing.

H.M.JR: Paul?

MR. PAUL: I have nothing except that there is one little item I want to take up with you later in the day.

H.M.JR: I will do it right afterwards.

MR. PAUL: I would rather put it a little later, if you can, because I am mending it in accordance with your suggestions.

H.M.JR: Well, Mr. T. V. Soong is coming in at eleven forty-five. Eleven-thirty?

MR. PAUL: All right. That will be all right. I can have it ready then.

H.M.JR: If you want to see me, eleven-thirty?

MR. PAUL: Yes.

H.M.JR: Anything else?

MR. PAUL: No, that is all.

MR. SULLIVAN: I don't know whether Randolph reported to you the results of the conference Saturday morning.

H.M.JR: I refuse to be questioned on anything that happened in the last seventy-two hours - I mean for fear that I might incriminate myself, because I can't remember.

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MR. SULLIVAN: You will recall that we discussed with you, before we went to see Mr. Byrnes, the Bureau's end - the Treasury's handling the reasonableness of increases or decreases in salaries between five thousand and twenty-five thousand. It developed across the street that all along they had decided that we should handle it.

Byrnes made some remarks about the Treasury that were most complimentary. He felt that it was such a responsible job that he did not want to entrust it to a new agency.

We also had some conversation in this room - the three of us - about some new agency.

Late in the day I talked with Commissioner Helvering, and he felt that if he were to do it he would like to set up his own unit over there in the Bureau and go right ahead and do the job. He is making plans now. I think we will have something to submit to you Wednesday - I mean as to how we would like to have that done.

H.M.JR: O.K.

MR. SULLIVAN: Saturday morning I talked with Governor Curley and told him about the time of that appointment. He was quite in accord that it would be better to do it before the fifth of November than to do it now.

One day last week you said--

H.M.JR: I reported that to the President, Herbert. He said, "O.K."

MR. GASTON: Good.

MR. SULLIVAN: One day last week you sent in a rather nasty clipping from the Cleveland Plain Dealer

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about the collector out there having lost his auto use stamp and saying he had a certificate. What he did was strictly in accordance with the regulation - what everybody else can do - and the Commissioner felt that the article was written up by somebody who just wanted to take a crack at him. He thought that it would be very unwise to reprimand him in any way.

H.M.JR: All right.

Herbert?

MR. GASTON: I haven't anything except that I have a brief report I would like to make to you today.

H.M.JR: Who is seeing me afterwards?

MR. HAAS: I am.

H.M.JR: All right.

October 12, 1942.

MEMORANDUM FOR MR. KILBY:

We received telephone advices late Saturday night that additional subscriptions will be filed by the following Federal Reserve Banks:

New York
(I am not sure of the division
between notes and bonds) \$200,000,000

Chicago
Notes \$100,000,000
Bonds 25,000,000 125,000,000
(There may be a further subscrip-
tion here today)

Boston
Notes 10,000,000

San Francisco
Notes 34,000,000
Bonds 3,000,000 37,000,000

Total \$372,000,000

Previous total which you
furnished me Saturday afternoon . 3,680,000,000

\$4,052,000,000

(Initialed) D.W.B.

October 12, 1942
11:49 a.m.

HMJr: Hello.

Operator: Chairman Eccles.

HMJr: Hello.

Marriner
Eccles: Hello.

HMJr: Hello, Marriner?

E: Yes, Henry.

HMJr: Well, the worst seems to be over.

E: Yeah (laughs). Well, I think it - I think it turned out all right. There's been no publicity.

HMJr: Yeah.

E: I got - I just read the Goldsmith Letter this morning....

HMJr: Yeah.

E:in full and it's an excellent piece. Now that - he's a smart fellow. He some - sometimes doesn't give you the best break. If you haven't read it....

HMJr: Yeah.

E:I - I think you ought to read it, because....

HMJr: I'll get it.

E:it's - it's excellent and it goes to - goes out to a good many thousand banks and it's amazing how much they - they listen....

HMJr: Good.

E:to it, and....

HMJr: Well, I - one's hindsight is always better than one's foresight. There are certain things which happen which I think we can correct easily

(cont.)

- 2 -

HMJr: another time, and my attitude - I have a
(cont.) regular press conference at four o'clock, and
I'm simply going to announce the thing, and if
they don't ask me any questions I'm not going
to say anything, you see - hello?

E: Yeah. Well, I think that's all right. I - I
wasn't sure of that Saturday, but it seems to me
that it - it - it's - there's no - there's no
need of....

HMJr: Stirring them up.

E:of stirring them up, and....

HMJr: And, on the other hand, if they do ask me I'm
going to say I think it's remarkable that the
thing went as well as it did considering the
fact that they weren't looking for a two per cent
issue.

E: That's right, that everybody was looking for
two and a half, and this came as somewhat of a
disappointment and a surprise to them....

HMJr: Yeah.

E:and not only that - I think we could - it may
be well to say that - that considering this is
the largest issue....

HMJr: Yes.

E:since the last war and that there was little
time for preparation, that the fact that it
was opened such a short time, that the result
was very satisfactory.

HMJr: That's what I - that's my attitude.

E: Well, I think that's the way to approach it.

HMJr: And if they don't question me, I'm just going to
announce it and let it go by.

E: Yeah, well, even if they - that's what I would do.
Now if they do question you, then I think that
is the thing to say.

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HMJr: That's what I'm going to do.

E: Goldsmith's Letter....

HMJr: Yes.

E:if you've got a chance to read that....

HMJr: I'll read it.

E:before your press conference....

HMJr: I will.

E:I think you may find it helpful.

HMJr: I'll do that.

E: Now about how - how much over do you think we ought to take?

HMJr: Well, I think it's about a - there's a hundred and twenty over, and....

E: Well, that's without Fed taking any.

HMJr: Yeah, we don't want to - we don't want you to take any.

E: Yeah, but what - what occurred to me was that - do you want to make a hundred per cent allotment?

HMJr: Yeah, we'll have to.

E: You would on that basis.

HMJr: No, no, I don't want the Fed to take anything now.

E: Uh huh.

HMJr: We'll just take all that was subscribed.

E: Uh huh. Well, then give them a hundred per cent.

HMJr: That's right.

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E: And, of course, you'll announce what the subscription is finally?

HMJr: Oh, yes, and we hope to have it by banks and non-banking by four o'clock.

E: Uh huh.

HMJr: No, we don't - we - I appreciate the subscription and the backing, but the way the thing is now I - I very definitely don't want any.

E: The - well, it - it - there's one thing about it, we've - we've got a - we can always be sure of getting what we have - we need....

HMJr: That's right.

E:so that - that we can determine the program instead of somebody who - other than the public interest to determine it.

HMJr: No, I - I - it's all right. As I say, we - I've learned some lessons and they're easy ones to correct, and we went through this and I think the next one will be much easier.

E: The - the five billion authority we had, you know, is a revolving fund.

HMJr: I know.

E: So that it doesn't mean we just buy it and then are through. We can - we can - we can keep a fund of that sort revolving....

HMJr: That's right.

E:and it's worth a lot. I think....

HMJr: Well....

E:the next time - and then I - and I - I'm going to get our fellows together this week, and then I'd like to meet with Dan and....

HMJr: Good.

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E:his people to start right now....

HMJr: I think so.

E:for November and December instead of get -
being - getting right up to the snubbing-post
and - and not being ready.

HMJr: No, that's what we should do.

E: Well, we'll get busy this week.

HMJr: All right. Well, it's all right, and thanks for
all the support.

E: Well, okay.

HMJr: Thank you.

E: Goodbye.

October 12, 1942
12:13 p.m.

HM Jr: Hello.

Secy.
Stimson: Hello.

HM Jr: Henry talking.

S: Yes, this is Stimson.

I just had a talk with Patterson about certain matters that were taking place during my absence.

HM Jr: Yes.

S: But he was unable to bring me up to date.

HM Jr: Well, as of noon yesterday it was all called off.

S: That's what I understood.

HM Jr: Yes, and nothing interesting was found.

S: Well, don't you think you've sprung the wrong bag?

HM Jr: (laughs) The answer is yes.

S: I'm talking - thinking aloud.

HM Jr: Yes.

S: Wasn't it unwise to do such a thing unless you had the preliminary spy - espionage knowledge to lead you to the right track?

HM Jr: Well

S: And now haven't you probably destroyed the lead?

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- HM Jr: Well, I didn't do the master-minding.
- S: Well, who did that?
- HM Jr: Well, I can't
- S: Oh, that's all right.
- Patterson told me that he had suggested that the mail going by ship from New Orleans - a Spanish ship - a slow ship and a very unlikely lead.
- HM Jr: Well, of course, one's hindsight is always better than one's foresight.
- S: Well, hasn't the trouble - the thing that I'm most concerned about is, first, the effect on Hull with whom I had taken it up informally on Monday - on Tuesday rather, after you had taken the matter up with me. And, secondly, the effect it may have on reinstating those elements in the State Department which I think it is most undesirable to have reinstated.
- HM Jr: Well
- S: Hull himself, and I am very fond of him, I think was very much stirred up by the information I gave him.
- HM Jr: But did nothing.
- S: Well, hold on. You can say that, yes - but Berle, through whom he acted, for which I am very sorry, came around to the Joint Chiefs of Staff with a suggestion which embodied not as much as I thought ought to have been done, but which was on the way.
- HM Jr: Well, you know the final action they took?
- S: The final action who took?

HM Jr: The Joint Chiefs of Staff at Berle's insistence.

S: They - they - they agreed to take it up by the means as Berle suggested.

HM Jr: Well, that I didn't know. That I didn't know.

S: What did you hear?

HM Jr: Well, I just know about the formal document which I got from them.

S: I haven't seen that. I don't know ...

HM Jr: Well, I sent it back to the President. I didn't keep it. I didn't keep it.

S: Well, the trouble really, Henry - I mean, I - I distrust Berle. I don't distrust Hull.

HM Jr: Yeah. Well, might I make this suggestion? Hello?

S: Yes.

HM Jr: Sometime when you see the President you discuss it with him.

S: I don't see him enough times now - he's so busy - to count on it at all.

HM Jr: Yeah.

S: I don't know how he acted at all. I was preparing to build up, after having gone through the motions with Hull - I think Hull perhaps would have been able to work it out.

HM Jr: Yeah.

S: And perhaps would have been willing to work it out because he gave every evidence of doing it at that time, but now the trouble is he is away.

HM Jr: Yeah.

S: I don't know the circumstances of his going, but I should think that he probably would be in a state of Tennesseean eruption.....

HM Jr: I doubt it.

S:over the fact that this thing was done over his head and without being heard from.

HM Jr: Yeah, but I doubt whether he will be.

S: Well, I wish I was more certain.

But the other thing is that this other man - this Adolf - is still in the key position there and in a position to be a real source of obstacle. I was trying to get Hull into it himself.

HM Jr: Well, of course, the thing - as far as I am concerned - I mean the thing that burns me up is we take months to take action on something as critical as this. This thing started last August with Dean Acheson.

S: Yes.

HM Jr: And then he goes away on a holiday and we have to wait until he comes back, and this thing -

S: Oh, that's the way the State Department works - I know it.

HM Jr: And, after all, I don't know much but I know -

S: We - I took it up personally with that Department within 36 or 24 hours after I had heard of it.

HM Jr: I know you did. You were swell. You were swell, and you took it up within 24 hours as you say, but this thing has been laying before that. This thing always that the State Department is one thing and Mr. Hull is a separate identity - I just can't understand it.

S: Well, I know that - probably though - I wonder what the President thinks about it. The information, you know, has come to me second hand. I didn't know of it until after you stirred me up. I presume you have been getting something first hand.

HM Jr: Oh, well, I have only been operating as an agent under very careful instructions. Don't think for a minute that I have been operating on my own. Hello?

S: Yes.

HM Jr: I mean - I have - and what I am saying now you've got to - because I mean we were all sworn to secrecy and all that - but I have been guided every single step by the Commander-in-Chief - every step that I have taken. We have been acting because we happen to have the police powers.

S: But will you tell me this, Henry? I don't know who is responsible for Adolf being in that Department. Is that the Chief also?

HM Jr: Well

S: I don't think - of course, my sources of information are very indirect, but there are people still in the State Department who were there when I was there, and who sometimes talk to me - confidentially and in trust.

HM Jr: Well, now I have heard

S: They're - they're - the ones that I am speaking of are very much disturbed about the same attitude in their own Department that you are.

HM Jr: Well, Harry, I can only tell you what I heard from the President himself.

S: Yes.

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- HM Jr: And that this thing - this suggestion was made and, as I understood it, he left it over there for three months - and as I understood it - my memory may not be very good - but that it was Welles who finally made the decision to bring Berle in, and it was not the President. Hello?
- S: Yes. I didn't know that.
- HM Jr: Well, that's my understanding - that he was brought in by Welles. Now, it is a matter of a good many years and my understanding may not be correct, but as I remember it, that was the - because at one time there was a great discussion as to who's man was he, and the President got quite angry and said, "Well, the suggestion kicked around the State Department for three months, and I never did a thing about it."
- S: Yeah.
- HM Jr: But I just want you to know, in view of everything that has happened and in view of the position of the Combined Chiefs of Staff, I have the most careful instructions which I was given, both verbally and in writing.
- S: Yes.
- HM Jr: ^{and} And I'm simply just like my Customs agent at the port. I mean I was acting under direct orders of the Commander-In-Chief, and I wouldn't be so stupid as not to have made 100% sure that I did have the orders - you see?
- S: Yeah.
- HM Jr: And I want you to know that.
- S: Well, I wish the Chief - I wish the Commander-In-Chief had been given an opportunity to think over that as a second thought before he took a second rate lead instead of a first rate lead.

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HM Jr: Well, that's correct - we had these definite orders and we had no choice to pick or choose.

S: Yes.

HM Jr: You see?

S: Yes.

HM Jr: And, after all, it was in effect for about a /.....

S: Well, the whole thing is off now?

HM Jr: The whole thing is off, but the people who know it - it is very restricted as to whom knows this thing.

S: Yes.

HM Jr: It is very restricted, and I hope it will stay that way.

S: Well, I wish sometime you would tell me the whole story because I mean I never - never heard the first whimper of it until Patterson brought me the news just before I acted.

HM Jr: Well, okay.

S: Then I'll be in a more intelligent position.

HM Jr: Yeah.

S: I've got the news which my G-2 has - I looked that up. Of course, they are very much disappointed because they had guidance from their espionage people on leaks which examined afterwards were confirmed.

HM Jr: Yes. I see.

S: They're bona fide. They're real bad leaks, and I would like very much to stop them, and Hull has stopped one source by refusing to have him accredited here to come back when he went away.

HM Jr: Yeah.

S: And, therefore, their information seems to have been satisfactory to the State Department.

HM Jr: Well, the only possible criticism which I might have would be that the President himself hasn't been kept properly posted.

S: Yes, well that might be. I didn't tell him about these things until after your note to me came. General Strong hadn't talked the thing over with me. I suppose he was working it out by himself.

HM Jr: But he didn't - he didn't make up his mind until a week ago today, and if General Strong had this information - certainly if the President knew it he didn't let on to me.

S: Yes.

HM Jr: And he thought this thing over for 24 hours before he did anything.

S: Yes.

HM Jr: So he didn't go into it half-cocked. Hello?

S: Yes.

HM Jr: So -

S: Well, if I get a chance to talk to him I'll do it.

HM Jr: I want you to know - I mean he deliberated this thing - thought about it for 24 hours, and he has all kinds of sources of information that I don't even know of. He has got Admiral Leahy and he has all these officers - Army and Navy - running to him all the time and everything else. He has got sources which I just don't have.

S: Yes, he has sources that I don't have.

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HM Jr: And after thinking the thing over deliberately for 24 hours, he decided that he wanted something done. And we did it. And we had bad luck.

S: That's all right.

HM Jr: But - I - that's about the whole story. There isn't much more that I could tell you.

S: All right. Thank you very much.

HM Jr: Thank you.

S: Thank you very much.

October 12, 1942

In my conversation with the President Sunday, he said, "Admiral Leahy (or Bill Leahy, as he calls him) brought up to me a letter from the Combined Chiefs of Staff, signed by all four of them, saying they wanted diplomatic pouches to go in and out of the country freely." So I said, "Well, you know, Mr. President, your directive to me was in advance of the meeting of the Combined Chiefs of Staff."

Then the President said an important thing to me. He said, "I don't know what business it is of the Joint Chiefs of Staff any way," which had been my feeling right from the start. Then I said, "Well, you know who needled the Combined Chiefs of Staff?" and the President said, "No, who did?" I said, "It was A. A. Berle, and then he appeared before them and pleaded the case." I said, "As far as I am concerned, I would much rather take Stimson's view on this than anybody else's in connection with the Army and Navy because he has been all right on things like this and knows what he is doing." The President said, "You bet he is."

October 12, 1942
3:12 p.m.

HMJr: Hello.

Operator: Judge Rosenman.

HMJr: Hello.

Samuel
Rosenman: Henry?

HMJr: In person.

R: Henry? Hello?

HMJr: Henry Morgenthau, Jr.

R: The apple man?

HMJr: The apple knocker.

R: Listen.

HMJr: Yes.

R: I - I wanted to come over to talk to you, but I want to - I got to - I have to make a train so I'll have to ask you over the phone. Did - Nahum Goldman told me he spoke with you about that cable.

HMJr: Cable?

R: That they got from Geneva. - 5

HMJr: Oh, yes.

R: And - and I - I just read it to the President.

HMJr: Yes.

R: There was - he - he didn't decide anything or say anything - I just said couldn't something be done either through Taylor or something.

HMJr: Yes, yes.

R: Do you suggest anything else?

- 2 -

HMJr: No, I don't see - I don't see what else.
R: Apparently Welles knows about it.
HMJr: He does?
R: That's what Goldman told me.
HMJr: Uh huh.
R: And I just - it - I just read it to the President.

(The remainder of the conversation was not recorded.)

October 12, 1942

Dear Jefty:

Your thoughtful letter has given me a great deal of pleasure.

Nothing would be more enjoyable than to visit Los Angeles and other large communities as you suggest, but at least for the present I'm afraid that this is impossible. For reasons which you will understand, I have had to cut down my speech-making and confine it to near-by places.

All the same, I greatly appreciate the suggestions made in your letter, and I appreciate especially the spirit that led you to write me.

It was good to hear from you.

Sincerely,

(Signed) Henry

Hon. J. F. T. O'Connor,
United States District Court,
Los Angeles, California.

File to Thompson

Photo file in Diary

FK/cgk

United States District Court
Southern District of California
Los Angeles

Member of
J. J. O'Connor
United States District Judge

Dear Henry:

I suggested to the President that the bond sales could be greatly stimulated if you would make about twelve or more speeches in the larger cities. I received a personal acknowledgment under date of Sept 24th. All the agencies of the Federal and state governments together with all local volunteer organizations could be gotten together for one supreme effort. The questions given by you in each community. Any assistance you want can be furnished from Hullground. The people like to see the men charged with great responsibility. This critical hour such as yours. I will guarantee to fill the largest arena in Los Angeles if you will come. Now since you started the sale of defense

bonds - then war bonds I have been interest-
ed. I have spoken on many occasions
from platform and radio and in the
Sardis. For my own part your records
will show that I have not taken a
dollar of my salary since becoming a
judge - every salary check has been
used to purchase defense and war bonds.
In order to keep a 100% record with the
President's Defense Analysis drive I may
have to use my Jan 1943 check for that
purpose. I have contributed 1,000 cash
year since the drive began.

We have done a fair job here but we
have not done enough. Could we not
start a graduated purchase club: 10%
for all under 5,000 - 15% 5,000 to 7,000 and
so on up. Suggestions must be made to people
on islands 10% from a person receiving 100,000
in netting. Call on me for any assistance I
can give. Wishing you every success. I am
Cordially yours
J. M. Morganthau
Washington, D.C.

October 12, 1942

My dear Mr. President:

I am transmitting herewith two charts on War Savings Bonds which I hope you will find of interest.

The first chart shows monthly sales of War Savings Bonds since May 1941, the first month in which they were issued. The top section of the chart classifies the total sales of War Savings Bonds as between sales of Series E Bonds which are sold primarily to small investors, and sales of Series F and G bonds which are sold primarily to investors of large means. The bottom section of the chart shows the number of pieces of Series E bonds of each denomination sold each month. During the 17 months of the War Savings Bond campaign we have sold nearly 100 million pieces of War Savings Bonds. It will be noted that nearly 10 million \$25 bonds of Series E were sold in the month of September 1942, alone. These go to people we are most desirous of reaching.

The second chart is designed to show the constantly increasing participation in payroll savings plans for the purchase of War Savings Bonds. In September more than 19 million workers had funds deducted from their pay by their employers to be accumulated for the purchase of War Savings Bonds. These deductions amounted, in the aggregate, to approximately \$260 millions and represented 7.6 percent of the pay of the employees participating.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

The President,
The White House.

My dear Mr. President:

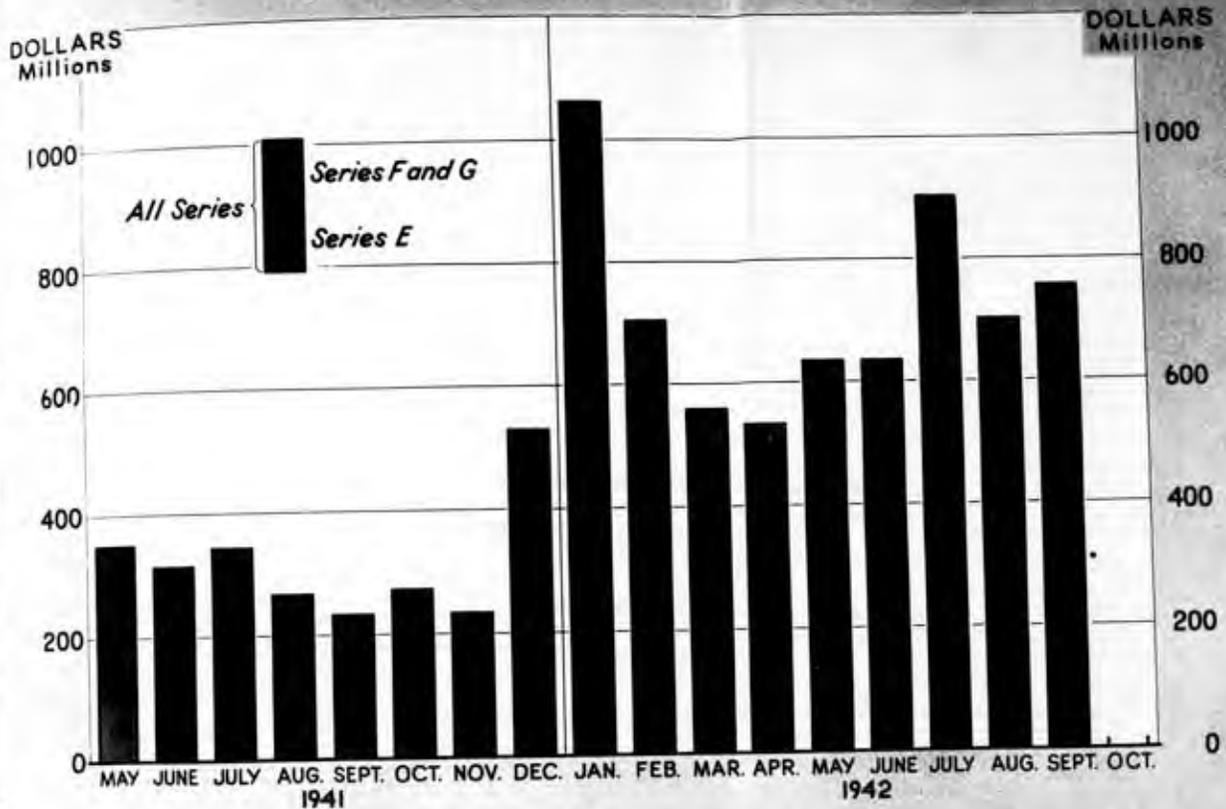
I am transmitting herewith two charts on War Savings Bonds which I ~~know~~^{hope} you will find of interest.

The first chart shows monthly sales of War Savings Bonds since May 1941, the first month in which they were issued. The top section of the chart classifies the total sales of War Savings Bonds as between sales of Series E bonds which are sold primarily to small investors, and sales of Series F and G bonds which are sold primarily to investors of larger means. The bottom section of the chart shows the number of pieces of Series E bonds of each denomination sold each month. During the 17 months of the War Savings Bond campaign we have sold nearly 100 million pieces of War Savings Bonds. It will be noted that nearly 10 million \$25 bonds of Series E were sold in the month of September 1942, alone, *these go to people we are most desirous*

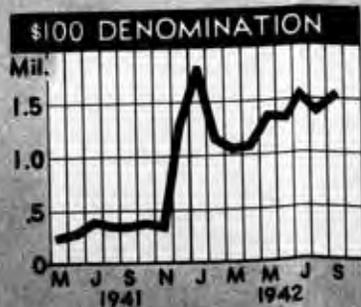
The second chart is designed to show the constantly increasing participation in payroll savings plans for the purchase of War Savings Bonds. In September more than 19 million workers had funds deducted from their pay by their employers to be accumulated for the purchase of War Savings Bonds. These deductions amounted, in the aggregate, to approximately \$260 millions and represented 7.6 percent of the pay of the employees participating.

SALES OF UNITED STATES SAVINGS BONDS

Monthly, May 1941 to Sept. 1942*



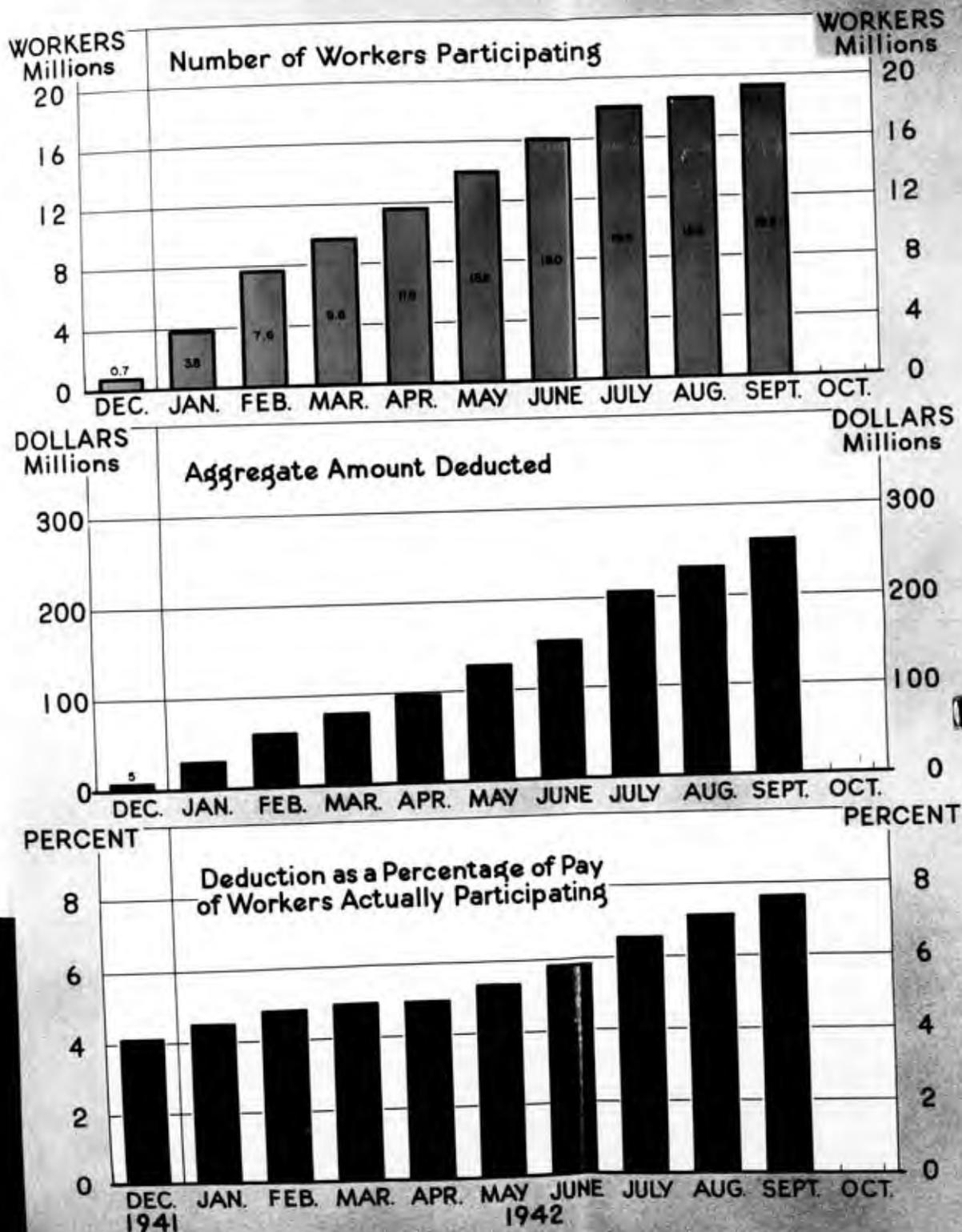
NUMBER OF SERIES E BONDS OF EACH DENOMINATION SOLD MONTHLY May 1941 to Sept. 1942*



*Excludes \$120 mil. September 1942 sales for which reports were in transit at end of report. Regraded Unclassified

EXTENT OF PARTICIPATION IN PAYROLL SAVINGS PLANS FOR WAR SAVINGS BONDS

Estimated: Monthly, Dec. 1941 to Sept. 1942



UNITED STATES SAVINGS BONDS - TOTAL

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

(At issue price in thousands of dollars)

Date	October daily sales	Cumulative sales by business days			October as percent of September
		October	September	August	
October 1942					
1	\$ 59,926	\$ 59,926	\$19,162	\$ 26,267	312.7*
2	44,356	104,282	43,720	65,032	238.5
3	23,627	127,909	71,422	92,055	179.1
5	55,344	183,252	99,904	117,890	183.4
6	14,702	197,955	129,784	158,341	152.5
7	28,532	226,487	197,734	196,524	114.5
8	39,344	265,831	217,101	220,742	122.4
9	27,890	293,720	239,810	261,763	122.5
10	18,229	311,950	266,617	277,037	117.0

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

October 12, 1942.

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

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

UNITED STATES SAVINGS BONDS - SERIES F AND G COMBINED

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

(At issue price in thousands of dollars)

Date	October : daily : sales	Cumulative sales by business days				October as : percent of September
		October	September	August	October as	
October 1942						
1	\$ 27,514	\$ 27,514	\$ 7,528	\$ 12,222		365.5%
2	12,330	39,844	17,339	28,810		229.8
3	6,026	45,870	26,735	41,258		171.6
5	18,104	63,974	37,414	54,105		171.0
6	4,004	67,978	48,127	71,552		141.2
7	7,597	75,575	66,678	84,777		113.3
8	14,773	90,347	72,749	92,566		124.2
9	9,303	99,651	79,029	106,782		126.1
10	3,713	103,364	86,263	112,171		119.8

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

October 12, 1942.

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

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

UNITED STATES SAVINGS BONDS - SERIES B

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

(At issue price in thousands of dollars)

Date	October daily sales	Cumulative sales by business days			October as percent of September
		October	September	August	
October 1942					
1	\$ 32,412	\$ 32,412	\$ 11,634	\$ 14,044	278.6%
2	32,026	64,438	26,381	36,222	244.3
3	17,601	82,038	44,687	50,797	183.6
5	37,240	119,278	62,491	63,785	190.9
6	10,699	129,977	81,657	86,789	159.2
7	20,935	150,912	131,057	111,748	115.1
8	24,571	175,483	144,352	128,176	121.6
9	18,586	194,070	160,781	154,981	120.7
10	14,516	208,586	180,354	164,866	115.7

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

October 12, 1942.

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

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

Sales of United States savings bonds⁹⁹
 October 1 through October 10, 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
	Daily	Oct. 1 to date	Oct. 1 to date	to date as % of quota	Daily	Oct. 1 to date	Oct. 1 to date	to date as % of quota	Daily	Oct. 1 to date	Oct. 1 to date	to date as % of quota
1-3		\$ 82.0				\$ 45.9				\$127.9		
Deduct Sept. sales		- 77.0				- 43.6				-120.6		
1-3	Net sales	5.0				2.3				7.3		
5	\$ 37.2	42.2	\$ 43.2	97.7%	\$ 18.1	20.4	\$ 16.5	123.6%	\$ 55.3	62.6	\$ 59.7	104.9%
6	10.7	53.0	57.7	91.9	4.0	24.3	22.6	107.5	14.7	77.3	80.3	96.3
7	20.9	73.9	79.5	93.0	7.6	31.9	33.7	94.7	28.5	105.8	113.2	93.5
8	24.6	98.5	103.1	95.5	14.8	46.7	43.3	107.9	39.3	145.2	146.4	99.2
9	18.6	117.1	124.2	94.3	9.3	56.0	49.1	114.1	27.9	173.1	173.3	99.9
10	14.5	131.6	141.0	93.3	3.7	59.7	54.4	109.7	18.2	191.3	195.4	97.9
12			174.6				62.8				237.4	
13			186.9				66.6				253.5	
14			205.5				74.0				279.5	
15			226.2				81.0				307.2	
16			245.2				85.8				331.0	
17			261.3				90.8				352.1	
19			294.7				99.6				394.3	
20			307.2				103.6				410.8	
21			326.2				111.7				437.9	
22			347.5				119.6				467.1	
23			367.2				125.1				492.3	
24			383.9				131.0				514.9	
26			418.5				141.6				560.1	
27			431.7				146.6				578.3	
28			451.8				156.6				608.4	
29			474.3				166.4				640.7	
30			495.2				173.2				668.4	
31			570.0				205.0				775.0	

October 12, 1942.

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

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

October 12, 1942

My dear Mr. President:

In accordance with our conversation yesterday I am enclosing a draft of a statement on section 512 of the Revenue Act of 1942 which you may wish to have before you when the Act is signed. The draft states the Presidential interpretation of the section so that it does not violate the constitutional principle of the independence of the Executive.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

The President,

The White House.

Enclosure.

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HC/fn

RSP

The approval of a bill by the President involves performance of a high constitutional duty to consider whether the proposed legislation is authorized under the Constitution of the United States. In execution of that duty, I have carefully examined the Revenue Act of 1942 to which I have affixed my signature. There is one section of that Act which raises constitutional questions of such gravity and of such fundamental importance in our theory of government that I feel constrained to explain the interpretation of that section on the basis which I have approved it. I am apprehensive that silence might be construed as acquiescence in a different interpretation.

I refer to section 512 of the Act, which provides:

"Chapter 48 (relating to joint committee) is amended by adding at the end thereof the following new section:

"SEC. 5012. ADDITIONAL POWERS TO OBTAIN DATA.

"(a) The Joint Committee on Internal Revenue Taxation or the Chief of Staff of such Joint Committee, upon approval of the Chairman or Vice-Chairman, is authorized to secure directly from the Bureau of Internal Revenue (including the Assistant General Counsel for the Bureau of Internal Revenue), or directly from any executive department, board, bureau, agency, independent establishment or instrumentality of the Government, information, suggestions, data, estimates and statistics, for the purpose of making investigations, reports and studies relating to internal revenue taxation.

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"(b) The Bureau of Internal Revenue (including the Assistant General Counsel for the Bureau of Internal Revenue), executive departments, boards, bureaus, agencies, independent establishments and instrumentalities are authorized and directed to furnish such information, suggestions, data, estimates and statistics directly to the Joint Committee on Internal Revenue Taxation or the Chief of Staff of such Joint Committee, upon request made pursuant to this section."

Had the section been before me as a separate bill, I should have been inclined to return it without my approval to the House in which it originated. However, since the rest of the Revenue Act of 1942 contains legislation necessary to the prosecution of the present war, and inasmuch as section 512 may, I believe, be so interpreted as to be constitutional, I have signed the bill.

It is well settled that, under the Constitution, the executive branch of the Government is independent of the legislative branch, and the latter has no right or authority to require the executive branch to furnish to the legislative branch information, papers, and data, the furnishing of which the President deems would be inconsistent or incompatible with the public interest. That has been the position of the Executive branch of the Government in the administrations of Lincoln, Cleveland, and Wilson. There is no need at this time to review the numerous precedents which support that proposition. It is sufficient to point out that an authoritative statement of the doctrine was made by an agency of the House of Representatives. I refer to the report of the House Committee on the Judiciary in the case

of George F. Bernard, Minister Resident in China (1879) H. R. Rep. No. 141, 45th Cong., 2d Sess.). The House Committee on Expenditures in the State Department procured the issuance of a subpoena ADAMS JAMES directing Mr. Bernard to produce certain books. That he refused to do, and the matter of his alleged contempt was referred to the Committee on the Judiciary. In its report, the Committee on the Judiciary said:

"If, as the Committee on Expenditures in the State Department believe, these are public books, then it seems very clear to your committee that that committee have mistaken the proper procedure in a court of justice. Their subpoena ADAMS JAMES should be issued to the highest executive officer having charge, custody, and control of such public records. Since the case of Burr, where a subpoena ADAMS JAMES was demanded of the secretary by the defendant against Thomas Jefferson, then President of the United States--and the right to have such writ issued was determined by the Chief Justice--to have a certain letter, known as 'the Wilkinson letter,' then on the files of the State Department, proceed, the usual course has been for a committee of Congress to direct a letter to the head of the proper department, or the House, by resolution, to call upon the proper executive officer, to produce the same, leaving that officer to get possession of the books from his subordinate by any lawful means. But it may be asked, cannot the House direct a subpoena to any executive officer of the department to produce any books actually in his possession in the exercise of official duty, and bring them before the House for the purpose of information or to aid an inquiry? Certainly that can be done, and, in proper cases, ought to be done; but, in contemplation of law, under our theory of government, all the records of our executive departments are under the control of the President of the United States; and, although the House sometimes sends resolutions

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to a head of a department to produce such books or papers, yet it is conceived that, in any doubtful case, no head of department would bring before a committee of the House any of the records of his office without permission of, or consultation with his superior, the President of the United States; and all resolutions directed to the President of the United States to produce papers within the control of the Executive, if properly drawn, contain a clause, 'if in his judgment not inconsistent with the public interest.' And whenever the President has returned (as sometimes he has) that, in his judgment, it was not consistent with the public interest to give the House such information, no further proceedings have ever been taken to compel the production of such information. Indeed, upon principle, it would seem that this must be so. The Executive is as independent of either house of Congress as either house of Congress is independent of him, and they cannot call for the records of his action or the action of his officers against his consent, any more than he can call for any of the journals and records of the House or Senate.

"The highest exercise of this power of calling for documents, perhaps, would be, in the course of justice, by the courts of the United States, and the House would not for a moment permit its journals to be taken from its possession by one of its assistant clerks and carried into a court in obedience to a subpoena duly issued by the court.

"The mischief of the House calling for documents might easily be a very great one. Suppose the President is engaged in a negotiation with a foreign government, one of a most delicate character, upon which peace or war may depend, and which it is vitally necessary to keep secret; must he, at the call of the House, or of any committee of the House, spread upon its records such state secrets to the detriment of the country? Somebody must judge upon this point. It clearly cannot be the House or its committee, because they cannot know the importance of having the

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doings of the executive department kept secret. The head of the executive department, therefore, must be the judge in such case and decide it upon his own responsibility to the people, and to the House, upon a case of impeachment brought against him for so doing, if his acts are senseless, malicious, willfully wrong, or to the detriment of the public interests."

It is clear, therefore, that legislation which required the executive branch to furnish information to the Congress irrespective of whether the President believed that such furnishing was compatible with the public interest would be unconstitutional as an unauthorized interference with the independence of the executive branch. Accordingly, I do not interpret section 512 as permitting the Joint Committee on Internal Revenue Taxation to require, for example, the Bureau of Internal Revenue to produce information, suggestions, data, estimates, and statistics, regardless of whether the President or the Secretary of the Treasury deems the furnishing of such matter inconsistent and incompatible with the public interest.

I do not regard the use of the word "directly" in section 512 as an indication that the President, or the head of the department or independent establishment or agency, is not to be accorded an opportunity to determine whether, in his judgment, it would be incompatible and inconsistent with the public interest to furnish the information, suggestions, data, estimates, and statistics referred to in the section. Under the Constitution, it is for the

Chief Executive, and those heads of departments or independent establishments or agencies through which he acts, to determine when the furnishing of information would be inconsistent with the public interest. That is not a function of subordinate officers or employees of the executive branch. Legislation that would seek to substitute the judgment of the subordinate for that of the Chief Executive in that regard would be clearly invalid under the Constitution. It is my understanding that the word "directly" is used in section 512 to enable the Joint Committee, when it so desires, to carry on dealings directly with such subordinate agencies or officials as are principally responsible for the information, data, statistics, estimates, or suggestions in which the Joint Committee may be interested, leaving to the subordinate agencies or officials the responsibility of securing approval of the President or the head of the department or independent establishment or agency.

I do not wish to be understood as indicating that material should not be furnished to the Congress. Information, statistics, and data in possession of the executive branch are often necessary to the legislative branch. It is my policy that in every case where the furnishing of such information, statistics, and data is not clearly inconsistent with the public interest, it

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should, on request of either House of the Congress or its committees, immediately and without delay be furnished. Doubts should be resolved in favor of the Congress. Only in that way can the two branches of the Government best perform their duties.

My approval of section 512 is predicated on the interpretation of section 512 as stated herein.

10-12-42

Dear Mr. Chairman:

For the Secretary, receipt is acknowledged of your letter of October 6, 1942, regarding Treasury activity in the field of post-war plans and programs. A description of the relevant activities of the several divisions in the Department is in preparation and will be sent to you as soon as completed.

Sincerely yours,

C. S. Bell

Administrative Assistant
to the Secretary

Honorable Frederic A. Delano
Chairman, National Resources Planning Board
Executive Office of the President
Washington, D. C.

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EXECUTIVE OFFICE OF THE PRESIDENT
NATIONAL RESOURCES PLANNING BOARD
WASHINGTON, D. C.

OCT 6 1942

The Honorable,

The Secretary of the Treasury

My dear Mr. Secretary:

As you know, the National Resources Planning Board has been asked by the President to serve in collating post-war plans and programs of public and private agencies for his consideration. The Treasury has furnished us with some data concerning its post-war activities and programs, particularly on the work of its Division of Tax Research. We should like very much to know if the following summary gives a complete and accurate description of the post-war planning activities of the entire Treasury Department:

Studies of post-war inter-governmental debt problems and of the financial problems caused by enemy occupation.

Examination of federal-state fiscal relations to determine whether the overall fiscal system is well adapted for use as an instrument in attaining maximum national income and full employment. This study will consider the probable fiscal requirements and possibilities of the post-war period, outline needed improvements in the organization and technique of the post-war fiscal system, and recommend measures to coordinate the tax programs and administration of local, state and federal Governments.

It would be greatly appreciated if you would also indicate the titles of studies and reports which you are preparing on the basis of the above or other activities, the approximate date on which these will be completed, and the studies or reports you expect to reproduce and distribute on a confidential basis or otherwise.

On the basis of the information which we receive from the Treasury and from other Federal agencies as to domestic post-war planning activities, we will make an up-to-date record of the work of all Federal agencies in this field. When this has been compiled, we shall make it available to you.

Sincerely yours,



Frederic A. Delano
Chairman

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

CONFIDENTIAL

DATE October 12, 1942

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Business Situation,
Week ending October 10, 1942.

Summary

(1) The institution of the new anti-inflation program has been followed by some decline in basic commodity prices, particularly grains. As a result, the BLS wholesale price index of 28 basic commodities declined fractionally last week, after moving gradually higher for 6 consecutive weeks.

(2) The general price level was still rising during the week ended October 3, on the eve of enactment of the economic stabilization measures. The BLS all-commodity wholesale price index in that week rose 0.3 point to 99.7, a figure 32.9 percent above the pre-war level of August 1939. This rise, the sharpest in two months, was almost entirely due to advances in farm product and food prices.

(3) Living costs in the United States advanced 0.5 percent from mid-August to mid-September, according to an estimate based on BLS and Conference Board data. In contrast, the Canadian cost-of-living index as of September 1 declined moderately for the second consecutive month.

(4) The recent improvement in the stock market continued last week, and both prices and trading activity reached new high levels for the year. Recent strength in railroad stocks and low priced issues spread to better grade industrials and even to utility stocks. At the end of September the short interest in the market was slightly higher than a month earlier, so the improvement in prices up to that time cannot be attributed to short covering.

(5) Department store sales in the week ended October 3 rose to the highest levels of the year. Moreover, sales ran 2 percent above the corresponding week in 1941, despite the heavy volume of pre-tax buying in the earlier period. Department store sales in September rose 31 percent above the previous month, but the FRB seasonally-adjusted sales index dropped to 125 from 130 in August.

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Further anti-inflation measures taken

The Administration has moved promptly to put the new inflation-control act into effect. Under instruction from the Economic Stabilization Director, the following action was taken last week:

- (1) The Department of Agriculture announced that the loan rate on 1942 crops of wheat and corn will be kept at 85 percent of parity "to prevent increases in the cost of livestock and poultry, and to aid in the prosecution of the war."
- (2) The loan rate on 1942 crops of cotton, rice, tobacco, and peanuts, was raised to 90 percent of parity. The increased loan rate goes into effect immediately, and additional payments will be made to producers who have already obtained loans on the 1942 crop.
- (3) A blanket order was issued by the OPA directing that ceilings be placed on residential rents at the levels of March 1, 1942 in practically all places where rent control had not already been in effect.
- (4) The War Labor Board reaffirmed its "Little Steel" wage stabilization policy, and exempted from wage control small-scale employers with eight or fewer persons in their employ. This decision will exempt employees of most retail establishments, most farm labor, and most domestics.

The OPA apparently believes that prices of most farm products can be controlled by ceilings at the wholesale and retail levels, and that it will be unnecessary to impose farm product ceilings in the near future, except probably on hogs, according to press reports. It is reported, however, that members of Congress and others take sharp exception to this statement on the basis of past experience.

The OPA is reported in the press as being concerned over the exemption of employees of small establishments from wage control, and over the failure to check farm wages. It is pointed out that exempt employers no longer have recourse to WLB for approval of wage increases, but instead go to OPA for price relief. Similarly, OPA is apprehensive that an inflationary farm wage increase, in view of the current manpower shortage, will make it difficult to hold down farm prices.

Commodity prices hesitate at high levels

The sharpest weekly rise since January in wholesale prices of farm products raised the BLS all-commodity index 0.3 point to 99.7 percent in the week ended October 3. (See Chart 1.) This advance, on the eve of the new price-control actions, the largest rise in two months, carried the index 32.9 percent above the pre-war level of August 1939. In the past 12 months, farm product prices in primary markets have risen 20 percent, and food prices nearly 15 percent.

Staple commodity prices last week reacted somewhat from their high levels, as the trade received news of Government action under the new legislation and attempted to anticipate future action. The BLS index of 28 basic commodities declined slightly, halting its unbroken advance of 6 weeks. Price decreases occurred entirely in the index of uncontrolled commodities. (See Chart 2.)

Only one of the 9 hitherto uncontrolled commodities, butter, has been changed to a controlled commodity under the new emergency ceiling, but the BLS continued to carry it last week as an uncontrolled commodity. The decline in the index of uncontrolled commodities reflected moderate decreases in wheat and feed grains resulting partly from disappointment over the Government's retaining the 85 percent rate on corn and wheat loans, and uncertainty over the effect of flour ceilings on wheat prices. On Saturday, grain prices dropped sharply on the increase in supplies indicated by the official October crop report.

Rosin prices declined slightly last week as demand for naval stores abated to some extent. Prices of flaxseed rose slightly, strengthened by announcement of a Government freight subsidy to permit distribution to zones previously using Argentine seed.

Cotton prices were strengthened last week by resumption of mill buying, by Government purchases for export, by the one-cent-a-pound increase in the average loan rate to 17.02 cents, and by optimistic reports in the trade concerning the eventual ceiling on raw cotton.

Hog prices still at high levels

Hog prices reached new war-time highs last week, but declined slightly at its close as receipts increased somewhat. The rising market and the belief of farmers that ceilings

would not be fixed below the September 15 level (\$15.50 at Chicago) have influenced farmers to withhold hogs from the market, which has reduced receipts to "virtual starvation levels", according to the Department of Agriculture. Such a holding movement is in direct opposition to recent official warnings which have sought to avert a jamming of transportation and packing facilities in the last quarter of the year, when hog supplies are expected to be 25 percent greater than in the final quarter of 1941. In the four weeks ended September 19, slaughter amounted to 37.1 percent more than in the corresponding period a year earlier. The volume fell off sharply thereafter, and in the week ended October 2, slaughter was 2.5 percent below that in the corresponding week of 1941.

Meanwhile, packers' margins have declined still further, and now approximate the summer's low, as indicated by Department of Agriculture calculations. The Government has let it be known that the OPA is drafting a ceiling order for live hog prices between \$13.50 and \$14.75, somewhat below recent levels, the exact figure to be determined on the basis of revised wholesale pork ceilings to be announced within a few days.

Ceilings in dollars and cents are to be applied on all meats to eliminate inequalities now existing between large and small packers, according to OPA testimony before the Senate Small Business Committee. It was admitted that the OPA had been far too liberal in allowing a price margin of two cents a pound on pork sold to the armed forces and for lend-lease account, which favors the large packers, and that a margin of one-half cent had been found to be about right.

Canadian living costs again decline as ours rise

The Canadian cost-of-living index as of September 1 declined moderately for the second successive month. (See Chart 3.) The decline again was due to a sharp drop in food prices, mainly for potatoes, beef, lamb and onions. The food index declined 0.8 percent from that of a month earlier.

There are indications that the Dominion is having difficulty in maintaining beef supplies under the progressive downward adjustments of prices begun by the Government in July. According to the press, cattle marketings have been quite small as producers anticipated a resumption of exports to the United States. It is further reported that a black market for beef above ceiling prices has appeared in some Canadian cities. The Wartime Prices and Trade Board last

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week, however, announced its first seasonal upward revision of wholesale beef prices in accordance with the planned program. Reflection of the increase will first appear in the cost of living index as of November 1.

Although the rise of 0.4 percent in the BLS index of retail food costs in the United States as of September 15 was the smallest since December 1941, the advance is in marked contrast to the Canadian decline. Living costs as a whole in the United States, according to our estimate based on BLS and the Conference Board data, increased 0.5 percent between mid-August and mid-September.

Changes in crop prospects

A cotton crop of 13,818,000 bales, representing a decrease of 210,000 bales from the forecast a month ago, was estimated in the Government crop report as of October 1. Most of the reduction was due to abnormally wet and cool weather, which delayed maturity of the crop. Officials pointed out that cotton supplies on hand will be sufficient to permit release of some cotton acreage next year for the planting of food crops needed for the war.

The official report on grain crops last week showed less frost damage to corn than had been expected, and had a bearish effect on the grain markets. Among the feed grains, an increase of 116,000,000 bushels in the corn crop, now indicated at 3,132,000,000 bushels, and further increases in oats and barley production will more than offset a decrease in grain sorghums. The forecast for the soy bean crop, on the other hand, was reduced 5 percent because of frost damage. Wheat production was placed at 984,046,000 bushels, reflecting a small gain in spring wheat. The Crop Reporting Board warned that labor shortages may reduce final aggregate crop yields. The Board pointed out that the declining labor supply was reflected also in reduced milk production per cow in every section of the country.

Farm parity income highest since 1919

In a current report on the farm income situation, the Department of Agriculture estimates that per capita farm income in 1942 shows a much more favorable income position of farmers than is indicated by farm prices. While farm prices in 1942 are expected to average 101 percent of parity, the per capita income of farmers (including Government payments) is expected to average 136 percent of parity income. (See Table 1, attached.) Parity income is defined as the

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net farm income needed to maintain the 1910-14 ratio of per capita farm income to per capita nonfarm income.

Net income (including Government payments) of farm operators in 1942 is estimated by the Department of Agriculture at \$9,785,000,000, an increase of 45 percent over 1941, and a billion dollars more than at the peak (1919) of the World War period.

Stock prices show further improvement

The recent upward trend of stock prices and trading activity broadened last week, with trading on the New York Stock Exchange on Thursday and Friday rising above 1,000,000 shares for the first time this year. In contrast to earlier concentration of trading activity in low priced stocks and railroad shares, leading industrial issues came in for increased attention and the long depressed utility stocks strengthened. At the end of the week the Dow-Jones averages of both industrial and railroad stock prices were up to new highs for the year. Trading volume reached the highest levels since the week ended January 3. (See Chart 4.)

The full significance of the recent turn for the better in the stock market remains to be seen, but students of the so-called Dow theory of stock market action lean to the belief that a definite bull market is under way. The rise in stock prices, up to the end of September at least, cannot be attributed to short covering as the short interest actually increased to 548,000 shares at the end of September from 533,000 shares at the end of August.

At the end of last week industrial stock prices as measured by the Dow-Jones average were 24 percent above the low point touched last April. Prices, however, were still 1 percent below the levels prevailing just before the attack on Pearl Harbor, and 14 percent lower than on the eve of the outbreak of war in Europe.

Retail trade very active

The recent upward trend of retail sales continued in the week ended October 3 and carried department store sales to the highest levels of the year. Sales during the week exceeded year-earlier levels by 2 percent, despite the fact that sales in the 1941 week were expanded by forward buying in anticipation of the October 1 tax increases. (See Chart 5.)

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All districts except New York and Chicago showed gains over the corresponding week of last year. In recent weeks the New York district has consistently lagged behind all other districts except Minneapolis in the year-to-year sales comparisons.

The strong sales trend appears to have continued during the past week, as Dun and Bradstreet reported that advance buying of liquor, food and woollens helped swell retail sales which in some stores reached the highest levels of the year.

September department store sales gain less than seasonal

Although department store sales in September rose 31 percent above the previous month, the rise was less than seasonal as calculated by the Federal Reserve Board, and the FRB adjusted index of sales dropped to 125 in September from 130 in August. Sales, however, were still 8 percent above September 1941, when much pre-tax and advance buying was in progress.

Sales of the two leading mail order houses rose noticeably in September, with Montgomery Ward's sales running above year-earlier levels for the first time since last March. Although the gain over September 1941 was less than 3 percent, it contrasted markedly with the showing in August when sales fell 16 percent behind the corresponding month in 1941. Sears, Roebuck's sales still continued to run under 1941 levels, but the decline narrowed to 6 percent in September from 26 percent in August.

Steel operations improved

Apparently benefitting from the increased flow of scrap, steel operations have improved noticeably. The steel rate last week rose to 98.6 percent of capacity, the highest level since the second week in June, and operations this week are scheduled at 100.2 percent. (See Chart 6.) The enlistment of newspapers in the drive for steel scrap is said to be attaining better results than expected in many areas. Nevertheless, the Chairman of the Board of the National Steel Corporation stated recently that unless the flow of scrap could be greatly stimulated over the recent rate, a severe loss in steel production would develop this winter.

At the start of the current week, a new 1200 ton blast furnace is going into operation in the Youngstown district. The new furnace will add more than 400,000 tons to the country's pig iron capacity and is the Youngstown district's first new furnace in 20 years. This encouraging development, however,

- 8 -

is somewhat offset by a statement published by the Iron Age that several blast furnace projects are running from 2 to 4 months behind estimates. Moreover, it is asserted that 2 large electric steel expansion programs in the Chicago area are being delayed through lack of materials.

It is reported that construction has begun on 2 of the 6 iron ore loading docks which are to be built at Escanaba, Michigan, as part of an alternate route for the shipment of iron ore down the Great Lakes to by-pass the Soo canal. Considerable concern has been manifested over the tie-up that would confront the war effort if the Soo locks were put out of commission by bombing or sabotage.

Heavy construction awards at high levels despite decline

Some possible relief in the wartime pinch of raw materials and manpower lies in the eventual tapering off of construction work on war plants and other projects associated with the primary phase of the war effort. Contract awards for heavy construction, as reported by the Engineering News Record, have been declining since the early part of June, but continue to run substantially above year-earlier levels. (See Chart 7.) Although contract awards in September were 12 percent below the previous month they were still 39 percent above September 1941.

Recently the WPB estimated that the volume of all building and engineering construction (exclusive of shipbuilding), scheduled for the war program in 1943, will be more than a third lower than in the current year.

Table 1. - Farm Price and Income Parity Ratios, 1910-1942
(Index numbers 1910-14=100)

Year	Farm price parity ratio <u>1/</u>	Farm income parity ratios <u>2/</u>	
		Excluding Government payments	Including Government payments
1910	106	105	-
1911	95	95	-
1912	100	101	-
1913	98	95	-
1914	99	105	-
1915	91	98	-
1916	94	97	-
1917	117	147	-
1918	116	165	-
1919	106	152	-
1920	103	110	-
1921	75	60	-
1922	80	78	-
1923	85	80	-
1924	86	83	-
1925	92	100	-
1926	86	92	-
1927	84	93	-
1928	89	97	-
1929	87	93	-
1930	79	81	-
1931	62	68	-
1932	53	61	-
1933	59	79	82
1934	70	73	83
1935	83	96	106
1936	89	94	99
1937	90	101	106
1938	75	88	96
1939	74	81	94
1940	78	80	91
1941	91	104	112
Estimated 1942	101	130	136

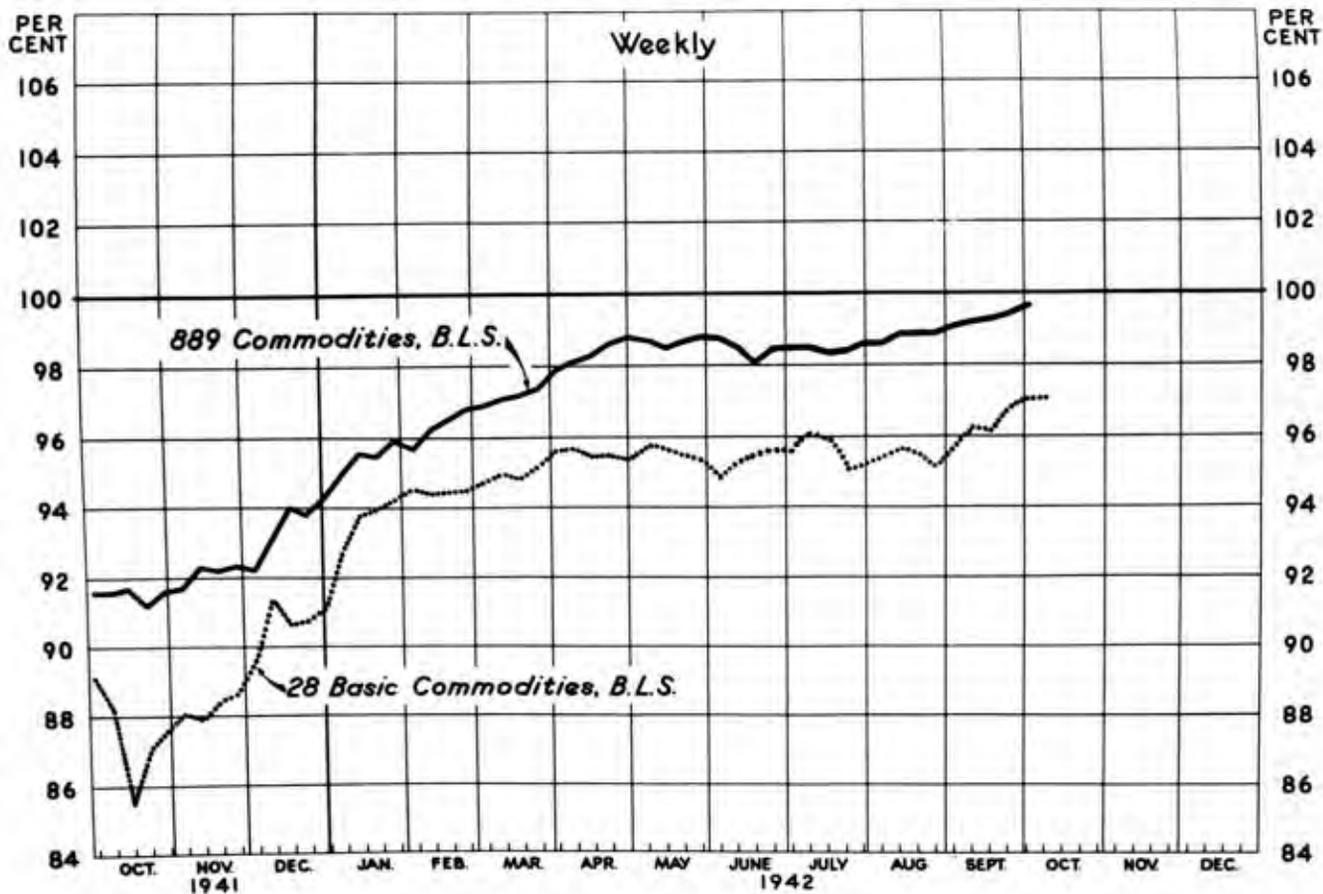
1/ Ratio of prices received by farmers to prices paid.

2/ Ratio of per capita farm income to per capita nonfarm income.

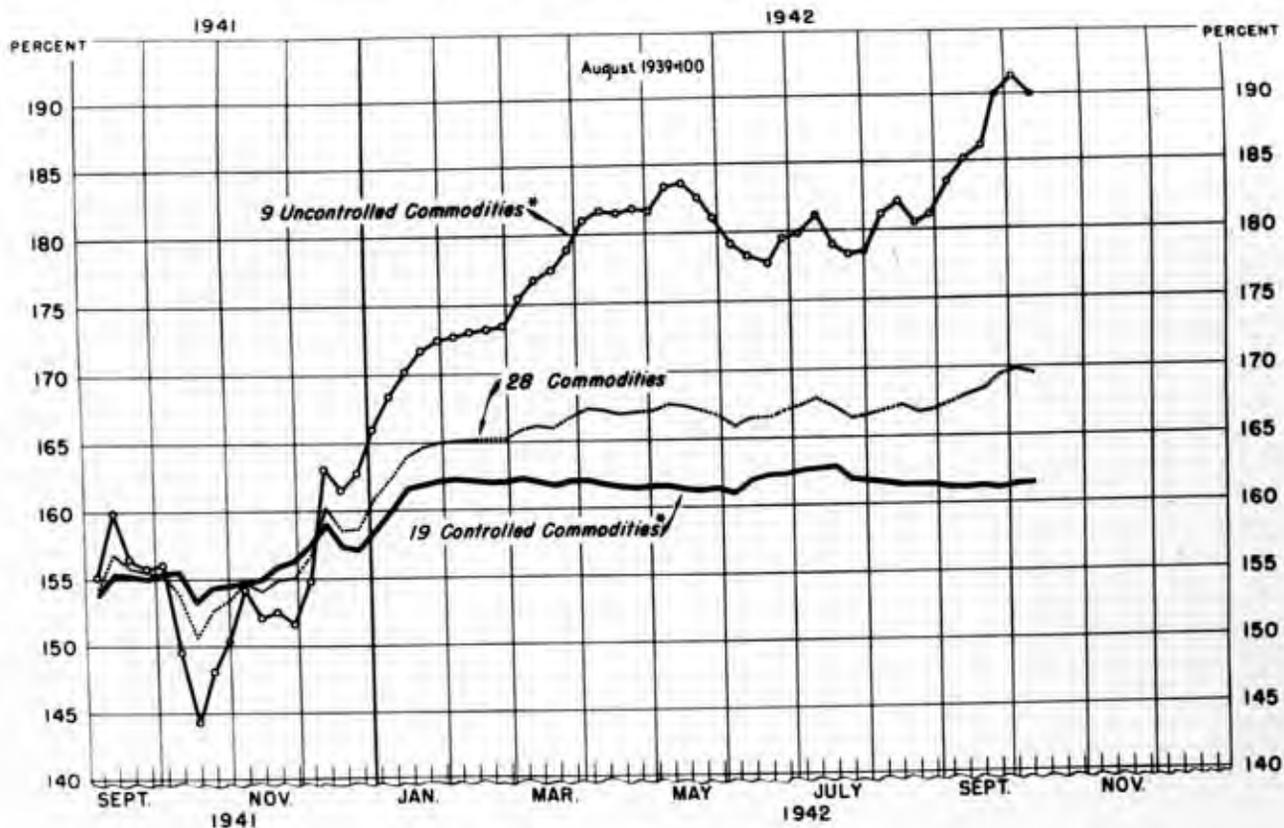
Source: United States Department of Agriculture.

COMMODITY PRICES

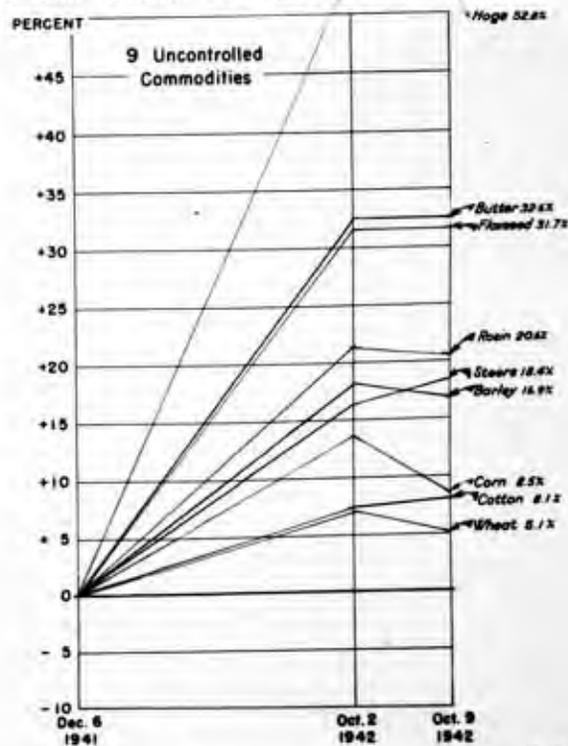
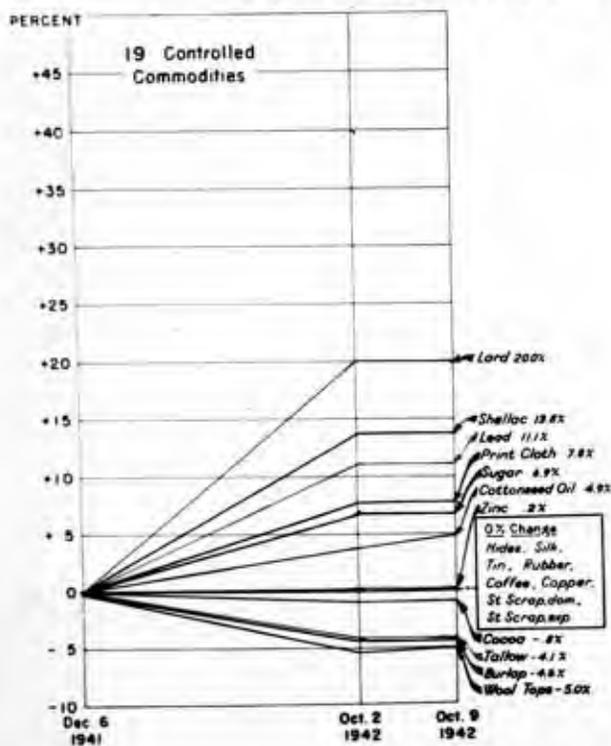
1926=100



MOVEMENT OF BASIC COMMODITY PRICES



PERCENTAGE CHANGE DEC. 6, 1941 TO OCT. 2 AND OCT. 9, 1942

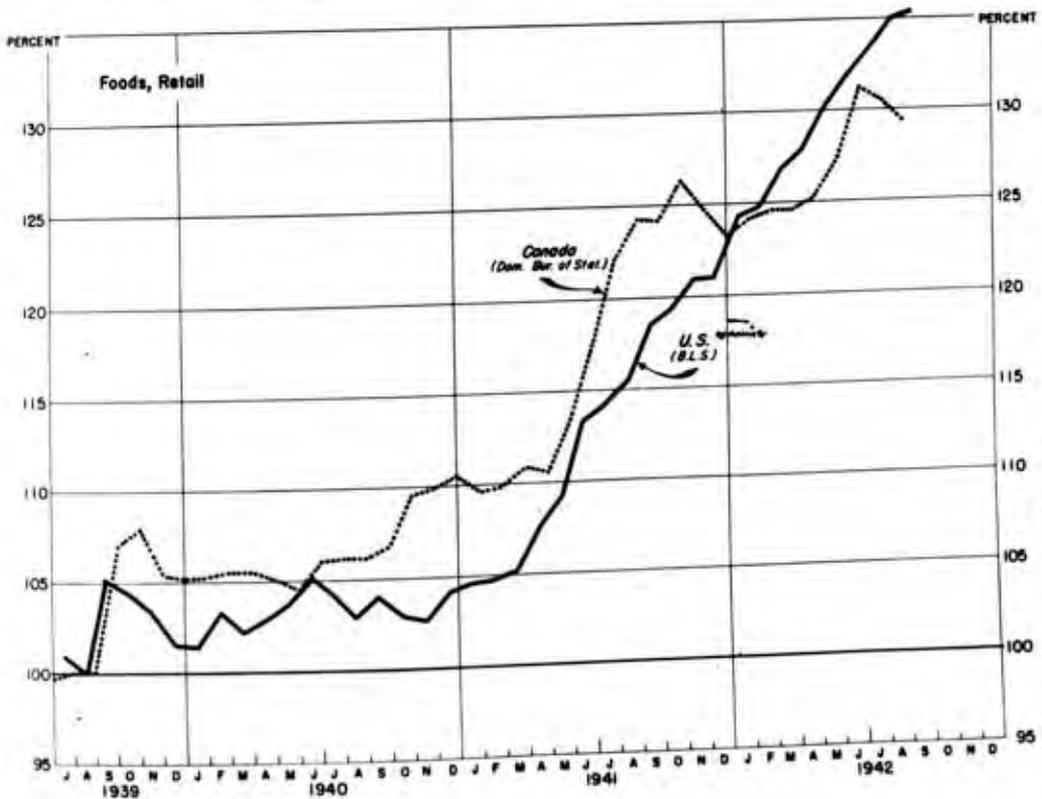
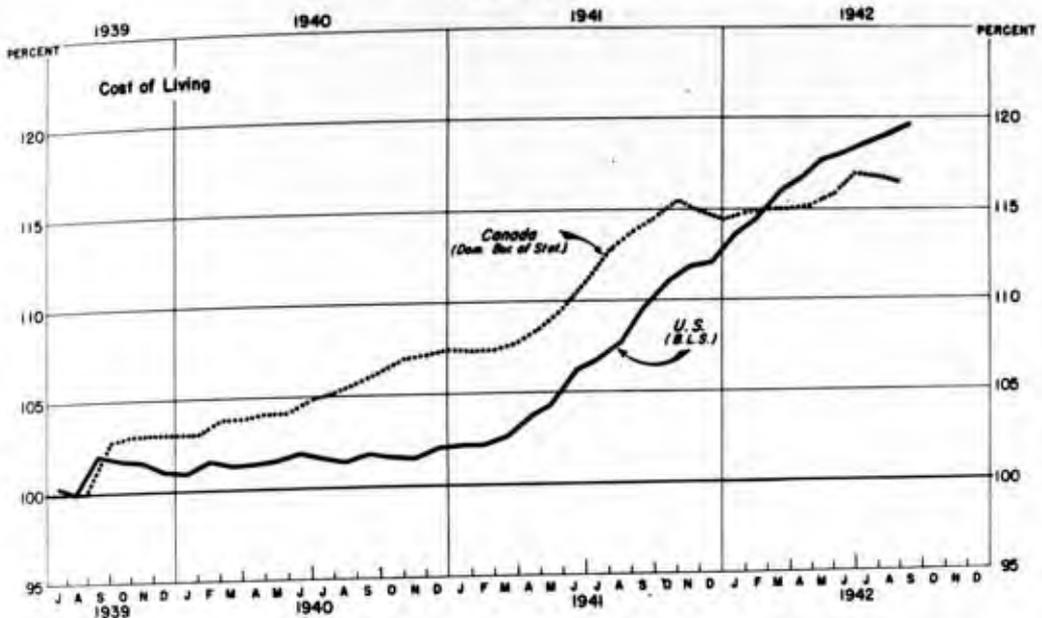


* 20 Controlled and 8 Uncontrolled previous to June 26

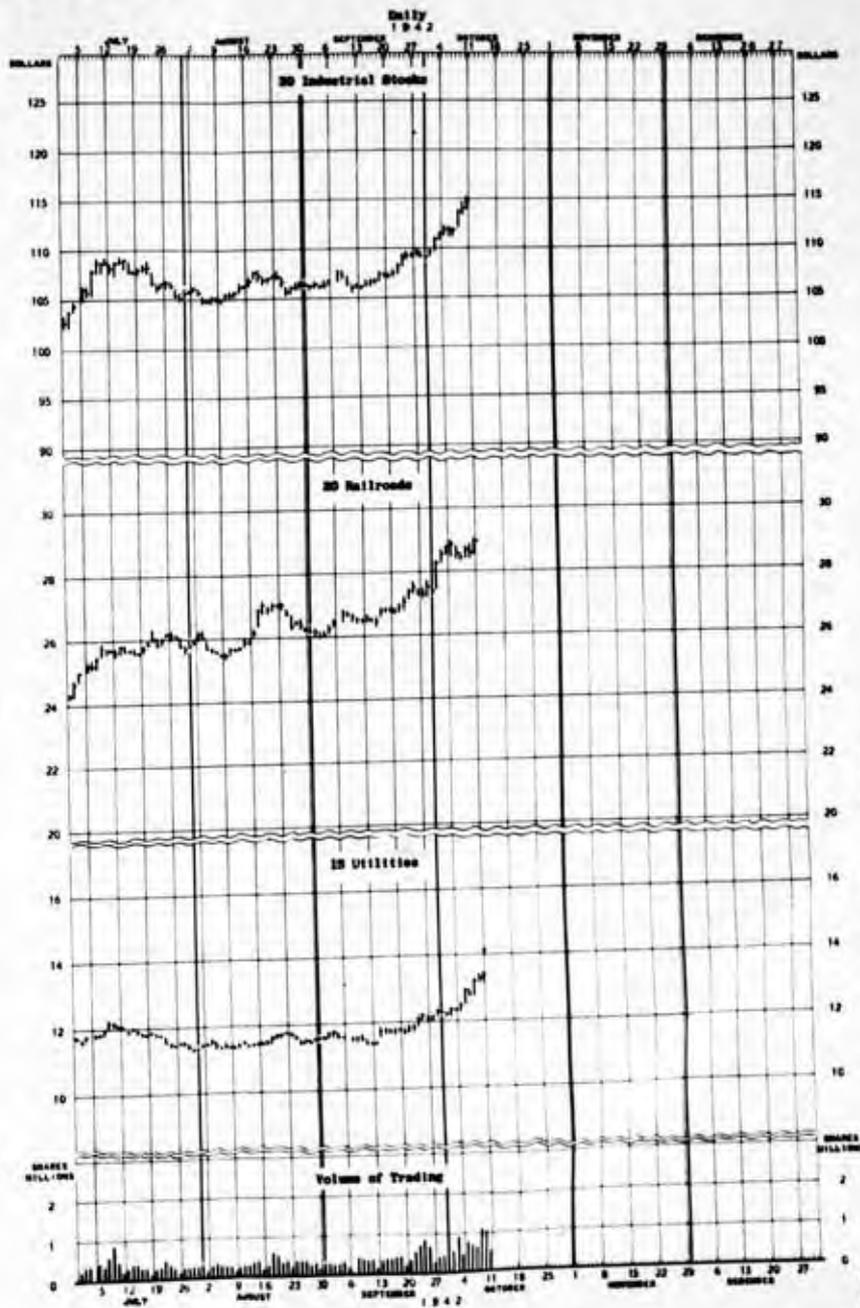
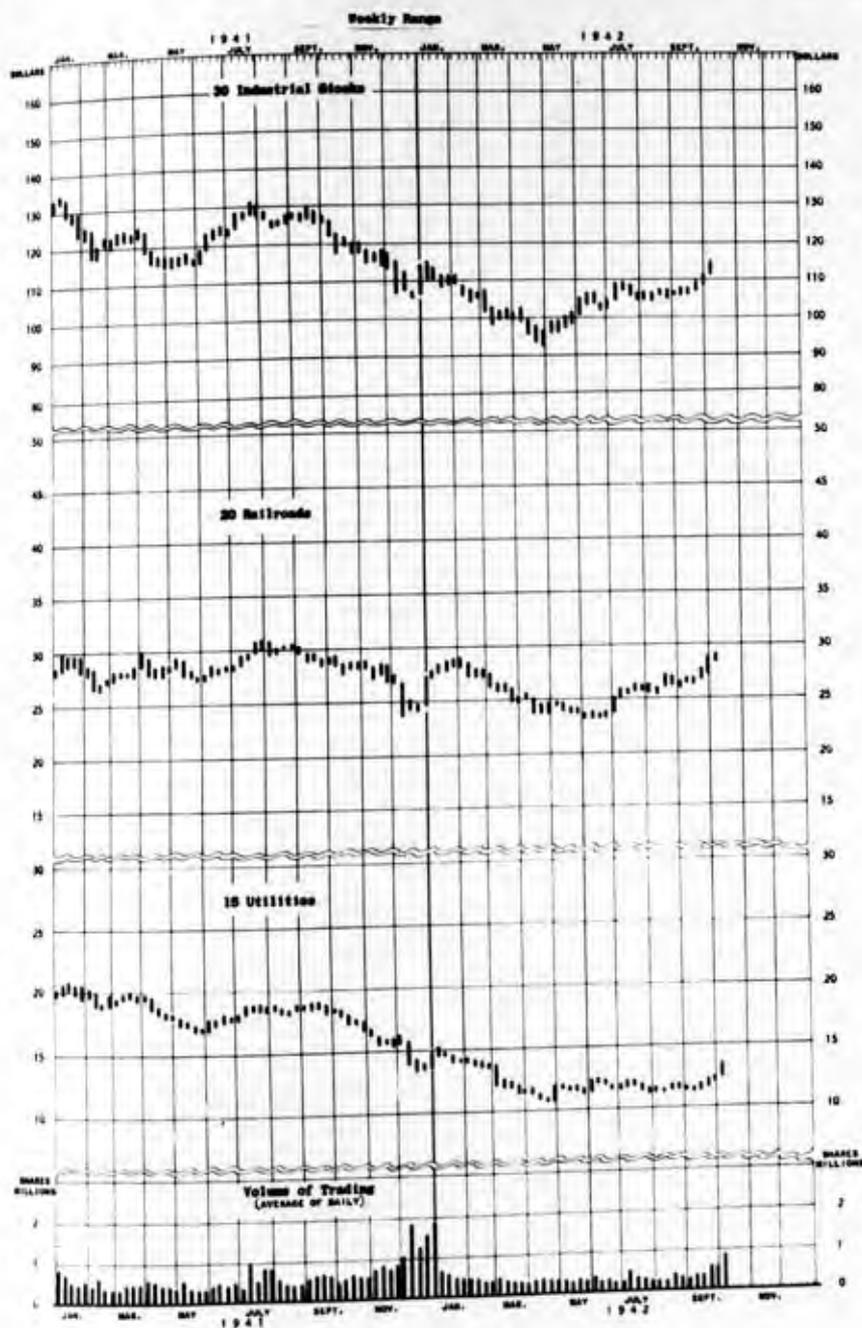
COST OF LIVING, U.S. AND CANADA

August 1939 = 100

121



STOCK PRICES, DOW-JONES AVERAGES



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

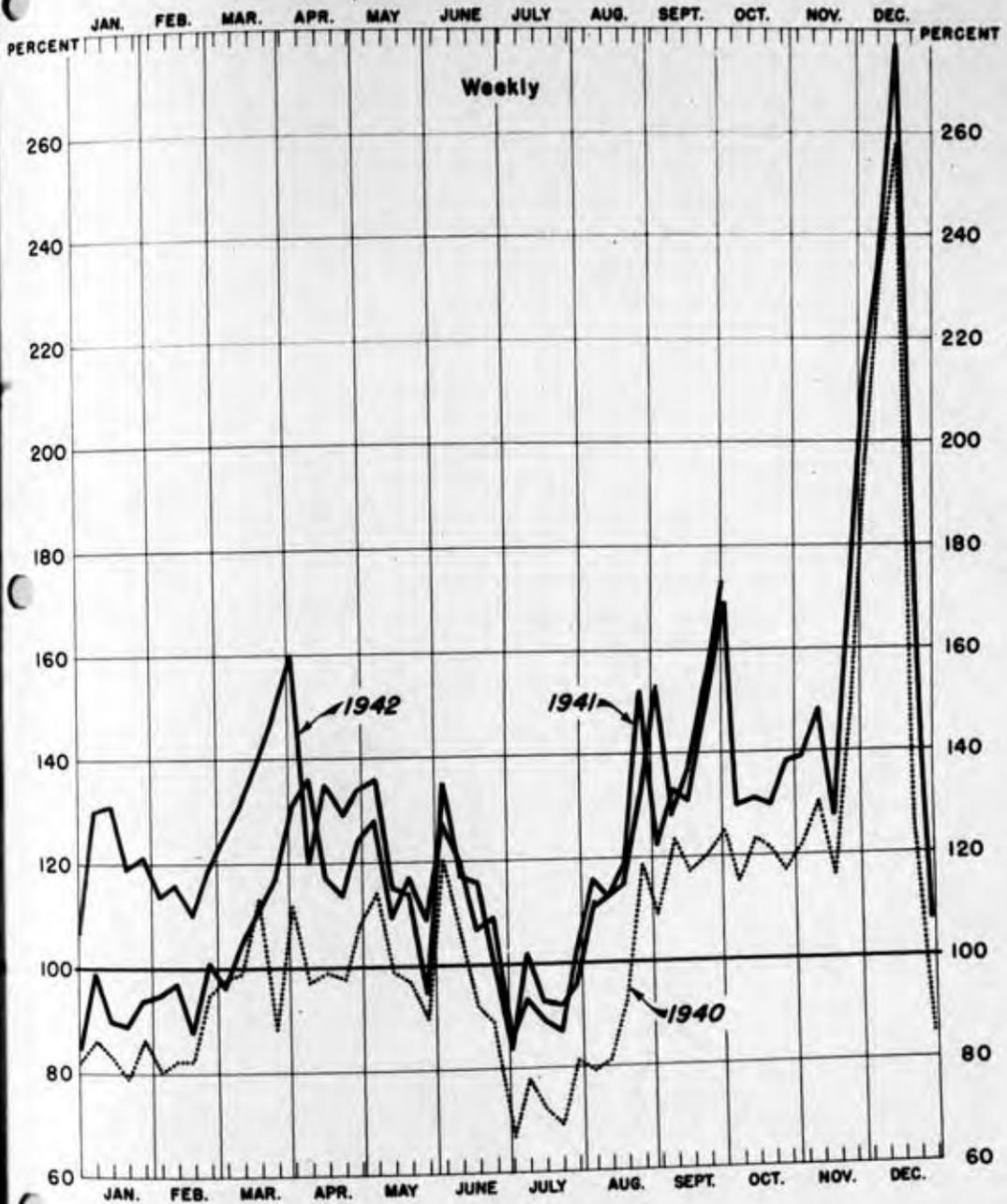
P-104-S-6

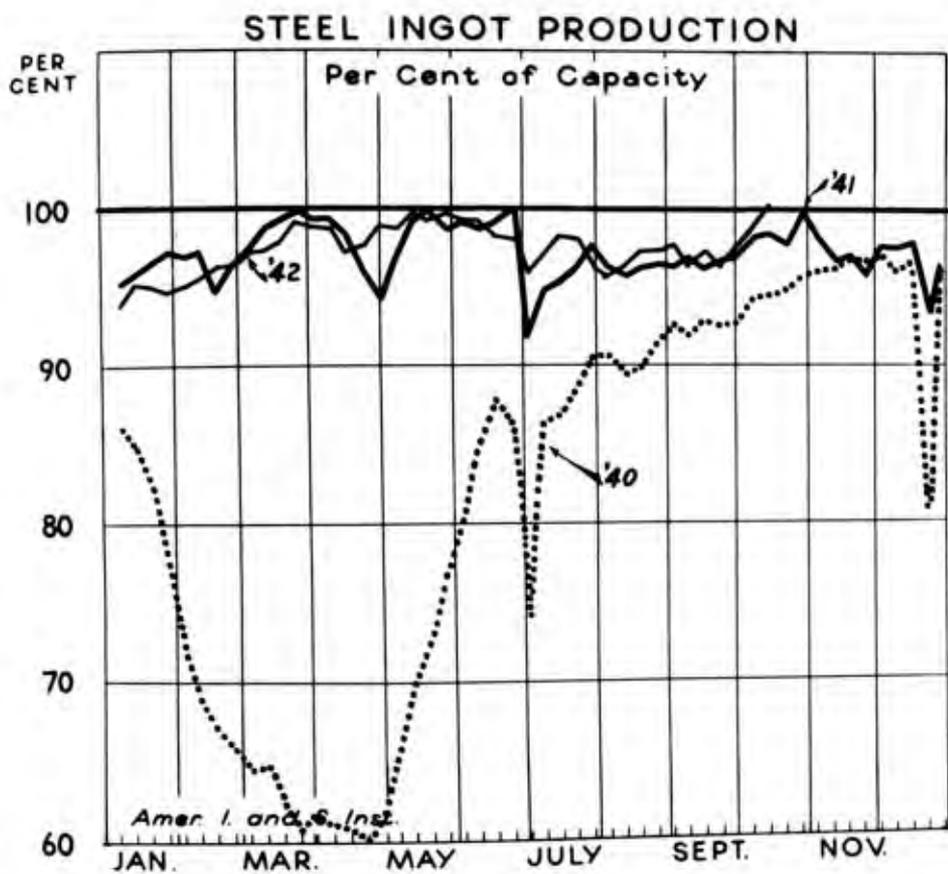
Chart 4
122

DEPARTMENT STORE SALES

1935 - '39 = 100, Unadjusted

123





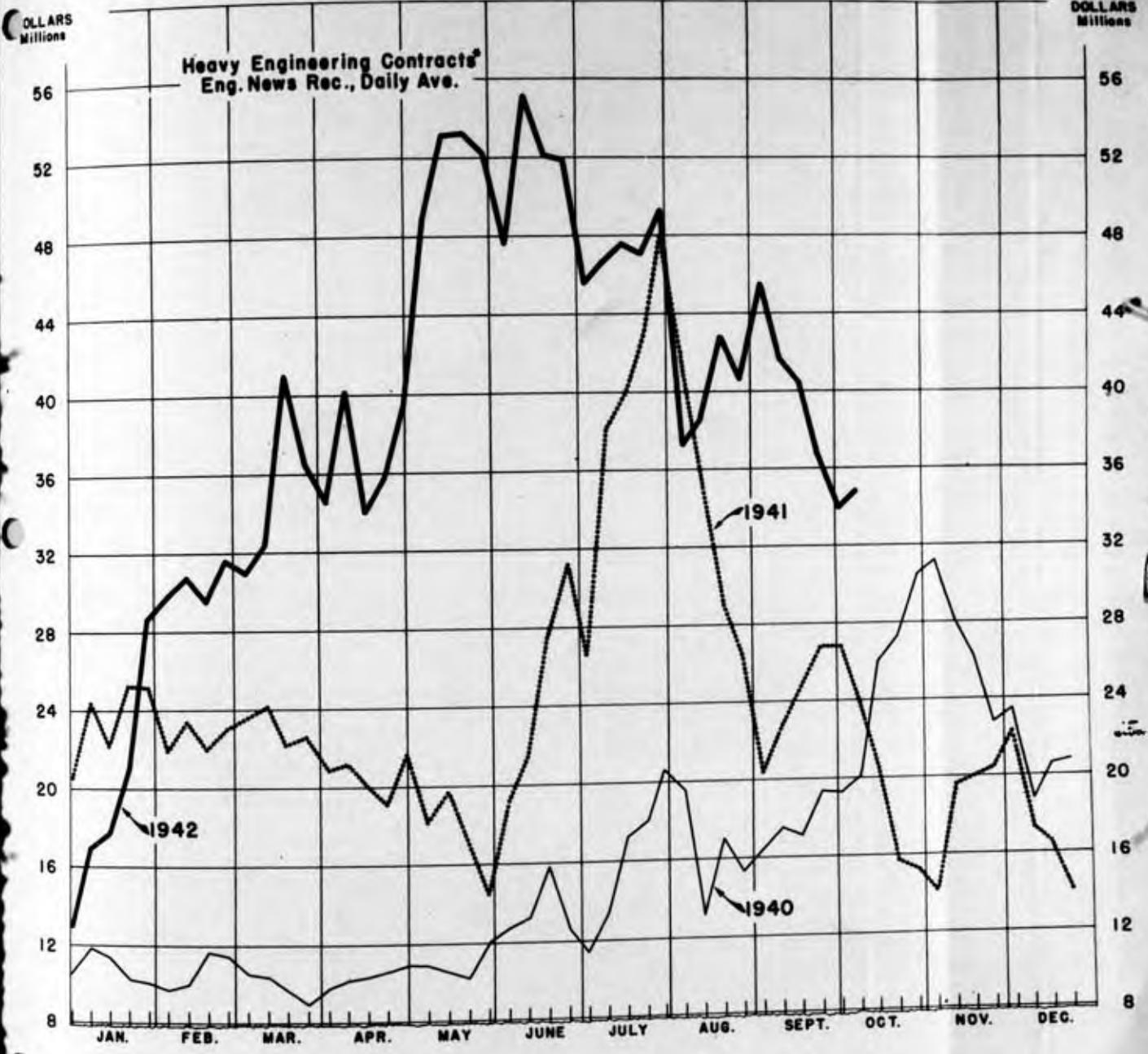
Office of the Secretary of the Treasury
Division of Research and Statistics

C-419

HEAVY CONSTRUCTION CONTRACT AWARDS

Chart

125



**Four-week moving average placed on fourth week*

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

C-393-A-1

NOT TO BE RE-TRANSMITTEDCOPY NO. 13BRITISH MOST SECRET
U.S. SECRETOPTEL No. 352

Information received up to 7 A.M., 12th
October 1942.

1. MILITARY

Madagascar. Our forward troops have reached a point 37 miles south of Antsirabe on the road to Ambositra.

2. AIR OPERATIONS

Western Front. 11th. 16 squadrons of spitfires swept the Dunkirk - Dieppe Area. Four enemy fighters were damaged. Mosquitos bombed Hanover, Emden, Sluiskil and a town near Mannheim. A Spitfire damaged an R-Boat off Dunkirk. From these operations three spitfires and two mosquitos are missing. 11th/12th. 93 Aircraft were sent out sea-mining 86. Anti-shipping two. Intruders. Five. Three of our aircraft are missing. Eight enemy aircraft were active over Tyneside where fires were started in various localities and some damage was done to Public Utilities. A number of casualties have been reported.

MALTA. 11th. German and Italian aircraft. Totalling more than 200 made six raids against aerodromes. The first five attacks caused no material damage. The results of the last at dusk not yet reported. Spitfires destroyed 15 enemy aircraft, probably destroyed three and damaged at least 22. One spitfire is missing.

EGYPT. 10th. Bad weather restricted operations. U.S. Liberators bombed Benghazi. Fighters, two of which are missing, destroyed or damaged several vehicles near El Daba, Enemy fighter bombers operated in the Central Sector.

October 13, 1942

Dear Justice Byrnes:

I have your wire of October 13, 1942, advising that there will be a meeting of the Economic Stabilization Board at the White House at 2:30 p.m. on Thursday, October fifteenth.

The Secretary is out of town and has asked me to attend this meeting.

Sincerely yours,

(Signed) D. W. BELL

Under Secretary of the Treasury

Honorable James F. Byrnes,
Director of Economic Stabilization,
The White House,
Washington, D. C.

DWB:NLE

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THE WHITE HOUSE WASHINGTON DC OCT 13 1027A 1942

HON HENRY MORGENTHAU

THE SECRETARY OF TREASURY WASHDC

A MEETING OF THE ECONOMIC STABILIZATION BOARD WILL BE HELD AT
THE OFFICES IN THE EAST WING OF THE WHITE HOUSE AT 230 PM
THURSDAY OCTOBER 15TH. I HOPE YOU CAN ARRANGE TO BE PRESENT
JAMES F BYRNES DIRECTOR.

1042A

October 13, 1942.

MEMORANDUM

TO: ~~Mr. D. W. Bell~~
FROM: Mr. Gaston

SUBJECT: Major Angas' Digest on "Victimizing the Lender."

I have read Mr. Haas' memorandum and notice the Secretary's notation "Forget it."

The Angas paper was handed to Mr. Cairns with the thought that it might be considered in connection with the proposal to enact legislation under which we could prevent the circulation of writings harmful to the Government credit.

I think there is no need to consider this circular in that connection.

Major Angas points to the so-called inflationary gap and argues for forced lending as the remedy. He thinks the Treasury is derelict in doing nothing about it.

With his general arguments we are in hearty agreement. His figures, however, are hasty, inaccurate and inconsistent, and he fails to follow through the forced lending program with adequate detail. He seems to assume that by the combination of heavy taxes and forced lending excess purchasing power can be mopped up in a mathematically precise way, which I think much more than doubtful. He neglects entirely the matter of accumulated savings and inflationary borrowing to meet forced lending demands, which would almost certainly occur.

The net effect of the circular, however, although it is crudely done and presents no new idea, may be helpful.

WGS

*Noted
JWS*

noted by Mr. Cairns

TREASURY DEPARTMENT

130

INTER OFFICE COMMUNICATION

DATE OCT 10 1942

TO Mr. Kuhn
FROM Mr. Hagg
Subject: Major Angas' Digest on "Victimizing the Lender"

In accordance with your request to Mr. Murphy, we have studied Major Angas' Digest on "Victimizing the Lender" which had been transmitted to you by Miss Chauncey with a note reading "The Secretary would like to have Mr. Kuhn read this with the idea 'Isn't it subversive?'"

Mr. Cairns informs me that under the present rulings of the Department of Justice, proceedings can be undertaken against such a pamphlet only if it contains "demonstrably false" statements. This would be difficult to prove in the case of the Angas Digest since most of the statements therein, though extreme, fall within the range of what would ordinarily be considered the ambit of political and economic controversy. If proceedings are to be undertaken against the Angas and similar pamphlets with reasonable prospect of success, it seems that the law should be amended to prohibit the circulation of statements tending to discourage persons from subscribing to United States securities. Such a law would be analogous to the existing statute prohibiting the circulation of statements tending to discourage persons from enlisting in the armed forces. I understand that the Treasury Department has informally asked the Department of Justice for its views concerning the advisability of securing an amendment to the law along the lines here suggested.

The above leaves open the policy question of whether proceedings should be instituted against Major Angas' Digest even if there were an adequate legal basis for such proceedings. This seems to me highly questionable. Major Angas is in somewhat of an eclipse at the moment, but has a very high potential publicity value. While the pamphlet has not made much of a stir so far, it would probably receive widespread publicity if proceedings were instituted against it. It should be noted in this connection that Major Angas definitely asks to be made a "martyr". I do not believe that he should be accorded this satisfaction.

forget it I.M.J.

L. L. B. Angas

"VICTIMIZING THE LENDER"

A PLEA FOR FINANCIAL STRAIGHTFORWARDNESS IN THIS WAR

by

MAJOR L. L. B. ANGAS

Digest 99

September 28, 1942

THE COLD FACTS OF WAR FINANCE

The cold facts are these:-

1. The war costs \$75 bns. annually.
2. Current taxes bring in only \$25 bns.
3. Voluntary loans bring in only \$10 bns.
4. Deficit equals \$40 bns.
5. Implying an inflation of \$40 bns. a year.
6. Total (spendable) money of the country today is only a little over \$40 bns.
7. Which suggests a monetary inflation of nearly 100% a year. (In 1941, it was only 12%; and has only averaged 15% per annum since 1938.)
8. Price controls are (I think) incapable of keeping a 100% per annum monetary inflation (of demand deposits) in check.
9. War finance must therefore be as ruthless as the war itself.
10. And if the war effort is to be two-thirds of the national monetary income, taxes *plus* voluntary *plus* compulsory loans must also equal two-thirds of the national monetary income — if inflation is to be avoided. (Not just 40%, as at present!)
11. This means that forced *plus* voluntary loans must be twice the current scale of taxes, i.e., \$50 bns. in relation to \$25 bns. — so as to get \$75 bns. in all for the war.
12. And if this is not done, you pave the way for wild inflation, which will get *cumulatively* worse *each* year, as Digest 101 will show.
13. The Government therefore must stop the rot.

You do not lighten war burdens by Inflating (you Multiply them)

14. Incidentally, in terms of *real* wealth, the public will not REALLY suffer any more from these harsh *monetary* proposals than they will automatically suffer from the war itself. Only one-third of the nation's production (total real income) will be available for consumption (due to reduced production of consumables) — so it does not really matter if only one-third of its total money income is left available, (and the rest taken by the Government in forced loans and taxes). It is just a simple mathematical equation — and quite reasonable.

15. Thus, it can be seen that sound financing of the war will benefit the nation, by avoiding the EXTRA danger of inflation. — Although of course it will not increase the amount of available consumables. It will however assist a more equitable distribution thereof — for a wild inflation would make fair distribution impossible, and possibly lead to semi-revolution.
16. And yet if the nonsense of bank borrowing is continued indefinitely (because a vote-hunting Congress votes war appropriations without voting parallel taxes and forced loans), you will certainly get your wild inflation, — because the elected would not risk their necks by telling and ruling the electors.
17. A wild inflation will prove the end of this Democracy. The objective of the war will be lost (just as Hitler has boasted) *through internal imbecility and moral cowardice.*

Stop Tricking the Lender

The history of government finance throughout the ages is disgusting. A failure to pay promised interest is not uncommon; and refusal of monetary repayment has been frequent. And what is nearly as bad, governments often repay their loans with money that has depreciated in purchasing power, owing to interim inflationary finance. Let us hope, however, for the sake of future generations, that the same thing will not happen as a result of this War. But it might — and that is what we now want to discuss — although it is the declared policy of the Government to prevent it.

* * *

With this Digest, I enclose a Government pamphlet on war bonds. Every dollar that goes into war bonds does at least five things: it helps to win the war; it helps to win the fight against inflation; it shows our enemies that we are solidly against them, and our fighting forces that we are solidly behind them; it gives the purchaser a sound and profitable investment; and it builds him up a fund for the economic readjustments which will lie ahead of the war.

But although I advocate the purchase of war bonds (in preference to stocks), I also advocate that every purchaser campaigns his Congressman in order that subscriptions may be made REALLY, as well as *monetarily safe*. For, under certain conditions of weak Government finance, subscriptions to war bonds, made today, might turn out to be the reverse of *really safe*, even though redemption and interest may be *monetarily* paid in full. Let me explain by giving an example.

VOLUNTARY WAR BOND SUBSCRIPTIONS (THE RISKS)

Assume that the more patriotic element in the community puts up say \$12 bns. out of their private savings for voluntary war bond subscriptions. Assume however that, later on, owing to an inadequate supply of such patriotic persons (or owing to the absence of a compulsory loan system) wild inflation of retail commodity prices occurs as a result of inflationary borrowing from the commercial banks; ... then the patriotic persons who originally put up the \$12 bns will be positively punished for their patriotism. And for all future time Americans will have been taught by experience that it does not pay to be financially patriotic during wars.

In fact, I can imagine no greater financial disaster than that, after the intensive war bond sales campaign of the last few months, creeping inflation should be allowed to develop.

And yet it is not completely impossible — the way things appear to be going on at Washington. I refer of course (a) to the continued inflationary borrowing from the Commercial banks, and (b) to the recent hesitation in Congress to control (as distinct from talk about controlling) farm prices and wages, as well as other prices.

In my view, there ought to be compulsory loans almost at once ... so as to make the complacent as well as the patriotic fork out; and so as to avoid inflation.

There should, in addition, so think I, be (a law passed to cause) cessation of borrowing from the Commercial banks, — for that is the root cause of inflation, and not the partial failure (due to Congress) of Mr. Henderson's attempts at tough price control.

Price Controls Are Merely Bandages. They Do Not Prevent the Disease of Inflation.

The real point is that Mr. Henderson and his Office of Price Administration cannot turn off the inflationary gas: all they can do is temporarily to apply certain brakes on the results of *prior* inflation. Inflation proper (i.e. borrowing from the Commercial banks) is a problem for Mr. Morgenthau and Congress, rather than for Mr. Henderson. The latter is merely a nurse who applies surface bandages: and it is up to Mr. Morgenthau (and Congress and F. D. R.) now to prevent the underlying disease from spreading.

* * *

In addition, if the government is going to pretend to the public that temporarily successful price controls by OPA are the same thing as avoiding fundamental inflation, they are *ipso facto* (in my view) financially dishonest, — for they are just pretending that a bandage over an abscess eradicates the disease.

Certainly, poultices like the Office of Price Administration may be useful temporary palliatives; but if more puss in the form of continued bank loans is being pumped into the economic system, as a result of Congress not supporting Mr. Morgenthau, the disease of inflation will rapidly spread. Indeed, it is no use political physicians fixing their eyes on the poultice when they ought to fix their eyes on the root cause of the puss, namely bank borrowing. And yet that is what the whole trend of current thought around Wall Street, as well as around Washington, seems to be. The spotlight is deceptively turned on Henderson's price-fixing, and not on Morgenthau's continued borrowing from the banks. It is daring to say it, but surely it is true.

Patriotism (Some Angles)

Incidentally, although it is popular to state how patriotic the American people are financially, I personally do not believe that they are sufficiently "patriotic" to subscribe VOLUNTARILY to enough loans to enable the Government to avoid additional borrowing from the Commercial banks also. There ought therefore to be heavy forced loans as well. For it would be a tragedy if the recent patriotic buyers of war bonds turned out in the end to be suckers; and if those who refuse to buy war bonds now turn out to be the "prudent" people.

Actually, in the Press, Mr. Morgenthau is reported to be adverse to compulsory loans, as yet. But somebody really ought to tell him that although most firms have persuaded, sometimes by force majeure, their employees to submit voluntarily to 10% pay deductions ... in order to provide our fighting boys with guns ... a great many of the payers of weekly deductions are becoming quite infuriated with the continued rise in the price of food and the general cost of living, and already have made up their minds to cash in their subscriptions quite shortly.

The general argument seems to be among heads of white collar families that "I would do my financial bit willingly enough if the Government would keep down the price of food, and (a) not cater almost solely to the votes of the farmers, and (b) see that retailers did not, by various subterfuges, evade the food price-ceilings which are "supposed" to be fixed ... but which any working housewife will tell you are being moved up month by month by innumerable cunning subterfuges ... coupled with the information, given by shopkeepers "that there are plenty of other people waiting to buy the stuff is you do not care to pay the price." And that is certainly the situation as regards the Eastern states.

In other words, if the Government does not stop making over the country to the farmers, and does not commence seeing that shopkeepers are not "cunning," not only will subscriptions to voluntary war loans, and also voluntary pay deductions, cease; but recent subscribers will "cash in" ... partly because they need more money to pay the higher costs of living and partly because they fear that inflation is getting out of control and their subscriptions to war loans are becoming unsafe. And some even say that (as soon as it is recognized that money placed in war loans is depreciating) the Government might withdraw "in the interest of the nation" the right to convert into cash (after a bond has been held 60 days).

The Parity Racket

In other words, though I hesitate to say it, such Congressional rackets as are now going on must stop if America is to be saved from inflation. And I advisedly use the word "racket," (a) firstly, because the original base for farm parity was the period 1909-14 which was the

record highest farm-price-ratio period in relation to "what the farmer buys" (very tricky!); and (b) because farm-labor and transportation costs were originally left out of the basic 1909-1914 index, because they would have then lowered it (very tricky!); and (c) when later transportation costs rose, the farmers managed to get transportation costs in; and (d) now that labor is rising they now want to get labor costs in also.

Oh yes, it all sounds very reasonable to the uninitiated; but nevertheless the whole thing savors of subtle jockeying, and a racket. And the public in the Eastern states are now beginning to know this; and the resentment is already quite frightening ... for faith in Congress is diminishing ... in wartime.

The Farm Group is, dare I tell them, indirectly busting the War Bond Campaign. And the same applies to certain groups of Trade Unionists.

If the Government Expects Prices to Go On Rising, the War Bond Campaign Is Not Quite Honest.

As regards the current War Bond Campaign, the point is this:— If the Government which loudly promises price stabilization really means to allow the farm price level, the wage level, and the cost of living gradually to slip upwards at about 10% per annum ... as a result of repeated adjustments to be made (always rationally) in the interest of "fairness" to various groups (which is what certain "Washington Letter Writers" seem to expect); it is quite dishonest of the Government to go on with a "voluntary" loan system on the grounds that Government loans are "perfectly safe" because they will be paid back in full (in terms of money). The Government would be indulging in a tricky "error of omission."

For the real facts would be these: that if prices creep upwards at 10% per annum, then in four years the "real" value of the money now patriotically lent would depreciate 40%; and that the interest received meanwhile (of around 3% per annum) would only amount to 12 money units out of the 40 real units of depreciation. Such voluntary loans would in fact turn out to be, from a REAL angle, loans without real interest at all ... but planned by the Government on the basis of a prospective real loss — which is not quite a gentlemanly way to treat the financially patriotic.

Forced loans, equitably imposed ON ALL, would be much fairer. For they would spread the REAL loss (if any) over ALL more EQUALLY.

Commodity Index Loans

I would not so much mind inflationary borrowing from the banks IF interest and capital redemption on voluntary savings were eventually payable in a (rubber) commodity dollar ... i.e. in paper dollars, the number of which would be based on the index level of retail prices ... for then it would not much matter to what level retail prices rose since the patriotic war bond subscribers would be paid parallel. But the idea that those who fork out first should eventually be victimized most (by inflation) is to me utterly repulsive. And yet there is a risk of it — if Washington is weak.

U.S.A. Is Ready for Forced Loans

The fact remains however that if wild inflation is to be avoided, there must either be higher taxes or forced loans. And from my own inquiries, I have come to the conclusion that many do not like the VOLUNTARY LOAN system at all — since (a) it enables the skunks to escape; and (b) escape by the skunks hastens on the inflation which automatically makes suckers of previous patriotic lenders.

As far as I (one humble individual) can make out, that is pretty much the opinion of most Americans ... especially the relatively poor whose life savings out of wages are small and who are simply terrified of having nothing except semi-worthless paper dollars, or paper bonds, or insurance policies on which to live during their old age. They think everybody ought to be FORCED to subscribe to war loans NOW.

Education Essential

The politicians of course argue that they too would like to avoid inflation (by resorting to forced loans), but that the public is not yet sufficiently educated to put up with the higher taxes and forced loans by which alone inflation can be avoided.

But if the people of a nation, owing to financial or military ignorance, do not appreciate either the need to sacrifice or the need to fight or the need to pay, the first duty of the Government is to educate them, instead of appeasing them by devious methods. That, I think, is the first duty of Washington if this country is not going to be eventually landed with financial chaos such as leads to revolution. See Digest 97.

* * *

I know of course the political difficulties surrounding the sudden imposition of forced loans, withholding taxes, sales taxes, etc., before the public is sentimentally quite ripe for it. And I am aware, of course, of the lazy argument that during wars there is never time to educate the public, and that the first practical thing is to try to keep them sweet ... no matter if it does lead to some inflation ... for inflation is not so bad as defeat. But my own argument is that not nearly sufficient attempts are yet made honestly to educate the public (and Congress) on the brutal realities of war financing, — with the result that the gas of inflation is continually turned on (borrowing from commercial banks) when at least HALF of it could, I think, be turned off at once, — and ALL of it if the Government would be politically brave enough to take the nation into its confidence and educate it.

Short-Sighted Financial Patriotism

Nor (again in my humble view) is nearly enough written by the Press about the danger surrounding voluntary war bond subscriptions IF (and please note this word "if") the Government is going on borrowing from the commercial banks; or if it going to allow farm prices and wages "gradually" to creep up. Of course, the Press hesitate to do anything which might reduce the volume of war bond subscriptions today; and they are naturally afraid of doing anything which might be labelled as unpatriotic, or interfering with the war effort.

But to my mind it is much more patriotic to guide the Government (and the public) into a sound method of financing the war (and reducing borrowing from the commercial banks) than to go on letting the public be bluffed (concerning the serious nature of the bank borrowing problem) just for the sake of getting, in the short run, a few more voluntary war bond subscriptions.

Since voluntary loans (and Taxes) today are inadequate, it is essential to resort immediately to compulsory loans IN ORDER TO MAKE THE RECENT VOLUNTARY LOANS SAFE. That is the gist of the matter today. The facts are indisputable. And the more Government propaganda that is devoted to the matter, and the more the truth is told about the dilemma (without hoodwinking), the better for America's financial future.

I personally would like to see the American and British Governments come out and quite brazenly and honestly state that unless the war is financed without borrowing from the commercial banks — i.e. by means of compulsory loans instead, there will be an ultimate retail price inflation eventually, even though Henderson and OPA etc. may be temporarily successful in covering the cancer by their widespread price-fixing poultices.

They should also admit that to take voluntary war loan money now is dishonest UNLESS they are going to finance the war *without* further Commercial bank inflation. Ugly words, these; but surely the Truth!

Financing the War Without Inflation

Actually, as I said in Digest 91, there is no need whatever to resort to inflation during a war ... if Congress has political courage, and the nation is *really* patriotic, and is kept well informed.

From the commodity (real effort) standpoint, the war is financed as it goes along by means of the extra hard work, and the extra abstinence practiced by the nation-as-a-whole. All the things used in war are produced *during* the war. And the financing thereof can be, and should be, simultaneous. Indeed, it is a fallacy to believe that there is "not enough money" today to pay for all that is produced today ... or that you cannot tax or borrow (by force) sufficient. You can! For it is merely a simple mathematical equation that-if two-thirds of the nation's productive effort is devoted to so-called wasteful war expenditure - taxes (and forced, and voluntary, loans) could be, and should be, two-thirds of the nation's annual income; and not just 25% of it, as at present. [The rest OBVIOUSLY must come from (the hidden tax of) inflation.]

And all the tricky little business of hidden inflation taxes (which borrowing from the Commercial banks involves) should be tabooed by every honest Congressman. Indeed, if a Congressman does not think his constituents are yet patriotic enough (or feel the war serious enough) to put up with such burdens, he ought to take the first train down to his Congressional district and stump the country, lecturing his people on the simple truth of this financial situation. That would be more honorable, and wiser, than letting the Administration go on borrowing from the Commercial banks (and of pretending that effective Price and Wage Control (poultice work) was the only inflation problem). It is ridiculous to have taxes of only 25% of the national income when 66% (including forced plus voluntary loans) is obviously and mathematically essential and right.

Everyone of course detests being taxed, but I have enough faith in the American people to believe that if Congress did turn on the heat of propaganda, or rather financial education, as I have just suggested, they would be astoundingly surprised with the extent of which the great mass of people would welcome the sacrifice being spread simultaneously and compulsorily over all, instead of resorting (a) to voluntary temporary inflationary tricks such as keeping taxes low and letting inflationary bank borrowing surreptitiously pile up. True today there is not much support for such toughness even in Wall Street, but that is because many people, even in Wall Street, do not understand the monetary side of war production.

We Have the Money -- Without Inflation

The facts however are quite simple. Every penny spent on the War, say \$75 bns. annually, constitutes an income received from the War. And if war expenditure constitutes 66% of the total national monetary income, there is plenty of money paid out annually to pay for the War as it goes along — if taxes (plus forced loans) equal 66% of the national monetary income.* And this is how it should be, and will be, I hope.

The point is that if a combination of taxes bona fide savings, and forced loans are not made to cover the cost of the war effort in full ... an additional disease, almost as bad as war itself (sometimes worse, since it often leads to revolution, see Digest 97), will be imposed on America, namely, surreptitious and wild inflation.

If the Administration is going to be honest with America, it should propagandize this danger as much or more than it propagandizes voluntary war bond sales now; and should (I think) propagandize the need for higher taxation and COMPULSORY lending so that the patriotic lenders do not run the risk of suffering more than the less patriotic abstainers.

Today's pre-election preference (in Washington) for bank credit inflation and for devious methods is most dangerous. It is really not fair to the American public — although some may rather like it that way at the moment ... largely through ignorance. The Government however should dispel the ignorance: not foster it.

The fact is that the only way to make existing VOLUNTARY war loans safe is to resort to COMPULSORY war loans immediately.

The Government therefore should immediately prepare the public mind for the all-round financial burdens which are *immediately* necessary ... if wild inflation is to be avoided. And the White House and WLB should give up pretending that the wages of workers or farmers "should" be raised parallel with the cost of living **IN ORDER TO MAINTAIN THE REAL STANDARD OF LIVING**. It just cannot be done in this War, for the simple reason that there will not be enough consumable commodities to go around ... to maintain **NORMAL** standards.

I repeat I would like to see the American Government come out and quite brazenly and honestly say that unless the war is financed without borrowing from the commercial banks — i.e. by means of compulsory loans instead, there will be an ultimate retail price inflation eventually — even though Henderson and OPA may be temporarily successful in covering the cancer with their widespread poultices.

They should also admit that to take voluntary war loan money now is dishonest **UNLESS** they are going to finance the war without inflation.

* The extent to which the burden of a war can be passed to future generations, by means of loans, was discussed in full in Digest 91.

Surely, such a statement today would make the public more ready to accept (necessary) forced loans immediately.

My Personal Angle

In offering the above essay, I am fully aware that I may be writing a prospective post-mortem obituary for these Digests; for many will (wrongly) regard my remarks as unpatriotic, and will think that my office should at once be closed down by OCD lest my writings might influence war bond sales.

The gist of the matter is however that Congress, the Press, and the White House have not yet the mental courage to face up to the real problem of financing the war, *without* inflation. Ten billion dollars have already been borrowed inflationarily for war purposes from the Commercial banks, and in the next twelve months another \$20 bns. (perhaps \$40 bns.) may be similarly borrowed, if nothing drastic is done.

So afraid however is Washington of telling the public the truth — or is it that they do not know enough — that a terribly short-sighted policy is being pursued of (a) hiding the risks attending voluntary purchases of war bonds (if bank borrowing is to continue unchecked), and (b) of financing the war largely by bank borrowing and pretending that it is not really inflationary — (on such completely false economic arguments as that bank money is not paper money (when actually it is, although the paper is kept within the banks, and does not have a Government stamp on it)).

And yet if nobody patriotically risks his neck (*a la* Billy Mitchell) in trying to speak the truth, — for fear of being short-sightedly labelled as pro-Nazi and seized by the FBI or OCD* — too little will be said too late, and America will get into as big a financial mess as England and France got into a military mess. One's clear duty is therefore to try and prevent it — even at the risk of being accused of being unpatriotic, and pro-German. [*Let that be my own rather feeble contribution.*]

But enough of these heroics. The fact is that the war can be (and should be) financed without dishonest inflation. And my next Digest will analyze the ability of individuals and corporations to pay the forced loans and taxes which I suggest. It is true they will lead to the cutting of dividends. But that, I am afraid, is the outlook for Wall Street — if America finances this war on sound grounds.

* I myself was "investigated" by the New York State Attorney General, with the SEC sitting in, in March, 1939, after a journey to Europe. I came back and published Digest 35, entitled, "*Pandemonium Ahead!*" ... which forecast the War, and dozens of other things, which have since come true in detail. But such forecasting was *then* unpatriotic; though it is a pity more people at the top did not take notice, and indulge in a little rather obvious forward-thinking also.

And let not Congress think that it is being honest with the public merely by piously TALKING in favor of inflationary controls and then either (a) passing the buck to the President, or (b) impiously VOTING down anti-inflation measures. *Does it not smack of political subterfuge?*

This is a pretty hot remark and may be dangerous to myself, but it is written on the day (September 24th) when, despite the President's plea for price control, the vote-catching House has voted 284 to 96 in favor of still higher farm prices. [Is America to be governed this way perpetually? If so, what chance of winning the War? Or is the House not aware of the Anatomy of Inflation?]

Indeed, it might perhaps, be a positively good thing for the nation if one of the small EARLY voluntary war loans failed ... provided such failure caused Congress to stop voting inflationary measures, and to commence a realistic and non-inflationary attitude towards war finance. The general bluffing of the public ought to be stopped EARLY: otherwise the inflation will soon get UNCONTROLLABLE.

THE MARKET (Common Stocks: No Hedge)

I should however add that even if inflation is allowed to develop at the cumulative rate of about 10% per annum (in retail prices), common stocks will not necessarily benefit — for corporation taxes would almost certainly rise much faster than retail prices. Therefore, it does not follow that just because you may believe in moderate inflation, you ought therefore to go off and buy common stocks as a hedge.

My own view is that, in order *partially* to check inflation, common stocks will be taxed to the bone (so as to reduce Governmental borrowing), even though such heavy corporation taxation is only a partial check on inflation. I still remain bearish for common stocks.

SUMMARY

1. Loans from the commercial banks are definitely inflationary.
2. Loans from the commercial banks are therefore the real inflation disease of America (due, of course, to the War).
3. Trying to control prices (Mr. Henderson's Department) is only poultice work. The real job is for Mr. Morgenthau's Department to eradicate the financial disease of bank borrowing — and for Congress to help him.
4. The gist of this Digest is that voluntary war loan subscriptions are safe if and only if the Government does not progressively borrow inflationarily from the commercial banks.
5. But it will have to borrow from the commercial banks if voluntary war loan subscriptions do not more than quadruple, or unless current taxes are nearly doubled.
6. Alternatively, you will have to have compulsory loans.
7. And if compulsory loans are not resorted to quickly, voluntary war loan subscriptions are unsafe — and will cease.
8. Inflation will therefore get CUMULATIVELY worse.
9. Borrowing from the Commercial banks (and inflating the currency) is merely a dishonest way of pretending to the Public that the War does not cost as much as it does.
10. And it is not "kind" of the Government to do this — for in the end wild inflation is just "brutal."

Can these blunt statements be honestly denied? I challenge you.

THE END

The Angus Digests
Issued as market conditions warrant.
 Minimum—fifteen per calendar year.
 12, 6 and 3 mos.—\$25, \$15 and \$8

Stock Selection Letters
Written Mid-weekly by Mr. M. Rich,
 name specific issues to buy or sell
 12, 6 and 3 mos.—\$50, \$30 and \$18

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at important points in the market
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Portfolios Managed—\$300 minimum

Single Consultations \$100

Major L. L. B. ANGAS, Investment Consultant, 570 Lexington Avenue, New York

TREASURY DEPARTMENT

139

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM Randolph Paul

October 13, 1942

I thought you would be interested to see the attached report of John Pehle's interview with Commander Lewis Strauss of the Navy in regard to Colonel Doriot.

REP

Attachment

CONFIDENTIALMEMORANDUM FOR THE FILES

October 12, 1942.

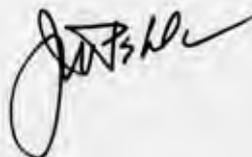
Commander Lewis Strauss of the Navy Department called today with reference to the Doriot matter.

Commander Strauss said that Colonel Doriot had called him on Friday and advised him that General Gregory had been called into General Strong's office and told that the Treasury Department had written to the War Department about Colonel Doriot and that the Treasury had stated that Doriot had willfully failed to make a full disclosure to the Treasury of the ownership of certain funds held by him.

Commander Strauss said that he had been a close friend of Doriot's for many years and while he realized he was exposing himself by doing so, he wished to act as a character witness for Doriot. He said he was confident that Doriot was entirely pro-Ally and anti-Axis. Commander Strauss said that he (Commander Strauss) might have been the instigator of the investigation of Doriot, in that when Laval came into power in France Commander Strauss noticed that one of the Cabinet officials was "Ladurie". Strauss had the notion that since Doriot was holding funds for Worms & Company, and since a person named "Ladurie" was a partner of Worms & Company, pressure might be brought on Ladurie through such funds and so advised the office of Naval Intelligence. Commander Strauss stated that he soon discovered that the Ladurie of the Laval cabinet and the Ladurie of Worms & Company were not the same man, although they were related (they are brothers). He further stated that he had no notion of how closely Worms & Company was tied in with Vichy until he read the last number of "Foreign Affairs".

Commander Strauss asked whether the Treasury had discovered anything that indicated Doriot was unfit to be an Army officer and was told that the Treasury did not make such decisions. Commander Strauss then asked whether the Treasury had discovered any indication that Doriot was an isolationist or otherwise held political views which were not consistent with the war effort. Commander Strauss was told that the Treasury's investigation was concerned solely with violations of Treasury regulations and the relations between Doriot's trusteeship of foreign-owned funds and the requirements of the Treasury Department in connection therewith and that we had made no investigation as to Doriot's political views.

Commander Strauss said he appreciated our giving him an opportunity to testify as to Doriot's character.





OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON

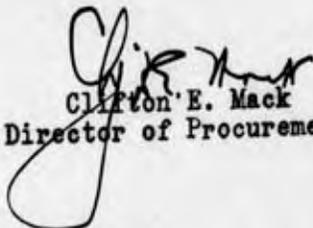
141

October 13, 1942

MEMORANDUM TO THE SECRETARY:

There is submitted herewith the operating report of Lend-Lease purchases for the week ended October 10, 1942.

Joint discussions have been had with the representatives of U.S.S.R., WPB, Lend-Lease, and this office to provide for allocations of metals for the last quarter of this calendar year and, as a result of the group discussions, arrangements have been made to clear allocations promptly for that period.


Clifton E. Mack
Director of Procurement



LEND-LEASE
 TREASURY DEPARTMENT, PROCUREMENT DIVISION
 STATEMENT OF ALLOCATIONS, OBLIGATIONS (PURCHASES) AND
 DELIVERIES TO FOREIGN GOVERNMENTS AT U. S. PORTS
 AS OF OCTOBER 10, 1942
 (In Millions of Dollars)

	<u>Total</u>	<u>U. K.</u>	<u>Russia</u>	<u>China</u>	<u>Administrative Expenses</u>	<u>Undistributed and Miscellaneous</u>
Allocations	\$2100.4 (2100.3)	\$1140.7 (1129.9)	\$648.7 (621.5)	\$56.7 (56.7)	\$3.7 (3.7)	\$255.6 (288.5)
Purchase Authoriza- tions (Requisitions)	\$1712.9 (1644.5)	\$1014.7 (982.5)	\$642.0 (605.6)	\$40.0 (40.5)	- -	\$ 16.2 (15.9)
Requisitions Cleared for Purchase	\$1609.1 (1577.4)	\$ 980.4 (968.6)	\$573.1 (552.9)	\$39.9 (40.4)	- -	\$ 15.7 (15.5)
Obligations (Pur- chases)	\$1515.3 (1472.6)	\$ 952.6 (936.8)	\$508.2 (481.8)	\$39.9 (40.4)	\$2.4 (2.4)	\$ 12.2 (11.2)
*Deliveries to For- eign Governments at U. S. Ports	\$ 627.5 (612.7)	\$ 499.8 (487.1)	\$104.1 (102.1)	\$20.1 (20.1)	- -	\$ 3.5 (3.4)

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

Note: Figures in parentheses are those shown on report of October 3, 1942.

EXPLANATION OF DECREASE

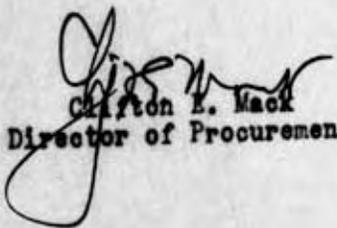
The decrease of \$500,000 in Purchase Authorizations, Requisitions Cleared for Purchase, and Obligations for China was due to the cancellation of two contracts totaling this amount for that country.

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**BRITISH AIR COMMISSION**

1785 MASSACHUSETTS AVENUE

WASHINGTON, D. C.

TELEPHONE HOWART 9000

PLEASE QUOTE

REFERENCE NO. _____

With the compliments of British Air Commission
who enclose Statement No. 54 - Aircraft Despatched
- for week ended October 6, 1942.

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

October 13, 1942.

STATEMENT NO. 54.

AIRCRAFT DESPATCHED FROM THE UNITED STATES

WEEK ENDED OCTOBER 6th 1942.

<u>TYPE</u>	<u>DESTINATION</u>	<u>ASSEMBLY POINT</u>	<u>BY SEA</u>	<u>BY AIR</u>	<u>FLIGHT DEL'D FOR USE IN CAN.</u>
<u>CONSOLIDATED</u>					
Catalina IB	U.K.	Canada en route		10	
Liberator III	"	" " "		1	
<u>BREWSTER</u>					
Bermuda	U.K.	U.K.		1	
<u>DOUGLAS</u>					
Boston IIIA	U.K.	Canada en route		7	
<u>FAIRCHILD</u>					
Cornell PT 26.	Canada	Canada			15
<u>CURTISS</u>					
Kittyhawk	Middle East	Port Sudan		14	
<u>LOCKHEED</u>					
Hudson VI	Canada	Canada			2
Ventura	South Africa	South Africa		1	
<u>GRUMMAN</u>					
Martlet IV	U.K.	U.K.		26	
<u>NORTH AMERICA</u>					
Harvard II	South Africa	Capetown		32	
Mustang	U.K.	U.K.		16	
TOTALS				89	19

British Air Commission
October 12th, 1942.

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NOT TO BE RE-TRANSMITTED

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 353

Information received up to 7 A.M., 13th October, 1942.

1. MILITARY

MADAGASCAR. Our leading troops are now 12 miles south of AMBOSITRA.

RUSSIA. The Russians continue to hold the German advance south of MOZDOK. Fierce fighting continues north east of TUAPSE where the Germans have made a slight advance, and have encircled certain Russian forces.

2. AIR OPERATIONS

WESTERN FRONT. 12th. Whitleys attacked and probably damaged a tanker north of CAPE FINISTERRE.

12th/13th. 131 aircraft including 16 Naval aircraft were sent out - WISMAR 40, Dornier Factory near WISMAR 19, sea mining 59, anti-shipping 13. Visibility at WISMAR was bad with low cloud. 3 aircraft are missing.

MEDITERRANEAN. 11th. A ship in southbound convoy off CRETE was damaged by U.S. Liberators and a schooner off SIDI BARRANI was damaged by Beaufighters.

MALTA. During 11th/12th and 12th about 300 enemy aircraft operated against the Island. Main objective aerodromes. Spitfires intercepted and several JU 88's were forced to jettison their bombs in the sea or wide of the objective. Some damage to aircraft on the ground at LUQA. In air fighting 24 enemy aircraft were destroyed, 13 probably destroyed and 29 damaged for the loss of 5 Spitfires, 2 pilots safe.

3. HOME SECURITY

Civilian casualties 11th/12th - TYNESIDE - 15 killed, 43 seriously wounded. 12th. BRIGHTON - 5 killed, 32 seriously wounded.

CONFIDENTIAL
(Classification)

150
ENCLOSURES
COPY No. _____
(For Record Section only)

MILITARY INTELLIGENCE DIVISION W. D. G. S.

MILITARY ATTACHÉ REPORT Swedar.

Subject Swedish Iron Ore Exports (Country reported on)
London (Brief descriptive title) I. G. No. 4120
From M. A. London Report No. 50877 Date 13 October 1942

Source and degree of reliability:
Norwegian War Department, London

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

The following is quoted from an intelligence report received from the Norwegian War Department, London:

"During August exports of iron ore from Sweden were as follows:

Via Narvik.....150,163 tons
Via Swedish ports.....958,983 "

It will be noted that the remarkable increase achieved in Narvik in July has been followed by a further rise of 7% in August."

JOHN P. SIMPSON JR.
Major, Field Artillery
Acting Assistant Military Attache

OMA, American Embassy, London. 13 October 1942. Forwarded AJM

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Auth: Col. Yeaton
Date: 11/24/42
C. Copies: 13

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Inf.	Carv.	FA	CAC	AC	AAF	Sig.	Armed.	Ord.	QM	CWS	Med.	Engr.	Fin.	
Attache at	CG Phil.	CG Pan.	CG Haw.											

50877

Enclosures:

CONFIDENTIAL
Regarded Unclassified

709 12th St., N. W.

October 14, 1942

Willard S. Townsend, Esq.,
International President,
United Transport Service Employees
of America,
3451 South Michigan Avenue,
Chicago, Illinois.

My dear Mr. Townsend:

The Secretary of the Treasury has received directly, and also by reference from the White House, your letter about the purchase of War Savings Bonds by Redcaps at the Pennsylvania Station in New York. The Secretary has asked me to thank you in the President's name and his own for the fine service which you have rendered in straightening out this difficult situation.

Some time ago the Treasury received from a group of Redcaps at the Pennsylvania Station a representation as to certain grievances with regard to the terms of their employment, and a statement that as a result of these grievances they had decided to cash their War Bonds. These men were obviously troubled and perplexed and not at all sure that they were proceeding in the right way to emphasize what they considered their rights. Secretary Morgenthau wrote them a personal letter pointing out that the War Savings Bond Program was necessary for an American victory in the way, on which depended the protection of the rights of all workers. He urged them not to abandon their support of the United States Government.

We are very glad to learn that you have taken this case position and that you have been able to persuade this group not to handicap their Government because of their strained relations with their employer.

Organized Labor has, in general, done a splendid job in supporting the Treasury's War Savings Program. We want to thank you for your part in it.

Yours sincerely,

James L. Houghtaling,
Director,
National Organizations Division.

JLH:G

C
O
P
Y

UNITED TRANSPORT SERVICE EMPLOYEES OF AMERICA

3451 South Michigan Ave.,
Chicago, Illinois.

October 5, 1942

Mr. Henry Morgenthau, Jr.
Secretary of Treasury
Washington, D. C.

My dear Mr. Morgenthau:

It has been reported to this office that the red caps working for the Pennsylvania Railroad in the Pennsylvania Terminal, New York City, directed a letter to you in which they advised the cancellation of war bonds through the pay roll system. While I am fully aware that they were prompted in this action as a result of the imposition of a very vicious system for which the Pennsylvania Railroad is responsible and not our nation who is exerting every effort to winning a war against groups that would perpetuate such treatment.

Harassed on every side by a Pennsylvania Gestapo, these men in their frantic efforts to bring about a relaxing of the pressure without the approval of our International Union, sought this approach as a reprisal.

I am pleased to advise you however, that in a meeting with these men in New York City on September 28, 1942, we pointed out the dangerous results of such unwarranted action and prevailed with them to accept the responsibility that is ours as American citizens in this great war and make the necessary sacrifices that are tantamount to the winning of this war. To this they have agreed and I assure you that the red caps in the Pennsylvania station in particular, and the red caps throughout the nation will bend every effort toward defeating the Axis powers.

Very truly yours,

(Signed) Willard S. Townsend
International President

WST/lkw
uppwa #24

cc: Mr. F. D. Roosevelt, President United States
Mr. M. W. Clement, President Pennsylvania Railroad
Mr. Earl Adams, President Pennsylvania Red Cap Local, UTSEA

October 14, 1942.

My dear Mr. Daniels:

In the absence of the Secretary, who is away from Washington, I am acknowledging your comment on the new Tax Bill, and also the enclosed clipping on the subject.

I shall be very glad to bring your letter and the editorial to Mr. Houghton's attention when he returns to the office.

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

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

KE/dbs

Sanctuary For Tax Dodgers 154

Ever since 1917 every Secretary of the Treasury, including that sterling conservative, Carter Glass, has recommended the taxation of future issues of State and local bonds. Why, because, as the Springfield Republican truly says "tax free securities are a refuge for wealth seeking to escape the tax burden." Once these slackers citizens escaped taxation by buying Federal bonds. When that loop-hole was closed up, the tax dodgers resorted to tax-free local and state bonds.

Today, when the war costs call for all to sacrifice, only the tax-dodgers go free. The Senate has given them "a sanctuary for tax evasion" which the Republican says is "one of the worst uses our dual form of government can be put to," and it adds:

The same Senate has now accepted the so-called "Victory tax," as essential to the financing of the war; and the "Victory tax" subjects to an extra 5 per cent all individual incomes of \$624 or more.

Madame Roland truly exclaimed as she stood in her last hour before a guillotine of liberty: "O Liberty! how many crimes are committed in thy name!" In the same manner we could say today "O, State Rights! how many crimes are committed in thy name!"

(Pictured)
Flower Garden
-Wide Featherst
band forming large
diamonds . . . each
centered with mil-

THE NEWS AND O
JONATHAN DANIELS, EDITOR
RALEIGH, N. C.

Sept 1942 156

Dear Henry,
I am "plum disgusted"
with US favoritism and privilege
in US laws & exp. bill.

Faithfully
Joseph Daniels

RECEIVED
SEP 19 1942

OCT 14 1942

My dear Mr. President:

I am enclosing report on our exports
to some selected countries for the period
ending September 30, 1942.

Faithfully,

1-2/D. W. Bell
acting Secretary of the Treasury.

The President,
The White House.

Enclosure

EBW/ofs
10/13/42

126

FILE COPY

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October 13, 1942

Exports to Russia, Free China and selected blocked countries as reported to the Treasury Department during the ten-day period ending September 30, 1942.

1. Exports to Russia

Exports to Russia as reported to the Treasury Department during the ten-day period ending September 30, 1942 amounted to \$30,947,000. Among the military equipment exported were 86 tanks and 24 fighter planes. (See Appendix G.)

2. Exports to Free China

Exports to Free China as reported during the period under review amounted to \$902,000. Military equipment accounted for \$555,000 of the total. (See Appendix G.)

3. Exports to selected blocked countries

Exports to selected blocked countries are given in Appendix A. Most important were exports to Switzerland and Portugal amounting to \$338,000 and \$254,000, respectively.

ISF/efs 10/13/42

APPENDIX A

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

(In Thousands of Dollars)

	10-Day Period ended Sept. 30, 1942	10-Day Period ended Sept. 30, 1942	Total Domestic Exports Aug. 1, 1942 to Sept. 30, 1942	Total Domestic Exports July 22, 1942 to July 31, 1942
U. S. S. R.	\$ 30,947	\$ 44,434	\$ 290,507	\$ 742,941
Free China	902	11	5,018	97,720
Spain	80	3/	394	2,898
Netherlands	338	12	1,007	11,537
Sweden	1	14	2,508	18,096
Portugal	254	69	581	9,743
French North Africa 2/	47	122	2,088	6,305

Treasury Department, Division of Monetary Research

October 13, 1942

1/ Many of the export declarations are received with a lag of several days or more. Therefore this compilation does not accurately represent the actual shipment of a particular period.

2/ Includes Morocco, Algeria and Tunisia.

3/ Less than \$500.

WV/cfs 10/13/42

APPENDIX B

Exports from the U. S. to Free China and U.S.S.R.
as reported to the Treasury Department
July 26, 1941 - September 30, 1942 1/
(Thousands of Dollars)

	Exports to <u>Free China</u>	Exports to <u>U.S.S.R.</u>
July 26, 1941 - Jan. 24, 1942	\$ 32,758	\$ 98,902
<u>1942</u>		
Jan. 26 - Jan. 31	6,978	9,608
Feb. 1 - Feb. 10 2/	4,889	13,315
Feb. 10 - Feb. 20	4,853	26,174
Feb. 20 - Feb. 28 1/	2,921	26,119
Mar. 1 - Mar. 10	2,879	32,309
Mar. 10 - Mar. 20	8,058	28,558
Mar. 20 - Mar. 31 1/	2	42,435
Apr. 1 - Apr. 10	4,836	51,654
Apr. 11 - Apr. 20	5,335	66,906
Apr. 21 - Apr. 30	2,827	50,958
May 1 - May 10 5/	296	28,652
May 11 - May 20	1,872	18,000
May 21 - May 31 1/	2,533	26,180
June 1 - June 10	3,399	12,764
June 11 - June 20	2,707	57,799
June 21 - June 30	1,664	49,919
July 1 - July 10	7,900	35,657
July 11 - July 20	590	33,040
July 21 - July 31 1/	3,066	35,669
Aug. 1 - Aug. 10	208	14,970
Aug. 11 - Aug. 20	192	23,325
Aug. 21 - Aug. 31 1/	2,850	112,492
Sept 1 - Sept. 10	855	24,339
Sept. 11 - Sept. 20	11	44,438
Sept. 21 - Sept. 30	902	30,947
Total	\$ 105,341	\$ 994,268

1. These figures are in part taken from copies of shipping manifests.
2. Beginning with February 1 figures are given for 10-day period instead of week, except where otherwise indicated.
3. 8-day period.
4. 11-day period.
5. Due to changes in reporting procedure by the Department of Commerce this report is incomplete for the period indicated.

Treasury Department, Division of Monetary Research

October 13, 1942

LW/efs 10/13/42

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APPENDIX G

**Principal Exports from U. S. to U. S. S. R.
as reported to the Treasury Department
during the ten-day period ending
September 30, 1942**

	<u>Unit of Quantity</u>	<u>Quantity</u>	<u>Value (Thousands of Dollars)</u>
TOTAL EXPORTS			\$ 30,947
Principal Items:			
Military tanks			3,421
Light tanks (M-3)	No.	26	
Light tanks, n.e.s.	No.	10	
Medium tanks (M-3)	No.	40	
Medium tanks, n.e.s.	No.	10	
Motorcycles, trucks, and replacement parts			3,251
Dried egg products	Lb.	2,886,052	2,893
Meat products	Lb.	8,566,978	2,767
Iron and steel manufactures and semi-manufactures	Lb.	28,816,800	2,457
Ammunition			1,845
.30 caliber balls	No.	2,652,100	
.30 caliber tracers	No.	2,000,000	
.30 caliber armor piercing	No.	1,339,500	
.45 caliber balls	No.	1,500,000	
.50 caliber tracers	No.	440,200	
.50 caliber armor piercing	No.	1,395,400	
Under 75 mm. armor piercing shells	No.	65,520	
Under 75 mm. armor piercing shot	No.	43,700	
Under 75 mm. high explosive shells	No.	20,092	
75 mm. gun armor piercing shot	No.	9,735	
75 mm. gun high explosive shells	No.	4,410	
37 mm. gun high explosive shells	No.	31,300	
Aircraft gun ammunition (other than machine gun)	-	5,040	
Electrical and industrial machinery and apparatus	-	-	1,590
Fighter planes, pursuit and interceptor (P-40)	No.	24	1,547

SECRET

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APPENDIX G

Page 2

	<u>Unit of Quantity</u>	<u>Quantity</u>	<u>Value (Thousands of Dollars)</u>
Scout cars	No.	508	1,496
Other foodstuffs, n.e.s.	-	-	1,085
Leather and manufactures	-	-	1,028
Aluminum and manufactures	Lb.	3,657,294	1,001
Carburetors, cowls, crank cases, cylinders, etc.	-	-	692
Brass and bronze plates, sheets and manufactures	Lb.	3,296,672	636
Aircraft parts and accessories	-	-	573
Explosives	-	-	307
Components for small arms ammunition	-	-	246
Parts and accessories for automatic arms	-	-	232
Parts and accessories for tanks	-	-	158
Ordnance combat vehicles and parts, n.e.s.-	-	-	130

Treasury Department, Division of Monetary Research

October 13, 1942

MVF/EPW/efe 10/13/42

Regraded Unclassified

APPENDIX B

Principal Exports from U. S. to Free China
as reported to the Treasury Department
during the ten-day period ending
September 30, 1942

(Thousands of Dollars)

TOTAL EXPORTS	\$ 902
Principal Items:	
Military equipment	545
Printed matter	192
Aerial cameras, parts, etc., except lenses	22
Pentaerythrite	21
Medicinal and pharmaceutical preparations	20
Metal working machine tools and parts	17
Book paper	13
Relief supplies	8
Industrial machinery and parts, n.e.s.	7
Automobile replacement parts	4

Treasury Department
Division of Monetary Research

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Date.....19

To: Miss Chauncey

From: Mr. White

The tables for transmittal to the Secretary of State differ from those being sent to the President in that certain military figures are not broken down.

OCT 14 1942

My dear Mr. Secretary:

I am enclosing report on our exports
to some selected countries for the period
ending September 30, 1942.

Sincerely yours,

Acting Sec/ DW Bell
Acting Secretary of the Treasury.

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

Enclosure

HDW/ofs
10/13/42

Emb

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October 13, 1942

Exports to Russia, Free China and selected blocked countries as reported to the Treasury Department during the ten-day period ending September 30, 1942.

1. Exports to Russia

Exports to Russia as reported to the Treasury Department during the ten-day period ending September 30, 1942 amounted to \$30,947,000. Military equipment accounted for thirty-five percent of the total. (See Appendix G.)

2. Exports to Free China

Exports to Free China as reported during the period under review amounted to \$902,000. Military equipment accounted for \$588,000 of the total. (See Appendix D.)

3. Exports to selected blocked countries

Exports to selected blocked countries are given in Appendix A. Most important were exports to Switzerland and Portugal amounting to \$338,000 and \$254,000, respectively.

ISF/efs
10/13/42

APPENDIX A

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

(In Thousands of Dollars)

	<u>10-Day Period ended Sept. 30, 1942</u>	<u>10-Day Period ended Sept. 30, 1942</u>	<u>Total Domestic Exports Aug. 1, 1942 to Sept. 30, 1942</u>	<u>Total Domestic Exports July 28, 1941 to July 31, 1942</u>
U. S. R.	\$ 30,947	\$ 44,434	\$ 230,977	\$ 742,941
Free China	902	11	5,018	97,730
China	89	2/	394	2,090
Netherlands	308	12	1,077	11,577
Sweden	1	14	2,388	18,096
Portugal	254	89	381	9,743
French North Africa 2/	47	122	2,088	6,305

Treasury Department, Division of Monetary Research

October 13, 1942

Many of the export declarations are received with a lag of several days or more. Therefore this compilation does not accurately represent the actual shipment of a particular period.

Includes Morocco, Algeria and Tunisia.

Less than \$500.

W/cfo 10/13/42

SECRET

161

APPENDIX B

**Exports from the U. S. to Free China and U.S.S.R.
as reported to the Treasury Department
July 25, 1941 - September 30, 1942 1/
(Thousands of Dollars)**

	<u>Exports to Free China</u>	<u>Exports to U. S. S. R.</u>
July 25, 1941 - Jan. 24, 1942 <u>1942</u>	\$ 32,798	\$ 94,902
Jan. 26 - Jan. 31	6,938	9,608
Feb. 1 - Feb. 10 2/	4,889	13,315
Feb. 10 - Feb. 20	4,853	26,174
Feb. 20 - Feb. 28 1/	2,921	28,119
Mar. 1 - Mar. 10	2,879	32,509
Mar. 10 - Mar. 20	8,058	28,598
Mar. 20 - Mar. 31 1/	2	42,455
Apr. 1 - Apr. 10	4,536	51,694
Apr. 11 - Apr. 20	9,335	66,906
Apr. 21 - Apr. 30	2,821	50,958
May 1 - May 10 5/	296	28,652
May 11 - May 20	1,872	16,000
May 21 - May 31 1/	2,533	26,180
June 1 - June 10	3,399	12,764
June 11 - June 20	2,707	53,799
June 21 - June 30	1,664	49,919
July 1 - July 10	7,900	35,657
July 11 - July 20	590	33,940
July 21 - July 31 1/	3,066	35,669
Aug. 1 - Aug. 10	208	14,970
Aug. 11 - Aug. 20	192	23,325
Aug. 21 - Aug. 31 1/	2,850	112,492
Sept. 1 - Sept. 10	655	24,799
Sept. 11 - Sept. 20	11	44,494
Sept. 21 - Sept. 30	902	30,257
Total	\$ 105,341	\$ 994,268

1. These figures are in part taken from copies of shipping manifests.
2. Beginning with February 1 figures are given for 10-day period instead of week, except where otherwise indicated.
3. 5-day period.
4. 11-day period.
5. Due to changes in reporting procedure by the Department of Commerce this report is incomplete for the period indicated.

Treasury Department, Division of Monetary Research

October 13, 1942

ISF/cfs 10/13/42

APPENDIX C

**Principal Exports from U. S. to U. S. S. R.
as reported to the Treasury Department
during the ten-day period ending
September 30, 1942**

(Thousands of Dollars)

TOTAL EXPORTS **\$ 30,947**

Principal Items:

Military equipment	10,831
Tractors, trucks, motorcycles and parts	3,251
Dried egg products	2,893
Perk and sausage	2,749
Iron and steel billets, bars, rods, plates, etc.	1,765
Leather and manufactures	1,028
Aluminum and alloys	1,006
Industrial machinery and parts	856
Electrical machinery and apparatus	732
Cotton manufactures	645
Brass and bronze blanks, plates, sheets, etc.	636
Vegetable oils and fats, edible	543
Wine and manufactures	535
Copper pipes, sheets, strips, wire, etc.	438
Relief supplies	371
Rubber and manufactures	349
Dairy products	260
Grains and preparations	254
Wool cloth, dress goods, overcoats, pants, etc.	226
Surgical and medical instruments and appliances	166
Industrial chemicals	160
Vegetables and preparations	151
Engines	112

APPENDIX B

**Principal Exports from U. S. to Free China
as reported to the Treasury Department
during the ten-day period ending
September 30, 1942**

(Thousands of Dollars)

TOTAL EXPORTS

\$ 902

Principal Items:

Military equipment	556
Printed matter	192
Aerial cameras, parts, etc., except lenses	22
Pentaerythrite	21
Medicinal and pharmaceutical preparations	20
Metal working machine tools and parts	17
Book paper	13
Relief supplies	8
Industrial machinery and parts, n.e.s.	7
Automobile replacement parts	4



DEPARTMENT OF STATE
WASHINGTON

October 14, 1942

CONFIDENTIAL

My dear Mr. Morgenthau:

This is in reply to your letter of September 18, 1942.

I am enclosing a copy of a confidential report embodying the personal views of Messrs. Cochran and Meltzer with respect to the Proclaimed List, foreign property problems and related matters in Argentina.

Officers of the Department, in consultation with Ambassador Armour during his recent visit here, carefully considered all of the problems raised by the attached report and all of the facets of the Argentine problem. After this study, an Argentine program was developed, which is designed (a) to conserve rigorously critical materials and ships; and (b) to prevent, within the limits of our control, economic operations beneficial to the Axis.

In order to implement the foregoing program in the financial field, the following specific measures of special interest to the Treasury Department are suggested for your consideration:

- (1) The Treasury Department should compile a list of "Argentine" accounts within the United States which are suspected of being used for cloaking operations on behalf of enemy interests, and a list of all Argentine accounts, the beneficial ownership of which is not clear from the

TFR 300

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.



TFR 300 reports. Accounts in each of the foregoing categories should be subjected to ad hoc freezing until it becomes clear that those accounts are not being used for cloaking or for other operations beneficial to the enemy.

- (2) The Treasury Department should subject to ad hoc freezing all individuals in Argentina who are closely connected with firms on the Proclaimed List. This, for example would include partners and important personnel in Proclaimed List firms.
- (3) Data concerning persons and firms in Argentina which have been on the edge of the Proclaimed List should be re-examined with a view to determining whether or not some or all of those entities should be subjected to listing or to ad hoc freezing. It may, of course, be desirable to control some entities through ad hoc freezing, which involves no publicity, even though available evidence has not justified their being publicly stigmatized as enemies by inclusion on the Proclaimed List.

Before the controls described in items (1) - (3) above are applied to individual cases, it is requested that each case be cleared with this Department.

- (4) This Department is also considering the feasibility of subjecting to more rigorous control certain remittances to Argentina from European neutral accounts in the United States. This suggestion has already been informally made to officers of your Department, for their consideration.

In addition to the organization of the TFR 300 data relating to Argentina, a country-by-country analysis of such data by the Treasury Department would, as officers of this Department have repeatedly suggested, be of great assistance to all of our missions. In particular it would be

helpful

helpful to receive a list of all accounts in the United States, ostensibly held for neutrals which have not been subjected to control, but which the Treasury Department believes are being used as vehicles of pro-Axis transactions.

Sincerely yours,



Dean Acheson
Assistant Secretary

Enclosure:

Confidential Report
with respect to the
Proclaimed List and
related matters in
Argentina.

CONFIDENTIAL REPORT

on

PROCLAIMED LIST, FOREIGN PROPERTY PROBLEMS
AND RELATED MATTERS, IN ARGENTINA

H. Merle Cochran
H. Merle Cochran, Foreign Service Officer

From:

Bernard Meltzer
Bernard Meltzer

Department
of
State

October 1, 1942.

On June 1 Messrs. Cochran and Meltzer were directed to proceed to Buenos Aires for the purpose of assisting the Embassy in Buenos Aires in improving its organization and techniques for carrying out our program of economic warfare, with special emphasis on Proclaimed List and financial problems. Messrs. Cochran and Meltzer arrived in Buenos Aires on June 15; Mr. Cochran remained until July 23, and Mr. Meltzer until August 9, 1942. During their visit to Buenos Aires, Messrs. Cochran and Meltzer had the benefit of conversations with the Ambassador, continuous consultation with the Commercial Attaché and his staff, and conversations with members of the British Embassy who had been dealing with economic warfare problems. In addition, Messrs. Cochran and Meltzer held repeated conferences with officers of the Argentine Central Bank, concerning (1) the objectives of United States foreign property controls; (2) the adequacy of the Argentine control measures and of their administration, in light of the Rio Resolutions; and (3) various specific transactions which were considered inconsistent with the Rio Resolutions. Finally, conversations on a similar range of subjects also took place with the Under Secretary of Finance and with various private bankers and businessmen in Argentina.

This report, which is based largely on the conversations described above, will attempt to focus on certain general aspects of our economic warfare program in Argentina. No attempt will be made in the body of this report to deal with all of the individual problems discussed with the United States Embassy, the British Embassy, and the various Argentine officials. However, certain of these individual problems are referred to in the Appendix to this report.

Argentina's Implementation of Resolution V

There are inherent difficulties involved in appraising the effectiveness of another country's controls. With respect to Argentina's controls, these difficulties have been intensified by Argentina's attempt to follow a policy of "prudent neutrality" while still demanding recognition as a subscriber to the Rio and Washington Resolutions. Another source of difficulty in Argentina is the fact that although many transactions are subjected to "control", the standards applied are so elastic as to be practically meaningless. Finally, the statistics furnished to date by the Central Bank concerning remittances abroad are incomplete and confused.

As a

¹Despatch no. 5846, dated July 24, 1942, sets forth such figures and is presently being studied by Treasury, with a view to consulting with the Department concerning the preparation of an instruction requesting further information from the Central Bank.

As a result, an evaluation of the Argentine controls is difficult.

Notwithstanding the foregoing, the following generalization can be submitted regarding the Argentina financial controls:

(1) No substantial control is exercised over the internal operations of pro-Axis enterprise. Although Decree no. 122,712 of June 15 provides for an interventor system, it appears that interventors are to be merely income tax inspectors in another guise and are not to have, or exercise, effective authority to stop pro-Axis transactions. (See Embassy despatch no. 5681, July 10, 1942.)

(2) An adequate legal and administrative authority for the control of international transactions, including remittances to European neutrals and to the Axis, exists. However, the control mechanism is administered in such a way as to permit some remittances which benefit the Axis. Disturbing examples of such remittances are:

- (a) The authorization of a remittance of 300,000 Swiss francs to Switzerland for the purpose of amortizing the debt of the Province of Buenos Aires to the Dresdener Bank in Germany (telegram no. 1412, July 20, 6 p.m. from the Embassy in Buenos Aires).
- (b) The remittance of reichsmarks to the Amsterdam branch of the Banco Holandes Unido for the account of a client in Czechoslovakia (despatch no. 6137 from Buenos Aires, dated August 14, 1942; Department's telegram no. 1385, September 16, 11 p.m.).

The Central Bank, which administers the controls, urges that these pro-Axis remittances are atypical, that they result from peculiar circumstances, or from the pressure of the Foreign Office. Such statements underline an obvious, but important, consideration in appraising Argentine controls: The agency administering fiscal controls will not be able to carry out a program inconsistent with Argentina's basic foreign policy. The Central Bank, which is said to be, and appears to be, pro-United Nations, MAY prevent many transactions which would benefit the Axis, on financial rather than political grounds. However, it is unrealistic to expect a clear-cut vigorous implementation of Argentine control measures until there is a reorientation of the attitude of the President and the Foreign Office.

The Issues Involved in the Formulation of an Argentine Program.

Our Argentine policy could be designed to accomplish one or more of the following objectives:

- (1) To persuade

- (1) To persuade the present Argentine Government to carry out the Rio Resolutions;
- (2) To coerce the Government to this end by applying economic pressure;
- (3) To discredit the present Government and to assist its domestic opposition, by making it clear that available goods and financial services are being withheld from Argentina because of the foreign policy of the present government;
- (4) To bring about the maximum conservation of strategic materials and shipping and to prevent pro-Axis transactions through the more effective exercise of United Nations controls, such as freezing and the Proclaimed List and navicert controls.

A policy of persuasion and collaboration has, of course, not brought the Castillo Government into the ranks of the United Nations. However, although there is no ground for optimism, recent reports from Buenos Aires indicate the growth of an articulate opposition to the Government's foreign policy. Moreover, clear-cut military victories by the United Nations may accomplish this realignment. However, even this is far from clear. The Argentines are shrewd enough to know that our respect for them, and our willingness to make economic concessions may not increase but may diminish if they align themselves with us only after the course of the war makes it clear that such action involves negligible risk.

There are, of course, obvious difficulties in the way of a program to assist the domestic opposition to the Castillo Government.

In connection with a possible pressure policy, the following potential instruments of pressure are especially important:

- (1) Withholding of available materials for which there is shipping space;
- (2) Pressure through United States financial relations by withholding public credits, freezing controls, etc.;
- (3) Pressure through the withholding of United States purchases;
- (4) British cooperation in withholding supplies and purchases;
- (5) Strengthening of the navicert system in cooperation with the British or through our unilateral action;
- (6) Collaboration of Brazil, Mexico, and the other American republics in the above-described measures;
- (7) Collaboration of those countries in protesting the violations of the Rio and Washington

Resolutions, with a view to creating a moral isolation for Argentina. In short, an all-out pressure policy would involve the application of the most vigorous economic policies against Argentina by a coalition of United Nations. Of course, varying degrees of pressure could be applied.

Whether a policy of pressure should be adopted, and the degree of such pressure, would, of course, depend upon a judgment concerning (1) the probable economic cost to us (for example, through the United States or Great Britain not receiving from Argentina certain required materials) and (2) the attendant risk that a pressure policy may not make the present Argentine Government more pro-United Nations but may make it more pro-Axis; and (3) political cost in impairing the façade of hemispheric collaboration.

It should be observed that the view of the United States Embassy, the British Embassy (expressed by Mr. How, the Counselor), and observers in Argentina was to the effect that the application of a pressure policy, whether one of complete or partial pressure, would not bring about a pro-United Nations orientation of Argentine policy. There was general agreement that because of the character of the Argentine Government, its present attitude toward the war, and the sensitiveness of the Argentine people, serious economic dislocations would be preferred to the ignominy of yielding to the Yankee big stick. Moreover, it was also felt that instead of gaining a friend, the United Nations, and particularly the United States, might by a pressure policy drive the Argentine Government closer to the Axis and might alienate friendly elements among the Argentine people.

Certain United States measures, particularly the Proclaimed List, freezing and navicert controls, although their primary purpose is remedial, i.e., to prevent transactions beneficial to the enemy, constitute forms of pressure. In this connection, it should be observed that any reduction in the flow of trade between Argentina and the European neutrals on the ground that the Axis benefits from such trade would dovetail with a program of pressure by increasing the dependence of Argentina on United States trade. It would seem desirable to apply these remedial measures vigorously and, in some areas, to extend their scope, even though such a course might involve increased irritation on the part of the Argentine Government.

In order to increase the effectiveness of existing controls, the Embassy staff has been reorganized. Mr. Merwin Bohan has been named Commercial Attaché; Mr. James Mann of the Treasury Department, who had worked with the Foreign Funds Control Divisions of Treasury and State, has been assigned as Special Assistant to the Embassy. A similar assignment has been given Mr. Skelton, a Spanish-speaking lawyer, who has completed an intensive

training

training course in Washington which involved the study of United States freezing controls, coordination of field administration of these controls, listing and delisting policies, administration of vested enemy property and essential requirements and allocations. Finally, measures for improving and expanding commercial intelligence work have been discussed and approved by Ambassador Armour and appropriate officers of the Department.

* * *

During Mr. Armour's visit to the United States, the officers of the Treasury and of this Department re-emphasized to him the importance that is attached to our obtaining effective cooperation from Argentina in the economic warfare field. Moreover, Mr. Armour fully discussed the issues set forth in the foregoing report and consulted with interested officers of the Department in the formulation of an economic policy toward Argentina. He is now en route to his post where he will direct the implementation of that policy, in so far as the Embassy is involved. He will, of course, report the effect of our policy on the Argentine attitude and his reports will be studied in connection with the Department's continuing observation of the Argentine problem.

APPENDIX TO REPORT ON PROCLAIMED LIST AND
FOREIGN PROPERTY PROBLEMS IN ARGENTINA

1. The Argentine financial decrees of June 15, 1942

On June 19, 1942 the deficiencies in these decrees were fully and frankly discussed by Messrs. Cochran, Meltzer, and Gantenbein (of the Embassy) with officers of the Central Bank. In those discussions it was emphasized that although the decrees appeared to be an encouraging step forward, the actual application of the decrees to specific cases would be the real test of the Argentine Government's policy and the Central Bank's administration, and that our Government would observe the administration of the decrees with great interest. A full report of these conversations and an analysis of the decrees by Messrs. Cochran and Meltzer was transmitted as an enclosure to despatch no. 5548 from the American Embassy in Buenos Aires. That report, which has been made available to the Treasury Department, is attached hereto as enclosure no. 1. Accordingly, the decrees will not receive further discussion in this appendix.

2. In addition to the adequacy of the decrees, the following related matters were discussed during the conversation on June 19 and are dealt with in enclosure no. 1:

- (a) Service by the Province of Buenos Aires of its bonds payable in Swiss francs and held by Axis nationals.
- (b) Remittances to Germany and to European neutrals, including family remittances.

3. In the course of that conversation the officers of the Central Bank agreed to submit the following information, in accordance with requests by Messrs. Cochran and Meltzer:

- (a) A memorandum giving a complete exposition of the actual operation of the Argentine controls over financial transactions. A memorandum along those lines, but inadequate in some respects, was subsequently furnished and was enclosed with despatch no. 5813 dated July 22, 1942 from the Embassy in Buenos Aires. A copy of that memorandum has been furnished to the Treasury Department.
- (b) A copy of the sworn statement which the Central Bank had required certain pro-Axis enterprises in Argentina to execute. That sworn statement was furnished, and a translation thereof is annexed hereto as enclosure no. 2. In addition, the Central Bank, subsequent to the departure of Messrs. Cochran and Meltzer, furnished the Embassy with a list of seventy-two

firms,

firms, most of which are on the Proclaimed List, which had furnished an executed copy of the undertaking to the Central Bank. The Embassy, at present, is engaged in collecting information concerning possible violations of these undertakings, with a view to submitting such information to the Central Bank as a basis for punitive action.

4. In a subsequent conversation the Central Bank was asked to furnish a list of the firms which would be subject to intervention. A list of the first firms to be submitted to intervention was reported in despatch no. 5681, July 10, 1942. It should be observed, however, that as of July 21, 1942 actual intervention had not begun. (See Embassy despatch no. 5790, July 21, 1942.) At present, the Embassy is collecting information concerning undesirable practices of the firms which are supposed to be subjected to intervention, with a view to bringing those practices to the attention of the Central Bank.

5. Argentine control of United States notes.

Messrs. Cochran and Meltzer and Gantenbein had several conversations with officers of the Central Bank concerning the adoption of Argentine measures relating to the control of dealings in and exports of United States currency. These conversations were fully reported in the following telegrams from the American Embassy in Buenos Aires, paraphrases of which have been made available to the Treasury Department: no. 1246, June 25, 8 p.m.; no. 1281, June 30, 10 p.m.; no. 1326, July 6, 8 p.m.; no. 1339, July 7, 8 p.m.; and no. 1344, July 8, 9 p.m. Accordingly, no attempt to summarize those conversations will be made here.

6. The Export-Import Bank Credits

The Banco de la Provincia and other banks desiring Export-Import Bank facilities had been requested to sign a standard undertaking and to secure the specific approval thereof by the Board of Directors. (See telegram no. 827, from the American Embassy at Buenos Aires, dated June 8, 11 p.m., for copy of the undertaking.) During a meeting with Dr. Prebisch which Messrs. Cochran and Meltzer had requested for the purpose of discussing Argentine controls of United States currency, Dr. Prebisch shifted to a discussion of our request for these undertakings, and launched into an attack against our action as an invasion of Argentine sovereignty and an interference with the Central Bank's functions. He stated that the Argentine decrees controlled trading with Axis concerns, remittances, and, in general, dealt with the matters covered by the undertaking. It was explained to Dr. Prebisch that the Embassy had requested the Central Bank some time ago to get the assurances in question and that Dr. Grumbach had suggested that the Embassy itself should approach the banks involved. It was pointed out, moreover, that the United States was engaged in war, that it was contemplating the extension of special governmental facilities, and that it was attempting to receive assurances in order to avoid

extending

extending those facilities to enterprises directly or indirectly aiding the enemies of the United States. Messrs. Cochran and Meltzer and Gantenbein suggested also that the Bank might give assurances that it would so apply its controls as to prevent the banks involved in engaging in the transactions covered by Items 3 and 4 of standard undertakings. If the Central Bank would give those assurances, a recommendation could be made to the Department of State that it should accept them in lieu of such assurances by the private banks. Dr. Prebisch gave no clear-cut reply to this suggestion.

7. The Electroclor Case and the Central Bank.

Electroclor, which is a subsidiary of Duperial, which in turn is owned in part by the DuPont interests and by Imperial Chemicals, had refused to carry out its contract with Anilinas Alemanas, a subsidiary of I. G. Farben and a Proclaimed List national. In connection with a possible settlement between Electroclor and Anilinas Alemanas, the Central Bank was asked whether it would block any payment which might be made. The Central Bank stated that it was prepared to give assurances that it would prevent any settlement payment from being remitted to any foreign country. It would not, however, agree to segregate and immobilize such payment for the duration of the war on the ground that such action would be inconsistent with the administration of Argentine controls, under which assets may be used for "normal operations" within Argentina. It was clear that the assurance that the payment would not be remitted to a foreign country was not significant, since such a payment might free other assets of Anilinas Alemanas for remittance abroad. Dr. Prebisch stated that the Central Bank would participate in the complete and effective blocking of the settlement payment only with the full consent of all parties and interests. No settlement acceptable to the Embassy and the Department could be worked out, and, at present, a lawsuit is in progress. (Various facets of the Electroclor case are dealt with in the following: Telegram no. 1811 from Buenos Aires, September 15, 6 p.m.; telegram no. 1479, August 7, 1942 to Buenos Aires; telegram no. 1303, July 2, 1942 from Buenos Aires; telegram no. 1348, July 9, 1942, 2 p.m. from Buenos Aires.)

Certain Problems Discussed with the Embassy Staff

The general importance attached to the Embassy's economic warfare work by the Department of State, by the Treasury Department, by the Board of Economic Warfare and by other governmental agencies in Washington was emphasized in discussions with Ambassador Armour and members of the Embassy staff. In addition, many specific problems and despatches were discussed with members of the Embassy staff. Most of these problems have already been considered by the Department and Treasury, and will not be discussed at this point. Only problems of general importance will be referred to here.

1. Commercial Intelligence

1. Commercial Intelligence

Intelligence work in the Embassy is carried on by the Proclaimed List section, the Military Attaché's office, the Naval Attaché's office, and the F.B.I. The Embassy has recognized the need for achieving the maximum possible coordination of the work of these intelligence units. Accordingly, it has established a central coordinating office called the C.I.O. The C.I.O. collects and pools all information gathered by the above-mentioned intelligence units and has performed a valuable function in collating information after the investigation has taken place.

It was pointed out to the interested officers of the Embassy that really effective integration would require a procedure for coordinating investigatory work before investigations take place. Otherwise, duplication might occur with a resultant waste of manpower already limited in relation to work.

It was pointed out that in order to avoid such duplication, it seemed desirable for the active heads of the various intelligence units as a maximum to inform each other of new investigations as soon as they are undertaken. It would be even more desirable if the heads of the intelligence units could meet regularly with a view to discussing contemplated investigations and assigning a particular investigation to the member of the Embassy staff best equipped to carry it out.

This in effect would result in a pooling of all of the staff available for intelligence work and the creation of a central intelligence unit which could service the entire embassy with the minimum duplication. The Embassy officers, and in particular Mr. Doyle of the F.B.I., pointed out that problems would result from the fact that the various intelligence units report to different agencies in Washington and have been assigned different fields of investigation by their departments in Washington. In this connection it was suggested that each unit should, of course, carry out any assignments made by Washington. However, over and above such assigned work, there was a field which would invite more effective coordination. It was also pointed out that if any problems with respect to coordination arose, they should be referred to Washington for possible solution by the interested agencies there.

These matters have been discussed with Mr. Armour and other officers of the Department, all of whom agreed that the second proposal for coordination should be adopted.

It was also concluded, after discussion with the Embassy staff, that an expansion of the number of intelligence personnel and in coverage, particularly in the interior, would appear desirable. This work

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has been facilitated by the establishment of a consular office in Rosario. It is contemplated that an office may also be established in Mendoza.

It seems desirable not only to expand the present staff for commercial intelligence in Argentina, but also to recruit some of the new men locally. Employees of the American business enterprises might be available for this intelligence work. The Embassy staff agreed that local recruiting would seem desirable. (It was pointed out to the Embassy that it was, of course, important to guard against the Embassy's becoming a dumping ground for incompetents and to guard against information being supplied which would serve selfish business interests.) Employees of American business houses could ostensibly retain their present employment as a front and thereby avoid the obvious handicap to effective intelligence work which results from being known as an Embassy Attaché. Their contacts with the Embassy staff could be handled in such a way as to be consistent with their ostensible employment. Employees recruited locally would, of course, have the benefit of knowledge of local conditions which men sent from the United States would probably lack. It would seem desirable for the Embassy to employ about ten additional men for intelligence work and to make further additions to the force if experience indicates the need for further expansion. (This recommendation does not take into account any additions which the F.B.I. may have made since August.) Sufficient funds should be allotted for this purpose.

Discussions with the Embassy staff indicated that at present the Embassy is getting some helpful information through the Economic Advisory Committee in Buenos Aires. However, it was pointed out to the Embassy staff that the Committee appears to be unduly preoccupied with questions of policy and does not furnish as much information as it could. It was emphasized that if the Committee members were constantly encouraged to bring in information and if they were given more specific guidance concerning the desired type of information, their usefulness could be increased.

Accordingly, it was suggested that each officer of the Embassy staff working on a commodity or a group of commodities, be periodically instructed to prepare a guide for voluntary intelligence work by various trusted American businessmen. In connection with the practice now followed by the Embassy, trusted businessmen could be asked to initiate certain investigations by their employees, such as commercial travelers, and could be requested not to indicate to their employees that a particular investigation was being made for the Embassy. It was emphasized that in order to secure the maximum information from American businessmen it was necessary constantly to remind them of their opportunity and duty to be of service.

2. The Bembergs

Even before the receipt of the Department's telegram no. 144, July 25, 8 p.m., requesting a recommendation

regarding

regarding the ad hoc freezing of the Bemberg assets in the United States, the Embassy had been informed that it was necessary to exercise the greatest vigilance with respect to the operations of the Bemberg system for the following reasons: Even admitting the Bembergs' open sympathy for the allied cause, pro-Axis transactions might occur because of the Bembergs' desire for commercial advantage or their desire to protect their European investments. Moreover, the Bemberg interests are very large, complicated and far-flung, and there might be individuals in subordinate positions willing to engage in pro-Axis transactions. However, the Embassy and Mr. Meltzer (Mr. Cochran had left before this issue was raised) were opposed to the ad hoc freezing of the Bemberg assets in the United States on the basis of the evidence presented in the Treasury memoranda which had been transmitted to the Embassy. This opposition was based on the following reasons:

- (1) The evidence alleged by Treasury to demonstrate French control was far from conclusive.
- (2) The specific remittances to which Treasury objected were a matter of ancient history, having occurred early in 1941 when Franco-American relations were more promising than they are now. Moreover, remittance of approximately thirty million francs to France in 1941 for payment of taxes and dividends, did not put foreign exchange in the hands of the French, since it was effected through the Franco-Argentine payment accord. The mechanics of the transaction were as follows: The Bembergs paid pesos to an authorized Argentine banking institution; the pesos were transferred to the Central Bank by that institution; the Central Bank debited the Argentine balance of francs under the Franco-Argentine Payment Agreement, and remitted in francs to France. It is true, of course, that any depletion of the Central Bank's franc account would hasten the day when the Bank might wish to replenish that account. Such replenishment might make foreign exchange available to the French. In connection with these remittances it was also significant that, in the early part of 1941, remittances from the United States to France had been effected and that remittances from the United States to Axis countries were not subject to control.
- (3) Although Bemberg, subsequent to the July remittances received a permit to remit 10,000 francs for Ceverceria Argentina Quilmes to France, he stated that he decided not to use this permit when he learned that the payment would have to be made outside the Franco-Argentine Payment Agreement and would thereby directly put foreign exchange in the hands of the French.
- (4) A letter from Mr. Simon, dated June 18, 1942, addressed to the Enemy Transactions Department, stated that Mr. Bemberg had offered his complete cooperation to the British.
- (5) More significant than this promise is the fact that, to our knowledge, or the knowledge of

of the British, there had not been a transfer, in recent months, which would in any way have benefited the enemy.

- (6) It appeared that in the absence of blocking, the cooperation of the Bembergs could have been secured. It was true that freezing in the United States would result in a very tight control of the assets in the United States, irrespective of the Bembergs' voluntary cooperation. However, it was significant that a large portion of the Bemberg assets appeared to be outside of the United States, and it seemed undesirable on the basis of the evidence presented to risk cooperation with respect to those assets by precipitate blocking of the assets in the United States. In short, it was believed that more could be accomplished by enlisting the voluntary cooperation of the Bembergs in connection with all of their assets - with a threat of blocking the United States assets in the background - than by blocking the Bembergs' United States assets on the basis of evidence which did not appear to afford an intelligible explanation of our action to the Bembergs.
- (7) The Bembergs appeared to be openly pro-Ally and were said to be vigorous opponents of the Axis. Moreover, they were reported to be organizing the opposition groups to the present government in anticipation of elections in 1943. Accordingly, it was felt that action based upon inadequate evidence and involving the singling out of the Bembergs might have alienated or reduced the pro-Ally ardor of the Bembergs and their friends in Argentina.

Mr. Walter Simon of the British Embassy fully concurred with the foregoing.

3. Argentine Trade with the European Neutrals

It was pointed out to the Embassy that trade between Argentina and the European neutrals must be carefully scrutinized with a view to determining: (a) Whether goods ostensibly destined for the European neutrals are actually going to the Axis, and (b) whether goods ostensibly coming from the European neutrals are actually coming from the Axis. In this connection, it was suggested that a commodity by commodity analysis of Argentine exports to the European neutrals be made in order to determine whether increases in each category of goods taken by various European neutrals since the outbreak of the war were referable to the actual needs of those countries, or whether such increases represented indirect shipments to the Axis. The Embassy prepared a study of

Argentine

Argentine exports which Mr. Cochran delivered to the Department.

In connection with the foregoing problem, the Embassy stated that Basque sailors on shore leave in Buenos Aires repeatedly report that goods coming to Spain from Argentina have been loaded on German trucks for delivery to Germany. The sailors condemn this practice not so much because of any ideological sympathies, but because of the need of their families for the supplies involved.

The problems raised by Argentine trade with the neutrals have been receiving the continuous study of the Department and other interested agencies, with a view to strengthening the navicert system through joint action with the British, or by our unilateral action, if such action should appear desirable.

4. Present Currency Exemption of \$250 for Travelers Coming into the United States

The Embassy was of the view that there was no substantial practical justification for allowing an exemption of \$250 for incoming travelers. Presumably that exemption has been granted in order to facilitate travel between the other American republics and the United States. However, once a traveler reaches the United States he can, without any serious inconvenience, cash travelers checks in order to defray his initial expenses within the United States. Moreover, as far as traveling expenses en route to the United States are concerned, they too can be defrayed by travelers checks, or indeed by the purchase of appropriate amounts of local currency of the countries through which the traveler passes.

It was felt that the high exemption would contribute to maintaining the black markets for tainted currency which are springing up over all Latin America. It is highly probable that travelers coming to the United States will purchase United States notes in those markets at heavy discounts and rely on the \$250 exemption. It is clear, of course, that such purchases defeat the purpose of United States currency controls by maintaining markets for tainted currency.

Enclosure No. 1
to report by Messrs. Cochran
and Meltzer on Proclaimed List
and Foreign Property Problems
in Argentina.

ANALYSIS OF RECENT ARGENTINE FINANCIAL
DECREES - CONFERENCE WITH OFFICIALS OF
THE CENTRAL BANK

From: Merle Cochran, Department of State

Bernard Meltzer, Department of State

Buenos Aires, Argentina

Date of Completion: June 25, 1942

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Reference is made to the Embassy's telegrams Nos. 1146, June 15; 1196 June 20; and Embassy's despatch No. 5481, dated June 17, 1942.

On June 19, accompanied by Mr. Gantenbein of the Embassy, we called on Dr. Grumbach at his invitation, in order to discuss Decrees Nos. 122, 712, 122, 713, and 122, 714 issued by the Argentine Government on June 15, 1942. (Copies and translations of those decrees were enclosed with Embassy's despatch No. 5481, of June 17, 1942). Dr. Grumbach lead us to the office of Dr. Prebisch, the General Manager of the Central Bank, where we had a long discussion concerning those decrees and a broad range of related topics with Dr. Prebisch, Dr. Gagneux (Bank's or the Argentine Government's delegate to the coming Conference of Central Banks in Washington), and Dr. Grumbach, the first advisor at that Conference.

This report will present an analysis of the decrees and a report of the conversations. Some of the material is presented herein, even though it duplicates, in part, the material already submitted in the Embassy communications under reference, because it was deemed desirable to incorporate in one document a complete analysis of the decrees and the conversations.

Mr. Cochran expressed his appreciation of the Central Bank's invitation to discuss the decrees frankly, referred generally to the cooperative attitude which the officers of the Bank had displayed, and to the fact that the U. S. Government would welcome the issuance of the decrees. He then stated that Mr. Meltzer would present an analysis of the decrees.

The first question raised was whether the decrees conferred the authority necessary for the effective control of funds and property which might be used for purposes inconsistent with Resolution V. In the course of the ensuing discussion, the following conclusions were drawn and the following points were made:

(1) Scope of Argentine Control Measures:

The Bank officials indicated that earlier decrees had conferred upon the Central Bank comprehensive authority to control the transactions, domestic and international, of Axis nationals and partisans in Argentina. Thus, they stated that Decree No. 110,790 (Embassy's Despatch No. 3865, January 13, 1942) confers broad powers to block funds in Argentina owned by Axis nationals or even by Argentine nationals carrying on pro-Axis activities. Article 1 of that decree provides as follows:

Article 1. During the present emergency, there are subjected to the control of the National Ministry of Finance transfers of funds abroad and internal movements of funds which may have a direct or indirect relation to such transfers by firms or enterprises managed or controlled by persons who have the nationality of a country at war or are domiciled in it. The American Republics are excepted from this provision.

Bank

Bank officials justified their construction of the decree on the following grounds: An Axis national within Argentina might make external transfers. Accordingly, the internal movements of his funds were related to external transfers and were under Decree No. 110,790, subject to blocking. The same relationship to external transfers, which would bring that decree into play, could, according to the Bank, be postulated whenever a firm or person in Argentina, irrespective of his nationality, was carrying on pro-Axis transactions.

The Central Bank admitted that this broad construction might appear tenuous, but stated definitely that it has accepted and would apply this interpretation. It should be observed, however, that the Bank officials themselves in the past have, according to Mr. Gantenbein, questioned whether Decree No. 110,790 conferred any power to control the funds of persons resident in Argentina. Moreover, Dr. Irigoyen, Under-Secretary of Finance, in a conference with Messrs. Gantenbein, Meltzer, and Towson, during the visit of the latter two to Buenos Aires, questioned the propriety of the foregoing construction.

It should be emphasized that the new decrees do not increase the authority to control the funds or assets of Axis nationals and partisans who are physically present in Argentina. Whatever authority to control exists derives from Decree No. 110,790. The new decrees, however, do appear to strengthen the authority to make the necessary investigations in connection with the administration of decree No. 110,790. Moreover, it is possible that the reference to continental solidarity in the preambles of the present decrees and to Resolution V in the press release may encourage and support a more liberal construction of the previous related decrees.

The Bank officials asserted that cash, securities and open accounts in the names of holders resident or domiciled in non-American countries are controlled under earlier decrees. This asserted aspect of Argentine controls was new to us and to Mr. Gantenbein. Neither the Bank nor the Ministry of Finance had put forth such a claim in the past, and the Embassy, the Department, and Treasury had been under the impression that the property in question was not, under decrees issued prior to June 15, subject to control. The Bank officials indicated that the control of these assets is tight. They agreed to submit a full memorandum* and the pertinent decrees which are not yet available, are studied, a full report will be submitted to the Department. Of course, the funds of Japanese resident or domiciled in Japan have, as has been previously reported to the Department, been blocked.

In response to an inquiry, the Central Bank officials stated that Decree 110,790 had already been invoked to block assets of firms within Argentina and agreed to furnish a memorandum setting forth the names of those firms, the basis for blocking, the effect of blocking on the firm's operations, and the standard followed in granting licenses.

The officials also stated that they had received from various Axis firms executed copies of the sworn statement, a copy of which

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*regarding the actual operation of the control. After this memorandum

is attached hereto as enclosure No. 1. (It is proposed to obtain from the Central Bank a list of firms which have filed the sworn statement and to collect all available information regarding transactions inconsistent with the purposes underlying that statement, for submission to the Bank).

It should be observed that whatever may be the scope of the past decrees referred to above, decree No. 122,714 appears to authorize control over a limited category of Axis assets in Argentina. The deficiencies in this control are discussed below.

The control over transfers abroad established by decree No. 110,790, which is apparently the primary basis of such control, is applicable only to transfers in "free exchange". (See press release relating to decrees enclosed with Embassy despatch NO. 5481, dated June 17, 1941). The control does not apply to transfers of funds blocked under compensation agreements. Pending the receipt and study of certain documents from the Central Bank and an examination of certain Embassy files, a report on the character and significance of these transfers cannot be made. It will be submitted as soon as possible.

We stated to the Bank officials that the decrees were gratifying as they appeared to be a basis for a more effective implementation of Resolution V, and that the specific reference to the Resolution V in the press release was particularly welcome. We pointed out, however, that the failure to distinguish between the Axis nations and the other non-American belligerents would inevitably reduce the enthusiasm with which the decrees will be received by public opinion, the press and the interested government agencies, in the United States. We also discreetly emphasized that the actual application of the decrees in specific cases would be the real test of the Argentine Government's policy and the Central Bank's administration. (At present it is far from clear whether the decrees actually involve a change of the attitude of the Argentine Government or whether they are merely a tactical move designed to assist the Argentine delegation to the Central Bank Conference in absorbing the criticisms of Argentina's past and present controls).

The Bank officials were informed that the Embassy, prior to the issuance of the decrees, had received instructions from Washington, which would be the basis for representations to the appropriate officials of the Argentine Government, regarding the past failure of that Government adequately to implement Resolution V. It was suggested to the Bank officials that such representations, especially while the administration of the decrees was in a formative state, might help the Bank in carrying out its desire to implement Resolution V by inducing the Argentine Government unequivocally to support such a cause. (This suggestion was made only after clearance with the Ambassador).

(2) Decree No. 122,712 and the Interventor System.

The following points were made to the Bank Officials:

(a) The interventors are authorized only to watch and report. They lack authority to prevent or suspend any transaction which appears undesirable or questionable to them. For an effective

system,

system, it is necessary for interventors to have such authority. Otherwise, under the decrees before remedial action can be applied, the reports must travel through an elaborate and time-consuming administrative process. In the interval, the undesirable or questionable transactions could be executed. Accordingly, it is essential to vest the interventors with the authority to stop or suspend questionable transactions pending an investigation by the interested agencies. The officials of the Central Bank replied that (1) a bill endowing the interventors with such authority was about to be introduced into Congress; (2) even in the absence of such legislation, a firm which executed a transaction which had been questioned by an interventor would thereby run the risk of having all of its assets immediately blocked by the Bank. The Bank officials were asked: (1) whether adequate legal basis for such blocking existed; (2) what were the practical consequences of blocking, and (3) whether, as a practical matter, the possibility of such blocking would deter a firm from consummating transactions questioned by an interventor.

The Central Bank officials stated: (1) Under Decree No. 110,790 there was authority to apply such blocking measures on the ground that the internal operations of the firm involved were related to internal operations. (See discussion under (1) above). (2) If a firm were blocked, all its financial activities would be suspended, pending authorization from the Central Bank. (3) Pro-Axis firms were in such a weak position politically that they probably would not complete transactions questioned by interventors. We inquired of the Central Bank officials whether the Central Bank would readily block in the circumstances under reference, and the reply was in the affirmative.

We also pointed out the following to the Central Bank officials:

(b) Decree No. 122,712, even if it is supplemented by the contemplated bill, apparently places upon interventors the burden of detecting undesirable transactions. In view of the sophisticated devices for concealing undesirable transactions which the Axis firms have contrived, detection would be extremely difficult. Practices of pro-Axis firms, such as those of the Mottebahms and General Aniline & Film, were referred to in a general way.

(c) The interventors' task would be facilitated by blocking all financial operations of firms in which interventors would be placed, and permitting those firms to carry out only licensed transactions. Since those firms would presumably be the particularly undesirable ones, the administrative burdens involved would be justified. These suggestions were favorably received. (In the near future, it is hoped that the Central Bank will indicate the criteria upon which intervention will be based and the subject firms).

(d) It is of paramount importance both to establish standards to guide the interventors in their detection of undesirable transactions and to select men equipped with the ability and

training

training necessary to deal effectively with the deceptive devices which the Axis firms have contrived.

The officials of the Central Bank agreed and stated that they would seek suggestions from the United States representatives as their controls evolved.

(e) The officials were asked about the scope of Article 1 of Decree No. 122,712, which authorizes the assignment of interventors or observers in any concern which belongs to belligerent non-American foreigners or whose activities are in any form connected with non-American belligerent foreign countries or citizens". They replied that this clause was very comprehensive and that it was clearly applicable to an ostensibly Argentine firm which was suspected of engaging in activities prejudicial to hemispheric defense.

(f) In connection with the discussion of the interventor system, the Bank officials inquired regarding the essential elements of plans to reorganize listed firms as a basis of deletion. This request implied, of course, that the assignment of interventors might facilitate deletion. They emphasized their desire to keep at a minimum the number of employees discharged in the course of such a reorganization because of the scarcity of skilled employees and because of the political pressure which would be exerted both to avoid discharges of certain employees and to fill resultant vacancies. We replied that the elements of effective reorganization would vary from concern to concern. However, the elements of reorganization set forth in the Department's instruction of December 9, 1941, were presented as the general basis for deletion.

(3) Decree No. 122,714:

The following points were made to the Central Bank officials:

(a) Article 1 was not sufficiently broad because (1) it was limited in intangible assets; (2) to formal rather than beneficial ownership; and (3) to persons who were resident in Axis territory rather than to Axis nationals or partisans resident in Argentina. We emphasized that dummy accounts had been set up by Axis nationals and partisans in the United States and in the other American Republics, and that such accounts had undoubtedly been set up in Argentina. We suggested that for the foreign property census to achieve its purpose - determination of property held by or for Axis partisans - it should be based on beneficial ownership and should cover all property held directly or indirectly by or for Axis nationals or partisans wherever resident.

The Central Bank officials replied that such a census would involve great administrative burdens and would not be politically possible since it would be applicable to relatives of powerful political personalities. We replied that a useful beginning could be made by requiring, in addition to the census envisaged by Article 2, a declaration of all property held for or by specified firms or persons, which the Bank and other interested agencies believed were pro-Axis; and of all property which was being held directly or indirectly for a person known or suspected of being an Axis partisan by the holder of the property. This suggestion was favorably received.

(b) Article 3- In reply to our inquiry, the Bank officials

stated

stated that the authorized banks under Article 3 included some German and Axis banks. We, of course, pointed out that this meant that Axis banks would be charged with supervision of Axis assets and that this was anomalous from the standpoint of Resolution V and would not be understood by the interested agencies of the United States Government or by the American public. The reply was that all banks were effectively controlled by the Central Bank and that the position of the Axis banks was so precarious politically as to insure their compliance with the regulations which the Central Bank would issue. We reiterated that this feature of the Control would not be found comprehensible in the United States.

(g) In reply to another inquiry regarding the effect of transferring assets to an authorized bank, pursuant to the provisions of Article 3, the officials stated that property which fell into the category covered by Article 2 (which is, of course, limited), was already blockable under the decrees referred to in Article 1 of Decree No. 122,714. (See discussion under item 1 above). This information was furnished at the end of the conference and there was no opportunity to discuss the practical application of the Control, if any. The officials of the Central Bank agreed to submit copies of the decrees providing for such blocking and a memorandum showing scope and practical effect of such blocking and the circumstances, if any, under which the assets were unblocked.

(4) In the course of the conference, the following matters were also discussed:

(a) Service of debt (payable in Swiss francs) owed by the Province of Buenos Aires to Axis nationals.

The Bank officials emphasized the reluctance of the Argentine province to default on any of its foreign obligations, and asked for suggestions by which the debt toward Argentina could be preserved without benefitting the Axis. We replied that Argentina indeed had an enviable record of fulfilling its debt obligations. We emphasized, however, that the requirements of humanitarian conditions should be carried out literally, and that, in any event, arrangements could be worked out which would protect the province's credit standing without benefitting the Axis. Thus, we suggested that payments could be made to an account effectively blocked in Argentina. Central Bank officials inquired whether there would be any objection to making such payments in gold so blocked, and the reply was in the negative. We emphasized the importance of the United States Government attaching to keeping Swiss francs out of German hands. We also observed that the recent demands providing for control of remittances abroad would be received with considerable scientific, by various agencies in Washington and by public opinion in the United States so long as an Argentine province - which in the public imagination was considered the national Argentine Government - was permitted by the monetary authorities to continue to make remittances to the Axis in order to service debts or for any other reason.

(b) Remittances to Germany and European Neutrals.

In reply to an inquiry from the Bank officials, an explanation was presented with respect to the United States policy of prohibiting all remittances to Axis territory and of carefully controlling remittances to European neutrals in order to insure

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that such remittances would not involve benefits, direct or indirect, to the Axis. The Central Bank officials inquired whether our Government went beyond the certifications and other assurances given by the certifying authority under the general licenses. It was replied that it would be natural for the United States Government to check such certifications with evidence from all available sources.

The Bank officials asked specifically whether there was any objection to family remittances to Axis territory which resulted in blocked peso accounts credited to German banks in Argentina, which accounts might be unblocked only in order to furnish the German Embassy with its maintenance expenses. It was explained that such remittances were contrary to Resolution V providing for the severance of all commercial and financial relations with the Axis. It was also explained that such remittances, by permitting the Axis to support its Embassy here through what were in effect local peso contributions to the Axis, defeated the United States measures designed to reduce the foreign exchange of the Axis.

The various documents which the Bank officials promised to submit are not yet available. They will be the subject of separate reports after they have been received and studied. After such a study we shall attempt to clarify the many questions which still remain concerning the nature of the assets subject to control and the character of the controls past and present. We shall also inquire whether any expropriation measures are contemplated. We need not emphasize that, in the meantime, no judgment can be made on the question of whether the decrees foreshadow an effective implementation of Resolution V by Argentina.

Enclosure No. 2
to report by Messrs. Cochran
and Meltzer on Proclaimed List
and Foreign Property Problems
in Argentina.

SWORN STATEMENT

Buenos Aires,

In accordance with the provisions of Decree No. 110, 790, of January 8, 1942, we hereby declare on oath, that from this date we will not effect, without previous authorization from the Banco Central de la República Argentina:

- 1.- Transactions of any kind with real or juridical persons resident or domiciled outside of the American Continent;
- 2.- Direct or Indirect transfers of funds on our own account or for the account of third parties, to countries which are not of the American Continent;
- 3.- Movements to registered in the accounts in cash or securities of any kind, opened in the books of this enterprise in the name of persons resident or domiciled outside of the American Continent;
- 4.- The fulfilment of orders or instructions issued abroad, which do not pertain to normal and current operations of this enterprise;
- 5.- Any of the following payments:
 - a) for political and proselyting purposes;
 - b) to newspapers or magazines, even though they may relate to contracts concluded previously to the date of the present statement;
 - c) connected with propaganda made through radio broadcasting stations;
 - d) to official agencies of foreign governments or to any kind of organization or entity foreign to the commercial activities of this enterprise.
- 6.- Any other movement of funds on our own account or for the account of third parties, not directly or exclusively connected with the strictly ordinary commercial operations of this firm.

Neither will we for any reason take part in the recovery, collection or subscription of funds whose destination

has

has not previously been authorized by the national authorities or by the Banco Central de la República Argentina.

With regard to the collection of funds for social aid effected since the month of October 1940 until this date, we pledge ourselves to present to the Banco Central, within the term of five days, a list of the persons who have supervised the collections in this enterprise.

Furthermore, we pledge ourselves to place at the disposal of the abovementioned Institution, all the documents which may prove the lawfulness of the movements of funds which we may effect from this date.

Under separate cover we report regarding accounts opened in the name of this firm in the local banking institutions. We pledge ourselves to inform the Central Bank of the opening of any other account and of the closure of existing accounts.

.....
Signature

Firm:.....
Domicile:.....

We certify that the signature placed above is the same as that registered in our books.

.....
Date

.....
Signature and seal of
the authorized institution.

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 355

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

1. NAVAL

Yesterday evening a heavily escorted enemy ship probably a raider was sighted and reported by a Naval aircraft East of the CHERBOURG Peninsula. At one A.M. today a force of 5 Hunt class destroyers and 3 motor torpedo boats intercepted the enemy. The raider was sunk and 2 enemy torpedo boats were left sinking. Another force of our destroyers engaged 4 minesweepers and sank one of them. A Russian patrol vessel was sunk by aircraft off NOVA ZEMBLA on the 11th.

2. MILITARY

MADAGASCAR. Cancel OPTEL No. 353 and substitute: Our troops have crossed the MANIA River and cleared a French position 8 miles north of AMBOSITRA. Our casualties were slight.

RUSSIA. Local Russian successes gained in September in the LENINGRAD area south of LAKE ILMEN and near RZHEV have been largely nullified by German counter measures. The Germans are making very slow progress toward TUAPSE.

3. AIR OPERATIONS

WESTERN FRONT. 12th/13th. WISMAR - About 85 tons of bombs were dropped on the town and the Dornier factory. Cloud, ground haze and extreme darkness made identification very difficult, but a large fire was started by which the factory buildings could be seen.

13th. Three enemy aircraft were shot down, one probably destroyed and another damaged over the Bay of JERSEY. One Whitley is missing. A German medium bomber was probably destroyed off the NETHERLANDS.

13th/14th. 288 bombers were sent to KIEL. 9 are missing. Preliminary reports indicate a concentrated and successful attack.

MEDITERRANEAN. 10th/12th. Wellingtons attacked a convoy north of TUNIS and hit a destroyer, another ship was seen to sink although it was not seen to sink.

EGYPT. 12th. U.S. Fortresses obtained a probable hit and many near misses on a large ship at TOBRUK. Direct hits were made on a train near CAPUZZO and three Savoia Marchetti fighters destroyed 20 railway trucks and 4 petrol lorries. Two enemy aircraft were destroyed and one damaged, one Blenheim is missing.

MALTA. 12th/13th. About 17 enemy aircraft approached the Island but caused no serious damage. 2 were destroyed. 13th. 107 Spitfire sorties were flown against 219 enemy sorties, bombs fell wide of LUQA aerodrome and caused no damage. 19 enemy aircraft were shot down, 7 probably destroyed and 20 damaged. One Spitfire is missing.

THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

October 15, 1942

MEMORANDUM ON CABINET MEETING

The President said there was nothing new except that apparently there was a hot time in the Solomon Islands. Our forces were being pushed to the utmost. The enemy is making every effort to land reinforcements to dislodge our troops from the Guadalcanal area. He said, however, that we had had no news of any consequence since Wednesday.

Mr. Welles had nothing to report.

I reported that it seemed we might get a conference report on the tax bill by the end of the week and that possibly the two houses would act on it Monday or Tuesday so that in all probability the tax bill would be on the President's desk about the middle or the end of next week. I called his attention to the fact that we had submitted to him a statement which should be issued at the time he signs the bill. He said yes, he had received it, but while he had intended to read it the night before, he didn't get around to it. He would try to read it in the next day or two. I told him if there was any further information he wanted or if he wanted it rewritten in any other form, we would be glad to do it.

Mr. Stimson discussed the hearings before the Committees in Congress on the 18 - 19-year-old draft. He said the situation looked right good on the Hill for getting early action on the bill. The President asked Byrnes and Wallace what they thought the Senate would do. They both agreed it probably would pass the Gurney bill and then in conference switch over to the House bill. It will be a matter of pride in passing the bill introduced by the Senator in the first instance, but agreeing to what was generally wanted in conference. Justice Byrnes said the only question he had heard about the drafting of boys of this age was one concerning college students. He raised the question



as to whether college students should not be allowed to continue their courses. The President and Secretary Stimson both agreed that that could not be done because we would be charged with discrimination - a boy who could afford to go to college would be exempt, whereas the boy who couldn't afford it would be in the army. It was agreed by all that they should not be exempt. Madame Perkins raised the question as to whether there should not be some provision in the regulations exempting apprentices. It was agreed that we should continue our apprenticeship training, but there should be some change in the rules of the unions. It didn't make much sense to compel a youngster to spend four years learning a simple trade when he could probably learn everything about it in six months.

The President then said he would like for Secretaries Stimson and Knox and Paul McNutt, head of the Manpower Commission, to look into the matter of using college buildings and possibly the older college professors. There are just literally hundreds of small colleges throughout the country that had small buildings that would become vacant when they start to draft the 18 - 19 year old boys and instead of building new buildings to house the youngsters, we might very well use these empty college buildings.

Mr. Fahy, for the Attorney General, discussed the Italian situation. He said it was having a wonderful effect, apparently, in Italy and that he thought Hitler had even taken cognizance of it because shortly after the Attorney General's announcement Hitler sent one of his representatives down to see Mussolini. Mr. Welles said the Greek and Yugoslav Ministers had been in about the matter, but after explaining it to them he thought they were pretty well satisfied and that they might even use it for propaganda in their countries. He said he didn't think there was anything to worry about from this center.

Postmaster General Walker told a story regarding the German propaganda machine's interpretation of the banning of the Police Gazette from the mails. They announced over the radio that President Roosevelt was

having a lot of trouble with his police forces throughout the country and it was necessary for him to ban the Police Gazette from the mails.

The President then raised the question as to what might be done with Time and Life Magazines. What they were doing was not in the interest of the war effort. He thought that the Time letter on India was about the worst thing that could have happened. He wanted someone to look into it, but it was not quite clear as to who should do it.

Secretary Knox discussed in a general way the submarine situation. He said that submarines have practically left our Atlantic Coast line, but they were quite active south of Trinidad, around the Cape Good Hope and up around Freetown, Africa. He said there were probably more submarines in the Atlantic now than ever before, but they were not on our coast. Somebody asked him about the submarine situation on the Pacific Coast. He said he did not think it was serious as he thought the Japanese submarines were engaged elsewhere.

Secretary Wickard discussed at some length the agricultural labor problem, which apparently had been turned over to him to handle for the Manpower Commission. There was quite a discussion as to what should be paid for day labor when the labor for certain parts of agriculture are paid on a piece basis. In the case of cotton, they were paid so much per pound for picking and they were thinking of paying \$3 a day minimum. I believe this is the rate that has been established for the imported Mexican laborers.

Secretary Jones gave some figures on consumer debts. He said they were down substantially since last July and the progress made in this connection was quite encouraging.

Secretary Perkins had nothing.

General Fleming had nothing.

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Mr. Landis talked at some length about the various campaigns inaugurated by the Government. He referred to the one just announced regarding the sale of all tires in excess of five owned by individual car owners. He said that that campaign apparently was started in yesterday morning's papers and his organization knows nothing about it and yet they are expected to explain to the populace in every area what it means. He would like to do something to have it understood that these campaigns should be mapped out weeks before they are announced so that all of his people, down to the last man, should have the printed material and be educated on them. He thought there was a great deal of confusion caused by a lack of preparation.

He called attention to another situation in Lower California. Two Mexican towns have gambling places apparently right on the border which are a blaze of lights and which give an indication many miles at sea as to the location of San Diego, which isn't many miles to the north and an important war center. He wondered if something could not be done with the Mexican Government to get those towns to black out at night. Secretary Welles said he would take the matter up and see what could be done.

Justice Byrnes had nothing to report.

The President asked Vice President Wallace what he thought as to how soon we might get a manpower bill through the Congress. He said he had talked to Mr. Halsey, Secretary of the Senate, who thought it might be possible to get it out the last part of next week. Justice Byrnes did not think there would be any trouble in the Senate. He thought there might be some trouble in the House because of the lack of quorum. He understands that many of the Congressmen have already gone home to campaign for election and even some of the Senators are getting rather nervous about this, particularly those who are up for reelection.

The President then brought up two other matters; one, the question of having the organic act for Puerto Rico amended at this time. He said there was a great movement on foot down there to get it changed so that

the people of Puerto Rico could elect their own Governor. The President raised the question as to whether we should do it during war-time. Secretary Welles said he was not familiar with the local situation in Puerto Rico but he thought that it would have a tremendous effect throughout the world if we were to allow Puerto Rico that privilege at this time.

The other matter brought up by the President was the indiscriminate cutting in our private forests. He said there was a tremendous destruction of young growth going on because of carelessness of people who operate saw mills. He wondered if Secretary Wickard couldn't take some action on the matter and submit to him some proposal to control this situation. Secretary Wickard said he had already given a great deal of thought to it and would submit something to him within the next few days.

sub B

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TREASURY DEPARTMENT
OFFICE OF THE UNDER SECRETARY

To MR. BELL

Mr. Sullivan has nothing for Cabinet.

Mr. Paul suggests that you ask the President about the message that went over re the Joint Committee obtaining information; if there is any more work he wants the Treasury to do on it. He thinks the conference committee will probably end this week, maybe tomorrow. Copy of message is attached.

Mr. Baker will send in market sheet and clippings at 1 o'clock.

Arrangements have been made for Secret Service escort through the tunnel.

Under Secretary.

....., 19.....

C
O
P
Y

October 12, 1942

My dear Mr. President:

In accordance with our conversation yesterday I am enclosing a draft of a statement on section 512 of the Revenue Act of 1942 which you may wish to have before you when the Act is signed. The draft states the Presidential interpretation of the section so that it does not violate the constitutional principle of the independence of the Executive.

Sincerely yours,

(signed) H. Morgenthau, Jr.

The President,
The White House.

Enclosure

The approval of a bill by the President involves performance of a high constitutional duty to consider whether the proposed legislation is authorized under the Constitution of the United States. In execution of that duty, I have carefully examined the Revenue Act of 1942 to which I have affixed my signature. There is one section of that Act which raises constitutional questions of such gravity and of such fundamental importance in our theory of government that I feel constrained to explain the interpretation of that section on the basis which I have approved it. I am apprehensive that silence might be construed as acquiescence in a different interpretation.

I refer to section 512 of the Act, which provides:

"Chapter 48 (relating to joint committee) is amended by adding at the end thereof the following new section:

"SEC. 5012. ADDITIONAL POWERS TO OBTAIN DATA.

"(a) The Joint Committee on Internal Revenue Taxation or the Chief of Staff of such Joint Committee, upon approval of the Chairman or Vice-Chairman, is authorized to secure directly from the Bureau of Internal Revenue (including the Assistant General Counsel for the Bureau of Internal Revenue), or directly from any executive department, board, bureau, agency, independent establishment or instrumentality of the Government, information, suggestions, data, estimates and statistics, for the purpose of making investigations, reports and studies relating to internal revenue taxation.

"(b) The Bureau of Internal Revenue (including the Assistant General Counsel for the Bureau of Internal Revenue), executive departments, boards, bureaus, agencies, independent establishments and instrumentalities are authorized and directed to furnish such information, suggestions, data, estimates and statistics directly to the Joint Committee on Internal Revenue Taxation or the Chief of Staff of such Joint Committee, upon request made pursuant to this section."

Had the section been before me as a separate bill, I should have been inclined to return it without my approval to the House in which it originated. However, since the rest of the Revenue Act of 1942 contains legislation necessary to the prosecution of the present war, and inasmuch as section 512 may, I believe, be so interpreted as to be constitutional, I have signed the bill.

It is well settled that, under the Constitution, the executive branch of the Government is independent of the legislative branch, and the latter has no right or authority to require the executive branch to furnish to the legislative branch information, papers, and data, the furnishing of which the President deems would be inconsistent or incompatible with the public interest. That has been the position of the Executive branch of the Government in the administrations of Lincoln, Cleveland, and Wilson. There is no need at this time to review the numerous precedents which support that proposition. It is sufficient to point out that an authoritative statement of the doctrine was made by an agency of the House of Representatives. I refer to the report of the House Committee on the Judiciary in the case

of George F. Seward, Minister Resident in China ((1879) H.R. Rep. No. 141, 45th Cong., 2d Sess.). The House Committee on Expenditures in the State Department procured the issuance of a subpoena duces tecum directing Mr. Seward to produce certain books. That he refused to do, and the matter of his alleged contempt was referred to the Committee on the Judiciary. In its report, the Committee on the Judiciary said:

"If, as the Committee on Expenditures in the State Department believe, these are public books, then it seems very clear to your committee that that committee have mistaken the proper procedure in a court of justice. Their subpoena duces tecum should be issued to the highest executive officer having charge, custody, and control of such public records. Since the case of Burr, where a subpoena duces tecum was demanded of the court by the defendant against Thomas Jefferson, then President of the United States--and the right to have such writ issued was determined by the Chief Justice--to have a certain letter, known as 'the Wilkinson letter,' then on the files of the State Department, produced, the usual course has been for a committee of Congress to direct a letter to the head of the proper department, or the House, by resolution, to call upon the proper executive officer, to produce the same, leaving that officer to get possession of the books from his subordinates by any lawful means. But it may be asked, cannot the House direct a subpoena to any executive officer of the department to produce any books actually in his possession in the course of official duty, and bring them before the House for the purpose of information or to aid an inquiry? Certainly that can be done, and, in proper cases, ought to be done; but, in contemplation of law, under our theory of government, all the records of the executive departments are under the control of the President of the United States; and, although the House sometimes sends resolutions

to a head of a department to produce such books or papers, yet it is conceived that, in any doubtful case, no head of department would bring before a committee of the House any of the records of his office without permission of, or consultation with his superior, the President of the United States; and all resolutions directed to the President of the United States to produce papers within the control of the Executive, if properly drawn, contain a clause, 'if in his judgment not inconsistent with the public interest.' And whenever the President has returned (as sometimes he has) that, in his judgment, it was not consistent with the public interest to give the House such information, no further proceedings have ever been taken to compel the production of such information. Indeed, upon principle, it would seem that this must be so. The Executive is as independent of either house of Congress as either house of Congress is independent of him, and they cannot call for the records of his action or the action of his officers against his consent, any more than he can call for any of the journals and records of the House or Senate.

"The highest exercise of this power of calling for documents, perhaps, would be, in the course of justice, by the courts of the United States, and the House would not for a moment permit its Journals to be taken from its possession by one of its assistant clerks and carried into a court in obedience to a subpoena duly issued by the court.

"The mischief of the House calling for documents might easily be a very great one. Suppose the President is engaged in a negotiation with a foreign government, one of a most delicate character, upon which peace or war may depend, and which it is vitally necessary to keep secret; must he, at the call of the House, or of any committee of the House, spread upon its records such state secrets to the detriment of the country? Somebody must judge upon this point. It clearly cannot be the House or its committee, because they cannot know the importance of having the

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doings of the executive department kept secret. The head of the executive department, therefore, must be the judge in such cases and decide it upon his own responsibility to the people, and to the House, upon a case of impeachment brought against him for so doing, if his acts are senseless, malicious, willfully wrong, or to the detriment of the public interests."

It is clear, therefore, that legislation which required the executive branch to furnish information to the Congress irrespective of whether the President believed that such furnishing was compatible with the public interest would be unconstitutional as an unauthorized interference with the independence of the executive branch. Accordingly, I do not interpret section 512 as permitting the Joint Committee on Internal Revenue Taxation to require, for example, the Bureau of Internal Revenue to produce information, suggestions, data, estimates, and statistics, regardless of whether the President or the Secretary of the Treasury deems the furnishing of such matter inconsistent and incompatible with the public interest.

I do not regard the use of the word "directly" in section 512 as an indication that the President, or the head of the department or independent establishment or agency, is not to be accorded an opportunity to determine whether, in his judgment, it would be incompatible and inconsistent with the public interest to furnish the information, suggestions, data, estimates, and statistics referred to in the section. Under the Constitution, it is for the

Chief Executive, and those heads of departments or independent establishments or agencies through which he acts, to determine when the furnishing of information would be inconsistent with the public interest. That is not a function of subordinate officers or employees of the executive branch. Legislation that would seek to substitute the judgment of the subordinate for that of the Chief Executive in that regard would be clearly invalid under the Constitution. It is my understanding that the word "directly" is used in section 512 to enable the Joint Committee, when it so desires, to carry on dealings directly with such subordinate agencies or officials as are principally responsible for the information, data, statistics, estimates, or suggestions in which the Joint Committee may be interested, leaving to the subordinate agencies or officials the responsibility of securing approval of the President or the head of the department or independent establishment or agency.

I do not wish to be understood as indicating that material should not be furnished to the Congress. Information, statistics, and data in possession of the executive branch are often necessary to the legislative branch. It is my policy that in every case where the furnishing of such information, statistics, and data is not clearly inconsistent with the public interest, it

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should, on request of either House of the Congress or its committees, immediately and without delay be furnished. Doubts should be resolved in favor of the Congress. Only in that way can the two branches of the Government best perform their duties.

My approval of section 512 is predicated on the interpretation of section 512 as stated herein.

United States Senate

CONFERENCE OF THE MAJORITY

October 15, 1942

Dear Henry:

Let me thank you for your very kind letter of October 10th.

It was sort of a forlorn fight from the beginning but I felt that it ought to be made. I still think I was right about it and I fervently hope that the amendment may either be eliminated or so modified in conference as not to be harmful.

With every good wish, I am

Cordially yours,



Honorable Henry Morgenthau, Jr.

Secretary of the Treasury

Washington, D. C.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE October 15, 1942

TO Secretary Morgenthau

FROM Mr. White

HW

There is attached a list of memoranda and reports prepared in the Division of Monetary Research during July, August and September, 1942.

Memoranda Prepared in the Division of Monetary Research
during July, August and September, 1942.

Preliminary Report on the Financial Administration of
Occupied Territory.

Report on Canada's Dollar Position as of September 1942.

Draft Notes of U.K. and Australia on Terms of Reciprocal
Aid.

Reports on Expenditure Rationing.

Various memoranda with regard to request of the Moving
Picture Industry for release of its Funds blocked in U.K.
and Australia.

Memorandum on: Proposal to restrict wage increases at this
time by Executive Order.

Various memoranda with regard to status of Stabilization Loan
to China.

Summary of Stabilization Fund's gold transactions with foreign
countries and B.I.S. during month of June.

Lending Silver to Foreign Government for Coinage and War
Purposes.

Suggested procedure for international consultation on a
Stabilization Fund and a Bank for the United and Associated
Nations.

Dollar Relief on British Contracts (with draft letters to
Sir Kingsley Wood).

Salient data on Bolivia.

Proposed Mexican Tax on Silver Exports.

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A New Program for Inflation Control and Government Borrowing.
The W.P.B. Silver Import Order.

\$2.50 Denomination Notes.

Status of Present Gold Purchase Agreement with Russia.

Treasury Proposal to Establish a Quarterly Inter-American Bulletin.

Program for control of U.S. currency bills in Mexico.

Japanese financial measures in occupied areas outside China.

Proposal that Treasury add to its security offerings a special bond without interest.

Comments on clipping "Dollar Falls in Ecuador".

Official British statements on international financial organization after Armistice.

1941-42 profits of U.S. corporations.

Value of U.S. dollar currency bills in Europe and North Africa and Latin America.

British sale of dollar securities since 1940.

Argentina supplies to the Axis through neutral European markets.

Memorandum for the President: What happened to silver for use of domestic silversmiths in this country.

Need for Savings in U.S. Armed Forces.

Should American troops be allowed to purchase British Savings Securities?

Progress Report of the Canadian-U.S. Joint War Production Committee.

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Description of Census of American-owned property in foreign countries.

Agenda for meeting of September 4th in the Secretary's office, re: Problems during the initial period of occupation.

Report by Mr. Taylor on the Stabilization Board of China, Hong Kong Branch.

Proposed Reduction in Import Duty on Beer.

Lord Keynes' Plan for Post-War Monetary Control.

Conditions in Hong Kong.

Agenda for meeting in the Secretary's office on September 15 with regard to Canada.

Economic Conditions in China.

Exports of Petroleum and Scrap Iron to Japan.

Various memoranda on War Financing.

Proposed sale of Gold to Cuba for U.S. Currency in Habana.

Investment by Government of China of \$200 million in U.S. Treasury obligations.

Suggested fiscal program for the next five years.

Individual Saving in 1941 and 1942.

Chile's current foreign exchange position.

Japanese War Savings.

Anti-Mexican attitude of customs official at Calexico.

Provision of Silver to Meet the Industrial Needs of Friendly Countries.

List of Mexican securities for registration purposes.

Comments on memo "Tax Program for Averting Inflation".

U.S. Domestic Exports of Petroleum and Production.

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Cooperation of The Chemical Bank with the German Government.
Priorities on gold-mining equipment for Peru.
The Proposal to tax idle bank deposits.
Peruvian Proposal for a Silver-Purchase Agreement.
Financial Arrangements with the Swiss.
Progressive Compulsory Saving and Control of Inflation.
Waldrop's article in the Times-Herald on Silver and Inflation.
Deposit Restrictions in the Present Banking System.
Meetings of representatives of the British and various refugee governments in London concerning post-war currency and related problems.
Composition and functions of the Financial Section of the U.S. Embassy in London.
Post-war discussions in England.
General considerations and criticisms concerning the U.S. Savings Movement.
Double Taxation, U.S. and U.K.
Annual interest charge on the British National Debt at present compared with highest comparable figure during or after the last war.
Borrowing rates of Belligerent Nations for purpose of Financing War Expenditures.
Negotiations in London on the transfer of legacies from the United Kingdom to American beneficiaries.
Recent Developments in Brazil.
Mexican Public Finance.
Possible Purchase of Bank of Mexico Stock.
Current Economic Situation in Mexico.

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Proposal to Abolish Exchange Control in Chile.
Programs and Treatment of Paraguayan Visitors.
Dollar currency control in Costa Rica.
General training program for Latin American Economists.
Recent Developments in Honduras.
Argentina's foreign exchange position and gold purchases.
Cuban Banking Bill as Submitted to Congress.
Status of Mexican Trade Agreement Negotiations.
Discredit of U.S. Government in Honduras.
Insurance Rates on Latin American Trade.
Editorial Comments on Cuban Central Bank Project.
Japanese Experience with Invasion Currencies.
Recent Changes in China's Financial System.
India.
Production in India.
China Acts to Eliminate Foreign Controls.
Purchasing Power Parity Rates of Chinese Yuan.
Stabilization Board and Central Bank Application.
Current Trade Between Japan and Germany.
Preliminary Suggestion on Proposal of Special Rates of
Chinese Yuan for Special Purposes.
Chinese Exchange Rate Problem.
Latest Developments Regarding Chinese Maritime Customs.
Puppet Chinese and Foreign Funds Control.

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Summary of "China's Turkistan-Siberian Supply Road".

Recent Financial and Monetary Developments in Free China.

Comparison of data on short-term foreign funds in the United States reported on the revised capital movement forms with that reported on the old B-1s.

War Production and Civilian Employment.

Government Financed War Industrial Facilities.

Progressive Compulsory Saving and Control of Inflation.

Studies of Income Distribution in the United States.

A Fiscal Policy for the War Years.

Various Memoranda on conversations with representatives of Latin American countries with regard to currency problems.

First Report of Argentine Committee.

Initiation of a program to effectuate Resolution III of the Washington Conference.

Suggestion that currency bills of \$500 and over be called in and kept out of circulation.

Transfer of Silver from Treasury to Defense Plant.

U. S. Commercial Company planning a Purchase Program in Iran.

British plan to eliminate "old" or "free" sterling market here.

Meeting with Silver Producers, August 14, 1942.

Equitable rate of exchange to be used in clearing arrangement with Hungarian Government.

Salvadoran silver imports.

Stabilization Fund's gold transactions.

Estimated industrial consumption of silver in 1941 and 1942.

Inquiry from State Department on South African Gold.

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Dollar Position of the Dutch West Indies.

The advantages and disadvantages of using currency as the license to purchase under a system of expenditure rationing.

Solving some specific rationing problems through the mechanism of expenditure rationing.

Lend-Lease Exports to South Africa.

Lend-Lease and South Africa.

British estimates of their dollar deficit.

British dollar receipts from American troops abroad.

Recent developments in dollar relief to Britain.

Transfer of New Jersey Powder Company contract.

Reports by Mr. Casaday on British War Savings Campaign.

British Post-War Reconstruction.

Canadian Budget Proposals for 1942-43.

Canada's U. S. Dollar Position and Prospects.

Summary of recommendations made by the American Technical Mission to India.

Developments in India endanger United Nations' War Effort.

Explanation of increased shipment of U. S. dollars to the Dominican Republic and Haiti.

Discount on U. S. dollars in Chilean currency market.

Explanation of increased shipment of U. S. dollars to the Dominican Republic and Haiti.

Comments by U. S. Embassy in Buenos Aires on May 12, 1942 memoranda by Treasury Department on Foreign Funds Control by Argentina.

Programs and Treatment of Paraguayan Visitors.

Comparison of the proposals for an International Clearing Union, and a U. S. Stabilization Fund and a Bank for Reconstruction and Development of the United and Associated Nations.

Ability of Central Bank of Argentina to accumulate foreign currencies and exchange, and deposits in foreign currency held by Argentine banks.

Chilean Economic and Political Conditions.

The Australian War Programme.

Canadian Income Tax in 1942 for Salary and Wage Earners.

Palestine Finances and the War.

Lend-Leasing Treasury Silver to Foreign Governments.

Payment of wage increases in War Bonds.

Nazi Exploitation of Europe.

Clothing coupon banking system in England.

Some points in British Ministry of Economic Warfare memorandum of July 8, 1942, on French banks.

Possible compromise procedure for international consultation on Stabilization Fund and Bank.

Equipment needs of the Peruvian gold mining industry.

Liberian Currency Problem.

Monetary and Fiscal Programs Recommended by Thirty-Five Members of the Economists' National Committee on Monetary Policy.

Change in member bank reserve position and Federal Reserve Bank holdings of U. S. obligations from November 5, 1941 to August 5, 1942.

Lowering Reserve Requirements for Central Reserve City Banks.

Recent Increase in the Volume of Treasury Bills and their Effects on the Bill rate.

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Suggestions for lessening the threat of inflation through increased bond sales and other means.

Notes on French North Africa.

Alcohol Imports.

Various memoranda with regard to Proposal for a United Nations Stabilization Fund and Bank.

Emergency Relief for Liberated Areas.

Economic problems of a long and indeterminate war.

Chronology of monetary standards before 1929.

Draft report on Canadian-United States relations in the post-war period, prepared by the Joint Economic Committees.

Bibliography on reparations, 1918-1939.

Economic conditions in Great Britain during June.

Coal rationing in Great Britain.

The Savings Program in Great Britain during June.

Wages, Prices, and Manpower in Great Britain.

How expenditures of the United Kingdom were financed in the Quarters ended June 30, 1942 and 1941.

Distribution of National Income and the Income Tax in Great Britain, 1938-39, 1941-42.

New Zealand Budget - Results of 1941-42 and Estimates for 1942-43.

Australian Budget Speech.

Post-war currency problems in European countries occupied by the enemy.

Rations and Supplies in the United Kingdom.

Pay increase for British Armed Forces.

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Disposal of Imports of U. S. currency.

Suggestions for improving the use of censorship intercepts in Treasury with emphasis on Foreign Funds Control.

A suggested program for acquiring Swiss francs at par, and in sufficient volume, against blocked dollars.

United States assets and liabilities of blocked countries.

Reports of Foreign Funds Control Operations.

Remittances to France During the Period April-July, 1942.

Foreign Funds Applications Filed in Puerto Rico from May 24 to August 1, 1942.

State Department proposal to extend generally-licensed status to blocked nations in Latin America.

Dumping Cases Completed:

Wool Rugs from France.

Footwear, in chief value of leather, from Canada.

Vegetable extract (Nubeg) from England.

Current Reports in addition to the above:

Ten-day report on Exports to Russia, Free China, Burma and other blocked countries, as reported to the Treasury.

Weekly report on transactions in domestic stocks (compiled from S.E.C. figures).

Monthly Table: "Balances and Earmarked Gold Held for Foreign Account."

Monthly Table: "Net Capital and Gold Movements."

Material for monthly Treasury Bulletin.

Daily Report on Foreign Exchange Rates, Gold and Silver.

Weekly Balance Sheet of the Stabilization Fund.

Monthly Report on Status of the Stabilization and Gold Agreements.

Monthly Report on Summary of the Gold Transactions (an analysis of earmarked Gold, and Gold Stock of the United States).

Monthly Report on Expenses and Earnings of the Stabilization Fund.

Quarterly Balance Sheet of the Stabilization Fund, with supporting schedules.

Weekly report: Weekly Review of the Money Market

Monthly report: Monthly Review of Money in Circulation.

Correspondence:

221 letters replied to.

In addition to the above, material falling into the following categories is also prepared:

1. A large number of tables on various subjects.
2. Reports on conferences in which this Division participates.
3. Participation in preparation of some of the statements and speeches by the Secretary.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE Oct. 15, 1942

TO Secretary Morgenthau
FROM Mr. Hoflich
Subject: U.S. Arms Production in September.

1. In his January 6, 1942 message to Congress, President Roosevelt revealed that he had ordered the production of 60,000 airplanes, including 45,000 combat planes, during the year 1942. By the end of September, the 1942 output of American aircraft amounted to 32,865 and only 16,871 of these were combat planes. The W.P.B. predicts that the production for the entire year will be from 47,000 to 49,000 planes of all types.

2. At a recent press conference, the President said that in his January message to Congress he had in mind a production rate of 60,000 planes per year by December, rather than a 1942 output of 60,000 planes. Stated in monthly terms, this goal would be 5,000 planes, including 3,750 combat planes, per month. During September 4,228 planes, including 2,347 combat planes, were accepted at American plants by representatives of procuring agencies. While some of the accepted planes are not ready for delivery, the acceptance figure is a fair approximation of productive output.

3. September acceptances of 4,228 planes at U.S. plants exceeded the August total of 4,212 by less than one percent. But in terms of dollar value the increase over August was about 10 percent, reflecting chiefly the greater proportion of two and four-motor bombers produced in September.

4. During September 2,351 tanks (1,253 medium, 1,098 light) were produced in the United States, 10 percent more than in August. During the first nine months of 1942, the tank output totalled 14,256, less than one-third of the 1942 goal of 45,000 stated by the President on January 6. If the President meant tank production at the rate of 45,000 per year, or 3,750 per month, it would appear that we are at least within sight of the objective. The W.P.B. forecasts an output of 4,207 tanks in October.

Table I

U. S. Military Plane Production *

	<u>1</u> <u>July</u>	<u>9</u> <u>August</u>	<u>4</u> <u>September</u>	<u>2</u> <u>September</u>	<u>Cumulative Total</u> <u>January 1 through</u> <u>September 30, 1942</u>
Heavy bombers	213	234		263	1,632
Light and medium bombers	838	916		1,053	6,535
Lighter planes	1,008	895		912	7,676
Other combat planes	<u>134</u>	<u>163</u>		<u>119</u>	<u>1,028</u>
Total combat	2,193	2,208		2,347	16,871
Trainers	1,298	1,545		1,497	12,185
Other military types	<u>557</u>	<u>459</u>		<u>384</u>	<u>3,809</u>
Grand Total	4,048	4,212		4,228	32,865

In terms of acceptances - planes accepted at assembly plants by representatives of procuring agencies. Accepted planes may lack propellers or other components normally installed at plants.

(War Production Board, Statistics Division)

Table II

U. S. Military Tank Production

	1	9	4	2	Cumulative Total January 1 through September 30, 1942
	<u>July</u>	<u>August</u>		<u>September</u>	
Medium	1,115	1,125		1,253	7,576
Light	<u>946</u>	<u>1,007</u>		<u>1,098</u>	<u>6,680</u>
Total	2,061	2,132		2,351	14,256

(War Production Board, Statistics Division)

Table III

**U.S. Production of Leading Ordnance and
Small Arms Items.**

	1 <u>July</u>	9 <u>August</u>	4 <u>September</u>	2 <u>September</u>	<u>Cumulative Total January 1 through September 30, 1942</u>
90 mm. anti-aircraft guns	292	368		383	1,770
155 mm. field guns	76	38		38	614
105 mm. howitzers	470	172		189	2,901
Self-propelled 105 mm. howitzers	152	290		179	1,070
Self-propelled 75 mm. guns	105	0		1	810
Army machine guns:					
50 caliber	4,537	5,327		9,248	34,762
30 caliber	12,132	27,475		26,322	131,479
Sub-machine guns	41,060	44,145		57,210	457,889
Garand rifles	66,300	66,480		74,720	508,011

(War Production Board, Statistics Division)

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

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DATE Oct.15,1942

TO Secretary Morgenthau
FROM Mr. Hoflich
Subject: Shipment of Planes to British Forces

1. During the week ending October 6, 1942, 125 planes (78 combat planes, 47 trainers) were sent from the United States to British forces.

2. Sixty-one planes were sent to the United Kingdom, and 47 went to the Middle East. For the first time in ten weeks, no planes were sent to British forces in India.

Table A - Shipments by Area

	Week Ending Oct. 6, 1942	Total Shipped in 1942 to date	Total Shipped since Jan. 1, 1941
<u>To the United Kingdom</u>			
Light and medium bombers	8	636	1,797
Heavy bombers	1	146	250
Naval patrol bombers	10	77	179
Pursuit	42	987	1,298
Army Cooperation	0	119	150
Trainers	0	0	24
Total to the United Kingdom	61	1,965	3,698
<u>To the Middle East</u>			
Light and medium bombers	1	528	858
Heavy bombers	0	0	5
Naval patrol bombers	0	6	6
Pursuit	14	681	1,529
Army Cooperation	0	55	55
Trainers	32	166	308
Total to the Middle East	47	1,436	2,761
<u>To the Canadian Forces</u>			
Light and medium bombers	2	78	246
Heavy bombers	0	1	1
Naval patrol bombers	0	23	31
Pursuit	0	30	72
Trainers	15	659	1,900
Total to Canadian Forces	17	791	2,250
<u>To the British Pacific Forces</u>			
Light and medium bombers	0	145	245
Naval patrol bombers	0	0	27
Pursuit	0	200	363
Trainers	0	12	117
Total to Pacific Forces	0	357	752
<u>To the British Indian Forces</u>			
Light and medium bombers	0	174	174
Pursuit	0	40	40
Trainers	0	43	43
Total to Indian Forces	0	257	257
<u>To the British West Indian Forces</u>			
Army Cooperation	0	6	6
Total to West Indian Forces	0	6	6
<u>Totals</u>			
Light and medium bombers	11	1,561	3,320
Heavy bombers	1	147	256
Naval patrol bombers	10	106	243
Pursuit	56	1,938	3,302
Army Cooperation	0	180	211
Trainers	47	880	2,392
Grand Total	125	4,812	9,724

Table B - Shipments by Types

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	Week Ending Oct. 6, 1942	Total Shipped in 1942 to date	Total Shipped since Jan. 1, 1941
<u>Light and Medium bombers</u>			
Boeing Boston III	0	15	39
Brewster Bermuda	1	12	12
Douglas Boston I, II, III	7	24	516
Lockheed Hudson	2	553	1,523
A29A (AC-151)	0	1	1
Ventura I	0	12	12
Ventura Bomber	1	314	314
Martin Marauder 8-26A	0	57	57
Baltimore	0	285	353
Maryland	0	0	150
North American B-25	0	111	111
Northrop Vengeance	0	142	142
Vought-Sikorsky Chesapeake	0	0	50
Vultee Vengeance	0	40	40
<u>Heavy Bombers</u>			
Boeing B-17	0	42	62
Consolidated Liberator	1	105	194
<u>Naval Patrol Bombers</u>			
Consolidated Catalina PBX-5B	10	106	243
<u>Pursuit</u>			
Bell Airacobra	0	315	469
Brewster Buffalo	0	0	168
Curtiss Kittyhawk	14	882	1,264
Tomahawk	0	0	544
Grumman Martlett II	0	57	98
Martlett IV	26	111	111
Lockheed Lightning	0	3	3
North American Mustang	16	565	645
<u>Army Cooperation</u>			
Fairchild 24 R-9	0	117	139
Pitcairn Autogire	0	0	5
Vought-Sikorsky OS2U	0	53	53
Vultee Stinson O49	0	10	14
<u>Trainers</u>			
Cessna Crane I-A (AT-17)	0	97	97
T-50	0	86	700
Fairchild PT-26 Cornell	15	133	133
North American Harvard II	32	267	1,164
Stearman PT-27	0	297	298
Total	125	4,812	9,724

Table C - Plane Shipments to the British by Weeks

<u>Week Ended</u>	<u>Light and medium bombers</u>	<u>Heavy bombers</u>	<u>Naval patrol bombers</u>	<u>Pursuit</u>	<u>Army Cooperation</u>	<u>Trainers</u>	<u>Total</u>
Weekly average of shipments in 1941	35	2	3	27	1	29	97
Weekly average of shipments in first 6 months of 1942	36	4	1	55	3	18	117
July 7, 1942	77	17	0	17	0	30	141
July 14, 1942	42	11	3	24	0	1	81
July 21, 1942	66	8	3	0	2	4	83
July 28, 1942	39	0	2	0	6	46	93
August 4, 1942	32	0	4	27	38	8	109
August 11, 1942	59	9	6	70	8	19	171
August 18, 1942	60	3	7	20	0	11	101
August 25, 1942	25	0	11	26	0	26	88
September 1, 1942	33	0	8	81	17	28	167
September 8, 1942	31	0	13	11	0	6	61
September 15, 1942	57	0	4	139	6	36	242
September 22, 1942	58	2	2	36	20	35	153
September 29, 1942	30	1	2	9	0	106	148
October 6, 1942	<u>11</u>	<u>1</u>	<u>10</u>	<u>56</u>	<u>0</u>	<u>47</u>	<u>125</u>
Total shipments since Jan. 1, 1941 to date. 1/	3,320	256	243	3,302	211	2,392	9,724

1/ Total includes planes shipped in 1942 prior to March 17 which are not included in the weekly totals up to that date.

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BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 356

Information received up to 7 A.M., 15th October, 1942.

1. NAVAL

During three attacks by E-boats on a Coastal convoy off CROMER on 13th/14th one of H.M. Destroyers claims to have sunk one E-boat and damaged two others. One of H.M. Canadian armed yachts was torpedoed yesterday in the CABOT STRAIT, NEWFOUNDLAND. 18 ships were reported attacked by submarines. All except one belated report, between 6th and 13th October. One British ship was torpedoed in convoy in the Northwestern approaches, one in convoy in the CABOT STRAIT and another in the mouth of the ST. LAWRENCE, one U.S. ship in the West Atlantic, a British and Brazilian ship in the GUIANA area, 2 British ships in the FREETOWN area, one Belgian, one U.S. and 3 British ships in the CAPETOWN area, a British ship in the BAY OF BENGAL and another in the INDIAN OCEAN. Two large British liners were torpedoed in the South Atlantic and a third, which made a submarine distress signal, is missing.

2. MILITARY

MADAGASCAR. 13th. Our troops captured part of a prepared position four miles north of AMBOSITRA.

3. AIR OPERATIONS

WESTERN FRONT. 13th/14th. KIEL. 540 tons of bombs were dropped in good weather, visibility good but spoilt to some extent by smoke screen. Flares dropped by Pathfinders of great help and most crews could identify objective. Concentration was achieved and many fires started in the town and dock. 14th/15th. 5 Wellingtons and 3 Naval aircraft were sent mine-laying, all returned safely.

MALTA. 14th. 108 Spitfire sorties were sent up against 220 enemy sorties. TAKALI aerodrome was rendered temporarily unserviceable, otherwise damage was slight. 23 enemy aircraft were destroyed, 9 probably destroyed and 24 damaged. We lost 6 Spitfires, 2 pilots rescued.

EGYPT. 12th/13th. Halifaxes and Wellingtons bombed TORBUK HARBOUR and hit a small ship, one Wellington missing. 13th. Our fighters destroyed four enemy aircraft and probably destroyed 2. One fighter lost.

BURMA. 12th. A Hudson bombed a 2,000 ton armed ship off the BURMA Coast obtaining one hit amidships.

NOT TO BE RE-TRANSMITTEDCOPY NO. 13BRITISH MOST SECRET
U.S. SECRETOPTEL No. 362

Following is supplementary resume of operational events covering the period 8 to 15 October, 1942.

1. NAVAL

Six enemy ships have recently left Western French ports for Far East on blockade running and 8 German ships now in Far East to attempt run blockade. Various outward bound blockade runners have been attacked by our aircraft and attempts made to intercept them. There was a slight increase in the number of ships arriving in NORTH AFRICA from ITALY. Believed at least 4, possibly 7 U-boats operating off CAPE TOWN and more expected in that area where 15 ships totalling 108,070 tons have been sunk since 7th October. U-boats also active West African Coast and especially in Northern Atlantic.

Week ending 17 October. 5 attacks by British surface craft and 2 by British aircraft considered promising.

Week ending 11th October. U.S. Forces made 26 attacks. Shipping losses for September, as recorded to date at 493,000 tons were lowest since January. Over 88% losses due to submarines, the remainder by aircraft. Bulk of loss occurred in Atlantic, chiefly Eastern Approaches to TRINIDAD and Northwestern Approaches to United Kingdom. Loss of tankers lowest for 6 months. During September 41 British and 38 Allied ships sunk by submarines. Total of 6,500 ships convoyed including West Atlantic and Caribbean convoys and United Kingdom coastal convoys. Percentage of ships lost in convoy 0.6%. Reports received that the Germans are now operating several modified and new type U-boats which include 1600 ton class, 500 ton and 750 ton minelayers, 1000/1200 ton cruiser U-boats and Supply U-boats 1200/1600 tons. Imports in convoy into United Kingdom week ending 10th - 813,000 tons of which 223,000 tons oil. Estimated that ARCHANGEL will be ice-free until 20th November. It is believed that 4 or 5 Russian submarines are operating in the BALTIC and that there are 43 in the BLACK SEA, including 6 refitting and one completing.

2. AIR OPERATIONS

WESTERN FRONT. Two major bombing raids, one by U.S. bombers by day against heavy industry at LILLE, the other at night against KIEL by bomber command which dropped about 675 tons of H.E. and incendiaries during the week. Usual sea mining operations results of which have recently been very successful. Nearly 600 sea mines laid. 263 sorties in search of U-boats and 37 BISCAY patrols.

MALTA. Resumption of enemy air attacks on MALTA probably intended to secure passage of convoys to AFRICA. Scale of attack numerically similar to April, but weight considerably less owing to greater proportion of fighters. Attacks up to 6 per day by formations of about 8 to 10 bombers escorted by 40 to 50 fighters. Objective our aerodromes, but most raids intercepted well north of Island. Many raiders jettisoned their bombs into the sea and bombing was erratic and largely ineffective. In one four-day period 80 enemy aircraft were destroyed, 34 probably destroyed and 100 damaged for loss of 16 Spitfires. Nine pilots safe.

RUSSIA. Increase in German air activity CAUCASUS area. Considerable damage reported at GROZNI. Bombing attacks on harbour and town of TUAPSE in support of land forces in this area. Russians claim to have sunk German transports and small craft in German occupied ports in BLACK SEA. Considerable activity in LAKE ILMEN area.

3. EXTRACTS FROM PHOTOGRAPHIC AND INTELLIGENCE REPORTS ON RESULTS OF AIR ATTACKS ON ENEMY TERRITORY IN EUROPE.

MUNICH. B.M.W. aero engine works and some railway shops reported damaged. Main square which contains Town Hall closed for 5 weeks.

KREFELD. 2nd. Much damage in Rhine Harbour area to barges, tugs, rolling stock and fuel tanks.

KARLSRUHE. 900 tons of coke destroyed in a storage depot.

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LILLE. Daylight attack 9th. Photographs show considerable damage to largest buildings of Fives-Lille Works, extensive roof damage and much debris visible beneath. One jute spinning and two cotton spinning mills received direct hits. Photographs this area 11th show hitherto undiscovered damage from past attacks including 8 oil tanks destroyed at a depot at PONG DE MARQ.

4. OPERATIONAL AIRCRAFT BATTLE CASUALTIES

<u>British and Allied</u>		<u>METROPOLITAN AREA</u>		<u>Enemy</u>		
	<u>In the Air</u>			<u>Dest.</u>	<u>Prob. Dest.</u>	<u>Damaged</u>
Bombers	19		Bombers	3	4	1
Fighters	5		Fighters	6	0	9
Coastal	6		Miscellaneous	1	0	1
Total	30		Total	10	4	11

MIDDLE EAST (Incl. 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	7	1	Bombers	42	21	52
Fighters	36	2	Fighters	62	24	67
Others	1	0	(includes U.S. claims, 4 destroyed, 1 probably destroyed and 4 damaged)			
Total	44	3	Miscellaneous	1	0	0
Two crews and 11 pilots are safe.			Total	105	45	119

FAR EAST

<u>British and Allied</u>		<u>Enemy</u>		
	<u>In the Air</u>	<u>Destroyed</u>	<u>Prob. Dest.</u>	
Fighters	2	Bombers	11	0
		Fighters (includes 6 destroyed in Aleutians)	12	3
		Miscellaneous	4	0
		Total	27	3

Note: No account is taken of enemy aircraft destroyed on the ground in any theatre or of British naval aircraft casualties.

5. HOME SECURITY

Industrial damage. Railway shops and some locomotives damaged at BRIGHTON. Extensive damage gas works South Shields, but supply unaffected. Estimated civilian casualties week ending 6 A.M. 14th - killed 32, seriously wounded 83.

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NUMBER 53

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OFFICE OF STRATEGIC SERVICES

THE WAR THIS WEEK

October 8-15, 1942

Printed for the Board of Analysts

Copy No. 6

The Secretary of the Treasury

October 8-15, 1942

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Office of Strategic Services

THE WAR THIS WEEK

In the largest Allied daylight bombing raid to date, Flying Fortresses and Liberators operating against Lille this week took a heavy toll of German fighters. This raid was only the most ambitious of a series of daylight operations which have instituted a process of accelerated attrition of Nazi fighter strength. If this process were maintained at the current level over a period of months, its implications for the United Nations war effort in Europe would be very far-reaching. It is to be noted that during this same period the RAF has exacted heavy losses of German bombers over Malta, and British and American air forces have destroyed a considerable number of planes in the Egyptian theater.

Before Stalingrad the Germans have altered their tactics—resorting to heavier air and artillery bombardment and decreasing the force of their ground operations—but there is no indication that they have abandoned their intention to reduce the city this fall. The indomitable Russian resistance continues, and the struggle within the city is apparently settling into the grooves of trench warfare.

While the collaborators continue to talk of an Anglo-American invasion of Africa, the Germans apparently intend to play along with the Laval regime, despite the slim returns of the latter's labor campaign.

The bitter see-saw battle in the Guadalcanal area continues, with the enemy now apparently intent upon a show-down. The enemy's disproportionate losses in the air here weigh heavily against him in a war of attrition. In the

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Aleutians, American air power can now concentrate on Kiska, the sole remaining Japanese base, and even there the enemy's resistance has notably declined.

The continuing crisis in India is now threatening constitutional government in two of the Indian provinces. Meanwhile, the Hindu Mahasabha is seeking national unity in support of a program to oblige the British to compromise, and to this end it is considering proposals for an interim solution of the thorny Moslem problem. On the Far Eastern diplomatic front, British and American announcements of willingness to negotiate treaties ending extraterritorial rights have heartened the Chinese.

Mr. Welles' public castigation of Chile's overtly anemic policy toward the Axis has occasioned comprehensibly sharp repercussions in official Chilean circles but has apparently also stirred some patriotic sensibilities among the public, a situation upon which the Axis radio has been quick to capitalize.

American Raid Over Lille

The United States Army Air Force raid against Lille, involving 115 B-17 and B-24 four-engine bombers and an escort of more than 400 RAF and American fighters, was the largest daylight bombing attack ever launched by United Nations forces against enemy-held objectives. Particular interest attaches to the operation because of the success of the Flying Fortresses and Liberators; they not only were able to defend themselves against concerted attacks by F. W. 190's and Me. 109's, but they destroyed an unusual number of their assailants (enemy losses probably amounted to more than 10 percent of first-line fighter strength in the West).

The raid served two general purposes. In the first place, it engaged the German fighter screen, which has demonstrated some reluctance to defend French territory against Allied

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sweeps by pursuit planes alone. United Nations forces have apparently been willing to exchange plane losses with the Luftwaffe in an attempt to reduce enemy fighter strength in the West, and have used bombers flying with a large fighter escort to draw German planes into combat. Secondly, it aided in the acclimatization of American bomber pilots and crews to the flying and fighting conditions which they will encounter in precision bombing missions conducted in daylight against objectives in the European theater. The Lille raid climaxed—at least temporarily—the use of United States bombing planes for these two purposes. The United States Army Air Force has been steadily increasing the size of its attacking bomber force from 12 on August 17 to 66 on September 6 and 74 on October 2.

Allied Objectives and German Losses

The raid on October 9 was directed primarily against steel and locomotive works in Lille, on which 65 of the planes dropped 142 tons of high explosives and 9 tons of incendiaries. The attacking force, encountering strong fighter opposition as well as heavy anti-aircraft fire, was singularly successful in destroying enemy fighter strength at a low cost in bombers lost. Apparently, the Allied fighter escort served primarily a tactical function as a protective covering to the bombers, since little direct combat appears to have taken place between Luftwaffe and British and American fighter planes.

The official reports estimate that the Fortresses and Liberators, flying in tight formations to achieve the maximum concentration of fire power, destroyed 48 German planes, probably destroyed 38 more, and damaged 19. American bomber losses were only four planes. Five enemy aircraft were also destroyed, one probably destroyed, and three damaged by United Nations fighters, at a loss of only one plane. German losses may be compared with air operations

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during the Dieppe raid of August 19, when an estimated 93 enemy planes were destroyed, 39 probably destroyed, and 140 damaged. While enemy losses at Dieppe were considerably higher than at Lille, they were obtained at a sacrifice of 110 British fighter planes destroyed.

Following the general practice of considering as actually destroyed 50 percent of the probables and 30 percent of the damaged, one can estimate total German aircraft losses during the Lille engagement as 79. Although there are varying reports on the number of German fighter planes stationed in the West (Occupied France, Belgium and Holland, Germany, and parts of Norway), one can probably consider these losses as equal to between 10 and 15 percent of first line fighter strength in this area. Furthermore, the replacement of German fighter losses in the West may well have required the diversion to this theater of newly-produced planes which might otherwise have been sent to Russia or the Mediterranean.

Air Activity in the Egyptian Theater

While General Montgomery, commander of the Eighth Army in Egypt, announced that the British were "preparing for the next round", ground operations were limited to a few sharp actions and the usual patrols. There are indications that some defensive positions are being established by the Axis about 10 miles behind their forward positions.

The week's main activity was in the air. Apparently taking advantage of unusually wet conditions in enemy landing grounds, the RAF made six attacks on El Daba, destroying about 20 planes on the ground or in the air, with more than that number listed as either probably destroyed or damaged. At the same time United States B-24's, assigned to long range missions, attacked shipping and ports in Crete, Greece, and Cyrenaica.

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After a virtual cessation of air attacks on Malta, the Axis this week abruptly resumed large-scale raids. Such attacks have been interpreted in the past either as preparatory steps to storming the island or as an effort to neutralize it for purposes of Mediterranean shipping. The Axis may be planning to increase the flow of supplies to Rommel in anticipation of more active fighting; or shipments may be going to Tripolitania, where unofficial reports have indicated a concentration of Italian troops for defense in the event of an Allied landing to the west. Meanwhile, Malta's fighters are taking a heavy toll of the raiders—66 planes destroyed and a larger number damaged, according to dispatches from Malta.

Change of Tactics at Stalingrad

Although the Germans have not abandoned the attack on Stalingrad, as some newspapers have asserted, they have significantly altered their tactics. They have decreased the scope of their ground assaults, while employing their available air and artillery strength in an intensive bombardment. Under cover of this lull, the Soviet defenders have regained some ground formerly held by the enemy north and south of the city, and have improved the fortification of their own positions. The Germans, however, have similarly been able to repulse continued Soviet counterattacks from the north. There is no convincing indication as yet that the Nazis have renounced their intention of taking Stalingrad this autumn; if only for reasons of prestige, it would seem necessary for them to continue the assault. But there is evidence that the Russians have fought them to a standstill, and that the struggle in the city is beginning to take on the character of trench warfare.

Military observers believe that the Germans control the greater part of Stalingrad's central section inside the railroad loop—including part of the river bank and the two railroad stations, as well as the Mamayev Hill to the north, and the

western edge of the Rykov Workers' Settlement, the first suburb to the north. The Soviet forces apparently hold the eastern part of Rykov, including the Red October Metallurgical Plant, the Barricades [State Machine-Building Plant, and the Dzerzhinski State Tractor and Tank Plant, and the surrounding workers' settlements. To the south of the city, the situation is confused, with Russian units resisting in the suburbs.

A certain increase in the intensity of the German attack around Grozny has paralleled the change of tactics in Stalingrad, and the Nazis have stepped up their bombing of the oil refineries in that area. From this development some observers have concluded that an all-out drive toward the Caucasus would replace the attack on Stalingrad. In the last few days, however, the Germans have made only slight gains, and the Russians have succeeded in counter-attacking with some success. It is as yet too early to predict the scope of coming Nazi operations in the North Caucasus.

To the west, on the Black Sea coast, while Soviet units have successfully defended the ports of Gelendzhik and Tuapse against German attacks from the north, an enemy column approaching from the east threatens to encircle the latter port. But north of Gelendzhik Russian naval units have attacked successfully behind the Nazi lines.

Meantime, on the central and northern fronts German efforts to eliminate Soviet salients have achieved minor successes. Here the autumn rains—with occasional snow and freezing—have already begun. American military observers anticipate little activity in these sectors during the next few weeks.

Laval and the Labor Problem

Labor for Germany continues to be the central problem at Vichy. Although there is apparently some division in German circles, the demand persists for 150,000 skilled

workers, of whom only about 17,000 have been enrolled to date. Observers are highly skeptical, but Laval presumably hopes to get one-third of the balance through his present campaign and one-third by future economic threats. He is reported to realize that only force can get the remainder. Laval will make every effort to avoid recourse to such measures, and the best opinion at Vichy is that the Germans are themselves not yet ready to use force. The fact that the deadline has again been extended to the end of November and that Laval is able to delay and still retain control of the program indicates that for the present at least the Nazis are disposed to maintain his regime at Vichy.

Nevertheless, the pressure of rival and more extreme collaborators persists. Three Cabinet members, Platon, Marion, and Abel Bonnard, are reported to be causing Laval concern by appointing to office Doriot's followers. For example, Marion is choosing as censors and personal observers in every prefecture the heads of the local Doriot Party.

German Interest in the Defense of French Africa

German officials in Paris have again expressed the hope that an agreement can be reached for the proper defense of Morocco, presumably giving the Germans certain privileges of military importance in French Africa. In this connection Déat is reported in the Paris press to have recommended a pact with the Nazis similar to the agreement with the Japanese in French Indo-China. Paul Marion, Laval's Minister of Information, has taken the opportunity to state publicly that the United Nations will probably attack the French Empire instead of the Axis, and that consequently France must cooperate with "Europe" in her own defense. The Paris press publishes daily stories anticipating invasion, and refers to large assemblages of Anglo-American troops in Freetown, Bathurst, Liberia, and Gibraltar, and naval concentrations off Brazil.

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A report from Bern suggests that the Germans are allowing the French to send a certain number of tanks for the defense of Dakar. General Noguès, however, is reported by our informant to be hostile to any agreement which would allow the Germans to move into Morocco.

Negotiations Over Syria and Madagascar

Arriving in London, De Gaulle was at first indignant over the Syrian issue, but he has since entered into negotiations, apparently feeling that continued resistance would hurt his cause elsewhere—particularly in Madagascar. In his proposals to the British, De Gaulle is reported to have given up any demand for military command in the Levant, and to have yielded in the matter of the elections, proposing that they be called for April, 1943.

The British have indicated that settlement of the Syrian issue is a condition for possible extension to the Fighting French of control of Madagascar's civil administration. In any event the British intend to retain military control on the island. This week the British column moving slowly south from Tananarive occupied Ambositra and pushed on to the south. Concentrated some 50 miles ahead are French and native forces numbering about 3,000 men, most of whom were withdrawn from the region around the capital. Observers express doubt, however, as to whether these forces plan to fight any more than a delaying action.

Reports from the Near East

President Roosevelt's reception of the Turkish journalists now in this country was featured in the Turkish press as a special favor indicating American interest in that country's problems. The Turkish papers carried lengthy dispatches from these journalists dealing with the United States war

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program and America's determination to fight the war to the finish.

In Iran the currency shortage caused by the needs of Allied forces is again acute. The recent currency issue of 300 million rials has been absorbed, and a new and larger issue is needed. The Irani are concerned about the inflationary effect of this situation, which is one factor in the friction that continues in British-Persian relations.

The Russians are making an obvious effort to smooth their relations with Iran, presumably because of Russia's increasing need of a friendly power on the southern supply routes to the Caucasus. Stalin personally received the Persian envoy, and the latter returned from Moscow with guarantees of the integrity and independence of Iran, together with an official Russian declaration of friendship.

In Iraq the reshuffling of the Cabinet was due simply to internal differences. The Finance Minister was dropped on suspicion of racketeering in handling supplies.

Goering and the German Bread-Basket

Reichsmarshal Hermann Goering last week told his people that the present food picture on the home front was none too satisfactory. Deliveries from occupied Europe have proved disappointingly small, he said—barely enough to sustain the German armies, with little or nothing left over for civilians. The people of the Reich, and the prisoners and foreign workers now within its boundaries, will have to subsist on what Germany can produce on its own soil; and Germany, it will be remembered, has never been agriculturally self-sufficient.

For the future, however, the Marshal promised a heart-warming flow of Russian agricultural products. The Reds, he noted sadly, "have burned everything." But, he added, "We shall build more. Slaughter houses, canning factories,

marmalade factories, basket factories, noodle factories; eggs, butter, flour—yes, they are there, in such abundance as you can't imagine. All we have to worry about now is to take proper hold on the spot."

Taking a "proper hold" may, indeed, give Goering's men something to worry about, according to observers here. If the Germans intend to harvest crops and put up factories in this conquered area, they will have to feed and clothe those who do the harvesting, the building, and the machine-tending. Whether, after they have provided for these helots, there will remain any substantial surplus of farm products to be shipped home to the Reich this year is certainly dubious.

Failure to import sizeable quantities of agricultural products from Russia in the near future will not, of course, cause Germany to starve: her present food production and stocks are sufficient to give her people a more or less adequate diet. But any significant improvements in German nutrition within the next year or two must wait upon further exploitation of the occupied portions of Russia.

Showdown on Guadalcanal?

At Guadalcanal, the Japanese apparently have come to the conclusion that a war of attrition in the Solomons is not to their benefit, and are pushing for a showdown. Despite losses suffered at the hands of an Allied naval task group brought into action in the waters off Guadalcanal to counter Japanese night landings, the enemy has been able to shell our airfield and to put fresh troops ashore.

The intensity both of our own and the enemy's operations has steadily increased throughout the past 10 days. On the night of October 5-6, in the face of our air attacks, a force of six Japanese destroyers succeeded in covering the landing of additional troops on the northwest coast of Guadalcanal—losing one destroyer sunk and one damaged. Elsewhere in

the lower Solomon Islands adjacent to our positions, Japanese infiltration also continued, although here too we had inflicted some damage on enemy ships.

The ability of the Japanese to reinforce their positions at night despite our air attacks was then countered on our side by the use of a naval task force for night patrol. In its first encounter with the enemy on the night of October 10-11, this force sunk one heavy cruiser, four destroyers, and a transport. One American destroyer was lost, and some other warships were damaged, none seriously.

On the morning following the engagement, Navy and Marine torpedo planes and dive bombers, in pursuit of the Japanese, obtained a torpedo hit on another cruiser, which was left burning. That afternoon, a cruiser believed already to have been damaged in one or the other of the above actions, was hit again and the crew was seen abandoning ship. During the night, however (October 11-12), a Japanese naval force returned to Guadalcanal and shelled our positions. On October 12 and 13, our air reconnaissance disclosed the presence of at least 51 Japanese naval units in the Solomons area—9 heavy cruisers, 6 light cruisers, 31 destroyers, 2 cargo ships, and 3 unidentified vessels. During the early morning of October 15, Japanese troop ships—covered apparently by heavy naval units—began unloading reinforcements, again on the shore westward of the American positions.

Japanese Air Losses

Air attacks have continued to batter enemy positions in this area, from Rabaul to Guadalcanal, and it is our tactical superiority in the air which may have influenced the Japanese to attempt to force to a conclusion the developing war of attrition.

Guadalcanal is the only good site for an airfield in the lower Solomons, and defensive operations here have been very much to our advantage. Japanese air losses over Guadalcanal alone from August 27 to September 17 are reported by

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the new chief of the Navy Department's Bureau of Aeronautics at 133 planes shot down, compared with a loss of 25 of our own aircraft. Some estimates of total Japanese losses in the New Guinea-Solomons theater since the offensive began in early August range as high as 600-700 planes (including accidental and other operational losses as well as planes shot down).

New Guinea Lull

In New Guinea, Allied patrols on October 8 caught up with small Japanese rear parties just south of the Gap in the Owen Stanley Range, but there has been little activity since then, due apparently to inclement weather. Advance troops have occupied the Gap, and some skirmishes are reported on the north side of the range, but Kokoda remains in the enemy's hands. The track thence to the Japanese base at Buna continues under air attack. The Japanese have improved their air raid warning system at Lae, but apparently are not making much use of the airdrome itself.

Bombs on Rabaul and Kiska

At Rabaul, Army bombers have attacked steadily and in force, dropping the largest weight of bombs yet used in the Southwest Pacific—40 tons in one raid on the night of October 8-9. After a similar attack the next night, fires were visible for 90 miles, and the bombings have continued. No night fighter interception has been reported, although 71 fighters and 6 bombers were observed at nearby Lakunai airdrome the day following the first attack.

Far to the northwest, in the Aleutians, Japanese inactivity in the air is striking. Here, where our air forces can now concentrate their assaults on the sole remaining Japanese base at Kiska, there has been no reported fighter interception since the first heavy attack on October 6. Enemy shipping like-

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wise appears to be scarce, although some submarine activity has been noted. On October 12, our bomber pilots reported two beached ships, two medium freighters, one small camouflaged ship, and one AA ship in the Kiska area.

Decay of Constitutional Government in the Indian Provinces

The dismissal of Allah Baksh, Premier of Sind, has brought into clear relief one of the paradoxes of the current Indian political scene. In five provinces constitutional ministries, responsible to elected assemblies, are trying to carry on a policy of conciliation—in opposition to the repressive policy of the Central Government, which is responsible only to the Viceroy. Prior to his dismissal Baksh had renounced all the honors and titles bestowed on him by the British and had issued a statement strongly condemning their current policy of repression—a statement quashed by the official censor after only one paper had carried it. The Central Government—at whose direction, apparently, the Governor of Sind (a Crown appointee) dismissed Baksh—evidently regarded his actions as a sign of "disloyalty." Observers now predict that the resignation of the rest of the Baksh coalition ministry will soon follow.

In Bengal, the coalition ministry of Fazlul Huq is approaching a similar crisis. The Governor of Bengal apparently accuses one member of Huq's ministry of running a sort of civil disobedience movement of his own in his department of the administration. Huq, on the other hand, feels that he is not receiving adequate support from the Governor and that the European and Moslem League members of the Bengal Legislature are working together against him. After a talk with the Viceroy, Huq has now professed himself as satisfied with the former's assurance that he would urge the Governor to work in harmony with the ministry. In the opinion of local observers, however, relations between the

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Governor and the ministry are moving rapidly toward an open break.

Such an event, our informants continue, would be a calamity for the province. Huq has urged that the United States mediate the Indian issue, and has been particularly successful in maintaining Hindu-Moslem cooperation in Bengal—the most populous province of India, and one with a scant Moslem majority. His dismissal, they conclude, would result in the Governor's rule by ordinance, with intensified civil disturbances, and perhaps communal riots.

The Position of the Mahasabha

Six provinces in which Congress ministries resigned in 1939 are already ruled by ordinance. A parliamentary debate on a bill to continue this temporary government has given Lieutenant Colonel Amery, Secretary of State for India, an opportunity to reject once again any attempt "to appease the unappeasable opponent." In India, however, compromise negotiations between Indian party leaders have continued. Leaders of the Hindu Mahasabha are now considering a proposal emanating from certain Moslem League members to concede to the Moslems 40 percent of the membership of a provisional Indian Central Legislature, provided the League agree to renounce for the duration of the war its agitation for a separate Moslem state. Another proposal envisages the concession of *Pakistan* in principle to areas with a 65 percent Moslem population—an international court to work out the details at the end of the war.

In an official resolution of its Working Committee, the Mahasabha has accused the British of exploiting the current disturbances in India by a "policy of blind repression," designed to crush the forces of Indian nationalism. The resolution calls on all Mahasabha members to join in a mass campaign behind the "national demand" and appeals to all

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other Indian parties to cooperate in forcing the British to seek a compromise. In another statement for the press, the Mahasabha refers to the stand of the United Nations on India as the "acid test" of their idealistic professions. A prominent member of the Mahasabha has stated in confidence that only coordinated pressure by the United States and China can bring the British to terms, while the Indian Agent-General to China, just back from Chungking, reports great bitterness among the Chinese over the current policy of repression.

Although the week following Gandhi's birthday passed a good deal more quietly than local observers had anticipated, violence has flared up in Karachi, hitherto relatively calm, and in southwestern Bengal, where food riots are agitating the rural areas. In Orissa and Bangalore the police have again fired on nationalist demonstrators. In Bombay many Congress sympathizers last week shut down their businesses for the duration of the week, and a general strike is now threatening.

Toward Relinquishment of Extraterritoriality

The announcements by the United States and Great Britain that they are prepared to negotiate treaties providing for the relinquishment of extraterritorial rights in China added much cheer to Chungking's celebration of the Chinese National holiday, the "Double-tenth." Newspapers had extras on the streets of the city shortly after the news arrived, and big posters soon appeared in public places. The Generalissimo told a responsive crowd that Chinese must henceforth redouble their efforts to make China a truly free and independent country, one worthy of being a member of the United Nations.

The extraterritorial rights in question stem from the treaties of the nineteenth century, but the practice of letting foreign traders administer themselves was customary in

China as early as the T'ang dynasty (618-907). Arab traders on the China coast dealt with Chinese authorities through their own leaders or headmen, while the headmen settled all inter-Arab disputes and difficulties. Much the same practice flourished after the East India Company began trading at Canton. Chinese officials concerned themselves with disciplining the English "barbarians" only in the rare cases of homicide against Chinese, and were otherwise well content to let the English keep themselves in order.

Specific legalization of the accepted practice was achieved by Caleb Cushing, American Minister to China, in the Treaty of Wang-hsia (1844). The treaty of Nanking (1842), which terminated the first Anglo-Chinese war, contained no provision for extraterritoriality, although regulations issued by the British in 1843 did provide for the application of English consular jurisdiction over English criminals in China. Articles XXI and XXV of Cushing's Treaty, however, explicitly provided for extraterritoriality in both civil and criminal cases.

The Chinese negotiators of the Cushing Treaty made no protest against the clauses dealing with extraterritoriality, nor were Chinese authorities particularly concerned over the later developments of the principle in the Treaties of Tientsin (1858). With the growth of Chinese nationalism, however, the existence of extraterritoriality became increasingly irksome to Chinese leaders, particularly since it presented a severe obstacle to effective national administration in such important areas as Shanghai. In recent years, the abolition of consular jurisdiction has been a constant objective of the Chinese Government, and the Kuomintang has laid particular stress on the issue.

The Columbus Day Announcements

For months every Italian-language newspaper in the United States, regardless of political affiliation, has argued for the removal of enemy-alien restrictions on Italians in the United States. Beyond a doubt the two alleviative measures announced by Attorney General Biddle on Columbus Day will receive enthusiastic and unanimous approval from Italo-Americans. The elimination of the literacy test for citizenship in the case of about 200,000 elderly Italian immigrants may in the long run exercise more practical effect than the decision to take Italians out of the enemy-alien category, according to analysts in the Foreign Nationalities Branch of the office of Strategic Services. As a war measure, however, the latter is more vital and more immediately significant.

Although at this writing the statements of only a few Italian journals can be cited, it can be safely said that unanimous approval of these measures will not imply unanimity of opinion as to what measures should *now* be carried out. For some time past, the organized anti-Fascist Italians—the Mazzini Society group which is identified with Count Sforza, the Communists, the Socialists, and the trade unionists led by August Bellanca and Luigi Antonini of the Italo-American Labor Council—have been clamoring for a crack-down on pre-Pearl Harbor Fascists, citizens as well as aliens. Countless "exposures" have been published against "converted Fascists": Ettore Patrizi, publisher of the San Francisco *L'Italia* and *La Voce del Popolo*; Generoso Pope, publisher of the New York City *Il Progresso Italo-Americano* and *Corriere d'America*; and those associated with *L'Araldo* of Cleveland, *La Notizia* of Boston and *L'Italia* of Chicago. It now appears probable that the anti-Fascists will demand that the generosity of the Columbus Day measures be balanced by firm measures against men of this type and their associates. The Army's

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action in ordering Mr. Patrizi and four associates to move inland from the Pacific Coast, announced on October 10, will no doubt be held up as an example to be followed elsewhere.

Mr. Welles Forces the Issue

Months of patient and tactful diplomacy having failed to induce Chile to "stand up and be counted" with the Allied democracies, the State Department in the person of Mr. Sumner Welles has now virtually called for a show-down. Speaking at Boston, Mr. Welles roundly condemned both Chile and Argentina for permitting their territories to be used as bases for Axis operations against American shipping. In the case of Argentina, the remonstrance has merely emphasized the already obvious coolness that characterizes our relations with the Castillo Government. But the rebuke to Chile represents a new departure in policy.

Until very recently, it had been hopefully forecast in many quarters that the Rfos Government in Chile would soon break off relations with the Axis. Few illusions were held concerning the anti-fascist sentiments of either Rfos or his Foreign Minister, Barros Jarpa. But the pressure of the pro-Allied leftist bloc which elected Rfos was counted upon to swing the government into line with the rest of the Americas; and Rfos' acceptance of President Roosevelt's invitation to visit the United States was widely regarded as an encouraging sign.

However, no definite move by Chile against the Axis was forthcoming, even after the belated discovery by Chilean authorities that an Axis spy ring actually did exist there. Apparently convinced that soft words would no longer avail, the State Department decided on sterner ones.

The repercussions of Mr. Welles' speech have thus far followed a fairly predictable pattern. President Rfos has cancelled his trip to Washington. Barros Jarpa has denied

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with much eloquence that subversive activities by the Axis have taken place on Chilean soil (even though these activities have been fully publicized by his own country's press). He has, further, castigated Mr. Welles' remarks as a gross affront to Chilean national honor.

Unfortunately, despite the pro-democratic sympathies of the majority of Chileans, Barros' resentment has found some reflection in the public at large. The manner and timing of the Under-secretary's rebuke appear to have stirred the public's patriotic sensibilities, and the Axis radio has been quick to exacerbate the wound. It remains to be seen what lasting tactical advantage Barros and the pro-neutrality forces of the right have gained, and whether or not they can consolidate their influence over Rfos.

Espionage Trials in Brazil

The Brazilian police campaign against Axis espionage, hitherto limited to detaining suspects, has reached a harsher phase with the trial of five civilians before a military court on charges of espionage. Under the national defense laws of Brazil, espionage is punishable as high treason by imprisonment or death. One of the defendants, Ernst Holck, vice president of Condor Airlines before its forced reorganization, has long been suspected by United States authorities of feeding military information to the German counter-blockade. Other defendants are Affonso Aboim, employee of Condor; Aulete Albuquerque, the only woman implicated; and Plauto Carneiro Mesquita, government employee.

An unexpected feature of the case is inclusion as a defendant of Dr. Cauby Araujo, President of Pan American Airways' Brazilian subsidiary. Reputed to be a staunch upholder of United States interests, he was suddenly arrested a short time ago. Details of the charges against him have not been made public.

APPENDIX

ISLAND STRATEGY IN THE SOUTHWEST PACIFIC

Two days after Pearl Harbor, the Japanese dispatched a naval task force to the northern Gilbert Islands. Now, provoked by the Marines' attack upon the Solomons, they have occupied the southern Gilberts as well, and are apparently in process of occupying Funafuti in the Ellice Islands. Various reasons for Japanese interest in these remote Pacific atolls are explored in the following survey¹ by the Far Eastern Section of the Office of Strategic Services.

Strategic Considerations

The attractions which the Gilbert and Ellice group present to Tokyo are clearly strategic rather than economic. Even a people with a standard of living such as the Japanese enjoy are unlikely to covet the Islanders' menu of coconuts, pandanus fruit, undersized pigs, and muscular chickens; nor is their output of copra any great prize. Fresh water is scanty on these barren atolls and islets; indeed, the Japanese occupying force would have to bring the bulk of its supplies with it, whether or not confiscation of food from the natives were resorted to.

Japanese activity in the Gilberts area, in short, must be viewed in the context of the whole South Pacific naval struggle, for the move here appears to be but one of several the enemy has been making to counteract, if possible, the advantages we gained in occupying the southern Solomons. Others include the now abortive drive upon Port Moresby via Buna, the reinforcement of positions still held in the Solomons and New Guinea, the attempt to seize control of the Chins Strait through the capture of Milne Bay, and, finally, the occupation of the phosphate islands of Nauru and Ocean, west of the Gilberts.

The objectives of the infiltration through the Gilberts are, presumably, four: (1) to enable the Japanese to outflank the Solomons on the northeast side; (2) to provide stepping-stones down from the Japanese bases in the Marshalls; (3) to extend the range of Japanese reconnaissance and Japanese attacks upon our supply routes from the United States; and (4) ultimately, perhaps, to support an investment of United Nations bases in Samoa and Fiji.

Do the Gilbert and Ellice Islands, however, offer sufficient shelter for planes and ships to make all or any of the above objectives feasible? It would appear that the most they can contribute to the Japanese naval and air effort are docking facilities for very light ships, and anchorages for seaplanes under favorable weather conditions. A few small airfields might be hacked out of the coconut and pandanus groves, but there appear to be no level or cleared spaces immediately available.

Facilities

Historically, the reason why the Gilberts and Ellices have remained so isolated and undeveloped has been their lack not merely of resources but of good harbor and

¹See accompanying map.

anchorage facilities. The atolls have been so unpromising, their lagoons so treacherously choked with coral, that few of them have been adequately charted. There are fair channels and anchorages at Makin (recently raided by our Marines), Apaiang, Tarawa, Apemama, Nonuti, and Tapeteua. But none of these could accommodate any large number of vessels, and only at Makin and Tarawa could ships of respectable draft enter the lagoon. Even there, the anchorages lie several hundred yards offshore, and landings could only be made across the fringing coral at high tide. The rest of the atolls and islets have, at most, a passage for small boats, and ships must lie outside on the lee side.

Seaplane facilities are somewhat better. As far as can be deduced from existing surveys, most of the lagoon islands among the Gilberts contain suitable landing space, and one at Funafuti in the Ellice chain is adequate. In fine weather, moreover, emergency landings could usually be made on the lee sides of the other islands.

What the Japanese Have Gained

Nature has placed definite limits upon the scope of operations the Japanese could undertake from the Gilbert and Ellice Islands area. It is, for example, extremely doubtful if they could mount an invasion force on these atolls of a size to threaten seriously the main United Nations bases of the South Sea. Nor would they be able to use the Islands in any true sense as an advance base for their heavier forces.

On the other hand, it would be dangerous to discount the value of the Islands as bases for light naval vessels and seaplanes. These minor forces can play a major role in the logistic battle of the South Pacific merely by forcing our lines of supply back from the Canton Island route as far south as Samoa, or further. Moreover, whatever light forces the enemy can base on the Gilberts or Ellices will be available to join such battleships and aircraft carriers as may come down from stations nearer Japan, making the whole task force that much less dependent on a supply train. Whether the Japanese can continue to hold the Gilberts and to menace the Ellices is something else again; but as long as they do, their forces, big or small, flank our supply route from Hawaii to the Solomons. The importance of that one strategic fact is very considerable.

The Gilbert Islands

The Gilberts are part of the British Gilbert and Ellice Islands (Crown) Colony. They comprise 16 small island units with a total land area of approximately 150 square miles. Ten are of atoll formation. Of irregular shape, they vary from 5 to 40 miles across, and have a ribbon-like succession of islets mainly on the east or weather side of their lagoons, and usually reefs, spits, and coral patches on the west side. The remaining six are either coral islands ringed with reefs, or else islets built up on reefs.

None of the Gilberts is over 8 to 12 feet above sea level, and the average is only about 4 feet. They are exceedingly barren, with at most a meager deposit of humus over bare coral rock or sand. The natural growth is limited to coconut palms, pandanus, and a few shrubs. There are no running streams, and the local inhabitants were obliged to use brackish water until modern cisterns were installed to catch rainwater.

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In this inhospitable setting, the Micronesian-Gilbertese people manage to sustain a population among the densest for its area in the world. The natives total about 28,000, or an average of nearly 200 to the square mile. In some places, the population is reported to exceed 1,000 to the square mile. With the progress of medicine the death rate has fallen away below the birth rate; overpopulation has become a grim reality, and a factor to be taken into account in assessing the implications of Japanese occupation. In the two years immediately preceding the war, some 2,000 land-hungry Gilbertese were moved by the British authorities to new colonies on the uninhabited Phoenix Islands in an attempt to alleviate the problem. The white population at the opening of the war totalled about 60, and there were some 25 Chinese, a handful of Japanese, and nearly 200 recognized "half-castes."

The Ellice Islands

The Ellice Islands comprise nine coral islets and atolls, with a combined land area of only about 16 square miles. Funafuti, the most important unit in the group, is of atoll formation, as is Nukufetau; the others are of island type. The Ellices are low, like the Gilberts, but in general are more fertile. The natives are Polynesians who are known to have moved there from Samoa some four centuries back. They number today about 4,500 and are increasing rapidly. By 1937 the white population had fallen to two. The islands, in fact, were recently closed by government order to white visitors.

Adjacent Islands

Ocean Island stands out in contrast to both the Gilberts and Ellices in having had a considerably larger non-native population. Being the administrative capital of the Gilbert and Ellice Colony, it had, consequently, a bigger official staff. But the great majority of non-natives were employed by the British Phosphate Commission. The island is nothing more than a barren, sunbaked hump, about two and a half square miles in area, possessing rich deposits of natural phosphate rock. The native Micronesian population are relatives of the Gilbertese, and number today about 1,800. At the end of 1938 there were also 140 whites, close to 700 Chinese indentured laborers, and about 150 Gilbertese laborers.

Cantilever arms reaching out across the reef from the phosphate workings once loaded close to 400,000 tons of phosphate annually into the special vessels of the British Phosphate Commission, which took it to New Zealand for use as fertilizer.

Nauru, to the west of Ocean, is an even richer phosphate island. Somewhat larger (about 8.5 square miles in area), it was at one time a German colony. After the last war, it was taken over by Great Britain, Australia, and New Zealand as a mandated territory, the responsibility for administration being delegated to Australia. The population comprised in 1940 about 1,800 Micronesian-Nauruans, together with 100 whites, 1,500 Chinese laborers, and 30 Gilbertese laborers. The British Phosphate Commission controlled the phosphates here, too; exports in 1938 totalled about 841,000 tons.

The Phoenix Islands

The Phoenix Islands, farther east, are eight in number, four being atolls and the others coral islets. Of the Phoenixes, Canton and Enderbury are held jointly

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by the United States and Great Britain, and the others are included within the Gilbert and Ellice Colony. Most of them are practically devoid of vegetation, and until recently they have been uninhabited except for temporary camps of guano workers.

Canton Island was developed about 1938 by Pan-American Airways as one of its stop-over points on the Clipper route to the South Pacific. Howland and Baker, American islands further to the northwest, are low and flat, of coral formation, and uninhabited until recently.

Eastward, a thousand miles or more beyond the Phoenix group, is another north-south chain of islands, not shown on the map. These, the Line and northern Cook Islands, are especially vital links in the line of supply between Hawaii and the South Pacific, now that the Japanese hold the Gilberts. Fanning, one of the Line group, is one of the way-stations on the cable from North America to the South Pacific.

Evacuation

The Gilberts, together with other British Pacific Islands, had been on a war footing from September, 1939. Most of the women and children from white families had already been evacuated when Japan launched the war. According to eye-witness accounts, the Japanese struck at the northern Gilberts on December 10, 1941, shortly before dawn. They occupied Makin and Apaiang, and captured several whites there, especially Roman Catholic mission workers. At Tarawa, two Japanese destroyers appeared off the lagoon entrance and after the settlement had been machine-gunned, a landing party was put ashore. The local officials had already dismantled the masts of the local radio station, having heard of the bombing of Ocean Island the previous day, and the Japanese immediately completed its destruction. When they departed, they carried away all available goods and foodstuffs.

At first, the Japanese tied up the whites, but later after questioning, released them. These people were, of course, stranded on the island and had to subsist on native foods. Nearly three months later a motor launch and lifeboat from a torpedoed Danish vessel put in at Tarawa after a long voyage during which most of its passengers had died. The survivors, together with 25 white residents, escaped in these boats, only a small group, largely Catholic missionaries, electing to remain. Meantime, resident whites in the rest of the Gilbert Islands had been evacuated, either to Fiji or to Australia.