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U.S. SECRETOPTCL No. 377

Information received up to 7 A.M., 1st November, 1942.

1. NAVAL

A Norwegian submarine torpedoed a 3,000 ton ship on the 18th off northwest NORWAY. The ship ran ashore. One of H.M. Destroyers and some light craft last night engaged a convoy with destroyer escort off BRITTANY in foggy weather. One of the ships was set on fire. On 28th/29th a feint landing was made by destroyers, motor torpedo-boats and landing craft west of EL DABA. Motor torpedo boats closed the beaches and were engaged by shore batteries and aircraft. We suffered no damage or casualties.

ATTACKS ON SHIPPING. During the 3 days 28th to 30th October, 16 ships were reported attacked by submarines. In North Western Approaches 6 ships (3 British, 2 United States tankers and one Norwegian) were torpedoed in a home-bound convoy and one United States straggler from an outward bound convoy, six British ships and one Norwegian ship in West Atlantic, and a United States ship in South Indian Ocean. A British ship reported overdue has arrived in port.

2. MILITARY

EGYPT. 30th/31st. At 10 P.M. a brigade of the Australian Division, supported by United Kingdom infantry tanks carried out a successful attack north-eastwards towards the Coast. Prisoners were captured, mostly German, and several enemy positions were isolated and are now behind our forward troops. As these can best be cleared by night, no action was taken against them during 31st. An enemy counter attack on 31st morning was dispersed.

RUSSIA. The Germans have resumed their advance in the TEREK Sector of CAUCASIA, having entered NALCHIK and having made some progress southeast of that town.

3. AIR OPERATIONS

WESTERN FRONT. 31st. Bombers attacked and hit 3 power stations, two factories and pithead buildings in the LILLE-BETHUNE Area. Wellingtons bombed AMDEN through cloud and Whirlwinds attacked railway and other objectives in FRANCE. From these and anti U-boat operations, 2 Wellingtons, 3 Whirlwinds a Boston and 2 Spitfires are missing. Two pilots safe. About 30 enemy aircraft, mainly fighter-bombers, concentrated on CANTERBURY in the late afternoon, while a further 30 operated along the North KENT Coast. Our fighters destroyed 6 and damaged 5, anti-aircraft claimed 3 destroyed and one damaged, and balloon command destroyed another. We lost 2 Spitfires.

31st/1st. 22 aircraft were sent sea mining and 3 on intruder operations. One is missing. 35 enemy aircraft operated in two waves over KENT and SOUTH ESSEX, of which 15 flew to CANTERBURY. Night fighters destroyed 4 including 3 by one pilot.

EGYPT. 30th. Allied aircraft attacked enemy mechanical transport and strong points in the battle area and bombed landing grounds. Four enemy aircraft were shot down, one probably destroyed and 3 damaged. 7 more were destroyed and 6 damaged on the ground. We lost 2 and 3 crashed. Two pilots and one crew safe.

BURMA. 30th. 13 Mohawks attacked SHWADO airfield and hit the wireless station.

4. HOME SECURITY

CANTERBURY. 31st. Bombs dropped from a low level caused damage chiefly in residential areas and shopping centre. Cathedral undamaged. Casualties reported: 25 killed, 56 seriously wounded.

31st/1st. Bombing scattered, damage not serious. Additional casualties: 2 killed, 12 seriously wounded.

November 2, 1942  
10:00 a.m.

GROUP

Present: Mr. Bell  
Mr. Gaston  
Mr. Graves  
Mr. White  
Mr. Buffington  
Mr. Thompson  
Mr. Kuhn  
Mr. Cairns  
Mr. Haas  
Mr. Schwarz  
Mrs. Klotz

(Discussion off the record.)

H.M.JR: We traveled ten thousand miles in seventy-two hours. The last twenty-four hours we came three thousand miles.

I think the trip was very, very much worth while from every standpoint. When we first got over there White and Bernstein went right to work with the British Treasury on certain financial arrangements. The fact that we were over there gave the thing enough prestige that Sir Frederick Phillips had to give in. He had to give in, and the Treasury had its way. The Army was very much appreciative that we cleaned that up in twenty-four hours.

MR. BELL: I saw the last cable and I saw the handiwork.

H.M.JR: Five colonels sat around the table, and they knew no more about it than the man at the door.

MR. BELL: I noticed a couple of phrases stuck in about protecting the United States after the war.

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H.M.JR: Harry paid his way on that one conference.

We saw production plants. We saw the Spitfire plants; we saw engine plants. I had no idea that these shadow factories were as modern and efficient as they are. It is perfectly amazing how smoothly they run, how well they run - the production, the continuous production.

We spent a night with the English bomber Halifax squadron, one night with an American bomber squadron, a day with an American P-38 squadron, a day with the famous Polish Spitfire squadron. When they see a German they fly square at him, and if he does not give way they just crash him. We saw the very latest Spitfire, which is better than anything that the Germans have.

The English have complete control of the Channel and fifty to a hundred miles into France where they have arranged with the fighters - I mean they completely dominate that thing. I mean they send their convoys through the Channel in the day time now instead of at night so they won't get into the mines. You see, they run them through in the day time. They have complete control of the Channel.

We saw the American Army. It was surprising - in that part which we saw the surprising thing is they have sent the boys over way in advance of any of the equipment. That goes for the planes, too. The planes come there and there are no pilots, nothing to back them up. They fly them over with bombs, and that is about all.

The men are way in advance of their equipment. I mean this business - they stretched the thing to the limit. White can tell you.

I had an hour with Bevin, and to sum up what they have done, when they first started the war they had seventeen million people at work. They put five million

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in the Army and still have seventeen million people at work, which is an amazing record. Those are roughly the figures, aren't they, Harry?

MR. WHITE: Roughly, yes.

H.M.JR: And White went over to Bevin's office and spent a half a day - that is the manpower man - and got that report, which is excellent.

I went to a hostel where the girl workers were who are moved from one town to another. They have a very narrow room, but they have their own bed, bureau and a closet - but it is their own room. It is clean. They are built so simply; they just have sort of a brick wall, maybe a little plaster over it or maybe not. But it is clean, and each girl has her own room; the place is immaculate. They have showers and bathrooms, and they have an amusement hall where they show motion pictures, a writing room, a library, a game room.

One of the girls who worked on the machines and who lived there said that after she paid everything, all deductions and everything, she had five pounds left over - I mean after paying for her food, her room, taxes, insurance, everything.

MR. BELL: Is that a month?

H.M.JR: A week.

MR. BELL: Twenty pounds a month over?

H.M.JR: Five pounds over after she paid for everything.

MR. GASTON: They are paying extraordinarily high wages, aren't they?

H.M.JR: That is what they get, net.

MR. GASTON: Of course she has to buy her own food out of that.

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H.M.JR: No, not her food. After her food, her place to sleep, her deductions from her salary and everything else she had five pounds a week left. That was in the Bristol factory where the girls work on the machines.

MR. GASTON: They are really paying high wages there, aren't they?

H.M.JR: And of course these girls are moved from one town to another, and they get special food. I mean they get meat and plenty to eat. But if we tried to build a place like that here we would have to - I don't know what they cost, those buildings, per unit or per square foot, but it was just the bare wall. But each girl had her own room instead of like here in Washington where they sleep four in a room and twelve girls use one old-fashioned bathroom, and that sort of thing. But everything is very, very clean.

And it is the same with the city-run lunchrooms. We went to the city-run lunchroom at Portsmouth. We got soup, meat, beef or whatever it was, and two vegetables for nine pence, and the man said he made money on it. That is cheap - nine pence. If you wanted a sweet I think it was three pence more.

The thing that surprised me - I don't know how it was when Ferdie was there - was the great activity: people on the streets, busses running, taxicabs running, people shopping, the place humming with life.

I don't know how it was when you were there.

MR. KUHN: Of course it was too early to see the effect of the war.

H.M.JR: It just hums - the theaters full, restaurants full. You can't say, Harry, that at any time you did not have enough to eat, can you?

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MR. WHITE: No, no, there seemed to be adequate food.

H.M.JR: Of course we were not fair examples because when you eat with the English Army or the American Army you eat plenty. They have everything except oranges and lemons, but they have plenty of English apples, English pears, English grapes. They all have some little wrinkle, a pig club that they belong to, or they have a few chickens. Everybody has a little wrinkle, something whereby he gets a little extra.

Of course the factory people - I did not go into a white collar worker's home, but the factory people definitely get plenty to eat, although they are down to ten million tons importation. But they definitely eat all right.

I think the thing which would interest you the most is my own feeling that Hitler has seen his high water mark; that the worst is behind us, and it is not going to be as long a war as I thought it was. I am very, very much encouraged.

MR. GASTON: Are you?

H.M.JR: Now, in the room here, I mean I think we ought to be able to lick those fellows in '43 or '44, because the English are so much further advanced than I dreamt. I mean their production is simply amazing - simply amazing.

MR. GASTON: I have been counting a good deal on this factor, that our troops that are coming along are new and that the German troops have had so much war. Men wear out on continuous fighting. Their troops must be getting pretty stale now.

H.M.JR: I don't know about that, but I have come back definitely feeling that it is going to be very much shorter than I thought. And given proper leader-

ship - the English have made their mistakes, recognized the mistakes and profited by them, and that is the important thing. This thing of calling the English a decadent race is just the bunk. There is nothing decadent about their leaders, the ones that they have now. I think I saw practically everybody. Don't you think so, Harry?

MR. WHITE: Yes. I don't think the English people are in any sense on the down grade. It may be a different story with regard to the Empire, but so far as the English people themselves are concerned there is nothing to indicate they are not doing a first-rate job.

H.M.JR: Do you agree with me? Do you think I am overenthusiastic?

MR. WHITE: No, I got much the same impression. I think they might like your comment on women, which you were so impressed with - the women in industries.

H.M.JR: Of course what the women do in the Army and the Navy, it is just unbelievable. The night we left London, for instance, we went into a station at eleven-thirty at night, and the trunks and the baggage are handled by women. The anti-aircraft - the women do everything but the firing of the gun. They are out on the most lonely posts.

For instance, the RAF is the same. There are three different women's services. The RAF have one, the Army has another, and the Navy has another. But certainly all the housekeeping is done by the women. I mean they completely cook and clean and do it all, and all the office work.

Then there is another group that runs heavy trucks, does the barrage balloons, delivers the mail, runs the busses.

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MR. WHITE: They are dispatch riders along the highway at night.

H.M.JR: And use motorcycles. We came down to Portsmouth late at night and a woman dispatcher met us to take us to Admiral Little's.

MR. WHITE: You could not tell that they were women. They dressed like men and wore a crash helmet. In fact, I missed some opportunities-- (Laughter). And there is no hurrah about it.

H.M.JR: I mean, as one person put it, they don't look at the back of a girl's leg. I mean they treat them like men, and they want to be treated like men. There is no nonsense about it.

Now, the interesting thing is that the officers say they want these English women in their camps because it has a wonderful moral effect. They say the men dress better, spruce themselves up, and they act better. Where you have the women running the camp the camp is much cleaner than where the men run it.

MR. GASTON: There is less coddling of the men, less self-pity.

H.M.JR: And the food is cooked better. Now, these girls are supposed to work - I think it is fifty-seven or fifty-nine hours a week that they are supposed to work. But they all said that they stopped working when the job was done, and it is usually from six in the morning until eleven at night. But the thing that we can't understand is that they don't treat them like women.

MR. WHITE: Barracks were just like men's - orderly inspection, no folderol.

H.M.JR: We went through these women's barracks, much to the amusement of the commander of the RAF

Air Corps, who had never been in one before. We had to try three times before we could find one where there weren't some women in bed. Finally we found one where there was just one woman in bed, and they said, "She is in bed but she won't know we went through inspecting anyway." But I mean I can't explain to you the fact that these women, doing the work - they don't do it as women, they do it as workers, as members of an army. There is no self-pity. Of course they do not have the time to dress themselves up, or anything like that. But you go down a mile-long line of machine tools and find woman after woman working on the machines.

MR. WHITE: Some of the women were making machine tools, too, which is a very highly skilled industry here. That surprised us. There were many tending lathes, too.

H.M.JR: If it were not for the women England would cave in today. England today just couldn't - if the women were not doing what they are England would collapse.

MR. GASTON: That is a social revolution in itself, isn't it? I mean this new employment of women in the fighting forces.

H.M.JR: But until you see these people - I mean you see a woman here, if you will excuse my swearing, these damned WAACS, and all this saluting, these pretty uniforms, and some fancy designer - I don't know, some man, a fancy designer, and all the rest of that stuff. There is none of that over there. It just does not exist. It is a hard, tough job; and do those people hate Hitler. You don't have to have any posters or propaganda - they just hate his guts, and they want to get at him.

MR. HAAS: I suppose the severe bombing they experienced over there had a lot to do with bringing that about.

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H.M.JR: Oh, sure. Well, George, at Dover twenty miles away you are under the guns.

MR. WHITE: There was one day when the Secretary was down there that the planes came over - not in the town you were in but very close to it.

H.M.JR: Right after I arrived at this air station, and they had just sent two P-38's up and said there was a German overhead. Just before I came in he was overhead. They come at these terrific heights in the day time.

MR. GASTON: They are not sending women out with the expeditionary forces, are they, for cooks and so forth?

H.M.JR: I understood they had women in Egypt.

MR. KUHN: They have had them there from the very beginning - about three years.

MR. WHITE: But it is queer that they take women from some areas and just send them to other areas to work in ammunition factories. They do not even have much choice - in most cases no choice. She is notified she is going to work in such a place on such a date, fifty-six hours a day, will live in barracks. She cannot leave her job. She may go from the south of England to Midlands or Scotland. They are moving thousands of them.

H.M.JR: This is most peculiar. They had a chocolate factory in Scotland. They closed the one around London and left the one in Scotland open. I said, "Why?" They said, "The one around London is efficient so we thought we would use that management for something else and we would let the inefficient one run while the cocoa lasts." That is an entirely different conception. I mean they let the inefficient one run as long as they had the cocoa bean, but the efficient one they closed.

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What is the big chocolate factory in England?

MR. KUHN: Cadbury's.

H.M.JR: They have closed that and put it on munitions, but the inefficient one at Scotland they left open.

But when you are there in London - believe me, I did not write one thing down. Between the various American and English espionage and counter-espionage, how they do spy on everybody. So the best way was not to write anything down.

MR. WHITE: There is no maid service except in the very extremely wealthy homes.

H.M.JR: And it is cold.

MRS. KLOTZ: What happens in the hotels?

MR. WHITE: In the hotels that we had, with the exception of one, the service was good.

H.M.JR: Oh, it was cold. I mean the rooms were about fifty-two.

MR. BELL: Damp, too, I suppose.

H.M.JR: The coldest place of all was in Limerick Island, though. That hotel was something. We stopped at a place there to have lunch. Don't you think that was about the coldest place?

MR. WHITE: It was extremely cold. It was impossible to get warm from the outside. (Laughter)

H.M.JR: I was with Churchill three times, once on a trip to Dover, once at lunch, and once for dinner. He was in good form every time except the night his wife gave him a supper he did not like and so he did not talk all through supper. She says, "I

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am sorry, dear, I could not buy any fish. You will have to eat macaroni." Mrs. Roosevelt was sitting right there. Then they gave us little left-over bits made into meat loaf. The first two days on the flight I had it here (indicating) in great big lumps - the whole time. I couldn't get rid of it - just like a stone. But otherwise he was in good form.

They gave me about an hour's notice to go because the North Atlantic shut down. The next day I was to see Smuts at quarter of ten, call on Anthony Eden at ten-thirty, and lunch with Sir Stafford Cripps, and somebody was to have come to see me. That was the last day. I had to call it off. They just said I had to go or else get stuck.

MR. WHITE: I think they would be interested in your view of the intensity and seriousness and the toughness with which they are training their soldiers.

H.M.JR: Tell them, Harry.

MR. WHITE: We saw several battle schools and naval schools.

MR. GASTON: British?

MR. WHITE: British. It may also be true of the Americans. I did not see it. They put them through the kind of training which simulates battle conditions very closely - live ammunition, firing very close to them. They work them terribly hard. They go through the hardest kind of thing, climbing over obstacles, crawling through underbrush, rushing through mud and water - fast and hard so that you get the feeling that those men are having splendid training, if that is any criterion.

We were very impressed with the way they have the men practice gunnery at the gunnery school. We saw several different things, but typical of the sort

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of thing is this. We watched a gun crew in action on a big gun. You stand outside and look through, and it is just like a gun turret. They go through all the motions, shoving the ammunition, orders given, and they throw bombs in that thing.

H.M.JR: Under their feet.

MR. WHITE: Yes, under their feet, and they explode behind them and it is filled with smoke and enormous volumes of water rush in over them - salt water. You get the feeling exactly. It is dark, terrific noise, rattle and roar.

MR. GASTON: Naval gunneries?

MR. WHITE: Yes, and things of that kind. They say they try to duplicate as much as possible the actual battle conditions, and they certainly seem to approach it.

That was true of the Army, too. I remember at one point - you see, you can see the machine gun bullets because of their tracers. They were attacking an objective, and those bullets did not seem to be five or ten feet ahead of the advancing men.

H.M.JR: Tell them how old those soldiers were.

MR. WHITE: In this particular place the soldiers were not in the Army. They were preliminary to the Army.

H.M.JR: So-called "Young Soldiers" - seventeen years old.

MR. WHITE: This particular training was for the purpose of giving the brigadier generals who were working out certain tactical arrangements - using live artillery and what not. You get the impression there is no play, there is no make-believe, no hurrah, no flag-waving.

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H.M.JR: They had a barbed-wire entanglement. They first do it the wrong way. These fellows are born actors. It was the most amusing thing. They do it the wrong way; they put the gun down the wrong way, and everything. They had me screaming with laughter. They go through and come to this barbed-wire entanglement. This fellow throws his body on this barbed wire, five feet high, and all these other soldiers run across this, with their hob-nail boots.

MR. WHITE: He flung himself on it, outstretched flat, to bring the wire down, and the men with their equipment and hob-nail boots run over him. This is just training.

H.M.JR: Harry, give me a diary tonight, can you? I am seeing the President tomorrow, and if I had the diary of what I did that would give me something in my hand.

MR. WHITE: I will have it for you.

H.M.JR: I mean just the places that we went, if I could have it by nine tomorrow morning. Then I can remember these things.

They have one thing there at this naval school. We stood up on a platform and saw five thousand naval sailors in review, and, by George, they were fine-looking people.

MR. WHITE: They were going to be sailors, not officers.

H.M.JR: Then they took us to a place where these planes dive-bombed on you and they shot at them; and in behind they had a complete record so they could show if they had a miss or a hit. That is run by girls.

Then one of the most interesting things they have at the naval school - of course I don't want any

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of this repeated outside of this room, please - they have a dome, and you go in there in the dark and they throw on the ceiling, through moving picture, an airplane. You get the complete sensation. This airplane is diving at you, and the fellow is there with the gun and he shoots; and through a camera moving picture if he makes a hit a yellow smoke comes up on the ceiling. It is as complete as though it was a real thing. Also you get the noise of the machine guns. So you get the noise, you see the thing coming at you, and it looks as though it is coming on you, although it is actually on the ceiling. If he hits the thing there is yellow smoke. That is the way they train them.

Then they had another thing at the naval school. We stood on the bridge in complete darkness. You see, they locate the ships through radar. The men stand behind you. You are on the bridge and the wind comes in your face and the bridge shakes and the gun flashes. They give the orders and they go through a regular battle, all in complete darkness.

As far as I know, we don't have anything like that in our Navy.

Then this so-called battle school where they go through this thing with live ammunition - the brigadiers don't do it themselves. They have forty-five brigadier generals there. We went to school with them for the whole day. But they say that they do bring people sometimes and put them right through the thing, although while we were standing on this hill observing you could hear the swish of the shells going overhead. The guns were about two miles behind us, and they were firing right over our heads.

But these British - am I right, Harry? - twice a week, they told me, they walk them forty-five miles - these English soldiers, with their packs.

MRS. KLOTZ: Forty-five miles?

H.M.JR: Forty-five miles.

MR. KUHN: Our people do twenty-five, twice a week.

H.M.JR: They do forty-five.

How many people in the room know that the only organization working with our Army is the Red Cross? Did you know that? There is no U.S.O. allowed over there.

MR. BELL: No.

H.M.JR: No Knights of Columbus, no Salvation Army, - all Red Cross. In the field they are doing a lousy job. The Red Cross never was trained for this kind of work. I saw in the paper today that Mrs. Roosevelt went to the place. It did not mention it, but described it. It said she had tea with Mrs. Theodore Roosevelt, Jr. I told her to go down there. You go into a dingy hall, a room three times as big as this; there are six chairs in the whole room, with soldiers sitting around the fire, just huddling there. They had a little room where they were trying to make doughnuts; a girl burned her arm on the stove. They had nobody so they borrowed English nurses' aides to help them.

In London everything is lovely; outside London, terrible. In London it is a beautiful show, but outside it is awful. I know Mrs. Roosevelt is going to tear it apart before she gets through because she will see it. They are doing a lousy job. They say they can't get this, they can't get that.

I spent a day and a night at the home of Brendan Bracken, who calls a spade a spade. He is the Minister of Information. He said the English Y.M.C.A. is ready to do the job and look after our soldiers. But the Red Cross won't let them get in,

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just keeps them at arm's length.

He took me to the home of a very charming woman, a neighbor of his, who is a local Y.M.C.A. worker. She took me out in the kitchen and the place was full of food, candy, cigarettes - stuff she was taking from camp to camp. She is not permitted to go near an American soldier.

MR. KUHN: Does the Red Cross keep our other service agencies out?

H.M.JR: Out entirely.

MR. BELL: That must be a War Department or Navy Department decision. It can't be a Red Cross decision. It is a question of transportation, I suppose, and only one agency can go.

H.M.JR: I saw a number of people that I will tell you about afterwards. The last I saw was Mrs. Balfour, whose husband is English Minister in Portugal. They live in the same square.

MR. KUHN: I know Jack Balfour. They were neighbors.

H.M.JR: If you don't mind, she gave me some Italian airsick medicine. I took it. I didn't mind.

MR. KUHN: He was in charge of the American section at the foreign office and had never been to this country. It was terrible.

H.M.JR: She is very nice.

MR. SCHWARZ: Did you talk with the Fighting French people, Mr. Secretary?

H.M.JR: No. I had this meeting which I was going to have, with Admiral Standley to be present, because they were all kind of nervous about the Free

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French. I would only do it if Admiral Standley would be present. He is looking after DeGaulle. Nobody wants to have anything to do with him. They are all scared to death of him. Just now Admiral Standley is doing it.

Here is one little human interest story. When I had lunch with the King and the Queen alone, to make conversation, being an apple grower, when they brought in apples I asked if they had Cox's pippins, which happens to be the best apple. The Queen was very much upset because she could not produce it, and the next day this note arrived and some apples. The package was marked in her own handwriting, too. I think she is an amazing woman - an amazing person.

When we got through the King walked me down about a mile of hall to the front door to see me out. There was one servant present, that is all.

Poor Mrs. Roosevelt, I visited her at the Palace. She had four bedrooms and she could not find any light switches. She had Miss Thompson another mile away. When we went there at night to call on her - there is this big courtyard and you go in, there is complete darkness, and nobody in the whole courtyard. I went from door to door trying to get in. (Laughter)

MR. WHITE: Finding out whether the King lived here. (Laughter)

H.M.JR: And finally I knocked at a door, it opened, and it happened to be the right place. So Mrs. Roosevelt said, "I have not a torchlight. I can't find the switches." Mrs. Morgenthau had given me a little torch so I gave her my torch.

I had another experience. Not having this torch, the night I called for her to take her over to Churchill's I borrowed an Army torch. I came out

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with Mrs. Roosevelt on my arm and this torch, which had no cover on it - it was just loaned to me by the Army - and this British policeman says, "Don't you know you are supposed to" - I didn't say a word - "What are you doing with a torch like that - oh, Mrs. Roosevelt!"  
(Laughter)

I saw Elliot Roosevelt over there. He is in charge of a squadron of photographic bombers.

I went through the Air Corps secret operational room. I went through the RAF operational room; and I went through the English War Department operational room. So I had three different chances to check, so I saw plenty.

The thing that pleased me as much as anything was a little speech Churchill made at Dover, in which he told the crowd I was the man that gave them the hundred thousand rifles.

MR. KUHN: That was on the ticker.

H.M.JR: I want to see that. He now for the first time knows what I did to help. When he was over here he did not know. He knows now. Bracken, to go one better, calls it a million rifles. He just wanted to make it--

MR. KUHN: That is the way it came over the tape.

H.M.JR: It was a hundred thousand, I think, but Brendan Bracken made it a million. He was perfectly swell. I was really worried about that one and only press conference. They sit you up on a dais. I mean I had nothing to do with it. The Army arranged it. They said there were three hundred, but there were about ninety or a hundred press people. They have this room, and I sat here, Brendan Bracken here, and the man for the Army in charge of information here.

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Brendan Bracken introduced me with a little speech, and like in a radio hall to tell them to applaud he goes like this before I start speaking (indicating), just like on the radio. The only people that bothered me there were some foreign correspondents who kept pressing on something about the Atlantic Charter.

MR. WHITE: Quality of sacrifice.

H.M.JR: Yes. I have not seen it, but Mrs. Morgenthau said that Daniels of the London Bureau ran a little dirty story. He came up right after the press conference and shook hands with me and asked if he could come and see me. I said, "Yes", and then he evidently - it was true what he said. I haven't seen the story. In the middle of it I turned to Brendan Bracken and in a very low voice said, "Am I doing all right?"

Bracken could not have been nicer, and he and I hit it off right from the beginning.

MR. GASTON: The main Times story was all right. It was in their first edition. There was none of that stuff in it. Then there was a paragraph in later editions that had that in. But there was no editorial criticism, no bad reaction in any respect that I saw except that one little thing; and then the story in Time about the financing which they got from somebody in Wall Street.

H.M.JR: Do you know when I read that?

MR. GASTON: No.

H.M.JR: The air mail edition in Puerto Rico yesterday. But that rolled over."

MR. GASTON: The same day I sent you that message there was a cartoon in the Evening Star which

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certainly was not unfriendly. It showed Bob Doughton and Walter George, and Walter George was telephoning to Churchill, saying, "Morgenthau is coming over there. Watch your shirt."

H.M.JR: You cabled that. I told that to Churchill. He did not seem to think it was so funny. (Laughter)

MR. KUHN: There was a full-page editorial in Business Week on the financing. It was just as good as the one in Time was bad.

H.M.JR: They are wild over there about Luce; they hang him up. They had a full report on Luce's press conference that he had with the British and the Canadians, and they were so pleased that the Canadians and the Australians went after him. I think if Luce went over there, in the night somebody would stick a dagger in his ribs, not only on his letter in Life but particularly on the story he ran about the Canadians troubled with the German prisoners in Canada.

MR. GASTON: Yes, in Time.

H.M.JR: That bothered them the most of all. They thought that was just vicious.

MR. GASTON: They are getting to be so wildly irresponsible in the stuff they write.

H.M.JR: As a result I told them about the debate between Mrs. Luce and this other woman correspondent.

MR. SCHWARZ: Vivien Kellems?

H.M.JR: No, no. I cabled for that. I cabled

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to Sumner Welles to get a copy and send it over to Churchill. He wanted a copy of that debate.

But this fellow Brendan Bracken, he knows the members of our Cabinet as well as anybody in this room, and better. What information! Do you know, Ferdie, what they do? Every day they digest any criticism of this country and it comes over by cable.

MR. KUHN: I have seen it. It has been done for more than two years, and very well done. There is a daily and a weekly one.

H.M.JR: And Winant sees it if there is anything particular.

MR. KUHN: I think Luce is feeling the effects of that very much, and even Willkie is giving him hell for it.

H.M.JR: They just loathe him and they loathe Clare Boothe.

I think of all the trips that I have made this was the most important and most useful and most cheerful.

MR. GASTON: Educational and inspiring.

H.M.JR: And cheering because I got a feeling of what the future of the war is.

MR. GASTON: Did you get any reflection about what they think the American effort amounts to, whether they think we are doing fairly well or pretty lousy?

H.M.JR: What do you think, Harry?

MR. WHITE: I think that they feel, on the whole, that we are traveling the same road they did, making

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the same mistakes they made, but are coming along fast. One got the impression that they were, on the whole, satisfied. Now, whether they were just being kind - they might well have been just being generous, but I did not get the feeling, talking with a number of them on the matter, that they felt at all bitter about it.

MR. GASTON: Did our troops look like pretty good troops - our troops that are over there?

H.M.JR: Those that I saw looked fair. I saw some that had only been in the Army six weeks.

MR. GASTON: We have not lost any men taking them over to England, have we?

H.M.JR: I don't think so.

MR. BELL: I think they announced that we had not - the Navy announced it.

H.M.JR: There have been some planes lost which have not been announced - bombers; but as far as I know, no ground troops.

MR. WHITE: The chief thing that annoys the airmen is that they want to get into the fight every day. In fact, if they have to wait for good weather it is very annoying to them. Bomber crews expressed that time and again.

MR. GASTON: Our men?

MR. WHITE: Yes.

MR. SCHWARZ: Ground troops have said they are eager to get fighting, too.

H.M.JR: They have very few days in a month at this time of year that they can bomb in the day time.

MR. GASTON: Our troops are not equipped over there yet to fight - any expeditionary work? They

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haven't got the material for it?

H.M.JR: I don't want to answer that, if you don't mind. Anybody else? Did we overlook anything, Harry?

MR. WHITE: No, I think you mentioned the important points. There are a lot of other things that will crop up because you saw so much.

H.M.JR: Such as?

MR. WHITE: But those are the main impressions.

MR. SCHWARZ: Would you give some of your impressions on the radio? NBC--

MRS. KLOTZ: And Columbia.

H.M.JR: NBC asked me to do it in England. My inclination is not to.

MR. SCHWARZ: There are a number of reasons why some of us feel it would be helpful. Various little sniping things have been going on during your absence. We feel it would look ahead now toward the future, to just ignore all of those and tell something about our own plans and use this as a springboard. It was a full trip, a lot of observations. There are a number of things that can be told without disclosing any secrets. It is a matter of timing; we think it would be a good time.

MR. GASTON: I think it is Elmer Davis's job.

H.M.JR: Did you see what I said last night when I landed?

MR. SCHWARZ: That read well.

H.M.JR: I don't know where today's press is. I said I was coming back very much encouraged, and

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I particularly wanted to express my admiration for the women in England at work. Then I said I saw Harriman. They asked me whether I saw Harriman.

I don't know. How do you feel about it, Herbert?

MR. GASTON: I don't just see it for the purpose of talking about your English trip. If it is connected with a talk on something else that has to do with our own work where the English observations would have a bearing on it it would be different.

MR. SCHWARZ: That is what I have in mind.

H.M.JR: Well, I think we had better think about it pretty carefully. My own feeling - the thing is, really, that everybody comes back and makes a talk about what he saw in England. I don't know. I just think what I said last night about encouraging, and so forth - we can think about it. I have got some new ideas, anyway, that are quite revolutionary that I want to talk about. I want a different attitude. I would just as soon say it now.

I think that you people, with all these various agencies, war bonds, and everything else, have got to do more about building me up in what I do. After all, when something goes wrong it is not Mr. Graves or War Bonds or Mr. Odegard or Mr. Eccles or Mr. Bell - it is Henry Morgenthau, Jr. who has to take it. We have all of these different agencies. Heretofore I have never felt it, but I feel that I want to have a serious talk. I think that you have to use these various functions in the Treasury to build me up as a person as Secretary of the Treasury so that you get the idea over. I mean like Time saying that I am an amateur at financing after nine years and all the rest of that stuff. But I think if you don't do it the bankers, who want not two and a quarter but four and a half like they got in the World War, are going

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to keep getting after me and after me because I am taking the cream off the coffee. They don't like it. I am going to send for some of these bankers and say that if they want to play rough I can play rough, too.

But to offset this thing through the many, many contacts we have, through the press and the radio, and so forth and so on, I want to sit down with some of you people and think about the various ways of definitely building up not me personally but the Secretary of the Treasury - in order to offset this thing so that we get some kind of a following. It is a thing which has never been done. I think we are going to have to change our technique entirely.

MR. SCHWARZ: There are definite evidences of an organized campaign on the part of these bankers. We need a resistance.

H.M.JR: We need a resistance to those attacks.

MR. BELL: I don't get that. After that first day it all died down. They have accepted this two percent, and I think you are all wrong about that.

MR. SCHWARZ: Bankers and tax people.

MR. BELL: There are some dealers that gave us a dirty dig, but I think the bankers have accepted this two percent. Every one of them that has come in to see me since your press conference said that you are right and want to stick to it and said, "Don't let anybody get you off that track."

H.M.JR: Has anybody said so in a publication?

MR. BELL: No, but I think they are willing to say it. Burgess came out this week--

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H.M.JR: That is the point. Kuhn or somebody should go to somebody like Eccles and say, "Will you write an article and say the Treasury's policy is right?" or go to a man like the president of the First National in Chicago and say, "Are you willing to say publicly that Morgenthau is right?" We have got to do the thing differently than it has ever been done before. I can't go around and say - I am not going to run for office, but I want to continue the next two years with success. In order to do the thing, Kuhn or somebody has to go to these people and get them to do that kind of thing, or Vince Callahan could get somebody to go on the air. I mean it should be done so it is not too obvious or done in such a clumsy way that the thing rebounds. But you have this sort of a publicity group, haven't you?

MR. GASTON: Yes.

H.M.JR: Well, I want to meet with that group, and I want you fellows to come in with a written program. Who is on that from War Bonds?

MR. KUHN: Peter.

H.M.JR: I think somebody in addition to Peter - I think somebody like Callahan. Hasn't he all of the avenues?

MR. GRAVES: A great deal, yes. He handles the press.

H.M.JR: I mean I want to sit down - I am saying this very quietly - and see what this group can do. Then if they can't do it, if they are not promotionally minded, I will get somebody who is. I have talked about it for a long time, and I have not been able to get it. If the people can't do what I want, then I will just go out and get somebody who can do it - I mean who is a promotional man. I mean Ivy Lee, or some

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body like that. But I have shadow-boxed with this thing now for so long and I can't get what I want. So I will try it once more and if this group can't do it then I will just have to get somebody entirely from the outside who has an entirely different attitude.

I am not saying this at all in a complaining or threatening way. I am just saying it very quietly. I must have it in order to do my job. I am not interested in the personal publicity, but I have got to get it in order to get my issues across. I mean it is perfectly asinine that there isn't anybody who will come out publicly - if there was somebody going around to the bankers and to Eccles and to the Open Market Committee and saying, "Are you willing to say publicly that the Treasury is on the right track?"--

MR. BUFFINGTON: The president of the American Bankers Association wants to take on that job. He was in to see Dan.

H.M.JR: There is no use in his coming in to see Dan and whispering it to Dan.

MR. BUFFINGTON: He wants to come out publicly on it.

MR. BELL: I want to talk to you about it.

H.M.JR: But there has got to be somebody who knows how to do this kind of thing. I have never been able to get it.

As I say, it is not for me personally, it is for the Treasury; but you have got to use me. I am the figurehead and they shoot at me. I mean they do not write about anybody else. They write about me. Am I right or wrong, Herbert?

MR. GASTON: Yes, you have to take the heat.

MR. BELL: Burgess told me he was coming out in their bulletin on the two percent policy.

H.M.JR: I want somebody to go around and get a dozen Burgesses so that the thing crops out all over.

MR. BELL: I do think it has to be handled very carefully or there will be a boomerang.

H.M.JR: Now, Mr. Graves, I have not seen any figures for three weeks. How many bonds did you sell?

MR. GRAVES: We had, as you remember, a quota of seven hundred and seventy-five million for October. We will, I am confident, exceed that. We have one day's reports lacking, and that is Saturday. As I recall, we were at seven hundred fifty through Friday.

H.M.JR: That is legitimate? (Laughter)

MR. GRAVES: That is legitimate.

H.M.JR: No adding or subtracting?

MR. GRAVES: We subtracted the wire reports we got early in the month and got wire reports for the last few days of October so it is completely legitimate.

MR. BELL: My reports will be included for October.

H.M.JR: Do you consider it legitimate?

MR. BELL: Yes.

MR. GRAVES: On a cash basis, Dan, comparing it with the seven fifty-five cash figure for September, I think the figures will be over nine hundred million for October.

H.M.JR: Really? How much of that will be "E" bonds - I mean of the seven seventy-five?

MR. GRAVES: "E" bonds will be, I would say, five sixty to seventy-five million.

H.M.JR: Will that be more or less than September?

MR. GRAVES: More.

MR. BELL: On October 30 you showed eight hundred sixty-six million dollars for the whole month.

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H.M.JR: As against--

MR. BELL: That includes some--

MR. GRAVES: A hundred and twenty.

MR. BELL: Yes, carried over.

H.M.JR: Mrs. Morgenthau said the Kansas City meeting was excellent.

MR. GRAVES: Yes, it was a good meeting.

H.M.JR: She said it was excellent.

How about you?

MR. BUFFINGTON: Seven hundred and four million through the 30th.

H.M.JR: And that is against what?

MR. BUFFINGTON: Nine hundred and twenty-nine.

H.M.JR: That is all right.

MR. BUFFINGTON: Six hundred and sixty-seven million in certificates outside the banks.

H.M.JR: Have you any publicity people that can help?

MR. BUFFINGTON: Doremus and Company.

H.M.JR: No, but help on this thing that I am talking about.

MR. BUFFINGTON: Not other than Bill Horne.

H.M.JR: Now, Herbert, is there anything - my plans are: I am going up tomorrow to vote, and the President asked me to stay over and come back with him

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Wednesday night. I spoke to him last night. He is very cheerful. Evidently Mrs. Morgenthau had written him a little note saying that as a result of this Zionist talk I had grown a black beard. So the first thing he asked me was if I had shaved off the black beard. He wouldn't see me until I had. He was very jovial.

Have you got anything between now and the next day or two?

MR. GASTON: No, I haven't anything.

H.M.JR: Any more backwash on the stuff you and I were doing?

MR. GASTON: No, no backwash at all. I have a memorandum that Ferdie prepared here on some of the speeches that were done and some copies of the speeches that went out during your absence.

H.M.JR: By whom?

MR. GASTON: Dan Bell, Randolph Paul, and Harold Graves, and John Sullivan.

H.M.JR: You mean to say as a punishment for going I have got to read those things? (Laughter)

MR. BELL: I wouldn't recommend it.

MR. GASTON: This little summary is all you need.

H.M.JR: Summary?

MR. GASTON: There is a summary, and then there are the speeches if you want to look at them.

H.M.JR: Right. They are kind of heavy. (Laughter)  
What else? All of them written by Kuhn?

MR. KUHN: No.

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MR. GASTON: By various people.

MR. KUHN: There was an attempt to do what you wanted done, which was to give a picture of the whole war financing picture in all our speeches, and I think it was pretty effective in the last few weeks - pretty good.

MR. GASTON: Mr. Walter George has been conferring with E. C. Alvord and has been putting out some anti-Treasury statements.

H.M.JR: Mr. George has?

MR. GASTON: Yes.

MR. BELL: Every day or so there has been something.

H.M.JR: Who, George?

MR. BELL: Yes.

MR. GASTON: He has been seen in heart-to-heart conversations with Alvord who, I suppose, is furnishing him the material.

H.M.JR: That is all right.

MR. GASTON: They have me dated for a speech to the CIO annual meeting in Boston next Monday.

H.M.JR: Good.

MR. BUFFINGTON: We have our publicity program for the "A" and "C" notes set. Before concluding the printing of this large amount of circulars there are one or two questions I would like to ask you when you have time.

H.M.JR: When?

MR. BUFFINGTON: I thought probably after Dan discussed--

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H.M.JR: Today?

MR. BELL: I have got a number of things I would like to talk with you about before you go away.

H.M.JR: All right. Well, put your name down outside.

MR. BUFFINGTON: That is all.

MR. CAIRNS: Hugh Fulton, who is counsel to the Truman Committee, is anxious to see you about the profit made on the American Viscose deal. He wants to know if we recommended a reduction in the seven million eight and was a reduction ever made.

MR. BELL: I can supplement that a little. They have written to the Morgan group wanting the facts in the case. Perry Hall called me a couple of times. He told me first that they had the letter and wanted you to know it and they expected to answer it quite frankly. He called me Friday and said the letter had been prepared and they would not send it until you got back; and if you wanted, he would like to talk to you on the telephone, read it to you, and see if you had any objection.

H.M.JR: That would be a mistake.

MR. BELL: I don't know that it would, because I think this fellow ought to see you and you give him whatever--

H.M.JR: No, no, wait a minute. I think it would be a mistake for Perry Hall to show me the letter before he sends it to the Congress. Check, Counsel?

MR. CAIRNS: Yes. I don't think you ought to see that, but I think you ought to see Fulton.

H.M.JR: I don't think I should see what Perry Hall does. My horse sense tells me the answer is,

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"Whatever you want to write, write it, and after you send it if you care to send me a copy --"

MR. CAIRNS: Absolutely.

MR. BELL: You are not interested in whether or not he stated the case in accordance with your reaction?

MR. CAIRNS: You state your own case.

H.M.JR: Am I not right, Herbert?

MR. GASTON: Yes.

MR. BELL: I would hate to see a difference come out in the thing.

MR. CAIRNS: But you will have the letter before you see Fulton.

MR. BELL: There still may be a difference of views on the approach to the thing and then you have the difference before this committee, which I think is bad.

H.M.JR: I wouldn't want to read in the newspaper that Mr. Perry Hall of J.P.M. before he wrote a letter to a Congressional investigating committee submitted the letter to me first. Am I not right on that?

MR. CAIRNS: That is the way I feel.

H.M.JR: Anybody take Bell's side?

MR. BELL: Stacked jury. (Laughter) Well, I am not taking sides; I am raising the question.

H.M.JR: You will be doing what Johnny Hanes did. He says, "I have got to get myself a personal attorney."

MR. BELL: I am alone.

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MR. WHITE: Speaking for myself, my silence is for the fact that I am not clear on the problem at all. I should know about what it is, but I don't. I don't remember the details.

H.M.JR: Well, Harry, I don't know whether you were in on it. I begged - I mean, the facts are I begged the group to take less.

MR. WHITE: I remember that.

H.M.JR: I said it is a mistake. "You are making a mistake; you should take a smaller profit."

MR. WHITE: I clearly remember that.

H.M.JR: And they wouldn't listen to me.

MR. CAIRNS: I think they gave a million dollars back.

MR. BELL: I thought they reduced it a million.

MR. CAIRNS: But you wanted another million taken off.

H.M.JR: No. Let the Perry Hall letter go.

Now, what about the Truman Committee?

MR. CAIRNS: We promised Fulton that we would arrange an appointment for him as soon as you returned. Now, we can put that off until after you come back from New York.

H.M.JR: What I think you should do is this: I think that you should personally brief my diary and then let me go over it with you.

MRS. KLOTZ: Did she give you all that material?

MR. BELL: It is back now.

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H.M.JR: I think the thing should be brief. Go over it so I can prepare myself a little bit. I will be back Thursday morning. I could do it Thursday. I could see the man Thursday afternoon.

MR. WHITE: I don't know how permanent - there has been much discussion of this in England, and England has felt that the price has been so low that the British Government is reimbursing the stockholders with a much higher price. Now there is a great deal to be said on both sides of that. If the Treasury is going into that, developing its position on that, it needs to be gone into very carefully. I don't agree with the British view wholly.

MR. CAIRNS: The story Fulton has is the bankers put up forty million, sold the sixty-eight million, took a seven million eight profit, that the British Government had to pay the British stockholders a hundred and eight million.

MR. WHITE: That is right.

MR. CAIRNS: And it looks very bad to him.

H.M.JR: From whose standpoint?

MR. BELL: It looks bad on paper.

MR. CAIRNS: That the bankers took seven million eight.

H.M.JR: How do we look when you review it?

MR. CAIRNS: I think that your position, if you can disclose it, your diary - you had a conference in this room and according to your diary you said "What I say here will not be disclosed beyond the four walls. I am just making this suggestion, and when you leave, you can forget that we ever had the conference."

MR. WHITE: I think the Secretary has in mind more how the general picture looks, and I think the

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British are presenting it in a way that doesn't look too good, because they are presenting it from the point of view that they got a very low price for their securities because of the pressure that you put on them. There is a new element introduced apparently, and that is that the American group or American Congress - I gather from this conversation - instead of thinking it is a good thing that the Americans got this at a bargain feel that the bankers got it at the bargain and made a very handsome profit at somebody's expense - a new element in the situation.

MR. CAIRNS: Fulton has not raised that point. I don't have the figures.

MR. WHITE: I merely raise the question. I think we all ought to go over it very carefully.

MR. BELL: One thing the Committee ought to know is your attitude right at the start. You said the British lead the American people to believe they were going to lay all their assets on the table if we had lend-lease. When they kind of held back from selling viscose, the Secretary made the statement to them, as I recall, "What is fifty or sixty million dollars in the winning of this war? I think you ought to lay these assets on the table and sell them. I told the American people you were going to do it."

MR. WHITE: I think that is part of the picture. Your record is very clear, not only clear, but it would receive a favorable reaction. There are a number of nuances which could very easily be distorted. Whatever should be done should be done in reexamination of the whole thing, and should be done rather carefully.

H.M.JR: Well, Harry, a person who might be perfectly back of this is Jesse Jones. He didn't want the deal to go through.

MR. CAIRNS: Fulton has talked to Jesse Jones.

H.M.JR: What was Jesse's attitude? Didn't he say he could get more? And then we pressed him--

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MR. WHITE: It wasn't he; it was another group. Jesse was in another group that said they would first offer ninety million dollars, but the question was whether they had the cash. The British maintained they didn't want to do business because they didn't have the cash.

H.M.JR: It was the ex-Governor of North Carolina--

MR. WHITE: SEC said they were all right, were a good group.

H.M.JR: ... but the ex-Governor of North Carolina - Governor Gardner - Max Gardner--

MR. CAIRNS: Fulton opened his conversation with me by saying that he wanted to know the status of the Treasury investigation, and he said that Mr. Jones thought the matter would iron itself out. I said, "I am sorry; I just don't have the background. Would you please be a little more explicit?" That is all he said about Jones.

H.M.JR: Why not let's get our group together, say, at eleven Thursday morning. And then maybe there are some things I will want to have done over again, you see, and I will say that I will see Fulton at eleven o'clock Friday. That is of the - what committee?

MRS. KLOTZ: Truman Committee.

H.M.JR: But you fellows, in the meantime, Buffington, White, and Bell, get together and prepare yourselves so when you come in to see me I would like you to be ready - when you come in to see me Thursday.

MR. CAIRNS: Danny had the idea you might want to talk to Senator Truman.

MR. BELL: I understood he had been very friendly to you and that you might be able to do a lot of good there by having him in on the conference, or maybe by

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himself. You don't have to decide that until after you have your Thursday conference.

H.M.JR: Leave that open?

MR. BELL: Leave that open until after we have our conference Thursday.

H.M.JR: Find out what the shooting is about.

MR. BELL: I can call Perry Hall today and tell him to let the letter go. If he would like to give us a copy of it, we would like to have a copy.

H.M.JR: Yes. I wonder who is stirring that up. It might be perfectly well Max Gardner.

MR. BELL: I don't know, but the Truman Committee asked them for a report.

H.M.JR: Asked who?

MR. BELL: The Morgan crowd.

MR. CAIRNS: Morgan, Stanley.

H.M.JR: And Dillon, Read. There is Dillon, Read; and Morgan.

MR. BELL: They allowed Perry Hall to call because he is on our staff, and he called from the Federal--

H.M.JR: Isn't my record - can't I open that up to the public all right?

MR. CAIRNS: You may have to get a clearance from the people who were present at this conference - you gave them your word--

H.M.JR: But how is my record when you look at it?

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MR. CAIRNS: It is excellent on the seven million eight. That is the--

MR. WHITE: I think it is excellent right through. There is no doubt about that; it is a strong record, but the only question is merely a question of refreshing your mind in all the details, because clearly the thing from its very inception was a favorable record: the fact that a price which they finally got was lower than what they thought it was worth in the first place - did they overvalue it; and in the second place, the circumstances at that time were such that that is all they could get in the market, but that is independent of whether the bankers got a high profit. If they got the high profit, it is still clear - that is, Morgan might not come out of this all right - Morgan and Dillon - because I don't know the details about this large profit--

H.M.JR: But I begged them to take less and they cut it a million at my request.

MR. CAIRNS: You weren't satisfied and had them in again.

MR. WHITE: You asked them to take less. I remember both Foley and I felt you should--

MR. CAIRNS: ... you should shave off another million. They went away and discussed it with the syndicate, and Morgan, Stanley took the position that other members of the syndicate would not agree.

MR. BELL: That was in a letter they wrote you, as I recall.

H.M.JR: Isn't that letter admissible for testimony or evidence?

MR. CAIRNS: Only aside from your commitment.

MR. GASTON: It is very important that you had nothing to do with the selection of the banking group.

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You had nothing to do with that at all. The British made the selection.

MR. BELL: You had something to do on the other side.

H.M.JR: As I remember, I begged them not to take it. Did you read the thing?

MRS. KLOTZ: I remember it.

MR. GASTON: The danger is that somebody should represent that you forced them into Morgan's hands and Morgan trimmed them.

MRS. KLOTZ: It is just the reverse of that.

MR. CAIRNS: You begged them not to go to Morgan - not to use Morgan.

MRS. KLOTZ: That is in the record.

MR. BELL: That is when Peacock first came over.

MR. WHITE: I also remember - not clearly but rather vaguely - some remonstrations on your part at the low price, some discussion. But that does not stand out clearly in my mind.

H.M.JR: Read the record and we will do it Thursday morning, everybody that is interested.

Anything else?

MR. CAIRNS: That is all.

H.M.JR: That is the only worry? That is a very minor one.

Where is John L. Sullivan?

MR. BELL: He is up in New Hampshire.

MR. GASTON: He went up on that will case that he reserved.

H.M.JR: Is he still going up on that?

MR. GASTON: He has got the formal proving of a will today at court in Manchester.

H.M.JR: Also election is tomorrow.

MR. GASTON: Yes, that is right. (Laughter)

MR. BELL: He set it on Monday so he--

H.M.JR: ... could do the two, right. The collector at the port met me last night and told us that Dewey would go over big. Then he said something which made no sense to me. He said that one of the troubles was Farley's attack on me - not me, on Harry Durning. Did Farley attack Harry Durning?

MR. GASTON: I didn't know it.

H.M.JR: So the Ku Klux Klan is very active in up-state New York.

Kuhn?

MR. KUHN: Nothing.

H.M.JR: You had better clear your desk, young fellow, I am just putting you on notice, so you will be able to be of assistance to me.

MR. KUHN: Clear.

H.M.JR: I tried to disentangle you once. Are you clear?

MR. KUHN: I am clear.

H.M.JR: O.K.

George?

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MR. HAAS: I don't know if you want to look at this now - some preliminary stuff on the financing-- (Papers handed to the Secretary.)

MR. SCHWARZ: You have no word to give to the press boys prior to four o'clock?

H.M.JR: Prior to four o'clock - four o'clock is bad enough.

MR. SCHWARZ: I will tell them to wait, that is all.

H.M.JR: Harry?

MR. WHITE: I haven't had a chance, I have nothing in mind. I will have for you a number of things that you may want to take up with the President that you said you would take up with him - whether this would be a propitious time - I will have them listed.

H.M.JR: Just so you can get it - make it nine-thirty tomorrow morning and I will take it.

Mr. Graves?

MR. GRAVES: I have nothing.

H.M.JR: How are you feeling?

MR. GRAVES: Fine, thank you, sir.

H.M.JR: Bell, do you want to see me?

MR. BELL: I would like to have some time.

H.M.JR: I will tell you now - what I am going to do is, I am going to rest, and you ought to go home, Harry, at lunch time today.

MR. WHITE: I will go home early today.

H.M.JR: You are going home at lunch time. (Laughter)

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MR. WHITE: There is nobody home, so there is no sense in going home.

H.M.JR: Will you eat your lunch and go home?  
(Laughter)

MR. WHITE: I certainly will eat my lunch and go home, yes, sir. (Laughter.)

H.M.JR: I mean seriously?

MR. WHITE: I will do that.

H.M.JR: Right afterwards?

MR. WHITE: In just a couple of hours. I will go home with my wife early. Don't worry about me, I feel fine.

H.M.JR: But you may not, seriously.

MR. WHITE: Thank you.

H.M.JR: What time will that be?

MR. WHITE: You embarrass me - one-thirty.

H.M.JR: Will you go home?

MR. WHITE: I will eat my lunch. (Laughter)

H.M.JR: He was very good on the trip, very good.

MR. WHITE: You don't know how restful it is sleeping by your side. (Laughter) If you press me I will tell some of the things you said about head winds and tail winds.

H.M.JR: Well, it is a conversation when you are flying. Bell, at three o'clock I will give you one hour.

MR. BELL: O.K. I might tell you--

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H.M.JR: I admit when this meeting is over I am going home. I am tired; I am going home.

MR. BELL: I have attended two meetings of the Byrnes Committee. They are rather interesting, and I think we are going to have a lot of work to do because they send over the material in advance, and they ask each member of the group to comment on it and ask questions of the individual who prepared it. McNutt prepared quite a memorandum on the manpower problem and presented it last--

H.M.JR: McNutt?

MR. BELL: Yes, he wasn't a member of the Board, but he was asked to present this on wage stabilization and so forth. Claude Wickard prepared one on agricultural wages. I didn't get the one that they sent over on McNutt's, so I wasn't able to do anything with it before the meeting. But there was quite a meeting, and we are going to have a lot of work to do on it.

H.M.JR: I wish you would circulate it among anybody who is interested, and also that memo which you sent me which I haven't read. You said White would get a chance to see it.

MR. WHITE: Paul was away all last week.

H.M.JR: A rest?

MR. WHITE: I think he went on a speaking tour, but he didn't go over the final draft. Viner and Stewart were down and did go over it. It is the final draft. So far as the second line of defense is concerned, I think it is in pretty good shape.

H.M.JR: Why is George firing at us, now that the tax bill is over? What is he shooting at?

MR. WHITE: I think he is doing it to offset some of the Treasury speeches - Paul's speeches, and Sullivan's, particularly, on taxes.

MR. KUHN: Treasury speeches have been about the need of greater revenue from taxes, and so on. It is getting his goat.

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H.M.JR: I refrained last night. They asked me on taxes about the English. I didn't think I would go into that thing. Did you read what I said, Ferdie?

MR. KUHN: No, I have not seen it.

H.M.JR: It is very short. That is my story and I will stick to it, I think.

MR. KUHN: For this afternoon?

H.M.JR: Yes. Read it.

Dan, I will see you at three.

MR. BELL: All right. I take it you are not interested in filling a vacancy on the Red Cross Endowment Fund.

H.M.JR: On the what?

MR. BELL: Red Cross Endowment Fund Committee. Norman Davis asked - wrote a letter and asked if you would be interested in commenting on somebody or suggesting somebody. He is suggesting Bob Fleming.

H.M.JR: That is all right.

MR. BELL: That is all.

MR. THOMPSON: There were half a dozen deferment cases while you were away - Internal Revenue, employees over forty. Mr. Bell gave three months' deferment in each case. There is one case that Mr. White will have to take up almost immediately. That is Oscar Gass. He has been called for November 5th.

MR. WHITE: He is a good man, but--

MR. BELL: I said three months in order that the case might be presented.

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MR. WHITE: He is a good man, but he is a young man. I don't know whether I would ask--

H.M.JR: What we were talking about doing as a result of this trip is to have a couple of men in Lisbon. What we thought we might do is have these men of Harry's who have been put in uniform - we will get them detailed to Lisbon, and they will be just as useful there as they would be somewhere else, and a good deal more useful.

Coming over on the plane we learned a lot about how they do the thing. Back in April the captain of the first flight had taken ten thousand dollars and bought escudos. Then he turned around and bought escudos - bought American currency - and he got twelve thousand five hundred dollars worth of currency. Then he brought it home and the Treasury blocked his check, so the fellow in Lisbon has never been paid. He has twelve thousand five hundred dollars in currency and the money is still in his bank. The steward on the boat had bought two thousand francs for ninety of escudos - paid how much for a thousand?

MR. WHITE: That was almost three francs for a cent, Dan.

MR. BELL: The rate we fixed was good.

H.M.JR: We ought to have a couple of good men, and it was my suggestion that we get a couple of his men in uniform. I would write a letter to Stimson and Knox and have them sent to Lisbon.

MR. GASTON: We have a man there, you know, who is working on his--

H.M.JR: Oh, have you?

MR. WHITE: And what a man!

H.M.JR: We want to see you. Listen-- (Laughter)  
Harry slept right next to that fellow.

MR. GASTON: Oh, he came back with you, did he?

MR. WHITE: No, he met us at the plane, and he invited us to his home.

MR. GASTON: He has been ordered back.

H.M.JR: He is the greatest detective in the world or the greatest crook. We have got to look into him. This is in the room. He says, "The American Minister likes it. Any charity in Lisbon - I give it in the name of the Minister - it is Donovan's money. He loves it."

MR. WHITE: He didn't say Donovan's money.

H.M.JR: It isn't Treasury money. He said the Minister loves it.

MR. WHITE: He either is very excellent or he needs to be watched, and I am not at all--

MR. GASTON: Maybe both.

MR. WHITE: He is a very smart fellow; and according to the stories he told, which read like E. Phillips Oppenheim, he is doing a marvelous job.

MR. GASTON: He is getting some stuff.

H.M.JR: Anyway, that has nothing to do with the currency.

MR. GASTON: There is another matter coming up that Dan will tell you about - a Treasury man.

H.M.JR: But we could very well take a couple of these men in uniform, have them detailed. We ought to have another man in London in uniform. We should use some of these good men that they take from us and let them go overseas and they will be doing just as much good.

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MR. BELL: We got a request from one of our Treasury people over there. About seven or eight of our Treasury men--

H.M.JR: Why?

MR. BELL: Colonel Bernstein--

MR. WHITE: We drafted that again, unless it is one within the last day or two.

MR. BELL: This was a week ago.

H.M.JR: I take my hat off to Bernstein, knowing about his family, home, and everything else. Have you called Mrs. Bernstein?

MR. WHITE: I spoke to her last night.

H.M.JR: He is all right, and he made a hit over there. That is the first thing - "What did he come here to see you for?" I didn't know the answer. It turned out that he had gotten permission from his superior officer. Then after two days Smith took me aside and wanted to thank me for Bernstein. General Eisenhower was so pleased with Bernstein and everything else. Now, he hadn't been there forty-eight hours before he had made his mark.

MR. BELL: He will do a good job.

H.M.JR: He made his mark. He is worrying about five hundred dollars' worth of uniforms they are going to send him. He says he will get them in the next war.

MR. BELL: Did he have on his uniform?

H.M.JR: He had on a uniform and he looked very nice - he looked all right.

MR. BELL: I think his request for so many Treasury people raises a little suspicion in the War Department that you are trying to build up a Treasury organization within the--

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MR. WHITE: That was with their acquiescence - many of these men--

MR. BELL: I mean over here in the War Department.

MR. WHITE: No, they liked the sample, and we said that there were some men already in the army that they could get. They said they needed them and we weren't pushing them.

H.M.JR: The Army's attitude is, "We fool around for two months with something we don't like - don't know anything about, and you fellows come over here and settle it in forty-eight hours. For God's sake, take it off our hands."

MR. GASTON: I don't think Larry Bernard is doing anything of any importance in the Coast Guard. Send him over there as a Navy representative.

H.M.JR: Harry's face was a study. He is a great poker player.

MR. WHITE: I won because the others were worse.

H.M.JR: That is right.

All right, what else?

MR. THOMPSON: That is all.

H.M.JR: Incidentally, I just want to say this much for myself - when did I begin talking to you about getting women in the Treasury?

MR. THOMPSON: Two years ago, I guess.

H.M.JR: Some time will you see this fellow Dan Bell? I don't see him very often. I have told him and told him, and I almost did it when he was away, and I should have, but I tried to be a gentlemen so I didn't do it. The next time I am not going to be so easy. You

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tell him I want a capable, trained woman in banking to sit along side of those three old boys at the end of this hall.

MR. BELL: I am working along that line. I have one now. I am trying to get her through the Civil Service Commission, but they sent back for more information.

H.M.JR: That was two months ago.

MR. BELL: Well, it takes time. I don't want those people you had on that list. Frankly, they would just be useless.

H.M.JR: I agree with you. We said we would give the Treasury personnel the first chance and then we would go outside the Treasury. You want to give Treasury personnel the first chance, don't you?

MR. BELL: I certainly do.

H.M.JR: But let's get somebody.

MR. BELL: They were some people somebody wanted to get rid of.

H.M.JR: Who is she?

MR. BELL: She is a sister of Miss Hodel, who is on the General Counsel's staff - a lawyer. She has had some financial training, some economic training, and she has been financial secretary of a number of colleges. She is a woman about thirty-five or thirty-six years old.

H.M.JR: We need them badly. That goes for everybody in the room, if you have got anybody under forty in a key position. We have just got to strengthen ourselves.

Well, I am glad to be back. May I thank each one of you for keeping the ship rolling while I was gone. I didn't worry, did I?

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MR. BELL: No, you didn't send any cables.

H.M.JR: I didn't send any messages.

MR. BELL: Paraphrases were great coming from the War Department. They would give the information in the first sentence and then say, "For Daniel W. Bell in the Treasury from Secretary Morgenthau," and that was just the extent of the paraphrase.

H.M.JR: Well, anyway--

MR. WHITE: Your first cable was very helpful, Dan.

H.M.JR: What cable?

MR. WHITE: Dan sent a cable about taking up those matters, which threw the thing right back there.

H.M.JR: It was a good trip, and I come back very, very much encouraged and ready to go on with the grind.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE November 2,  
1942

TO Secretary Morgenthau  
FROM Mr. Haas *CH*  
Subject: November and December Financing

SUMMARY

- (1) The first section of this memorandum outlines a suggested financing program designed to yield \$11.1 billions during November and December. This would provide a margin of safety of \$1 billion over estimated requirements for the two months. A tabular summary of this program is given on page 2, following which its component elements are more fully described.
- (2) The second section of the memorandum discusses the reasons for the selection of various component elements of the program; such as, the amounts of the various securities offered, their particular descriptions, and manner of sale.
- (3) The third section of the memorandum discusses the general problem of bank vs. nonbank absorption of Government securities, concluding that the present rate of bank absorption is greater than can be safely maintained without more powerful incentives to individual saving than those now obtaining.

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I. General Outline of Suggested Program

The following financing program is suggested to raise \$11.1 billions during the remainder of the calendar year. Since the total amount required is \$10.1 billions, this program provides a margin of safety of \$1.0 billion.

Period and offering	Proceeds		
	Banks	Others	Total
(In billions of dollars)			
November 9-11 <u>1-3/4% bond offered to banks</u> in amount of \$2.0 billions	2.0		
November 9-21 <u>1-3/4% bond offered to non-</u> bank investors in unlimited amount.....		.5	2.5
<u>2-1/2% "tap" bond offered to</u> nonbank investors in un- limited amount.....		1.5	1.5
December 7-8 <u>7/8% one-year certificate</u> offered to banks in amount of \$2.0 billions, and to nonbank investors in un- limited amount.....	2.0	.5	2.5
Every week <u>Present bill program.....</u>	1.0	.2	1.2
<u>3/8% 91-day certificates of-</u> fered in amounts limited to \$100,000.....	.3	.1	.4
Continuously <u>Tax notes.....</u>	-	1.2	1.2
<u>Savings bonds.....</u>	-	1.8	1.8
<u>Total Program.....</u>	<u>5.3</u>	<u>5.8</u>	<u>11.1</u>

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The program suggested in the above table may be briefly described as follows:

- (1) A 1-3/4 percent bond of September 15, 1947-49, available to both banking and nonbanking investors, would be offered on November 9. Books for subscriptions from banks would be held open for three days. The amount to be raised from banks would be set at \$2.0 billions, and subscriptions would be subject to allotment. Books for nonbanking subscriptions would continue open for two weeks, and such subscriptions would be allotted in full. Sales to nonbanking investors would be in addition to the \$2.0 billions raised from banks.
- (2) A new 2-1/2 percent "tap" bond of 1960-70 would also be offered on Monday, November 9. The new bond would be available in coupon as well as registered form, but would not be eligible to be held by commercial banks before 1952. The privilege of exchange into coupon form would be made retroactive to the outstanding "tap" bonds. The books on the new issue would be held open for two weeks, and subscriptions would be allotted in full.
- (3) While no "quota" would be set for sales to nonbanking investors of either of the issues just discussed, the Victory Fund Committees would be told to make an all-out effort to promote as many sales as possible outside of the banking system. This would provide a test of the efficacy of the present machinery for selling marketable issues to non-banking investors.
- (4) A 7/8 percent certificate due December 1, 1943, would be offered on Monday, December 7, the books to be open two days. The amount to be raised from banks would be set at \$2.0 billions, and bank subscriptions would be subject to allotment. Subscriptions from other investors would be allotted in full and would be in addition to the \$2.0 billions to be raised from banks.

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- (5) The present program of bill offerings of \$500 millions a week would be continued for the period.
- (6) Weekly issues of 91-day  $3/8$  percent certificates would be offered commencing as soon as possible. Weekly subscriptions to such certificates would be limited to \$100,000 per subscriber.
- (7) It is assumed that a continuation of the present program for selling tax notes will result in average gross sales of \$600 millions per month for November and December.
- (8) It is assumed that gross sales of savings bonds for the months of November and December combined will amount to about \$1.8 billions. December is a good month seasonally for the sale of savings bonds, and it is assumed that there will be a "Give a bond for a Christmas present" campaign during that month.
- (9) The \$232 millions of  $1-3/4$  percent notes due December 15 would be paid off in cash.

## II. Specific Comments on Suggested Program

The following comments appear pertinent with respect to certain particular aspects of the suggested program:

- (1) Limitation of offerings to banks to \$2.0 billions. It would seem to be a wise policy to confine offerings of securities expected to be absorbed principally by banks to \$2.0 billions, as long as excess reserves remain at present levels. Many banks are reluctant to subscribe for Government securities to an amount greater than their excess reserves. These reserves, for the banking system as a whole, have varied (on reporting dates) from a low of \$1.7 billions to a high of \$3.0 billions during the past two months, and are now about \$2.2 billions. In our opinion, the disproportion between the amount of the \$4 billion October financing and the then available supply of excess reserves was the most important cause of the difficulties which it encountered.
- (2) Offering of a 1-3/4 percent bond. It has been contended that a 1-3/4 percent security should be a 5-year note. In our opinion, this would result in a disturbance to the pattern of rates and would make both 1-1/2 percent notes and 2 percent bonds harder to sell in the future. We believe that the earliest opportunity should be taken to let the market know that 1-3/4 percent is a bond rate, and not a note rate.
- (3) Ten-year call period for the 2-1/2 percent bond. A new dating of the "tap" issue seems advisable to provide investors with a sort of "diversification" for their portfolios. This new dating might be made the occasion for inserting a 10-year call period in the new issue. Call periods of this length -- which are, of course, of great value to the Treasury -- were once common; and, in our opinion, the insertion of such a provision in the new "tap" issue would be acceptable to prospective purchasers.

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- (4) Offering of the 2-1/2 percent bond in coupon form. Offering the 2-1/2's in coupon form might widen their appeal very considerably and seems well worth trying. We are informed that at least one important insurance company (Travelers) has refused to purchase registered bonds and that the same thing is very likely true of a number of smaller companies.

The offering of coupon bonds will make a greater difference to individuals and trustees than to insurance companies, however. Coupon bonds are the traditional type of Government obligation; and tradition counts for more, relative to the real value of the obligation, in the case of nonprofessional investors, such as individuals, than it does in the case of professional investors, such as insurance companies. Trustees, while often professional investors, find registered obligations particularly onerous because of the necessity of establishing their right of trusteeship whenever such obligations are sold.

- (5) "All-out" effort by the Victory Fund Committees. It is important that the efficacy of the Victory Fund Committees in selling Government securities, particularly to individuals, be tested as soon as possible. Despite continuously mounting demand deposits in the hands of individuals, total allotments to individuals of marketable Treasury bonds, notes, and certificates so far this calendar year -- including the two offerings of the "tap" issue -- have been less than \$700 millions. The Victory Fund Committees should be asked to make an all-out effort to demonstrate that they are the proper instrumentalities for securing a wider distribution of marketable Government securities to individuals.

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- (6) Weekly issues of 91-day 3/8 percent certificates. Small banks are generally unwilling to take the trouble of bidding for Treasury bills. They are unfamiliar with these instruments and are often unable even to check the accuracy of an invoice stating the price and the yield of a block of Treasury bills. The issuance of 91-day 3/8 percent certificates would provide these banks with an instrument of the same yield and maturity as Treasury bills. Some distribution of the certificates might also be obtained outside of the banking system. It would be expected, of course, that the Federal Reserve Banks would establish a posted buying rate of par for the new certificates. As the maximum amount of such certificates which could be acquired by a single purchaser (at the rate of \$100,000 a week) would be \$1.3 millions, their issuance would not compete seriously with Treasury bills.
- (7) Cash redemption of the 1-3/4 percent notes due December 15. These notes are outstanding in the amount of only \$232 millions. To pay them off in cash would be in line with the action taken with respect to similar securities in September and October. The present price of the notes reflects no "rights" value.

III. The Problem of Bank vs. Nonbank  
Absorption of the Public Debt

A. The Significance of Bank Absorption of the Public Debt

Statistics dividing increases in the public debt between banking and nonbanking investors give no hard and fast indication of the inflationary or noninflationary effect of such increases.

The real question with respect to any borrowing operation is "What is its effect on private spending?" Sales of Government securities to banks are not inflationary if they are offset by a reduction in bank loans or by the accumulation of real savings in the form of bank deposits. Sales of Government securities to nonbanking investors, on the other hand, are inflationary if they result merely in the activation of balances which were previously idle.

A considerable amount of Government securities might be sold to banks with no inflationary effect at all, and this amount might be raised greatly if the incentive of individuals to save were increased by some such device as a spendings tax or expenditure rationing.

Nevertheless, under existing conditions, the absorption of Government securities by banks does provide a rough index of the inflationary effect of Government borrowing and is the only index available, as it is impossible to obtain any statistical measure of the real sources from which funds are derived.

B. The Amount of Bank Absorption of the Public Debt

Commercial banks, plus the Federal Reserve Banks, absorbed 50 percent of the increase in the public debt during the quarter ended September 30. During the same quarter, these institutions absorbed 72 percent of the increase in the marketable debt (including the so-called "tap" issue). The difference is, of course, accounted for by sales of savings bonds and tax notes, and by the absorption of debt by Government agencies and trust funds.

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Sixty-three percent of the total debt increase for the first 28 days of October was absorbed by commercial and Federal Reserve Banks. This proportion will decrease slightly by the end of the month, principally because of sales of tax notes. During the same period, about 80 percent of the increase in the marketable debt was absorbed by commercial and Federal Reserve Banks. The major market financing of the month -- the 1-1/2 percent notes and the 2 percent bonds -- was absorbed 81 percent by banks.

Comparative data on the proportion of bank and nonbank absorption of the public debt since the commencement of the Treasury Survey of the Ownership of Government Securities are shown in the following table and in the attached chart:

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Absorption of the Increase in the Public Debt  
March 31, 1941 - October 28, 1942 \*

	Total Debt		Marketable Debt Only**	
	Increase (billions of dollars)	Absorbed by banks*** (Percent)	Increase (billions of dollars)	Absorbed by banks*** (Percent)
<u>1941</u>				
Apr. 1-June 30	2.3	61	1.1	129
July 1-Sept. 30	3.0	8	0.3	85
Oct. 1-Dec. 31	<u>6.0</u>	<u>26</u>	<u>3.4</u>	<u>46</u>
Apr. 1-Dec. 31	11.3	28	4.8	67
<u>1942</u>				
Jan. 1-Mar. 31	3.8	15	1.0	54
Apr. 1-June 30	8.9	49	6.0	72
July 1-Sept. 30	13.9	50	9.7	72
Oct. 1-Oct. 28	<u>5.4</u>	<u>63</u>	<u>4.3</u>	<u>80</u>
Jan. 1-Oct. 28	32.1	48	21.1	73

\* October 1942 figures are estimated and September 1942 figures are preliminary.

\*\* Excludes marketable obligations held by Government agencies and trust funds; includes depository bonds and long-term "tap" issue.

\*\*\* i.e., by commercial banks and Federal Reserve Banks; excludes mutual savings banks.

Secretary Morgenthau - 11

The above data do not include the new 7/8 percent certificates of indebtedness, dated November 1, of which 67 percent was allotted to commercial and Federal Reserve Banks.

The foregoing data show the proportion which the amount of debt absorbed by the banks bore to the total debt increase. It is of much more importance to the inflation problem, however, to compare the amount of debt absorbed by banks with the size of the whole economy. This is done in the following table which compares the amount of debt absorbed by banks, quarter-by-quarter, with the amount of the gross national product (i.e., the total of all goods and services produced):

Comparison of the Amount of Debt Absorbed  
by Banks with the Gross National Product  
March 31, 1941 - September 30, 1942

	Gross National Product	Debt Absorbed by Banks	Bank Absorption of Debt as a Percentage of Gross National Product
--	------------------------------	------------------------------	---

(Billions of Dollars)

1941

Apr. 1-June 30	29.4	1.4	5
July 1-Sept. 30	31.1	.2	1
Oct. 1-Dec. 31	<u>33.1</u>	<u>1.6</u>	<u>5</u>
Apr. 1-Dec. 31	93.6	3.2	3

1942

Jan. 1-Mar. 31	32.6	.6	2
Apr. 1-June 30	36.7	4.4	12
July 1-Sept. 30	<u>38.0</u>	<u>6.9</u>	<u>18</u>
Jan. 1-Sept. 30	107.3	11.9	11

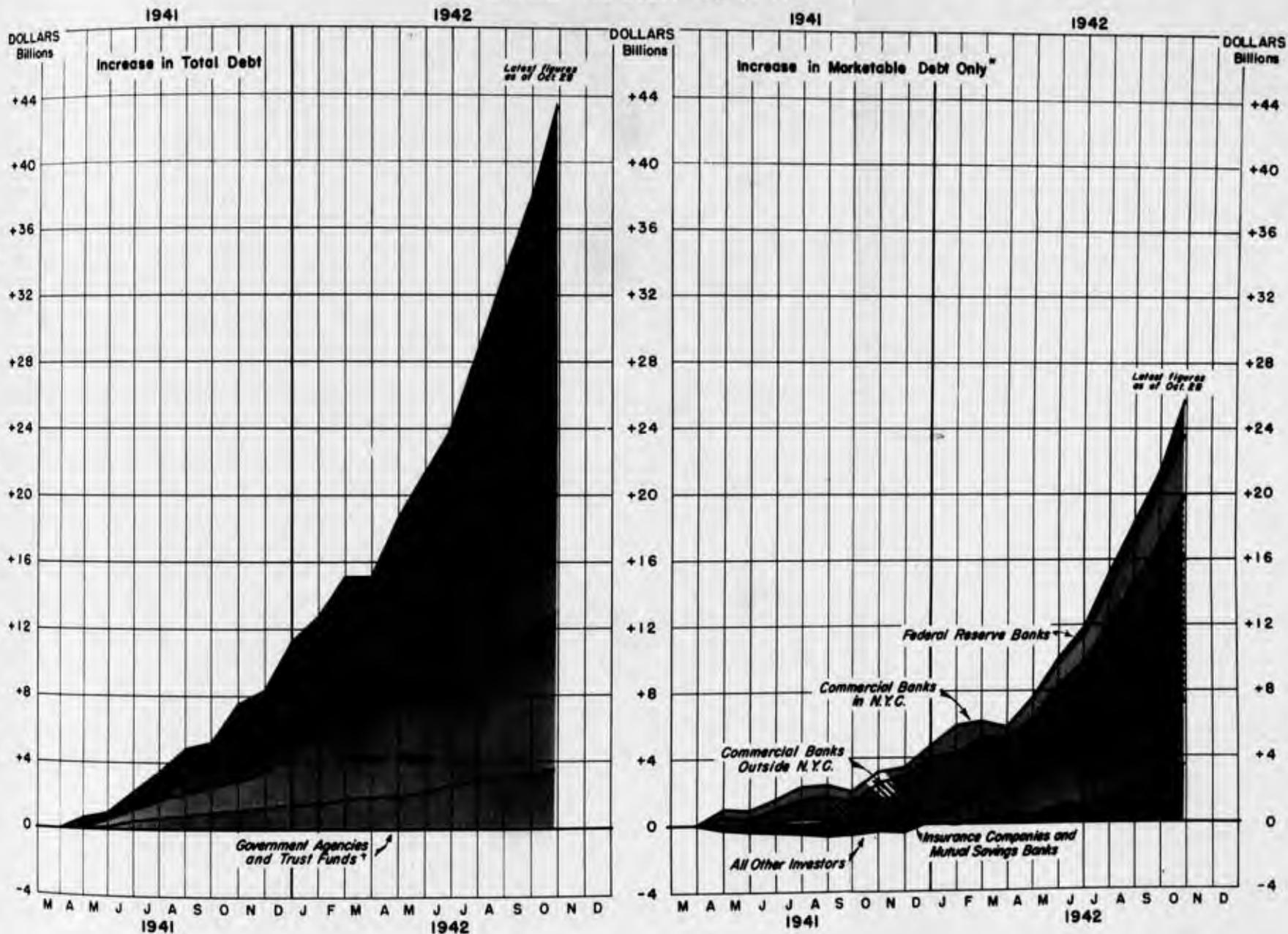
Note: Data on the gross national product are from the Survey of Current Business, except for the last quarter which is estimated.

Secretary Morgenthau - 13

As will be observed from the above table, bank absorption of the public debt did not constitute an important problem until the second quarter of this year. Commencing with that time, however, it has become very important. Twelve cents out of every dollar of the gross national product during the second quarter and 18 cents out of every dollar in the third quarter were paid for by sales of Government securities to banks. These proportions are almost certainly higher than the amount of genuine savings accumulating in bank deposits plus the reduction in bank loans, and cannot be safely maintained without more powerful incentives to individual saving than those now obtaining.

Attachment

# ABSORPTION OF THE INCREASE IN THE INTEREST-BEARING PUBLIC DEBT SINCE MARCH 31, 1941



\* Excludes those held by Government Agencies and Trust Funds; includes Depository Bonds.  
 † Includes Adjusted Service Bonds.

## Calendar of Direct and Guaranteed Bonds, Notes and Certificates 1/

November 2, 1942

(In millions of dollars)

Date	Description	Fixed maturities		Callable issues 2/			
		Direct	Guaranteed	First callable		Final maturities	
				Direct	Guaranteed	Direct	Guaranteed
1942-Jan.							
Feb.							
Mar.							
Apr.							
May							
June							
July							
July							
Aug.							
Sept. 15							
Oct. 15							
Nov. 1							
Dec. 15	Note 1-3/4% _____	232					
	Total	232					
1943-Jan.							
Feb. 1	Certificate 5/8% _____	1,588(T)					
Mar. 15	Note 3/4% _____	66(T)					
Apr.							
May 1	Certificate .65% _____	1,506(T)					
May 1	GOO 3/4% _____		289				
June 15	Note 1-1/8% _____	629					
June 15	Bond 3-3/8% (1943-47)			454			
July 15	RFC 1-1/8% _____			324(T)			
Aug. 1	Certificate 7/8% _____	1,609(T)					
Sept. 15	Note 1% _____	279					
Oct. 15	Bond 3-1/4% (1943-45)					1,401	
Nov. 1	Certificate 7/8% _____	2,035(T)					
Dec. 15	Note 1-1/8% _____	421					
	Total	8,133	613	1,855			
1944-Jan.							
Feb. 1	USHA 1-3/8% _____		114				
Mar. 15	Note 1% _____	515					
Mar. 15	FFMC 3-1/4% (1944-64)					95	
Apr. 15	Bond 3-1/4% (1944-46)			1,519			
Apr. 15	RFC 1% _____		571(T)				
May 1	HOLD 3% (1944-52)					779	
May 15	FFMC 3% (1944-49)					835	
June 15	Note 3/4% _____	416					
July							
Aug.							
Sept. 15	Note 1% _____	283					
Sept. 15	Note 3/4% _____	635(T)					
Oct.							
Nov.							
Dec. 15	Bond 4% (1944-54)			1,037			
	Total	1,849	665	2,556	1,709		
1945-Jan.							
Feb. 15	GOO 1-1/8% _____		412(T)				
Mar. 15	Note 1-1/4% _____	1,611(T)					
Mar. 15	Note 3/4% _____	718					
Apr.							
May							
June 1	HOLD 1-1/2% (1945-47)					755	
July							
Aug.							
Sept. 15	Bond 2-3/4% (1945-47)			1,214			
Oct. 15	Bond 3-1/4% (1943-45)					1,401	
Nov.							
Dec. 15	Bond 2-1/2% _____	541					
Dec. 15	Note 3/4% _____	531(T)					
	Total	3,401	412	1,214	755	1,401	

T Taxable issue.

1/ Excludes special issues, issues redeemable at option of holder, Postal Savings bonds, FHA debentures, and issues for which an exchange offer has been made and accepted by the bulk of the holders.

2/ Callable issues with respect to which a definite notice of call has been made are listed as fixed maturities.

Calendar of Direct and Guaranteed Bonds, Notes and Certificates <sup>1/</sup>

November 2, 1942

(In millions of dollars)

Date	Description	Fixed maturities		Callable issues <sup>2/</sup>			
		Direct	Guaranteed	First callable		Final maturities	
				Direct	Guaranteed	Direct	Guaranteed
1946-Jan. 1	Conversion 3% -----	16					
Feb.							
Mar. 15	Note 1% -----	503(T)					
Mar. 15	Bond 3-3/4% (1946-56)			489			
Apr. 15	Bond 3-1/4% (1944-46)					1,519	
May							
June 15	Bond 3% (1946-48)			1,036			
June 15	Bond 3-1/8% (1946-49)			819			
July							
Aug.							
Sept.							
Oct.							
Nov.							
Dec. 15	Note 1-1/2% -----	3,258(T)					
	Total	3,777		2,344		1,519	
1947-Jan. 1	Conversion 3% -----	13					
Feb.							
Mar.							
Apr.							
May							
June 1	HOLC 1-1/2% (1945-47)						755
June 15	Bond 3-3/8% (1943-47)					454	
July							
Aug.							
Sept. 15	Bond 2-3/4% (1945-47)					1,214	
Oct. 15	Bond 4-1/4% (1947-52)			759			
Nov.							
Dec. 15	Bond 2% -----	701					
	Total	714		759		1,668	755
1948-Jan.							
Feb.							
Mar. 15	Bond 2% (1948-50)			1,115(T)			
Mar. 15	Bond 2-3/4% (1948-51)			1,223			
Apr.							
May							
June 15	Bond 3% (1946-48)					1,036	
July							
Aug.							
Sept. 15	Bond 2-1/2% -----	451					
Oct.							
Nov.							
Dec. 15	Bond 2% (1948-50)			571			
	Total	451		2,909		1,036	
1949-Jan.							
Feb.							
Mar.							
Apr.							
May 15	FFMC 3% (1944-49)						835
June 15	Bond 3-1/8% (1946-49)					819	
June 15	Bond 2% (1949-51)			1,014(T)			
July							
Aug.							
Sept. 15	Bond 2% (1949-51)			1,292(T)			
Oct.							
Nov.							
Dec. 15	Bond 2% (1949-51)			2,098(T)			
Dec. 15	Bond 3-1/8% (1949-52)			491			
Dec. 15	Bond 2-1/2% (1949-53)			1,786			
	Total			6,881		819	835

T Taxable issue.

<sup>1/</sup> Excludes special issues, issues redeemable at option of holder, Postal Savings bonds, FHA debentures, and issues for which an exchange offer has been made and accepted by the bulk of the holders.<sup>2/</sup> Callable issues with respect to which a definite notice of call has been made are listed as fixed maturities.

## Calendar of Direct and Guaranteed Bonds, Notes and Certificates 1/

November 2, 1942

(In millions of dollars)

Date	Description	Fixed maturities		Callable issues 2/			
		Direct	Guaranteed	First callable		Final maturities	
				Direct	Guaranteed	Direct	Guaranteed
1950-Jan.							
Feb.							
Mar. 15	Bond 2% (1948-50)						1,115(T)
Mar. 15	Bond 2% (1950-52)			1,961(T)			
Apr.							
May							
June							
July							
Aug.							
Sept. 15	Bond 2-1/2% (1950-52)			1,186			
Oct.							
Nov.							
Dec. 15	Bond 2% (1948-50)						571
				3,147			1,686
1951-Jan.							
Feb.							
Mar. 15	Bond 2-3/4% (1948-51)						1,223
Apr.							
May							
June 15	Bond 2% (1949-51)						1,014(T)
June 15	Bond 2-3/4% (1951-54)			1,627			
July							
Aug.							
Sept. 15	Bond 2% (1949-51)						1,292(T)
Sept. 15	Bond 3% (1951-55)			755			
Oct.							
Nov.							
Dec. 15	Bond 2% (1949-51)						2,098(T)
Dec. 15	Bond 2-1/4% (1951-53)			1,118			
Dec. 15	Bond 2% (1951-55)			510(T)			
	Total			4,010			4,607
1952-Jan.							
Feb.							
Mar. 15	Bond 2% (1950-52)						1,961(T)
Mar. 15	Bond 2-1/2% (1952-54)			1,024(T)			
Apr.							
May 1	HOLC 3% (1944-52)						779
June 15	Bond 2-1/4% (1952-55)			1,501(T)			
July							
Aug.							
Sept. 15	Bond 2-1/2% (1950-52)						1,186
Oct. 15	Bond 4-1/4% (1947-52)						759
Nov.							
Dec. 15	Bond 3-1/8% (1949-52)						491
	Total			2,525			4,325 779
1953-Jan.							
Feb.							
Mar.							
Apr.							
May							
June 15	Bond 2% (1953-55)			725			
July							
Aug.							
Sept.							
Oct.							
Nov.							
Dec. 15	Bond 2-1/2% (1949-53)						1,786
Dec. 15	Bond 2-1/4% (1951-53)						1,118
	Total			725			2,904

T Taxable issue.

1/ Excludes special issues, issues redeemable at option of holder, Postal Savings bonds, FHA debentures, and issues for which an exchange offer has been made and accepted by the bulk of the holders.

2/ Callable issues with respect to which a definite notice of call has been made are listed as fixed maturities.

## Calendar of Direct and Guaranteed Bonds, Notes and Certificates 1/

November 2, 1942

(In millions of dollars)

Date	Description	Fixed maturities		Callable issues 2/			
		Direct	Guaranteed	First callable		Final maturities	
				Direct	Guaranteed	Direct	Guaranteed
1954-Jan.							
Feb.							
Mar. 15	Bond 2-1/2% (1952-54)					1,024(T)	
Apr.							
May							
June 15	Bond 2-3/4% (1951-54)					1,627	
June 15	Bond 2-1/4% (1954-56)			681			
July							
Aug.							
Sept.							
Oct.							
Nov.							
Dec. 15	Bond 4% (1944-54)					1,037	
	Total			681		3,688	
1955-Jan.							
Feb.							
Mar. 15	Bond 2-7/8% (1955-60)			2,611			
Apr.							
May							
June 15	Bond 2-1/4% (1952-55)					1,501(T)	
June 15	Bond 2% (1953-55)					725	
July							
Aug.							
Sept. 15	Bond 3% (1951-55)					755	
Oct.							
Nov.							
Dec. 15	Bond 2% (1951-55)					510(T)	
	Total			2,611		3,491	
1956-Jan.							
Feb.							
Mar. 15	Bond 3-3/4% (1946-56)					489	
Mar. 15	Bond 2-1/2% (1956-58)			1,449(T)			
Apr.							
May							
June 15	Bond 2-1/4% (1954-56)					681	
July							
Aug.							
Sept. 15	Bond 2-3/4% (1956-59)			982			
Oct.							
Nov.							
Dec.							
	Total			2,431		1,170	
1957-Jan.							
Feb.							
Mar.							
Apr.							
May							
June							
July							
Aug.							
Sept.							
Oct.							
Nov.							
Dec.							
	Total						

T Taxable issue.

1/ Excludes special issues, issues redeemable at option of holder, Postal Savings bonds, FHA debentures, and issues for which an exchange offer has been made and accepted by the bulk of the holders.

2/ Callable issues with respect to which a definite notice of call has been made are listed as fixed maturities.

Calendar of Direct and Guaranteed Bonds, Notes and Certificates <sup>1/</sup>

November 2, 1942

(In millions of dollars)

Date	Description	Fixed maturities		Callable issues <sup>2/</sup>			
		Direct	Guaran- teed	First callable		Final maturities	
				Direct	Guaran- teed	Direct	Guaran- teed
1958-Jan. Feb. Mar. 15 Apr. May June 15 July Aug. Sept. Oct. Nov. Dec.	Bond 2-1/2% (1956-58)						1,449(T)
	Bond 2-3/4% (1958-63)			919			
	Total			919		1,449	
1959-Jan. Feb. Mar. Apr. May June July Aug. Sept. 15 Oct. Nov. Dec.	Bond 2-3/4% (1956-59)						982
	Total					982	
1960-Jan. Feb. Mar. 15 Apr. May June July Aug. Sept. Oct. Nov. Dec. 15	Bond 2-7/8% (1955-60)						2,611
	Bond 2-3/4% (1960-65)			1,485			
	Total			1,485		2,611	
1961-Jan. Feb. Mar. Apr. May June 1 July Aug. Sept. Oct. Nov. Dec.	Panama 3%						50
	Total		50				

T Taxable issue.

<sup>1/</sup> Excludes special issues, issues redeemable at option of holder, Postal Savings bonds, FHA debentures, and issues for which an exchange offer has been made and accepted by the bulk of the holders.<sup>2/</sup> Callable issues with respect to which a definite notice of call has been made are listed as fixed maturities.

Calendar of Direct and Guaranteed Bonds, Notes and Certificates 1/

November 2, 1942

(In millions of dollars)

Date	Description	Fixed maturities		Callable issues <u>2/</u>			
		Direct	Guaranteed	First callable		Final maturities	
				Direct	Guaranteed	Direct	Guaranteed
1962-Jan. Feb. Mar. Apr. May June 15 July Aug. Sept. Oct. Nov. Dec.	Bond 2-1/2% (1962-67)			2,118(T)			
	Total			2,118			
1963-Jan. Feb. Mar. Apr. May June 15 July Aug. Sept. Oct. Nov. Dec.	Bond 2-3/4% (1958-63)					919	
	Total					919	
1964-Jan. Feb. Mar. 15 Apr. May June July Aug. Sept. Oct. Nov. Dec.	FFMC 3-1/4% (1944-64)						95
	Total						95
1965-Jan. Feb. Mar. Apr. May June July Aug. Sept. Oct. Nov. Dec. 15	Bond 2-3/4% (1960-65)					1,485	
	Total					1,485	

T Taxable issue.

1/ Excludes special issues, issues redeemable at option of holder, Postal Savings bonds, FHA debentures, and issues for which an exchange offer has been made and accepted by the bulk of the holders.2/ Callable issues with respect to which a definite notice of call has been made are listed as fixed maturities.

Calendar of Direct and Guaranteed Bonds, Notes and Certificates 1/

November 2, 1942

(In millions of dollars)

Date	Description	Fixed maturities		Callable issues <u>2/</u>			
				First callable		Final maturities	
		Direct	Guaran- teed	Direct	Guaran- teed	Direct	Guaran- teed
1966-Jan. Feb. Mar. Apr. May June July Aug. Sept. Oct. Nov. Dec.							
	Total						
1967-Jan. Feb. Mar. Apr. May June 15 July Aug. Sept. 15 Oct. Nov. Dec.							
	Bond 2-1/2% (1962-67)					2,118 (T)	
	Bond 2-1/2% (1967-72)			2,716 (T)			
	Total			2,716		2,118	
*	*	*	*	*	*	*	*
1972-Sept. 15	Bond 2-1/2% (1967-72)					2,716 (T)	

T Taxable issue.

1/ Excludes special issues, issues redeemable at option of holder, Postal Savings bonds, FHA debentures, and issues for which an exchange offer has been made and accepted by the bulk of the holders.2/ Callable issues with respect to which a definite notice of call has been made are listed as fixed maturities.

74 Sales of United States savings bonds  
 October 1 through October 31, 1942  
 Compared with sales quota for same period  
 (At issue price in millions of dollars)

CONFIDENTIAL

Date	Series E				Series F and G				Total			
	Actual sales		Quota,	Sales	Actual sales		Quota,	Sales	Actual sales		Quota,	Sales
	Daily	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	\$ 45.2	93.4%	\$ 18.1	20.4	\$ 17.3	117.9%	\$ 55.3	62.6	\$ 62.5	100.2%
6	10.7	53.0	60.4	87.7	4.0	24.3	23.7	102.5	14.7	77.3	84.1	91.9
7	20.9	73.9	83.3	88.7	7.6	31.9	35.3	90.4	28.5	105.8	118.6	89.2
8	24.6	98.5	108.0	91.2	14.8	46.7	45.3	103.1	39.3	145.2	153.3	94.7
9	18.6	117.1	130.1	90.0	9.3	56.0	51.4	108.9	27.9	173.1	181.5	95.4
10	14.5	131.6	147.6	89.2	3.7	59.7	57.0	104.7	18.2	191.3	204.6	93.5
12	38.3	169.9	182.8	92.9	14.6	74.3	65.8	112.9	52.8	244.1	246.6	98.2
13	9.4	179.2	195.7	91.6	2.2	76.4	69.8	109.5	11.5	255.7	265.5	96.3
14	15.6	194.8	215.2	90.5	7.4	83.9	77.5	108.3	23.0	278.7	292.7	95.2
15	27.4	222.2	236.9	93.8	8.0	91.9	84.8	108.4	35.5	314.1	321.7	97.6
16	17.6	239.9	256.8	93.4	6.6	98.5	89.8	109.7	24.2	338.3	346.6	97.6
17	14.3	254.2	273.6	92.9	2.8	101.3	95.1	106.5	17.1	355.5	368.7	96.4
19	36.1	290.3	308.6	94.1	8.8	110.1	104.3	105.6	44.9	400.3	412.9	96.9
20	22.1	312.4	321.7	97.1	5.7	115.8	108.5	106.7	27.8	428.1	430.2	99.5
21	15.5	327.9	341.6	96.0	8.9	124.6	117.0	106.5	24.4	452.5	458.6	98.7
22	27.8	355.7	363.9	97.7	9.2	133.8	125.3	106.8	36.9	489.5	489.2	100.1
23	26.6	382.3	384.6	99.4	8.4	142.1	131.0	108.5	35.0	524.5	515.6	101.7
24	14.1	396.5	402.0	98.6	4.4	146.5	137.2	106.8	18.5	543.0	539.2	100.7
26	38.2	434.7	438.3	99.2	13.4	160.0	148.3	107.9	51.7	594.6	586.6	101.4
27	10.4	445.1	452.1	98.5	5.4	165.4	153.5	107.8	15.8	610.4	605.6	100.8
28	22.5	467.6	473.1	98.8	14.9	180.3	164.1	109.9	37.4	647.9	637.2	101.7
29	34.9	502.5	496.7	101.2	16.1	196.3	174.3	112.6	51.0	698.8	671.0	104.1
30	31.9	534.4	518.6	103.0	14.3	210.6	181.4	116.1	46.1	745.0	700.0	106.4
31	53.5	587.9	570.0	103.1	15.9	226.5	205.0	110.5	69.4	814.4	775.0	105.1

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

November 2, 1942.

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

## UNITED STATES SAVINGS BONDS - SERIES E

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
12	38,266	246,852	189,938	180,787	130.0
13	9,373	256,225	225,482	197,143	113.6
14	15,579	271,804	236,199	215,903	115.1
15	27,432	299,236	258,054	225,481	116.0
16	17,647	316,883	275,675	254,163	114.9
17	14,311	331,194	292,151	263,900	113.4
19	36,080	367,275	302,535	281,550	121.4
20	22,104	389,379	342,980	297,075	113.5
21	15,542	404,921	352,694	313,101	114.8
22	27,791	432,712	373,046	322,982	116.0
23	26,612	459,325	400,122	353,504	114.8
24	14,126	473,451	412,490	367,195	114.8
26	38,203	511,654	434,720	383,303	117.7
27	10,410	522,064	476,250	398,234	109.6
28	22,541	544,605	494,124	415,563	110.2
29	34,900	579,505	509,855	427,740	113.7
30	31,872	611,377	509,855	453,967	119.9
31	53,469	664,847	509,855	453,967	130.4

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

November 2, 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	Cumulative sales by business days				October as percent of September
	daily sales	October	September	August	October as percent of September	
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
12	14,564	117,928	90,606	120,974		130.2
13	2,154	120,082	103,952	127,375		115.5
14	7,428	127,510	108,867	137,119		117.1
15	8,026	135,536	121,643	140,372		111.4
16	6,573	142,109	131,560	153,496		108.0
17	2,795	144,905	137,893	158,309		105.1
19	8,800	153,704	141,255	168,415		108.8
20	5,705	159,410	157,075	176,681		101.5
21	8,853	168,263	162,728	182,842		103.4
22	9,157	177,420	175,687	186,207		101.0
23	8,374	185,793	190,132	196,715		97.7
24	4,384	190,177	195,931	202,690		97.1
26	13,448	203,625	205,038	211,968		99.3
27	5,392	209,017	223,773	220,311		93.4
28	14,886	223,903	233,376	226,844		95.9
29	16,072	239,975	244,829	232,698		98.0
30	14,257	254,232	244,829	243,288		103.8
31	15,919	270,152	244,829	243,288		110.3

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

November 2, 1942.

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

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

## UNITED STATES SAVINGS BONDS - TOTAL

Comparison of 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 <sup>6</sup>
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
12	52,830	364,780	280,544	301,761	130.0
13	11,527	376,307	329,434	324,518	114.2
14	23,007	399,314	345,066	353,022	115.7
15	35,458	434,773	379,697	365,852	114.5
16	24,220	458,993	407,235	407,659	112.7
17	17,106	476,099	430,044	422,209	110.7
19	44,880	520,979	443,789	449,965	117.4
20	27,810	548,789	500,055	473,756	109.7
21	24,395	573,183	515,422	495,943	111.2
22	36,949	610,132	548,733	509,189	111.2
23	34,986	645,118	590,254	550,219	109.3
24	18,510	663,628	608,421	569,885	109.1
26	51,651	715,279	639,758	595,271	111.8
27	15,802	731,081	700,023	618,546	104.4
28	37,427	768,508	727,500	642,406	105.6
29	50,972	819,480	754,684	660,438	108.6
30	46,129	865,609	754,684	697,255	114.7
31	69,389	934,998	754,684	697,255	123.9

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

November 2, 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.

## TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

CONFIDENTIAL

DATE November 2, 1942

TO Secretary Morgenthau  
 FROM Mr. Haas  
 Subject: The Business Situation,  
 Week ending October 31, 1942.

Summary

(1) Stimulated by further gains in war production, industrial output rose more than seasonally in September and the FRB adjusted index of production advanced to a record high of 185. This compares with 183 in the previous month and with 166 last November just before our entry into the war.

(2) Factory employment and payrolls rose to new record high levels in September, although the gains were not as sharp as in the previous month. Factory payrolls continued to expand at a somewhat faster pace than employment, hence weekly earnings of factory workers showed a further advance to a new high.

(3) Since enactment of the new anti-inflation measure at the beginning of October, some weakening in certain agricultural prices has been evident. The BLS all-commodity index in the week ended October 24 stood at the same level prevailing around the beginning of the month or 99.7. This was 32.9 percent above the pre-war level of August 1939. Despite weakness in grain prices, the BLS index of 28 basic commodities showed little change during the month.

(4) Department store sales are again running well above year-earlier levels, with the gain in the week ended October 24 rising to 18 percent from 16 percent in the previous week. Seasonally-adjusted department store stocks (in dollar value) declined in September for the second consecutive month, but they were still 34 percent above year-earlier levels.

(5) Contract awards for manufacturing construction in September, as reported by the F. W. Dodge Corporation, jumped sharply to the highest level on record, although total construction awards were but slightly higher than in the previous month. In view of the heavy volume of projected construction, the WPB recently revoked priorities for a large part of non-military federal construction.

- - - -

### Industrial production at new high

Industrial production rose more than seasonally in September and the FRB adjusted index of production advanced 2 points to a new high of 185. Last November, just before our entry into the war, the index stood at 166, and in August 1939, at the beginning of the war in Europe, the index was only 106 (revised).

After making little headway in the early months of this year, due partly to the retarding effects of conversion of plant facilities, the index of industrial production has been moving noticeably higher in recent months. (See Chart 1.) This trend now appears likely to continue during the remainder of 1942 and in the first half of 1943. In this connection, confidential estimates of the Bureau of Agricultural Economics place the FRB index of industrial production at an average of 180 in 1942 and 210 in 1943. A greater increase was forecast recently by business analysts of the Department of Commerce, who estimated that the FRB index would average 182 in 1942 and 215 in 1943. In comparison with these figures, the index in the first 9 months of 1942 has averaged only 176.

### Steel ingot output improved

An encouraging feature in the immediate outlook for industrial production has been the recent improvement in steel ingot output. Steel operations last week increased for the fifth consecutive week and reached a new high of 101.1 percent of capacity, thereby raising the 5 weeks' gain to 4.9 points. (See Chart 2.) On a tonnage basis, last week's scheduled output was the greatest in the history of the steel industry. The scheduled rate for the current week, however, has dropped back to 99.6 percent, attributed in large part to necessary repairs on open hearth furnaces.

The gain in steel operations recently is attributed largely to the improved flow of scrap resulting from the household and industrial scrap salvage drives. In addition to improved scrap supplies, iron ore stocks have been mounting. On October 1, stocks of ore at furnaces and Lake Erie docks reached a record high of 48,422,000 gross tons, or 19 percent more than on the same date in 1941.

### Factory employment and payrolls still rising

Both factory employment and payrolls rose to new record levels in September. From mid-August to mid-September factory employment rose 1.6 percent while factory payrolls gained 2.7 percent. As a result of the more rapid expansion of payrolls, estimated average weekly earnings of factory workers

showed a further gain of about .8 percent. (See Chart 3.) The rise in factory workers' earnings has been virtually uninterrupted since April 1940, just before the defense program got under way, and the gain in average weekly earnings during that period has been 57 percent.

Commodity prices mark time at high levels

In the week ended October 17 the ELS all-commodity index receded slightly for the first time in three months, owing mainly to weakness in farm product prices following adoption of the new anti-inflation measure. In the latest week (ended October 24) the index advanced 0.1 percent, and at 99.7 stands 32.9 percent above the pre-war level of August 1939.

Basic commodity prices have shown some tendency to level out since passage of the new anti-inflation measure. (See Chart 4.) The ELS index of 28 basic commodities has declined slightly from its peak, reflecting a moderate decrease in the index of 9 uncontrolled commodities. This decrease has been partially offset by a rise in the index of controlled commodities, resulting chiefly from a recent increase in the ceiling price of lard.

Grain prices have noticeably weakened since the beginning of the month, and both wheat and corn are now less than 5 percent above prices in the week before Pearl Harbor. (Refer to Chart 4.) A recent weakening factor has been the announcement by the OPA and the Department of Agriculture on October 23 of a program to prevent increases in the price of bread and flour to consumers. The plan provides for making wheat available to flour millers at prices approximating those which prevailed September 28 to October 2. This will be accomplished by the release of CCC loan wheat back to producers for sale in the market.

Cotton prices have advanced to the levels prevailing in the latter part of July. The most recent upturn was influenced by a statement by Price Administrator Henderson that no fixed maximums were contemplated on raw cotton beyond the existing control through textile ceilings.

Prices for steers have moved up \$1.00 per hundred pounds in the last four weeks, in response to continued urgent demands from eastern consuming centers. Receipts of cattle and calves have been close to the heaviest weekly movements of the year. The increase in receipts, however, has not been sufficient to allow feeders to replenish their supplies, hence, the feeders have been competing with packer buyers for medium and good short-fed cattle.

- 4 -

### Hog price rise dampened

Prices for hogs, on the other hand, have declined \$1.00 per hundred pounds in the past four weeks. The weakness has been caused by an expansion in marketings, by anticipation and announcement of new price ceilings on pork lower than those existing, and to some extent by Secretary Wickard's appeal that farmers increase next spring's pig crop at least 10 percent.

The new price ceiling schedule on pork products, effective today, is based on live hog prices of about \$13.75 per hundred pounds which compares with prevailing prices of more than \$14.00. An official statement accompanying the regulation said "...Last year the American housewife paid some \$2 billion for pork, or about 10 percent of her entire food budget... The revised regulation, by equalizing packer or wholesaler prices, should help many stores currently not carrying pork products to restock these items".

Although hog receipts have expanded from their small volume three weeks ago, receipts and slaughter are still far less than farm supplies warrant. Unusually favorable corn prices for feeding have been one factor operating to keep the hogs back for additional feeding. For the fourth successive week the Department of Agriculture has kept its pork purchases at a minimum, with takings again confined mainly to pork canned products. (See Chart 5.)

### Complexities of price control

Price and supply dislocations arising from increasing pressure of civilian demand on food stocks have been intensified in recent weeks. This has been manifested to consumers by food stores bare of the usual complement of canned goods, meats, and coffee, and in queues at chain stores in receipt of new shipments of coffee.

The OPA is endeavoring to overcome some of these difficulties by revising procedure and checking violations. In addition to fixing zone prices on meats in dollars and cents, the OPA has announced an alternative pricing formula on eleven groups of food items, effective October 15. Wholesale price adjustments upward are permitted through November 30, and corresponding retail adjustments through December 31. The new formula, it is believed, will allow restocking of many important food items by stores which had dropped them because of losses under former ceilings. Meanwhile, since last week's announce-

- 5 -

ment that coffee rationing would begin on November 28, there has been widespread criticism of the long advance notice, which has again motivated panic buying.

Charges have been made by independent retailers in New York of widespread violation of existing regulations by wholesalers. These retailers, representing the New York State Food Merchants Association, with a membership of nearly 5,000 independent merchants, it is reported, plan to make formal complaint to the Senate Small Business Committee. They point out that they are forced to pay wholesalers from 10 to 15 percent more for their supplies than they paid in March.

#### New price-control controversy between Congress and Administration

Congressional resentment against the Administration has been aroused in recent weeks by the deduction of farm benefit payments in establishing parity levels for fixing ceiling prices. Senators contend that the allowance for benefit payments in computing agricultural parity prices was not envisaged in the October 2 price-control law, which stipulated that no ceiling should be set for farm products or articles manufactured from farm products which did not reflect parity or the highest price between the beginning of this year and September 15. The Executive Order of October 3, however, directed that in establishing ceilings, appropriate deductions should be made from parity prices to allow for benefit payments and other subsidies. Resentment was stirred particularly by the fixing of a ceiling on flour which reflected a price of \$1.03 a bushel for wheat, as compared with a parity price of \$1.36.

#### Farm prices rise to 110 percent of parity

Prices received by farmers as of October 15, according to the Department of Agriculture's index, averaged 3.7 percent higher than a month earlier, and 21.6 percent higher than a year ago. On a seasonally-adjusted basis, prices advanced for all groups of farm products except chickens and eggs. Prices for truck crops and meat animals made the greatest increases.

While the index of prices paid by farmers (including interest and taxes) increased 1 point for the second successive month, causing a further slight increase in parity levels, nevertheless the index of prices received rose to 110 percent of parity from 107 in August and September. In World War I, the peak year was 1917, when farm prices averaged 117 percent of parity.

The quarterly index of farm wage rates, which are not included in the index of prices paid, stood 9 percent higher on October 1 than on July 1, and  $33 \frac{1}{3}$  percent higher than a year ago.

Farmers' share of consumer's food budget rises

The farmer's share of the consumer's dollar spent for food, as estimated by the Department of Agriculture, is shown in Table 1 by years since 1913 and by months in 1942. It will be noted that in the first seven months of 1942 the portion of the retail cost of 58 foods accruing to farmers fluctuated between 51 and 52 cents, as compared with the 1939 average of 41 cents. In August and September, however, the farmer's share rose to 54 and 53 cents, respectively, the highest since 1920. During World War I, the farmer's share rose to an average of 60 cents in 1917.

Marketing margins in 1941, as shown in Table 1, averaged the lowest since 1933, culminating a decline beginning in 1937. Margins have increased somewhat in 1942.

Department store sales heavy

Although department store sales have receded from the recent peak reached around the beginning of the month, they are continuing to run well above year-earlier levels. In the week ended October 24 the gain over the corresponding week in 1941 rose to 18 percent from 16 percent in the previous week. (See Chart 6.) These figures indicate that the volume as well as the value of goods sold has been running ahead of year-earlier levels, since retail prices of typical department store items on October 1 (Fairchild index) were only 7.5 percent higher than on the corresponding date in 1941.

In commenting on last week's trends, Dun and Bradstreet reported that "consumers increased spending for seasonal merchandise to new record highs, while at the same time stocking up liberally on staple and scarcity items and starting holiday purchases much earlier than usual." Retail sales in the New York area were reported to have been swelled by heavy liquor sales in anticipation of the higher excise taxes effective November 1.

Stimulated in part by a resurgence of scare buying, another heavy wave of consumer buying obviously has been under way recently. Looking ahead, however, the Department of Commerce recently forecast that total retail sales in the first half of next year would fall 12 percent below the first half of 1942 in dollar volume, with the decline widening to 15 percent in terms of physical volume.

Inventory control slated for 1943

After reaching a peak at the end of July, seasonally-adjusted department store stocks have declined in the 2 succeeding months. As will be seen in Chart 7, on an adjusted basis stocks declined more rapidly than sales during September. Nevertheless, they still stood 34 percent above year-earlier levels and were 73 percent higher than at the beginning of 1941, just before the long upswing in inventories got under way.

Definite steps toward coping with the problem of inventory control were stated recently by the WPB to be in preparation. It was announced that an order will be issued in the near future controlling the inventories of finished consumers' goods in the hands of wholesalers, retailers and manufacturers. It was further indicated that the order will require the achievement of normal inventories by the early part of 1943. Apparently "normal" stocks for wholesale and retail merchants will be established on the basis of the quarterly stock-to-sales ratios of the years 1939-41 inclusive. The actual effect of the order remains to be seen. Some observers have expressed concern that the order may lead to heavy dumping and promotional sales by merchants, while others believe that the Christmas and January clearance sales, together with more careful future buying, will enable merchants to get their stocks in order with relatively little trouble.

The Special Wholesale and Retail Inventory Policy Committee of the WPB Office of Civilian Supply last week reported the following findings of fact with regard to general inventory conditions:

1. "In general the inventories of wholesalers and manufacturers are 'normal' or 'below normal' in relation to sales. This condition has been the result of an unusually active demand and the limitation of production in many lines.
2. "The inventory situation in the chain store field is spotty; men's wear and variety store chain systems have accumulated exceptionally heavy stocks while the inventories of grocery, drug and shoe chain systems are below 'normal' in relation to their sales.
3. "The inventories of department stores, especially the large stores, are excessive in relation to their sales.

4. "The inventories of large independent retail stores have increased at much more rapid rates than their sales. The reverse has been true of the small independents."

Consumer installment loans continue decline

Outstanding consumer installment loans of industrial banks, personal finance companies and credit unions showed a further decline of 3.3 percent in September, according to the Federal Reserve Board. The estimated total of these loans at the end of the month stood at \$842 millions, or 20 percent less than at the end of 1941. New loans made by credit unions, industrial banks and personal finance companies during September totaled \$108 millions. This was 1.5 percent less than in the previous month and 17.5 percent less than in September 1941.

Manufacturing building contracts at record levels

Although total construction contract awards in September as reported by the F. W. Dodge Corporation were only a trifle higher than in the previous month, contracts for manufacturing building jumped sharply to the highest level on record. (See Chart 8.) Despite restrictions already in effect on building construction, it was indicated last week that facilities and total construction now projected for 1943, together with the incompleting carry-over from 1942, would absorb one-fifth to one-fourth of the total war effort. As a result of this situation, Mr. Nelson of the WPB recently notified the heads of 8 governmental agencies that he had given instructions to revoke priority assistance to a large part of non-military Federal Government construction. Moreover, he stated that a review of all military projects, with the same end in view, was now under way.

Table 1

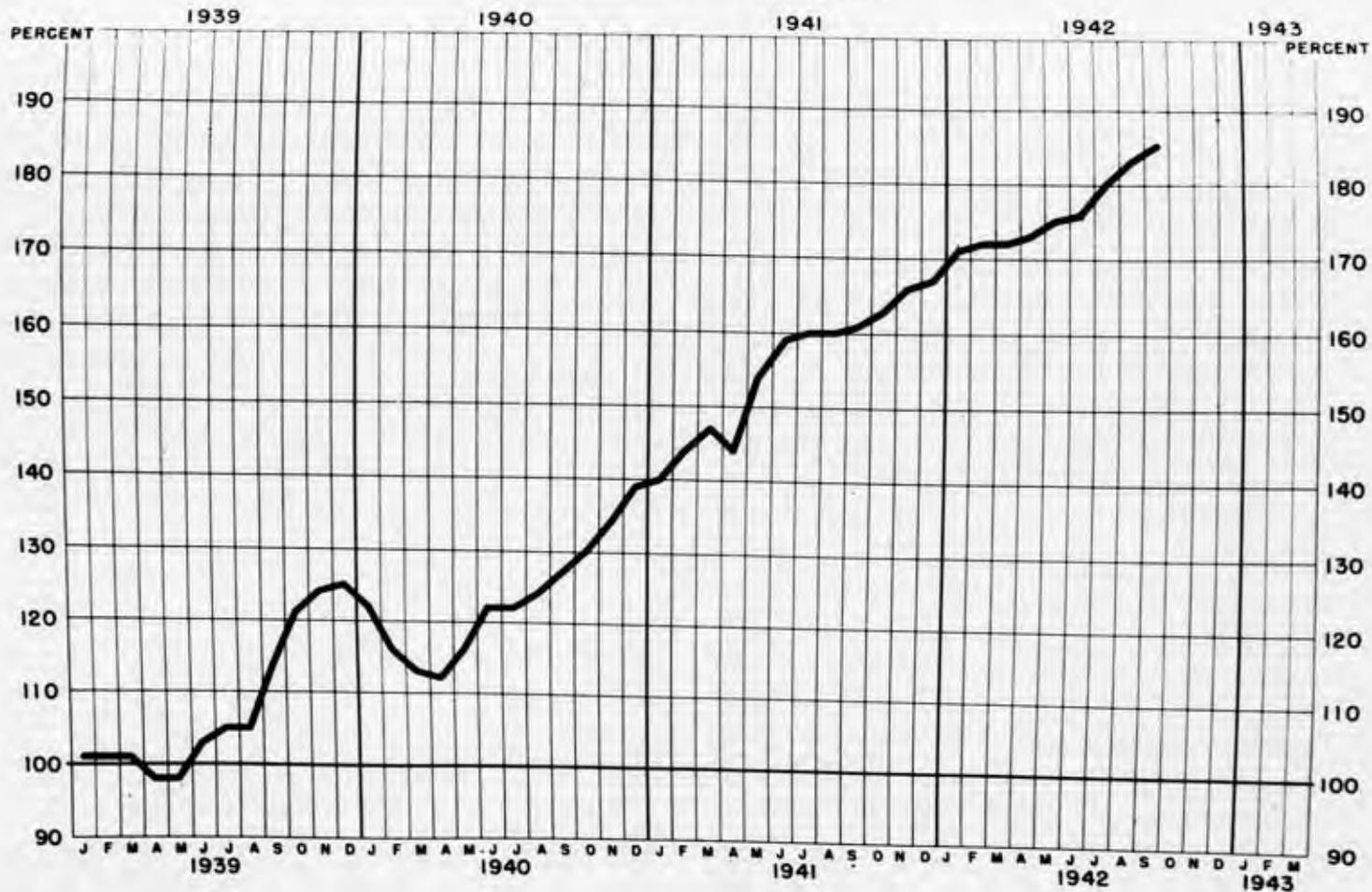
58 foods: Estimated retail value and equivalent farm value of quantities purchased annually by a typical workingman's family, United States, 1913-42

Year	Farm value Dollars	Retail value Dollars	Margin Dollars	Farm value as percent- age of retail value Percent
1913	134	252	118	53
1914	137	258	121	53
1915	134	258	124	52
1916	155	285	130	54
1917	223	370	147	60
1918	245	424	179	58
1919	267	470	203	57
1920	272	514	242	53
1921	179	404	225	44
1922	170	374	204	45
1923	173	384	211	45
1924	170	381	211	45
1925	198	410	212	48
1926	202	418	216	48
1927	190	406	216	47
1928	194	407	213	48
1929	195	415	220	47
1930	171	391	220	44
1931	121	322	201	38
1932	88	270	182	33
1933	92	264	172	35
1934	108	295	187	37
1935	138	331	193	42
1936	152	342	190	44
1937	160	353	193	45
1938	130	321	191	40
1939	126	311	185	41
1940	132	314	182	42
1941	164	342	178	48
1942 -				
January	194	378	184	51
February	195	381	186	51
March	196	384	186	51
April	201	386	185	52
May	202	392	190	52
June	203	398	195	51
July	209	401	192	52
August	216	402	186	54

Source: United States Department of Agriculture. Foods used and retail prices based on data from the Bureau of Labor Statistics.

# F.R.B. INDEX OF INDUSTRIAL PRODUCTION

1935-'39=100, Seasonally Adjusted

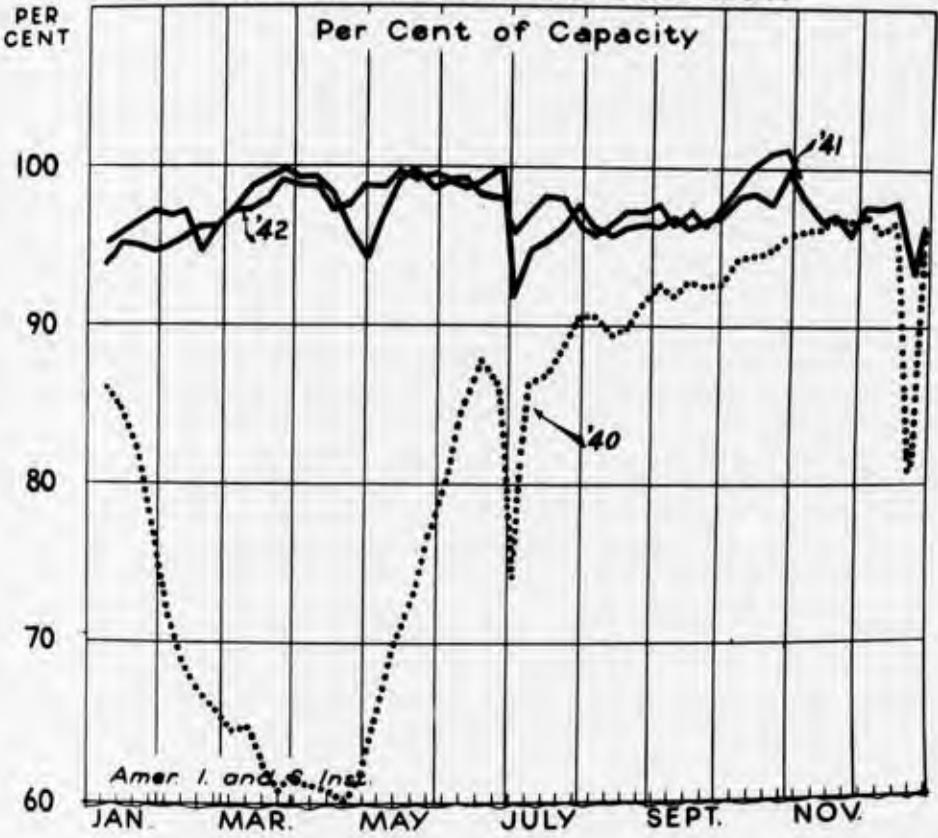


Office of the Secretary of the Treasury  
Division of Research and Statistics

Chart 1

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### STEEL INGOT PRODUCTION

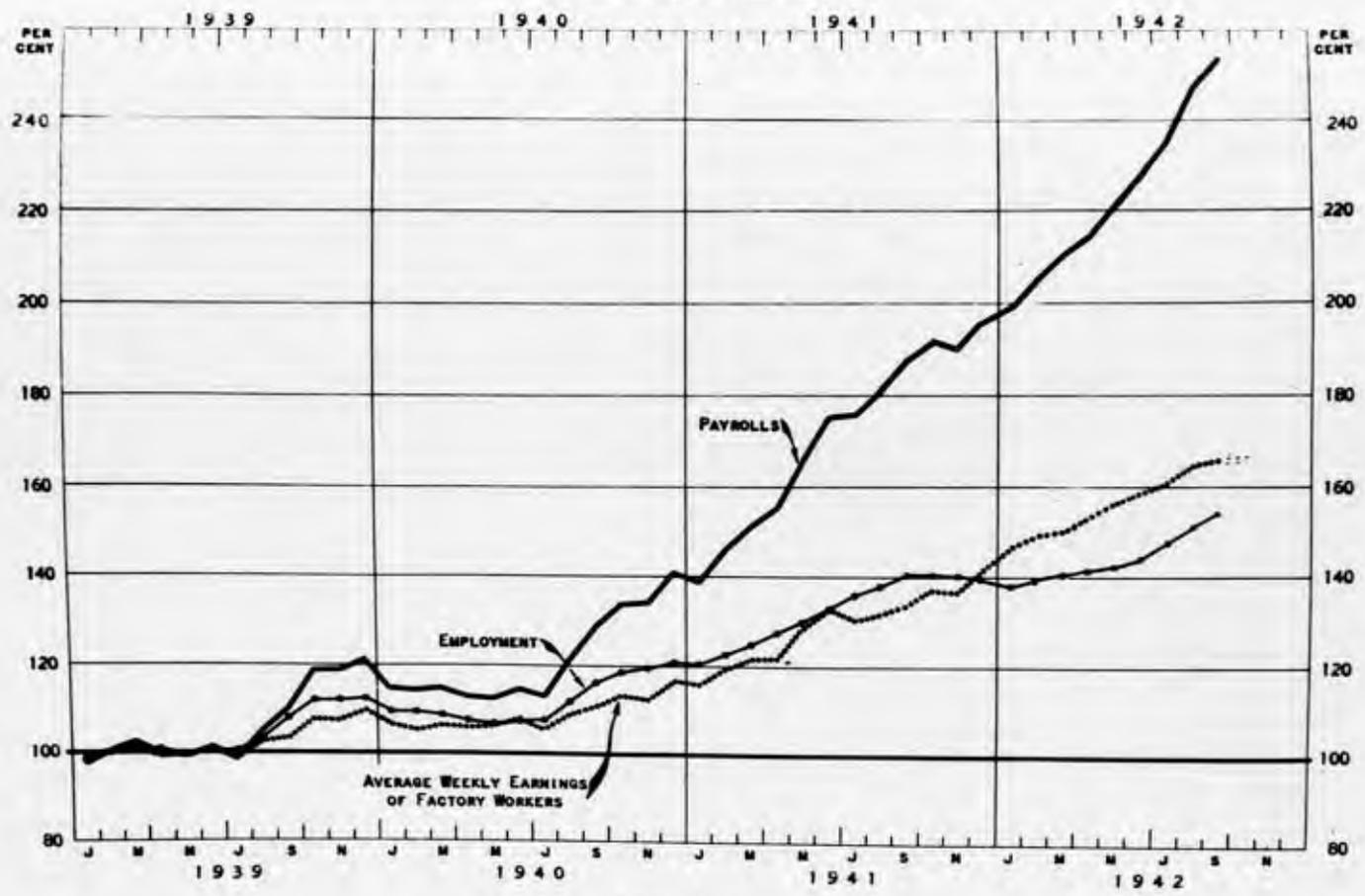


Office of the Secretary of the Treasury  
Division of Research and Statistics

C-419

CONFIDENTIAL

### FACTORY EMPLOYMENT, PAYROLLS AND WAGES FIRST 6 MONTHS OF 1939 = 100, UNADJUSTED



SOURCE: B.L.S.

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

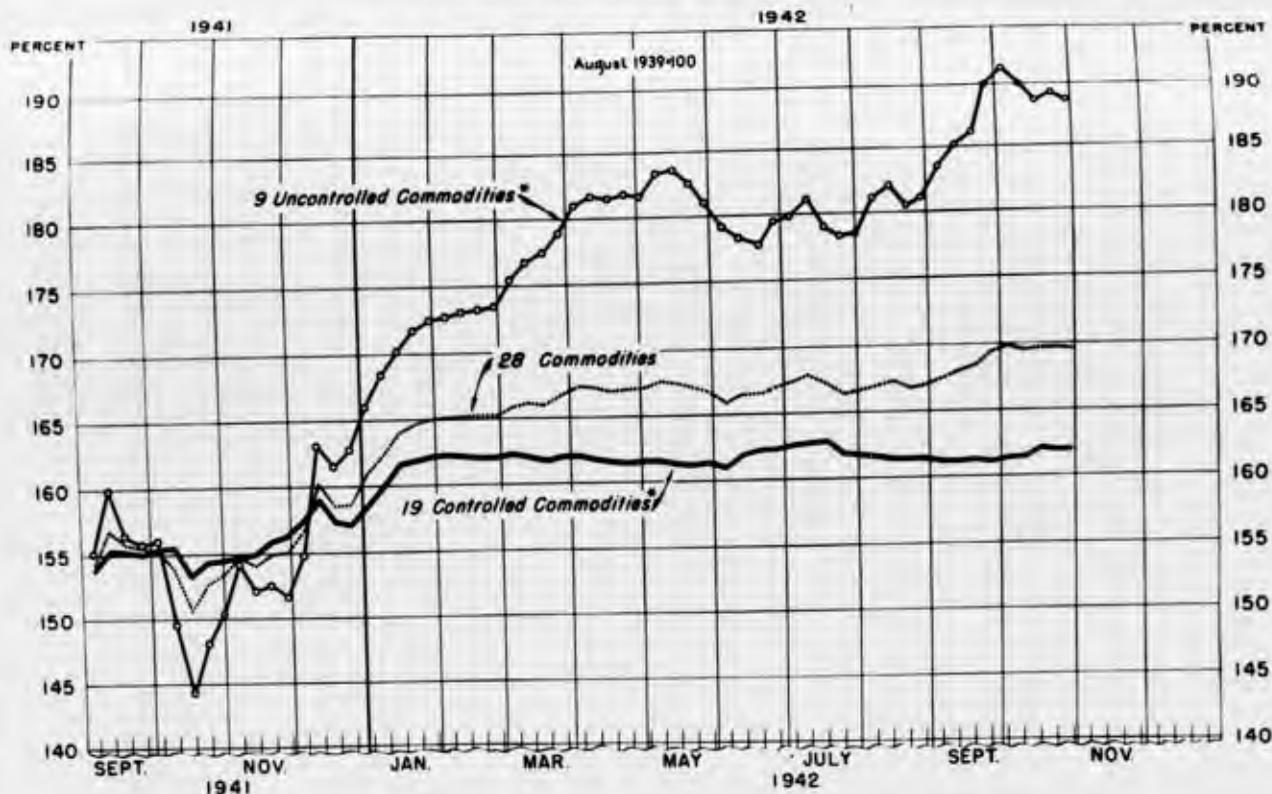
C - 414

Regraded Unclassified

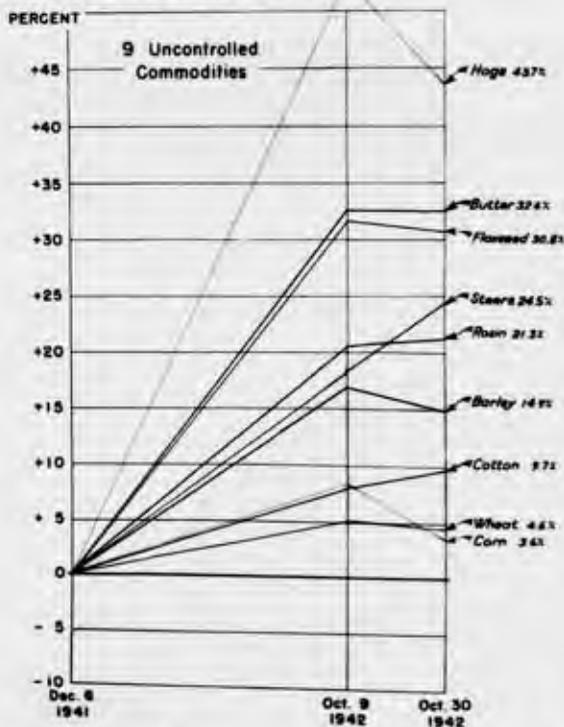
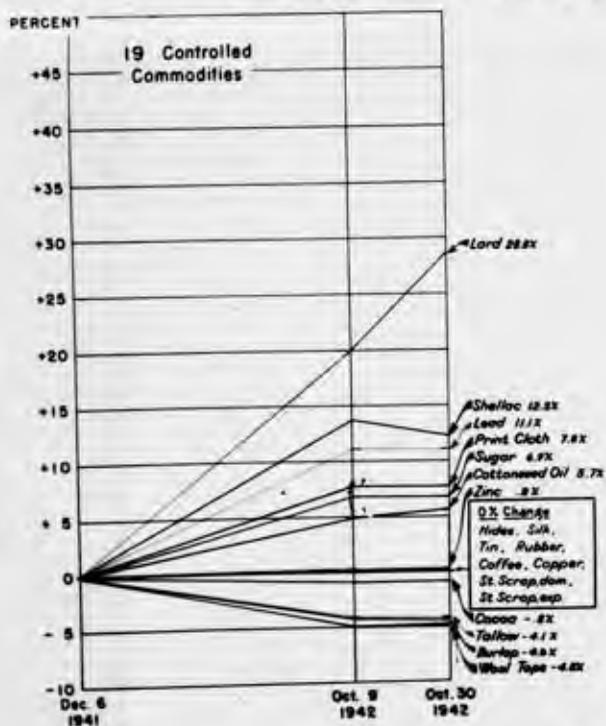
Chart 3

69

# MOVEMENT OF BASIC COMMODITY PRICES

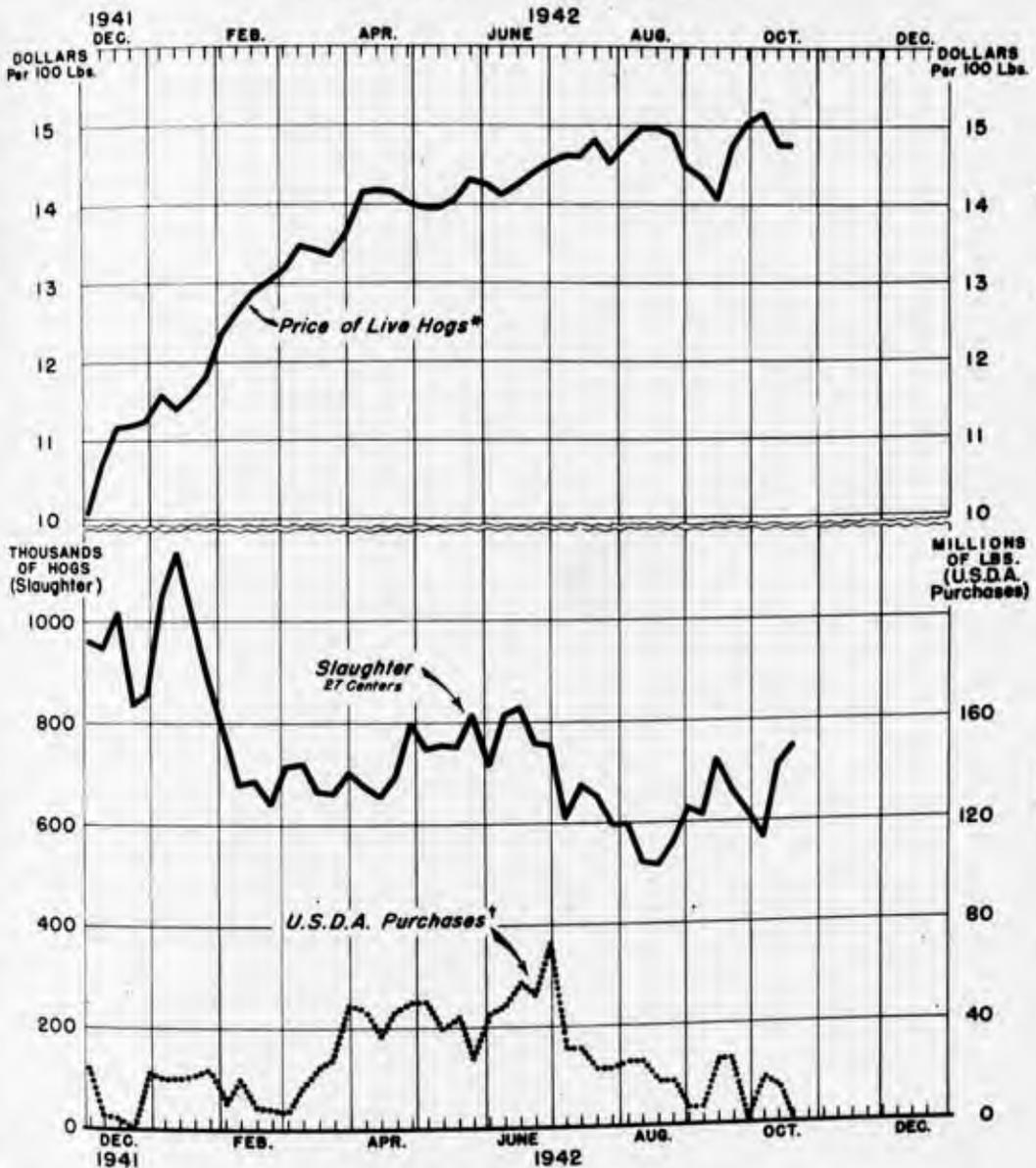


## PERCENTAGE CHANGE DEC. 6, 1941 TO OCT. 9 AND OCT. 30, 1942



\* 20 Controlled and 8 Uncontrolled previous to June 26

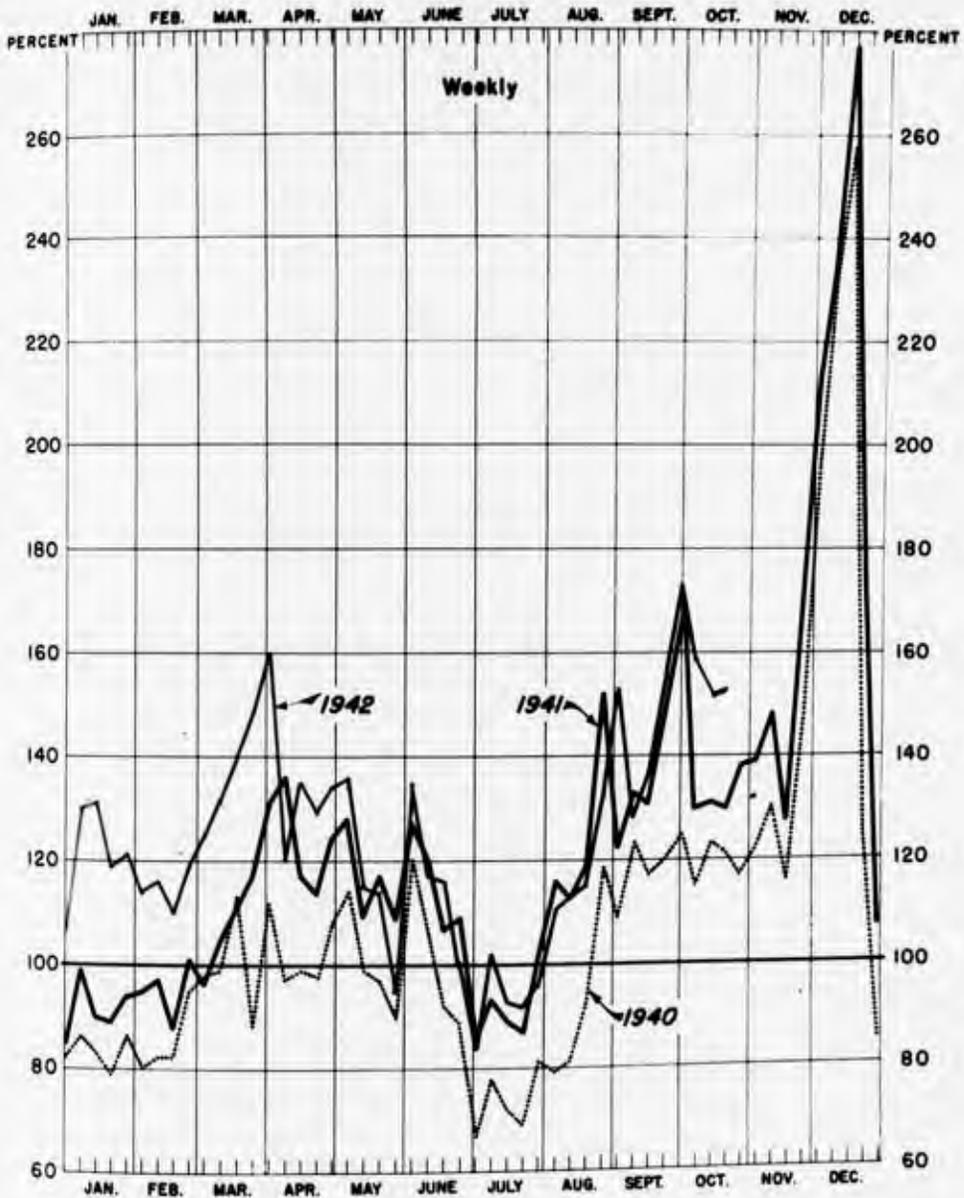
# HOG PRICES COMPARED WITH HOG SLAUGHTER AND U.S.D.A. PURCHASES



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

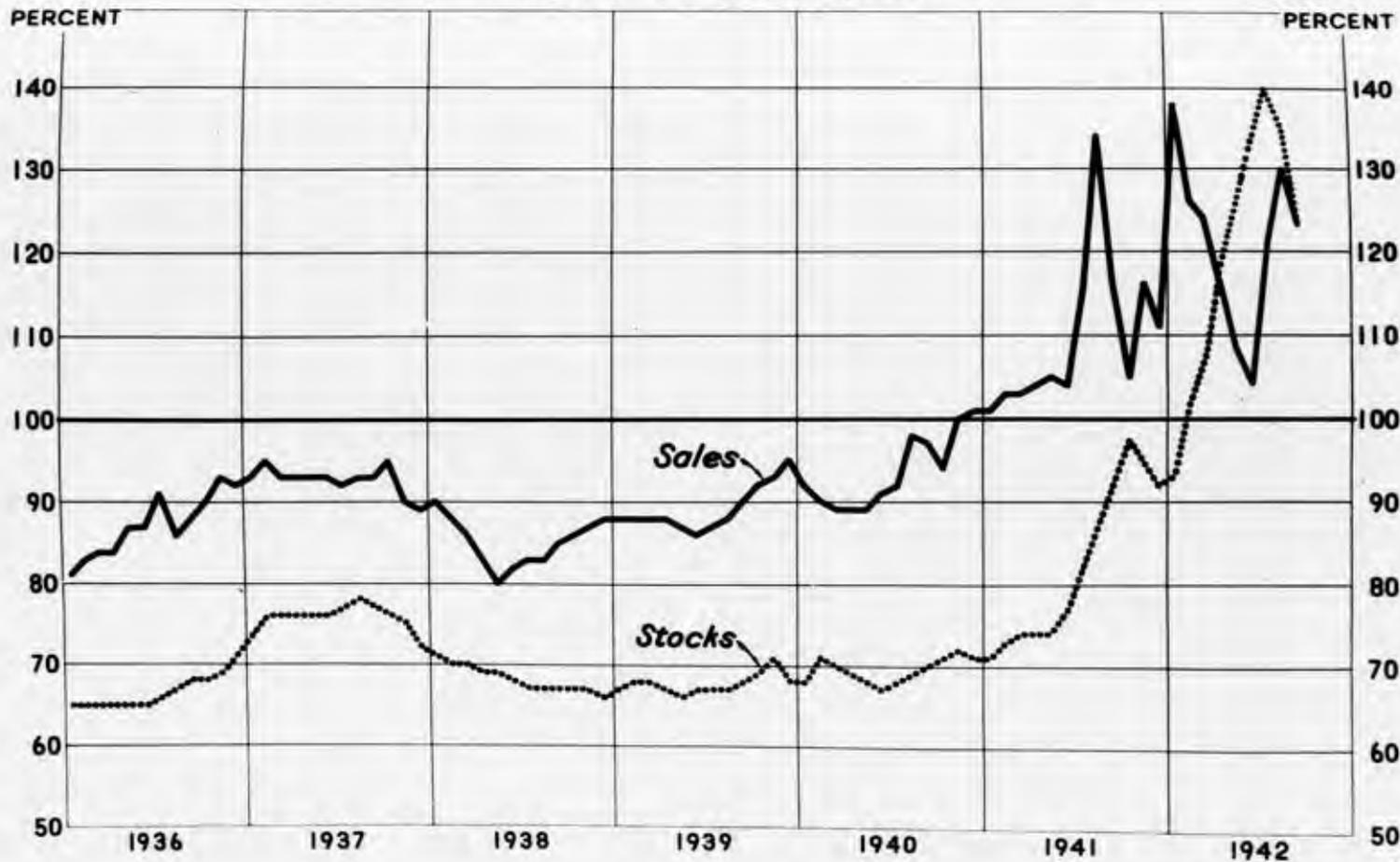
# DEPARTMENT STORE SALES

1935 - '39 = 100, Unadjusted



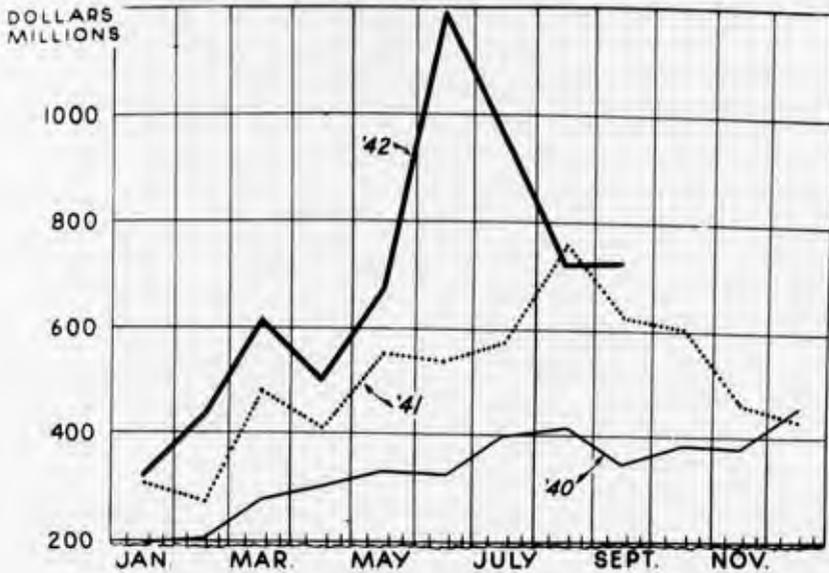
# DEPARTMENT STORE SALES AND STOCKS

Dollar Values, 1923-25 = 100, Adjusted

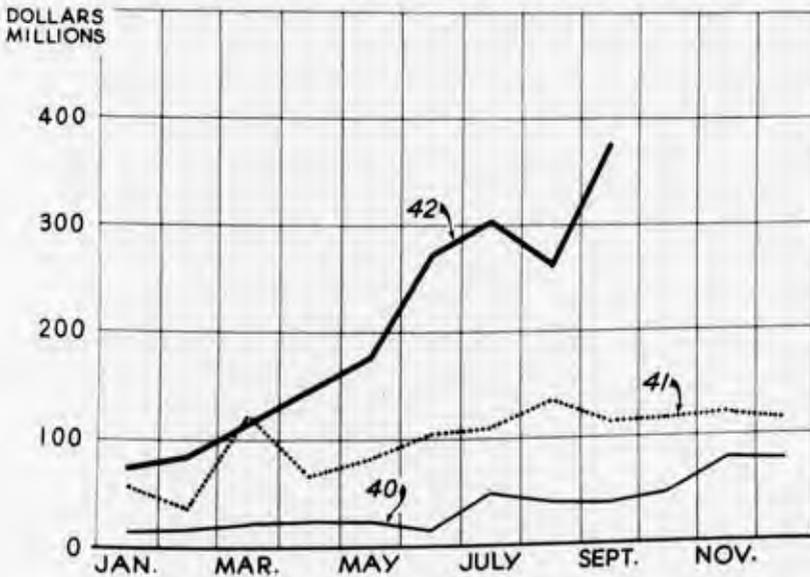


Source: Federal Reserve Board

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



**MANUFACTURING BUILDINGS CONSTRUCTION CONTRACTS AWARDED**



(copy of note)

95

Div of Monetary Research

Miss Chauncey

11/12/42

From: Mr. Friedman

The attached cables are for the Secy's files. No comment.

I attached the orig. note to the earliest dated cable which was 10/8/42 9 a.m. - copy att. to 10/24; 10/30; 11/2; 11/3 cables)

DIH  
 This telegram must be  
 paraphrased before being  
 communicated to anyone  
 other than a Governmental  
 agency. (BR)

Chungking via Karachi

Dated November 2, 1942

Rec'd 8:10 p.m., 3rd

Secretary of State,  
 Washington.

1257, November 2, noon

FROM ADLER FOR THE SECRETARY OF THE TREASURY

TF-68 China trade returns January-May 1942.

Figures for May in brackets.

Imports CN dollars 174,280,000 (CN dollars  
 40,308,000), of which Hong Kong accounted for 19  
 (26), Kwangchowan 15 (14), Macao 14 (11), United  
 States 12.5 (11), Germany 9 (5), and United Kingdom  
 7% (12%). Breakdown by ports; Liuchow 43 (39),  
 Wuchow 19 (22), Changsha 10 (--), Kunming 9 (16),  
 and Kukong 5% (21%). Breakdown by commodities;  
 cotton price goods 17 (12), raw cotton yarn and  
 thread 14 (17), cotton manufactures 6 (6.5),  
 chemicals and pharmaceuticals 14 (21), metals  
 machinery and vehicles et cetera 10.5 (13.5) 10  
 (9) and paper and products 7% (3%).

N.B. Imports

-2- #1257, November 2, noon from Chungking via Karachi

N.B. Imports do not include goods brought in under Government certificate and military license.

Exports CN dollars 36,159,000 CN dollars, 4,715,000 of which Burma accounted for 54 (--) and Kwangchowan 40% (73%). By ports; Kunming 57 (17), and Liuchow 39% (77%),. By commodities; metals, minerals, et cetera 55 (--), sugar 9% (34%). Source: Customs confidential data.

Further details by pouch.

GAUSS

HPL

BRITISH MOST SECRET  
U.S. SECRET

OPTEL No. 378

Information received up to 7 A.M., 2nd November, 1942,

1. MILITARY

EGYPT. On the 31st, a threatened counter attack against our positions in the North had not materialised by dusk but during the evening about 20 German tanks penetrated between the northernmost position of 9th Australian Division and the sea and moved South East to the enemy locality isolated but still holding out. Further counter attack still threatened in this sector. In the South 44th Division with small detachment Fighting French Brigade made a local attack during night 31/1 without success.

2. NOTE: In future proposed to describe aircraft casualties as follows:- Instead of e.g. "6 enemy/our aircraft were destroyed, 5 probably destroyed and 4 damaged" - "Enemy/our casualties 6, 5, 4."

3. AIR OPERATIONS

WESTERN FRONT. 1st. Beaufighters destroyed 2 JU 88's west of USHANT.

EGYPT. 31st. Light and fighter bombers made 13 attacks on mechanical transport scoring many direct hits. Fighters caused considerable damage to stores and equipment at MERSA MATRUH. In the Central sector, many vehicles were destroyed and heavy casualties inflicted on troops. Enemy casualties, 13, 10, 11. Ours 6, Nil, Nil. One pilot safe.

CRETE. 31st/1st. Heavy bombers started large fires at MALEME airfield.

November 3, 1942  
10:25 a.m.

PUBLICITY

Present: Mr. Gaston  
Mr. White  
Mr. Kuhn  
Mrs. Klotz

H.M.JR: Have you had any chance, Herbert, to think about this question of merchandising the Secretary of the Treasury?

MR. GASTON: Yes, a little bit. I was talking to Harry Scherman on that subject when you called me.

H.M.JR: Harry Scherman?

MR. GASTON: Book-of-the-Month Club. He is down here getting material for a financing story which he hopes to sell to somebody, probably the Saturday Evening Post. I have been talking along that line, too, with him; and he has just gone in to see George Haas. After you called me I sent him in to see George Haas.

Huntington Cairns came in to suggest something which I think is sound and which would be relatively easy, I should think, and we might do it fairly promptly. That is to get a story in the "New Republic" or the "Nation" which would be - you could do it quicker than most anything else - to a lot of thinking people, editorial writers, and so on.

H.M.JR: "Readers Digest" would be ideal.

MR. GASTON: But they are awfully anti-Administration, you know.

MR. KUHN: Terrific.

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H.M.JR: They are all right on the war bonds, and their Washington representative has always been--

MR. GASTON: Bill Hard.

H.M.JR: He told me a year ago that any time I wanted anything to tell him.

MR. GASTON: He is coming in. I talked to Bill Hard, and he came in to see me, and then he had to go out of town again. He is coming in to see me next week about a story.

H.M.JR: But whose job is it going to be to be thinking about this constantly? That is the thing, you see, to be thinking of things constantly.

MR. KUHN: I think it would be a job for several people.

H.M.JR: It should be some one person's responsibility. I mean somebody should say, "Well, I will take it." I mean I can't call up a committee.

MR. GASTON: No.

H.M.JR: I mean, it should be somebody. I will have a lot of ideas myself. I sent you one this morning.

MR. KUHN: I haven't seen it.

H.M.JR: I mean about this six billion eight - trying to get it into some weekly magazine.

MR. KUHN: That thing went out last night. A lot of phone calls were made to commentators, editors, and so on, but so much of it had been given out at the press conference that the newsmen didn't want to re-do their story.

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H.M.JR: The funniest thing is that the Tribune treats me better than any other paper.

MR. WHITE: I don't think that this note has been sounded enough, Mr. Secretary. Aside from all these other things, which are very worthwhile, it seems to me the central thread of some article or some campaign should be built around the thesis of what is it that sets interest rates at a time like this. There is no longer any supply or demand relationships. It is the decision of the fiscal authority that is the determining factor. He could go in either direction. He can either make interest rates high, or he can make interest rates low. The guiding principle has been to reduce the burden of the debt, and that has been a difficult task, because it runs counter to the interests and desires of the large investing groups.

This does not touch the small investor who has a savings bond, who has been given a very generous interest rate by virtue of the fact that he is a small investor.

We are now talking of the large investors, and the trend in financing has been, wherever possible without disrupting financial markets, to gradually reduce the interest rate, and that represents a saving to the taxpayers which would be phenomenal if the war lasts another few years. I mean something on that line - something more than just a financing at a low rate of interest. It represents a definite principle, a definite philosophy, which is a tough one that isn't very popular with the financial element, but it is one that is definitely in the interest of the people and the taxpayer.

MR. GASTON: What Harry is saying is sort of sound, and it is the heart of one of the central things that you have been doing, but that is going to be bitter medicine to force down the throats of the people whom we want to get to print articles about the Secretary of the Treasury. It is a line of approach you have to sell them.

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H.M.JR: Let me call a spade a spade. I did it yesterday; let me do it once more. I mean, it is difficult for me to do it, but I can do it. To go back in history to the first article in "Fortune" magazine, which they did, you remember--

MR. GASTON: Yes, I remember it.

H.M.JR: That was the first one which set a bad tone as far as I was concerned. Do you remember? I mean, rich man's son, and farming as a hobby, and so forth, and so on. That came first. Then the next one that was so bad was the one that Kintner and Alsop did. In these things they painted a picture of a man who stutters, is hesitant, unsure of himself, doesn't know his financing, is amateur, and so forth and so on. There has never been the other side, the positive side.

MR. GASTON: In the "Fortune" thing we distinctly did get the other side in that story about the Treasury Department. We got a pretty good story.

H.M.JR: But not in the first one.

MR. GASTON: No, not the first one.

H.M.JR: Now--

MRS. KLOTZ: But it still left you with that very same impression after you read both.

H.M.JR: I don't stutter, and so forth, and so on. I haven't got a high, squeaky voice.

MR. GASTON: Would you let me say that I didn't know anything about that first "Fortune" article until it was in print.

H.M.JR: I am not being personal.

MR. GASTON: I know.

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H.M.JR: What I am trying to do is this: I have got two years and four or five months to go. This election is unimportant compared to what it will be when they try to begin to unhorse Mr. Roosevelt for the next one; and they are afraid to attack him, so they will attack the people that are around him, and I am amongst them.

Now the thing that I would like to get over is the fact that I have made a success of my job on the positive side. I don't know whether anybody has been writing - I mean, people can write it in order to plant it in the minds of people. I mean, when you go to England and hear them talk about you - you have got to go to a foreign country to hear them say nice things about you.

MR. GASTON: By the way, did the London Times print the story?

H.M.JR: No. What they did was, they printed a story, just a few words, and then went into this whole question of the four freedoms, and what was Mr. Roosevelt going to do about the war.

MR. KUHN: That was not the same paper. This was the "Sunday Times" of London of October 18.

H.M.JR: I didn't see it.

MR. KUHN: Their correspondent here cabled about five or six hundred words of a tribute to you.

H.M.JR: No, there was an editorial and they simply said, "Mr. Morgenthau has come to London," and hung on this thing, "What is going to happen to England after the war?"

MR. GASTON: That was the "Times," not the "Sunday Times." It is a different paper.

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H.M.JR: The paper that had the nicest article was the "Observer" - the "Sunday Observer," which is this American Lord what's-his-name's paper?

MR. KUHN: Astor.

H.M.JR: They ran a very nice story, brought in my father, what he had done in Turkey, and it was very short but very nice. It was very complimentary.

But, as I say, it is particularly difficult because for nine years I have always discouraged this kind of thing. As I say, my sincere hope when Mr. Roosevelt's term is over is that I go into private life. But I need backing.

Now to give you an example, I asked before I left for the labor press. I went through it. Now, people like Murray feel very kindly to me, but all the stories go out about Treasury war bonds and then never get over my personality or the fact that I am doing these things. In other words, they have got to build me up so that I can have some group that will accept into their consciousness that Morgenthau has been there for nine years and hasn't he been a success. Take the New York Times - you know, again and again they write articles that just don't mention my name at all, or "Time." I mean, it is a man of high principle, but - now those are the kind of things.

I wish the two of you would be terribly frank with me and say to me, "Well, Mr. Morgenthau, emotionally we can't do that kind of thing. We don't believe in it." If you don't, then let's get somebody that does. I mean, somebody who could do the thing.

I think I did a good job and now I would like to get somebody to say so. So, as I say, if either of you feel that you can't do that kind - there is nothing personal about it. If Kuhn said, "I can't do that thing, Mr. Morgenthau; it goes against the grain with me; and I am an editor, not a publicity man," that is all right. I mean, I have told you before.

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MR. KUHN: I am a bad one, but, I mean, there are a lot of things that can be done.

H.M.JR: You remember we talked about contacting the working press and you said you couldn't do it. I mean, it is my own fault. For nine years I have discouraged it in Albany. We never did it, did we, Herbert? There was no reason to do it, no excuse to do it, but you can't go after people like Hamilton Fish and John L. Lewis, and all these other people who have slush funds of unlimited amounts of money, plus the banking fraternity, to whom this means a difference of a fat dividend or just scraping by. It is like the time that I went through the combination of Kennedy, Harry Hopkins, and Jimmy Roosevelt, and the three of them made up their minds that they were going to get rid of me. I said that the town was not big enough for the four of us, and Kennedy and Jimmy Roosevelt left town. But I mean, I have gone through this thing before.

It is very difficult for me to say, "Get somebody to write something nice about me," and I don't want to do it again. As I say, if either of you can say to me, frankly, "Look, boss, I can't do it," just as Ferdie said, "I don't want to contact - I don't want to scold the daily press." That is all right, you know. Can I be any franker than that?

MR. GASTON: No, but as far as I am concerned there isn't anything of that kind that enters into it. I think the way you have operated and the way we have operated - you have built up a very fine reputation throughout the country. We haven't had much attention in the press for very natural reasons, because they have sensed your attitudes, which are contrary to their attitudes. But I think on the whole you have built up a solid respect throughout the country, and a respect that might have been - I don't say certainly it would have been, but might have been damaged if we had had a high-pressure personal public relations or publicity policy.

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Now, on the score of what ought to be done, I do think that it is owing to you personally that there should be a better recognition generally of what you have done here, the really great accomplishments that we all know about. I think, also, that there is a good deal in this idea that building respect for the soundness and steadiness of American financial policy, as directed by you in this time, would be of value.

To me it is a question of mechanics, how can you do it without fumbling the ball, without being over-anxious, without getting out something that would be flagrant, or doing it too many places at the one time.

To my mind, it is purely a question of mechanics, of the diplomatic way to approach it. To do that, we don't want to do too many things at the same time. There ought to be a combination of one or two articles that will probably be reflected in others, and then have some positive action to accompany those which will show a firm, decisive approach to the really difficult problems that we have.

I think the time is coming not very far ahead when you will need to make a major speech again on this whole fiscal situation. I think you probably want to talk about, first, wanting much heavier taxes than we have now, probably going beyond your statement of six or eight or ten billions that you made. I think you may want to come out for taxes on the scale of twenty or twenty-five billions additional to what we have now, and I think you will have to talk about this general financing policy. It will be quite a notable pronouncement.

That is one thing, but the other thing is retrospective, and I think we can get something of that kind.

Your suggestion about the labor press is very good and very interesting because I feel that you are going to get a certain amount of respect in the financial community, and in the popular magazines you will get something that is maybe reasonably favorable. But so far as real friendship and support, you have got to look into a different quarter.

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H.M.JR: That is my point. Not only the labor press - I don't know, but there are four or five hundred newspapers that labor has. I think the contact should be made with the soldiers paper, the "Stars and Stripes," which is now going out daily, so that these eight hundred thousand men that are overseas - plus the "Yank," that goes to the other three million in this country - gets something of what we are doing. Not only is there that, but there is that big map which goes out weekly, with comments. For instance, we picked up two different kinds, the State Department one, which sends out about six mimeographed pages on both sides each day by radio, and it is all Hull and Welles, Hull and Welles, every day, day in and day out.

The Navy gets out a job. It is straight news.

MR. GASTON: The State Department used to ask us for contributions to that thing they send out. I don't know whether they are doing that any more or not.

H.M.JR: I mean, there must be magazines of opinion. I think that is what you call it, newspapers of opinion. If you begin to look for them, there are thousands of them. You remember when we used to be over at Farm Credit the Department of Agriculture had a mailing list of - I don't know how many - twenty thousand or so that they sent out.

MR. GASTON: They had a tremendous mailing list.

H.M.JR: At one time when Wallace was there he had twenty-two different writers, writing mostly about himself - twenty-two writers that he had doing different stuff.

MR. KUHN: For his signature?

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

MR. KUHN: He has been doing a lot of it.

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H.M.JR: But you know the "Times" magazine--

MR. KUHN: They invited you to do one there, and you said you wouldn't do it. I was thinking pretty hard about all these things after you mentioned it, and I would like just to ask you if you would think about a few different procedures. First of all, this question of articles under your own name, which some people do. Wallace does it very successfully; Wickard does it very successfully. Would you like to do it?

H.M.JR: I would do it as long as it could be made perfectly clear that I didn't get paid, or if it was paid for, that the pay went to soldiers and sailors funds, or something like that.

MR. KUHN: I think that happens in the case of all these articles. Some magazines like "Colliers" insist on paying you, and when they do pay you--

H.M.JR: There would be a little footnote at the bottom of the article saying, "The pay Mr. Morgenthau received from this is being contributed to the Soldiers and Sailors Relief Fund."

MR. WHITE: I don't myself feel that that is the approach. I don't know, I may be wholly wrong in this thing, but it seems to me - in the first place, I don't regard this any more than you do as a personal matter. It is not a personal thing; it is a question of strengthening what I would call the "New Deal Forces," against opposition, and you strengthen that by strengthening the man. It makes the man more able to do things and get away with it, whereas when the opposition becomes too great and he doesn't have the support of the people he is defending, then it is much more difficult. You cannot win all the parties until you are effective. If you are ineffective, you are hurting somebody; but if you are effective and are working for the large group, the masses, so-called, as the Secretary is doing, then it seems to me you have got to choose and win the support of those groups as against the other. You will

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never get the other. Try to keep them down as much as possible. But you can't win them over, because they are not going to be won over unless you are on their side, and you are not on their side.

Now then, Herbert mentioned that there is labor, there is the consumer, there is public opinion, there is the New Deal group. They consist of what? They consist of columnists. Among the columnists there are some New Dealers. Among the various commentators on the radio there are some New Dealers. Among the various writers who write every now and then - a fellow like Scherman or others - I don't know who they are - there are New Dealers. There are labor writers. There is a large group of that character.

It seems to me that a campaign needs to be planned, always having in mind the necessity for being a good campaign, because, as Herbert says, pretty obviously if you fumble the ball, the boomerang is bad. It always has to be kept very confidential, but it seems to me that it is possible to plan a campaign in which you hit at each one of these groups, and where somebody is thinking all the time, "How can I get this and that?" I don't think an article by a man himself has much effect; it is what others say; it is not what he says himself, not the speeches he made. Lincoln did make his own speech at Gettysburg, and it attracted attention.

But if somebody else, a columnist or an editorial writer, says something, that is the sort of thing that is carried out; and it just cannot be done, it appears to me, within the time allocated and under the conditions which exist unless you have a group or a man who does nothing but think up all the time what can be done. However, that man's ideas must be cleared through some cool heads so as to be sure he does not fumble the ball. Somebody must be responsible all the time, either having two or three men under him - somebody who is contacting the labor people, somebody who is contacting the writers, and always stressing not the personality as such, but the personality as combined with the fight,

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with the philosophy. The man becomes unimportant as against the other, but by tying both together they both become important. I don't think this other approach - you get an article in, you get a favorable article, and there is a slight rise, but it peters out.

There has to be more than that. If it can be delicately handled - I don't know about public relations.

H.M.JR: Harry, I want to say through the war bond set-up - I can't go out and get six additional people to do this sort of thing, if it needs six; but you have got Pete Street, whose job is to contact writers, you have got somebody in the labor over there with Houghteling, whose job is to contact the labor press. The machinery is all there.

MR. WHITE: I agree with you, you can't get a high-powered group in and suddenly start out. You have either got the men or the agency, but those men themselves must understand that it is not a personal thing - not trying to build up a personality, because you are working--

MR. GASTON: You can't crowd that War Savings any too hard. That would be very dangerous.

MR. KUHN: I don't entirely agree with you, Harry, on that, because take the Wallace thing as an example. There is a man who wrote and who spoke and writes his own stuff, or the stuff that appeared under his own name, which created the impression about the post-war world, and so on. I think it was a terrific success for whoever engineered it.

H.M.JR: His speech, that post-war one, was such a success that the President had announced that Mr. Hull was going to make a speech and then Mr. Hull made a complete flop.

MR. KUHN: That is just one example of the kind of thing I wanted to ask about. I am not recommending it.

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H.M.JR: Using the Wallace thing as an example, that post-war speech he made was tremendous; and that little speech that I made up before the Grange - they still talk about it in England.

MR. KUHN: There was another example of something I wanted to ask you about. That speech at the Grange was almost the only time since I have been here that you have stepped out of your back yard, in a way. I mean, at all other times you have been very scrupulous about not talking about non-Treasury subjects, although the Treasury touches many subjects.

Yesterday at your press conference you chose not to say anything about England, about the broad war situation. They said you didn't have much to say about England, but you talked about taxes that they pay in England. Now, that is the policy that we have been--

H.M.JR: No, but I had a very good reason. The newspapermen in England were unbelievably lazy and stupid, because none of them caught on to what I was doing. It is unbelievable to me that out of a couple of hundred newspapermen there nobody realized what I was doing. I didn't want to talk about the war, because I didn't want to hook up - I don't want people to know what I was doing.

MR. KUHN: I only give it as an example.

H.M.JR: I didn't want them to know. To me it is unbelievable that some American newspapermen - but just like Nick Gregory said, "What were you really doing?" I said, "You read in the Tribune what I was doing." But I am sure if you (Kuhn) had been there to handle the London Bureau of the Times you wouldn't let me be there for ten days and not know what I was going.

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MR. KUHN: Well, I appreciate the compliment. I wasn't suggesting that yesterday you should have done that if you had good reasons for not, but you can't get the kind of attention that you want if you are only going to talk at all turns about taxes and financing.

MR. WHITE: I am not sure I agree with that. There is a fundamental difference I would like to explore just a moment, Mr. Secretary. It appears to me that the build-up and the strength must be to counter the attack. Now, where does the attack come from? The attack does not come from the fact that the Secretary has this or that post-war idea, that he has this or that, or does not step out of his field; it is a question of his capacity and effectiveness as a Secretary of the Treasury in the fiscal field, the financial field. The build-up must be to show what he is entitled to have shown; that he is an experienced financier who is doing a swell job in financing, and who is doing a job in the interests of the public against the others. I think if the concentration is on that, the rest will take care of itself. He is not running for office and he doesn't need votes. What he wants is to be strengthened in the public recognition, I gather, of what he is doing as Secretary of the Treasury.

MR. KUHN: But, Harry, you yourself said there is a philosophy behind this. Everything the Secretary does here at the Treasury is because he has got a certain philosophy; he has got a way of life - a way of thinking about these things. Now, it seems to me that you have got to broaden these things a little bit, and when the Secretary states his attitude on financing or on taxes, or what not, there has got to be some idea behind it. It is more than bookkeeping. After all, the Ways and Means Committee is just a bunch of bookkeepers, but the Secretary has some ideas that account for his attitude. I was just raising the question as to whether the Secretary shouldn't express those ideas a little more freely than he has been doing. If he does, he is going to get attention. He is going to get attacked, but also attention and respect and friendliness from the people who believe as he does.

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MR. WHITE: I agree with you. I didn't know what ideas you were talking about.

H.M.JR: Well, anyway, I wanted to start the thing going. I think that - who else is there besides the three of you on this thing?

MR. GASTON: This committee of ours has been concerned with this tax.

MR. KUHN: The war financing picture as a whole.

MR. GASTON: The war financing picture.

MR. KUHN: Peter is on it, Chick Schwarz, Ecker-Racz of Tax Research, and Randolph comes in when he can.

MR. GASTON: But on this thing--

H.M.JR: Add White to the committee.

MR. GASTON: This thing is a separate committee.

H.M.JR: I think so. I think the three of you are enough; don't you think so?

MR. GASTON: Yes, I think so.

MR. KUHN: I am having lunch today with a film man. You remember that Skouras--

H.M.JR: That man is in London.

MR. KUHN: John Nesbitt.

H.M.JR: The man who did Mrs. Miniver - Walter Wiler.

MR. KUHN: Peter suggested this man, John Nesbitt, who is marvelous at explaining problems in the films which are not usually put in the films. I mean, he is doing a film about the Treasury. Now, we are having lunch with him today to give him some ideas.

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H.M.JR: Now, do I come in the picture?

MR. KUHN: I hope you will, and that is another thing I wanted to raise with you. I know you hate movies. I mean, it is a job - it is a chore.

H.M.JR: I don't mind - if I can go to a regular studio and have a director I am willing to go, but I don't want to go downstairs and have a couple of electricians telling me what to do.

MR. KUHN: I am with you on that.

H.M.JR: I don't want a couple of electricians who sit there and have no idea about lighting or anything else; but if it is a studio in New York - I have got to change from my past things, you see, but I sense these things. I mean, part of my success is that I sense these things in advance.

MR. GASTON: Would you see Harry Scherman just for a minute because he is an old friend? I think it might help a little bit.

H.M.JR: Yes.

MR. GASTON: He is in George Haas' office now.

MR. WHITE: Yes, and if you can get Harry Scherman to see - he may already see, I don't know him - to see what lies behind this, then it no longer becomes their doing Mr. Morgenthau a favor; they begin fighting for what they think is right.

MRS. KLOTZ: That is the point.

MR. GASTON: Scherman is interested in another thing right now, but I planted this idea in his mind - what we are talking about.

MRS. KLOTZ: They have got to feel this thing before they can write about it.

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MR. GASTON: We can work on him a little bit.

H.M.JR: To go back to philosophy, I don't know whether you agree with me about Brendan Bracken, as to his ability.

MR. KUHN: He is very able.

H.M.JR: What Brendan Bracken said was this: He said, "Mr. Morgenthau, I was one hundred percent for the first New Deal, but" he said, "you fellows never saw it through." Then he went on to explain about the SEC and how we muffed that, and we never did the big corporations, so forth and so on - we never saw the thing through. I need not spell it out. But he has got the thing down.

MR. GASTON: Yes, he is right.

H.M.JR: And I said, "I agree with you." And he listed the things which we muffed, and which we haven't started. He is particularly interested in share-croppers. The man is amazing - his information on America. But the way he watches Churchill - the slightest little thing - I mean, he is Minister of Information, but he is Churchill's publicity bodyguard.

MR. GASTON: Of course, they are a generation ahead of us so far as popular thinking is concerned on Government.

MR. WHITE: Something which would be woven around post-war monetary stability which would come, naturally, from the Secretary of the Treasury--

H.M.JR: Excuse me, I hadn't finished about Brendan Bracken. What I am saying is, I am a left-over from the first New Deal, which makes the attack all the more because there are only a half a dozen of us left. The things that we haven't done are so many, so that not only the people who didn't believe in the first New Deal, but there are the New Dealers who have back-slided, and

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who are opposed to what we are doing here. So you have got - I mean, you look around Washington and name the Agency that will go through for the President what I have gone through consistently since '33. So I say there are not only the people who are opposed to me, but there are the back-sliders, plus this entire new group of big business which is just dominating Washington.

That is all. Go ahead, Harry.

MR. GASTON: Harry, you didn't finish your thought.

MR. WHITE: The monetary stability would be used as a peg, as well as on its own merits. In the first place, if he comes out for anything like that it will have tremendous interest in the financial world, very great interest in what is going to be done; and coming from him it would be authoritative, whereas his comments on the others would not be. Use that as a peg in which he can get his little philosophy of rights of small nations and stability and economic liberalism, and that thing as a post war - I am merely trying to follow your thought.

He cannot say the sort of things that Wallace does. The Secretary of the Treasury can say something which appears to be in his field, and yet which will very definitely give the sum of his general philosophy, and will attract attention, because of what it says on the monetary and foreign investment field. Would that have any value?

MR. GASTON: That is all right. That can't be a first speech, nor can it be the main factor in the speech. The Secretary can't get up and talk about post-war financing and the post-war world without facing this - he has got to face first this tremendous immediate problem of taxing and financing in the present moment. Then he can go on to talk about--

MR. WHITE: This is international. I wasn't using this as the chief thing. I merely had a thought in line - you were speaking of Wallace. That is the sort of thing he could do, but it is one and a minor thing.

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MR. GASTON: We have a huge segment, the biggest segment of the post-war problem - one of the biggest segments of the post-war problem - but the discussion of it has got to follow a discussion of the immediate problem that we have now, because I think the problem of controlling money supply, controlling the financing, and controlling prices right after the war, is going to be--

MR. WHITE: I was talking about international.

MR. GASTON: Of course, it can lead into international matters.

H.M.JR: Can I interrupt? I don't feel up to anything, today. I didn't want to do this. I wish the three of you would continue this discussion - this discussion could go on for days. I wanted to plant the seed. I wanted to get the three of you together.

MR. GASTON: Suppose we bring in a man next week. I am thinking now of Mark Childs, probably, for a popular article. I think of two men; one is Stone, because he is smart. We ought to go after labor publicity, too, but one man on a popular article--

H.M.JR: I can see these people at lunch.

MR. WHITE: There is a woman writing up Lauch Currie in the Saturday Evening Post. She is coming to see me today. Who gets them? Why do they select one--

H.M.JR: They wrote up Douglas, too.

MR. WHITE: Does somebody get the woman and say, "You write this"?

MR. GASTON: I imagine it is a girl who wants to sell an article and she thought Lauch Currie was an interesting figure.

MR. KUHN: One who was not known to the public.

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MR. GASTON: Would you see Mark Childs next week?

H.M.JR: Certainly, I will see him at lunch.

MR. GASTON: Will Ferdie be willing to be the trigger man on this?

MR. KUHN: Sure, if you think I can do it.

MR. GASTON: I am afraid of this proposition of bringing in a man who would be recognized as a personal publicity man; you know I don't like it.

H.M.JR: I agree with you.

MR. KUHN: I just want you to flap your wings a little bit in those ways that I suggested.

H.M.JR: Let's see, the three of you talk it over and continue to talk, and let's see what we can get. I will have to change my own philosophy about being willing to do some of these things.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE  
November 3, 1942

TO Secretary Morgenthau  
FROM Ferdinand Kuhn, Jr.

Just before you left for England you asked whether our new campaign against coin hoarding was having any results.

Letters are pouring into the Office of the Mint, as a result of the radio announcements and the appeals by you and Mrs. Ross in the newspapers. All the letters indicate enthusiastic cooperation. A few examples out of many may interest you.

A former guard in the Mint service, now in the Navy, reported that he found 1900 pennies in his wife's bureau drawer and bought a \$25 bond with them.

A letter writer from Pennsylvania wrote that he took 2250 pennies to his bank.

Another wrote that he would turn in a collection of 3750 Indian Head pennies for a War Bond.

One of our own employees in the Office of the Mint converted 1050 pennies into War Stamps.

Professor J. E. Amos, Associate Professor of Finance at the University of Pittsburgh, has launched a drive at the University with the aid of freshmen of the School of Business Administration. Although the drive is hardly under way, more than 50,000 pennies have been received already, and he expects the goal of one ton to be achieved in the near future.

The President of the National Council of Women has written that the Treasury's appeal will be given a prominent place on the program for discussion at the annual convention in New York, November 18th.

JK.

November 3, 1942

Dear General Rodgers:

The photographs and the negative have arrived, and I am very happy to have them. I am only sorry that my request put you to so much trouble. Thank you for having obtained them for me.

Sincerely,

(Signed) H. Morgenthau, Jr.

Brig. Gen. Robert C. Rodgers,  
Headquarters Second Cavalry Brigade,  
Fort Bliss, Texas.

FK/cgk

121 *hws*

NOV 3 1942

HEADQUARTERS SECOND CAVALRY BRIGADE  
OFFICE OF THE BRIGADE COMMANDER

IN REPLY  
REFER TO:

Fort Bliss, Texas

28 October 1942.

Honorable Secretary A. Morgenthau,  
Treasury Department,  
Washington, D. C.

My dear Secretary Morgenthau:

I regret the delay in obtaining for you the negative you requested in your letter of September 4. About the time you wrote I was ordered away from Fort Riley and your letter has followed me to field maneuvers and back here.

I have recently succeeded in securing a copied negative from the Air Corps at Marshall Field, Fort Riley, Kansas, which I believe you will find satisfactory; the original had already been sent away to Headquarters, 7th Service Command.

It will not be necessary to return this negative.

Very truly,



ROBERT C. RODGERS,  
Brigadier General, U. S. Army.

RGR/hws

November 3, 1942

Dear Air Marshal Eville:

I wonder if you would be kind enough to send the following message to the father of Sergeant Donald Huntley, who has been reported killed over Germany.

"We at the Treasury are deeply sorry to hear of the death of your son in action over Germany. He was of great help to us during his visit to the United States in the summer, and he was at all times a credit to the uniform he wore. I feel that he gave his life not only for his own country but for ours in the fight against our common enemy."

Huntley did a magnificent job for us while he was here, and I felt that I should let his father know in this way how much we thought of him.

Sincerely,

(Signed) H. Morgenthau, Jr.

Air Marshal D. C. S. Eville,  
British Joint Staff Mission,  
Offices of the Combined Chiefs of Staff,  
Washington, D. C.

File in Diary

FK/ogk

TREASURY DEPARTMENT  
Washington

FOR IMMEDIATE RELEASE,  
Tuesday, November 3, 1942.

Press Service  
No. 33-93

Secretary Morgenthau received word today that Sergeant Donald M. Huntley, one of the fifteen British and American war heroes who toured American cities last summer on behalf of the War Bond campaign, has been killed on an R.A.F. bombing raid over Germany.

Huntley met his death in a raid on the German Naval Base of Wilhelmshaven on September 14. The British earlier had reported him as missing, and only recently intercepted a German broadcast announcing that he had been killed.

Previously he had taken part in the raid of several hundred planes on Kassel on August 27 and had played a conspicuous part in the raid on Saarbruecken on September 1. His crew reported having set many fires on industrial targets during that raid.

Mr. Morgenthau has sent a message of sympathy to Huntley's parents, who live in Salisbury, Rhodesia, saying that the dead airman was "at all times a credit to the uniform he wore" and that "he gave his life not only for his own country but for ours in the fight against our common enemy."

Huntley, who was only 21, arrived in this country in June already wearing the Distinguished Flying Medal as a result of his work as wireless operator and air gunner in a notable R.A.F. raid on the Diesel Engine factory at Augsburg. In Washington he and his group of airmen, Commandos and sailors were received at the White House by President Roosevelt, who thanked them for their service to the American war effort in making a long tour on behalf of War Bonds.

In the twenty cities where Huntley appeared -- New York, Boston, Philadelphia, Baltimore, Washington, Pittsburgh, Detroit, Milwaukee, Minneapolis-St. Paul, Denver, Salt Lake City, Seattle, Portland, San Francisco, Los Angeles, San Antonio, Fort Worth, New Orleans, and St. Louis -- Huntley made many American friends and spoke briefly to large crowds.

-oOo-

3-4-45 124  
2000

## Treasury Needs 5,500 More Men and Women To Help Administer 1943 Tax Returns, and Must Train Them

BY ALFRED F. FLYNN

Staff Correspondent of The Wall Street Journal

WASHINGTON—The manpower shortage has hit the Federal Treasury.

So it will turn to women who meet the special qualifications necessary to become deputy internal revenue collectors and agents.

Officials said that it will take 5,500 additional collectors and revenue agents to administer War Tax Bill No. 1, which will call for \$5,000,000 federal income tax returns next March, an increase of about 10,000,000.

The immediate problem of the Treasury is to find 5,500 qualified men and women to enter training immediately to prepare for the big revenue collection job next year.

The revenue agents will be schooled at the old St. George Hotel in Brooklyn, New York, while the revenue deputy collectors will receive

their training in the 65 collection districts spread over the entire nation.

Officials say they prefer women to men who are subject to the draft in cases where both have the same qualifications. They believe that a substantial number of the new collectors and agents will be women.

The main functions of the deputy collectors include investigation of delinquent taxes and

helping individuals with the preparation of new returns. Their work centers around the smaller income tax returns.

The revenue agent is more of a specialist. He investigates fraud and evasion cases. He must be able to audit a tax return and tackle some criminal cases involving tax violations.

Right now the Bureau of Internal Revenue has about 10,000 deputy collectors and about

4,000 revenue agents. The increase in the staff probably will be divided proportionately among the two groups.

According to Treasury officials the increase necessary to handle the new tax bill is equal to about one new agent or collector per 2,000 additional tax returns.

The manpower problem of the Internal Revenue Bureau is aggravated by the necessity for setting up a special salary stabilization unit. This unit will require the transfer from revenue work of a large number of the Bureau's top men with ten years or more experience. The wage setup is considered an all-important job by Secretary Morgenthau and he wants only top-notchers to be given the assignments. This will leave the Bureau with a substantial number of inexperienced hands.

Mr. Klotz:

I want to see John Sullivan  
and Hebering about this soon.

H. M. Jr.

NOV 3 - 1942

My dear Mr. Ambassador:

I wish to refer to the agreement dated *January 3, 1942*, relative to the purchase of 600,000 fine troy ounces of gold by the Secretary of the Treasury from the Government of the Union of Soviet Socialist Republics, against which an advance of \$20,000,000 was made on *January 5, 1942*.

The Federal Reserve Bank of New York received a cable on *October 27, 1942* from the State Bank of the Union of Soviet Socialist Republics requesting that its account be charged and \$632,170.60 be paid to the United States Treasury. The transaction has been executed as requested. The amount paid is the balance due on the advance of \$20,000,000 under the agreement of *January 3, 1942*.

In view of this final payment against the advance of \$20,000,000, the agreement of *January 3, 1942*, is now considered to have been fulfilled, and there is no obligation to deliver any additional gold under the provision<sup>s</sup> of this contract.

Sincerely yours,  
(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

His Excellency  
Maxim Litvinoff,  
Ambassador of the Union of Soviet  
Socialist Republics.

JG:lc:10/29/42



OFFICE OF THE DIRECTOR

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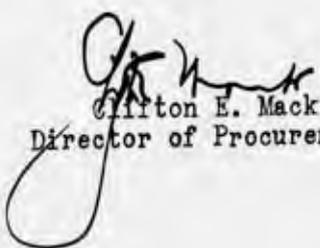
TREASURY DEPARTMENT  
PROCUREMENT DIVISION  
WASHINGTON

November 3, 1942

MEMORANDUM TO THE SECRETARY:

There is submitted herewith the operating report of Lend-Lease purchases for the week ended October 31, 1942.

The requirements for the calendar year 1943 submitted by the countries participating in the Lend-Lease program, for items to be procured through Treasury Procurement, total approximately \$2,750,000,000. The estimated costs are being reviewed and administrative expenses are being developed for submission to the Bureau of the Budget by November 15, 1942.

  
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 31, 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	\$2327.2 (2325.5)	\$1202.7 (1167.8)	\$739.2 (695.5)	\$56.7 (56.7)	\$3.7 (3.7)	\$324.9 (401.8)
Purchase Authorizations (Requisitions)	\$1790.4 (1794.5)	\$1062.8 (1048.7)	\$669.3 (688.2)	\$40.4 (40.1)	- -	\$ 17.9 ( 17.5)
Requisitions Cleared for Purchase	\$1724.1 (1723.2)	\$1049.1 (1021.1)	\$617.3 (645.0)	\$40.0 (40.0)	- -	\$ 17.7 ( 17.1)
Obligations (Purchases)	\$1620.6 (1589.8)	\$ 996.3 ( 988.5)	\$567.3 (544.9)	\$40.0 (40.0)	\$2.6 (2.6)	\$ 14.4 ( 13.8)
*Deliveries to Foreign Governments at U. S. Ports	\$ 683.5 ( 666.0)	\$ 544.0 ( 530.4)	\$115.2 (111.5)	\$20.1 (20.1)	- -	\$ 4.2 ( 4.0)

\* 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 24, 1942

(copy of note)

Div of Monetary Research

128

Miss Chauncey

11/12/42

from: Mr. Friedman

The attached cables are for the Secy's files. No comment.

I attached the orig. note to the earliest dated cable which was 10/8/42 9 a.m. - copy att. to 10/24; 10/30; 11/2; 11/3 cables)

DLA  
 This telegram must be  
 paraphrased before being  
 communicated to anyone  
 other than a Governmental  
 agency. (BR)

Chungking via Karachi  
 Dated November 3, 1942  
 Rec'd 7:30 a.m. 5th

Secretary of State,  
 Washington.

1268, November 3, 11 a.m.

TF 69

TO SECRETARY OF THE TREASURY FROM ADLER.

Weekly economic.

One. Sale of United States dollar--backed saving certificate to end of October Chinese national currency \$110,000,000. Campaign to push sale of United States dollar--backed and domestic Government bonds initiated in Chungking, with former to be sold on voluntary and latter on compulsory basis, though compulsory scheme appears too classified to be effective.

Two. Black market rate for United State currency notes in Chungking at the end of October Chinese national currency 46-48 per United States dollar.

Three. Preliminary figures for Central Bank over-sold position in October, United States dollars 456,000 and sterling 85,000 approximately.

Four. Last week Generalissimo submitted to People's Political Council a program for the

intensification

-2- #1268, November 3, 11 a.m., from Chungking via Karachi

intensification of price control which is obviously influenced by our own price control policy. Program envisages ceiling on prices of important commodities in most important centers to begin with, fixing of wages and cost of transportation, and gradual extension of price control and gradual introduction of rationing for food and other essentials. Unknown as yet to what extent scheme will be put into practice. Such organizations as would have to administer some of essential parts of program are trying to limit its scope. Program so far as it will be enforced will inevitably tend to dry up circulation of goods.

GAUSS

BB

KD

This telegram must be paraphrased before being communicated to anyone other than a Governmental agency. (HR)

Chungking via Karachi

Dated November 5, 1942

Rec'd. 9:07 p.m., 4th

Secretary of State,  
Washington.

1270, November 5, 1 p. m.

TP-70. TO SECRETARY OF TREASURY FROM ADLER.

One. Regarding November 1 Agreement. Settlement of Board's liabilities had been deferred owing to British reluctance to make payments without Board's "schroffing" detailed accounts of Chinese Government foreign exchange expenditures. November agreement makes no provision for such "schroffing", and both Chinese members of Board and Central Bank would have resisted demand if made. Therefore, to break deadlock, on my own initiative but after prior consultation with and consent of chairman approached British member and K K Kwok of Central Bank and Board separately with compromise proposal, essence of which was that Central Bank would waive any claim on Board for Chinese Government expenditures prior to November 1, 1941, while British would waive having detailed accounts of Chinese Government foreign exchange expenditures "schroffed". Both parties agreed to compromise, Central Bank, however, pointing out with some justice that as Board would not be meeting Chinese Government expenditures prior to November 1,

1941,

#11870, November 5, 1 p.m., from Chungking via Karachi.

1941, it should forego claim to foreign exchange assets accruing before that date, and that, therefore, United States dollars one million purchased by it on November 5, 1941, but representing remittances made before November 1, 1941, should not be turned over to Board.

Compromise proposal with Central Bank's modification was formally adopted at Board meeting of November 2.

Two. Board's liabilities under November 1 agreement for November 1, 1941 - September 30, 1942 pounds 4,158,000 and United States dollars 21,915,000. Board sterling assets are somewhat greater than reported in my TP-58 of September 21, purchases of sterling area currencies and sterling area remittances being larger than was then anticipated, though there will be a little delay before all the money from these two sources will become available. Board thus has sufficient sterling to meet its liabilities, and fortunately there will be no need to draw on United States stabilization loan to meet sterling obligations.

Board's United States dollar assets are under dollars fourteen million, another dollars three million in remittances having come in since TP-58. Our United States dollar deficit is thus about dollars eight million, though Board intends to draw dollars ten million in all from the United States dollars fifty million loan in order to have enough till money on hand to meet current applications.

GAUSS

RAB

RCC  
This telegram must be  
paraphrased before being  
communicated to anyone  
other than a Governmental  
agency. (LR)

Chungking

Dated November 3, 19

Rec'd 1:25 p.m. 4th.

Secretary of State

Washington

November 3, 2 p.m.

TF71.

TO SECRETARY OF TREASURY FROM ADIER.

Re one of TF65 of October 8. Lt Dr. Kung's  
suggestion board has requested General Secretary  
and myself to make a trip to northwest to investigate  
possibility of Board's opening an (#) Lanchow  
which would grant United States dollar cover for  
commercial imports from Russia. General Secretary  
and I leaving for Lanchow November 3 for about two  
weeks.

GLUSS

(#) omission

LRM

NOT TO BE RE-TRANSMITTEDCOPY NO. 13BRITISH MOST SECRET  
U.S. SECRETOPTEL No. 379

Information received up to 7 A.M., 3rd November, 1942.

1. NAVAL

1st/2nd. A Polish and a British destroyer with 4 motor torpedo boats intercepted and attacked with gunfire an eastbound convoy south of GUERNSEY. One ship was set on fire. Motor torpedo boats then closed and claim a torpedo hit on one ship and a large trawler.

2nd/3rd. One of our motor launches was damaged by mine in the STRAITS OF DOVER.

2. MILITARY

EGYPT. To 12 noon 2nd. During the night 1st/2nd the New Zealand Division supported by Northumbrian and Highland Infantry and tanks attacked in the northern sector to clear a gap in the enemy defences west of TEL EL EISA through which to pass our armoured forces. In spite of strong enemy resistance and counter attack our forces by 6 a.m. had penetrated nearly 3 miles into the enemy defences on a front of 4,000 yards west of KIDNEY RIDGE and southwest of TEL EL EISA. Heavy fighting with armoured formations continued throughout Monday morning in front of our advance though activity slackened slightly at midday and the battle centre moved southwards. Some of our light armoured forces passed through and carried out raids behind the enemy lines destroying stores, telephone lines and lorries. Strong attacks were made against the Australians on our extreme right and the enemy units which had been cut off made a determined effort to cooperate with the attacks from the west. Our positions in this sector however remained unchanged. Further south contact was maintained all along the front and diversionary attacks were made by our forces southwest of KIDNEY RIDGE and astride the RUWEISAT feature.

3. AIR OPERATIONS

WESTERN FRONT. 2nd. Our fighters carried out offensive operations. Enemy casualties - 4, 2, 5. Our losses 3, nil, nil.

EGYPT. 31st/1st. 2 1,500-ton ships were sunk off TOBRUK 1st. Fighter bombers made 14 attacks against enemy forward positions mainly in the northern sector and also raided EL DABA landing ground and a suspected H.Q. obtaining many direct hits. Light bombers successfully attacked M.T. near SIDI ABD'EL RAHMAN and long range fighters destroyed three tanker lorries and damaged other vehicles. An escorted dive bomber formation was intercepted. Enemy casualties, 8, 3, 5. Our losses 1, nil, nil.

1st/2nd. Our bombing in the Northern sector was reported to be most successful.

NEW GUINEA. Two large troop transports were attacked off BUNA and forced to withdraw. One direct hit and many near misses were claimed. A transport was later reported on fire off GASMATA. Five enemy fighters were shot down.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE NOV. 3, 1942

TO Secretary Morgenthau  
FROM Mr. Heflich  
Subject: "The Great Offensive" - Max Werner

1. Max Werner, in his latest book, "The Great Offensive", makes it clear that the fascist coalition can be defeated only by an early coordinated offensive by the United Nations. "Isolated national wars against the Third Reich are bound to fail. Russian resistance, British strategy, and America's shift to active warfare against Germany, are so interlinked, that only a joint offensive strategy can solve the crisis for each of the Allies."

2. In Werner's opinion, an Allied Second Front in Europe is essential to counter-balance the Eastern Front. The chief function of a Second Front is not to relieve the Red Army, but rather to unleash the Russian offensive powers for the benefit of the entire anti-Axis alliance. Furthermore, the way to Japan is across the English Channel, since only the opening of a Second European Front will give Russia the necessary diplomatic and military freedom of movement in the Far East, so that she may join the anti-Japanese coalition.

3. To those who are frightened by Nazi preparations against invasion, Werner says:

"Coastal fortifications alone are inadequate for staving off landing operations. No West Wall can protect the German-dominated coasts from Biarritz to Narvik, or the Mediterranean coasts from Malaga to the Piraeus. Hitler's stress on the invincibility of the German-held coasts could be called a German version of the Maginot Line complex -- unless one assumes that it is calculated to serve as a psychological deterrent. The Nazis know the technics of modern warfare too well to stake everything on coastal fortifications. The real problem for coastal defense is that of mobile reserves. In this respect

the dynamic of the relationship of forces is favorable for the Anglo-American forces; because of the tying down of the German armies on the Russian Front, because of the growing German casualties there, because of the draining of German reserves by the needs of the Eastern campaign, and also because of the decreasing density of the German occupation in the West. The Anglo-American-Canadian troops on the British Isles will in any event be stronger than the German forces in Western and Northern Europe.

"Another factor favors landing operations in Western Europe. The possibility that the landings might be threatened by German naval forces is almost entirely ruled out. It was chiefly the weakness of their own Navy and the superiority of the British Fleet which made an attempt at invasion of England so dangerous for the Third Reich. The reverse relationship of forces at sea facilitates an Anglo-American landing."

Werner then cites Japanese experience, and the December 1941 Russian landing in the Crimea, to show that such landing operations can be carried out.

4. In Werner's opinion, 60 to 80 Anglo-American divisions, with 3,000 to 5,000 planes and tanks, are sufficient to give the Allies superiority over the German Army in Western and Southern Europe. Adding 20 divisions for reserves, he considers 100 divisions to be the maximum requirement, provided the strength of the Red Army remains intact. If the United States were to furnish half of this force, or 50 divisions, our maximum contribution would be about 1,500,000 men, including auxiliary troops and reserve formations.

5. Werner's brilliant analysis of the course of the war since the Nazi invasion of the Soviet Union furnishes the background for his main thesis on the strategy of coalition warfare.

The Treasury Library has a copy of Werner's book. Shall I send it to you?

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE Nov. 3, 1942

TO Secretary Morgenthau

FROM Mr. Heflich

Subject: Shipping Situation in September, 1942  
(Charts ~~attached~~  
returned)

1. During the month of September, losses of Allied and neutral shipping by belligerent action were considerably lower than in August (and the lowest since January) as shown below:

	<u>August, 1942</u>		:	<u>September, 1942</u>	
	Number	Gross	:	Number	Gross
	of	tens	:	of	tens
	<u>Ships</u>	_____	:	<u>Ships</u>	_____
United States	19	115,450	:	18	113,210
British Empire	58	348,991	:	47	252,709
Other United and neutral nations	<u>46</u>	<u>214,932</u>	:	<u>44</u>	<u>166,675</u>
TOTAL	123	679,373	:	109	532,594

2. American and British launchings in September, approximately 786,878 gross tons, exceeded Allied and neutral merchant marine losses for the month by 254,284 gross tons.

3. During September, about 6,500 British and Allied ships were convoyed, including the West Atlantic, Caribbean, and United Kingdom coastal convoys. Only slightly more than 6/10 of one percent of the ships in convoys were lost by enemy action.

4. Approximately 88 percent of the September losses was due to submarines, and the remainder to aircraft. The bulk of the loss occurred in the Atlantic, chiefly in the eastern approaches to Trinidad and the northwestern approaches to the United Kingdom.

(Division of Naval Intelligence; Maritime Commission; U. K. Operations Reports).

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13

BRITISH EMBASSY,  
WASHINGTON, D.C.

Nov 4.

My dear Morgan

We are both very deeply  
troubled by your telegram. It has  
been of you to think of us. and one of  
the best things about sorrow is  
the new value they bring to  
friendships. Thank you both so  
much.

We are greatly looking forward to seeing  
you and hearing all your news in

WASHINGTON, D.C.



Friday. p. m.

Halifax

of one percent of the value in conveyance to the United Kingdom.

4. Approximately 88 percent of the loss occurred in the Atlantic, and the remainder approached to Trinidad and the northwest United Kingdom.

(Division of Naval Intelligence; Maritime Operations Report)



OFFICE OF THE DIRECTOR

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TREASURY DEPARTMENT

PROCUREMENT DIVISION

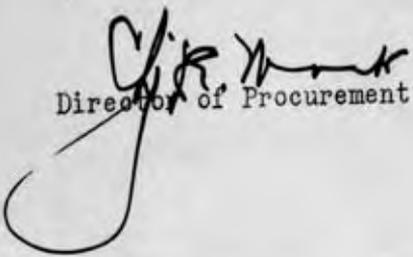
WASHINGTON

NOV 4 - 1942

MEMORANDUM TO THE SECRETARY:

I am submitting herewith a proposed Treasury Department Order which would delegate to me your authority with respect to the renegotiation of Procurement Division contracts under section 801 of the Revenue Act of 1942.

We are now studying the question whether we should enter into an arrangement with the War and Navy Departments and the Maritime Commission under which the agency having contracts in the greatest dollar amount with a given contractor would be authorized to renegotiate on behalf of the other three agencies as well as on its own behalf. I shall submit that question to you in the near future with my recommendations.

  
Director of Procurement

Attachment



## TREASURY DEPARTMENT

WASHINGTON

NOV 7 1942

TREASURY DEPARTMENT ORDER

By virtue of the authority contained in Section 403(f) of the Sixth Supplemental National Defense Appropriation Act, 1942 (Public 528, Seventy-seventh Congress, Second Session), as amended by the Revenue Act of 1942 (Public 753, Seventy-seventh Congress, Second Session), I hereby delegate to the Director of Procurement as to contracts entered into by the Procurement Division all the authority and discretion conferred upon me by the aforesaid Act, as amended. The Director of Procurement is hereby authorized to make further delegations of such authority and discretion.

*H. M. Smith*  
Secretary of the Treasury

REDEFINING

BUY  
UNIT  
STAMP  
SAVING  
BOOK

(37312)

November 4, 1942.

MEMORANDUM

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

I have gone over very carefully the file relating to the circumstances of the separation of James F. O'Neill from his position as Treasury Attache in Charge at Paris.

O'Neill left Paris on a vacation trip to the United States, at his own expense, on November 14, 1934. He had then had eleven years of foreign service, including Assistant Customs Attache at Paris, Customs Attache in Charge at Zurich, a similar post at Florence, Italy, and from May 1, 1927, as Customs Agent in Charge at Paris.

After his arrival in the United States on vacation, late in 1934, a complaint was received from a woman employee in the Paris office that she had been dismissed unfairly. This led to an investigation in the spring of 1935 by Customs Agent Charles Stevenson, now Chief Appraiser in the Bureau of Customs. He reported a rather low state of morale in the office, reflecting somewhat on O'Neill's capacity as an administrator of so large an office, but ascribing conditions in part to the relative inexperience of the staff. In the meantime, however, Tom Manning, as Solicitor of Customs in New York, had begun an investigation of the activities of certain brokers and their relations with Customs officers. Investigations incident to his discoveries resulted in the finding of the following with respect to O'Neill:

(1) He had been in fairly frequent correspondence with one Carl Stern, a Customs lawyer against whom serious charges were preferred, but this correspondence did not reveal any definite indications of favoritism to Stern or any corrupt acts. He was considered blamable for indiscretion in this connection.

(2) O'Neill had personal supplies shipped to him as part of a Government shipment on which the Government paid the shipping charges, amounting to some \$28.00.

(3) O'Neill bought a car through a European agent in 1932 and had it shipped to him from the United States. He wrote to the agent of the Black Diamond Line in Rotterdam asking special consideration in the matter of freight charges. The Black Diamond Line carried the car free. The regular freight charges would have been \$124.00.

- 2 -

(4) When O'Neill left Paris in November, 1934, he gave up the hotel suite he had been using and had his furniture stored in a single room, at a much lower rate. He continued, however, in late 1934 and early 1935, to receive supplemental pay for quarters on the assertion that he was still maintaining a domicile in Paris.

(5) He permitted employees in his office in Paris to buy Government stamps and the money received therefor was in part used as a fund for tipping messengers who came on official business to the office.

The action taken in O'Neill's case was that on October 1, 1935, he was nominally transferred from his post at Paris to be a Treasury Attache at London, although actually he remained in this country on temporary detail as liaison officer. On June 16, 1936, he was formally transferred to the United States as a liaison officer, accepting reduction in pay from \$7000 to \$5600. It was recommended that he be reprimanded for "indiscretions and unethical conduct." I find no record, however, of this having been done. On October 12, 1939, O'Neill was transferred, at his own request, to the position of Deputy Collector at Boston.

It is my opinion that the derelictions found in O'Neill's case do not unfit him for the special duty to which it is proposed to assign him. According to W. R. Johnson the sort of things he did were more or less customary in the service at the time. O'Neill is regarded as an excellent all around Customs man, with broad experience in many phases of the service. During his final years of service in Paris he was the highest paid of all Customs agents.

I am retaining the file in my office in case you or the Secretary should care to refer to it.

*MSH* (over)

November 4, 1942.

MEMORANDUM

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

In my memorandum of this date regarding James F. O'Neill I said that I had not been able to find record that he had been reprimanded. I have now located in the file the letter of reprimand, dated May 19, 1936, and I am attaching a copy hereto.

*WJG*

May 19, 1936.

Mr. James F. O'Neill,  
U. S. Treasury Attache,  
C/o Commissioner of Customs,  
Washington, D.C.

Sir:

In a separate communication the Department has directed your transfer from the position of Treasury Attache, Caf-14, \$7000. per annum, to the position of Customs Agent, Caf-13, \$5600. per annum, effective June 16, 1936, with official station at Boston, Mass.

The Department's action in relieving you from the position of Treasury Attache was predicated upon certain allegations affecting your official conduct, with which allegations you are familiar and which need not be restated at length herein.

Many of the allegations bearing on your administration of the office of Treasury Attache at Paris are minor in character if considered singly, but when taken as a whole indicate that the morale of the Paris office suffered from your lack of tact and inability to maintain the respect and good will of your subordinates.

The Department, however, considers of more serious import those allegations dealing with your undue intimacy with a customs broker with respect to official matters; the shipping of personal articles to you from New York to Paris by Government bill of lading, at an approximate cost to the Government of \$28.00, exclusive of the cost of packing and draying; and the shipment abroad to you free of freight charges of your private automobile through the courtesy and good offices of a New York customs broker and steamship officials.

With respect to the shipment to you of personal property abroad on a Government bill of lading, you will be called upon to reimburse the Government in the amount of the freight and shipping charges in question.

The Department is not unmindful of your past good record in the Customs Service, nor of the excellent results in the way of large recoveries that have been made due to your personal activities while in charge of the Paris office. However, the unethical practices and poor judgment attributed to you, and concerning which you have been previously questioned, can not be overlooked, and you are hereby reprimanded therefor.

Very truly yours,

(Signed) Wayne C. Taylor

Assistant Secretary of the Treasury.

TREASURY DEPARTMENT

145

INTER OFFICE COMMUNICATION

DATE  
November 4, 1942

TO Secretary Morgenthau  
FROM Ferdinand Kuhn, Jr.

The November issue of Fortune has many interesting items, including the following:

1. An article on labor's attitude toward the war, as surveyed in the Pittsburgh area, including the statement that "the War Bond purchases on the deduction plan, though only a minority of the workers have signed up for 10 percent, have already a greater momentum than any other way of saving." The survey shows no evidences of a buying spree for silk shirts or other luxuries except liquor. It also quotes workers as saying that they would give up all over-time pay for the duration if net incomes were cut to \$25,000 a year.
2. A letter from Irving Fisher on the spendings tax, predicting that your proposal "promises to be a very lively corpse". Fisher, of course, takes credit for the idea and urges that the spendings tax be accompanied by the removal of most corporate income taxes which he regards as taxes on savings. He slaps the Senate Finance Committee for its abrupt rejection of your spendings tax proposal, and quotes with approval from your statements on the subject.
3. An important article by Alvin Hansen on post-war economic policies. You might wish to have Harry White's office summarize and analyze this article.
4. An admiring article about Henry Wallace which contains a reference to "HIS food-stamp plan". The capital letters are mine.

F. K.

TREASURY DEPARTMENT

146

INTER OFFICE COMMUNICATION

DATE

November 4, 1942

TO Secretary Morgenthau

FROM Ferdinand Kuhn, Jr.

Here are a few items that may interest you from the latest public opinion surveys of the OWI:

1. 70% of a nationwide sample think the people in their community have not been asked to make enough sacrifices in the war effort as yet. 94% said they would be willing to make more sacrifices even though other people were not making as many as they.
2. The American people seem to have an exaggerated idea of our military and industrial power. 51% say that we are already producing more than half the war material now being used by the Allies. 52% say we have the strongest navy of any country, 51% the strongest air force, and 58% say that we have the smartest generals. In the "smartest generals" poll only 5% said the Russians had the smartest, 1% the Japanese, 19% the German and 2% the British. 65% said that the United States had the best fighting spirit; only 12% voted for the Russians, 5% for the Germans, 5% for the Japanese, and 6% for the English. There is general satisfaction with the kind of training our army is getting and with the spirit among ~~the~~ rank and file of our army.
3. The \$25,000 limit on salaries is supported by an overwhelming popular belief that wages and salaries should be limited for the duration of the war. 82% think there should be a limitation of salaries, but this does not mean rigid freezing. 45% of those who favor a limitation also think that some salaries should be allowed to go higher than they now are.

4. The OCD has recovered from its unpopularity of a few months ago. Interviewing in October showed that more than one-half the people throughout the United States think that civilian defense is being run "very well" in their communities. An additional quarter of the public think that it is being conducted "fairly well".
5. Half the people in the United States believe that they have reduced their buying habits since last year, chiefly by cutting down on clothing. Three-quarters of the public feel that taxes in the past year have not involved them in any real hardship.

J. C.

NOT TO BE RE-TRANSMITTEDCOPY NO. 53BRITISH MOST SECRET  
U.S. SECRETOPTEL NO. 381

Information received up to 7 A.M., 4th November, 1942.

1. NAVALNORTH ATLANTIC. 3rd. A Focke Wulf was shot down west of BAY OF BISCAY by a Hurricane flown from a ship in homeward bound convoy.BALTIC. 1st. A 3,000 ton Finnish ship sunk by Russian submarine off Gdynia.MEDITERRANEAN. Night 1st/2nd. Feint landings were made by motor torpedo boats at RAS GIVEISA and EL DABA.2. MILITARYEGYPT. Up to noon 3rd. In extreme north, enemy movement was observed to the west of our position throughout the 2nd, and during the night 2nd/3rd there were signs that enemy east of this position might attempt to break out. No movement, however, developed. On 2nd, northern face of the Corridor, opened on 1st/2nd, was secured to a distance of 6 miles west of TEL EL EISA, and strong enemy pressure was resisted. During afternoon, enemy counter-attacked from southwest of this Corridor. At 10.15 p.m. we attacked west and northwest of the Corridor. To the northwest our infantry was held up by strong enemy positions and the attack was recalled. To the west, we captured TEL EL AQQAQIR (7 miles south-southwest of RAHMAN) and held it. U.K. armoured car regiment, operating south of EL DABA, destroyed 57 enemy mechanical transport and located a concentration of enemy aircraft on a landing ground 15 miles west-southwest of EL DABA. A R.A.F. raid was arranged. In the southern sector, between RUWEISAT and EL HEMZIMAT, our line has been advanced in places. Explosions were heard behind the enemy lines and some withdrawal of enemy infantry westwards was observed.MADAGASCAR. By evening 2nd, our leading troops had reached MALAIO AMPANO, 9 miles south of FIANARANTSOA. Obstructions and road blocks continue to delay the advance. One company arrived MANAKARA by rail and found situation quiet.3. AIR OPERATIONS

3rd. Spitfires attacked locomotives and other targets in northern France and Low Countries. Stirlings and Ventures bombed industrial and railway objectives in western Germany and Holland. 6 enemy aircraft crossed our coasts, 2 being shot down.

EGYPT. 2nd. United States fighters destroyed 9 enemy aircraft on MAATEN BAGUSH landing ground. Our fighters continuously patrolled battle area, and light bombers made 13 attacks on enemy vessels, tanks and mechanical transport in northern sector.

2nd/3rd. Wellingtons made 85 sorties against mechanical transport and tanks, many vehicles being hit. Enemy casualties in air 12, 8, 15. Ours 7, nil, nil.

MEDITERRANEAN. 1st/2nd and 2nd. A 5,000 ton ship was torpedoed and set on fire and 2 destroyers were hit with bombs from a southbound convoy between CRETE and TOBRUK.

TREASURY DEPARTMENT

149

INTER OFFICE COMMUNICATION

DATE NOV. 4, 1942

TO Secretary Morgenthau  
FROM Mr. Hoflich  
Subject: Summary of Intelligence Reports

French Shipping

British sources report that Vichy is about to deliver to the Germans 140,000 tons of shipping, which it is believed the Nazis intend to use as naval auxiliaries in the Black Sea.

(O.S.S., "The War This Week", October  
22 - 29, 1942)

French West Africa

According to British reports, a convoy of five French ships, escorted by three submarines and four minesweepers, left Casablanca on October 26 for Dakar. It is reported that one ship carried 40 tanks, 15,000 rifles and other military equipment, and that the others were loaded with ammunition from France.

(U.K. Operations Report, October 30, 1942)

R. A. F. Bombing Results

The British report that the German government has suspended all further insurance of property against war risks in the Hamburg and Bremen districts.

(U.K. Operations Report, October 15-22, 1942)

November 5, 1942  
10:23 a.m.

Operator: Go ahead.

HMJr: Hello.

Rudolph Forster: Mr. Secretary.

HMJr: Mr. Forster. At your service.

F: Thank you, sir. Charles H. Tompkins Company, construction engineers.

HMJr: Charles A. who?

F: Charles H. Tompkins....

HMJr: Yeah.

F: ....Company.

HMJr: Yes.

F: Construction engineers....

HMJr: Yeah.

F: ....have written to General Watson....

HMJr: Yes.

F: ....that they would like to forego their fees amounting to \$42,500 plus....

HMJr: Yes.

F: ....on this work over here.

HMJr: Yes.

F: You know, that new building across from you and so forth.

HMJr: Yeah, known as the left wing of the White House.

F: That's right.

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HMJr: Yes.

F: Now the President says of - they want to know if the President would approve that action by them.

HMJr: Yes.

F: The President says of course he will if it's all right with the Treasury and he has authority to do it.

HMJr: Yes.

F: Now has he authority to do it and is it all right with the Treasury?

HMJr: Well, I've only been in the Treasury nine years....

F: Uh huh.

HMJr: ....and I'm just a youngster around the Government, you see?

F: Uh huh.

HMJr: And I'm not like you.

F: (Laughs)

HMJr: And, therefore, I do not give legal opinions by ear.

F: Uh huh.

HMJr: So if you would be kind enough to send over Mr. Tompkins' letter....

F: Uh huh.

HMJr: ....in due course, following usual Morgenthau procedure, we will give you an answer in twenty-four hours.

F: Ah! Now that is what I call action.

HMJr: Right.

F: Twenty-four hours.

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HMJr: Yes.

F: Righto.

HMJr: And if you'll send it and address the letter to Mrs. Klotz - K-l-o-t-z.....

F: Uh huh.

HMJr: ....who has been with me twenty years.

F: Uh huh.

HMJr: She's just a youngster around here too.

F: Uh huh.

HMJr: So will you do that?

F: I will do that immediately.

HMJr: How's your health?

F: Fine, just fine. How are you?

HMJr: I'm fine.

F: Good.

HMJr: Send it over and you'll have an answer in twenty-four hours.

F: Thank you, sir.

HMJr: Thank you.

November 5, 1942

I talked to the Vice President about his son, and he told me at that time that this morning when he was at the White House Marvin McIntyre talked to him about making Leo Crowley chairman of the National Democratic Committee. The Vice President said he went in to see the President and told him he thought it would be a mistake, and pointed out to the President that I had told him that Crowley held a dual position as chairman of a utility holding company and Alien Property Custodian, and also was head of FDIC (really a triple position), and that in view of this he thought it would be a mistake. I asked him how the President reacted, and he said, "Good. The President said he had Postmaster General Walker in mind for this position." I said I thought that would be splendid.

November 5, 1942  
11:05 a.m.

AMERICAN VISCOSE COMPANY

Present: Mr. Bell  
Mr. Cairns  
Mr. White

H.M.JR: Supposing somebody goes ahead and starts.

MR. BELL: Huntington has been over all the files and your records.

MR. CAIRNS: I asked Fulton, specifically, what he wanted to know. He said he wanted to know two things: Did the Treasury recommend a reduction in the amount of commission--

H.M.JR: Did the Treasury - oh, you have spoken to Fulton?

MR. CAIRNS: Yes, he is coming in. I haven't seen him. This is the first conversation I had with him while you were in Europe. He will be here tomorrow at eleven to see you. He wanted to know two things: Did the Treasury recommend a reduction in the amount of commission and was the reduction made. The answer to that is simple. You recommended a million-dollar reduction. They did it. You recommended another million-dollar reduction, and they did not do it.

MR. BELL: Let me get that straight. The Secretary recommended a million at first? I thought he just recommended a reduction and they reduced it a million.

MR. CAIRNS: I am not sure whether he specifically said a million. I thought he did. That was my recollection.

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MR. BELL: You had better check that. I think he said, "Reduce the commission." He thought they were getting too much.

MR. CAIRNS: The Secretary's conference with Stanley at which he made the recommendation is not recorded, and it is based on a subsequent message from Stanley to the Secretary, in which he said, "In accordance with your suggestion we reduced it a million."

MR. BELL: I see. Is that clear? Do you remember?

H.M.JR: No.

MR. BELL: It isn't quite clear in the record. As I recollect it, you didn't put any amount.

MR. CAIRNS: He did the second time.

MR. BELL: But I mean the first time.

MR. CAIRNS: I have prepared a memorandum for your information, and not for distribution, giving you the background of the deal in order to refresh your recollection. Here it is.

(Memorandum entitled "Viscose" handed to the Secretary.)

H.M.JR: Supposing I read it right now. Who has seen it?

MR. CAIRNS: Everybody.

(Memorandum read by the Secretary.)

H.M.JR: I am on page four: "On the same day, the British discussed the matter with Mr. Jones, who, on the same date by letter to the Secretary, criticized the amount of the commission." Jones did?

MR. CAIRNS: Yes, and a long letter, a bitter letter, was prepared and not sent, for your signature, in reply to that. It was read aloud at a group meeting,

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and the consensus of opinion was, "Don't send it," and nothing was ever sent.

H.M.JR: Criticizing it and stating the whole case?

MR. CAIRNS: Yes.

H.M.JR: He was insincere in that, wasn't he?

MR. WHITE: That is what the purport of the long letter was, plus a recital in defense of your action and a description of his action to show that your record was much better than his.

MR. CAIRNS: In view of your personal relations with Mr. Jones in the future, it was thought it should not be sent.

H.M.JR: Now, it may prove a mistake not to have sent it.

MR. WHITE: No, because you agreed with him that the price was exorbitant - appeared exorbitant - but you also said, as indicated here, that you didn't know about it for six weeks.

MR. CAIRNS: Your record - there is nothing in the Treasury record to alarm the most timid.

H.M.JR: "In November, 1942, Morgan Stanley & Co. and Dillon Read & Co. advised the counsel to the Truman Committee that the Secretary stated to them on or about June 13, 1941, that the matter of a further reduction in the amount of the commission need not be pursued further." Is that correct?

MR. CAIRNS: Yes.

MR. BELL: Is there anything in the file?

MR. CAIRNS: On June 20 Stanley called the Secretary. He was quite alarmed about an article in the New York Times, pointing out the Treasury's recommendation of a

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million dollars, and the Secretary said, "Forget it," and suggested that Stanley talk to Sulzberger to find out the source of the story. He said there was no leak in the Treasury. He said, "May I use your name?" and you said, "No, it would be better if you just called him on your own."

The same day, as you will see, the ticker tape quoted the Treasury as saying it was closed.

MR. BELL: You found that?

MR. CAIRNS: I found that, yes.

H.M.JR: There was a letter from the British saying that they thought it was a good thing.

MR. CAIRNS: I haven't seen the letter; this is a verbal statement.

H.M.JR: My recollection is that I told them the fee was too high, and when they reduced it a million I must have brought pressure to bear on them to do it another million.

MR. WHITE: That is true. I remember very distinctly that both Ed Foley and I felt that you should not bring that additional pressure. You felt differently about it at the time. I distinctly remember that. We thought you ought not to get into an argument. You thought differently. You saw them alone and asked them to reduce it still further. I distinctly remember that.

MR. CAIRNS: That is here, on page five.

MR. WHITE: Yes, but I remember that Foley and I had felt--

H.M.JR: What is Truman trying to get at?

MR. CAIRNS: My best guess is that he has seen a newspaper clipping which says that the Treasury is investigating the matter, and he wants to know if we have completed our investigation.

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MR. BELL: How old is that?

MR. CAIRNS: That statement is erroneous. We are not investigating the matter. This was on June 20. "The Treasury and RFC agents are investigating the sale of American Viscose to determine whether a million-dollar refund should be made to the British Treasury, it was reported today." I think what instigated the inquiry here is this statement.

H.M.JR: What is the date of that?

MR. CAIRNS: June 20, 1941

MR. WHITE: '41?

MR. CAIRNS: Yes.

MR. WHITE: What started the whole thing? Has it anything to do with the British Government voting the additional sums?

MR. CAIRNS: I don't know.

H.M.JR: I suspicion Jesse Jones, and Jesse Jones wants to show that he could have gotten more for them than I could.

MR. CAIRNS: He is in the picture.

MR. WHITE: Yes, Fulton has talked to Jones.

H.M.JR: You don't know what Jones told him?

MR. CAIRNS: No.

H.M.JR: I am going to ask Fulton point-blank what it is all about. The way I feel is this: The thing is closed, and I think to have the whole thing aired here would hurt our relationship with the British.

MR. CAIRNS: It ought not to be done. It would open an attack on the British which should be avoided.

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MR. WHITE: Are you interested in what has happened to the price of that stock?

H.M.JR: Yes. As I remember, they brought it out at twenty-three in this country.

MR. WHITE: Twenty-four was the offering price. It went down during the next six months - it declined very gradually and reached a low of twenty-three by December, stayed there, rose a little, dropped a little, until the late spring. Beginning with this May it began to rise and is now quoted about twenty-nine. That is somewhat the pattern of the general stock market, except that it has risen higher. In other words, it is now about twenty percent over the offering price and eleven percent over the first bid price.

So it would seem, judging from the stock market, that the thing had not been exorbitantly undervalued, because the value of that stock must be accepted at what the stock market values it. That is what value means.

H.M.JR: To give you men what was back of the thing, I had told the Lend-Lease crowd in Congress that the British, in good faith, would sell all their securities, and I kept insisting that they had to sell something to show their good faith.

MR. WHITE: I think you were quite right at that time, and quite right now, in that respect. There is no doubt about the strength of that position.

H.M.JR: Jones could twist this thing around, but as I remember the thing, we figured out the deal that Jones was going to make, then we figured out what they would get; it didn't look as though the English Treasury would get any more money out.

MR. WHITE: A little more, but they wouldn't be selling the stock. They would still have control over that, but there was something beyond it. I think

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it would be helpful for the Secretary to read that long letter we didn't send, in which one of the factors was that you didn't know who this man Gardner was representing in his negotiations; and you felt it would be a mistake to negotiate this matter on a private basis, to say nothing of the further mistake that it would be to lend them the money on the stock rather than ask them to sell, which was the statement that the Lend-Lease Committee in Congress had believed and respected.

MR. BELL: As I recall the thing, and I couldn't find anything - Miss Chauncey couldn't find anything to substantiate my recollection on the thing - about the time that the Administration said they were going to ask for Lend-Lease authority, the British said, "That being the case, we will sell all our dollar assets; they are all on the table."

Then when you went up to Congress you told Congress that the British were going to sell all of their dollar assets to pay for their dollar contracts in this country, and that none of this money would be used. They had plenty and had agreed to sell them. Then there was delay in selling and this question came up about selling the Viscose, and you said that in your opinion it would do more good to take a large company and sell its assets, because they had already told the American people they were going to sell their dollar assets, and now to turn around and get loans on them would not be keeping faith. You thought that even though they lost fifteen or twenty million dollars, that it would be good business from their standpoint, and what was fifteen or twenty million dollars in the running of this war.

That is my recollection, but I can't find anything except references here and there in the file.

H.M.JR: I went to Halifax and gave him a week and said if they didn't do that they should see Sir Edward Peacock.

MR. CAIRNS: That is recorded.

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H.M.JR: Is that in the story? I gave them a week and said it was very important. They couldn't do anything. I said, "I can't help that; you have got one week."

MR. WHITE: There was a little history behind that. The earlier history was that there had been some talk that they had to sell their investments in order to get dollars. This was much before the Lend-Lease, and it was along then when they talked of selling their securities that the Secretary had said that they should not use the Morgan group. That was long before this business. Many months passed and they didn't sell any of that, and then the Lend-Lease came in and the discussion became more necessary because a commitment had been made. Then the story was as you had it. Peacock was sent for, and he did not do anything. There was that point that you told Halifax unless he does something soon--

H.M.JR: Have you got that letter which wasn't sent to Jones?

MR. CAIRNS: It is in your diary. Shall I bring it in?

H.M.JR: Supposing you get it.

MR. WHITE: I will.

(Mr. White left the conference.)

H.M.JR: I suspect that Max Gardner or Jones, or the combination of both, are trying to stir up trouble for me. That is what I suspect.

MR. BELL: It seems to us there are two questions here which you need to consider. One is whether you would just answer this attorney's questions. He has got two questions he is going to put to you; whether you should just stick to the answers to those two questions, or whether you should give him the background--

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H.M.JR: Oh, I would give him the background.

MR. BELL: Do you think you ought to give him the story?

H.M.JR: Who is this man? I have forgotten.

MR. CAIRNS: Hugh Fulton. I don't know his background.

H.M.JR: Isn't he the man that was formerly with the FBI?

MR. CAIRNS: I don't know.

H.M.JR: Ed Foley would know.

MR. CAIRNS: I will ask him.

H.M.JR: My impression is that he is a decent fellow.

MR. CAIRNS: He seemed quite decent on the telephone.

MR. BELL: And friendly.

MR. CAIRNS: Yes, and accommodating.

H.M.JR: Is he coming tomorrow?

MR. CAIRNS: Yes, at eleven o'clock. That is what you suggested.

H.M.JR: We said we didn't know whether we would have him or--

MR. CAIRNS: You didn't know whether you would have Truman.

H.M.JR: That is O.K. on Fulton, is it?

MR. BELL: The other matter is whether or not you want to see Truman along with him.

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H.M.JR: No.

MR. BELL: You might see him and get - you say you are going to ask him what it is all about. After you get that story from him you might want to call Truman on the telephone.

H.M.JR: The way I always think of these things is that you have nothing to hide, and why not be frank.

MR. CAIRNS: You certainly have nothing to hide in this case, from what your diary discloses.

H.M.JR: There is nothing else. What are the two questions, again, that he wants to ask?

MR. CAIRNS: Did you recommend a reduction in the amount of the commission, and was the reduction made?

H.M.JR: That is all he wants to know?

MR. CAIRNS: I said, "Please be concrete."

H.M.JR: Have you a copy of the Morgan letter - Morgan-Stanley?

MR. CAIRNS: Yes.

H.M.JR: Does he say that the first million dollars was at my suggestion?       

MR. CAIRNS: Here it is. (Letter from Morgan-Stanley and Company dated October 13, 1942, handed to the Secretary.)

H.M.JR: I see.

MR. BELL: Did he say that you suggested a million dollars?

H.M.JR: Not the first one, no.

(Mr. White re-entered the conference.)

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MR. BELL: As it is in the memorandum is the way I recall it.

"On April 18, 1941, the Secretary volunteered the personal advice to Mr. Stanley that upon the completion of the Viscose sale the Syndicate should take a commission less than that stipulated in the contract. As a result of that suggestion the Syndicate cut the commission a million dollars."

As I recall, you didn't mention any figure of a million dollars; did he, Harry? He just said to take a commission less than that.

MR. WHITE: That is as I remember. They came back with a million. You said, "Is it enough?" Then you were going to ask for more and there was a discussion before that and you decided to ask for more and you did. I think you saw them alone. This is Jones' letter.

H.M.JR: Take it out and see that it goes up to my house. I will read it at the house. Tell them to mark it outside "Important". Maybe Miss Chauncey has the original on it.

MR. WHITE: We will get a copy to you.

H.M.JR: Get it up to the house tonight, will you?

MR. WHITE: With a copy of his letter, to which that is an answer.

H.M.JR: The Morgan-Stanley - will a copy go to my files?

MR. WHITE: Yes.

H.M.JR: There is nothing else to do. The three of us will see him at eleven o'clock tomorrow.

That is all.

VISCOSE

About July, 1940, the Secretary let the British know (through Gifford) that they ought not to employ Morgan in the liquidation of British securities; that some day there would be an investigation by Congress; and that it would be very harmful to the British. However, at a dinner at the British Embassy (date unrecorded), Hanes and Butterworth informed Gifford that the selection of Morgan was a good one and Gifford took this as an indirect message from the Secretary.

On January 28, 1941, the Secretary stated at the hearings before the Senate Foreign Relations Committee on the Lend-Lease Bill that every dollar of property, real property or securities, that any English subject owned in the United States would be sold during the next twelve months in order to raise the money to pay for the orders the British have already placed.

The British Treasury negotiated for the sale of American Viscose to the Morgan-Stanley Syndicate during the first part of the year 1941. The Secretary of the

- 2 -

Treasury had no part either in the selection of the Syndicate or in negotiations leading up to the contract, and in fact did not see the contract between the British Treasury and the Morgan-Stanley group until six weeks after it had been executed.

On April 16, 1941, one month after the sale had been agreed upon, the British Treasury delivered to the Morgan-Stanley Syndicate all shares of stock which the British Treasury had acquired from Courtalds and for those shares (which represented 90% of the outstanding stock) the purchaser Syndicate paid \$36,460,000 on account.

From the beginning, the Secretary insisted that in the light of the discussion at the Lend-Lease hearing and the general situation it was in the best interests of the British for the Viscose shares to be sold outright and not hypothecated as collateral for a loan.

On April 18, 1941, the Secretary volunteered the personal advice to Mr. Stanley that upon the completion of the Viscose sale the Syndicate should take a commission

less than that stipulated in the contract. As a result of that suggestion the Syndicate cut the commission a million dollars. The British were greatly appreciative of the Secretary's intervention. The Secretary, however, felt the reduction was not large enough.

A few days before the sale was to be consummated, Samuel Salvage, a British subject and Chairman of the Board of American Viscose, proposed that American Viscose buy the stock held by the underwriters for \$64,000,000. It was surmised that American Viscose would borrow \$40,000,000 or \$50,000,000 from the R.F.C., take \$10,000,000 or \$15,000,000 from the Company treasury, and make up the balance from interested parties. If this new arrangement went through American Viscose would have a funded debt of approximately \$64,000,000 and the remaining outstanding shares would be divided between the Salvage family and Courtalds, Ltd. In this way the British (Salvage and Courtalds) would continue to own all the equity in the Company.

In a conversation with the Secretary, Mr. Jesse Jones stated that he thought the price the British were

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getting was robbery and ought not to be permitted. He thought the bankers instead of helping the British were hurting us and that every dollar that Viscose was worth, which the British failed to get, was a dollar out of the Treasury. The Secretary stated that he agreed with this.

On May 21, 1941, Mr. Jones stated in a letter that the R.F.C. could loan Viscose \$40,000,000 which could be paid back from earnings in ten or fifteen years. With that loan and \$25,000,000 offered from private sources the British would receive more money to pay for its purchases in this country by several million dollars than it would receive through the direct sale, and the British would still own half of the equity in the Company, the other half resting with United States citizens. He also stated that the bankers should not take approximately 8% or \$5,000,000 for their services.

On the same day, the British discussed the matter with Mr. Jones, who, on the same date by letter to the Secretary, criticised the amount of the commission and the amount to be realized by the British. On May 22, 1941, the British reported to the Secretary that it was

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Mr. Jones' view and the British view that it was too late to switch from a public offer. That was also the view of the Securities and Exchange Commission.

The issue was sold to the public on May 26, 1941 and was oversubscribed.

The Secretary, on June 6, 1941, pointed out to Mr. Stanley that the total underwriting discount, expenses, and contract fees amounted to \$7.9 millions and was nearly 13% of the total sale price. The Secretary suggested that the Syndicate reduce the amount by another million dollars. He was advised by the Syndicate on June 13, 1941 that "our only regret is that we were not able to get all of our associates to comply with your last suggestion".

In November, 1942, Morgan Stanley & Co. and Dillon Read & Co. advised the counsel to the Truman Committee that the Secretary stated to them on or about June 13, 1941, that the matter of a further reduction in the amount of the commission need not be pursued further; and that on the same day "the broad tape quoted the

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Treasury Department as stating that the matter was closed. Sir Edward Peacock was also quoted in the press as saying that no such suggestion had emanated from him and that the British Treasury was entirely satisfied with the transaction."

The Syndicate furnished a memorandum setting forth the fees and commissions payable in the transaction. The memorandum is as follows:

"June 4, 1941

"Public offering price . . . . . \$62,295,146

"This was for 91.14% of the stock and indicates a valuation for the whole company (100% of the stock) of \$68,351,049..

"Payment to 17 purchasers including majors, under the March 15 contract, was \$3,351,576, which is 5.38% of the public offering price; for arranging the original contract and tying up a large amount of capital; for arranging the recapitalization of the Company; for the risk and for carrying the commitment in difficult times; for forming nationwide underwriting and distributing groups, and for planning and supervising a successful distribution and for other responsibilities and services.

"Payment to 17 purchasers, as underwriters and list sellers, was \$1,347,599, which is 2.16% of the public offering price.

"Payment to some 581 other dealers as underwriters and sellers was \$2,751,601, which is 4.42% of the public offering price.

"Expenses paid by the British Government were .64% of the public offering price."

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After the completion of the sale, the British advised the Secretary that they were "positive that the sale of Viscose had been a wise step".

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE November 5,  
1942

TO Secretary Morgenthau  
FROM Huntington Cairns

Ed Foley says he has always found Hugh Fulton to be a reasonable fellow. Ed went over his own testimony with him before his appearance on the hearing with respect to Standard Oil Company's allegation that the Treasury had been instrumental in causing it to lose \$24,000,000 in gold for its Hungarian oil properties. Ed found Fulton very helpful at that time.

I am attaching a copy of Fulton's biography as it appears in the current issue of "Who's Who". You will note that he was the special assistant to the Attorney General in charge of investigation of the Associated Gas and Electric Company.

*He*

Attachment.

FULTON, Hugh Alfred, lawyer; b. North Baltimore, Ohio, May 24, 1908; s. David Alexander and Mary Ann (Shawn) F.; A.B. (magna cum laude), Coll. of Literature, Science and Arts, U. of Mich., 1929, J.D., Coll. of Law, 1931; m. Jessie R. Collison, May 27, 1933. Admitted to New York bar, 1933; asso. with Cravath, de Gersdorff, Swaine & Wood, N.Y. City 1931-39; exec. asst. to U.S. atty. for Southern Dist. of N.Y. since 1939; spl. asst. to U.S. Atty. Gen. in charge of investigation of Asso. Gas & Electric Co., 1940; now chief counsel to the U.S. Senate Com. Investigating Nat. Defense Program. Mem. Phi Beta Kappa, Phi Eta Sigma, Sigma Delta Kappa, Order of Coif. Democrat. Conglist. Club: Downtown Athletic (N.Y. City). Home: 40 E. 10th St., New York, N.Y.

(over)

Photostat to Mr. Cairns, 11/5/42 173

Note: Dear "Perry" is Mr. Perry Hall of the War Savings Staff, NYC, and "John" is John S. Wright, Head Statistician of Morgan-Stanley.

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October 29, 1942

Dear Perry:

Enclosed is copy of the proposed letter on Viscose in anticipation of your talk next week with Secretary Morgenthau.

After you have talked with him you will, of course, let me know and I will have the letter sent off. Also will you please return this copy to me for our files?

*John*

Enclosure.

New York, N. Y., November 11, 1942

**Hugh A. Fulton, Esq.,**  
**Chief Counsel,**  
**United States Senate Special Committee,**  
**Investigating the National Defense Program,**  
**Washington, D. C.**

Dear Sir:

Supplementing our letters of October 13 and 14, 1942, respectively, and with further reference to your letters of October 5, 1942, we are glad to submit the following information regarding the American Viscose Corporation transaction.

(1) We enclose herewith a bound volume which we would appreciate having returned to Morgan Stanley & Co. as it is their only copy.

The bound volume contains copies of the following:

1. Registration Statement and Amendments
2. Prospectus
3. Newspaper Prospectus
4. Purchase Agreement and Underwriting
5. Corporate Proceedings
6. S.E.C. Proceedings
7. Treasury Department Proceedings
8. Specimen Certificates
9. Titles
10. Certificates and Letters in Support of Registration Statement.
11. Opinions of Counsel
12. Closing Papers
13. Miscellaneous Papers Examined in Connection with Opinions.

As you will note, most of these documents were filed with the Securities and Exchange Commission in May and June 1941 and since that time have been open for public inspection. The cover of the Prospectus contains a summary of the compensation received by the Banking Group, the Managers and the Underwriters hereinafter referred to. As required by law, over 50,000

Hugh A. Fulton, Esq.

November 23, 1942

Page Two.

copies of the Prospectus were printed and distributed throughout the United States in connection with the sale. The whole transaction, including the principal points of the contracts, the purchase and selling prices and the compensation to the Banking Group and the Underwriters attracted considerable attention at the time and was widely commented on not only in the public press but in magazines and periodicals.

(2) While the information you request as to the compensation of the Banking Group is set forth in the Registration Statement (pages 23-32) and Prospectus (cover page and pages 16-23), we enclose herewith for your convenience, marked Exhibit A, a summary of the distribution of such compensation among the members of the Group in accordance with the terms of the contract of March 15, 1941. You will note that carrying charges, rent, salaries, interest on capital, overhead, etc., have not been deducted from the compensation of the banking firms. Exhibit B, showing detail of expenses as provided in the March 15, 1941 contract, is attached, in accordance with your request. Exhibit C is attached, showing the gross compensation to the Underwriters and dealers. These exhibits (prepared by Morgan Stanley & Co. from the books in their office) reflect the nature of the transaction which involved two separate operations, namely (a) the purchase of the old shares and the assumption of the obligations under the contract of March 15, 1941 with the British Treasury, and (b) the marketing of the reclassified shares. The first of these operations, which we outline more fully in paragraph (3), involved the purchase by a Banking Group of 17 firms (called Purchasers in the Contract) in March 1941 from the British Treasury of about 91% of the outstanding stock of the Corporation, and the carrying of such stock (involving the tying up of over \$36,000,000, the

Page Three.

amount of the cash down payment made by the Banking Group) until the necessary investigations could be made, corporate proceedings for reclassification of the shares had, Securities Act requirements including registration with the Securities and Exchange Commission complied with and other steps requisite to a public offering completed. The second operation involved the marketing of the reclassified preferred and common shares which required the formation of an underwriting group of 152 Underwriters, (including the 17 members of the Banking Group) who bought the securities from the Banking Group and, together with 291 additional dealers in the case of the preferred stock and 442 additional dealers in the case of the common stock, sold the new securities to the investing public. Morgan Stanley & Co. Incorporated and Dillon, Read & Co. acted as joint managers for each of these groups, receiving compensation for their services, however, only from the Banking Group. This compensation amounted to 1/2 of 1% each of the resale price obtained by the Banking Group.

(3) Morgan Stanley & Co. Incorporated and Dillon, Read & Co. were first approached regarding this transaction on Wednesday, March 12, 1941, by Sir Edward R. Peacock and T. J. Carlyle Gifford representing His Majesty's Treasury and were told that His Majesty's Treasury had determined to make an outright sale of the stock of American Viscose Corporation and that it was desired that the transaction be consummated by the end of the week. Sir Edward Peacock and Mr. Gifford expressed the hope that a contract of sale could be executed with a Banking Group by Saturday, March 15, 1941, on a mutually satisfactory basis which would provide for a substantial down payment, with the right in the British Treasury to receive a substantial part of any additional sums which the Banking Group might obtain on the resale of the securities.

Hugh A. Fulton, Esq.

November , 1942

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Morgan Stanley & Co. Incorporated and Dillon, Read & Co. were asked if they would undertake to head such a transaction and replied that they would be glad to attempt to organize a Banking Group to enter into such a contract with His Majesty's Treasury on or before March 15, 1941. Morgan Stanley and Dillon Read immediately commenced a study of the situation and the preparation of a contract setting forth the proposed arrangement on terms mutually satisfactory to them and to the British Treasury and which could be submitted to the prospective Banking Group. Matters progressed sufficiently so that on Friday, March 14, 1941, fifteen additional investment banking houses (making seventeen purchasers in all) were invited by Morgan Stanley and Dillon Read to join in the Banking Group. These firms were selected primarily on the basis of their standing, capital, ability to take risks and to make prompt decisions and their general financial experience. It may be noted that at the request of the British Treasury the Banking Group was organized and the Contract (Item 4-a in the bound volume) calling for a down payment of over \$36,000,000 was prepared and executed within four days, although (a) the Banking Group did not know how or when (but not sooner in any event than two months) or at what price the securities could be resold, (b) world conditions and the securities markets were extremely unstable, (c) the securities and financial position of the Corporation were unknown to the American investing public, and (d) no time was available to make any but a superficial investigation. Among the matters necessarily left open for consideration by the Banking Group after the purchase were the type of new capital structure, the prices and terms of marketing and the machinery and problems in connection therewith, a thorough investigation of the Corporation, its management, its competitive

Page Five.

position in the industry, the quality of its product, the condition of its plants and the effect of rising taxes, labor and other costs.

(4) In reply to your inquiry with regard to the request by the Treasury Department, Secretary Mergenthau, when the Bankers had endeavored to keep fully advised of the developments in the transaction, made a suggestion at a meeting called by him with representatives of Morgan Stanley and Dillon Read on June 5, 1941, that, in view of the successful sale of the issue to the public, the Banking Group might wish to consider remitting a portion of the cost to the British Treasury. He said this was only a suggestion and not a request and, when asked what amount he had in mind, mentioned \$1,000,000. The Bankers reminded Mr. Mergenthau that the Banking Group had previously voluntarily reduced from 10% to 5% the additional share due them under the contract of March 15, 1941 with His Majesty's Treasury (by letter agreement dated May 21, 1941 - Index No. 4-a to bound volume) and that this had resulted in His Majesty's Treasury receiving approximately \$1,000,000 more than the original contractual arrangement provided. The March 15th contract was prepared and executed in the light of obvious uncertainties and risks during a period, the length of which could not be foreseen, between the purchase and the time the new securities could be offered in the market. By the middle of May 1941, however, it appeared to the Bankers that it might be possible to market the securities fairly promptly and that certain eventualities and developments that might well have occurred had not in fact happened, and thus it was deemed appropriate voluntarily to halve their participation in any additional payments received. However, Morgan Stanley and Dillon Read told the Secretary that they would report his suggestion to the other members of the Banking Group. This was done and a divergence of views developed on the part of members of the Group as to whether the Secretary's suggestion should be adopted. Morgan

Hugh A. Fulton, Esq.

November , 1942

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Stanley and Dillon Read reported the situation to the Secretary, who advised them it was not necessary to pursue the matter further with the Banking Group. Subsequently, reference to this suggestion was given some publicity in the press but later the same day the broad tape quoted the Treasury Department as stating that the matter was closed. Sir Edward Peacock was also quoted in the press as saying that no such suggestion had emanated from him and that the British Treasury was entirely satisfied with the transaction.

(5) We are answering by separate letters the fifth paragraph of your communications of October 5, 1942.

Very truly yours,

---

(Morgan Stanley & Co.)

---

(Dillon, Read & Co.)

EXHIBIT AGROSS COMPENSATION TO BANKING GROUP  
(before carrying charges, rent, salaries,  
interest on capital, overhead, etc.)Banking Group

Hlyth & Co., Inc.	\$ 111,281.45
Clark, Dodge & Co.	74,187.63
Dillon, Read & Co.	302,932.82
Dominick & Dominick	74,187.63
The First Boston Corporation	148,375.28
Goldman, Sachs & Co.	74,187.63
Harriman, Ripley & Co., Incorporated	148,375.28
Hemphill, Hayes & Co.	74,187.63
Kidder, Peabody & Co.	111,281.45
Kuhn, Loeb & Co.	302,932.82
Lehman Brothers	222,562.90
Mellon Securities Corporation	302,932.82
Morgan Stanley & Co., Incorporated	302,932.81
Shields & Company	74,187.63
Smith, Barney & Co.	148,375.28
Union Securities Corporation	222,562.90
White, Weld & Co.	<u>74,187.63</u>
	\$2,769,671.59

Compensation to Joint Managers (1/2 of 1% each  
of the resale price received by the Banking  
Group - as set forth on cover of the Prospectus  
dated May 26, 1941):

Morgan Stanley & Co., Incorporated  
Dillon, Read & Co.

\$ 290,979.74  
290,979.73

Total

\$3,351,631.06

Note: The 228,480 shares of Preferred Stock and 1,568,000 shares of Common Stock were sold by the Banking Group for \$58,195,946.71 to 152 Underwriters (including the 17 members of the Banking Group).

EXHIBIT BDETAIL OF EXPENSES AS PROVIDED IN  
CONTRACT OF MARCH 15, 1941

Legal fees (including disbursements of \$1,682.57)	\$116,682.57
Accountants	25,666.67
Engineers (Arthur D. Little, Inc.)	11,483.10
Stock transfer taxes	54,359.38
Advertising (including disbursements of \$414.80)	70,569.67
Printing registration statement and prospectus	41,522.52
Printing underwriting agreements, letters, etc.	5,213.76
Shipping prospectuses	3,391.84
Registration filing fee (Securities and Exchange Commission)	8,001.28
Blue Sky qualifying fees (including disbursements of \$479.04)	6,445.79
Telegrams and messenger service	2,234.98
Telephone charges	1,224.10
Postage	587.47
Miscellaneous	5,892.73
Reserved for contingent expenses not yet determined	<u>44,379.82</u>

Total Expenses

\$397,655.

GROSS COMPENSATION TO UNDERWRITERS AND DEALERS

<u>Underwriters</u>	<u>Address</u>	<u>Gross Selling Commissions*</u>	<u>Gross Underwriting Compensation*</u>	<u>Total*</u>
Allyn and Company, Incorporated	Chicago, Ill.	\$24,290.00	\$ 7,471.61	\$31,721.61
Bedt Brothers	Louisville, Ky.	2,775.00	1,818.53	4,593.53
Co., Emerich & Co., Inc.	Chicago, Ill.	5,850.00	2,623.77	8,473.77
Wineless, Parker & Redpath	Washington, D.C.	19,770.00	5,247.56	25,017.56
on, Whipple & Co.	Chicago, Ill.	12,000.00	2,623.77	14,623.77
er, Watts & Co.	Baltimore, Md.	7,125.00	3,735.80	10,860.80
er, Weeks & Hardin	New York, N. Y.	12,375.00	3,764.20	16,139.20
L. Coane & Company	Cleveland, Ohio	3,825.00	1,832.41	5,677.41
Ohio Securities Company	Columbus, Ohio	5,025.00	1,866.93	6,891.93
America Company	San Francisco, Cal.	14,290.00	5,247.56	19,497.56
oman, Nichler & Co.	Los Angeles, Cal.	6,900.00	1,866.93	8,766.93
r, Stearns & Co.	New York, N. Y.	12,000.00	5,247.56	17,247.56
G. Becker & Co., Incorporated	Chicago, Ill.	21,000.00	7,568.41	28,568.41
ile, Whelan & Co.	Philadelphia, Pa.	4,275.00	1,866.93	6,141.93
ir & Co., Inc.	New York, N. Y.	12,000.00	10,107.90	22,107.90
th & Co., Inc.	New York, N. Y.	92,175.00	27,569.22	119,744.22
ell & Co., Inc.	Providence, R.I.	16,500.00	10,253.10	26,753.10
anning & Co.	Philadelphia, Pa.	6,000.00	1,866.93	7,866.93
itcher and Company	Denver, Colo.	4,275.00	1,866.93	6,141.93
erge D.B. Bonbright & Co.	Rochester, N.Y.	5,025.00	1,866.93	6,891.93
werth, Chanute, Longbridge & Company	Denver, Colo.	2,775.00	1,818.53	4,593.53
ax, Brown & Sons	Baltimore, Md.	14,100.00	7,466.77	21,566.77
ash, Slocumb & Co.	San Francisco, Cal.	9,300.00	2,623.77	11,923.77
A. Nyllesby and Company, Incorporated	New York, N. Y.	9,000.00	5,150.76	14,150.76
ak B. Cahn & Co.	Baltimore, Md.	6,000.00	2,623.77	8,623.77
ldress and Company	Jacksonville, Fla.	3,900.00	1,854.83	5,754.83
V. Clark & Co.	Philadelphia, Pa.	5,025.00	1,866.93	6,891.93
ark, Dodge & Co.	New York, N. Y.	96,137.50	13,769.47	69,906.97
hard W. Clarke & Co., Incorporated	New York, N. Y.	7,875.00	1,866.93	9,741.93
aley & Company	Hartford, Conn.	4,275.00	1,866.93	6,141.93
aris & Co.	Atlanta, Ga.	11,250.00	2,623.77	13,873.77
rtiss, House & Company	Cleveland, Ohio	9,150.00	1,866.93	11,016.93
M. Dain & Company	Minneapolis, Minn.	4,275.00	1,866.93	6,141.93
esport & Co.	Richmond, Va.	3,825.00	1,833.05	5,658.05
al H. Davis & Co.	Chicago, Ill.	11,290.00	5,223.36	16,513.36
ak & Merle-Smith	New York, N. Y.	12,000.00	5,247.56	17,247.56
S. Dickeon & Company, Incorporated	Charlotte, N.C.	24,790.00	12,949.48	37,699.48
llen, Read & Co.	New York, N. Y.	36,363.00	53,440.91	89,803.91
ren & Company	Philadelphia, Pa.	6,750.00	1,866.93	8,616.93
liniak & Dominiak	New York, N. Y.	40,387.90	13,769.47	54,156.97
erel & Co.	Philadelphia, Pa.	15,000.00	14,507.61	29,507.61
ancis I. duPont & Co.	New York, N. Y.	17,250.00	7,568.41	24,818.41
etman, Dillen & Co.	New York, N. Y.	41,250.00	18,620.95	59,870.95
rias, Morris & Co.	Philadelphia, Pa.	5,025.00	1,866.93	6,891.93



<u>Writers</u>	<u>Address</u>	<u>Gross Selling Commissions*</u>	<u>Gross Underwriting Compensation*</u>	<u>Total*</u>
Bill Lynch, E. A. Pierce & Cassatt	New York, N. Y.	72,750.00	18,669.35	91,419.35
Bill, Turben & Co.	Cleveland, Ohio	7,500.00	2,623.77	10,123.77
Milwaukee Company	Milwaukee, Wis.	4,875.00	2,587.47	7,462.47
Ch, Monell & Co., Inc.	New York, N. Y.	4,275.00	1,866.93	6,141.93
Hum, Tully & Co.	San Francisco, Calif.	20,250.00	7,568.41	27,818.41
re, Leonard & Lynch	Pittsburgh, Pa.	9,900.00	2,623.77	12,523.77
an Stanley & Co. Incorporated	New York, N. Y.	43,300.50	53,659.62	96,960.12
ard H. March & Co.	Cleveland, Ohio	7,200.00	2,623.77	9,823.77
-P. Murphy & Co.	New York, N. Y.	12,000.00	5,247.56	17,247.56
E. Newbold's Son & Co.	Philadelphia, Pa.	16,500.00	7,544.21	24,044.21
ard, Cook & Co.	St. Louis, Mo.	9,825.00	3,784.20	13,609.20
elveny-Wagenseller & Darst	Los Angeles, Calif.	9,900.00	2,623.77	12,523.77
ific Company of California	Los Angeles, Calif.	4,275.00	1,866.93	6,141.93
ne, Webber & Co.	New York, N. Y.	33,525.00	10,495.10	44,020.10
er, Jaffray & Hopwood	Minneapolis, Minn.	3,975.00	1,857.25	5,832.25
cott, Jones & Co., Inc.	Cleveland, Ohio	4,275.00	1,866.93	6,141.93
N. Pressprich & Co.	New York, N. Y.	25,500.00	10,495.10	35,995.10
man & Co.	Hartford, Conn.	6,000.00	2,623.77	8,623.77
sholdt & Gardner	St. Louis, Mo.	2,475.00	1,808.85	4,283.85
olds & Co.	New York, N. Y.	30,750.00	10,495.10	41,245.10
er & Co.	New York, N. Y.	8,250.00	5,126.56	13,376.56
Robinson-Humphrey Company	Atlanta, Ga.	9,375.00	3,784.20	13,159.20
H. Rollins & Sons Incorporated	New York, N. Y.	27,750.00	13,046.28	40,796.28
J. Rothschild & Co.	New York, N. Y.	17,250.00	7,568.41	24,818.41
zellkopf, Hutton & Pomeroy, Inc.	Buffalo, N. Y.	4,500.00	7,157.01	11,657.01
webacher & Co.	San Francisco, Calif.	16,125.00	3,784.20	19,909.20
ott & Stringfellow	Richmond, Va.	2,775.00	1,818.53	4,593.53
as, W. Scranton & Co.	New Haven, Conn.	6,750.00	1,866.93	8,616.93
olds & Company	New York, N. Y.	38,512.50	13,769.47	52,281.97
H. Simon & Co.	St. Louis, Mo.	2,475.00	1,808.85	4,283.85
ger, Deane & Scribner	Pittsburgh, Pa.	9,375.00	3,784.20	13,159.20
th, Barney & Co.	New York, N. Y.	74,850.00	27,569.22	102,419.22
th, Moore & Co.	St. Louis, Mo.	2,925.00	1,823.37	4,748.37
lliam R. Staats Co.	Los Angeles, Calif.	12,825.00	3,784.20	16,609.20
arkweather & Co.	New York, N. Y.	11,325.00	3,784.20	15,109.20
ia Bros. & Bayne	Baltimore, Md.	13,125.00	5,247.56	18,372.56
ra Brothers & Co.	Kansas City, Mo.	6,300.00	2,623.77	8,923.77
r & Co.	St. Louis, Mo.	3,525.00	1,842.73	5,367.73
ase & Webster and Blodget, Incorporated	New York, N. Y.	27,000.00	14,894.81	41,894.81
road & Company, Incorporated	Philadelphia, Pa.	10,500.00	5,199.16	15,699.16
ry Swaney, Inc.	Columbus, Ohio	4,725.00	1,866.93	6,591.93
as American Corporation	New York, N. Y.	6,000.00	5,053.96	11,053.96
nceer Trask & Co.	New York, N. Y.	27,000.00	10,495.10	37,495.10
aker, Anthony & Co.	New York, N. Y.	12,750.00	5,247.56	17,997.56
an Securities Corporation	New York, N. Y.	54,450.00	39,936.48	94,386.48
Alatyne, Noel & Co.	New York, N. Y.	9,375.00	3,784.20	13,159.20
ator, Common & Co.	Buffalo, N. Y.	8,250.00	1,866.93	10,116.93
H. Walker & Co.	St. Louis, Mo.	8,250.00	5,126.56	13,376.56
lling, Larchen & Co.	Detroit, Mich.	4,575.00	1,866.93	6,441.93
den & Co.	San Francisco, Calif.	4,275.00	1,866.93	6,141.93

Underwriters	Address	Gross Selling Commissions*	Gross Underwriting Compensation*	Total*
W. Dickey Company	Minneapolis, Minn.	5,025.00	1,866.93	6,891.93
W. D. Bain & Co.	New York, N. Y.	9,000.00	5,150.76	14,150.76
W. B. Weld & Co.	New York, N. Y.	35,437.50	13,769.47	49,206.97
Wisconsin Company	Milwaukee, Wis.	19,500.00	10,349.90	29,849.90
W. H. Witter & Co.	San Francisco, Calif.	89,250.00	22,705.22	111,955.22
Ward-Elwood & Co.	Minneapolis, Minn.	7,390.00	2,623.77	9,973.77
W. H. Hall & Co.	Philadelphia, Pa.	5,290.00	2,599.57	7,849.57
Total for 152 Underwriters		\$2,354,701.50	\$1,156,204.39	\$3,510,905.89
44 Additional Dealers who were not Underwriters		454,665.00	---	454,665.00
Grand Total		\$2,809,366.50	\$1,156,204.39	\$3,965,570.89

\* Note: These figures are calculated on the basis of all shares having been sold by the Underwriters and dealers at the respective public offering prices. Certain shares may have been sold at other than the public offering prices; the Joint Managers have no information as to this except that, as to approximately 9% of the total shares sold by the Underwriters and dealers, they were advised that such shares were sold to other dealers, presumably at a concession of 50 cents per share.

Gross Underwriting Compensation is calculated after net Underwriting expenses of \$133,629.11 as follows:

Stock transfer taxes	\$23,756.90
Net loss in purchase and sale accounts	<u>109,872.21</u>
	\$133,629.11

November 5, 1942  
4:23 p.m.

HMJr: .....to General Marshall's office?

Chief  
Wilson: No, sir, I did not.

HMJr: He said he'd let you know who to talk to.

W: Yes, sir.

HMJr: Call up his office and say you're Chief Wilson....

W: Yes.

HMJr: ....and remind his aide that General Marshall  
said that he would tell you who to talk to about  
getting these men fixed up.

W: All right, sir.

HMJr: Call up General Marshall and ask for his aide.

W: Yes, sir.

HMJr: Will you do that?

W: I will, sir.

HMJr: Thank you.

W: All right.

November 5, 1942  
5:36 p.m.

Operator: Go ahead.

HMJr: Hello.

Justice Felix Frankfurter: Henry?

HMJr: In person.

F: Henry, you know, you can draw on my affection - you can - you can never overdraw, but I'm sore at you.

HMJr: Why?

F: Well, I'd like to see that long black beard too.

HMJr: You want the long, black beard?

F: Yes.

HMJr: (Laughs)

F: I don't want it. I want to see it on you. I'm not worthy of it.

HMJr: I've shaved it off.

F: What?

HMJr: I've shaved it off.

F: You have?

HMJr: Yes.

F: Well, is it in a glass cage in the Library of Congress?

HMJr: Ah....

F: Or is it pressed with the ? of Zion?

HMJr: No, I sent it to the Museum of Natural History.

- 2 -

F: (Laughs) You know, they won't be able to tell where it comes from.

HMJr: You've been seeing the President.

F: What?

HMJr: You've been seeing the President.

F: Well, I'll tell you, I'll swap with you.

HMJr: Yes.

F: If you'll tell me....

HMJr: Yeah.

F: ....how you have me covered, I'll tell you how I have you covered.

HMJr: No, I know where you get your information from. That's part of my espionage.

F: So that it isn't a fair bargain.

HMJr: No.

F: How are you?

HMJr: I'm fine. When am I going to see you?

F: Well, I'd like to see you very soon, as a matter of fact.

HMJr: Well.

F: Ah - when is that?

HMJr: Ah....

F: Let - wait a minute, I wanted to tell you about nothing in particular. (Laughs)

HMJr: The election is over.

F: I've got no business.

HMJr: Neither have I.

F: Well, I could - I don't think we'd disagree about that.

HMJr: (Laughs)

F: Would we?

HMJr: Not about having no business.

F: No, about (laughs) - about the - about the history of that, eh?

HMJr: No.

F: Would we?

HMJr: No.

F: Hmmm.

HMJr: Ah....

F: (Something in Hebrew.)

HMJr: What?

F: (Repeat of something in Hebrew.)

HMJr: No.

F: Do you agree?

HMJr: Something like that.

F: Yeah. (Laughs)

HMJr: Now let me give you a ring tomorrow and find out when you have some free time.

F: When I have some free time. Say, Mr. Secretary, what are you doing? Have you learned how to kid people?

HMJr: No, I've just learned to be respectful.

F: Yeah, you know, we - we're - we - we - this institution is a sort of vermiform appendix on the War Administration.

HMJr: Yeah.

F: Henry, how are you?

HMJr: I'm fine.

F: What kind of a time did you have?

HMJr: Very good and very cheerful.

F: Uh huh.

HMJr: I didn't go to the 400 Club though the way you did.

F: (Laughs) I see - I see where you got that from.

HMJr: (Laughs) Yeah.

F: How is he?

HMJr: After all, I know when the Club opens. I don't go there an hour beforehand.

F: (Laughs) By God, isn't it lucky that I lead a pure life, huh?

HMJr: Yeah. (Laughs)

F: Because if it opened broke....

HMJr: Yes, there's you.

F: ....there's I.

HMJr: Yeah.

F: Henry?

HMJr: Yeah.

F: Aren't you - are you glad - you're glad you went, aren't you?

HMJr: Oh, very glad.

F: Uh huh. I mean, those fellows are actually in the war, aren't they?

- 5 -

HMJr: Oh, yeah.

F: Huh?

HMJr: Oh, yeah.

F: How is Arthur?

HMJr: He's fine, very busy, and doing a swell job and they said if he wasn't an American, he'd be Price Administrator of England.

F: Hmm, hmm.

HMJr: But this way they can only give him a piece of England.

F: Yeah, well, he's been doing a lot of other things besides.

HMJr: Yeah.

F: You - you don't - seriously, you don't appreciate what it is, but when every three months that beige-colored magazine comes here, I marvel at the - at the performance. I mean the Log Quarterly Review.

HMJr: Oh, yes.

F: It - you know, to - to do that kind of thing when it's easy enough to do hot war work, isn't it?

HMJr: Yeah.

F: Well, I just - I just wanted to pull that beard.

HMJr: Beard.

F: Yeah, I wanted to pull that beard....

HMJr: Yeah.

F: ....and I would like to see you when - when what a colleague of mine and an opinion that's going around calls the "Federal fisk" permits you.

HMJr: Right.

- 6 -

F: The "Federal fisk."

HMJr: Well, I'll call you up in very simple English when you're not busy.

F: (Laughs) Listen....

HMJr: Yeah.

F: ....in your simple way, you're one of the dirtiest fellows in town.

HMJr: (Laughs)

F: You tell Elinor that and she'll understand what I mean.

HMJr: I'm one of the dirtiest?

F: In your simple English, you can be one of the dirtiest fellows in town.

HMJr: (Laughs) I didn't know whether you said the busiest or dirtiest.

F: Dirtiest.

HMJr: Dirtiest.

F: That's appropos of your remark about simple English.

HMJr: I see.

F: How are your boys?

HMJr: They're fine.

F: They are? Did they pull their Daddy's beard?

HMJr: I wish they were here to pull it.

F: Oh. Well, Henry, I greet you, and....

HMJr: Thanks.

F: ....hope to see you soon.

- 7 -

HMJr: I - I - it will be my privilege to wait.

F: Good. Goodbye.

HMJr: Goodbye.

MEMORANDUM RE: Matters discussed with Secretary Morgenthau  
November 5, 1942

1. Status of negotiations for acquisition of the Ford tire plant and oil refinery program.

I reported that Mr. Flatley, Chief of the Contract and Purchase Branch, and Special Assistant H. B. Dyche went to Detroit by plane yesterday afternoon. They advised this noon that an agreement had been made to purchase the plant on the basis of a price of \$5,136,000, subject to adjustment to the present evaluation of the equipment as inspection is made.

Secretary Morgenthau referred to an editorial in the New York Times and asked that a memorandum be prepared for Mr. Kuhn explaining the facts. He also suggested that any action having to do with matters of special nature similar to the acquisition of the tire plant be reported to him promptly so that he would be informed.

It was also brought out that an oil refinery on the West Coast, owned by a subsidiary of the Douglas Aircraft Company, had been selected by the Russians, OPC, and approved by OLLA in lieu of the two refineries in Texas which had been under consideration.

2. Policy concerning renegotiation.

I referred to the present practice of Army, Navy, and Maritime Commission relative to renegotiation of contracts and stated that while we did not have similar authority in the Treasury Department until the passage of the Revenue Act of 1942, that it is now in order to make a policy determination as to whether we should cooperate with the price negotiation boards of the military services and the extent of our participation with them.

Reference was made to a pending case involving a refund to the Government of \$4½ million, renegotiated by the Maritime Commission. Secretary Morgenthau suggested that the matter be taken up with the General Counsel's office and, after the matter had been studied, he would be glad to discuss it with us.

3. Policy concerning interest charge on advances to contractors.

Mention was made of the fact that we are now gathering information so that the matter can be presented to the Secretary for determination of policy as to whether we should charge interest on advances to contractors, and as soon as ready it would again be taken up with him. The Secretary suggested that I talk with Mr. D. W. Bell about this matter.

4. Proposed order to centralize lend-lease shipping control in War Shipping Administration.

It was stated that a proposed order, effective December 1st, would require that all lend-lease goods be consigned to the War Shipping Administration who would likewise act as forwarding agents.

5. Proposed purchase of clothing, heating equipment, sanitary and miscellaneous supplies for the Second Front.

It was explained that the OLLA had requested certain data as to the types of supplies which would be needed for civilian use in the Second Front area. As a result of several conferences with their representatives, a list had been submitted to them, and it is proposed by the OLLA that funds be allocated for that purpose.

Secretary Morgenthau suggested that when we had specific authority to go ahead and the first requirements were being considered he would like to know about the matter before we took action.

6. Anticipating Treasury Department requirements for office equipment.

I spoke of the matter of getting requirements from the Treasury agencies as quickly as possible with Messrs. Schoeneman and Bell this morning. This is necessary in order that action may be taken right away to obtain essential needs.

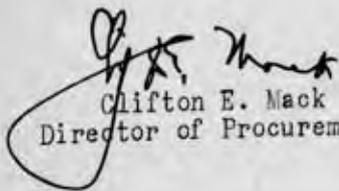
Secretary Morgenthau suggested that matters of priority for the Department should clear through us and that a good man be selected for the job. I advised Mr. Morgenthau that Mr. Moyer is now doing that work and that he is exceptionally capable.

In response to the Secretary's question as to whether Mr. D. W. Bell had talked with me about this matter of priorities, I told him that he had and, as a result of that discussion, the additional consideration of anticipating departmental needs came up, the thought being that, to the extent that there are items that are very difficult to obtain, we should immediately take action to work out the problem.

7. Executive Order 9235.

I advised Secretary Morgenthau that we are now cooperating with the Bureau of the Budget under Executive Order 9235 and it was explained that it had to do with the utilization of property by establishing standards and determining requirements of the Federal agencies. He asked that I advise him as to when the executive order was cleared with him because he did not have a recollection of it.

I also advised the Secretary as to certain changes which had been made in order to administer the operations of this executive order within the Procurement Division, - specifically, the abolishment of the Emergency headquarters organization and the transfer of Mr. Fred Mapes from Chief of the Emergency Branch to the head of the Property Utilization Branch. Also, that John Fox had transferred back to the Procurement Division to take charge of the District of Columbia surplus property and to consolidate the typewriter and furniture repair shops, it being explained that we are now trying to get suitable building space to do this work.

  
Clifton E. Mack  
Director of Procurement

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE November 5, 1942

TO The Files  
FROM Mr. Thompson

*→ Filed in Mr. Thompson's  
Office*

The attached deferment case for Mr. Oscar Gass was discussed with the Secretary today, and he indicated that it would be against policy to request this deferment. He indicated, however, that Mr. Gass could be assured that if he should be inducted after examination at Fort Myer, the Secretary would undertake to arrange for his assignment as a Treasury representative at a foreign port with possible detail to the Treasury before such assignment. Mr. White was present at the conference and agreed to this arrangement.

*ht*

Nov. 5, 1942  
199

FINANCING PROGRAM FOR NOVEMBER-DECEMBER

	<u>In our cash estimates</u>	<u>May be added by a drive</u>	<u>Total</u>
From banking securities:			
Treasury bills .....	\$1,200 M	-	\$ 1,200 M
7/8% C/I's (Nov. 1 - \$.5M).....	2,500	-	2,500
1-3/4% bond .....	<u>2,000</u>	-	<u>2,000</u>
	<u>5,700</u>	-	5,700
Non-banking securities:			
7/8% and 1-3/4% securities above .....	-	500	500
Savings bonds .....	1,875	625	2,500
Tax notes .....	1,100	1,000	2,100
2-1/4% bond (tap) ....	-	500	500
2-1/2% bond (tap) ....	<u>1,000</u>	<u>1,500</u>	<u>2,500</u>
	<u>3,975</u>	4,125	8,100
(Need \$10,675M)	<u>9,675</u>	<u>3,975</u>	
Non-banking funds ....		8,100	
Banking funds .....		<u>5,700</u>	
Total .....		<u>\$13,800 M</u>	<u>\$13,800 M</u>

Cushion \$2,125M

November 4, 1942

Prepared by: Mr. Turner  
Mr. Murphy  
Mr. Haas

TREASURY DEPARTMENT

200

INTER OFFICE COMMUNICATION

DATE November 5,  
1942

TO Secretary Morgenthau  
FROM Mr. Haas  
Subject: Recent Developments in the High-grade Security Markets

SUMMARY

- (1) Prices of the longest Treasury bonds are now about  $3/4$  of a point below their highs for the year, reached early in June (Charts I and II). In contrast, high-grade corporate and municipal bonds have risen in price since June (Charts II and III).
- (2) Total new money bond flotations for corporations and municipalities during the first 9 months of 1942 were \$786 millions as compared with \$1,123 millions for the corresponding period in 1941 (Chart IV). Total corporate and municipal bond flotations, including refundings, during the same periods in 1942 and 1941, respectively, amounted to \$1,225 millions and \$2,700 millions.
- (3) In the 12 months ended September 30, 1942, 36 life insurance companies with 82 percent of the admitted assets of all legal reserve life insurance companies absorbed \$1.9 billions of Government securities, while their cash declined by \$0.4 billions and all assets other than cash and Governments increased by \$0.2 billions net. The current cash position of these 36 companies appears to be only slightly less favorable than it was before the opening of the "tap" last August.
- (4) Excess reserves of member banks are currently about \$2.2 billions. This is a net decrease of about \$1.3 billions since the increase in reserve requirements to the maximum permitted by law on November 1, 1941 (Chart V). This decrease in excess reserves has occurred despite the reduction of reserve requirements in New York City and Chicago to the level of those for reserve city banks under the authority of an Act of July 7, 1942.
- (5) Cash subscriptions to Canada's third Victory Loan, the goal of which is \$750 millions, amounted to about \$565 millions last Friday, at the end of the 11th day of an 18-day campaign.

Secretary Morgenthau - 2

I. Recent Price Changes in the High-grade Security Markets

Movements in the prices of Treasury securities have occurred only infrequently in recent months, and individually such changes have been small. The net result of such movements, however, has been to reduce prices moderately below the high levels for the year which prevailed during the second quarter (Charts I and II). Since June 3, 1942, when long-term Treasury bonds reached their high price for the year, these bonds have declined by an average of 22/32 while 1 - 3 year notes have declined by an average of 5/32. Tax-exempt bonds have tended to decline more on balance than the taxables as is shown in Chart II and in the following table:

				Average price change		
				June 3 - November 4, 1942		
				Taxable	Tax exempt	Total
(Decimals are thirty-seconds)						

Notes

1 to 3 years	-.02	-.05	-.05
3 to 5 years	-.12	-	-.12

Bonds

5 to 15 years to call	-.10	-.19	-.15
15 years and over to call	-.08	-1.02	-.22

Unlike Treasury securities, high-grade corporate bonds have decreased in yield and risen in price since June 3, 1942 (Chart II); and the same is true in even greater degree of municipals (Chart III).

Secretary Morgenthau - 3

## II. Other Bond Market Developments

Since the beginning of the defense program Treasury financing operations have become increasingly the dominant factor in the market for new security issues. Total new money bond flotations for corporations and municipalities during the first nine months of this calendar year aggregated only \$786 millions as compared with \$1,123 millions during the corresponding period in 1941 (Chart IV). Total domestic corporate and municipal bond flotations including refundings in nine months of 1942 amounted to \$1,225 millions as compared with \$2,700 millions in the corresponding portion of 1941.

Of the new money issues in the first three quarters of this year, \$300 millions was accounted for by State and local governments and \$486 millions by corporations. Total bond issues were divided in almost the same proportions -- \$451 millions being attributable to the municipalities and \$774 millions to corporations.

In addition to the greatly reduced volume of competing corporate and municipal issues, there has been a tendency for the volume of funds available for investment to increase as a result of debt reduction in other quarters. Commercial loans of weekly reporting member banks declined from a post-depression peak of \$7,459 millions on March 15, 1942, to \$6,552 millions on September 30. Since then there has been a slight increase; but the net decline from the March high to October 28 was \$0.9 billion. A large part of this reduction has been due presumably to curtailment of non-war activities, to the application to debt retirement of depreciation reserves and other similar reserves which are accumulating and which cannot be put to their intended use because of scarcities and priorities, and to the completion of plant expansion programs which required bank credit. To the extent that Treasury borrowing from commercial banks is offset by decreases in other bank credit, such borrowing is not inflationary, for it results in no net increase in the volume of bank deposits.

Six months ago it appeared that the decline of bank loans would be large and continuous. Since that time an offsetting factor has been introduced into the situation

Secretary Morgenthau - 4

in the form of Regulation V of the Federal Reserve Board, issued pursuant to an Executive Order dated March 26, 1942, which permits the guarantees by the Federal Reserve Banks as agents for the War and Navy Departments and the Maritime Commission of loans for war production. The probable influence of Regulation V loans cannot be predicted; but some suggestion of their importance may be found in the announcement, on October 16, that the General Motors Corporation was completing arrangements with about 400 banks for a revolving credit of \$1 billion. According to the Wall Street Journal the amount of this credit is estimated in financial circles to be equal to the sum of all other Regulation V credits made up to that time. It should be noted, of course, that these are credits, and that they may not be fully utilized.

Another possible influence in the direction of debt reduction is the provision in the Revenue Act of 1942, for a 10 percent post-war refund of excess profits tax payments which may be taken as an immediate credit against debt repayments to the extent of 40 percent of the debt repaid. The first major corporation to take advantage of this provision was the United States Steel Corporation which on October 28 called for redemption on December 31, \$30 millions of debentures which were issued about 2-1/2 years ago.

### III. Insurance Company Absorption of Government Securities

Absorption of United States Government securities by 36 companies, representing 82 percent of the total admitted assets of all United States legal reserve life insurance companies, amounted to \$1,899 millions during the twelve months ended September 30, 1942. The increase in the amount of United States securities held by these companies was more than the increase in their total admitted assets, the latter amounting to only \$1,664 millions. Assets other than United States securities, therefore, declined by \$235 millions during the year. Cash declined by \$449 millions, while all assets other than cash and Government securities rose by a net amount of only \$214 millions.

It is clear from the above figures that the \$1.9 billions of United States securities purchased by these

Secretary Morgenthau - 5

36 companies in the past 12 months represents about all they are able to buy in a year. This rate is, therefore, unlikely to be materially increased in the future. Net purchases of United States securities by these companies during the past 12 months amounted to 73 percent of the net purchases of Government securities of \$2.6 billions by all insurance companies included in the Treasury Survey of the Ownership of Government Securities.

Increases of \$439 millions in holdings of Government securities during May when the 2-1/2's of 1962-67 were first offered and of \$506 millions in August when this issue was reopened accounted for one-half of the total increase in holdings of such securities by the 36 companies. This absorption of Government securities was accompanied by a decline of \$324 millions in cash during May and \$302 millions in August. During intervening months, and subsequent to the August reopening, cash has accumulated at a rate somewhat below \$150 millions per month. Cash assets of the 36 companies at the end of September totalled \$690 millions, as compared with \$712 millions on June 30, about 5 weeks prior to the August opening of the "tap". This would indicate that the cash position of insurance companies now is only slightly less favorable than it was last August.

#### IV. Excess Reserves of Member Banks

Excess reserves of all member banks at the close of business October 28 were \$2,158 millions. Those of banks in New York City were \$461 millions and those of banks in Chicago were only \$18 millions (Chart V).

Since reserve requirements were raised to the maximum rates permitted by law, effective November 1, 1941, excess reserves, which were then about \$3.4 billions, have declined by about \$1.3 billions on balance to levels which, beginning in July, have averaged less than \$2.5 billions, and on September 30 touched a 4-year low of \$1.7 billions. The Board of Governors of the Federal Reserve System has found it necessary to act on three separate occasions, under the authority granted by an Act of July 7, 1942, to lower the reserve requirements of banks in central reserve cities. Those requirements are now 20 percent of net

## Secretary Morgenthau - 6

demand deposits, the same as the requirements for banks in reserve cities, as compared with 26 percent before the reductions began. The increase of about \$1.1 billions in excess reserves (indicated by red vertical lines on Chart V), which resulted from these changes in reserve requirements, has been approximately balanced by the net effect of other factors operating on member bank reserves.

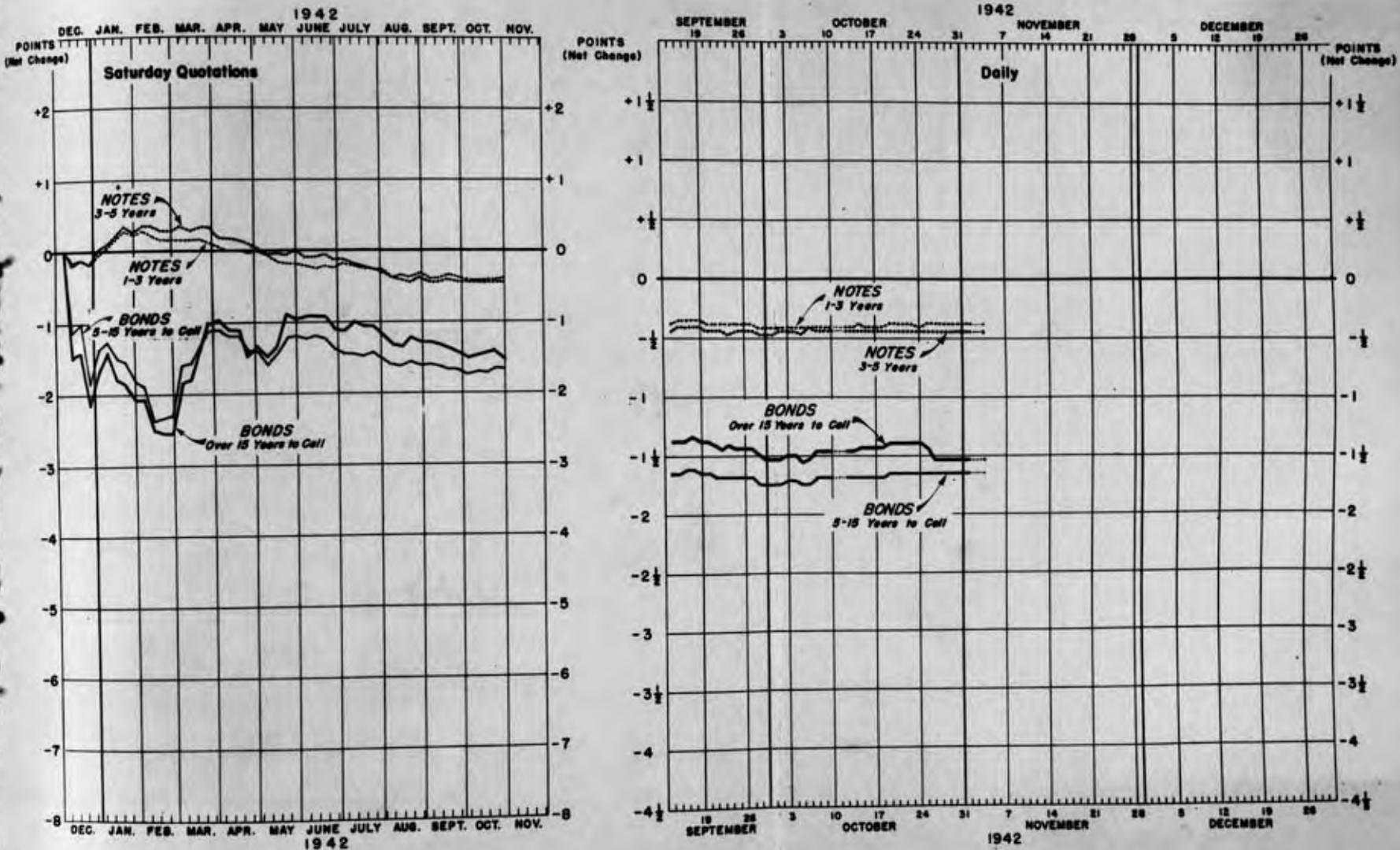
The principal factors contributing to the decrease in excess reserves since November 1, 1941, have been an increase of money in circulation of \$3.7 billions and an increase in required reserves resulting from the growth in deposits of \$2.0 billions. These influences have been only partially offset by an increase in Federal Reserve Bank holdings of Government securities of \$2.3 billions and the reductions in reserve requirements for central reserve city banks referred to above.

#### V. Third Canadian Victory Loan

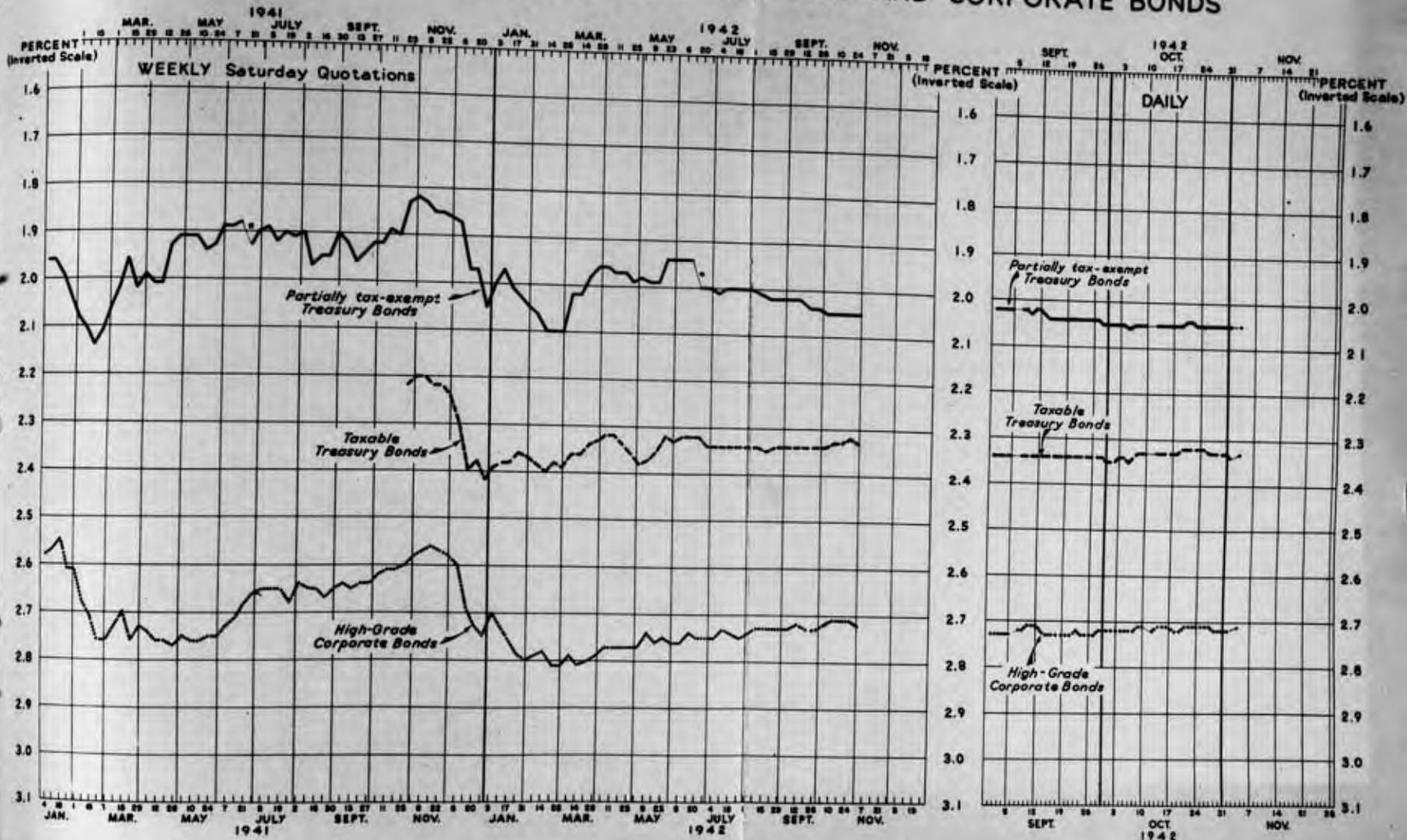
Cash subscriptions to Canada's third Victory Loan amounted to about \$661 millions through November 2, the thirteenth day of an 18-day campaign. The announced objective of the loan is \$750 millions. Both of the preceding loans were subscribed to in amounts substantially in excess of their objectives of \$600 millions in each instance. Subscriptions to the first loan in June 1941 totalled \$711 millions, and to the second loan in February 1942 totalled \$534 millions. The third loan is offered in two maturities; one of 3-1/2 years, bears a coupon rate of 1-3/4 percent, and has a yield to maturity of 1.75 percent; the second, a 10 - 14 year bond redeemable at 101, bears a coupon rate of 3 percent, and has a yield to maturity of 3.06 percent.

# CHANGES IN THE PRICES OF U.S. SECURITIES

Points Plotted Represent the Difference from December 6, 1941 Price of Each Maturity Class



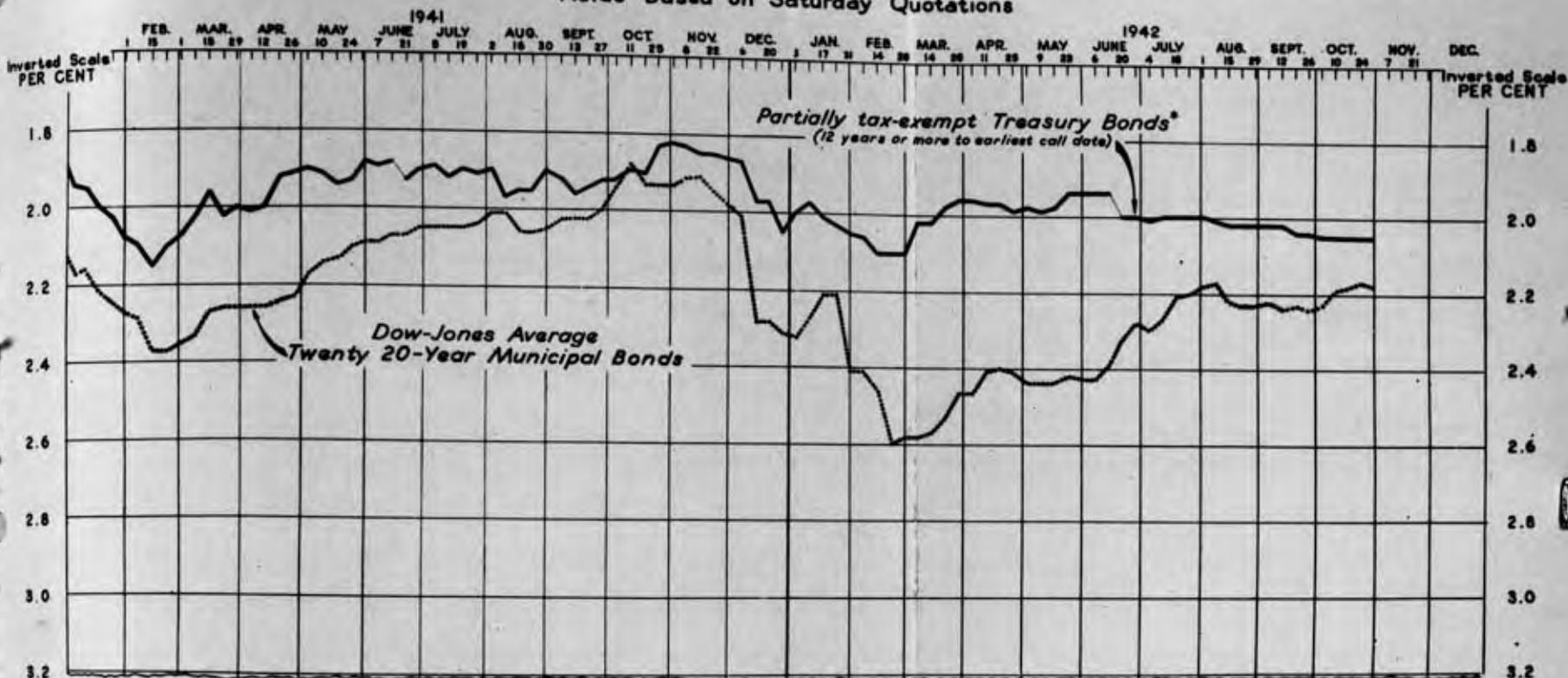
# AVERAGE YIELDS OF LONG-TERM TREASURY AND CORPORATE BONDS



\*Change in composition of Long-Term Treasury average

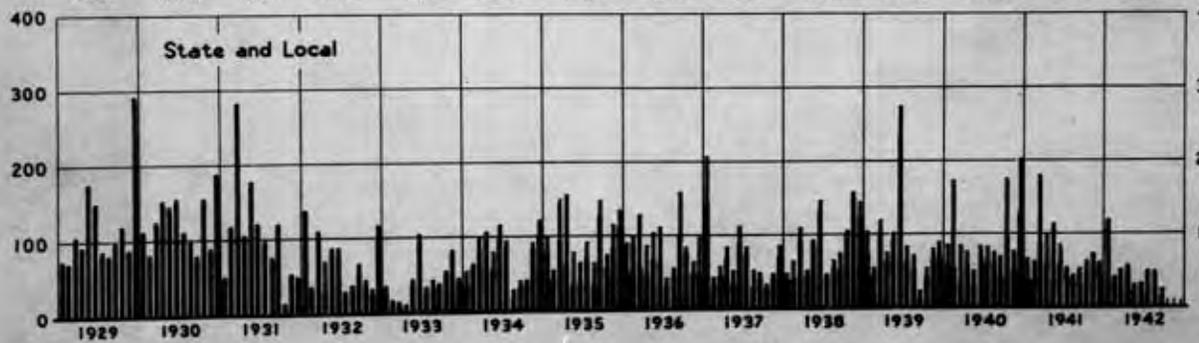
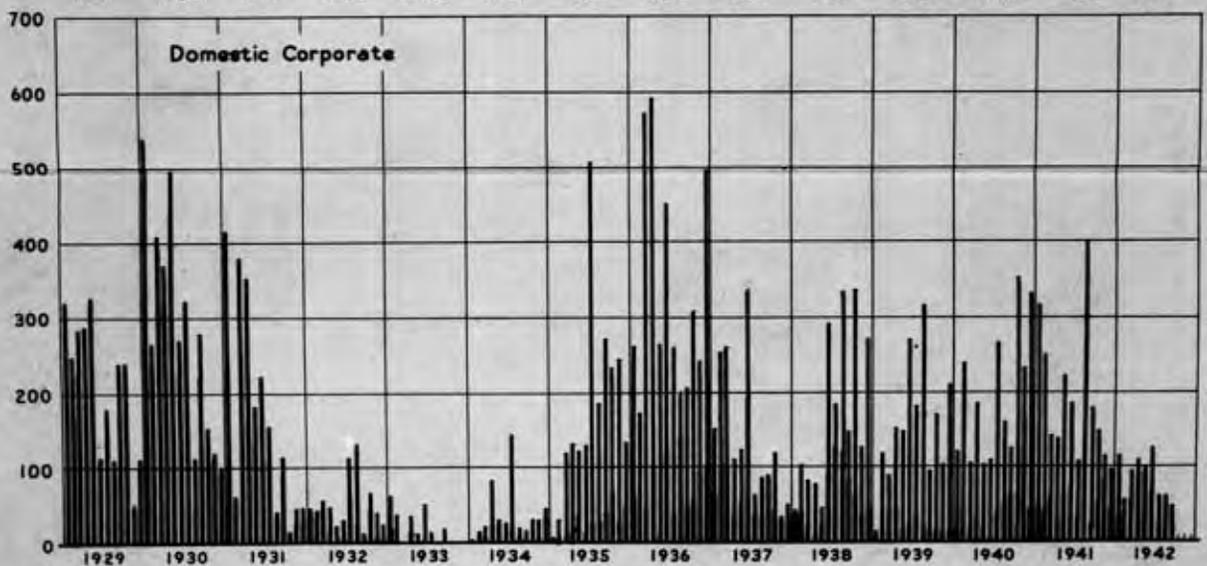
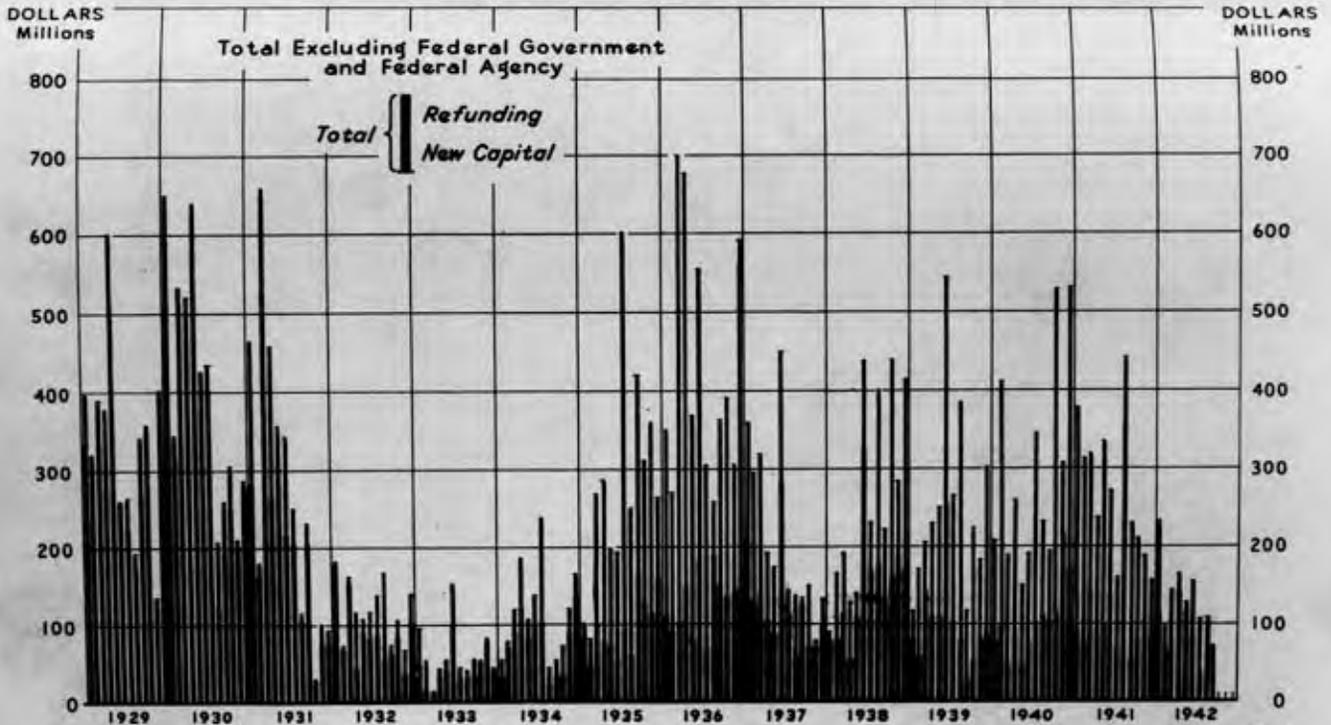
# AVERAGE YIELDS OF LONG-TERM TREASURY AND MUNICIPAL BONDS

Yields Based on Saturday Quotations



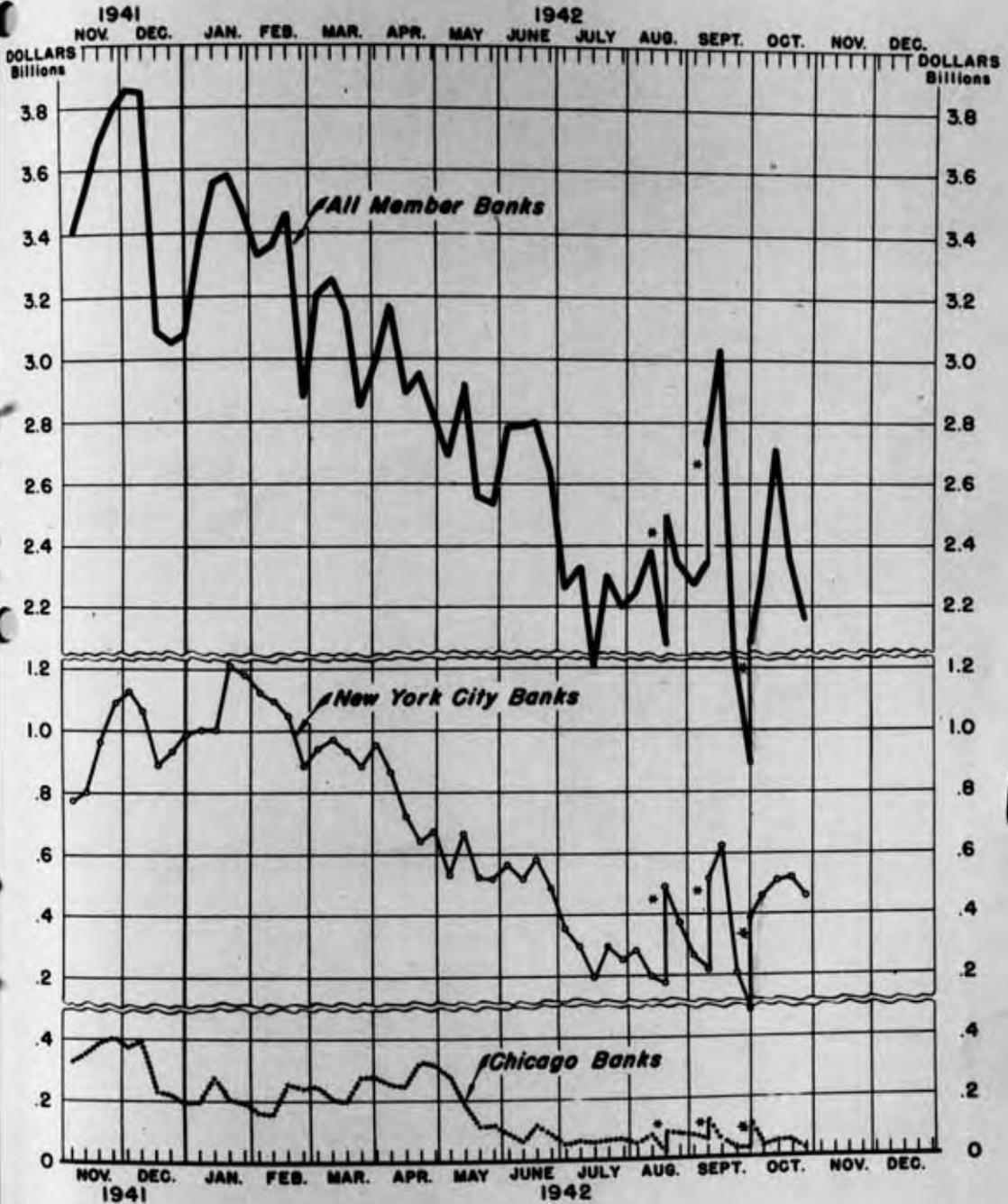
\* Break in line indicates change in composition of Long Term Treasury average

# TOTAL DOMESTIC BOND FLOTATIONS (EXCLUDING FEDERAL)



209

# MEMBER BANK EXCESS RESERVES



\*Change in reserve requirements

November 5, 1942

The Editor,  
The Sun,  
Baltimore.

Dear Sir:

Last Monday I gave the press some figures contrasting the personal income taxes payable by the vast majority of American and British taxpayers. These figures, computed for persons receiving incomes primarily from wages and salaries, show that the British are paying income taxes about twice as heavy as those we shall be paying in this country in 1943. Your editorial of November 5th charges me with giving some misleading figures. May I ask the hospitality of your columns for a reply?

Your criticism is based on the example of a taxpayer who receives \$4,000 income from dividends. Since in 1941 only 5 percent of the entire national income came from dividends, while almost 70 percent represented the compensation of employees, it is clear that a taxpayer whose income is derived exclusively from dividends is anything but typical. As a matter of fact, in 1936, the most recent year for which we have such figures, only one-half of 1 percent of all taxpayers received their income exclusively from dividends. I leave it to you to judge which is more "misleading" -- a comparison of taxpayers receiving incomes primarily from wages or salaries or one of taxpayers receiving incomes exclusively from dividends.

The figures I released to the press compare the British income taxes with the combined Federal and State income taxes payable by persons living in New York. We chose New York State even though its rates are higher than those prevailing in most States, because of the large number of taxpayers who live in New York. It may be helpful to you to have the attached table

comparing the personal income tax which will be payable by an American taxpayer subject also to the Maryland tax with the personal income tax payable by a resident of Great Britain.

You will note that the net tax liability in Great Britain is at least twice as large as that in this country for taxpayers with incomes below \$4,000. The American taxpayers in this group account for more than 90 percent of all taxpayers under the net income tax and for an even larger percentage of all taxpayers under the Victory Tax. Further, the post-war credit in Great Britain can be taken currently only in rare instances whereas the Victory Tax post-war credit in this country can be taken currently up to the amount of debt repayment, payment of insurance premiums, and purchase of war bonds. For most taxpayers, total tax liabilities in Great Britain are even larger relatively to those in this country than net tax liabilities.

Sincerely,

(Signed) H. Morgenthau, Jr.

*Original sent by hand  
from Mr. Rubin's office.*

*cc in diary  
Copies to Thompson*

**Individual income tax: Amount of tax and effective rates  
in the United States and in Great Britain**

**Married person - no dependents**

Net income before personal exemption <sup>1/</sup>	United States, including Maryland <sup>2/</sup>			Great Britain <sup>3/</sup>		
	Total tax liability	Post-war credit	Net tax liability	Total tax liability	Post-war credit	Net tax liability
	<b>Amount of tax</b>					
\$ 1,000	\$ 24	\$ 10	\$ 14	\$ 111	\$ 61	\$ 50
1,500	100	21	79	200	94	106
2,000	220	22	198	300	127	173
4,000	704	70	634	1,400	190	1,210
6,000	1,207	121	1,086	2,300	290	2,010
8,000	2,000	165	1,835	3,200	390	2,810
10,000	2,700	210	2,490	4,000	490	3,510
	<b>Effective rates (percent)</b>					
\$ 1,000	2.4	1.0	1.4	11.1	6.1	5.0
1,500	6.7	1.4	5.3	13.3	6.3	12.3
2,000	11.0	1.1	9.9	16.7	6.4	10.3
4,000	17.6	1.8	15.8	24.3	6.8	17.5
6,000	20.1	2.0	18.1	26.7	4.8	21.9
8,000	25.0	2.1	22.9	31.3	4.9	26.4
10,000	27.0	2.1	24.9	35.0	5.3	29.7

November 3, 1942

Note: Due to rounding, items may not add to totals.

<sup>1/</sup> Before deduction of the Maryland State tax. All income is assumed to be earned.

<sup>2/</sup> The liabilities shown for the United States include the Victory Tax, which became effective on January 1, 1942.

<sup>3/</sup> Pounds converted at \$4.00

NOV 5 1942

### Mr. Morgenthau Offers Some Misleading Figures

Secretary Morgenthau, who has been looking things over in England for a few weeks, celebrated his return to Washington on Monday by proclaiming that the British (and Canadians) are paying twice the income taxes that American citizens are required to meet. This is very far from the fact.

It is true, as Mr. Morgenthau says, that individual income-tax rates are higher in Britain than in this country. Thus he is speaking by the book when he declares that an American married man with no children and an income of \$4,000 pays only about sixteen per cent. of his income in Federal income taxes, whereas a British subject similarly situated must pay thirty per cent. in income taxes. But this statement is only part of the story, and if it were allowed to stand unchallenged it would create a very mistaken impression. The remarks of Senator Walter F. George, in explanation of the new Federal tax measure, which are printed elsewhere on this page, state the case much better.

The fact is that British and American individual income-tax rates cannot be compared, for the two taxes are assessed in wholly different ways. The British individual taxpayer who receives dividends from corporate enterprises in which he may be a stockholder does not have to pay any normal individual tax on such receipts at all. The tax is assessed against the corporation in the first instance and, because the British do not believe in the sort of double taxation which we have in this country, the tax collected against the corporation is final as to the normal or basic tax. The income thus taxed is not taxed again in the hands of the individual citizen of modest income, and even the well-to-do pay only surtax on this kind of income.

Thus an individual who actually received \$4,000 in dividends in England would pay no individual tax on that amount at all, whereas such a person in the United States would pay \$347. The \$4,000 would already have been subject to a corporate income tax of forty per cent, and perhaps to an excess-profits tax, too, but the income tax would be assessed against the individual and the

country might be subject to a State income tax in addition to the Federal levy. The Maryland income tax on \$4,000 of investment income in the hands of a married man with no children would be \$100, making a total American income tax of \$547, as against no income tax at all in England in the case referred to.

To compare the rates, then, as Mr. Morgenthau said, is to create an entirely erroneous impression of the comparative tax load. If Mr. Morgenthau wanted to give a true picture of British and American taxation he would compare the total of \$20,054,000,000 in individual and corporation income and excess-profits tax revenues in this country with the £1,416,000,000 in income taxes, surtaxes, national defense contributions and excess-profits taxes in England. The latter total, at current exchange, is equivalent to \$5,664,000,000 in our money, or \$126 per capita. Our \$20,054,000,000 of income and excess-profits taxes is equivalent to \$152 per capita.

This means that instead of paying half the income taxes our British cousins are paying, it appears that we actually will be carrying a heavier load than they, when the new tax bill goes into effect on January 1. Where the British exaction is heavier than ours is in consumption taxes. They derive £438,000,000 a year (\$1,752,000,000) from customs duties, which are the same in their effect as wholesale sales taxes. They also get £366,000,000 (\$1,464,000,000) from excises and sales taxes on general articles. The sum of these two taxes is \$3,216,000,000 or \$72 per capita. Our excises on the other hand will yield a total of \$4,558,000,000 a year under the law recently passed, or at the rate of only \$38 per capita—just half the British rate.

Mr. Morgenthau will have some difficulty in proving that the British pay twice the income taxes Americans do under our newest act. But if he wanted to say that they pay twice the sales tax Americans do, he would represent the situation accurately.

MEMORANDUM

November 5, 1942.

TO: The Secretary  
FROM: Mr. Sullivan

J.K.S.

In the regulations issued by the Director of Economic Stabilization the provisions restricting salaries to \$25,000 after payment of federal taxes did not become operative until January 1, 1943. To prevent abuses of this delay in the effective date of this provision the regulations also provided that the sum of salary plus bonus paid to any individual in 1942 should not exceed the total salary plus bonus in 1941, if this sum payable in 1942 exceeded \$54,000.

Since these regulations were issued on October 27th there has been brought to our attention many instances of hardship resulting from this restriction. The moving picture industry is pretty hard hit. They made expenditures on pictures and contracted to sell pictures and now they find that the stars who were to have played in these pictures have already received more than their 1941 salaries, and hence the stars are refusing to work. There have been many instances of business men who have already exceeded their 1941 salaries and who have not made adequate reserves for their payment of December 15th taxes, — they having expected to make this payment out of November and December salaries.

It was the opinion of Mr. Wenchel, Mr. Cann, Mr. Paul and myself that this matter should be brought to the attention of Director Byrnes. Yesterday afternoon we had a conference with him and decided upon the amendment to the regulations which I discussed with you this afternoon and which you approved. Under this amendment, individuals may receive salaries for the balance of this year which will bring the total compensation for 1942 above the total compensation for 1941 provided the payments made in 1943 were required under a bona fide contract between the employer and employee which was in effect on October 3, 1942.

STOCK MARKET GOSSIP

N Y - D J - BUTTON BUTTON WHO-S GOT THE  
BUTTON IS AN OLD FASHIONED PARLOR GAME -  
BUT THE NEW DEAL IS NOW PLAYING IT IN A NEW  
FORM - THIS TIME THE MYSTERY OF THE HIDDEN BUTTON  
IS A SECRET RULING OF THE INTERNAL REVENUE  
BUREAU ON AN APPLICATION OF THE BONNEVILLE  
AUTHORITY FOR AN ORDER EXEMPTING A NON-  
PROFIT CORPORATION FROM FEDERAL INCOME TAXES

THE BONNEVILLE AUTHORITY RELUCTANTLY  
DISCLOSED THAT IT HAD MADE SUCH A REQUEST  
OF THE REVENUE BUREAU AT A HEARING BEFORE  
THE S E C LAST WEEK ON THE PROPOSED RE-  
CAPITALIZATION PLAN OF PUGET SOUND POWER & LIGHT  
- PERSISTENT DAILY INQUIRY AT VARIOUS  
SOURCES OVER THE PAST TEN DAYS HAS BROUGHT  
NOTHING BUT BLANKS - THE INTERNATL REVENUE  
BUREAU HAS BEEN ASKED - THEY KNOW IT IS A HOT  
POTATO AND PULL INTO THEIR SHELL BY CALLING  
ATTENTION TO THE FACT THAT FINES UP TO  
5 000 DLS AND IMPRISONMENT CAN BE IMPOSED FOR  
DISCLOSING THESE CONFIDENTIAL RULINGS

A LONG DISTANCE TELEPHONE CALL  
TO C GIRARD DAVIDSON ATTORNEY FOR  
BONNEVILLE AUTHORITY WHO MADE THE APPLICA-  
TION TO THE REVENUE BUREAU BROUGHT A REFUSAL TO  
ANSWER BUT A RECOMMENDATION THAT INQUIRY BE  
MADE AT THE DEPT OF INTERIOR IN WASHINGTON  
- THE DEPARTMENT AGAIN REFUSED TO TALK

THIS SPECIAL TAX RULING IS IMPORTANT TO  
MANY PEOPLE - IT COULD AFFECT THE INVESTMENTS  
OF THOUSANDS OF SECURITY HOLDERS IN THE  
PUGET SOUND POWER & LIGHT CO IMMEDIATELY AND  
ULTIMATELY THE INVESTMENTS OF OTHERS IN OTHER  
UTILITY COMPANIES IN THE PACIFIC NORTHWEST K EW  
-- IN THE PACIFIC NORTHWEST - IT IS IMPORTANT  
TO MILLIONS OF AMERICAN CITIZENS SINCE THE  
APPLICATION FOR A SPECIAL TAX RULING WOULD BE  
A -DODGE- ON THE PART OF THE BONNEVILLE  
AUTHORITY TO EVADE OBSTACLES TO THE EXTENSION  
OF ITS UTILITY DOMAIN IN THE PACIFIC NORTHWEST

CONGRESS RECENTLY THREW OUT OF THE TAX  
BILL A SPECIALLY PREPARED PROVISION SPONSORED  
BY SECRETARY ICKES WHICH WOULD HAVE EXEMPTED  
NON-PROFIT CORPORATIONS FROM FEDERAL TAXES AND  
WOULD HAVE PAVED THE WAY FOR EXTENSION OF  
GOVERNMENT OWNERSHIP OF UTILITIES ALL OVER  
THE COUNTRY - THE INK WAS HARDLY DRY ON THE  
NEGATION OF THAT PROPOSAL WHEN THE BONNEVILLE  
AUTHORITY TOOK THE LATEST STEP - AT THE S E C  
HEARING ON THE PUGET SOUND PLAN IT ALSO WAS  
BROUGHT OUT THAT LEHMAN BROTHERS ARE READY  
TO UNDERTAKE THE SALE OF BONDS OF A NON-PROFIT  
CORPORATION THAT MIGHT BE ORGANIZED TO BUY  
PUGET SOUND - GOSSIP IS CURRENT THAT A FAVOR-  
ABLE RULING HAS BEEN HANDED DOWN - BUT WHATEVER  
IT IS FINANCIAL PEOPLE BELIEVE IT  
SHOULD BE DISCLOSED PROMPTLY

OCT 26 1942

IT:P:F:2  
REG

Honorable Arthur Goldschmidt,  
Acting Director, Division of Power,  
Department of the Interior,  
Washington, D. C.

Sir:

Reference is made to your letter of September 28, 1942, with enclosures, requesting a ruling whether a proposed nonprofit corporation, to be organized as an acquiring agency under Title 12 of the Civil Code of California, will be exempt from Federal income taxes.

Public utility properties in nineteen counties in the State of Washington have been owned and operated by Puget Sound Power and Light Company, which is controlled by Engineers Public Service Company. These properties duplicate to some extent the municipal electric systems operated by the cities of Seattle and Takoma. The recent expansion of industrial effort in support of war operations necessitates a major expansion of power facilities which the company is unable to finance, and condemnation proceedings have been initiated or are imminent in sixteen counties by public utility districts created, with power of condemnation, by vote of the people for the express purpose of acquiring the company's properties or competing with the company.

Engineers Public Service Company has been directed by the Securities and Exchange Commission to divest itself of its ownership of the Puget system. It is willing to sell only on a system-wide basis but neither the local public bodies nor the Bonneville Power Administration are able to undertake a system-wide acquisition.

It is proposed, therefore, to create an agency with sufficient legal and financial capacity to handle a system-wide acquisition of the Puget properties on behalf of the local public bodies and the Bonneville Power Administration in the area served by the company.

The acquiring agency will be incorporated as a nonprofit corporation under Title 12 of the Civil Code of California with its principal office in San Francisco, and will be named Federal Non Profit Agency, (see your letter) or Federal Non Profit Power Agency (see charter).

- 2 -

Honorable Arthur Goldschmidt.

Under Title 12 of the Civil Code, section 593 permits the formation of a nonprofit corporation by any number of persons not less than three, for any lawful purposes which do not contemplate the distribution of gains, profits or dividends to the members thereof. The carrying on of business at a profit incidental to the main purposes of the corporation and the distribution of assets to members on dissolution shall not be deemed forbidden to nonprofit corporations.

The incorporators, persons prominent in the public power movement in the Northwest, will include one person occupying an administrative capacity in the Bonneville Power Administration. The proposed articles of incorporation provide in Article II that the purposes of the corporation are to be of service to and to cooperate with the Bonneville Power Administration in fostering the economic development of the Pacific Northwest; to encourage and promote the wider and more efficient generation, transmission, distribution and utilization of electricity for agricultural, domestic, commercial and industrial purposes; and to furnish an instrumentality to carry out the above-expressed purposes through the acquisition of certain utility systems and their integration with other power facilities in the Pacific Northwest, in order to promote the welfare of the people of the region, expand the industry and commerce of the area, and increase the wealth of the community.

Article V provides that the Bonneville Power Administrator, or his successor, shall have the sole power to nominate persons for election to membership in the corporation upon the vote of a majority of the members present at the meeting at which such nominations are considered, and he shall have power to terminate the membership of any person at any time, with or without cause. If at any time all memberships in the corporation shall have been terminated, membership will automatically vest in the Assistant Administrator of the Bonneville Power Administration or his successor, who may continue the corporate existence.

The corporation will issue revenue bonds or other securities to raise funds for the purchase of the assets of Puget Sound Power and Light Company. It will retain and operate the generation and transmission facilities but will lease or sell the distribution facilities to the various public bodies in the area.

All income received in excess of the amounts reasonably required for the conduct of the corporation's business and for the creation of necessary reserves incidental to such business shall be used solely for the purpose of retiring the corporate indebtedness, and no gain, profit or dividend will accrue or be paid or payable to anyone, whether organizers, members or employees, except as compensation for actual services rendered to the corporation. Cf. Articles VI and VII of the charter.

- 3 -

Honorable Arthur Goldschmidt.

When a fund shall have been provided which is sufficient to pay the corporation's debts, the corporation shall forthwith proceed to pay them. After payment of the debts, or in the event of dissolution, all properties of the corporation shall be conveyed to the United States of America or to an agency or corporation thereof, to be integrated with the Government's other power properties in the region, and none of the assets shall be distributed to the members, officers or employees of the corporation nor to anyone in their behalf. Cf. Articles VIII and IX of the charter.

You state that the financing of the proposed purchase of property will require the issuance of bonds up to 100 percent of the value of the property but that you have been advised by competent investment counsel that such financing will be readily available if the income of this nonprofit corporation is not subject to Federal income taxation.

On the basis of the facts presented herein, it is the opinion of this office that the corporation will not be subject to Federal income taxation if formed and so long as it is operated in accordance with the statements and objectives set forth in your request for this ruling.

Respectfully,

(Signed) Guy T. Helvering

Commissioner.

## TREASURY DEPARTMENT

220

## INTER OFFICE COMMUNICATION

DATE Nov. 5, 1942

TO Secretary Morgenthau  
 FROM Mr. White

This is a comparative statement of the earnings and expenses of the Stabilization Fund for the months of September and October, 1942.

<u>Earnings</u>	<u>September 1942</u>	<u>October 1942</u>
Interest earned on investments	\$ 19,461.47	\$ 20,110.19
Interest earned on yuan	<u>23,601.61</u>	<u>7,378.91</u>
Total	\$ 43,063.08	\$ 27,489.10
Profits on handling charges on gold	<u>76,016.82</u>	<u>170,089.36</u>
Grand Total	\$119,079.90	\$197,578.46
<u>Expenses</u>		
Salaries	\$ 22,188.53	\$ 18,927.72
Travel	993.51	464.51
Subsistence	1,106.30	3,575.01
Telephone and Telegraph	1,359.21	585.65
Stationery	15.29	25.06
All Others	<u>359.07</u>	<u>567.72</u>
Total	\$ 26,021.91	\$ 24,145.67
Net earnings	\$ 93,057.99	\$173,432.79

The rise in earnings resulted almost entirely from a large increase in the value of gold transactions with foreign countries. These transactions were principally sales of gold to foreign countries to be added to their earmarked accounts with the Federal Reserve Bank of New York.

A decrease of interest earned on yuan due to the repurchase of the balance of yuan held under the 1937 Chinese Stabilization agreement by the Government of China will also be noted.

TREASURY DEPARTMENT

221

INTER OFFICE COMMUNICATION

DATE Nov. 5, 1942

TO Mr. White

FROM Mr. Gunter *826*

1. Stabilization Fund's Gold Transactions - October, 1942.

(In thousands of dollars)

<u>Foreign Countries</u>	<u>Purchased from</u>	<u>Sold to</u>
Argentina	—	\$29,925
Brasil	—	4,987
China	\$14,725	—
Salvador	—	994
Switzerland	—	4,987
Turkey	—	4,987
Uruguay	998	—
Venezuela	—	4,000
B.I.S.	—	560
<b>Total</b>	<b>\$15,723</b>	<b>\$50,440</b>
<b>Treasury General Fund</b>	<b>43,300</b>	<b>1,872</b>

As a result of the above transactions, there was a net increase of about \$8,582,000 in the Stabilization Fund's gold holdings to \$16,049,997 as of October 31.

Our sale of \$1,872,000 to the General Fund consisted of the Russian delivery of September 17, 1942 under the January 3, 1942 agreement. The proceeds of the sale were applied to the advance of \$20 million. On October 27, Russia paid us \$638,170.60 in final settlement of the advance, and the agreement is now considered to have been fulfilled. No more deliveries of gold under the agreement are expected.

2. Treasury Gold Stock

During October, the Treasury's gold stock decreased by \$14,320,685 to \$22,739,749,323 as of October 31. Known and estimated changes were as follows:

<u>Increases (estimated)</u>	<u>Millions of dollars</u>
Newly-mined domestic	9.0
Imports sold directly to mints and assay offices	17.6 <sup>1/</sup>
Miscellaneous (net deliveries of coin and scrap)	0.5
<b>Total</b>	<b>27.1</b>

<sup>1/</sup> Includes \$16.5 million from Canada.

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Division of Monetary  
ResearchDecreasesMillions of dollars

Net sales to Stabilization Fund

- 41.4

Net change

- 14.3

3. Total Gold Holdings of the United States

	<u>September 30, 1942</u>	<u>October 31, 1942</u>
Treasury Gold Stock	\$22,754,070.008	\$22,739,749,323
Stabilization Fund Gold	<u>9,340,079 2/</u>	<u>16,049,997</u>
Total	\$22,763,410,087	\$22,755,799,320

2/ Includes \$1,872,420 delivered by the Russians on September 17.

NOV 5 - 1942

Dear Mr. President:

With reference to your memorandum of October 30th relating to the organization of a Soviet Protocol Committee, to be responsible for the overall coordination of the Russian Protocol through action of appropriate existing agencies, I have designated Mr. Clifton E. Hest, Director of Procurement, to represent the Treasury Department as a member of the Committee.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

The President,

The White House.

By Mess. Brown 3:40 11/5/42

Copy in Diary

Copies to Thompson.

NOV 5 - 1942

Dear Mr. Mack:

You are hereby designated to represent the Treasury Department as a member of the Soviet Protocol Committee established by the President, to be responsible for the overall coordination of the Russian Protocol through action by appropriate existing agencies. I have informed the President of your designation in reply to his memorandum of October 30th relating to the organization of the Committee, copy of which is attached.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Clifton B. Mack,  
Director of Procurement,  
Treasury Department.

Enclosure.

HH:r

By Mess. Brown 3:40 11/5/42

Photo file in Diary

File to Thompson.

THE WHITE HOUSE  
WASHINGTON

October 30, 1942

MEMORANDUM FOR THE SECRETARY OF THE TREASURY.

I have asked Mr. Hopkins to organize a Soviet Protocol Committee to be responsible for the overall coordination of the Russian Protocol through action by appropriate existing agencies and in conformity with policies approved by me.

The membership to be:

Chairman - Mr. Harry Hopkins or alternate  
to be designated by him.

Members - Representatives of the various  
interested operating departments  
and agencies or alternates  
designated by such representatives.

Secretary- To be provided by Lend-Lease.

Will you please let me have the name of the representative of the Treasury Department?

*Franklin D. Roosevelt*

TREASURY DEPARTMENT

226

INTER OFFICE COMMUNICATION

DATE Nov. 5, 1942

TO Secretary Morgenthau  
FROM Mr. Hoflich  
Subject: Shipment of Planes to British Forces

1. During the week ending October 27, 1942, 108 planes, including 47 combat planes, were sent to British forces from the United States.

2. More than 10,000 planes have been sent to the British forces since January 1, 1941.

3. During 1942 we have sent 5,162 planes, including 3,993 combat planes, to the British forces in all areas, as compared to 1,825 bombers and fighter planes sent to Russia this year through October 20.

Table A - Shipments by Area

227

	Week Ending <u>Oct. 27, 1942</u>	Total Shipped in 1942 to date	Total Shipped since Jan. 1, 1941
<u>To the United Kingdom</u>			
Light and medium bombers	11	677	1,838
Heavy bombers	1	149	253
Naval patrol bombers	6	89	191
Pursuit	13	1,029	1,340
Army Cooperation	0	119	150
Trainers	0	0	24
Total to the United Kingdom	31	2,063	3,796
<u>To the Middle East</u>			
Light and medium bombers	13	573	903
Heavy bombers	0	0	5
Naval patrol bombers	0	6	6
Pursuit	0	704	1,552
Army Cooperation	6	64	64
Trainers	35	266	408
Total to the Middle East	54	1,613	2,938
<u>To the Canadian Forces</u>			
Light and medium bombers	3	83	251
Heavy bombers	0	1	1
Naval patrol bombers	0	23	31
Pursuit	0	30	72
Trainers	15	691	1,932
Total to Canadian Forces	18	828	2,287
<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	5	67	67
Total to Indian Forces	5	281	281
<u>To the British West Indian Forces</u>			
Army Cooperation	0	20	20
Total to West Indian Forces	0	20	20
<u>Totals</u>			
Light and medium bombers	27	1,652	3,411
Heavy bombers	1	150	259
Naval patrol bombers	6	118	255
Pursuit	13	2,003	3,367
Army Cooperation	6	203	234
Trainers	55	1,036	2,548
Grand Total	108	5,162	10,074

Table B - Shipments by Types

228

	Week Ending <u>Oct. 27, 1942</u>	Total Shipped in 1942 <u>to date</u>	Total Shipped since <u>Jan. 1, 1941</u>
<u>Light and Medium Bombers</u>			
Boeing Boston III	0	15	39
Brewster Bermuda	0	32	32
Douglas Boston I, II, III	11	38	530
Lockheed Hudson	7	584	1,554
A29A (AC-151)	0	1	1
Ventura I	0	12	12
Ventura Bomber	6	326	326
Martin Marauder B-26A	0	57	57
Baltimore	1	288	356
Maryland	0	0	150
North American B-25	2	120	120
Northrop Vengeance	0	144	144
Vought-Sikorsky Chesapeake	0	0	50
Vultee Vengeance	0	40	40
<u>Heavy Bombers</u>			
Boeing B-17	1	45	65
Consolidated Liberator	0	105	194
<u>Naval Patrol Bombers</u>			
Consolidated Catalina PBY-5B	6	118	255
<u>Pursuit</u>			
Bell Airacobra	0	315	469
Brewster Buffalo	0	0	168
Curtiss Kittyhawk	0	905	1,287
Tomahawk	0	0	544
Grumman Martlett II	0	57	98
Martlett IV	9	149	149
Lockheed Lightning	0	3	3
North American Mustang	4	569	649
<u>Army Cooperation</u>			
Fairchild 24 R-9	0	117	139
Pitcairn Autogiro	0	0	5
Vought-Sikorsky OS2U	0	70	70
Vultee Stinson O49	6	16	20
<u>Trainers</u>			
Cessna-Crane I-A (AT-17)	0	97	97
T-50	0	86	700
Fairchild PT-26 Cornell	15	164	164
North American Harvard II	40	391	1,288
Stearman PT-27	0	298	299
<b>Total</b>	<b>108</b>	<b>5,162</b>	<b>10,074</b>

229

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	11	1	10	56	0	47	125
October 13, 1942	29	0	4	39	17	81	170
October 20, 1942	35	2	2	13	0	20	72
October 27, 1942	27	1	6	13	6	55	108
Total shipments since Jan. 1, 1941 to date. <u>1/</u>	3,411	259	255	3,367	234	2,548	10,074

1/ Total includes planes shipped in 1942 prior to March 17 which are not included in the weekly totals up to that date.

BRITISH MOST SECRET  
U.S. SECRET

NOT TO BE RE-TRANSMITTED

COPY NO. 13

OPTEL No. 382

Information received up to 7 A.M., 5th November, 1942.

1. NAVAL

ATTACKS ON SHIPPING. From 31st October to 3rd November inclusive 19 ships were reported attacked by submarines. A Norwegian tanker was torpedoed in the homebound convoy in North Western Approaches (making a total of seven ships in this convoy) but is still afloat. A British ship was also torpedoed in this area. A convoy was attacked North East of NEWFOUNDLAND and one British ship which is still afloat, and 5 unnamed ships were torpedoed in a convoy in the Canaries area. 5 British ships were torpedoed, 2 British ships were sunk in Wabaok Anchorage, NEWFOUNDLAND, a Norwegian ship torpedoed in the West Atlantic, a British ship in the CAPETOWN area, 2 British ships (one of which is proceeding) off DURBAN. In addition a Panamanian ship was mined in the TRINIDAD area and a U.S. ship was reported sunk by a raider in September in the South Atlantic. One Norwegian, one Belgian and 2 British ships previously reported overdue are now believed sunk by enemy action and one British ship is overdue at HALIFAX.

2. MILITARY

EGYPT. 3rd. There were signs that enemy was continuing to thin out in forward areas especially in Southern Sector and by midday troops were withdrawing along Coast road in Northern sector. During night 3rd/4th enemy pocket behind our forward troops on the Coast was cleared by nine Australian Division and 51 Division widened the gap 10 miles west of TEL EL MISA and assisted our armoured forces to pass through. By 3 p.m. 4th bulk of our armoured forces were engaged. Remnants of enemy armoured formations 10 miles south west of SIDI RAHMAN while Second New Zealand Division supported by armoured formations had reached the escarpment 4 miles south of DABA and light reconnaissance units had reached neighbourhood of FUKA. In Southern sector our troops have advanced clearing up pockets of resistance and keeping in touch with enemy as he withdrew. Many prisoners have been taken including General Von Thonston, Commander Afrika Corps and whole Divisional Staff of Trento Division.

3. AIR OPERATIONS

EGYPT. 3rd. Over 300 enemy M.T. destroyed or damaged between ZAL and FUKA and heavy casualties inflicted on retiring troops. Record of over 1,000 sorties flown by light bombers and fighters. Enemy activity slight except for two dive bombing attacks which were intercepted. Night 3rd/4th. Medium bombers and Beaufighters continued attack on similar targets between EL DABA and SOLLUM, many fires being started among closely packed vehicles. Casualties, enemy - 14, 11, 10; Allied - 19, nil, nil. 2 pilots safe.

MEDITERRANEAN. 3rd/4th. Torpedo bombers damaged a south-bound ship and tanker.

CHINA. Total of 36 Japanese bombers and fighters attacked KWEILIN Air Field (340 miles northwest of HONG KONG) and cratered the runway.

BRITISH MOST SECRETU.S. SECRETOPTEL No. 390

Following is supplementary resume of operational events covering period 29th October to 5th November, 1942.

### 1. NAVAL

No important change in disposition of German heavy ships.

MEDITERRANEAN. Considerable decrease in ITALY - AFRICA traffic. A daily air reconnaissance of GIBRALTAR was carried out. Two minesweeping groups manned by the Greek Navy have now joined the Mediterranean Fleet. Estimated 15,000 tons Axis shipping sunk or badly damaged by our aircraft.

SUBMARINE WARFARE. There are possibly 120 U-boats at sea and German production is estimated at 20 - 25 per month. U-boats have attacked convoys north of MADEIRA, south of ICELAND and off NEWFOUNDLAND during week. Two ocean convoys totalling 56 ships arrived U.K. without loss, two outward convoys totalling 61 ships arrived without loss, two ships lost out of one outward convoy. Week ending 1st November 14 ships lost by U-boat all in ATLANTIC. Two attacks on U-boats by aircraft, one by surface craft considered promising.

FRENCH FLEET. Following warships believed fully effective prior to present operations. TOULON: "STRASBOURG", 2 eight inch Cruisers, two six inch Cruisers, 13 large Destroyers, seven destroyers, four submarines. DAKAR: "RICHELIEU", 3 six inch Cruisers, 1 Armed Merchant Cruiser, 2 large Destroyers, 7 submarines. CASABLANCA: 1 six inch cruiser, 2 large destroyers, 5 destroyers, 14 Submarines. BIZERIA: 3 Destroyers, 1 Submarine. ALGIERS: 2 submarines.

### 2. MILITARY

EGYPT. Operations fully reported daily.

BURMA. Some patrol activity coastal area but Japanese advance CHIN HILLS Area has not repeat not developed and now believed only reconnaissance. Enemy not repeat not considered to have forces available for large scale offensive on INDIA.

### 3. AIR OPERATIONS

WESTERN FRONT. No night bombing owing to weather. Several daylight raids by small forces against objectives in GERMANY and occupied territory during which Lockheed Venturas operated for the first time. One daylight attack on CANTERBURY followed up by night bombing of the same area same night cost the enemy 14 aircraft. Normal number of anti-U-boat sorties and BISCAY Patrols during which five aircraft lost, 91 mines laid.

MEDITERRANEAN. Allied aircraft flew 6,146 sorties. When the retreat started on 3rd in the Northern Sector our light bombers, fighter bombers and fighters all operated continuously at maximum intensity against slow moving columns on the road. The enemy made no attempt to disperse and it is estimated that over 300 vehicles were disabled. Enemy air activity was mainly defensive. Long range bombers used on convoy escort at the expense of bombing, large increase in transport aircraft carrying supplies from CRETE.

RUSSIA. Heavy German raids by day and night on MURMANSK. Russians attacked HALSINKI and dumps behind Finnish lines. Russians operated with strong forces west of MOSCOW, particularly against railway communications VITIBSK. Although Germans claimed to have damaged two-thirds Russian airfields in STALINGRAD area, Russian Air Force continued to operate successfully against superior numbers. They were also active in TUAPSE and MALCHIK areas of CAUCASUS.

### 4. EXTRACTS FROM PHOTOGRAPHIC AND INTELLIGENCE REPORTS ON RESULTS OF AIR ATTACKS ON ENEMY TERRITORY IN EUROPE.

ITALY. All reports emphasise success of recent attacks and their great effect upon morale. Daring and skill of daylight attack on MILAN said to have been admired by Italians. Fatal casualties at present reported GENOA 500, MILAN 100, SACNA 50.

- 2 -

GENOA. Damage to port described as heavy. Shipyards hit and several small vessels in harbour sunk. Liner ROMA damaged but not seriously. AUGUSTUS seriously damaged by fire. BRIGNOLE Station heavily hit.

MILAN. 30 major and 300 minor fires in daylight attack. Several items of railway damage also to Pirelli Rubber works.

WILHELMSHAVEN. 14th/15th September. Further damage in Naval yards casualties very heavy.

LORIENT SUBMARINE BASE. Learnt that two and possibly all three floating docks damaged. General Machine and Workshop almost completely demolished. Concrete pens hit in several places, two 500 ton U-boats damaged.

#### 5. OPERATIONAL AIRCRAFT BATTLE CASUALTIES

##### METROPOLITAN AREA

<u>British and Allied</u>		<u>Enemy</u>		
<u>In the Air</u>		<u>Dest.</u>	<u>Prob.</u>	<u>Damaged</u>
Bombers	15	Bombers (includes 11	1	6
Fighters	11	3 dest., 1 prob.		
Coastal	<u>1</u>	dest, 4 damaged by		
Total	27	A.A., also 1 dest.		
2 Fighter Pilots safe.		by Balloon Command		
		Fighters	<u>12</u>	<u>9</u>
		Total	<u>23</u>	<u>15</u>

##### MIDDLE EAST (Inc. MALTA)

<u>British and Allied</u>			<u>Enemy</u>		
<u>In the Air</u>	<u>On the Ground</u>		<u>Dest.</u>	<u>Prob.</u>	<u>Damaged</u>
Bombers (incl.		Bombers	27	18	24
1 U.S.	13	Nil	Fighters	40	11
Fighters (incl.			(U.S. claims in-		23
2 U.S.	<u>48</u>	<u>1</u>	cluded 9 dest., 2		
Total	61	1	prob. dest., 6		
3 crews and 5 pilots are safe.			damaged		
			Miscellaneous	<u>3</u>	<u>Nil</u>
			Total	<u>70</u>	<u>29</u>
					<u>47</u>

##### FAR EAST

<u>British and Allied</u>		<u>Enemy</u>		
<u>In the Air</u>		<u>Dest.</u>	<u>Prob.</u>	<u>Damaged</u>
Fighters	2	Bombers	1	1
		Fighters	14	9
		Unspecified	<u>5</u>	<u>Nil</u>
		Total	20	10
				3

NOTE: No account is taken of enemy aircraft destroyed on the ground in any theatre or of British Naval Aircraft casualties.

#### 6. HOME SECURITY

Estimated civilian casualties week ending 6 a.m. 4th. Killed 44, seriously wounded 104, including 33 killed at CANTERBURY.

## TREASURY DEPARTMENT

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## INTER OFFICE COMMUNICATION

DATE NOV. 5, 1942

TO Secretary Morgenthau  
FROM Mr. Hoflich  
Subject: Summary of Intelligence Reports

Axis railway bottleneck

There is in Axis Europe a serious shortage of freight cars, which threatens to develop into the most serious Axis bottleneck. This statement is made in a recent report from the Office of Strategic Services. To indicate the possible military consequences of such a shortage, it is pointed out that to move a single mechanized division requires nearly 40 freight trains of 65 cars each. The rolling stock of the French National Railways has been cut in half by German requisitions.

(O.S.S. Report No. 11523, October 22, 1942)

General Von Runstedt's opinions

The Office of Strategic Services has received, from a confidential source in Vichy, a report on an alleged conversation of October 7, 1942 between French Minister of War Bridoux and the German General Von Runstedt. According to this report, Von Runstedt stated that the war was proceeding to his satisfaction. Although the Russian campaign had not lived up to expectations, he expressed the opinion that 50 Axis divisions could be withdrawn from Russia without seriously imperiling that sector. Meanwhile, he said, the Anglo-Saxons, under Churchill's leadership, were divided, hesitant and harassed, and he wished for nothing more favorable than the present tempo of enemy efforts. It was Bridoux's opinion that the Germans in France are weak in artillery and aviation.

(O.S.S. Report No. CD 7885, October 15, 1942)

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SECRET

NUMBER 56

OFFICE OF STRATEGIC SERVICES

# THE WAR THIS WEEK

October 29–November 5, 1942

*Printed for the Board of Analysts*

Copy No. 6

*The Secretary of the Treasury*

## Office of Strategic Services

**THE WAR THIS WEEK**

The past week has been lacking in conclusive developments, but events in one theater—Egypt—are moving toward a decisive stage. Here, in two tank battles, the British have broken through the basic Axis defenses south of El Alamein. In the northern sector they have driven about 20 miles west, and a major battle is apparently now in the making.

The campaign in the Southwest Pacific has developed into a war of "accelerated attrition," with heavy naval losses on both sides but with particularly severe losses for the Japanese in the air, where they are least strong. The military contest on Guadalcanal is still in the balance, with American forces holding a tenuous initiative and the Japanese continuing to land infantry reinforcements. Meanwhile, United Nations forces have moved forward in New Guinea to take the advanced Japanese base at Kokoda.

Although there are fresh signs of Soviet strength in Stalingrad, in the Caucasus area the Germans have reached the northern end of the Georgian Military Highway. With the approach of winter, however, observers are inclined to believe that the chances of new German advances of importance anywhere on the Eastern Front are slight. A possible exception is the Leningrad area where perhaps the most favorable season for an attack is now beginning.

*British Drive in Egypt*

Following the first two major tank battles of the current campaign, British forces have pushed through the enemy's

fixed positions in the northern sector of the Egyptian front, and have caused his withdrawal from the commanding points of the southern sector. The basic Axis defenses south of El Alamein have thus been broken, and Axis forces, having suffered heavy losses, are now in retreat. Military observers believe, however, that Rommel's retreat was at least partly a withdrawal to avoid encirclement, and that he is now reforming his units, with the intention of fighting all the way. He is expected to make a determined stand either before El Daba or at the fortified positions around Matruh. A battle of decisive importance appears to be shaping up.

The present British drive apparently developed as follows: After British forces had slowly hacked their way through Axis minefields and strong points in the northern sector (with infantry, artillery, and engineers, supported by tank units, carrying the burden of the attack), Australian units established a salient that trapped two Italian battalions and the remnants of a German regiment against the coast. The enemy vigorously counterattacked, but was repulsed after getting about 20 tanks through to the trapped forces. Moving two divisions rapidly northward, the British apparently struck just south of the enemy's counterattacking forces. Two major tank battles developed on November 2, which resulted in the withdrawal of German units, fearing encirclement. Following a diversionary British attack in the southern sector, enemy forces in that area also retreated from their fixed positions. Axis supply columns were seen withdrawing along the coast road toward El Daba and Matruh, where they were bombed and subjected to raids by British armored car regiments.

#### *The Battle Opens Up*

The cracking of the strong defenses south of El Alamein reopens the possibility of maneuver, though within an

area still limited by the sea and the Qattara depression. Rommel has previously demonstrated his genius for such tactics, but this time he is facing a British command that has shown itself at once cautious and yet quick to exploit its opportunities. The Axis will also be severely handicapped by its inferiority in all departments, and its shortage of gasoline. An Allied communiqué places Axis losses for the first twelve days of this campaign at 270 guns and 260 tanks captured or destroyed, 600 aircraft damaged or destroyed, 9,000 prisoners taken, and 50,000 tons of shipping sunk. In an effort to relieve the critical supply situation, German planes are reported lately to have made 200 round trips daily from Crete to Egypt, carrying perhaps 300 tons of fuel daily.

Superior Allied air forces have kept enemy planes on the defensive, and deprived Axis ground forces of air support. Stuka squadrons have been limited by lack of fighter support to attacking under cover of darkness for the most part. In addition to raids on objectives in the forward area, Allied air forces have continually bombed and strafed the retreating enemy. Military observers also credit the Allied air arm with the breaking up of earlier enemy counterattacks.

The Axis air offensive against Malta has apparently declined in intensity, with a reported transfer of 30 fighters to Crete and Egypt. A Malta despatch totals enemy losses during October at 131 planes destroyed, with an additional 200 damaged, of which 50 were probably destroyed.

#### *Uneasiness in Northwest Africa*

Indications of Axis and Vichy uneasiness regarding Northwest Africa persist. The distribution of German submarines reveals a concentration in this area. At one time during this week, about 15 U-boats were reported in the Azores—Cape Verde Islands region, and more than half of the submarines in the Atlantic are now believed to be operating in the Eastern Atlantic.

At the same time French shipments of war materials to Dakar continue to be on a larger scale than in recent months. General Barrau, commander of the armed forces of French West Africa, has stated that as a military commander he is obliged to get sufficient material for his units, but that French forces will never precipitate an incident. The evacuation measures at Dakar, which call for the eventual departure of more than 7,000 women and children, may have been undertaken not merely to facilitate the defense of Dakar, observers suggest, but also with the idea that the removal of these families to France would insure the "reliability" of the defenders of Dakar.

Farther to the north, French officials in Morocco have expressed fears, brought to a head by current maneuvers in Spanish Morocco, that the Spaniards would move into the French Zone as far as the Sebou line in the event of any possible Allied action against French Africa.

#### *Reinforcement of Stalingrad's Defenders*

While the Germans have made slight gains this week in Stalingrad's northern suburbs, the Russians have sent reserves across the Volga to the south of the city and have counter-attacked from that direction in some force. A similar effort to reinforce Stalingrad's defenders from the north has apparently been less successful. But in the central part of the city the Russians are evidently using the embankment along the main railroad loop as an effective line of defense. These signs of Soviet strength, coupled with the lateness of the season, have prompted an increasing number of optimistic pronouncements from United Nations sources. One military observer has pointed out that even if Stalingrad does fall its position in the German winter line will be that of a "hedgehog" outpost like Rzhev or Staraya Russa—an outpost which may very well be retaken by the Russians.

On every sector of the front, in fact, observers are beginning to predict that the Germans will make little further progress this year. On the Black Sea littoral, attacking in the teeth of an early blizzard, the Nazis have made only slight headway against the strongly fortified coastal defense area of Novorossiisk Bay. Here, the fight may well be reaching a turning point, with the Russian defenders holding strong points against German forces attacking from the coast range and the peninsula south of the city. East of Tuapse strongly entrenched Soviet troops have forced the Nazis to extend still further their circling movement against the city. Northeast of Tuapse the Russians have counter-attacked successfully.

#### *The German Advance and the Caucasus Passes*

The weakest point of the Soviet defense would appear to be the Groznyi area, where the capture of Nalchik and Alagir has brought the Germans to the northern end of the Ossetian Military Highway and to within about 30 miles of Ordzhonikidze and the Georgian Military Highway. In this sector some of the defending units may now be separated from their base of supplies. Furthermore, the Georgian Highway is the one road across the Caucasus that remains open a considerable part of the winter, and as such its defense is vital to the preservation of the Trans-Caucasus. Military observers point out, however, that between the Germans' present position and Ordzhonikidze there are many rivers and canyons to impede the Nazi advance. One can reasonably conclude that the central passes of the Caucasus are not yet in grave danger, and that the invaders may very well make few further gains in this area before next summer.

Other sectors of the front have again been quiet. The German air force has concentrated on supply routes to the north and south—bombing Murmansk and the Astrakhan

area and shipping in the Caspian Sea. Around Leningrad, ground forces on both sides have likewise been inactive, and there have been no further signs of an impending German attack. Yet November and December are perhaps the most favorable months for such an assault (see Appendix IV). If the Germans let slip this opportunity, it would seem to indicate that they have abandoned for the present any plans to capture a city no doubt weakened by a summer of intense privation, or to smoke the Russian Baltic Fleet out of Kronstadt, its only remaining base.

#### *The Second Front and a Russian Counteroffensive*

The Soviets may hold approximately their present line for the coming winter, but a Russian counteroffensive similar to that of last winter is not a foregone conclusion. In the view of a civilian observer recently returned from the Soviet Union, the Red Army has reserves available for such an offensive and has been training its leaders for attack on secondary fronts like the Rzhev sector. But the Soviet Union, our observer continues, does not intend to throw in its reserves until it is sure of the attitude of its Allies. The Russians, he declares, are not convinced that Britain is committed to an all-out struggle, and suspect that appeasement forces in the United States are still active. Moreover, Soviet official statements reveal a suspicion that British conservatives may eventually employ Rudolf Hess as a peace intermediary. A second front the Russians would regard as a pledge on the part of their Allies to fight to the finish. Until the Anglo-Saxon powers open such a front, a large-scale Russian counteroffensive would appear to be unlikely, our observer concludes.

#### *The French Labor Campaign and German Policy*

Efforts to secure French labor for Germany continue to meet with little success. A substantial number of skilled workers are reported to have signed contracts to go to the Reich, but they are not presenting themselves for departure, and it seems apparent that many signed the contracts only to gain time for settling their personal affairs, before quietly disappearing. In an effort to halt this practice, German authorities have announced a new departure deadline, after which they threaten to impose "sanctions."

Laval has again gone to Paris to treat with the Germans. Observers at Vichy believe that, despite the failure of the labor drive, the Nazis in all probability will not upset the present regime at Vichy, though constantly "needling" Laval. For the present, the Germans do not desire to undertake the military occupation of France, our observers believe, and they wish to avoid creating in France any internal situation that might cause dissidence in French Northwest Africa.

The labor draft is also a factor in the generally mild but persistent opposition of elements of the French clergy to the Pétain regime. The Marshal recently had Cardinals Suhard and Gerlier, Archbishops of Paris and Lyon respectively, come to Vichy, where he appealed to them for a change of attitude. The Archbishops were reported to have been conciliatory but firm in their opposition to the labor draft, the collaborationist policy, and the Jewish persecution. They maintained that the clergy's first allegiance is to the French people, and only thereafter to the Government. Certain Catholic groups—following elements of the higher clergy—have supported the regime. But the Catholic left wing, which has been consistently hostile, has grown considerably in strength since the Armistice, and such men as the Archbishop of Toulouse have vigorously opposed the Vichy program.

*Naval Attrition in the Southwest Pacific*

While the Japanese have not lost their strategic initiative in the Southwest Pacific, they have suffered notable naval and air damage in the Solomons area and once again have apparently chosen not to force the issue. Whether this is due to the damage sustained by enemy warships—and in particular, carriers—or whether to a Japanese desire to prolong the naval war of attrition in the Solomons, is far from clear.

The size of the Japanese naval forces engaged in the campaign in the Solomons is indicated by the fact that on October 27, the day following our main attack in the Santa Cruz area, some five battleships, three aircraft carriers, fifteen cruisers, and eight destroyers were sighted. Our own naval forces, apparently utilizing "hit-and-run" tactics (and handicapped by the previous day's loss of a carrier) appear to have withdrawn after exchanging blows on October 26; but Navy patrol bombers continued to assault the Japanese forces. It is not clear when the Japanese themselves withdrew.

*The Results of Attrition to Date*

An unofficial tabulation, based on Navy Department communiqués for the period since the battle began in August, shows the present score in the Solomons to be not unfavorable to the Japanese in ships actually sunk: one heavy cruiser, eight destroyers, and three transports known to have been lost by the Japanese, compared to our own admitted loss of two carriers, three heavy cruisers (not counting the Australian *Canberra*), six destroyers, one transport, and four auxiliaries.

In ships possibly sunk or damaged, however, we claim a heavy toll, with at least 61 ships damaged and three possibly sunk. This compilation does not include damage inflicted by General MacArthur's bombers in raids on Rabaul and on

Japanese bases in the northern Solomons, where one cruiser, two destroyers, and an aircraft tender are believed to have been destroyed. Nearly a score of other vessels are reported from MacArthur's headquarters to have been damaged in varying degrees, although this might include some duplications of damage announced by the Navy Department. We have specified damage to only two American destroyers, although others of our warships of unspecified types have sustained injuries.

*The Meaning of Damage*

In the naval-air battle of October 26-27, we claimed damage to two large Japanese carriers, one battleship, four heavy cruisers, and one light cruiser. One of the carriers received four to six "heavy" bomb hits (including some bombs of 1,000 pounds). Since a direct hit with only a 300-pound delayed action bomb should ordinarily destroy about half the flight deck, this carrier is not likely to see service again for a long time. Another carrier was hit with two "medium" bombs (500-pounders) and might be out of action temporarily. One heavy cruiser was hit both by bombs and torpedoes—and the latter is generally recognized as the most damaging missile in naval warfare. A second heavy cruiser received three torpedo hits; a third, four heavy bomb hits; and the fourth—a cruiser of the *Tikuma* class—was hit five times by medium bombs. One battleship was hit with two heavy bombs.

The degree of damage a warship sustains naturally depends on where the hit is made, as well as upon the missile itself, and no generalizations are possible. Aircraft carriers, though the most vulnerable of the large vessels, can nevertheless take considerable damage. At Midway, the *Kaga*, *Akagi*, and *Soryu* survived several fairly heavy air attacks before finally succumbing to Navy torpedo planes, dive bombers, and sub-

marine torpedoes (one of the three is reported to have been shelled and finished off by a Japanese cruiser). The *Hiryu* was hit one evening by six 1,000-pound bombs and possibly a 500-pounder and did not sink until the next morning. In the Coral Sea action the *Shoho*, which sank in a matter of minutes, was hit in rapid succession by twelve 1,000-pound bombs and 10 torpedoes. The U. S. S. *Lexington* took four or five torpedo hits and still was described as in "pretty good shape." But she was downed by internal fires and explosions after one of three bombs which also hit her had penetrated five decks and exploded. In the Mediterranean in January 1941, H. M. S. *Illustrious* took seven direct bomb hits and four near misses, but survived them all.

Until American production becomes a telling factor, our ability to sustain a naval war of attrition will depend, of course, on our ability to make repairs quickly. Since Truk is only half as far from the lower Solomons as Pearl Harbor, the Japanese have the advantage.

#### *Air Strength: The Limiting Factor?*

The Japanese in the third week of October were reported to have some 400-odd carrier- and land-based planes available for action in the Southwest Pacific. Of these, more than 100 were reported certainly destroyed in the naval action of October 26, and another 50 were probably destroyed. During the week ending October 28, some 70 more were destroyed over Guadalcanal. Altogether, at least half of the available Japanese aircraft was destroyed—an estimate which probably does not take into account all accidental, non-combat losses.

Since it is believed by military observers that the Japanese have withdrawn all available naval aircraft from adjacent areas (Japanese operations in the Pacific have been under the command of the Navy), lack of aircraft may now limit

the enemy's operations in the Solomons, as it has done already in the Aleutians and in New Guinea. Military observers believe, however, that the Japanese Navy will probably draw on the Army for planes—a view which may be substantiated by reports of sizeable Army air units in Malaya, from whence they might be flown to the Solomons area as reinforcements.

Despite this shortage of aircraft, the enemy still appears to have ample naval forces available to prosecute the attack in the Solomons. While Japanese carrier strength is limited by the loss, temporarily at least, of two large carriers, her weakness here, obviously, is no greater than our own. Relatively large Japanese ship concentrations still are reported in the Buin-Faisi area (northern Solomons), where these vessels have been refueling. From their base here, Japanese ships can leave in the late afternoon and arrive at Guadalcanal in time to furnish support for ground operations the next morning.

#### *Guadalcanal Troops Cling to the Initiative*

While awaiting the outcome of the struggle for supremacy at sea, our troops on Guadalcanal are clinging tenuously to the initiative. Enemy attacks late last week were repulsed with relatively heavy losses to the Japanese, and on November 1 some elements of our ground forces penetrated Japanese-held territory as far as two miles to the west of our Matanikau River defense line. The Americans were supported by aircraft, which not only has continued to defend Henderson Field and attack Japanese shipping, but apparently has been notably effective in silencing Japanese artillery, now known to include calibers up to 6 inches.

Communications with our forces on the island have not been interrupted, and on the morning of October 30 a small American naval force bombarded Japanese positions for two hours.

There are no indications as yet, however, that the Japanese themselves might be in imminent danger of isolation or destruction. On October 27, Japanese troops available for operations in Middle Melanesia were estimated to number 53,000 at a minimum, and possibly as many as 70,000—18,000 to 20,000 on Guadalcanal, 10,000 in the remainder of the Solomons, and 25,000 to 40,000 in the Rabaul area (for possible use as reinforcements). Some reinforcements were landed the night of November 2-3 to the east of our positions on Guadalcanal, and others can be anticipated.

#### *Kokoda Reconquered*

In New Guinea, United Nations troops, traversing the difficult Owen Stanley Range, have finally reached and retaken the Japanese advance base at Kokoda, and are pursuing the Japanese toward Oivi, a few miles to the north. Both Oivi and Kokoda are the sites of small airfields which might be used by light planes to bring in some supplies and equipment—heretofore one of the chief limiting factors in the advance over the mountains (four native bearers have been required to supply one soldier).

In recognition of the mounting danger to their north coast base at Buna, the Japanese have been increasing their air strength on New Guinea, which previously had been virtually non-existent. Despite enemy fighter interception, however, our aircraft have been successful in turning back a convoy apparently transporting reinforcements to Buna. The quality of Japanese intercepting planes again has been reported as inferior to aircraft used in earlier operations.

#### *China Begins to Plan for the Peace*

Chinese leaders in Chungking are now engaged in drafting the clauses which China will seek to have embodied in the peace treaty, according to an authoritative observer. Such

diplomatic leaders as T. V. Soong, Foreign Minister, and Wellington Koo, Ambassador to Britain, are already aiding in the deliberations at Chungking, and it is rumored that the Chinese envoy to Russia will soon be recalled to take part in the discussions. When the Chinese peace terms have been drawn up, it is probable that a special mission will be sent abroad in an effort to obtain adherence from China's allies in advance of the peace conference.

The Chinese terms are expected to include the return to China of Manchuria and Formosa; freedom for Korea; some form of international mandatory status for Malaya, Burma, and possibly Indo-China; and guarantees to China as regards use of the Burma Road and the Haiphong (Indo-China) Railroad. Our observer believes that the Chinese will not insist on harsh treatment of Japan, since he feels that they realize the necessity of post-war cooperation with the Japanese.

Some Chinese, however, are evidently thinking in terms of a drastic settlement with Japan. Sun Fo, President of the Legislative Yuan, who frequently voices indiscreet but widely held opinions, has published his own draft of a peace treaty. He calls for restoration of all lost territories and goes on to state that the remains of the Japanese Navy should be turned over to China; all naval bases, military installations, airplane factories, and arsenals should be dismantled; all naval and military schools should be closed for 50 years; and Japan should be prevented from creating navy, army or air forces for the same period of time. By Sun Fo's terms, half of Japan's remaining merchant fleet would be given to China; and half of all Japanese industrial plants would be dismantled and transported to China.

Sun Fo would demand that half of all the books, journals, maps, and laboratory equipment in Japanese universities be turned over to China, and that every Chinese object seized

by the Japanese since 1894, whether cannon, book, or painting, be restored to the Chinese. He insists that "all books, magazines, and newspapers published within Japan must be prohibited absolutely from printing any material that is anti-Chinese or derogatory to China", and that material of this nature which may have been published prior to the peace should be "searched out and burned". To enforce the fulfillment of his peace terms (particularly those which would forbid the Japanese to build a military establishment for 50 years), Sun Fo would have "China, the United States, and other United Nations" send troops to garrison "Tokyo, Yokohama, Kyoto, Osaka, Kobe, Nagoya, etc., etc."

#### *Japan Inaugurates the Greater East Asia Ministry*

In Tokyo, the formal inauguration on November 1 of the Greater East Asia Ministry (Daitoasho) in a ceremony at the Imperial Palace marks an important development in Japan's efforts to consolidate her present position. The new Ministry will have jurisdiction over all parts of the "Co-prosperity Sphere" outside of the Japanese Empire proper (Japan, Korea, Karafuto, and Taiwan). It supersedes the Overseas Ministry, the Foreign Affairs Board, the Manchurian Affairs Board, the China Affairs Board, and the East Asiatic and South Seas Bureaus of the Foreign Office. The Ministry will be composed of four bureaus: General Affairs, Manchukuo Affairs, Southern District Affairs, and China Affairs.

The Greater East Asia Ministry is to supervise, direct and control all affairs within the "Co-prosperity Sphere," with the exception of actual military operations, and it is expected that it will eventually take over the military governments which have been set up in the various occupied areas. The functions of the Foreign Office are greatly curtailed, since the new Ministry will direct and supervise all diplomats in the

occupied areas and will take charge of all administrative work necessary for cooperation with the Army and Navy. The Foreign Office will retain merely nominal authority, limited to "purely diplomatic matters," although it will still appoint Ambassadors. The new Ministry has already named a Minister Plenipotentiary to the Nanking Government (together with a chief secretary and twelve other counselors). A similar appointment has been made in French Indo-China.

The head of the Greater East Asia Ministry, Kazuo Aoki, is a career bureaucrat who held a variety of positions in the Ministry of Finance during the 20 years following his graduation from the law department of the Imperial University in 1916. In 1936-1937 he was Vice-President of the Manchurian Affairs Board; and in 1939, as Minister of Finance and President of the important Cabinet Planning Board, he was considered the most powerful man in the Abe Cabinet. Over a period of years he has been in agreement with the military's plans for expansion. In 1941 he became Economic Advisor to the Nanking Government, and shortly before his appointment to his present post he was made a member without portfolio of the Tojo Cabinet.

#### *Mr. Willkie, Britain, and India*

The British press has reacted in fairly predictable fashion to Mr. Willkie's statements about India in his report to the American people. Comment on this address, as on previous similar occasions, has divided broadly into three main categories—which one might characterize as governmental, moderately governmental, and frankly critical. Typical of the first category was the editorial in the *Daily Telegraph*, which, after regretting "that Mr. Willkie did not include India in his tour", concluded that "We prefer . . . his views on what he has seen to his views on what he has not. . . . Had he seen India for himself he would have been less inclined to take what others said to him about it."

The *Times* likewise expressed a wish that Mr. Willkie had seen India for himself. But it emphasized chiefly the moderate position that the Empire was evolving "in pursuance of settled British policy, to transform dependencies into free partnerships . . . . Public opinion in this country can be relied upon to insist upon faithful adherence to [this] . . . . policy. But the consummation of that process depends now primarily upon facts, parties, and persons within India itself." Representative of the third category in its outspokenly critical vein was the comment of the *Manchester Guardian*: "Let us hope the British Government will read between the lines and see in Mr. Willkie's careful and generous phrases how badly our failure in India reacts on the common cause."

#### *The Indian Reaction*

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pressure on Britain to bring India's millions effectively into the war.

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The unexpected recent resignation of Mitchell Hepburn from the premiership of Ontario is being interpreted by some observers as only the latest in a series of moves organized by Prime Minister King's opponents. Conservative party leaders, such as ex-Prime Minister Meighen and those Ontario business interests who abhor Mr. King's "appeasement" of the French Canadians, apparently anticipate that Mr. Hepburn will now abandon his Liberal affiliations and try to take by storm the forthcoming Conservative convention at Winnipeg, hoping to emerge as the head of a "coalition government" ticket. Should this plan not materialize, it is expected that Mr. Hepburn will at least attempt to enter the House of Commons at Ottawa, where his vehement advocacy of a policy of total war might well prove embarrassing to the present cabinet.

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has given indirectly some indication of his Government's character by addressing an anti-United Nations student demonstration, and by having his Minister of the Interior despatch troops to suppress a general strike in the province of Magallanes. It remains a distinct possibility that serious Congressional discord, provoked by "pro-neutrality" deputies, with or without the connivance of the Government, may yet provide Ríos with an opportunity to dismiss the legislature, clamp down a national "state of siege" in the Castillo manner, and rule by decree.

#### *Schism in Colombia*

The Concordat recently negotiated between Colombia and the Holy See has already come under the fire of Laureano Gómez, openly pro-Axis publisher of Bogotá's *El Siglo* and reputed head of the local Spanish *Falange*. Ostensibly based on dissatisfaction with certain minor provisos of the Concordat, Gómez's attack has broadened into a general assault upon the entire domestic and foreign policy of the present liberal, pro-Allied government. The result has been to provoke a highly significant schism within the local Catholic hierarchy—a schism which apparently reflects a similar split in the Spanish Church itself, between the opponents and the supporters of the Axis-dominated *Falange*.

Several Colombian bishops, through the columns of Gómez's *El Siglo*, have seemingly lined up with the Falangists, declaring that reading of the pro-government paper, *El Tiempo*, is a mortal sin. On the other hand, United Nations circles have been cheered by the action of an opposing wing of the hierarchy which, with the Apostolic Nuncio's support, has come vigorously to the defense of the Concordat and the Government. Moreover, a new church-sponsored journal, *El Catolicismo*, has now appeared with the

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announced and specific purpose of combatting the influence of Gómez, his paper, and his followers.

#### *Toledano Leaves His Card*

The recent visit to Ecuador of Vicente Lombardo Toledano, Mexican labor leader, appears to have touched off long-smoldering sentiment among all classes for effective unification of the Andean republic. Toledano, who is president of the Latin American Confederation of Labor (CTAL), received an enthusiastic welcome not only from workers but from leaders of the urban middle classes and members of the government. Seizing the opportunity to attract labor support for his shaky administration, President Arroyo del Ríos granted a personal interview to Lombardo and declared October 9 a national holiday, so that Quito workers might attend a rally in honor of the distinguished visitor.

With official approval thus unmistakable, the Ecuadorean workers, who have long been split by factional disputes and kept unorganized by Government repression of union activity, established a united national trade union organization, the Confederation of Ecuadorean Workers (CTE), which promptly voted affiliation with the CTAL. The CTE is certain to press for full cooperation with the United Nations. Proof of how deeply the public's desire for unity in time of war has cut across class lines is furnished by an unprecedented editorial in Quito's leading newspaper, *El Comercio*, which hails the new labor organization as a long step forward in stabilizing Ecuadorean politics and society.

## APPENDIX I

THE JAPANESE SHIPPING POSITION<sup>1</sup>

The amount of merchant tonnage available to the Japanese is being steadily whittled down by United Nations action, not so rapidly as to imperil the enemy's present transport operations, but rapidly enough to make fresh long-range ventures on a major scale improbable. Currently, the Japanese are losing about 90,000 tons more each month than they are able to send down their shipways. Losses during August and September appear to have averaged about 117,000 tons, while the enemy's output is believed to be running at scarcely 25,000 tons each month.

As of October 15, the Japanese had at their disposal some 5,990,000 tons. Of this total, only a fraction would be free for additional military operations. The following table indicates roughly how the Japanese must allocate their tonnage, and how much excess capacity remains to them for additional expeditions:

Total tonnage available.....	5,990,000
Economic Supply of Japan:	
(a) Coastwise, China, Korea, and Manchuria.....	3,100,000
(b) Indo-China and Siam.....	150,000
Naval Auxiliaries.....	500,000
Lay-ups and Repairs.....	700,000
Captured vessels already in essential trade.....	100,000
Unusable types.....	50,000
Supply of troops now committed in Southern areas.....	600,000
	5,200,000
Tonnage available for additional operations.....	790,000

This figure of excess tonnage must be scaled down by another 100,000 tons, which represent the number of tankers in the total: the expedition's immediate oil supplies would be carried by the naval auxiliaries and by the transports themselves. What the remaining 690,000 tons mean in terms of the transport of troops and their supplies would depend, naturally, upon the length of the voyage assumed, the type of equipment to be carried, the time necessary for unloading, etc. But an indication can be given if we consider a hypothetical invasion of Australia from the home base of Japan—a round-trip distance of, roughly, 6,000 miles.

In the first place, because of the turn-around factor, not all of the usable surplus of 690,000 tons could be allocated to the initial invasion fleet. Some vessels would have to be kept in reserve to bring in additional supplies to the landed invaders during the time that the original convoy vessels were returning to Japan, reloading, and starting out again. Again, the enemy would doubtless hesitate to assign its entire excess tonnage to such a venture: some safety margin would probably have to be withheld to cover essential "normal" traffic.

<sup>1</sup> Based on data compiled largely from naval sources by the Economics Division of the Office of Strategic Services.

It is unlikely, then, that the Japanese would be able to allocate more than about 500,000 tons of merchant marine for the Japan-Australia hop. The best estimates of the amount of tonnage required to transport a Japanese infantry division (18,000 combat troops and 7,000 GHQ men) with its equipment and sufficient supplies for one month, vary between 122,000 and 125,000 gross tons. This would indicate that the enemy could embark from its home bases only about four divisions.

There is reason to believe, however, that during the past few months the Japanese have been shipping to Indo-China, Malaya, and the Netherland Indies more troops and supplies than operations there would require. If the accumulation of excess men and materials at these forward bases were tapped for an invasion force, the expedition's round-trip distance to, say, Australia, would be appreciably lessened and its size potentially increased. Again, if Japan should secure control of the Southwest Pacific, the sizeable forces now in occupied zones and the ships which serve them could be withdrawn, to augment the "invasion surplus".

## APPENDIX II

IRON AND STEEL CAPACITY OF THE JAPANESE EMPIRE<sup>1</sup>

Japan's steel capacity, both in the homeland and in controlled territories, has increased sufficiently over the past few years to sustain her present war effort. But whether the enemy can raise his output enough to exploit satisfactorily newly-conquered areas, or to expand armament production, remains extremely dubious.

By the close of this year, it is estimated, production of steel in the Empire will have reached about 8.5 million metric tons of ingots and castings—as against 5.6 million in 1936 and only 1.6 million in 1926. Although this 1942 output is less than one-ninth that of the United States, it appears to meet the essential Japanese military requirements. About 4 million tons of ingot steel are earmarked for direct military uses and shipbuilding, while the remaining 4.5 million tons go into indirect military and industrial production. Even with a vastly smaller steel output than ours, the Japanese are able to devote only a slightly larger fraction of it to strictly military employment.

The factors which inhibit Japanese steel expansion are several and serious. To begin with, the Empire's recent rise in output was made possible by two contributions no longer received: imports of scrap iron, and imports of productive and fabricating equipment. It is true that Japan has replaced her need of imported scrap by raising her output of pig iron; but it is questionable if she can continue to increase her steel rolling capacity without the help of foreign manufacturers of heavy machinery; the shortage of domestic skilled technicians is acute.

This bottleneck in rolling capacity nullifies to a great extent Japan's acquisition of raw materials. Aside from the homeland's own resources, nearby Manchuria and Korea can together yield Japan ores containing about 4 million metric tons of iron. Occupied China and French Indo-China can furnish an additional one-half to 1 million tons; and more distant sources in Malaya and the Philippines can

<sup>1</sup> Based on a report by the Economics Division of the Office of Strategic Services.

supply more than 3.5 million tons. But Japan's present rolling mill capacity is only 7 million metric tons, requiring an ingot production of about 8.5 million. Even if that capacity were susceptible of increase, it would call for more open-hearth furnaces after ingot production had topped 9.5 million tons, and more blast furnaces after ingot requirements had passed 13 million tons.

What may be still more significant is the fact that the greater part of Japan's iron ore and coking coal must come to the mills by water—about 8 million metric tons of raw ore and 6 to 7 million tons of coking coal, at the present rate of production. Although most of the coal comes from nearby China or Karafuto, some of the ore must be imported from such faraway points as the Philippines and Malaya. Since the Japanese shipping position is already strained and undergoing steady deterioration (see Appendix I), this overseas supply of raw materials provides a basis for expansion that is far from secure. If, in addition, American bomber raids upon the coal mines at Kallan were as successful as reports indicate the enemy's output of coke, and hence of steel, may be somewhat curtailed.

### APPENDIX III

#### BULGARIA AND THE WAR

Although public opinion is becoming increasingly anti-German, Bulgaria is caught inescapably in the Nazi net, according to a survey of current opinion and conditions in Bulgaria by two very well qualified observers.

The governing class—including high Army officers, large propertied interests, and the Cabinet—collaborates completely with Germany. The peasants, however, because of racial ties, and a majority of the industrial workers, because of Communist sympathies, are pro-Russian and unwilling to fight against the Soviet. A great part of the small tradesmen and middle class also support Russia for either or both of these reasons. Anti-German feeling has spread rapidly during the past year as German occupation and demands have become more severe and sweeping. No Bulgar wishes to die for Hitler, and the belief is waning that Germany will be able to win a real victory. Nevertheless, no countermovement can be expected against Germany until the latter sustains severe military defeats. At present, sabotage is believed to be of no particular significance.

Despite the propaganda against "Jewish, Masonic" America, our observers report that the Bulgarians are generally friendly to the United States and regret being at war with us. Axis propaganda appears to have had effect, however, in increasing anti-British sentiment.

The Bulgarian Government is a tool of the Germans. The King can make no important decisions without German consent, and the Parliament votes as it is told. The Minister of the Interior, Gabrovsky, is the strong man of the Cabinet, and is reportedly responsible for the crushing persecution going on against the Jews. Real power, however, lies in the hands of Beckerle, German Ambassador at Sofia, a determined and ruthless member of the SS. The Germans are also

blamed for increasing economic distress. Crops were poor this year, and shortages were general, although there will be no actual starvation this winter. The shortage of coal (due primarily to lack of transportation) is serious.

#### *Bulgaria's Own Aspirations*

Both the Army and civilians are on a war footing, with probably a total of 400,000 soldiers under arms. The army is well-trained, well-clothed, well-fed, and well-equipped, though lacking in tanks and planes, and not fully motorized. It has plenty of oil and gasoline, of which the civilian population gets none.

Bulgarian soldiers do not want to fight, but our observers agree that, if the Germans take the initiative, the large Bulgarian forces already concentrated on the Turkish border, supported by a skeleton German force, could be persuaded to go to war against the Turks. "Great Bulgaria", a slogan that embraces the newly acquired territories plus Eastern Thrace, is a platform which all classes support. For this program Bulgarians might fight. The ultimate decision, however, would appear to rest not in Sofia, but in Berlin's broader strategy concerning Turkey and the Middle East.

### APPENDIX IV

#### TERRAIN AND CLIMATE IN THE LENINGRAD AREA<sup>1</sup>

In September, 1941, the armies of General von Leeb were brought to a halt before Leningrad by a combination of mud, water, and Russian resistance. For more than a year the Germans have been unable substantially to advance the siege line then established. If they intend to resume the assault this winter, they must again cope with serious obstacles of terrain and climate. The coming period from late November to the first of the year is regarded as relatively favorable to the attackers; but it is certainly not ideal.

The German lines below Leningrad today extend from Peterhof on the Gulf of Finland to Schlüsselburg on Lake Ladoga in the form of a semi-circle 20 to 25 miles from the city (see map). Leningrad itself lies in a poorly-drained lowland of old lake deposits, through which the Neva River runs. Southwest of this lowland, the Izhorsk Plateau rises to a height of 300 to 500 feet. Significantly, the Germans have been able to hold this sparsely-settled plateau, which is fairly well drained, but have found it impossible to push out into the more densely-populated lowland to the northeast, or to crack the river defenses which the Russians have thrown up along the Neva.

While the principal natural obstacles to German forward movement have been the ponds, creeks, and bogs which cover most of the lowlands, the soils of even the higher and better-drained areas offer considerable difficulty. The entire Leningrad area is underlain by deep deposits of soft earth laid down by former glaciers. The soil covering these deposits is a gray, rather sandy type known as "podzol". When saturated, podzol (and dirt roads composed of it) become soft, creating difficulties for motor transport.

<sup>1</sup> Based on a report prepared by the Geography Division of the Office of Strategic Services.

The forests around Leningrad have proved another terrain asset for the defenders. Though today the pine and fir forests which used to cover most of the farm land in the immediate neighborhood of the city have been largely removed, the east side of the German-held corridor running down from Schlüsselburg is flanked by heavy woods. These forests were utilized successfully by the Russians in their operations against the Germans from Tikhvin down to the Volkhov River during the winter and early spring of 1941-42.

#### *The Schedule of Attack*

The time of year best suited to military operations in the Leningrad area is not easily determined. The Germans scored their main successes during August, 1941, tapering off in September. The Russians, on the other hand, conducted their counter-offensive from early December through February. One fact seems fairly certain: conditions during the fall—when the soil is churned into deep mud and the bogs and water barriers are full and unfrozen—are much less favorable than those obtaining even during the winter period of low temperatures and snow.

Autumnal handicaps to the maneuvering of mechanized equipment do not end simultaneously. By November 1, on the average, the period of mean daily temperatures below freezing has begun on the Izhorsk Plateau; by November 10, it has commenced in the Leningrad lowland. Freezing of the soil starts soon after these dates; on the Izhorsk Plateau, plowed soil and dirt roads would probably support heavy vehicles by November 7; similar surfaces in the lowland would be ready by November 17; and soil in the forest areas by December 1.

While bogs and small lakes will probably freeze about the same time as the soil in these sections, they will not support heavy vehicles until somewhat later. In some years the Neva floods the surrounding lowlands as late as the middle of November. Freezing on the river's quiet lower estuary ordinarily begins about November 15, and the estuary is completely frozen by December 15. At Leningrad the river starts to freeze around November 25, and by the end of December a substantial crust has developed on the whole river. If the ice becomes covered with a deep mantle of snow, however, the rate of thickening will be much slower than if clear weather and strong winds keep the surface clean.

Though attacks upon Kronstadt might be made at any time by air or by artillery fire from the mainland, an assault across the ice would have to wait upon the deep freezing of the five-mile stretch of water that separates the island from the shore. This might not occur until about January 22—the average date for the closing of the port of Leningrad. The ice near the coast forms and thickens a good deal earlier than that farther out in the channel; the Russian fleet, in fact, has access to the open sea from Kronstadt all winter, through the use of ice-breakers.

As for Lake Ladoga, specific data on its freezing are not at hand, but it is probable that between January 1 and January 15 the ice near the shore would become sufficiently strong to support at least trucks and light tanks. Last winter, the Russians operated motor trucks across the lake's ice from a point near the mouth of the Volkhov to Schlüsselburg.

Overland attacks by the Germans upon the Leningrad defenses, then, could get under way during the second and third weeks of November from the west and south, and somewhat later from the Finnish front on both sides of Lake Ladoga—

though it must be emphasized that an unusually cold or warm season could change these dates by as much as two or three weeks. Attacks across the ice of the Neva, the Gulf of Finland, or Lake Ladoga would not be possible until one and a half to two months later.

#### *Air Support*

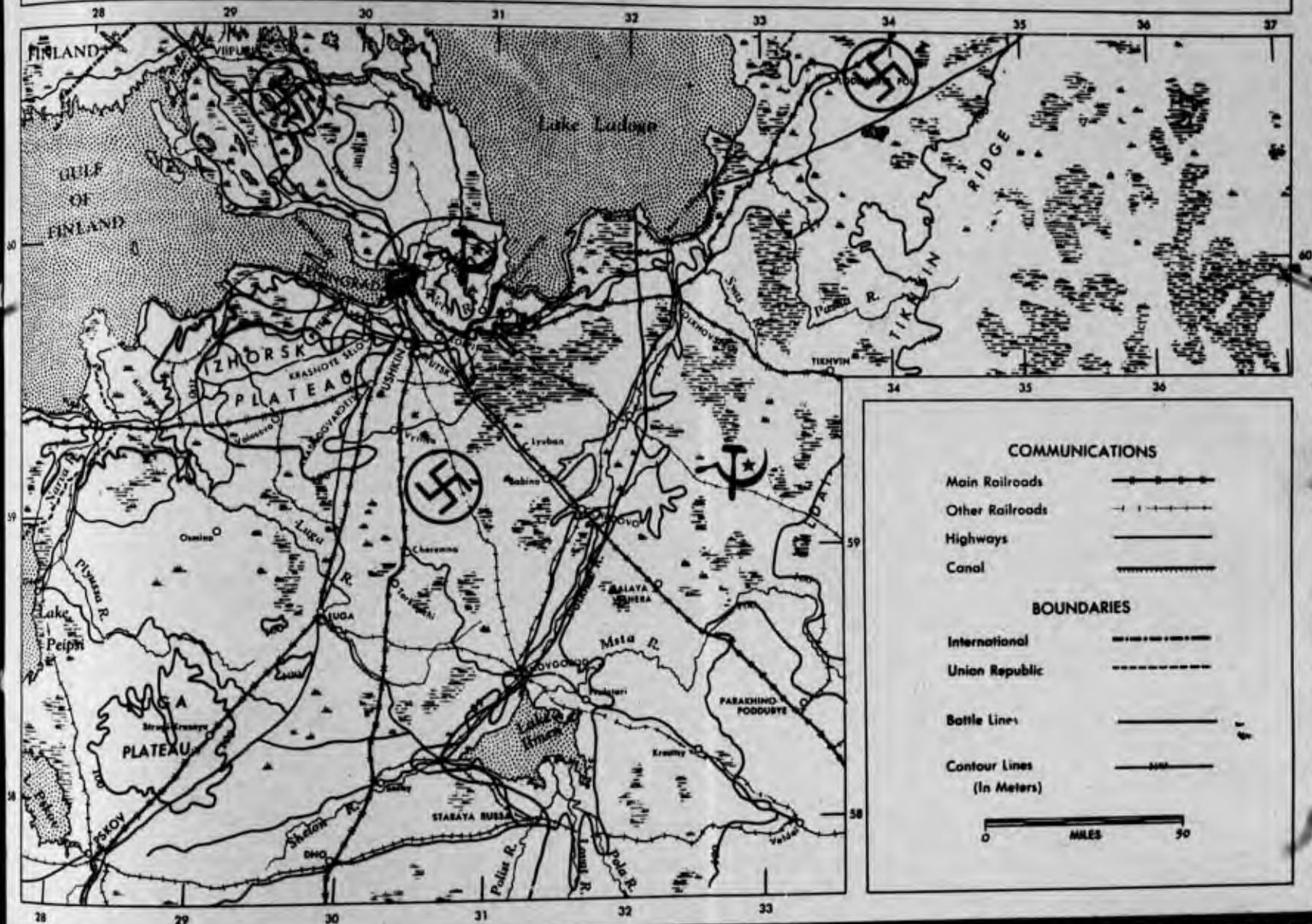
One additional factor, however, places a serious limitation upon German assaults, either over land or over water: the difficulty of providing troops with air support. From November 15 until early March, visibility and icing conditions permit but few days of effective aerial activity. Two-thirds of the days bring falling snow and a cloud-covered sky, with cloud coverage averaging about 80 percent and only one entirely clear day occurring per month. Fog on an average of about once a week, frequent strong winds that drift the snow, and short winter days still further reduce visibility. Icing is favored during this period by the abundance of cloud, the high relative humidity (averaging above 85), and temperatures that seldom rise above freezing.

#### *Mid-winter Operations*

If the Germans should delay their assault until later in the winter, the "air factor" would be no less against them, the cold would be even more intense, and heavy snowfalls would cripple road traffic. On the average, snow in the Leningrad area attains a depth of about 6 inches by Christmas, rises to a foot by February, and reaches its maximum of some 17 inches around the beginning of March. Winter air temperatures, while not as severe as those of the Russian interior, attain at Leningrad mean daily minimums of 22 degrees Fahrenheit in November, 4 in December, 4 in January, 1 in February, and 12 in March. Extreme temperatures as low as -8 in November, -36 in December, -33 in January, and -30 in February have been recorded. What makes the cold a greater hardship than the temperature charts might indicate, however, are the high humidity and strong winds common to the Baltic winter.

These considerations should be tempered somewhat by the recollection that the Russians found the middle of winter not at all impossible for at least limited offensives. The Germans, after that lesson, may yet prove equally adaptable to Leningrad's peculiar conditions of climate and terrain.

# THE LENINGRAD FRONT



COMPILED AND DRAWN IN GEOGRAPHY DIVISION, O. S. S.